

Bradford & Bingley PLC

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Bradford & Bingley PLC

Major Rating Factors

Strengths:

- 100% ownership by the U.K. government.
- Support arrangements for senior creditors.
- Significant interest-free funding from the government.

Counterparty Credit Rating

--/--/A-1

Weaknesses:

- A prolonged wind-down following nationalization.
- Reduced medium-term profitability due to a significant increase in the interest rate charged by the government on B&B's working capital facility.
- Poor asset quality with recent improving trend in impairment charges primarily due to low interest rates.

Rationale

The ratings on U.K. incorporated Bradford & Bingley PLC (B&B) reflect Standard & Poor's Ratings Services' view of its 100% ownership by the U.K. government. State ownership and its associated support provide B&B with substantial liquidity resources and, in our view, essentially remove funding risks.

Of material importance to the ratings is the fact that the government has stated that it will ensure that unsecured borrowings will be repaid when due. However, we do not equalize the ratings on B&B with the sovereign credit ratings on the U.K. because B&B does not benefit from an unconditional and irrevocable guarantee in accordance with our criteria.

We view B&B's stable funding base, which is supportive of profitability, as a key strength. B&B has an interest-free statutory debt of £18.4 billion due to the HM Treasury and the Financial Services Compensation Scheme. In addition, there is an interest-bearing Working Capital Facility provided by the HM Treasury under which B&B had drawn £8.5 billion at June 30, 2011. Wholesale funding from external sources at June 30 totaled £12.2 billion, down from £15.6 billion a year earlier

Effective Aug. 1, 2011 the government increased the interest rate on the Working Capital Facility from base rate + 150 basis points (bps) to base rate + 500 bps. Although this increase in funding cost will reduce profits in the medium term, we expect overall profitability to be supported by relatively stable impairment charges as buy-to-let customers continue to benefit from high rental yields and low interest rates. We, therefore, expect B&B to remain adequately capitalized over the rating horizon.

B&B is a business in run-off following its nationalization in September 2008. At that time it was a top-10 residential mortgage lender in the U.K. B&B's loan book is reducing slowly as a result of a low redemption rate due to limited refinancing opportunities for customers in a difficult market. The loan book has reduced by about 6% over the past 12 months, and we expect this reduction to continue at a gradual pace.

Asset quality remains weaker than most U.K. mortgage lender peers'. About 98% of the £35.4 billion customer loan book at June 30, 2011, comprises U.K. residential mortgages. Of these, 65% are buy-to-let mortgages and 21% are

self-certified mortgages. Although arrears have continued their favorable trend over the past 12 months, we consider that the portfolio remains vulnerable to ongoing macroeconomic uncertainty and future interest rate increases. B&B stated that the total number of cases three months or more in arrears or in possession were 3.33% of mortgage accounts at June 30, 2011, compared to 4.47% a year earlier.

Although the government would likely sell B&B if it received an acceptable offer, we consider that B&B's dependence on government support will mean that government ownership is likely to be long term in practice. We classify B&B as a government-related entity under our criteria, with an "important" role and a "very strong" link to the government. Accordingly, we consider that there is a "high" likelihood of extraordinary government support, and the 'A-1' short-term counterparty rating benefits as a result.

On Oct. 1, 2010, the government integrated the management of B&B with similar peer, Northern Rock (Asset Management) PLC (NRAM; A/Stable/A-1), under a single holding company called U.K. Asset Resolution (UKAR). Although both B&B and NRAM are under a single board and management structure, they remain separate legal entities.

We consider the probability of a negative rating action to be low given our expectation that B&B will remain 100% government owned and will continue to receive material government support for several years to come, while it manages down its balance sheet. A negative rating action could result from a reassessment of the level and likely duration of government support. A negative rating action could also result if profitability is pressured from further material increases in funding costs or a significant increase in loan impairment charges. We view a positive rating action as unlikely given that B&B is a run-off portfolio that undertakes no new business.

Related Criteria And Research

- Rating Government-Related Entities: Methodology and Assumptions, Dec. 9, 2010.

Table 1

Bradford & Bingley PLC Profitability Ratios					
	--Year-ended Dec. 31--				
(%)	2011*	2010	2009	2008	2007
Net interest income/average earning assets (%)	1.1	1.4	1.3	1.5	1.2
Net interest income/operating revenues (%)	94.6	90.4	98.4	83.2	95.7
Fee income/operating revenues (%)	3.2	3.1	8.4	7.1	14.3
Market-sensitive income/operating revenues (%)	2.0	6.0	(7.0)	9.2	(11.7)
Personnel expenses/operating revenues (%)	7.5	5.4	6.2	9.7	18.5
Noninterest expenses/operating revenues (%)	23.1	18.8	22.0	28.6	49.0
New loan loss provisions/operating revenues (%)	17.6	39.0	110.3	78.9	20.4
Preprovision operating income/loan loss provisions (%)	438.1	208.4	70.7	90.6	249.9
Operating income after loss provisions/operating revenues (%)	59.4	42.2	(32.4)	(7.4)	30.6
Pretax profit/operating revenues (%)	59.4	160.8	(31.5)	15.1	22.0
Tax/pretax profit (%)	27.9	24.3	49.8	86.4	26.0
Core earnings/operating revenues (%)	42.8	32.0	(16.7)	(1.0)	22.6
Core earnings/average adjusted assets (%)	0.5	0.5	(0.2)	(0.0)	0.3
Noninterest expenses/average adjusted assets (%)	0.2	0.3	0.3	0.5	0.6

Table 1

Bradford & Bingley PLC Profitability Ratios (cont.)					
Core earnings/average regulatory risk-weighted assets (%)	N.M.	N.M.	N.M.	(0.1)	0.7
Core earnings/average adjusted common equity (%)	8.7	11.6	(6.6)	(0.6)	10.5
Pretax profit/average common equity (%)	12.0	60.1	(15.4)	11.3	9.6

*Data as of June 30.

N.A.--Not available. N/A--Not applicable. N.M.--Not meaningful.

Table 2

Bradford & Bingley PLC Capital Ratios					
	--Year-ended Dec. 31--				
(%)	2011*	2010	2009	2008	2007
Adjusted common equity/risk assets (%)	N.M.	N.M.	N.M.	N.M.	7.2
Tier 1 capital ratio (%)	N/A	N/A	8.7	8.9	8.6
Adjusted total equity/adjusted assets (%)	5.8	5.0	3.3	3.7	2.6
Adjusted total equity/managed assets (%)	5.8	4.4	2.9	3.2	2.2
Adjusted total equity plus loan loss reserves (specific)/customer loans (gross) (%)	9.1	8.4	6.4	6.0	3.5
Common dividend payout ratio (%)	0.0	0.0	0.0	0.0	138.6

*Data as of June 30.

N.A.--Not available. N/A--Not applicable. N.M.--Not meaningful.

Table 3

Bradford & Bingley PLC Summary Balance Sheet					
	--Year-ended Dec. 31--				
(Mil. £)	2011*	2010	2009	2008	2007
Assets					
Cash and money market instruments	2,660.8	3,979.2	3,765.3	3,449.6	2,601.3
Securities	1,547.2	1,673.1	2,555.9	4,024.7	6,963.7
Trading securities (marked to market)	N/A	N/A	N/A	0.0	0.0
Nontrading securities	1,547.2	1,673.1	2,555.9	4,024.7	6,963.7
Mortgage-backed securities included above	N/A	N/A	N/A	0.0	0.0
Loans to banks (net)	N/A	N/A	N/A	0.0	0.0
Customer loans (gross)	36,405.6	37,515.7	40,216.7	42,885.7	40,445.6
Loan loss reserves	824.6	890.7	936.3	498.4	54.9
Customer loans (net)	35,581.0	36,625.0	39,280.4	42,387.3	40,390.7
Earning assets	39,463.0	42,860.0	46,214.9	50,259.6	49,801.4
Equity interests/participations (nonfinancial)	N/A	N/A	N/A	N/A	N/A
Investments in unconsolidated subsidiaries (financial companies)	N/A	N/A	N/A	N/A	N/A
Intangibles (nonservicing)	11.2	3.3	0.0	0.0	41.0
Interest-only strips	N/A	N/A	N/A	N/A	N/A
Fixed assets	25.5	18.8	15.0	17.1	106.5
Derivatives credit amount	2,831.0	2,929.1	3,660.6	6,022.9	1,175.4
Accrued receivables	16.1	8.1	11.5	18.3	28.5
All other assets	64.1	121.9	105.9	2.7	677.5
Total assets	42,736.9	45,358.5	49,394.6	55,922.6	51,984.6

Table 3

Bradford & Bingley PLC Summary Balance Sheet (cont.)					
Intangibles (nonservicing)	11.2	3.3	0.0	0.0	41.0
Minus insurance statutory funds	N/A	N/A	N/A	N/A	N/A
Adjusted assets	42,725.7	45,355.2	49,394.6	55,922.6	51,943.6
Liabilities					
Total deposits	1,047.3	2,154.9	2,809.5	9,318.5	26,227.0
Noncore deposits	1,047.3	2,154.9	3,267.0	10,146.6	2,074.4
Core/customer deposits	0.0	0.0	(457.5)	(828.1)	24,152.6
Acceptances	N/A	N/A	N/A	0.0	0.0
Repurchase agreements	N/A	N/A	N/A	N/A	N/A
Other borrowings	38,522.2	39,731.4	43,278.1	42,938.7	23,004.9
Other other borrowings	38,172.2	39,528.1	42,545.1	42,184.0	22,302.2
Other credit reserves	N/A	N/A	N/A	N/A	N/A
Other liabilities	676.5	1,209.7	1,742.6	1,644.9	829.3
Total liabilities	40,246.0	43,096.0	47,830.2	53,902.1	50,061.2
Total equity	2,490.9	2,262.5	1,564.4	2,020.5	1,923.4
Limited life preferred and quasi equity	0.0	0.0	0.0	594.0	551.0
Preferred stock and other capital	54.1	56.0	170.3	268.4	161.6
Mandatorily convertible securities	N/A	N/A	N/A	0.0	0.0
Enhanced trust preferred	N/A	N/A	N/A	0.0	0.0
Government-owned hybrids included in TAC without limit	N/A	N/A	N/A	N/A	N/A
Minority interest-equity	N/A	N/A	N/A	N/A	N/A
Common shareholders' equity	2,436.8	2,206.5	1,394.1	1,158.1	1,210.8
Share capital and surplus	560.2	560.2	560.2	560.2	159.3
Revaluation reserve	8.2	(12.5)	(86.8)	(496.6)	(122.3)
Retained profits	1,839.2	1,629.6	891.5	1,065.3	1,144.6
Other equity	N/A	N/A	N/A	N/A	N/A
Total liabilities and equity	42,736.9	45,358.5	49,394.6	55,922.6	51,984.6

*Data as of June 30.

N.A.--Not available. N/A--Not applicable. N.M.--Not meaningful.

Table 4

Bradford & Bingley PLC Equity Reconciliation Table					
(Mil. £)	--Year-ended Dec. 31--				
	2011*	2010	2009	2008	2007
Common shareholders' equity	2,436.8	2,206.5	1,394.1	1,158.1	1,210.8
Plus minority interest (equity)	0.0	0.0	0.0	0.0	0.0
Minus dividends (not yet distributed)	N/A	N/A	N/A	0.0	(87.4)
Minus revaluation reserves	(8.2)	12.5	86.8	496.6	122.3
Minus nonservicing intangibles	(11.2)	(3.3)	0.0	0.0	(41.0)
Minus interest-only strips (net)	N/A	N/A	N/A	N/A	N/A
Minus tax loss carryforwards	0.0	0.0	0.0	0.0	0.0
Minus postretirement benefit adjustment	0.0	0.0	0.0	0.0	0.0
Minus cumulative effect of credit-spread related revaluation of liabilities	N/A	N/A	N/A	N/A	N/A

Table 4

Bradford & Bingley PLC Equity Reconciliation Table (cont.)					
Minus other adjustments	N/A	N/A	N/A	0.0	0.0
Adjusted common equity	2,417.4	2,215.7	1,480.9	1,654.7	1,204.7
Plus admissible preferred and hybrids	54.1	56.0	170.3	467.0	306.2
Total Adjusted Capital	2,471.5	2,271.7	1,651.2	2,121.7	1,510.9
Plus general reserves	0.0	0.0	0.0	0.0	0.0
Plus unrealized gains	N/A	N/A	N/A	0.0	0.0
Minus equity in unconsolidated subsidiaries	N/A	N/A	N/A	N/A	N/A
Minus capital of insurance subsidiaries	N/A	N/A	N/A	0.0	0.0
Minus adjustment for securitized assets	0.0	0.0	0.0	(55.7)	(146.7)
Adjusted total equity	2,471.5	2,271.7	1,651.2	2,066.0	1,364.2

*Data as of June 30.

N.A.--Not available. N/A--Not applicable. N.M.--Not meaningful.

Table 5

Bradford & Bingley PLC Profit And Loss					
	--Year-ended Dec. 31--				
(Mil. £)	2011*	2010	2009	2008	2007
Net interest income	222.0	607.9	612.4	737.4	547.7
Interest income	419.6	934.9	1,880.0	3,121.8	2,967.5
Interest expense	197.6	327.0	1,267.6	2,384.4	2,419.8
Operating noninterest income	12.7	64.6	10.2	149.3	24.6
Fees and commissions	7.6	21.1	52.6	63.3	81.7
Net brokerage commissions	N/A	N/A	0.0	0.0	0.0
Trading gains	N/A	N/A	0.0	0.0	0.0
Other market-sensitive income	4.8	40.6	(43.5)	81.2	(66.7)
Net insurance income	N/A	N/A	0.0	0.0	0.0
Equity in earnings of unconsolidated subsidiaries	N/A	N/A	0.0	0.0	0.0
Other noninterest income	0.3	2.9	1.1	4.8	9.6
Operating revenues	234.7	672.5	622.6	886.7	572.3
Noninterest expenses	54.2	126.4	137.1	253.2	280.2
Personnel expenses	17.6	36.4	38.7	85.7	105.7
Other general and administrative expense	36.4	89.6	98.0	148.2	150.8
Preprovision operating income	180.5	546.1	485.5	633.5	292.1
Credit loss provisions (net new)	41.2	262.1	687.0	699.3	116.9
Operating income after loss provisions	139.3	284.0	(201.5)	(65.8)	175.2
Nonrecurring/special income	0.0	797.5	13.4	223.8	8.8
Nonrecurring/special expense	N/A	N/A	7.9	23.7	58.0
Amortization of intangibles	N/A	N/A	0.0	0.0	0.0
Impairment of intangibles	N/A	N/A	0.0	0.0	0.0
Pretax profit	139.3	1,081.5	(196.0)	134.3	126.0
Tax expense/credit	38.8	262.3	(97.7)	116.1	32.8
Net income (before minority interest)	100.5	819.2	(98.3)	18.2	93.2
Minority interest in consolidated subsidiaries	N/A	N/A	N/A	N/A	N/A

Table 5

Bradford & Bingley PLC Profit And Loss (cont.)					
Net income before extraordinary	100.5	819.2	(98.3)	18.2	93.2
Net income after extraordinary	100.5	819.2	(98.3)	18.2	93.2

*Data as of June 30.

N.A.--Not available. N/A--Not applicable. N.M.--Not meaningful.

Table 6

(Mil. £)	--Year-ended Dec. 31--				
	2011*	2010	2009	2008	2007
Net income (before minority interest)	100.5	819.2	(98.3)	18.2	93.2
Minus nonrecurring/special income	0.0	(797.5)	(13.4)	(223.8)	(8.8)
Plus nonrecurring/special expense	N/A	N/A	7.9	23.7	58.0
Plus or minus tax impact of adjustments	0.0	193.4	0.0	173.0	(12.8)
Plus amortization/impairment of goodwill/intangibles	0.0	0.0	0.0	0.0	0.0
Minus preferred dividends	0.0	0.0	0.0	0.0	0.0
Plus or minus other earnings adjustments	N/A	N/A	0.0	0.0	0.0
Core earnings	100.5	215.1	(103.8)	(8.9)	129.6

*Data as of June 30.

N.A.--Not available. N/A--Not applicable. N.M.--Not meaningful.

Ratings Detail (As Of September 30, 2011)***Bradford & Bingley PLC**

Counterparty Credit Rating	--/--/A-1
Certificate Of Deposit	A-1

Counterparty Credit Ratings History

18-Mar-2009	--/--/A-1
17-Mar-2009	--/--/SD
29-Sep-2008	--/--/A-1
23-Sep-2008	--/Watch Neg/A-3
02-Jun-2008	--/Watch Neg/A-2
19-Feb-2008	--/Watch Neg/A-1
29-May-2007	--/--/A-1

Sovereign Rating

United Kingdom (Unsolicited Ratings)	AAA/Stable/A-1+
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