Bradford & Bingley Group
Pillar 3 Disclosures
31 December 2009

Pillar 3 Disclosures

General disclaimer:

- This information has been prepared solely for the purpose of explaining the basis on which the Group has prepared and disclosed its capital requirements and related information about the management of risks. It therefore does not constitute any form of financial statement on the Group nor does it constitute any form of contemporary or forward looking record or opinion.

- These disclosures are based on historical information (31 December 2009) and will next be updated at the earliest possible time after the publication of the Annual Report & Accounts for 2010.

- The information has been subject to internal review but has not been subject to external audit.

- Although Pillar 3 disclosures are intended to provide transparent capital disclosures on a common basis the information contained in this document may not be directly comparable with other banks. This may be due to factors such as :
  - ♦ The range of approaches allowed under the Capital Requirements Directive (CRD);
  - ♦ The different business exposures for individual banks;
  - ♦ The different risk appetites of banks;
  - ♦ The different waivers applied for and allowed by regulators;
  - ♦ The majority of the Group's credit risk arises from exposures secured by mortgages on residential property; the Group is not exposed to unsecured lending.

CONTENTS

1. SCOPE OF PILLAR 3 APPLICATION

1.1. Introduction

In April 2007 Bradford & Bingley plc adopted the Basel II Capital Requirements Directive (CRD) standardised approach to credit risk. The required market disclosures set out in this document are based on the Bradford & Bingley UK Consolidated regulated group. These disclosures are described as Pillar 3 disclosures and unless stated otherwise, all figures are as at 31 December 2009, the Group's financial year-end. The disclosures relate to the business structure, governance and risk management approach in place at that date. The Group has not applied for any Internal Ratings Based (IRB) waivers; consequently, no specific Pillar 3 IRB disclosures are included in this document.

1.2. Policy statement

Based on the size and complexity of the Group, the Directors believe it is appropriate to produce Pillar 3 disclosures annually unless there is a material change in the approaches or permissions used to calculate capital. The Directors believe that publishing these disclosures on the Group's website is preferable to increasing the size of the Group's annual report and a clear separation between the two reports is advantageous due to the differing bases of consolidation and the differing messages each communication is intended to convey.

1.3. Consolidation basis

Bradford & Bingley plc is a European Economic Area (EEA) parent institution that is regulated as a UK bank by the Financial Services Authority (FSA). Bradford & Bingley plc is the parent company of the Bradford & Bingley Group which is required by the FSA to produce UK Consolidated regulated accounts to assess its capital resources and capital requirements. These UK Consolidated regulated accounts are similar to the statutory consolidated accounts produced for the Annual Report of the Bradford & Bingley Group but differ in the following respects:

- Certain legal entities are excluded from the UK Consolidated regulated group such as special purpose vehicles (SPVs) created primarily to raise secured funding. These SPVs are required to be consolidated in the statutory accounts under International Financial Reporting Standards.
- Definitions of assets and capital differ between the regulated capital adequacy rules and the statutory accounting balance sheet standards.

There are neither restrictions nor impediments to the movement of capital between legal entities within the UK Consolidated regulated group and there is no material capital surplus or deficiency for legal entities that comprise the statutory accounting group but not the UK Consolidated regulatory group.

Bradford & Bingley plc has made use of the provisions laid down in BIPRU 2.1 (Solo consolidation waiver) to provide capital resources and fulfil requirements of the FSA under a solo consolidated basis. This enables both the major intra group exposures and the investments of Bradford & Bingley plc in its subsidiaries to be eliminated when calculating capital resource requirements and the free reserves of such solo subsidiaries to be aggregated with the parent when calculating capital resources.

2. RISK MANAGEMENT AND CONTROL

Bradford & Bingley plc's shares were delisted on 29 September 2008 and transferred to the Treasury Solicitor as nominee for Her Majesty's Treasury (HMT). As a consequence the full requirements of the United Kingdom Listing Authority's (UKLA) rules and the Combined Code on Corporate Governance no longer apply to the Group. However, the Group operates a corporate governance structure and risk management framework which, as far as is practicable, takes appropriate account of best practice for listed companies.

2.1. Introduction

Bradford & Bingley plc's approach to risk management is built on formal governance processes and relies on individual responsibility and collective oversight, informed by comprehensive reporting.

The following sections describe the Group's approach to risk management. The first section covers the Group's risk governance structure. The second section explains the way in which the Group identifies, categorises and manages the risks it faces.

Other factors could also affect the Group's results, including economic factors. Therefore, the risks described below should not be considered to represent all of the potential risks and uncertainties which could impact the Group.

2.2. Risk governance

The responsibility for the overall framework of risk governance and management lies with the Board. The Board is responsible for determining risk strategy, setting the Group's risk appetite and ensuring that risk is monitored and controlled effectively. It is also responsible for establishing a clearly defined risk management structure with distinct roles and responsibilities. Within that structure, line managers are responsible for the identification, measurement and management of the risks within their areas of responsibility.

The analysis and reporting of the Group's Residential Lending Credit Risks is performed by an outsource partner. The Risk Function provides independent challenge and validation of their work. The identification, measurement and reporting of Wholesale Credit Risk, Market Risk and Liquidity Risk is performed by specialist teams in the Risk Function. Independent monitoring of the risk management framework is also provided by the Risk and Compliance functions.

In addition to individual responsibilities for risk management, there is a structure of committees that, under authority delegated by the Board, have formal responsibility for defined aspects of risk management. In the prior year, the terms of reference and composition of these committees have changed to align with the organisational and structural changes within the Group.

The roles and responsibilities of the risk management committees are set out in the following paragraphs.

2.3. Audit, Risk & Compliance Committee ('ARCC')

The ARCC is a non-executive committee. The role of the committee is to monitor, review and respond to the Board on the effectiveness of risk management processes and its financial and other internal control systems (including effective Internal Audit, Risk Management and Compliance functions) and to monitor and review accounting policies and the integrity of the financial statements and external reporting responsibilities.

The Board currently operates an ARCC, but it is intended to establish separate Audit Committee and Risk & Compliance Committee (RCC) during 2010.

2.4. Executive Committee (‘EXCO’)

EXCO is an advisory committee that supports the Managing Director in managing the Group's business to achieve its strategic objectives.

2.5. Risk Committee (‘RC’)

The RC is a sub-committee of EXCO with a reporting line to ARCC. The primary objectives of the RC are to provide technical oversight of the key risk and governance issues and to support, advise and make recommendations to the ARCC.

2.6. Asset & Liability Committee (‘ALCO’)

ALCO is a sub-committee of the RC. The primary objectives of ALCO are to support, advise and make recommendations to the RC on asset and liability management (including interest rate, liquidity and currency risk management, basis risk, margin compression and investment assets), related wholesale credit, and capital adequacy risks and issues.

2.7. Credit Risk Committee (‘CRC’)

During the year the responsibilities of the CRC were transferred to the RC.

2.8. Group Risk

The Group Risk function comprises Operational Risk and Financial Risk and its role is to:

- Develop a Group strategy, policy and framework for risk management, aligned with business requirements;
- Provide support to the Group in the implementation of the framework;
- Aggregate analyses of risk concentrations and sensitivities across the Group;
- Act as a point of reference for risk and control matters, providing advice to management, sharing best practice and carrying out special reviews as directed by RC and ALCO; and,
- Provide independent assessment of, and challenge to the business risk management and profiles to ensure that they are maintained in a robust manner.

2.9. Compliance

The role of Compliance is to:

- Provide assurance to the Board and Executive, through the ARCC, that control processes are in operation to manage all non-prudential regulatory risks across the Group;
- Contribute to the continuous improvement of the regulatory environment through provision of advice to the business; and,
- Oversee and co-ordinate liaison with the FSA on a day to day basis to promote open and co-operative relationships.

2.10. Internal Audit

Ernst & Young LLP have been contracted to provide internal audit services, including the provision of Head of Internal Audit. This person is required to be approved for the position by the FSA. However, the oversight of the Internal Audit function remains firmly with Bradford & Bingley. The Head of Internal Audit reports through to the Chairman of the ARCC and to the Managing Director.

The role of Internal Audit is to provide independent and objective assurance that the process for identifying, evaluating and managing key risks faced by the Group is appropriate and effectively applied.

2.11. Risk categorisation

The Group categorises risk under the following headings:

2.11.1. Credit risk

Credit risk is the potential financial loss caused by a retail customer or wholesale counterparty failing to meet their obligations to the Group as they become due. As the Group is no longer making any material loans, absolute levels of credit risk is expected to decline as the current assets mature.

Credit risk is the largest risk the Group faces and the monitoring of the recoverability of loans and amounts due from counterparties is inherent across most of the Group's activities. The Group is firmly committed to the management of credit risk in both its lending and wholesale books. The Group employs credit behaviour scoring and fraud detection techniques to support loss minimising strategies. As no new lending is now being undertaken, the focus of credit risk is on:

- A proactive approach to the identification and control of loan impairment in the Residential Lending Credit Risk and Credit Control areas;
- Fraud and professional negligence investigation; and,
- The use of credit behaviour scoring and other techniques to monitor the risk profile of the existing book.

Adverse changes in the credit quality of borrowers or a general deterioration in UK economic conditions could affect the recoverability and value of the Group’s assets and therefore its financial performance. As credit risk is the main risk to the Group, a credit risk framework has been established as part of the overall governance framework to measure, mitigate and manage credit risk within the Group’s risk appetite. To a lesser degree, the Group is exposed to other forms of credit risk such as those arising from settlement activities where the risk is a consequence of a transaction, rather than a driver for it.

The extent of the credit risk in the Group's balance sheet is shown by the following table of provisions for mark-down on impaired assets:

	Balance Sheet value 2009 £m	**Provision 2009 £m**	Balance Sheet value 2008 £m	Provision 2008 £m
Residential mortgages	**38,167.3**	**884.1**	40,967.3	467.7
Commercial mortgages	**818.9**	**52.2**	858.7	30.7
Treasury assets	**6,321.2**	**392.9**	7,474.3	353.7

The Group's ability to influence the structure of its risk profile, in the absence of asset sales, is largely restricted to the degree of control which it has over loan redemptions and credit collections activity. With the composition of the loan portfolio largely fixed in the short to medium term, the Group's credit risk profile is now determined by the credit quality of the existing portfolio alone. Changes in the credit quality will arise either from changes in the underlying economic environment and/or our assumptions about future trends in the economy or from changes in the specific characteristics of individual loans.

It is the Group's policy to monitor the profile of its lending exposure on a quarterly basis. Changes in the risk profile are reported as part of the Group's quarterly scenario and stress tests. These stress tests forecast losses, impairment and capital requirements at a portfolio and product level over a 10 year horizon given a range of economic scenarios.

The Board receives a monthly update on changes in the key drivers of the lending credit risk profile, with more detailed information on the factors underlying these key drivers being reported monthly to the RC.

The Group also holds a structured finance portfolio that primarily consists of investments in Asset-Backed Securities (ABSs). The credit risk is determined by the quality of the underlying securitised assets and this drives the demand for these investments. Credit limits have been set for the structured finance portfolios. No new structured finance investments were made in 2009.

Lending policies and limits are reviewed and approved annually by the Board. The RC ensure that any exposure to credit risk remains within overall risk exposure levels as agreed by the Board. Authorised credit risk limits for wholesale money market counterparties reflect the size, depth and quality of counterparty’s capital base and, where published, credit ratings assigned by the major credit rating agencies.

2.11.2. Market risk

Market risk is the potential adverse change in Group income or Group net worth arising from movements in interest rates, exchange rates or other market prices. Effective identification and management of market risk is essential for maintaining stable net interest income.

The most significant form of market risk to which the Group is exposed is interest rate risk. This arises from the interest rate characteristics of its assets and liabilities. The principal exposure is caused by the extent of variable rate mortgages funded by fixed rate liabilities (£15.4bn) and LIBOR linked liabilities (£1.5bn). A secondary exposure is caused by mismatches between the repricing dates of the floating rate assets and liabilities. As the mortgage book declines the extent of interest rate risk will decline.

Group Treasury is responsible for managing this exposure within the risk exposure limits set out in the Treasury Policy Framework and the Interest Rate and Foreign Exchange Risk Policy, as approved by the Board. These policies set out the nature of the market risks that may be taken, along with aggregate risk limits and stipulates the procedures, instruments and controls to be used in managing market risk.

It is ALCO's responsibility to recommend strategies to the RC for managing market risk exposures and ensure that Group Treasury implements the strategies within the Group’s approved Board policy limits.

The Group's results were also affected by the change in the market value of interest rate derivatives that do not meet the hedge accounting requirements for IAS39.

The Group assesses its exposure to interest rate movements using a number of techniques. There are however two principal methods:

i. A static framework that considers the impact on the current balance sheet of an immediate movement of interest rates; and
ii. A dynamic modelling framework that considers the projected change to both the balance sheet and mortgage product rates over the following year under various interest rate scenarios.

The results of these analyses are presented to ALCO monthly, in order to identify, measure and manage the Group's exposure to interest rate risk.

Limits are placed on the sensitivity of the Group balance sheet to movements in interest rates. Exposures are reviewed by senior management and the Board with a frequency between daily and monthly, related to the granularity of the position. For example, the overall Group balance sheet interest rate risk exposure position is monitored monthly, whilst specific portfolios within the balance sheet are reviewed on a daily basis. This reflects the dynamics and materiality of the various portfolios.

Interest rate risk exposure is predominantly managed through the use of interest rate derivatives, principally interest rate swaps which are over-the-counter arrangements with highly-rated banking counterparties. The Group also takes advantage of the natural offset of its asset and liability positions to minimise the costs and risks of arranging transactions external to the Group.

2.11.3. Foreign exchange risk

Prior to nationalisation, the Group considers raised and invested funds in currencies other than sterling. Accordingly, foreign exchange risk arises from activities related to the Group managing borrowing costs and investment returns. As with interest rate risk, Group Treasury is responsible for managing this exposure within the limits set out in the Group's policies.

The Group does not actively seek foreign exchange exposures and any arising naturally from its net interest income streams denominated in foreign currencies are subject to limits set out in the Interest Rate and Foreign Exchange Risk Policy that is approved by ALCO and the Board. The Group will remain exposed to foreign exchange risk until all assets and liabilities denominated in foreign currencies have matured or been sold.

Foreign currency exposure is measured daily by Group Finance and monitored by Wholesale Risk taking into consideration all non-sterling assets and liabilities. This exposure position is broken down by individual foreign currency, and the net exposure circulated daily to senior managers with an overall summary position provided to ALCO on a monthly basis.

Residual foreign exchange risk is managed through the use of foreign exchange contracts.

2.11.4. Liquidity risk

Liquidity risk management within the Group considers both the overall balance sheet structure and projected daily liquidity requirements, measuring the combined effect of asset and liability maturity mismatches across the Group, undrawn commitments and other contingent obligations. The day-to-day management of liquidity is the responsibility of Group Treasury.

The liquidity risk management policies are set out in the Liquidity & Wholesale Funding Policy and the Liquidity Contingency Policy; these policies are approved by the Board. The policies consider the quality of assets as well as projected funding requirements. The Group obtains any sterling funds required from a sterling denominated facility provided by HMT. This facility enables sufficient sterling liquidity to be available even in extreme circumstances. The Group remains dependent on the markets, as it requires non sterling liabilities to fund non sterling assets.

The impact of liquidity risk is monitored by liquidity stress tests, the results of which are considered by ALCO and reported to the Board.

2.11.5. Operational risk

Operational risk is the risk of financial loss or impairment to reputation resulting from inadequate or failed internal processes and systems whether through the actions of people or from external events. Operational risk will remain an important part of the Group's risk profile throughout the wind-down process.

Major sources of operational risk include, amongst others:

- Outsourcing of operations;
- Dependence on key suppliers;
- IT security;
- Internal and external fraud;
- Implementation of strategic change;
- Regulatory non-compliance; and
- Process errors and external threats such as the loss of a critical site.

The Group's business areas manage this risk through appropriate controls and loss mitigation actions including insurance. These actions include a balance of policies, appropriate procedures and internal controls to ensure compliance with laws and regulations. At a detailed level, risk and control assurance is facilitated by Group Risk, in conjunction with line managers, on the risks and control effectiveness within their areas of responsibility.

In addition, specialist support functions provide expertise in risk areas such as information security, health and safety, compliance, fraud management, IT security and business continuity management.

A process is in place for the recognition, capture, assessment, analysis and reporting of risk events. This process is used to help identify where process and control requirements are needed to reduce the recurrence of risk events.

The Group calculates its capital requirement for Operational Risk using the Basel II Standardised Approach.

Source: 2009 Annual Report & Accounts - pages 20-23

3. CAPITAL RESOURCES

	Notes	**As at 31.12.09 £m**	As at 31.12.08 £m
Core tier 1 Capital			
Called up share capital		**361.3**	361.3
Share premium account		**198.8**	198.9
Retained earnings and other reserves	4	**954.3**	1063.8
		1514.4	1,624.0
Deductions from tier 1 capital			
Securitisation positions	5	**-**	27.9
Tier 1 capital after deductions	6	**1,514.4**	1,596.1
Perpetual preferred securities	1	**149.0**	149.0
Upper tier 2 capital			
Perpetual subordinated debt	2	**552.9**	552.4
Collective provisions		**260.3**	32.2
		813.2	584.6
Lower tier 2 capital			
Dated subordinated debt	3	**751.7**	751.0
		1713.9	1,484.6
Deductions from tier 2 capital			
Securitisation positions	5	**-**	27.8
Amortisation of term debt	6	**100.0**	75.0
Excess on limits for tier 2		**99.5**	-
Innovative tier 1 and tier 2 capital after deductions	3	**1,514.4**	1,381.8
Tier 3 Capital		**99.5**	-
Total capital resources		**3,128.3**	2,977.9

For notes see over page

The following provides information on the main features and terms and conditions of capital resource component items.

3.1. General Information on Capital Resources

All capital instruments have been issued in accordance with FSA guidance. The Group may also purchase the instruments in the open market. The fixed interest rate instruments are predominantly hedged, by the use of derivatives.

The terms and conditions of undated subordinated debt instruments entitle Bradford & Bingley to defer coupon payments.

As a result of the Bradford & Bingley plc Transfer of Securities and Property etc, (Amendment) Order 2009, Bradford & Bingley has the right to defer coupon and principal payments of dated subordinated debt instruments, during the period prior to the date on which Bradford & Bingley will have satisfied in full its liability to the Financial Services Compensation Scheme (FSCS).

The Board of Bradford & Bingley plc will consider on a case by case basis, in relation to each relevant instrument, whether any coupon (and in relation to dated subordinated debt, principal) will be deferred, based on all factors relevant at that time.

1. Innovative Tier 1 Capital

	Terms	Unamortised value as at 31.12.09 £m
Perpetual preferred securities 2032	**Fixed interest rate of 6.462%**	**149.0**
Total loan capital		**149.0**

On 29 May 2002 £150.0m of guaranteed, non-voting, non-cumulative, perpetual preferred securities, Series A, were issued though Bradford & Bingley LP, a Jersey based Limited Partnership. These securities are not subject to any mandatory redemption provisions and qualify as Innovative Tier 1 regulatory capital; they are redeemable by the issuer at its option on 2 June 2032 and on each fifth anniversary thereafter. The Group is not obliged to and will not make any payments to the holders of the preferred securities other than those to which the holders of these securities are entitled under the terms of the preferred securities.

In accordance with BIPRU 11.5.3 Innovative Tier 1 capital is excluded from tier 1 and allocated to tier 2.

2. Upper Tier 2 Capital

		Unamortised value as at 31.12.09 £m
Undated perpetual subordinated bonds	**Fixed interest rate of 13.000%**	**55.0**
Undated perpetual subordinated bonds	**Fixed interest rate of 11.625%**	**50.0**
Perpetual subordinated notes	**Fixed interest rate of 5.625%**	**248.8**
Perpetual subordinated notes	**Fixed interest rate of 6.000%**	**199.1**
Total loan capital		**552.9**

The 5.625% Fixed Interest Rate Notes can be redeemed, at the option of the Group on 20 December 2013 and on each fifth anniversary thereafter. The 6.000% Fixed Interest Rate Notes can be redeemed, at the option of the Group on 10 December 2019 and on each fifth anniversary thereafter.

3. Lower Tier 2 Capital

The following shows the value of the subordinated loans prior to amortisation.

	Terms	Unamortised value as at 31.12.09 £m
Subordinated Notes due 2010	**Fixed interest rate of 7.625%**	**125.0**
Subordinated Notes due 2018	**Fixed interest rate of 5.500%**	**249.0**
Subordinated Notes due 2022	**Fixed interest rate of 5.750%**	**198.7**
Subordinated Notes due 2023	**Fixed interest rate of 6.625%**	**125.0**
Minority interest in Bradford & Bingley Capital Funding II L.P.		**54.0**
Total loan capital		**751.7**

The 2018 Notes can be redeemed, at the option of the Group on 15 January 2013. The 2022 Notes can be redeemed, at the option of the Group, on 12 December 2017.

Under the terms of the Bradford & Bingley plc Transfer of Securities etc. (Amendment) Order 2009, which came into force on 20 February 2009, principal and interest shall not become due on any dated subordinated note until either the Company gives notice that it will become due or that the Company has satisfied its liability to the Financial Services Compensation Scheme.

4. Retained earnings and reserves exclude unrealised gains or losses on cash flow hedges and available-for-sale assets. The regulatory capital rules allow the pension scheme deficit to be added back to regulatory capital and a deduction taken for an estimate of the additional contributions to be made in the next 5 years, less associated deferred tax.

5. As at 31 December 2008**,** under the Standardised Approach, Bradford & Bingley plc treated a number of securitisation structures as off balance sheet for the purposes of calculating regulatory capital. The relevant secured residential mortgage assets were not subject to credit risk weighting and were excluded from the UK Consolidated Group's capital requirements and the investment in the relevant securitisation SPV structure was deducted from the Group's capital resources (50% from tier 1 and 50% from tier 2). As at 31 December 2009, all secured residential mortgage assets were treated as on balance sheet for the purposes of calculating credit risk.

6. The Subordinated Notes due 2010, being less than five years to maturity, are amortised on a straight-line basis.

4. CAPITAL ADEQUACY

4.1 Compliance with BIPRU Capital Requirements

Capital adequacy and capital forecasts are formally reviewed and reported monthly. The Board considers the need to change its capital forecasts and capital plans based on these reviews. Pillar 1 risks are reviewed monthly; all Pillar 2 risks are considered periodically; Forecast capital requirements together with actual capital levels are considered monthly by ALCO, and quarterly by EXCO and the Board.

The minimum capital level is that which the Board considers necessary to protect unsecured creditors from loss. The assessment of minimum capital requirements is exercised by the Board and with consideration of the following:

- The Group's planned activities as a whole, set in the competitive and economic environment in which it operates;
- Model outputs from its adopted and approved ratings systems; and,
- Other risks which the Group faces, which are not covered by its ratings systems.

In exercising its judgement, the Board has carefully considered:

- The Group-wide management and governance processes that are applied;
- The robustness of the underlying asset classifications; and,
- The validation processes that provide assurance over the design and operation of the above.

The Internal Capital Adequacy Assessment Process (ICAAP) is the means by which the Board is able to determine the Group's required level of capital, consistent with its risk appetite and business plans. The outputs from these processes are analysed, consolidated and reviewed thoroughly prior to Board consideration.

There is a Board approved Capital Management Policy.

The Group's risk appetite underpins the business plans and is explicitly linked to the consideration of risk within the forecast capital requirements.

Stress testing is performed and reviewed regularly, the results of which form the basis for the consideration and adoption of appropriate risk mitigation strategies that allow management to consider and implement actions other than simply increasing capital.

Capital planning considers both short and medium term requirements and incorporates fully the relevant regulatory obligations.

4.2 Capital requirement

The Group's Pillar 1 capital requirement is derived from capital held against risks from the following exposure classes.

	notes	**As at 31.12.09 Capital requirement £m**	As at 31.12.08 Capital requirement £m
Standardised Approach			
Institutions		**8.2**	14.5
Corporates		**70.5**	102.1
Retail	1	**251.7**	174.8
Mortgages secured on residential property		**901.0**	917.7
Past due items	2	**194.4**	174.4
Securitisation positions		**17.3**	24.2
Short term claims on institutions or corporates		**25.3**	37.5
Other items		**25.9**	11.9
		1,494.3	1,457.1
Operational Risk – Standardised Approach		**79.5**	72.3
Counterparty risk capital component		**90.8**	151.3
Foreign currency PRR		**1.4**	21.0
		92.2	172.3
Total capital requirement		**1,666.0**	1,701.7

Notes

1. Retail represents capital required to support mortgage loans above 80% of the valuation of the residential property security.
2. Past due items represents capital required to support the full amount of mortgages secured on residential property that are more than 90 days in arrears.

Source: Bradford & Bingley internal information

5. COUNTERPARTY CREDIT RISK

The following table sets out the gross positive fair value of derivatives contracts, and the potential credit exposures, at 31 December 2009 and 2008.

Table 5.1

	2009	2008
	£m	£m
Gross positive fair values of contracts	**2,688.5**	4,299.0
Potential credit exposure	**502.5**	683.5
Total exposure	**3,191.0**	4,982.5

Counterparty Credit Risk (CCR) is the risk that the counterparty to a derivative transaction could default during the life of the transaction.

Derivative exposures can be of any duration but are only permitted for hedging purposes. Exposures are limited by the credit limits approved by ALCO for each counterparty.

The structure is a ratings based approach and takes account of the Group's and the counterparty's capital and reserves (Wholesale Credit Policy).

Credit assessment is based on external ratings. Counterparties are required to hold ratings provided by internationally recognised credit ratings agencies. Moody's Investor Service is the primary rating agency used, but those ratings provided by other credit rating agencies (Standard & Poor's Corporation and Fitch Ratings) are also taken into consideration.

Credit Support Annexes (CSA) exist for collateralising derivative transactions with counterparties to mitigate the risk of loss on default. Although these CSAs are taken into consideration when setting the internal credit risk limits for derivative counterparties, they are not recognised as credit risk mitigation for reducing the Exposure At Default (EAD) on the derivative transactions in the Pillar 1 regulatory capital calculations.

The Group measures exposure value on counterparty credit exposures by adding the gross positive fair value of the contract (replacement cost) to the contracts potential credit exposure, which is derived by applying a multiple based on the contracts residual maturity to the notional value of the contract.

Source: Bradford & Bingley internal information

6. CREDIT AND DILUTION RISK

6.1. Impairment of Loans and Advances

Definitions for accounting purposes of past due and impaired loans and advances are as follows:

- A loan is considered to be past due where: the loan is 90 days or more in arrears but is less than twelve months in arrears, and where no specific event has occurred which management deem to have created impairment on the loan.

- A loan is considered to be impaired where: the loan is 12 months or greater in arrears, has been taken into possession, or where a specific event has occurred which management deem to have created impairment of the loan, for example when a fraud has been discovered.

Approaches adopted for determining accounting adjustments and provisions:

A value adjustment is provided on each loan that is considered to be individually impaired, on a case-by-case basis. All loans that cannot be determined to be individually impaired are then assessed collectively and a collective impairment provision is provided. The calculation of impairment applies the same approach to both individual and collectively impaired loans.

6.2. Calculation of impairment

Loan impairment is calculated as follows:
Impairment = Probability of Default (“PD”) x Loss Given Default (“LGD”)

PD represents the probability that a loan will go into default and is expressed as a percentage.

The LGD is calculated as follows:
- The current value of the security is estimated, based on the most recent valuation adjusted for house price inflation to the point of calculation;
- Where the value of the security is expected to fall between the date of calculation and the estimated date of sale, due to house price deflation, the current value of security is reduced to reflect this estimated house price deflation;
- Net Sale Proceeds are calculated based on the estimated security value, which has a Forced Sale Discount (FSD) applied to it to reflect the likely proceeds to be recovered in possession sale conditions. Estimated selling expenses are then deducted. For cases in possession, a possession valuation of the property is carried out and this valuation less a possession sale discount or the agreed sale price, where known replaces the valuation derived using the FSD;
- The LGD is then represented by total exposure less the present value of net sale proceeds of an account after moving into possession.

The Group's provisioning approach remains one of generating a statistically based estimated loss calculated on an individual loan basis. The provisioning policy is reviewed at least annually, with half-yearly reviews of the key assumptions within the policy to ensure that the key assumptions reflect actual performance experience and estimated risk within the portfolio and that the methodologies and calculations within the provision models are appropriate.

The assessment of Commercial loans follows the same philosophy as Residential loans above. Value adjustments for cases in arrears are calculated for each loan by applying the PD, which is dependent on the severity of the current arrears, to the LGD. Loans with no individual impairment are assessed collectively.

6.3. Impairment of Wholesale Assets

The Group undertakes an analysis of wholesale assets each period in order to identify any impairment. This analysis considers actions from rating agents, the pricing of bonds in the market (where available) and reports on the underlying security of the bonds prepared by their investment managers.

6.4. Analysis of credit risk exposures and impairment

Tables 1 to 4 below are based on regulatory credit risk exposure values.

Table 1: **Total period end and average exposures after individual impairment and prior to credit risk mitigation by exposure class.**

	Exposure as at 31.12.09 £m	**Average exposure for period to 31.12.09 £m**
Central government or central banks	**592.5**	**822.2**
Multilateral development banks	**568.3**	**618.2**
Institutions	**2422.8**	**2579.3**
Corporates	**1,143.5**	**1,406.8**
Mortgages secured on residential properties	**39,092.9**	**38,531.8**
Securitisation positions	**5,683.5**	**5,825.3**
Total	**49,503.5**	**49,783.6**

	Exposure as at 31.12.08 £m	Average exposure for period to 31.12.08 £m
Central government or central banks	1,051.8	1,599.9
Multilateral development banks	668.1	651.0
Institutions	2,735.7	3,592.6
Corporates	1,670.1	1,590.4
Mortgages secured on residential properties	37,970.7	36,483.4
Securitisation positions	5,967.1	4,373.3
Total	50,063.5	48,290.6

Table 2: **Period end Geographic distribution of exposure classes**.

As at 31.12.09	**UK**	**EU**	**USA**	**ROW**	**Total**
	£m	**£m**	**£m**	**£m**	**£m**
Central government or central banks	**574.7**	**17.8**	**-**	**-**	**592.5**
Multilateral development banks	**-**	**460.3**	**-**	**108.0**	**568.3**
Institutions	**1868.9**	**416.9**	**127.7**	**9.3**	**2422.8**
Corporates	**926.3**	**210.0**	**-**	**7.2**	**1,143.5**
Mortgages secured on residential properties	**39,092.9**	**-**	**-**	**-**	**39,092.9**
Securitisation positions	**5,286.0**	**343.6**	**-**	**53.9**	**5,683.5**
Total	**47,748.8**	**1,448.6**	**127.7**	**178.4**	**49,503.5**

As at 31.12.08	UK	EU	USA	ROW	Total
	£m	£m	£m	£m	£m
Central government or central banks	1,041.7	10.1	-	-	1,051.8
Multilateral development banks	-	547.6	-	120.5	668.1
Institutions	1,751.5	654.2	233.7	96.3	2,735.7
Corporates	1,362.6	297.8	-	9.7	1,670.1
Mortgages secured on residential properties	37,970.7	-	-	-	37,970.7
Securitisation positions	5,423.7	462.6	-	80.8	5,967.1
Total	47,550.2	1,972.3	233.7	307.3	50,063.5

Table 3: Distribution by industry or counterparty type.

As at 31.12.09	Central government or central banks	Multilateral development banks	Institutions	Corporates	Mortgages Secured on residential property	Securitisation Positions	Total
	£m	£m	£m	£m	£m	£m	£m
UK Government /Bank of England	**574.7**						**574.7**
Banks & Building Societies		**568.3**	**2,422.8**				**2,991.1**
Overseas Government	**17.8**						**17.8**
Real estate, renting and other business activities				**809.4 ***	**692.2**		**1,501.6**
Other Financial (including securitisations)				**334.1**		**5,683.5**	**6,017.6**
Individuals and individual trusts					**38,400.7**		**38,400.7**
Total	**592.5**	**568.3**	**2,422.8**	**1,143.5**	**39,092.9**	**5,683.5**	**49,503.5**

As at 31.12.08	**Central government or central banks**	Multilateral development banks	Institutions	Corporates	Mortgages Secured on residential property	Securitisation Positions	Total
	£m	£m	£m	£m	£m	£m	£m
UK Government /Bank of England	1,041.7						1,041.7
Banks & Building Societies		668.1	2,735.7				3,403.8
Overseas Government	10.1						10.1
Real estate, renting and other business activities				867.8 *	635.2		1,503.0
Other Financial (including securitisations)				802.3		5,967.1	6,769.4
Individuals and individual trusts					37,335.5		37,335.5
Total	1,051.8	668.1	2,735.7	1,670.1	37,970.7	5,967.1	50,063.5

* Real estate, renting and other business activities includes exposures arising from Commercial Lending activity of £809.4m (2008 £867.8M).

Table 4: Residual maturity breakdown of all exposures.

As at 31.12.09	**< 1 year**	**1 – 5 years**	**> 5 years**	**Commitments After Credit Conversion Factor**	**Total**
	£m	**£m**	**£m**	**£m**	**£m**
Central government or central banks	**423.6**	**151.4**	**17.5**	**-**	**592.5**
Multilateral development banks	**100.0**	**396.0**	**72.3**	**-**	**568.3**
Institutions	**2110.9**	**219.2**	**92.7**	**-**	**2422.8**
Corporates	**111.2**	**615.1**	**410.7**	**6.5**	**1,143.5**
Mortgages secured on residential properties	**408.2**	**1,271.9**	**36,911.3**	**501.5**	**39,092.9**
Securitisation positions	**-**	**21.4**	**5,662.1**	**-**	**5,683.5**
Total	**3,153.9**	**2,675.0**	**43,166.6**	**508.0**	**49,503.5**

As at 31.12.08	< 1 year	1 – 5 years	> 5 years	Commitments After Credit Conversion Factor	Total
	£m	£m	£m	£m	£m
Central government or central banks	800.5	251.3	-	-	1,051.8
Multilateral development banks	40.2	439.3	188.6	-	668.1
Institutions	2,397.4	204.6	133.7	-	2,735.7
Corporates	182.7	466.6	1,003.4	17.4	1,670.1
Mortgages secured on residential properties	295.6	1,007.5	36,322.8	344.8	37,970.7
Securitisation positions	-	15.2	5,951.9	-	5,967.1
Total	3,716.4	2,384.5	43,600.4	362.2	50,063.5

Source: Bradford & Bingley internal information

Table 5: Impaired and past due exposures; value adjustments & provisions; charges for value adjustments by significant industry or counterparty type.

As at 31.12.09	**Impaired Loans £m**	**Past Due Loans £m**	**Value adjustments and provisions £m**
Retail Banking:			
Mortgages secured on residential property	**1,851.8 ***	**2,811.6**	**884.1**
Commercial Banking:			
Corporate secured on land	**423.2**	**-**	**52.2**
Debt Securities	**695.9**	**-**	**363.0**

As at 31.12.08	Impaired Loans £m	Past Due Loans £m	Value adjustments and provisions £m
Retail Banking:			
Mortgages secured on residential property	819.0 *	3,526.5	467.7
Commercial Banking:			
Corporate secured on land	279.9	-	30.7
Debt Securities	497.4	-	353.7

* The gross amount of impaired loans secured on mortgages before deducting individual impairment allowances is £1,851.8m (2008: £819.0m).

Sources: 2009 Annual Report & Accounts Note 11 - page 54 / Bradford & Bingley internal information

Table 6: Geographical analysis of impaired exposures and provisions

The Group does not monitor Retail Banking impairment by significant geographical area being predominantly a UK based mortgage lender therefore such disclosure is deemed not to be material.

Commercial Banking as at 31.12.09

	UK £m	**Europe £m**	**USA £m**	**ROW £m**	**Total £m**
Gross Impaired loans and debt securities	**660.4**	**277.7**	**61.7**	**119.3**	**1,119.1**
Value adjustments and provisions	**146.6**	**100.0**	**61.6**	**107.0**	**415.2**

Commercial Banking as at 31.12.08

	UK £m	Europe £m	USA £m	ROW £m	Total £m
Gross Impaired loans and debt securities	349.8	233.2	78.9	113.3	775.2
Value adjustments and provisions	63.6	128.6	78.9	113.3	384.4

Source: Bradford & Bingley internal information

Table 7: Allowances and movements for impairment of loans against credit losses.

	Secured on mortgages £m	**Corporate secured on land £m**	**Total £ml**
As at 01.01.09	**467.7**	**30.7**	**498.4**
Write offs	**(154.8)**	**-**	**(154.8)**
Impairment charge (credit)	**579.3**	**21.5**	**600.8**
Discount unwind	**(8.1)**	**-**	**(8.1)**
At 31.12.09	**884.1**	**52.2**	**936.3**

	Secured on mortgages £m	Corporate secured on land £m	Total £m
As at 01.01.08	54.8	0.1	54.9
Write offs	(65.5)	-	(65.5)
Impairment charge (credit)	480.9	30.6	511.5
Discount unwind	(2.5)	-	(2.5)
At 31.12.08	467.7	30.7	498.4

Source: 2009 Annual Report & Accounts Note 11 - page 51

Table 8: The Income Statement charge/ (credit) comprise.

As at 31.12.09	**Secured on mortgages £m**	**Corporate secured on land £m**	**Total £m**
Impairment charge (credit)	**579.3**	**21.5**	**600.8**
Discount unwind	**(8.1)**	**-**	**(8.1)**
Recoveries	**1.0**	**-**	**1.0**
Total Income Statement charge/(credit)	**572.2**	**21.5**	**593.7**

As at 31.12.08	Secured on mortgages £m	Corporate secured on land £m	Total £m
Impairment charge (credit)	480.9	30.6	511.5
Discount unwind	(2.5)	-	(2.5)
Recoveries	(1.3)	-	(1.3)
Total Income Statement charge/(credit)	477.1	30.6	507.7

Source: 2009 Annual Report & Accounts Note 11 - page 51

Table 9: Investment Impairment Charge

	2009	2008
	£m	£m
Total liquidity portfolio	**40.1**	10.9
Structured finance portfolio		
- Principal protected notes	**9.4**	84.2
- Collateralised debt obligations *	**-**	26.6
- Collateralised loan obligations *	**-**	1.8
- Structured investment vehicles *	**-**	47.9
- Credit funds	**43.8**	20.2
Total structured finance portfolio	**53.2**	180.7
Total debt securities	**93.3**	191.6

* These assets have been fully impaired in 2008.

Source: 2009 Annual Report & Accounts Note 15 - Page 62

7. CREDIT RISK: STANDARDISED APPROACH

The Group calculates credit risk for exposures secured by mortgages on residential property under the Standardised Approach.

In addition, for the purpose of calculating non-retail credit risk requirements under the Standardised Approach, the Group uses the following External Credit Assessment Institutions (ECAIs): Moody's; Standard & Poors and Fitch.

Risk weights are determined by reference to the type of exposure and the rating of the relevant counterparty, given by the eligible ECAI. The higher the rating given by the ECAI, the lower the risk weight to be applied to an exposure.

The standardised credit risk exposure classes for which ECAIs are used are:

- Central Government or Central Banks;
- Multilateral Development Banks;
- Institutions;
- Corporates;
- Securitisation positions.

The Group recognises credit risk mitigation (CRM) in accordance with BIPRU 5 in the calculation of the risk weighted exposure amounts for the purposes of the calculation of the credit risk capital component. Hence, the 'exposure' values and 'exposure after CRM' values in table 7.5 are different reflecting the treatment of reverse repos.

Table 7.1: Central Governments or Central Banks

Credit Quality Step (CQS)	Risk weight	Exposure £m	Exposure after Credit Risk Mitigation £m
1	0%	**592.5**	**592.5**

Table 7.2: Multilateral Development Banks

Credit Quality Step (CQS)	Risk weight	Exposure £m	Exposure after Credit Risk Mitigation £m
1	0%	**568.3**	**568.3**

Table 7.3: Corporates

Credit Quality Step (CQS)	Risk weight	Exposure £m	Exposure after Credit Risk Mitigation £m
1	20%	**291.0**	**291.0**
2	50%	**19.7**	**19.7**
3	100%	**14.8**	**14.8**
4	100%	**-**	**-**
5	150%	**-**	**-**
6	150%	**-**	**-**
Unrated	100%	**818.0**	**818.0**

Table 7.4: **Institutions original effective maturity of more than 3 months**

Credit Quality Step (CQS)	Risk weight	Exposure £m	Exposure after Credit Risk Mitigation £m
1	20%	**979.4**	**979.4**
2	50%	**114.7**	**114.7**
3	50%	**-**	**-**
4	100%	**-**	**-**
5	100%	**-**	**-**
6	150%	**-**	**-**
Unrated	50%	**-**	**-**

Table 7.5: Institutions original effective maturity of 3 months or less

Credit Quality Step (CQS)	Risk weight	Exposure £m	Exposure after Credit Risk Mitigation £m
1	20%	**1,328.7**	**729.9**
2	20%	-	-
3	20%	-	-
4	50%	-	-
5	50%	-	-
6	150%	-	-
Unrated	20%	-	-

Source: Bradford & Bingley internal information

See section 11 for securitisation risk weightings

8. MARKET RISK

Market Risk Type	Capital Requirement All Activities £m
Interest rate risk	**-**
Foreign Currency position risk	**1.4**
Total	**1.4**

Source: Bradford & Bingley internal information

9. OPERATIONAL RISK

The Group calculates its capital requirement for Operational Risk using the Basel II Standardised Approach and assesses relevant income from prescribed business lines such as Retail Banking, Retail Brokerage and Commercial Banking. For each business line, the Group's average annual published relevant income based on the last three years is calculated. Capital is held to support operational risk for each business line at prescribed rates from 12% to 18% of its 3 year average annual relevant income.

10. INTEREST RATE RISK IN THE BANKING BOOK

Exposures to interest rate risk in the banking book are evaluated by running a number of scenarios based on underlying business cash flows and interest rate assumptions.

Forecasts are adjusted monthly for:

- Business cash flows;
- Mortgage interest margins and effective interest rate adjustments;
- Lending redemptions and prepayments;
- Wholesale asset and funding balance changes;
- The Group's medium term interest rate view;
- Strategies used for hedging non interest bearing liabilities.

Cash flows are based on business expectations under each interest rate scenario for each product type.

Assumptions (-2% to +2% parallel shocks) are used in standard interest rate scenarios and three alternative non-parallel rate scenarios, where the balance sheet projections are the same. Additionally, three alternative scenarios are modelled where fixed rate mortgage prepayment rates are stressed.

Assumptions are made as to how each product interest rate parameter will respond in differing interest rate scenarios.

The Group carries minimal currency exposure, all earnings at risk calculations are therefore in sterling only.

Table 10.1

December 2009	**Increase / (decrease) in earnings**	
Currency	**+200 basis points increase in yield curve**	**-200 basis points decrease in yield curve**
£ Sterling	+£306.5m	-£140.8m

Source: Bradford & Bingley internal information

11. SECURITISATION

Bradford & Bingley Group (BBG) established a Master Trust securitisation structure in 2004 to raise funding for the Group. Special Purpose Vehicles (SPVs) (the Aire Valley Mortgages group of companies) have purchased a beneficial interest in a portfolio of residential mortgages that are funded by floating rate mortgage backed debt securities. The SPVs are administered by BBG although BBG and its subsidiaries are not obliged to support any losses that may be suffered by the note holders and do not intend to offer such support. At the time of the transfer into Temporary Public Ownership, HMT provided a guarantee with regard to certain wholesale borrowings existing at the time of the Transfer. This guarantee was subject to approval by the EC under the EC state aid rules and approval was announced on 25 January 2010. In addition, in 2008 the Group established a stand alone securitisation which issued floating rate notes - Bowler Finance Plc. All of these loan notes issued were held by Bradford & Bingley plc.

A SPV is a structure comprising of one or more legal entities, set up to act as a trust for debt investors, with the aim of obtaining financing. A Group company sells to another entity the right to receive the cash flows arising on certain loans. However, the mortgage originator receives substantially all of the post-tax profit of that entity, and hence retains the risks and rewards of the securitised loans. Hence the securitised loans are retained on the mortgage originator's balance sheet. The underlying mortgage assets are retained on balance sheet for risk weighting purposes in accordance with BIPRU 9.3.

The Aire Valley Master Trust and Bowler Finance structures have been rated by Standard and Poor's, Moody's Investor Services and Fitch Ratings.

From May 2004 residential mortgage assets have been securitised via Aire Valley Funding 1 plc and Bowler Finance plc. Mortgage backed floating rate notes were issued by the issuing companies below and the proceeds loaned to the Aire Valley Funding and Bowler Finance companies to purchase the mortgages from BBG.

Table 11.1

	Date of Securitisation	Gross Assets Securitised £m	Notes in Issue £m
Aire Valley Master Trust Structure			
Aire Valley Funding No 1 plc			
Aire Valley Mortgages 2004 - 1	10/2004	830.9	638.3
Aire Valley Mortgages 2005 - 1	04/2005	649.5	499.0
Aire Valley Mortgages 2006 - 1	08/2006	3,021.2	2,321.0
Aire Valley Mortgages 2007 - 1	05/2007	2,504.9	1,924.4
Aire Valley Mortgages 2007 - 2	11/2007	1,261.1	968.7
Aire Valley Mortgages 2008 - 1	07/2008	3,774.8	2,900.0
		12,042.4	9,251.4
Bowler Finance PLC	07/2008	3,885.8	3,884.6
		15,928.2	13,136.0

Total gross assets within the Aire Valley master Trust structure, including originator's share, is £12,042.4m as at 31 December 2009.

TABLE 11.2 Impaired and Past Due exposures securitised.

Aire Valley Master Trust	**as at 2009**				
	Number	**Principal**	**Arrears**	**% by Number**	**% by Value**
	No	**£m**	**£m**	**%**	**%**
>=1 <3 Months	**2,354**	**333.2**	**1.6**	**2.5%**	**2.8%**
>=3 <6 Months	**1,094**	**157.8**	**1.9**	**1.1%**	**1.3%**
>=6 <12 Months	**1,095**	**160.9**	**3.8**	**1.1%**	**1.3%**
>=12 Months	**1,779**	**280.7**	**14.2**	**1.9%**	**2.3%**
Possession	**148**	**20.2**	**1.1**	**0.2%**	**0.2%**
Total	**6,470**	**952.6**	**22.6**	**6.8%**	**7.9%**

Bowler Finance	**as at 2009**				
	Number	**Principal**	**Arrears**	**% by Number**	**% by Value**
	No	**£m**	**£m**	**%**	**%**
>=1 <3 Months	**1,413**	**208.6**	**1.5**	**4.9%**	**5.4%**
>=3 <6 Months	**813**	**121.2**	**2.1**	**2.8%**	**3.1%**
>=6 <12 Months	**625**	**96.1**	**3.2**	**2.2%**	**2.5%**
>=12 Months	**334**	**55.8**	**3.0**	**1.2%**	**1.4%**
Possession	**208**	**35.8**	**2.3**	**0.7%**	**0.9%**
Total	**3,393**	**517.5**	**12.1**	**11.8%**	**13.3%**

Aire Valley Master Trust	as at 2008				
	Number	Principal	Arrears	% by Number	% by Value
	No	£m	£m	%	%
>=1 <3 Months	3,274	463.9	3.3	3.3%	3.7%
>=3 <6 Months	1,559	231.8	4.0	1.6%	1.8%
>=6 <12 Months	1,364	202.5	6.5	1.4%	1.6%
>=12 Months	534	84.4	5.6	0.5%	0.7%
Possession	86	14.8	0.0	0.1%	0.1%
Total	6,817	997.4	19.4	6.9%	7.9%

Bowler Finance	as at 2008				
	Number	Principal	Arrears	% by Number	% by Value
	No	£m	£m	%	%
>=1 <3 Months	1,630	245.3	2.1	5.2%	5.9%
>=3 <6 Months	642	95.7	2.1	2.1%	2.3%
>=6 <12 Months	276	45.5	1.6	0.9%	1.1%
>=12 Months	26	4.0	0.1	0.1%	0.1%
Possession	2	0.1	0.0	0.0%	0.0%
Total	2,576	390.6	5.9	8.3%	9.4%

Total losses recognised on exposures securitised during the year were £33.8m (2008: £9.1m)

Securitisation positions retained or purchased

The Group also invests in securitisation vehicles through the purchase of floating rate asset backed debt securities of other issuers and also has retained an interest in some notes issued in the Aire Valley Mortgages 2007-1, Aire Valley Mortgages 2007-2, Aire Valley Mortgages 2008-1 and Bowler Finance. These investments do not meet the transfer of significant credit risk criteria and therefore the underlying mortgages are retained on balance sheet for capital purposes and the investment in notes are risk weighted at 0% to prevent double counting.

Table 11.3: Securitisation exposures retained or purchased

	Amounts retained / purchased £m
Residential Mortgage backed securities	**991.1**
Commercial Mortgage backed securities	**40.4**
Other Asset backed securities	**11.6**
Investment in Aire Valley Mortgages	**4,640.4**
	5,683.5

Table 11.4: Securitisation exposures retained or purchased Risk Weighted Assets

Risk Weight %	**Amounts retained / purchased £m**
0% On balance sheet investment in Aire Valley Mortgages	**4,640.4**
20%	**1,022.9**
50%	**15.6**
100%	**4.6**
350%	**-**
1250%	**-**
Deduction from capital	**-**
	5,683.5

The above exposures are net of a charge of £223.7m to reflect impairment on securitisation positions.

Table 11.5: Movement in securitisation debt securities issued

	Balance as at 01-01-2009 £m	**New Issuances £m**	**Repayments £m**	**Balance as at 31-12-2009 £m**
Aire Valley Mortgages	**9,943.0**	**-**	**(691.6)**	**9,251.4**
Bowler Finance	**4,232.8**	**-**	**(348.2)**	**3,884.6**
	14,175.8	**-**	**(1,039.8)**	**13,136.0**

Table 11.6: Movement in exposures securitised

	Balance as at 01-01-2009 £m	Movement in exposures securitised £m	Balance as at 31-12-2009 £m
Aire Valley Mortgages	**12,581.1**	**(538.7)**	**12,042.4**
Bowler Finance	**4,235.6**	**(349.8)**	**3,885.8**
	16,816.7	**(888.5)**	**15,928.2**

12. CREDIT RISK MITIGATION

The Group enters into Credit Support Annexes (CSAs) with derivative counterparties, which collateralise derivative transactions in order to mitigate the risk of loss on default. These allow calls to be made on the net mark to market value of derivative exposures with each counterparty. The CSAs are taken into consideration when setting the internal credit risk limits for derivative counterparties.

The Group also utilises reverse repurchase agreements for short term liquidity management. Market prices of the collateral received for these transactions are monitored daily.

In line with BIPRU 5 the Group applies CRM and risk weights at 0% the portion of any reverse repo exposure that is collateralised by the market value of the related collateral. The Pillar 1 capital requirement calculations for the Group takes full account of these CRM effects.

Source: Bradford & Bingley internal information