

UK Asset Resolution Limited

Interim Financial Report

for the 6 months ended 30 June 2011

29 July 2011

Introduction

Bradford & Bingley plc ('B&B') and Northern Rock (Asset Management) plc ('NRAM') are each required by the FSA's Disclosure and Transparency Rules to publish an Interim Financial Report for the 6 months ended 30 June 2011, because each company has listed debt in issue. UK Asset Resolution Limited ('UKAR') as an individual company has no listed debt in issue and therefore is not required to issue an Interim Financial Report. UKAR's first mandatory external financial reporting will be its statutory Annual Report and Accounts for the 18 month period from incorporation to 31 December 2011. UKAR has voluntarily issued the UKAR Group information contained within this report.

This UK Asset Resolution Limited Interim Financial Report comprises four sections:

Section A - summary of the performance of the UK Asset Resolution Limited Group.

Section B - summary consolidated results of the UK Asset Resolution Limited Group.

Section C - Interim Financial Report of Bradford & Bingley plc, prepared in accordance with IAS 34.

Section D - Interim Financial Report of Northern Rock (Asset Management) plc, prepared in accordance with IAS 34.

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Section A

Half year results: Bradford & Bingley plc and Northern Rock (Asset Management) plc

Interim Financial Report for the 6 months ended 30 June 2011

Half year results: Bradford & Bingley plc and Northern Rock (Asset Management) plc

UKAR RETURNS ANOTHER £1 BILLION TO TAXPAYERS

- £1.0bn of government loan paid back, taking total to £2.1bn repaid in 18 months
- Underlying profit growth in the first half of 2011
- Costs reduced significantly
- B&B arrears continue to fall, NRAM rate of increase slowed

UK Asset Resolution Limited ('UKAR') issued the Half Year results of both Bradford & Bingley plc ('B&B') and Northern Rock (Asset Management) plc ('NRAM') for the six months ended 30 June 2011.

KEY HIGHLIGHTS

Bradford & Bingley plc

- Underlying profit before tax for the first half of 2011 was £152.0m, up from £83.6m profit at H1 2010 (FY 2010: £200.1m)
- Statutory profit before tax for the first half of 2011 was £139.3m, compared with a £896.0m profit at 30 June 2010 (FY 2010: £1,081.5m)
- Ongoing costs fell 10% to £52.6m, down from £58.6m in H1 2010 (FY 2010: £112.3m)
- The number of mortgage accounts three months or more in arrears, including possessions, at 30 June 2011 fell by 16% (from December 2010) to 10,956 (H1 2010: 15,653, FY 2010: 13,096)
- Loan impairment charge reduced by £117.4m to £44.1m (H1 2010: £161.5m, FY 2010: £276.6m)
- No additional funding drawn from the Government Working Capital Facility ('WCF')

Northern Rock (Asset Management) plc

- Repaid £1.0bn of Government loan during the first half of the year (FY 2010: £1.1bn)
- Underlying profit before tax for the first half of 2011 was £344.1m, up from £181.8m profit at H1 2010 (FY 2010: £277.4m)
- Statutory profit before tax for the first half of 2011 was £291.5m, compared with a £349.7m profit at 30 June 2010 (FY 2010: £400.5m)
- Ongoing costs fell by 28% to £53.7m, down from £75.0m at H1 2010 (FY 2010: £165.2m)
- The number of mortgage accounts three months or more in arrears including possessions at H1 2011 increased by 6% from the year end to 27,010 (H1 2010: 24,683, FY 2010: 25,419)
- Loan impairment charge reduced by £105.7m to £171.9m (H1 2010: £277.6m, FY 2010: £812.8m)

Richard Banks, UKAR Chief Executive, commented:

"Our aim is to maximise value for the taxpayer and we have accelerated the repayment of Government debt with a further £1bn repaid in the first half of 2011. Arrears at NRAM are beginning to stabilise whilst arrears at B&B continue to reduce. However, we remain cautious about the future as there is continuing pressure on household finances."

SUMMARY FINANCIAL INFORMATION

Underlying profit before tax for B&B in H1 2011 was £152.0m, compared to an underlying profit in H1 2010 of £83.6m. This improvement is mainly due to reduced residential impairment provisions. Statutory profit before tax for B&B in H1 2011 was £139.3m, compared to £896.0m in H1 2010, which included £712.3m benefit from the repurchase of subordinated liabilities.

Underlying profit before tax for NRAM in H1 2011 was £344.1m, an increase from a profit in H1 2010 of £181.8m. The underlying year-on-year improvement is primarily due to reduced loan impairment as the rate of increase in arrears has slowed. Statutory profit before tax for NRAM in H1 2011 was £291.5m, compared to £349.7m in H1 2010, with fair value movements on financial instruments more than offsetting the increase in underlying profits.

Both companies continued to benefit from the support of the Government in the form of low interest rate loans. NRAM repaid £1.0bn of its loan to reduce the balance to £20.7bn at the half year. No additional funding was drawn by B&B and the balance of Government funding has remained unchanged from December 2010 at £27.0bn.

Repricing of B&B Working Capital Facility

A priority at the time of nationalisation was to stabilise the liquidity and capital position of B&B and the interest rate on the WCF at that time was set at a low level to facilitate this. However, HM Treasury has the option to vary the interest rates on these funding arrangements to reflect a commercial charge. The company's cash flow and capital position are now stronger and accordingly HM Treasury have given notice of an increase in the rate payable on the B&B WCF to take effect from 1 August 2011. The revised rate will increase interest payable from B&B to HM Treasury by £124m during the remainder of 2011, thereby reducing expected profits in the second half of the year by the same amount.

PERFORMANCE ON UKAR STRATEGIC PRIORITIES

1. Optimise the balance sheet

The Balance Sheet reduction in the past six months to 30 June 2011 has been largely driven by loan redemptions. B&B received £0.8bn (H1 2010: £1.0bn) in redemption payments and NRAM £2.5bn (H1 2010: £2.4bn).

Redemptions are in line with the previous year but are expected to slow due to the reduced book size in both organisations and the challenge faced by many customers to find suitable remortgage opportunities with other lenders due to the continuing difficult market conditions.

The reduction of B&B wholesale assets to £4.2bn (H1 2010: £5.8bn) reflects maturities and sales.

Wholesale asset balances for NRAM fell to £11.0bn (H1 2010: £11.4bn) mainly due to movements in collateral.

2. Minimise impairment and losses

UKAR continues to work closely with those customers experiencing payment difficulties and arrears, while working to improve the performance of the collections and fraud management processes. We also maintain strong relationships with free-for-customers debt advisory agencies to provide help and advice to our customers in financial difficulty.

As at 30 June 2011 there were 10,956 cases of B&B mortgages in arrears for three or more months including possessions, a fall of 16% compared to December 2010. For NRAM, the equivalent figure was 27,010 a 6% increase.

The vast majority of customers are up to date with their payments (B&B: 93% and NRAM: 87%). B&B continues to make good progress in respect of customers with serious arrears, reflecting tight management of collection activity. Most buy-to-let customers continue to benefit from a borrowing rate that is less than the rental yield, the result being that the number of customers three months or more in arrears fell from 4.1% to 3.6%, which includes possessions.

The rise in the number of NRAM customer arrears is due in part revising the previous practice of capitalising any arrears once a customer was able to maintain their mortgage payments for a certain period of time. We made this change because we believe it is important to have individual conversations with customers to ensure we are providing the fairest solution to meet their circumstances. In addition, the rise reflects continuing pressures on household incomes and high amounts initially borrowed by some customers relative to their income.

Support for customers experiencing payment difficulties

Repossession proceedings for customers in arrears are viewed as a last resort. Before commencing possession processes every effort is made to assist customers in continuing with their mortgage and there were 46,000 mortgage arrangements and account modifications in place at the end of June.

In seeking to support customers through periods of financial difficulties we actively work with free-for-customers debt advisory services to help customers reorganise their finances and ensure, wherever possible, that they can continue as home-owners.

Where a buy-to-let landlord is in arrears we endeavour to protect tenants by honouring the terms of all valid Assured Shorthold Tenancy agreements and instructing a Law of Property Act receiver to collect rent directly from the tenant, thereby enabling the tenant to stay in their home for the duration of any agreement.

3. Reduce costs

B&B ongoing costs fell 10% to £52.6m (H1 2010: £58.6m). The reduction primarily reflects benefits from investment in IT and telephony systems. NRAM ongoing costs fell 28% from £75.0m to £53.7m reflecting restructuring undertaken last year prior to the transfer of NRAM to UKAR.

These improvements are reflected in improved ongoing costs to asset ratios in both businesses with B&B at 0.25% (H1 2010: 0.26%) and NRAM falling to 0.19% (H1 2010: 0.23%).

B&B non-recurring costs were also lower at £1.6m (H1 2010: £5.8m). 2010 expenditure included £3.3m on the B&B independent share valuation. The 2011 charge relates to the integration of B&B and NRAM systems within the UKAR Transformation project. NRAM non-recurring costs of £1.5m reflect UKAR Transformation project costs. In H1 2010, non-recurring costs of £23.6m largely reflected costs relating to the restructure of and separation from Northern Rock plc.

4. Early Redemption Charges

We have now decided to waive all Early Redemption Charges that may be applicable for NRAM customers to bring the policy into line with B&B. We recognise that we are not able to make further advances to customers, and our aim is to ensure that customers have no obstacle to remortgaging. Encouraging redemptions will also allow us to repay more of the Government debt.

5. Payment Protection Insurance ('PPI')

Like many other banks Northern Rock previously offered Payment Protection Insurance (PPI) to customers. We have now completed a thorough review into the historic sales practices for those customers who are now with NRAM. This covered the period from when the new Insurance Code of Business rules came into force on 14 January 2005 through to April 2008 when Northern Rock stopped selling PPI.

NRAM decided not to join in the Judicial Review initiated by the British Bankers' Association (BBA) earlier this year and did not stop dealing with customer complaints of mis-selling whilst the Review took place. We continue to address all customer PPI complaints as and when they are received.

Recently we also began a programme of proactive customer contact, in which we invite customers who think they may have been mis-sold to have their case reviewed and to seek reimbursement. We expect this programme to take a number of months and we believe adequate provision for redress was made in our accounts last year.

OUTLOOK

The outlook for the UK economy remains uncertain and household incomes will continue to be impacted by increases in taxes, higher inflation and job losses, and inevitably, higher interest rates at some point. We expect more customers to get into difficulties in the remainder of 2011 and this may result in more arrears and repossessions. In these challenging circumstances we are increasing our investment in developing more proactive contact with customers in financial difficulty.

OTHER INFORMATION

UK Asset Resolution Limited

UKAR was established on 1 October 2010 to facilitate the orderly management of the closed mortgage books of both B&B and NRAM to maximise value for taxpayers. The Executive team of UKAR manages both organisations focusing on this common objective, while ensuring that both companies continue to treat customers fairly, deliver consistently high levels of service and support those customers facing financial difficulty.

Bradford & Bingley plc

On 29 September 2008, all of B&B's retail branches and its savings accounts were transferred to Abbey. These were rebranded Santander in January 2010. The remainder of the business, including the mortgage books of B&B and specialist lending arm Mortgage Express, were nationalised and taken into public ownership by the Government. B&B is permanently closed to new lending, but continues to provide services to some 231,000 existing mortgage borrowers.

Northern Rock (Asset Management) plc

Northern Rock was nationalised and taken into Government ownership in February 2008 and was then restructured into two legal entities with effect from 1 January 2010 - Northern Rock plc and Northern Rock (Asset Management) plc.

NRAM retained the majority of the pre-existing mortgage book and all pre-existing unsecured loan accounts. NRAM is permanently closed to new lending, but continues to provide services to some 540,000 existing borrowers, with 365,000 mortgage customers and 175,000 unsecured loan customers.

SUMMARY OF RESULTS

KPI		UKAR		
		6 months to 30 June 2011	6 months to 30 June 2010	12 months to 31 December 2010
Underlying profit before taxation ¹	£m	496.1	265.4	477.5
Statutory profit before taxation	£m	430.8	1,245.7	1,482.0
Underlying costs ²	£m	106.3	133.6	277.5
Statutory costs	£m	109.4	163.0	430.0
Ratio of underlying costs to average interest-earning assets	%	0.21	0.24	0.26
Ratio of statutory costs to average interest-earning assets	%	0.22	0.29	0.40
Lending balances	£bn	80.2	88.6	84.2
Total redemptions	£bn	3.3	3.4	7.0
Residential arrears of 3 months and over and possessions as % of the book - by value	%	7.08	6.90	6.89
Residential arrears of 3 months and over and possessions as % of the book - by number of accounts	%	5.64	5.47	5.46
Loan impairment charge	£m	216.0	439.1	1,089.4
Arrears of 3 months and over (inc possessions)	no.	37,966	40,336	38,515
Loans from HM Treasury	£bn	39.1	40.9	40.1
Working Capital Facility	£bn	8.5	8.5	8.5
Period end headcount ³	no.	2,363	992	2,241
Number of residential mortgage accounts	no.	672,574	736,971	705,609

SUMMARY OF RESULTS (continued)

KPI		B&B			NRAM		
		6 months to 30 June 2011	6 months to 30 June 2010	12 months to 31 December 2010	6 months to 30 June 2011	6 months to 30 June 2010	12 months to 31 December 2010
Underlying profit before taxation ¹	£m	152.0	83.6	200.1	344.1	181.8	277.4
Statutory profit before taxation	£m	139.3	896.0	1,081.5	291.5	349.7	400.5
Underlying costs ²	£m	52.6	58.6	112.3	53.7	75.0	165.2
Statutory costs	£m	54.2	64.4	126.4	55.2	98.6	303.6
Ratio of underlying costs to average interest-earning assets	%	0.25	0.26	0.25	0.19	0.23	0.26
Ratio of statutory costs to average interest-earning assets	%	0.26	0.28	0.28	0.19	0.30	0.48
Lending balances	£bn	35.4	37.7	36.4	44.7	50.9	47.8
Total redemptions	£bn	0.8	1.0	2.1	2.5	2.4	4.9
Residential arrears of 3 months and over and possessions as % of the book - by value	%	4.70	6.45	5.52	9.07	7.25	7.98
Residential arrears of 3 months and over and possessions as % of the book - by number of accounts	%	3.56	4.72	4.09	7.41	6.09	6.58
Loan impairment charge	£m	44.1	161.5	276.6	171.9	277.6	812.8
Arrears of 3 months and over (inc possessions)	no.	10,956	15,653	13,096	27,010	24,683	25,419
Loans from HM Treasury	£bn	18.4	18.4	18.4	20.7	22.5	21.7
Working Capital Facility	£bn	8.5	8.5	8.5	-	-	-
Period end headcount ³	no.	1,020	992	987	1,343	-	1,254
Number of residential mortgage accounts	no.	308,064	331,775	319,512	364,510	405,196	386,097

Notes:

¹ Underlying results exclude certain items that are not expected to recur on an ongoing basis. An analysis of the difference between statutory and underlying profit is provided on pages 18 and 43

² Underlying costs exclude certain items that are not expected to recur on an ongoing basis; an analysis of items excluded from underlying costs is provided on pages 26 and 54.

³ On 1 January 2010 all employees previously employed by NRAM transferred to Northern Rock plc and on 1 November 2010 1,254 of these employees transferred to B&B. Throughout 2010 and 2011 services were provided to NRAM by employees of Northern Rock plc and B&B, and consequently NRAM had no employees during the whole of the periods presented. The period end headcount shown above for B&B and NRAM reflects the number of B&B employees providing services to those companies regardless of which company employed them.

Section B

UK Asset Resolution Limited

Summary Financial Results

UK Asset Resolution Limited - Summary Consolidated Financial Results

Introduction

UK Asset Resolution Limited is a private limited company incorporated on 1 July 2010 under the Companies Act 2006 and registered in England and Wales. UKAR is wholly owned by the Treasury Solicitor as nominee for HM Treasury and considers Her Majesty's Government to be its ultimate controlling party.

UKAR acquired all the shares of B&B and NRAM on 1 October 2010 in a share-for-share exchange. UKAR's first accounting period is for the 18 months ending 31 December 2011, and it will prepare full consolidated financial statements for that period in accordance with International Financial Reporting Standards ('IFRS') as adopted by the European Union ('EU').

For its consolidated Financial Statements, UKAR will apply 'predecessor accounting', which in essence reflects the situation as though the UKAR Group had always been in existence in its current form. The share capital and non-distributable reserves of the UKAR Group are those of the UKAR Company, while the retained earnings, cash flow hedge reserve and available-for-sale reserve of the UKAR Group are the aggregate of those of the UKAR Company, the B&B Group and the NRAM Group, as adjusted to eliminate intra-UKAR Group balances, income and expenses. The UKAR Group Financial Statements will incorporate, on a line-by-line basis, the Financial Statements of UKAR and its subsidiary undertakings (being all of the entities consolidated into the B&B Group and the NRAM Group).

The summary Consolidated Financial Results of the UKAR Group on pages 12 to 13 have not been subject to audit or independent review. They do not constitute statutory accounts within the meaning of section 435 of the Companies Act 2006. The Summary Consolidated Income Statement and the Summary Consolidated Balance Sheet have been prepared using principles which are consistent with IAS 34 'Interim Financial Reporting', but they are not accompanied by the detailed disclosures which IAS 34 would require.

Background to restatements

As a consequence of the acquisition of B&B and NRAM by UKAR, management undertook a programme of aligning key aspects of the governance of both companies, accounting policies and disclosures of key financial information. In the Annual Report & Accounts for B&B and NRAM for the year ended December 2010 a number of these alignments were highlighted. Therefore to be consistent with the approach undertaken and as UKAR work to fully align and integrate both entities we have restated 30 June 2010 where appropriate to be consistent with the approach taken at the end of 2010.

UK Asset Resolution Limited - Summary Consolidated Financial Results

Summary Consolidated Income Statement

	6 months to 30 June 2011	6 months to 30 June 2010	12 months to 31 December 2010
£m			
Interest receivable and similar income	1,241.0	1,249.2	2,674.4
Interest expense and similar charges	(450.8)	(336.5)	(806.6)
Net interest income	790.2	912.7	1,867.8
Fee and commission income	19.7	22.3	40.2
Fee and commission expense	(8.7)	(8.9)	(15.9)
Net fee and commission income	11.0	13.4	24.3
Net realised gains less losses on investment securities	15.0	17.6	47.1
Unrealised fair value movements on financial instruments	(27.8)	222.9	408.4
Hedge ineffectiveness	(34.4)	(38.9)	(62.0)
Provision for customer redress	-	-	(160.0)
Other operating income	4.7	3.6	10.0
Non-interest income	(42.5)	205.2	243.5
Net operating income	758.7	1,131.3	2,135.6
Administrative expenses:			
- Ongoing	(106.3)	(133.6)	(277.5)
- Other net expenses	(3.1)	(29.4)	(152.5)
Impairment on loans and advances to customers	(216.0)	(439.1)	(1,089.4)
Net impairment on investment securities	(2.5)	(4.9)	(0.5)
Defined benefit pension scheme curtailment	-	9.1	9.1
Gain on sale of insurance business	-	-	11.5
Gain on repurchase of subordinated liabilities and other capital instruments	-	712.3	845.7
Profit before taxation	430.8	1,245.7	1,482.0
Taxation	(91.0)	(241.8)	(253.2)
Profit for the financial period	339.8	1,003.9	1,228.8

UK Asset Resolution Limited - Summary Consolidated Financial Results (continued)**Summary Consolidated Balance Sheet**

At	30 June 2011	30 June 2010	31 December 2010
£m			
Assets			
Cash and balances at central banks	8,547.3	7,265.7	7,291.8
Loans and advances to banks	2,861.8	5,579.7	5,615.6
Loans and advances to customers	80,172.0	88,614.1	84,164.0
Fair value adjustments on portfolio hedging	485.6	1,137.2	762.8
Investment securities and unsecured investment loans	3,674.0	4,215.9	3,924.6
Derivative financial instruments	9,258.4	9,141.5	9,471.6
Prepayments and accrued income	18.4	5.6	8.1
Other assets	15.6	46.7	17.6
Deferred tax assets	65.8	89.3	111.9
Retirement benefit asset	38.1	9.0	8.3
Investment property	26.6	-	26.6
Property, plant and equipment	67.0	136.8	60.7
Intangible assets	11.2	30.9	3.3
Total assets	105,241.8	116,272.4	111,466.9
Liabilities			
Loans from HM Treasury	20,717.9	22,533.4	21,727.3
Deposits by banks	5,442.0	7,133.4	7,057.7
Other deposits	-	407.7	-
HM Treasury Working Capital Facility	8,564.1	8,563.7	8,564.2
Statutory Debt	18,416.2	18,416.2	18,416.2
Derivative financial instruments	1,015.5	1,914.0	1,358.3
Debt securities in issue:			
- Securitised notes	27,163.6	31,478.3	29,129.7
- Covered Bonds	14,375.5	14,599.6	14,913.7
- Other	3,385.5	5,316.7	4,385.3
Other liabilities	132.9	344.6	181.9
Accruals and deferred income	38.2	36.9	46.4
Current tax liabilities	107.7	301.8	208.5
Retirement benefit obligations	26.5	109.4	194.1
Provisions	227.2	110.1	249.7
Subordinated liabilities	1,297.7	1,302.6	1,300.7
Tier one notes	140.3	260.2	137.9
Other capital instruments	54.1	176.9	56.0
Total liabilities	101,104.9	113,005.5	107,927.6
Equity			
Issued capital and reserves attributable to equity holder of the parent:			
- Share capital	1.2	1.2	1.2
- Available-for-sale reserve	(110.3)	(303.3)	(211.7)
- Cash flow hedge reserve	(58.5)	(156.9)	(93.0)
- Merger reserve	1,122.6	1,122.6	1,122.6
- Retained earnings	2,972.8	2,244.9	2,511.1
Share capital and reserves	3,927.8	2,908.5	3,330.2
Non-shareholders' funds			
Reserve capital instruments	156.2	299.3	156.2
Subordinated notes	52.9	59.1	52.9
Total non-shareholders' funds	209.1	358.4	209.1
Total equity	4,136.9	3,266.9	3,539.3
Total equity and liabilities	105,241.8	116,272.4	111,466.9

Section C

Bradford & Bingley plc

Interim Financial Report

for the 6 months ended 30 June 2011

Bradford & Bingley plc**Interim Financial Report for the 6 months ended 30 June 2011****KEY HIGHLIGHTS****Bradford & Bingley plc**

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- Loan impairment charge reduced by £117.4m to £44.1m (H1 2010: £161.5m, FY 2010: £276.6m)
- Arrears continue to fall
- No additional funding drawn from the Government Working Capital Facility ('WCF')

SUMMARY FINANCIAL INFORMATION

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B&B continued to benefit from the support of the Government in the form of low interest rate loans. No additional funding was drawn by B&B and the balance of Government funding has remained unchanged from December 2010 at £27.0bn.

Repricing of B&B Working Capital Facility

A priority at the time of nationalisation was to stabilise the liquidity and capital position of B&B and the interest rate on the WCF at that time was set at a low level to facilitate this. However, HM Treasury has the option to vary the interest rates on these funding arrangements to reflect a commercial charge. The company's cash flow and capital position are now stronger and accordingly HM Treasury have given notice of an increase in the rate payable on the B&B WCF to take effect from 1 August 2011. The revised rate will increase interest payable from B&B to HM Treasury by £124m during the remainder of 2011, thereby reducing expected profits in the second half of the year by the same amount.

PERFORMANCE ON UKAR STRATEGIC PRIORITIES**1. Optimise the balance sheet**

The Balance Sheet reduction in the six months to 30 June 2011 has been largely driven by loan redemptions. B&B received £0.8bn (H1 2010: £1.0bn) in redemption payments.

Redemptions are in line with the previous year but are expected to slow due to the reduced book size and the challenge faced by many customers to find suitable remortgage opportunities with other lenders due to the continuing difficult market conditions.

The reduction of B&B wholesale assets to £4.2bn (H1 2010: £5.8bn) reflects maturities and sales.

2. Minimise impairment and losses

B&B continues to work closely with those customers experiencing payment difficulties and arrears, while working to improve the performance of the collections and fraud management processes. We also maintain strong relationships with free-for-customers debt advisory agencies to provide help and advice to our customers in financial difficulty.

As at 30 June 2011 there were 10,956 cases of B&B mortgages in arrears for three or more months including possessions, a fall of 16% compared to December 2010.

The vast majority of customers are up to date with their payments (93%). B&B continues to make good progress in respect of customers with serious arrears, reflecting tight management of collection activity. Most buy-to-let customers continue to benefit from a borrowing rate that is less than the rental yield, the result being that the number of customers three months or more in arrears fell from 4.1% to 3.6%, which includes possessions.

Support for customers experiencing payment difficulties

Repossession proceedings for customers in arrears are viewed as a last resort. Before commencing possession processes every effort is made to assist customers in continuing with their mortgage and there were 8,700 mortgage arrangements and account modifications in place at the end of June to assist B&B customers with their repayments to enable them to continue their existing mortgage relationship.

In seeking to support customers through periods of financial difficulties we actively work with free-for-customers debt advisory services to help customers reorganise their finances and ensure, wherever possible, that they can continue as home-owners.

Where a buy-to-let landlord is in arrears we endeavour to protect tenants by honouring the terms of all valid Assured Shorthold Tenancy agreements and instructing a Law of Property Act receiver to collect rent directly from the tenant, thereby enabling the tenant to stay in their home for the duration of any agreement.

3. Reduce costs

B&B ongoing costs fell 10% to £52.6m (H1 2010: £58.6m). The reduction primarily reflects benefits from investment in IT and telephony systems. These improvements are reflected in an improved ongoing costs to asset ratio of 0.25% (H1 2010: 0.26%).

B&B non-recurring costs were also lower at £1.6m (H1 2010: £5.8m). 2010 expenditure included £3.3m on the B&B independent share valuation. The 2011 charge relates to the integration of B&B and NRAM systems within the UKAR Transformation project.

OUTLOOK

The outlook for the UK economy remains uncertain and household incomes will continue to be impacted by increases in taxes, higher inflation and job losses, and, inevitably, higher interest rates at some point. We expect more customers to get into difficulties in the remainder of 2011 and inevitably this may result in more arrears and repossessions. In these challenging circumstances we are increasing our investment in developing more pro-active contact with customers in financial difficulty.

In such challenging circumstances we will continue to maintain strong relationships with the charitable debt advisory agencies to provide help and advice to our customers in financial difficulty.

OTHER INFORMATION

Bradford & Bingley plc

On 29 September 2008, all of B&B's retail branches and its savings accounts were transferred to Abbey. These were rebranded Santander in January 2010. The remainder of the business, including the mortgage books of B&B and specialist lending arm Mortgage Express, were nationalised and taken into public ownership by the Government. B&B is permanently closed to new lending, but continues to provide services to some 231,000 existing mortgage borrowers.

Key Performance Indicators ('KPIs')

Strategic priorities	Financial measures	6 months to 30 June 2011	6 months To 30 June 2010	12 months to 31 December 2010	Commentary
Financial performance	Underlying profit before tax £m*	152.0	83.6	200.1	The improvement in underlying profit compared to H1 2010 primarily relates to lower customer loan impairment charges.
	Statutory profit before tax £m	139.3	896.0	1,081.5	The lower statutory profit before tax compared to H1 2010 is due to large gains on the repurchase of subordinated liabilities of £712.3m 2010 and discounting of subordinated liabilities of £104.3m which accounted for the majority of the H1 2010 profit before taxation. These have been partly offset by the improvement in underlying profit.
	Net interest margin % Underlying %*	1.08 1.08	1.62 1.15	1.36 1.13	Net interest margin was 0.54% lower than H1 2010, largely due to the reduction in fixed interest rate swaps as a result of maturities and disposals as part of the Balance Sheet simplification exercise***.
Run down the Balance Sheet	Wholesale asset balances £bn	4.2	5.8	5.7	The reduction in wholesale assets reflects maturities and sales of assets.
	Lending balances £bn	35.4	37.7	36.4	Lending balances reduced by £1.0bn since year end due mainly to redemptions of £0.8bn.
	Residential mortgage redemption rate %	4.2	5.2	5.2	The slower redemption rate reflects market conditions and a decrease in possession sales.
	Total redemptions £bn Residential redemptions £bn	0.8 0.7	1.0 1.0	2.1 2.0	Total redemptions of residential and commercial loans totalled £0.8bn which, whilst lower than H1 2010, were in line with our plan set at the start of the year.
	Working Capital Facility £bn	8.5	8.5	8.5	No draw-downs were made in the year from the Working Capital Facility arranged with HM Treasury. The balance of £8.5bn, excluding accrued interest, is within the £11.5bn facility currently agreed with HM Treasury.
Minimise impairment and losses	Residential arrears of 3 months and over and possessions : total residential mortgage balance %	0.16	0.24	0.20	These are 3 months arrears and possessions; total arrears were £65.3m, 19% lower than the end of 2010 (£80.7m).
	Residential arrears of 3 months and over and possessions as % of the book: - by value - by number of accounts	4.70 3.56	6.45 4.72	5.52 4.09	The number of cases at H1 2011 was 10,956, 16% lower than the equivalent 13,096 cases as at the end of 2010 reflecting improved collections performance and a reduction in possession stock.
	Loan impairment charge £m	44.1	161.5	276.6	The reduction in the charge reflects the lower number of arrears cases and also a considerable reduction in the size of the provision for fraudulent loans.
	Residential impairment provisions £m Cover%	766.0 2.16	863.3 2.29	832.1 2.28	The level of Balance Sheet provision reduced by £66.1m to £766.0m. The level of cover reduced from 2.28% to 2.16% reflecting the improved arrears performance and reduction in the level of impaired assets.
Restructure and realign the business	Total costs £m Ongoing costs £m**	54.2 52.6	64.4 58.6	126.4 112.3	Ongoing costs fell 10% to £52.6m (H1 2010: £58.6m). The reduction primarily reflects benefits from investment in IT and telephony systems. Non-recurring costs were also lower at £1.6m (H1 2010: £5.8m). 2010 expenditure included £3.3m on the B&B independent share valuation.
	Ratio of costs to average interest-earning assets: Statutory % Ongoing %**	0.26 0.25	0.28 0.26	0.28 0.25	Costs have reduced at a higher rate than balances hence the improvement in the ratio, mainly due to the reasons for the reduction in costs explained above.

* Underlying results exclude certain items that are not expected to recur on an ongoing basis. An analysis of the difference between statutory and underlying profit is provided on page 18. An analysis of the difference between statutory and underlying net interest income is provided in note 3.

** Underlying costs exclude certain items that are not expected to recur on an ongoing basis; an analysis of items excluded from underlying costs is provided on page 26.

*** A review of Balance Sheet hedging policy, a balance sheet simplification exercise was progressed from April 2010 onwards. As a result, fixed rate interest derivatives were disposed of such that the Balance Sheet was positioned to fully benefit from future interest rate rises.

Underlying Profit	6 months to 30 June 2011	6 months to 30 June 2010	12 months to 31 December 2010
£m			
Underlying net interest income	222.0	262.4	503.6
Underlying non-interest income	23.8	30.8	70.9
Underlying net operating income	245.8	293.2	574.5
Ongoing administrative expenses	(52.6)	(58.6)	(112.3)
Impairment on loans and advances to customers	(44.1)	(161.5)	(276.6)
Net impairment on investment securities	2.9	10.5	14.5
Underlying profit before taxation	152.0	83.6	200.1
Unrealised fair value movements on financial instruments	5.1	2.3	(9.3)
Hedge ineffectiveness	(16.2)	(0.7)	3.0
Other net expenses	(1.6)	(5.8)	(14.1)
Gain on repurchase of subordinated liabilities	-	712.3	786.0
Discounting of subordinated liabilities	-	104.3	104.3
Gain on sale of insurance business	-	-	11.5
Statutory profit before taxation	139.3	896.0	1,081.5

The Board believes it is appropriate to assess performance based on the underlying profit of the business, which excludes non-recurring costs, particularly those associated with the integration with NRAM and other one-off items including the subordinated debt discounting and repurchase of subordinated liabilities. Also excluded are movements in fair value and hedge ineffectiveness relating to financial instruments which are expected to be held to maturity as opposed to being traded. The results above have been represented for June 2010 to reflect this approach and commentary on the results in this report uses underlying profits and its components as the measure of performance.

The analysis of the difference between the statutory accounting measure of profit and the underlying profit is provided above.

Summary Balance Sheet

At	30 June 2011	30 June 2010	31 December 2010
£m			
Loans and advances to customers:			
- Residential mortgages	34,735.7	36,903.0	35,683.1
- Commercial and other secured loans	690.6	777.5	718.7
Wholesale assets	4,208.0	5,764.9	5,652.3
Fair value adjustments on portfolio hedging	154.7	311.9	223.2
Derivative financial instruments	2,831.0	2,656.6	2,929.1
Other assets	116.9	143.5	152.1
Total assets	42,736.9	46,557.4	45,358.5
Loans from HM Treasury	26,980.3	26,979.9	26,980.4
Wholesale funding	12,239.2	15,622.1	14,702.6
Derivative financial instruments	440.3	660.1	531.9
Other liabilities	236.2	723.5	543.2
Other capital instruments	404.1	521.2	393.9
Equity	2,436.8	2,050.6	2,206.5
Total liabilities and equity	42,736.9	46,557.4	45,358.5

Bradford & Bingley plc Condensed Financial Statements**Consolidated Income Statement**

£m	Note	6 months to 30 June 2011	Restated* 6 months to 30 June 2010	12 months to 31 December 2010
Interest receivable and similar income	3	419.6	479.8	934.9
Interest expense and similar charges	3	(197.6)	(113.1)	(327.0)
Net interest income	3	222.0	366.7	607.9
Fee and commission income		7.6	13.1	21.1
Net realised gains less losses on investment securities		15.9	17.6	46.9
Unrealised fair value movements on financial instruments		5.1	2.3	(9.3)
Hedge ineffectiveness		(16.2)	(0.7)	3.0
Other operating income		0.3	0.1	2.9
Net operating income		234.7	399.1	672.5
Administrative expenses:				
- Ongoing	4	(52.6)	(58.6)	(112.3)
- Other net expenses	4	(1.6)	(5.8)	(14.1)
Impairment on loans and advances to customers	8	(44.1)	(161.5)	(276.6)
Net impairment on investment securities		2.9	10.5	14.5
Gain on sale of insurance business		-	-	11.5
Gain on repurchase of subordinated liabilities		-	712.3	786.0
Profit before taxation		139.3	896.0	1,081.5
Taxation	6	(38.8)	(250.9)	(262.3)
Profit for the financial period		100.5	645.1	819.2

B&B's business and operations comprise one single activity, principally within the United Kingdom. The results above arise from continuing activities and are attributable to the equity shareholder.

* As described in note 3, for the full year 2010, B&B amended its presentation of interest on derivatives, impacting the allocation of amounts between interest income and expense, but not impacting net interest income. Consequently, the comparative interest receivable and similar income and interest expense and similar charges for the 6 months ended 30 June 2010 shown above have been restated from those reported in B&B's Interim Financial Report for the 6 months ended 30 June 2010.

Bradford & Bingley plc Condensed Financial Statements (continued)**Consolidated Statement of Comprehensive Income**

6 months to 30 June 2011	Gross of tax	Tax	Net of tax
£m			
Profit for the financial period	139.3	(38.8)	100.5
Available-for-sale instruments:			
- Net gains/(losses) recognised in available-for-sale reserve during the period	34.2	(9.0)	25.2
- Amounts transferred from available-for-sale reserve and recognised in profit during the period	(1.2)	0.3	(0.9)
Cash flow hedges:			
- Net gains/(losses) recognised in cash flow hedge reserve during the period	9.9	(1.6)	8.3
- Amounts transferred from cash flow hedge reserve and recognised in profit during the period	(14.2)	2.3	(11.9)
Actuarial gains on post-retirement benefit obligations	150.0	(40.9)	109.1
Other comprehensive income	178.7	(48.9)	129.8
Total comprehensive income for the financial period	318.0	(87.7)	230.3
	Gross of tax	Tax	Net of tax
6 months to 30 June 2010			
£m			
Profit for the financial period	896.0	(250.9)	645.1
Available-for-sale instruments:			
- Net gains/(losses) recognised in available-for-sale reserve during the period	12.4	(3.5)	8.9
- Amounts transferred from available-for-sale reserve and recognised in profit during the period	12.6	(3.5)	9.1
Cash flow hedges:			
- Net gains/(losses) recognised in cash flow hedge reserve during the period	14.3	(4.0)	10.3
- Amounts transferred from cash flow hedge reserve and recognised in profit during the period	(7.9)	2.2	(5.7)
Actuarial losses on post-retirement benefit obligations	(15.6)	4.4	(11.2)
Other comprehensive income	15.8	(4.4)	11.4
Total comprehensive income for the financial period	911.8	(255.3)	656.5
	Gross of tax	Tax	Net of tax
12 months to 31 December 2010			
£m			
Profit for the financial year	1,081.5	(262.3)	819.2
Available-for-sale instruments:			
- Net gains/(losses) recognised in available-for-sale reserve during the year	60.8	(17.0)	43.8
- Amounts transferred from available-for-sale reserve and recognised in profit during the year	24.2	(6.8)	17.4
Cash flow hedges:			
- Net gains/(losses) recognised in cash flow hedge reserve during the year	42.7	(12.2)	30.5
- Amounts transferred from cash flow hedge reserve and recognised in profit during the year	(24.1)	6.7	(17.4)
Actuarial gains on post-retirement benefit obligations	7.8	(2.0)	5.8
Effect of funding plan for post-retirement benefit obligations	(117.6)	30.7	(86.9)
Other comprehensive income	(6.2)	(0.6)	(6.8)
Total comprehensive income for the financial year	1,075.3	(262.9)	812.4

Bradford & Bingley plc Condensed Financial Statements (continued)**Consolidated Balance Sheet**

At	Note	30 June 2011	30 June 2010	31 December 2010
£m				
Assets				
Cash and balances at central banks		1,150.6	328.8	308.0
Loans and advances to banks		1,510.2	3,479.0	3,671.2
Loans and advances to customers	7	35,426.3	37,680.5	36,401.8
Fair value adjustments on portfolio hedging		154.7	311.9	223.2
Investment securities		1,547.2	1,957.1	1,673.1
Derivative financial instruments		2,831.0	2,656.6	2,929.1
Prepayments and accrued income		16.1	5.6	8.1
Other assets		2.6	20.2	1.5
Deferred tax assets	6	61.5	101.0	120.4
Property, plant and equipment		25.5	16.7	18.8
Intangible assets		11.2	-	3.3
Total assets		42,736.9	46,557.4	45,358.5
Liabilities				
Deposits by banks		1,047.3	2,461.3	2,154.9
Other deposits		-	407.7	-
HM Treasury Working Capital Facility		8,564.1	8,563.7	8,564.2
Statutory Debt		18,416.2	18,416.2	18,416.2
Derivative financial instruments		440.3	660.1	531.9
Debt securities in issue:				
- Securitised notes		5,161.8	5,577.0	5,272.9
- Covered Bonds		4,210.4	4,866.9	4,977.6
- Other		1,819.7	2,309.2	2,297.2
Other liabilities		65.5	235.6	66.6
Accruals and deferred income		29.5	25.6	32.9
Current tax liabilities		87.2	313.7	215.1
Retirement benefit obligations	13	26.5	109.4	194.1
Provisions		27.5	39.2	34.5
Subordinated liabilities	14	350.0	344.3	337.9
Other capital instruments	14	54.1	176.9	56.0
Total liabilities		40,300.1	44,506.8	43,152.0
Equity				
Issued capital and reserves attributable to equity holder of the parent:				
- Share capital		361.3	361.3	361.3
- Share premium reserve		198.9	198.9	198.9
- Capital redemption reserve		29.2	29.2	29.2
- Available-for-sale reserve		38.3	(29.2)	14.0
- Cash flow hedge reserve		(30.1)	(35.0)	(26.5)
- Retained earnings		1,839.2	1,525.4	1,629.6
Share capital and reserves		2,436.8	2,050.6	2,206.5
Total equity and liabilities		42,736.9	46,557.4	45,358.5

Bradford & Bingley plc Condensed Financial Statements (continued)**Consolidated Statement of Changes in Equity**

	Share capital	Share premium reserve	Capital redemption reserve	Available-for-sale reserve	Cash flow hedge reserve	Retained earnings	Total capital and reserves
6 months to 30 June 2011							
£m							
At 1 January 2011	361.3	198.9	29.2	14.0	(26.5)	1,629.6	2,206.5
Other comprehensive income:							
- Net movement in available-for-sale reserve	-	-	-	33.0	-	-	33.0
- Net movement in cash flow hedge reserve	-	-	-	-	(4.3)	-	(4.3)
- Actuarial gains	-	-	-	-	-	150.0	150.0
- Tax effects of the above	-	-	-	(8.7)	0.7	(40.9)	(48.9)
Total other comprehensive income	-	-	-	24.3	(3.6)	109.1	129.8
Profit for the financial period	-	-	-	-	-	100.5	100.5
At 30 June 2011	361.3	198.9	29.2	38.3	(30.1)	1,839.2	2,436.8
6 months to 30 June 2010							
£m							
At 1 January 2010	361.3	198.9	29.2	(47.2)	(39.6)	891.5	1,394.1
Other comprehensive income:							
- Net movement in available-for-sale reserve	-	-	-	25.0	-	-	25.0
- Net movement in cash flow hedge reserve	-	-	-	-	6.4	-	6.4
- Actuarial losses	-	-	-	-	-	(15.6)	(15.6)
- Tax effects of the above	-	-	-	(7.0)	(1.8)	4.4	(4.4)
Total other comprehensive income	-	-	-	18.0	4.6	(11.2)	11.4
Profit for the financial period	-	-	-	-	-	645.1	645.1
At 30 June 2010	361.3	198.9	29.2	(29.2)	(35.0)	1,525.4	2,050.6
12 months to 31 December 2010							
£m							
At 1 January 2010	361.3	198.9	29.2	(47.2)	(39.6)	891.5	1,394.1
Other comprehensive income:							
- Net movement in available-for-sale reserve	-	-	-	85.0	-	-	85.0
- Net movement in cash flow hedge reserve	-	-	-	-	18.6	-	18.6
- Actuarial losses	-	-	-	-	-	7.8	7.8
- Effect of funding plan for retirement benefit obligations	-	-	-	-	-	(117.6)	(117.6)
- Tax effects of the above	-	-	-	(23.8)	(5.5)	28.7	(0.6)
Total other comprehensive income	-	-	-	61.2	13.1	(81.1)	(6.8)
Profit for the financial period	-	-	-	-	-	819.2	819.2
At 31 December 2010	361.3	198.9	29.2	14.0	(26.5)	1,629.6	2,206.5

Bradford & Bingley plc Condensed Financial Statements (continued)**Consolidated Cash Flow Statement**

	Note	6 months to 30 June 2011	6 months to 30 June 2010	12 months to 31 December 2010
£m				
Cash flows from operating activities				
Profit after taxation for the financial period		100.5	645.1	819.2
<i>Adjustments to reconcile net profit/(loss) to cash flows from/(used in) operating activities:</i>				
- Taxation		38.8	250.9	262.3
- Depreciation and amortisation		0.2	0.2	0.4
- Impairment on loans and advances to customers	8	46.1	162.1	278.4
- Recoveries of loans and advances previously written off	8	(2.0)	(0.6)	(1.8)
- Net impairment on investment securities		(2.9)	(10.5)	(14.5)
- Gain on sale of insurance business		-	-	(11.5)
- Gain on repurchase of subordinated liabilities		-	(712.3)	(786.0)
- Interest on subordinated liabilities and other capital instruments	14	14.4	46.6	59.9
- Net profit on sale of property, plant and equipment and intangible assets		-	-	(2.9)
- Gains less losses on sale of investment securities		(1.2)	12.6	24.2
- Income taxes paid		(156.7)	(4.5)	(130.1)
- Other non-cash movements		246.1	(60.5)	(16.4)
Cash flows from operating activities before changes in operating assets and liabilities		283.3	329.1	481.2
<i>Net (increase)/decrease in operating assets:</i>				
- Loans and advances to banks and customers		1,834.0	1,125.2	1,479.2
- Investment securities		131.4	594.5	854.2
- Derivative financial instruments receivable		98.1	1,004.0	731.5
- Prepayments and accrued income		(9.7)	5.8	7.9
- Other assets		(1.6)	(20.2)	(1.5)
<i>Net increase/(decrease) in operating liabilities:</i>				
- Deposits by banks and other deposits		(1,106.9)	(398.1)	(1,110.5)
- Derivative financial instruments payable		(91.6)	(5.5)	(133.7)
- Debt securities in issue		(408.4)	(1,191.2)	(482.0)
- Other liabilities		(168.5)	159.3	74.7
- Accruals and deferred income		(91.0)	(113.2)	6.3
- Provisions		(7.0)	(13.6)	(18.3)
Net cash generated by operating activities		462.1	1,476.1	1,889.0
<i>Cash flows from investing activities:</i>				
- Proceeds of sale of insurance business		-	-	11.5
- Purchase of property, plant and equipment and intangible assets		(15.0)	(2.5)	(11.6)
- Proceeds from the disposal of property, plant and equipment and intangible assets		0.2	0.6	7.0
Net cash (used in)/from investing activities		(14.8)	(1.9)	6.9
<i>Cash flows from financing activities:</i>				
- Repurchase of subordinated liabilities and other capital instruments		-	(363.4)	(434.2)
- Repayments of secured funding		(860.6)	(1,086.5)	(2,081.1)
- Amounts paid under the guarantee to the holders of other capital instruments	14	(3.0)	(9.7)	(9.7)
Net cash used in financing activities		(863.6)	(1,459.6)	(2,525.0)
Net (decrease)/increase in cash and cash equivalents		(416.3)	14.6	(629.1)
Cash and cash equivalents at beginning of period		3,076.7	3,705.8	3,705.8
Cash and cash equivalents at end of period		2,660.4	3,720.4	3,076.7
Represented by cash and assets with original maturity of three months or less within:				
- Cash and balances at central banks		1,150.6	306.4	308.0
- Loans and advances to banks		1,509.8	3,408.3	2,768.7
- Investment securities		-	5.7	-
Total		2,660.4	3,720.4	3,076.7
Balances maintained with the Bank of England excluded from cash and cash equivalents		-	22.4	-

As shown above, at 30 June 2010 B&B maintained balances with the Bank of England which were not included in cash and cash equivalents for the purposes of the Cash Flow Statement because B&B was not free to use these funds.

Notes to the Financial Information

1. Reporting entity

Bradford & Bingley plc ('B&B') is a public limited company which was incorporated in the United Kingdom under the Companies Act 1985 and is registered in England and Wales.

The financial information in this Interim Financial Report consolidates B&B and its subsidiaries (including special purpose vehicles ('SPVs')), together referred to as the B&B Group. B&B's Consolidated Financial Statements for the year ended 31 December 2010 are included in B&B's 2010 Annual Report & Accounts available on B&B's website www.bbg.co.uk.

2. Basis of preparation

This Interim Financial Report has been prepared on a going concern basis. At the date of approval of this Interim Financial Report B&B is reliant on the financing facilities and also upon the guarantee arrangements provided to B&B by HM Treasury. Withdrawal of the financing facilities or the guarantee arrangements would have a significant impact on B&B's operations and its ability to continue as a going concern, in which case adjustments may have to be made to reduce the carrying value of assets to recoverable amounts and to provide for further liabilities that might arise. At the date of approval of this Interim Financial Report, HM Treasury has confirmed its intentions to continue to provide funding until at least 31 December 2012.

In preparing this Interim Financial Report there have been no material changes to the accounting policies previously applied by B&B in preparing, and detailed in, its Annual Report & Accounts for the year ended 31 December 2010.

The Directors consider that B&B's accounting policies are the most appropriate to B&B's circumstances, have been consistently applied in dealing with items which are considered material, and are supported by reasonable estimates and judgements.

The preparation of this Interim Financial Report requires the use of estimates and assumptions that affect the reported values of assets and liabilities at the Balance Sheet date and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results ultimately may differ from those estimates.

This Interim Financial Report has been prepared in accordance with IAS 34 'Interim Financial Reporting'.

The information in this document does not include all of the disclosures required by IFRS in full annual financial statements, and it should be read in conjunction with the Consolidated Financial Statements of B&B for the year ended 31 December 2010, which were prepared in accordance with IFRS as adopted by the EU.

Notes to the Financial Information (continued)

3. Net interest income

	6 months to 30 June 2011	Restated* 6 months to 30 June 2010	12 months to 31 December 2010
£m			
Interest receivable and similar income			
On secured advances	399.3	415.4	847.3
On investment securities and deposits	20.3	64.4	87.6
Underlying interest receivable and similar income	419.6	479.8	934.9
Interest expense and similar charges			
On other deposits including loans from HM Treasury	(83.8)	(83.3)	(168.0)
State guarantee fee***	(44.0)	(60.6)	(108.3)
Other	(69.8)	(73.5)	(155.0)
Underlying interest expense and similar charges	(197.6)	(217.4)	(431.3)
Underlying net interest income	222.0	262.4	503.6
Average balances			
Interest-earning assets ('IEA')	41,541	45,894	44,589
Financed by:			
- Interest-bearing funding	19,665	24,095	22,701
- Interest-free funding**	21,876	21,799	21,888
Average rates %			
- Gross yield on IEA	2.04	2.11	2.10
- Cost of interest-bearing funding	(1.57)	(1.31)	(1.42)
Interest spread	0.47	0.80	0.68
State guarantee fee***	(0.21)	(0.27)	(0.24)
Contribution of interest-free funding	0.82	0.62	0.69
Underlying net interest margin on average IEA	1.08	1.15	1.13
Average Bank Base Rate	0.50	0.50	0.50
Average 1-month LIBOR	0.63	0.55	0.56
Average 3-month LIBOR	0.81	0.66	0.70
£m			
Underlying net interest income	222.0	262.4	503.6
Add back: discounting of subordinated liabilities	-	104.3	104.3
Statutory net interest income	222.0	366.7	607.9
Statutory net interest margin on average IEA %	1.08	1.62	1.36

* For the full year 2010, B&B amended its presentation of interest on derivatives, impacting the allocation of amounts between interest income and expense, but not impacting net interest income. Under the amended presentation, interest on derivatives is included in interest income where the derivative is hedging interest income, and in interest expense where the derivative is hedging interest expense. This approach aligned presentation with that adopted by UKAR. B&B's previous presentation included derivative interest in interest income or expense largely based on whether the derivative flows were income or expense, but the revised approach is considered closer to reflect asset yields. As a result of this re-presentation, the comparative interest income and expense for the 6 months ended 30 June 2010 shown in the Income Statement on page 19 are each £199.5m lower than was reported in B&B's Interim Financial Report for the 6 months ended 30 June 2010.

** Interest-free funding is calculated as an average over the period reported. Interest-free funding includes the Statutory Debt.

*** At the time of the nationalisation of B&B, HM Treasury provided a guarantee with regard to certain wholesale borrowings and derivative transactions existing at that time.

Notes to the Financial Information (continued)

4. Administrative expenses

	6 months to 30 June 2011			6 months to
	Gross cost	Transferred*	Net cost	30 June 2010
	£m	£m	£m	Cost
Staff costs	39.8	(22.2)	17.6	18.0
Property operating lease rentals	-	-	-	0.3
Depreciation and amortisation	0.2	-	0.2	0.2
Other legal and professional services	8.3	(0.3)	8.0	10.3
IT costs	17.2	(1.4)	15.8	18.4
Other administrative expenses	12.7	(1.7)	11.0	11.4
Ongoing (underlying) administrative expenses	78.2	(25.6)	52.6	58.6
Other net administrative expenses:				
- Independent share valuation charges and associated fees	-	-	-	3.3
- Transformation project	3.1	(1.5)	1.6	2.5
Total other net administrative expenses	3.1	(1.5)	1.6	5.8
Total administrative expenses	81.3	(27.1)	54.2	64.4
Ratio of ongoing costs to average IEA %			0.25	0.26
Ratio of costs to IEA %			0.26	0.28
Ratio of ongoing costs to total assets %			0.24	0.24
Ratio of costs to total assets %			0.25	0.27

Underlying costs exclude certain items that are not expected to recur on an ongoing basis.

12 months to 31 December 2010	Gross cost	Transferred *	Net cost
	£m	£m	£m
Staff costs	42.4	(6.0)	36.4
Property operating lease rentals	0.2	-	0.2
Depreciation and amortisation	0.4	-	0.4
Other legal and professional services	19.1	-	19.1
IT costs	33.7	-	33.7
Other administrative expenses	22.6	(0.1)	22.5
Ongoing (underlying) administrative expenses	118.4	(6.1)	112.3
Other net administrative expenses:			
- Independent share valuation charges and associated fees	5.3	-	5.3
- Transformation project	10.5	(1.7)	8.8
Total other net administrative expenses	15.8	(1.7)	14.1
Total administrative expenses	134.2	(7.8)	126.4
Ratio of ongoing costs to average IEA %			0.25
Ratio of costs to average IEA %			0.28
Ratio of ongoing costs to total average assets %			0.24
Ratio of costs to total average assets %			0.27

* B&B transfer the costs of the staff on B&B contracts who work for NRAM, along with certain other items.

Notes to the Financial Information (continued)**5. Staff numbers**

All employees providing support to both B&B and NRAM are contracted and paid by B&B.

The total average number of persons employed by B&B and those who work for NRAM was as follows:

	6 months to 30 June 2011	6 months to 30 June 2010	12 months to 31 December 2010
Average headcount			
Full time	1,808	815	981
Part time	518	149	202
Total employed	2,326	964	1,183
Working for NRAM:			
Full time	933	-	155
Part time	368	-	53
Total working for NRAM	1,301	-	208
Net average working for B&B	1,025	964	975
Net average full time equivalent working for B&B	973	910	921

The full time equivalent is based on the average hours worked by employees in the period.

The total headcount at the period end was:

At	30 June 2011	30 June 2010	31 December 2010
Full time	1,810	841	1,772
Part time	553	151	469
Total employed	2,363	992	2,241
Working for NRAM:			
Full time	943	-	933
Part time	400	-	321
Total working for NRAM	1,343	-	1,254
Net total headcount working for B&B	1,020	992	987
Net full time equivalent headcount working for B&B	969	935	942

In addition to the permanent staff above, B&B employed a full time equivalent of 142 temporary staff at 30 June 2011 (30 June 2010: 83; 31 December 2010: 104).

6. Taxation

The tax charge for the period includes an overseas tax charge of £0.5m (period ended 30 June 2010: £1.2m; year ended 31 December 2010: £9.2m). The tax charge for the 6 months ended 30 June 2011 has been calculated using the expected effective tax rate for the full year 2011, i.e. 26.5% (2010: 28.0%). Deferred taxation appropriately reflects a change to the standard rate of UK corporation tax from 27% to 26% with effect from 1 April 2011. This change was substantively enacted on 29 March 2011. The announced further rate reductions by an additional 1% on each of 1 April 2012, 2013 and 2014 to 23% would have the maximum potential impact of reducing the B&B Group's deferred tax assets by approximately £34.8m.

£2.8m (30 June 2010: £35.5m; 31 December 2010: £2.8m) of deferred tax assets have not been recognised, relating to unused tax losses of £10.3m (30 June 2010: £126.7m; 31 December 2010: £10.3m). £44.1m (30 June 2010: £62.1m; 31 December 2010: £61.1m) of deferred tax assets have been recognised in respect of tax losses carried forward; based upon detailed business plans, there will be sufficient taxable profits in future years to utilise the losses on which deferred tax has been recognised.

Notes to the Financial Information (continued)

7. Loans and advances to customers

At	30 June 2011		30 June 2010		31 December 2010	
	Balances £m	%	Balances £m	%	Balances £m	%
Residential						
Organic						
Buy-to-let	20,087.4	73	21,029.6	72	20,512.7	73
Self-cert	4,554.7	17	4,802.4	17	4,659.8	16
Standard and other specialist	2,860.7	10	3,246.1	11	3,020.0	11
Total	27,502.8	100	29,078.1	100	28,192.5	100
Acquired						
Buy-to-let	2,403.6	33	2,574.4	33	2,476.0	33
Self-cert	2,679.3	37	2,895.1	37	2,772.3	37
Standard and other specialist	2,150.0	30	2,355.4	30	2,242.3	30
Total	7,232.9	100	7,824.9	100	7,490.6	100
Buy-to-let	22,491.0	65	23,604.0	64	22,988.7	64
Self-cert	7,234.0	21	7,697.5	21	7,432.1	21
Standard and other specialist	5,010.7	14	5,601.5	15	5,262.3	15
Total residential	34,735.7	100	36,903.0	100	35,683.1	100
Residential	34,735.7	98	36,903.0	98	35,683.1	98
Commercial property	670.1	2	757.0	2	698.2	2
Housing associations	20.5	-	20.5	-	20.5	-
Total	35,426.3	100	37,680.5	100	36,401.8	100

Balances include accounting adjustments in respect of Effective Interest Rate ('EIR') and provisioning requirements, which account for the calculated difference of opening and closing balances when subtracting redemptions. Loans and advances to customers include advances secured on residential properties amounting to £15,278.4m* (30 June 2010: £13,903.3m; 31 December 2010: £12,383.9m) which have been sold to bankruptcy remote SPVs whereby substantially all of the risks and rewards of the portfolio are retained by B&B. Accordingly, all of these loans and advances are retained on B&B's Balance Sheet.

* The increase in residential properties secured arose due to the redemption of internally held secured notes, increasing the security available to external note holders.

8. Impairment on loans and advances to customers

	On residential mortgages	On commercial property and housing association loans	Total
6 months to 30 June 2011			
£m			
Allowances for impairment against loans and advances to customers have been made as follows:			
Opening provision at 1 January 2011	832.1	58.6	890.7
Net movements during the period	(66.1)	-	(66.1)
Closing provision at 30 June 2011	766.0	58.6	824.6
Total Income Statement charge	44.2	(0.1)	44.1

In the Balance Sheet the carrying values of the impaired assets are presented net of these impairment allowances.

Notes to the Financial Information (continued)**8. Impairment on loans and advances to customers (continued)**

	On residential mortgages	On commercial property and housing association loans	Total
6 months to 30 June 2010			
£m			
Allowances for impairment against loans and advances to customers have been made as follows:			
Opening provision at 1 January 2010	884.1	52.2	936.3
Net movements during the period	(20.8)	7.4	(13.4)
Closing provision at 30 June 2010	863.3	59.6	922.9
Total Income Statement charge	144.4	17.1	161.5

	On residential mortgages	On commercial property and housing association loans	Total
12 months to 31 December 2010			
£m			
Allowances for impairment against loans and advances to customers have been made as follows:			
Opening provision at 1 January 2010	884.1	52.2	936.3
Net movements during the year	(52.0)	6.4	(45.6)
Closing provision at 31 December 2010	832.1	58.6	890.7
Total Income Statement charge	259.7	16.9	276.6

Notes to the Financial Information (continued)**9. Residential arrears and possessions**

Arrears and possessions are monitored for B&B as a whole, and also split by type of product, and split between the loans which B&B originally advanced to customers and the loans which B&B acquired from other lenders.

At		30 June 2011	30 June 2010	31 December 2010
Arrears				
3 months and over				
Number of cases	Number	10,255	14,830	12,473
Proportion of total	%	3.33	4.47	3.90
Asset value	£m	1,523.6	2,248.6	1,873.7
Proportion of book	%	4.39	6.09	5.25
Total value of payments overdue	£m	49.7	81.7	64.3
Proportion of total book	%	0.14	0.22	0.18
Possessions				
Number of cases	Number	701	823	623
Proportion of total	%	0.23	0.25	0.19
Asset value	£m	108.8	132.2	97.1
Proportion of book	%	0.31	0.36	0.27
Total value of payments overdue	£m	6.8	9.4	6.8
Proportion of total book	%	0.02	0.02	0.02
Total arrears and possessions				
Number of cases	Number	10,956	15,653	13,096
Proportion of total	%	3.56	4.72	4.09
Asset value	£m	1,632.4	2,380.8	1,970.8
Proportion of book	%	4.70	6.45	5.52
Total value of payments overdue 3 months and more	£m	56.5	91.1	71.1
Proportion of total book 3 months and over	%	0.16	0.24	0.20
Residential loan impairment balance				
As % of residential balances	%	2.16	2.29	2.28
As % of residential arrears and possessions	%	46.92	36.26	42.22

Analysis of residential accounts in arrears of 3 months and over by product

At		30 June 2011	30 June 2010	31 December 2010
Arrears				
Buy-to-let				
Number of cases	Number	5,385	8,839	6,882
Proportion of total	%	2.89	4.56	3.63
Asset value	£m	808.7	1,360.0	1,042.8
Proportion of book	%	3.60	5.76	4.54
Asset value of arrears and possessions	£m	861.4	1,423.6	1,095.6
Proportion of total book	%	3.83	6.03	4.77
Self-cert				
Number of cases	Number	2,534	3,081	2,897
Proportion of total	%	5.45	6.28	6.09
Asset value	£m	441.0	544.0	510.3
Proportion of book	%	6.10	7.07	6.87
Asset value of arrears and possessions	£m	469.5	582.5	533.7
Proportion of total book	%	6.49	7.57	7.18
Other				
Number of cases	Number	2,336	2,910	2,694
Proportion of total	%	3.10	3.27	3.27
Asset value	£m	273.9	344.6	320.6
Proportion of book	%	5.47	6.15	6.09
Asset value of arrears and possessions	£m	301.5	374.7	341.5
Proportion of total book	%	6.02	6.69	6.49

Notes to the Financial Information (continued)

9. Residential arrears and possessions (continued)

Further information regarding the credit quality of loans and advances to customers:

	On residential mortgages	On commercial property and housing association loans	Total
At 30 June 2011			
£m			
Neither past due nor impaired	32,504.8	441.6	32,946.4
Past due but not impaired:			
- Up to 3 months	1,311.2	-	1,311.2
- 3 to 6 months	522.8	-	522.8
- 6 to 12 months	409.9	-	409.9
- Over 12 months	-	-	-
Individually impaired	753.0	307.6	1,060.6
	35,501.7	749.2	36,250.9
Impairment allowances	(766.0)	(58.6)	(824.6)
Loans and advances to customers net of impairment allowances	34,735.7	690.6	35,426.3

The B&B Group offers forbearance methods to borrowers, subject to compliance with loan terms, including capitalisation, extension of repayment date and switching to interest only products, the aim of these being to assist the borrower. During the period 596 account modifications were made.

	On residential mortgages	On commercial property and housing association loans	Total
At 30 June 2010			
£m			
Neither past due nor impaired	34,025.8	500.5	34,526.3
Past due but not impaired:			
- Up to 3 months	1,308.9	-	1,308.9
- 3 to 6 months	669.9	-	669.9
- 6 to 12 months	559.1	-	559.1
- Over 12 months	-	-	-
Individually impaired	1,202.6	336.6	1,539.2
	37,766.3	837.1	38,603.4
Impairment allowances	(863.3)	(59.6)	(922.9)
Loans and advances to customers net of impairment allowances	36,903.0	777.5	37,680.5

	On residential mortgages	On commercial property and housing association loans	Total
At 31 December 2010			
£m			
Neither past due nor impaired	33,162.4	464.4	33,626.8
Past due but not impaired:			
- Up to 3 months	1,320.7	-	1,320.7
- 3 to 6 months	594.7	-	594.7
- 6 to 12 months	497.6	-	497.6
- Over 12 months	-	-	-
Individually impaired	939.8	312.9	1,252.7
	36,515.2	777.3	37,292.5
Impairment allowances	(832.1)	(58.6)	(890.7)
Loans and advances to customers net of impairment allowances	35,683.1	718.7	36,401.8

Notes to the Financial Information (continued)

10. Average loan to value ratios of residential loans and advances to customers

At	30 June 2011	30 June 2010	31 December 2010
Indexed average loan to value (LTV)	%	%	%
Neither past due nor impaired	73.9	67.0	71.7
Past due but not impaired	89.0	82.1	87.2
Individually impaired	106.8	97.2	105.3
Total book	75.2	68.5	73.2
Indexed average loan to value (LTV) by product			
Buy-to-let LTV	81.6	79.1	79.9
Self-cert LTV	87.6	85.7	85.8
Standard LTV	43.3	44.2	45.1
Lifetime LTV	46.5	36.1	43.6
Total book	75.2	68.5	73.2

Standard LTV at 31 December 2010 is lower than that disclosed in B&B's Annual Report and Accounts for 2010 as it has been adjusted to include loans where the original advance was made by Bradford & Bingley Building Society prior to its demutualisation.

11. Wholesale assets

At 30 June 2011		AAA	AA	A	BBB to B	CCC and below
	£m	%	%	%	%	%
Cash and balances at central banks	1,150.6	100	-	-	-	-
Loans and advances to banks:						
- Reverse repos	155.2	100	-	-	-	-
- Bank and time deposits	79.5	-	61	39	-	-
- Cash and other collateral	1,275.5	44	22	34	-	-
Total loans and advances to banks	1,510.2	47	22	31	-	-
Investment securities:						
Liquidity portfolio:						
- UK Government securities	53.8	100	-	-	-	-
- Bank and supranational bonds	834.2	97	3	-	-	-
- UK and European AAA mortgage backed securities	423.7	100	-	-	-	-
- Other asset backed securities	102.6	-	42	47	11	-
Total liquidity portfolio	1,414.3	91	5	3	1	-
Structured investment portfolio:						
- Principal protected notes	96.4	25	39	-	12	24
- Credit funds	33.8	-	-	-	1	99
- Other	2.7	-	-	-	-	100
Total structured investment portfolio	132.9	18	28	-	9	45
Total investment securities	1,547.2	85	7	3	2	3
Total wholesale assets	4,208.0	76	10	12	1	1

At 30 June 2011, the B&B Group held no investment securities issued by the Governments of Portugal, the Republic of Ireland, Italy, Greece or Spain.

Notes to the Financial Information (continued)

11. Wholesale assets (continued)

At 30 June 2010		AAA	AA	A	BBB to B	CCC and below
	£m	%	%	%	%	%
Cash and balances at central banks	328.8	100	-	-	-	-
Loans and advances to banks:						
- Reverse repos	1,357.3	100	-	-	-	-
- Bank and time deposits	216.3	-	100	-	-	-
- Cash and other collateral	1,905.4	69	30	1	-	-
Total loans and advances to banks	3,479.0	77	22	1	-	-
Investment securities:						
Liquidity portfolio:						
- UK Government securities	159.0	100	-	-	-	-
- Bank and supranational bonds	945.1	95	5	-	-	-
- UK and European AAA mortgage backed securities	569.4	100	-	-	-	-
- Other asset backed securities	96.2	45	37	13	5	-
Total liquidity portfolio	1,769.7	94	5	1	-	-
Structured investment portfolio:						
- Principal protected notes	182.3	21	19	60	-	-
- Credit funds	5.1	-	-	100	-	-
Total structured investment portfolio	187.4	20	19	61	-	-
Total investment securities	1,957.1	87	6	7	-	-
Total wholesale assets	5,764.9	82	16	2	-	-

At 31 December 2010		AAA	AA	A	BBB to B	CCC and below
	£m	%	%	%	%	%
Cash and balances at central banks	308.0	100	-	-	-	-
Loans and advances to banks:						
- Reverse repos	1,599.1	100	-	-	-	-
- Bank and time deposits	413.4	-	93	7	-	-
- Cash and other collateral	1,658.7	42	20	38	-	-
Total loans and advances to banks	3,671.2	63	19	18	-	-
Investment securities:						
Liquidity portfolio:						
- UK Government securities	156.5	100	-	-	-	-
- Bank and supranational bonds	846.5	94	6	-	-	-
- UK and European AAA mortgage backed securities	497.9	100	-	-	-	-
- Other asset backed securities	70.2	-	60	24	16	-
Total liquidity portfolio	1,571.1	92	6	1	1	-
Structured investment portfolio:						
- Principal protected notes	81.7	29	44	27	-	-
- Credit funds	20.3	6	-	-	-	94
Total structured investment portfolio	102.0	23	35	22	-	20
Total investment securities	1,673.1	88	8	2	1	1
Total wholesale assets	5,652.3	72	15	12	1	-

Notes to the Financial Information (continued)**12. Debt securities in issue**

During the period £1,387.6m debt securities in issue were redeemed (30 June 2010: £1,717.1m; 31 December 2010: £2,721.4m).

13. Post-retirement benefit obligations

In November 2010, the Trustees agreed to pass a resolution under section 251(3) of the Pensions Act 2004 for the refund of any future surpluses to B&B. This resolution was finalised on 29 March 2011 and consequently the net pension liability carried on the Balance Sheet reduced at that time.

14. Subordinated liabilities and other capital instruments

Following the Board meeting of 23 February 2010, B&B announced that it had resolved not to make any payment of principal or interest in respect of B&B's subordinated liabilities and other capital instruments during the period prior to the date on which it repays in full the Statutory Debt. No payments of principal or interest were made during the 6 months ended 30 June 2011. The holders of the preferred securities issued by Bradford & Bingley Capital Funding L.P. received a payment under the subordinated guarantee in place of the interest payment which was due to be paid in June 2011.

15. Contingent liabilities

On 20 January 2009 a solicitor's letter was received notifying B&B and certain present and former Directors of a potential claim by former individual shareholders who subscribed for additional shares in the £401m rights issue approved on 17 July 2008. These former shareholders claim to have suffered loss through having been induced to subscribe for shares in the rights issue by allegedly materially misleading and/or incomplete statements made in the associated prospectus dated 24 June 2008 as revised and supplemented by the supplementary prospectus dated 11 July 2008. Should such a claim result in proceedings which are pursued through the courts and which succeed, the defendant Directors and/or B&B could be liable in damages to certain former shareholders in B&B who subscribed for shares in the rights issue. B&B together with its legal advisers has responded to the allegations raised. There has been no further correspondence or developments since 31 December 2010. It is not possible at this stage to determine the outcome or timing of any conclusion to this matter. No provision has been made in respect of these allegations.

16. Related party disclosures

The key management personnel of B&B are B&B's Executive and Non-executive Directors and senior managers. Transactions during the period with B&B's key management personnel and other related parties were similar in nature to those during the year ended 31 December 2010.

17. Capital structure

B&B met its capital requirements in full throughout the period, and has received no additional capital from HM Treasury since nationalisation. On 18 August 2010, B&B's application for a change of regulatory status, from being a BIPRU regulated bank to a mortgage administration company under the MIPRU regime, was approved by the FSA. This brought B&B into line with NRAM for reporting purposes, facilitating the combination of the two companies under UKAR ownership. MIPRU regulation is applied at individual company level, not at B&B Group level. The composition of capital is different under MIPRU, and the concepts of tier 1 and tier 2 capital are not recognised. The Board considers core equity, formerly tier 1 capital, of pre-eminent importance in the capital structure of the business and continues to monitor this, in addition to total level of capital, closely. The Directors believe B&B has appropriate and adequate levels of capital to support its activities, subject to the continuing support of HM Treasury.

The first table below sets out B&B's regulatory capital resources under MIPRU as at 30 June 2011 and 31 December 2010, and the second table sets out the B&B Group's regulatory capital resources under BIPRU as at 30 June 2010, when it was under the BIPRU regime.

Notes to the Financial Information (continued)**17. Capital structure (continued)**

At	B&B Company	B&B Company
£m	30 June	31 December
	2011	2010
Share capital and reserves	1,851.0	1,542.9
Available-for-sale reserve adjustments	537.8	587.6
Cash flow hedge reserve adjustments	30.1	26.5
Net pension deficit adjustment	(74.6)	56.6
Subordinated liabilities	279.2	277.0
Less: deductions	(578.2)	(478.3)
Total capital	2,045.3	2,012.3

At	B&B Group
£m	30 June
	2010
Tier 1	
Share capital and reserves	2,050.6
Available-for-sale reserve adjustments	29.2
Cash flow hedge reserve adjustments	35.0
Net pension deficit adjustment	73.0
Innovative tier 1	148.9
Total tier 1 capital	2,336.7
Upper tier 2 capital	357.0
Lower tier 2 capital	153.3
Total tier 2 capital	510.3
Total capital	2,847.0

18. Risks and uncertainties

The Directors are aware of the following material risks and uncertainties which may affect the B&B Group during the remainder of 2011: external economic factors including unemployment, house price movements, the extent and timing of changes in interest rates, operational risks arising as a result of the ongoing integration with NRAM, the rate of interest charged on the WCF and the rate of the Government guarantee fee. There may be other risks that are not listed above that the Directors are not aware of or that the Directors do not consider material. The business, financial condition or results of operations of the B&B Group could be adversely affected by any of these risks. Further discussion of risk management and control were provided on pages 29-35 of the B&B Group's 2010 Annual Report and Accounts.

19. Events after the reporting period

HM Treasury has the option to vary the interest rate it charges on the WCF. The rate of interest currently being charged is Bank of England Base Rate + 150bps. HM Treasury has given notice of an increase in the rate payable on the WCF to Bank of England Base Rate + 500bps with effect from 1 August 2011.

The financial information in this document is unaudited and does not constitute statutory accounts within the meaning of section 435 of the Companies Act 2006. The comparative figures for the financial year ended 31 December 2010 are not the statutory accounts for that financial year for Bradford & Bingley plc. The 2010 statutory accounts of Bradford & Bingley plc have been reported on by that company's auditors and delivered to the Registrar of Companies. The report of the auditor was unqualified, did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report, and did not contain a statement under section 498(2) or (3) of the Companies Act 2006. This document may contain forward-looking statements with respect to certain plans and current goals and expectations relating to the future financial conditions, business performance and results of Bradford & Bingley plc. By their nature, all forward-looking statements involve risk and uncertainty because they relate to future events and circumstances that are beyond the control of Bradford & Bingley plc including, amongst other things, UK domestic and global economic and business conditions, market related risks such as fluctuation in interest rates and exchange rates, inflation, deflation, the impact of competition, changes in customer preferences, risks concerning borrower credit quality, delays in implementing proposals, the timing, impact and other uncertainties of future acquisitions or other combinations within relevant industries, the policies and actions of regulatory authorities, the impact of tax or other legislation and other regulations in the jurisdictions in which Bradford & Bingley plc and its affiliates operate. As a result, the actual future financial condition, business performance and results of Bradford & Bingley plc may differ materially from the plans, goals and expectations expressed or implied in these forward-looking statements.

Statement of Directors' Responsibilities

The Directors confirm that this Interim Financial Report has been prepared in accordance with IAS 34 as adopted by the European Union and that the management commentary and related notes includes a fair review of the information required by DTR 4.2.7 and DTR 4.2.8, namely:

- An indication of important events that have occurred during the first six months and their impact on the condensed Financial Statements and a description of the principal risks and uncertainties for the remaining six months of the financial year; and
- Material related party transactions in the first six months and any material changes in the related party transactions described in the last annual report.

The Directors of Bradford & Bingley plc at the date of this report are:

Richard Pym
Richard Banks
Phillip McLelland
Louise Patten
Michael Buckley
John Tattersall
Kent Atkinson
Sue Langley
Keith Morgan

By order of the Board

Richard Banks
Chief Executive Officer
28 July 2011

Phillip McLelland
Finance Director
28 July 2011

Independent Review Report to Bradford & Bingley plc

Introduction

We have been engaged by the company to review the condensed Financial Statements in the Interim Financial Report for the six months ended 30 June 2011, which comprise the Consolidated Income Statement, Consolidated Statement of Comprehensive Income, Consolidated Balance Sheet, Consolidated Statement of Changes in Equity, Consolidated Cash Flow Statement, and the related notes. We have read the other information contained in the Interim Financial Report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed Financial Statements.

Directors' Responsibilities

The Interim Financial Report is the responsibility of, and has been approved by, the Directors. The Directors are responsible for preparing the Interim Financial Report in accordance with the Disclosure and Transparency Rules of the United Kingdom's Financial Services Authority.

As disclosed in note 2, the Annual Financial Statements of the Group are prepared in accordance with IFRS as adopted by the European Union. The condensed set of Financial Statements included in this Interim Financial Report has been prepared in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union.

The maintenance and integrity of the Bradford & Bingley plc website is the responsibility of the Directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the Financial Statements since they were initially presented on the website.

Legislation in the United Kingdom governing the preparation and dissemination of Financial Statements may differ from legislation in other jurisdictions.

Our Responsibility

Our responsibility is to express to the company a conclusion on the condensed Financial Statements in the Interim Financial Report based on our review. This report, including the conclusion, has been prepared for and only for the company for the purpose of the Disclosure and Transparency Rules of the Financial Services Authority and for no other purpose. We do not, in producing this report, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity', issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland), and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed Financial Statements in the Interim Financial Report for the six months ended 30 June 2011 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Services Authority.

Mark Hannam

PricewaterhouseCoopers LLP
Chartered Accountants
28 July 2011
Leeds

Section D

Northern Rock (Asset Management) plc

Interim Financial Report

for the 6 months ended 30 June 2011

NORTHERN ROCK (ASSET MANAGEMENT) PLC**INTERIM FINANCIAL REPORT FOR THE 6 MONTHS ENDED 30 JUNE 2011****KEY HIGHLIGHTS****Northern Rock (Asset Management) plc**

- Repaid £1.0bn of Government loan during the first half of the year (FY 2010: £1.1bn), taking total to £2.1bn repaid in 18 months
- Underlying profit before tax for the first half of 2011 was £344.1m, up from £181.8m profit at H1 2010 (FY 2010: £277.4m)
- Statutory profit before tax for the first half of 2011 was £291.5m, compared with a £349.7m profit at 30 June 2010 (FY 2010: £400.5m)
- Ongoing costs fell by 28% to £53.7m, down from £75.0m at H1 2010 (FY 2010: £165.2m)
- The number of mortgage accounts three months or more in arrears including possessions at H1 2011 increased by 6% from the year end to 27,010 (H1 2010: 24,683, FY 2010: 25,419)
- Loan impairment charge reduced by £105.7m to £171.9m (H1 2010: £277.6m, FY 2010: £812.8m)

SUMMARY FINANCIAL INFORMATION

Underlying profit before tax for NRAM in H1 2011 was £344.1m, an increase from a profit in H1 2010 of £181.8m. The underlying year-on-year improvement is primarily due to reduced loan impairment as the rate of increase in arrears has slowed. Statutory profit before tax for NRAM in H1 2011 was £291.5m, compared to £349.7m in H1 2010, with fair value movements on financial instruments more than offsetting the increase in underlying profits.

NRAM continued to benefit from the support of the Government in the form of low interest rate loans. NRAM repaid £1.0bn of its loan to reduce the balance to £20.7bn at the half year.

PERFORMANCE ON UKAR STRATEGIC PRIORITIES**1. Optimise the Balance Sheet**

The Balance Sheet reduction in the six months to 30 June 2011 has been largely driven by loan redemptions. NRAM received £2.5bn (H1 2010: £2.4bn) in redemption payments.

Redemptions are in line with the previous year but are expected to slow due to the reduced book size and the challenge faced by many customers to find suitable remortgage opportunities with other lenders due to the continuing difficult market conditions.

Wholesale asset balances for NRAM fell to £11.0bn (H1 2010: £11.4bn) mainly due to movements in collateral.

2. Minimise impairment and losses

NRAM continues to work closely with those customers experiencing payment difficulties and arrears, while working to improve the performance of the collections and fraud management processes. We also maintain strong relationships with free-for-customers debt advisory agencies to provide help and advice to our customers in financial difficulty.

As at 30 June 2011 there were 27,010 cases of NRAM mortgages in arrears for three or more months including possessions, an increase of 6% compared to December 2010. The vast majority of customers (87%) are up to date with their payments.

The rise in the number of NRAM customer arrears is due in part to revising the previous practice of capitalising any arrears once a customer was able to maintain their mortgage payments for a certain period of time. We made this change because we believe it is important to have individual conversations with customers to ensure we are providing the fairest solution to meet their circumstances. In addition, the rise reflects continuing pressures on household incomes and high amounts initially borrowed by some customers relative to their income.

Support for customers experiencing payment difficulties

Repossession proceedings for customers in arrears are viewed as a last resort. Before commencing possession processes every effort is made to assist customers in continuing with their mortgage and there were 37,300 mortgage arrangements and account modifications in place at the end of June to assist NRAM customers with their repayments to enable them to continue their existing mortgage relationship.

In seeking to support customers through periods of financial difficulties we actively work with free-for-customers debt advisory services to help customers reorganise their finances and ensure, wherever possible, that they can continue as home-owners.

3. Reduce costs

NRAM ongoing costs fell 28% from £75.0m to £53.7m reflecting restructuring undertaken last year prior to the transfer of NRAM to UKAR. These improvements are reflected in an improved ongoing costs to asset ratio of 0.19% (H1 2010: 0.23%).

NRAM non-recurring costs of £1.5m reflect UKAR Transformation project costs. In H1 2010, non-recurring costs of £23.6m largely reflected costs relating to the restructure of and separation from Northern Rock plc.

4. Early Redemption Charges

We have now decided to waive all Early Redemption Charges that may be applicable for NRAM customers to bring the policy into line with B&B. We recognise that we are not able to make further advances to customers and our aim is to ensure that customers have no obstacle to remortgaging. Encouraging redemptions will also allow us to repay more of the Government debt.

5. Payment Protection Insurance (PPI)

Like many other banks Northern Rock previously offered Payment Protection Insurance (PPI) to customers. We have now completed a thorough review into the historic sales practices for those customers who are now with NRAM. This covered the period from when the new Insurance Code of Business rules came into force on 14 January 2005 through to April 2008 when Northern Rock stopped selling PPI.

NRAM decided not to join in the Judicial Review initiated by the British Bankers' Association (BBA) earlier this year and did not stop dealing with customer complaints of mis-selling whilst the Review took place. We continue to address all customer PPI complaints as and when they are received.

Recently we also began a programme of proactive customer contact, in which we invite customers who think they may have been mis-sold to have their case reviewed and to seek reimbursement. We expect this programme to take a number of months and we believe adequate provision for redress was made in our accounts last year.

OUTLOOK

The outlook for the UK economy remains uncertain and household incomes will continue to be impacted by increases in taxes, higher inflation and job losses, and, inevitably, higher interest rates at some point. We expect more customers to get into difficulties in the remainder of 2011 and this may result in more arrears and repossessions. In these challenging circumstances we are increasing our investment in developing more pro-active contact with customers in financial difficulty.

OTHER INFORMATION**Northern Rock (Asset Management) plc**

Northern Rock was nationalised and taken into Government ownership in February 2008 and was then restructured into two legal entities with effect from 1 January 2010 - Northern Rock plc and Northern Rock (Asset Management) plc.

NRAM retained the majority of the pre-existing mortgage book and all pre-existing unsecured loan accounts. NRAM is permanently closed to new lending, but continues to provide services to some 540,000 existing borrowers, with 365,000 mortgage customers and 175,000 unsecured loan customers.

Key Performance Indicators ('KPIs')

Strategic Priorities	Financial measures	6 months to 30 June 2011	6 months to 30 June 2010	12 months to 31 December 2010	Commentary
Financial performance	Underlying profit before tax £m*	344.1	181.8	277.4	The improvement in underlying profit compared to H1 2010 primarily relates to lower loan impairment charges, together with lower funding costs as expensive fixed rate mortgage swaps mature resulting in higher interest margins.
	Statutory profit before tax £m	291.5	349.7	400.5	The lower statutory profit before tax compared to H1 2010 is primarily due to a reduction in unrealised fair value movements on financial instruments as gains in 2010 have reverted to costs in 2011. These are partly offset by the movements in underlying profit and lower non-recurring costs. Non-recurring costs in 2010 related to the separation of NRAM from NR and included redundancy costs in preparation for the split. The lower 2011 costs relate to the UKAR transformation project.
	Net interest margin% Underlying %*	1.97 1.97	1.67 1.67	1.99 1.99	Interest margin has improved from H1 2010, mainly due to lower funding costs as expensive fixed rate swaps have matured. There is a similar trend from 2010 full year; however the impact is more than offset by gains relating to 2010 accounting alignment adjustments which distort the trend.
Run down the Balance Sheet	Wholesale asset balances £bn	11.0	11.4	11.3	The reduction is mainly due to a £0.6bn reduction in collateral balances partially offset by an increase in closing cash balances.
	Total lending balances £bn	44.7	50.9	47.8	There has been a £2.8bn reduction in secured balances during H1 2011 mainly as a result of customer repayments. Unsecured balances which include both the Together and Standalone unsecured books have also reduced by £0.3bn.
	Secured £bn	41.9	47.4	44.7	
	Unsecured £bn	2.8	3.5	3.1	
	Residential mortgage redemption rate %	10.2	8.5	8.7	The overall level of redemptions is broadly consistent with 2010 but the decreasing value of the book means that the redemption rate increases.
	Residential loan redemptions £bn	2.3	2.1	4.3	£2.3bn of residential redemption repayments have been made in H1 2011.
Total redemptions £bn	2.5	2.4	4.9		
Loans from HM Treasury £bn	20.7	22.5	21.7	£1.0bn of Government loan has been repaid in H1 2011. The cash generated to repay the loan, has been mainly from customer redemptions, partially offset by cash used to repay wholesale funding maturities and Granite note repayments.	
Minimise impairment and losses	Residential arrears of 3 months and over and possessions: total residential mortgage balance %	0.41	0.40	0.37	These are 3 months arrears and possessions; total arrears were £198.7m, 3% higher than the end of 2010 (£192.5m).
	Residential arrears of 3 months and over and possessions as % of the book:				The rise in arrears is due in part to revising the previous practice of automatic capitalisation of arrears. It also reflects continuing pressures on household incomes and high amounts initially borrowed by some customers relative to their income. Impairment provisions are deemed appropriate to these increased levels of arrears.
	- by value	9.07	7.25	7.98	
	- by number of accounts	7.41	6.09	6.58	
	Loan impairment charge £m	171.9	277.6	812.8	Lower charge compared to H1 2010 as the number of new accounts going into arrears has reduced, after taking account of the revised treatment of capitalised accounts and 2011 HPD fall was reflected in the 2010 full year provision. The maturing unsecured books, means there are fewer new accounts moving into arrears and financial difficulties.
Comprising:					
Secured £m	90.6	173.8	631.5		
Unsecured £m	81.3	103.8	181.3		
Impairment provisions:				The level of cover is increasing reflecting increasing arrears levels.	
Unsecured £m	538.5	565.5	542.3		
Cover %	16.2	14.0	14.8		
Residential secured £m	992.2	663.7	1,013.0		
Cover %	2.33	1.39	2.23		

Key Performance Indicators ('KPIs') (continued)

Strategic Priorities	Financial measures	6 months to 30 June 2011	6 months to 30 June 2010	12 months to 31 December 2010	Commentary
Restructure and realign the business	Total costs £m	55.2	98.6	303.6	Both total and ongoing costs have fallen compared to 2010. The reduction in ongoing costs reflects the reduced cost base following restructuring undertaken in 2010 prior to the transfer of NRAM to UKAR. In H1 2010 non-recurring costs of £23.6m largely reflected costs relating to the separation from NR, while those in H1 2011 reflect Transformation project costs.
	Ongoing costs £m**	53.7	75.0	165.2	
	Ratio of costs to average interest-earning assets:				Costs have reduced at a higher rate than average interest-earning assets hence the improvement in the ratio.
	Statutory %	0.19	0.30	0.48	
	Ongoing %**	0.19	0.23	0.26	

* Underlying results exclude certain items that are not expected to recur on an ongoing basis. An analysis of the difference between statutory and underlying profit is provided on page 43.

** Ongoing costs exclude certain items that are not expected to recur on an ongoing basis; an analysis of items excluded from ongoing costs is provided on page 54.

Underlying Profit

	6 months to 30 June 2011	6 months to 30 June 2010	12 months to 31 December 2010
£m			
Underlying net interest income	568.2	546.0	1,259.9
Underlying non-interest income	6.9	3.8	10.5
Underlying net operating income	575.1	549.8	1,270.4
Ongoing administrative expenses	(53.7)	(75.0)	(165.2)
Impairment on loans and advances to customers	(171.9)	(277.6)	(812.8)
Net impairment on investment securities	(5.4)	(15.4)	(15.0)
Underlying profit before taxation	344.1	181.8	277.4
Unrealised fair value movements on financial instruments	(32.9)	220.6	417.7
Hedge ineffectiveness	(18.2)	(38.2)	(65.0)
Other net administrative expenses	(1.5)	(23.6)	(138.4)
Gain on repurchase of capital instruments	-	-	59.7
Provision for customer redress	-	-	(160.0)
Defined benefit pension scheme curtailment	-	9.1	9.1
Statutory profit before taxation	291.5	349.7	400.5

The Board believes it is appropriate to assess performance based on the underlying profit of the business, which excludes the effects of items that management do not regard as ongoing, or routine, business activity. Underlying performance also excludes unique items, including the repurchase of debt capital instruments and unrealised movements in fair value and hedge ineffectiveness relating to financial instruments which are expected to be held to maturity as opposed to being traded.

The analysis of the difference between the statutory accounting measure of profit and the underlying profit is provided above.

Summary Balance Sheet

At	30 June 2011	30 June 2010	31 December 2010
£m			
Loans and advances to customers:			
- Residential mortgages	41,639.9	47,156.7	44,333.7
- Commercial and other secured loans	314.9	300.4	314.7
- Unsecured lending	2,790.9	3,476.5	3,113.8
Wholesale assets	11,020.5	11,443.0	11,330.4
Fair value adjustments on portfolio hedging	330.9	825.3	539.6
Derivative financial instruments	6,427.4	6,484.9	6,542.5
Other assets	134.5	198.4	102.0
Total assets	62,659.0	69,885.2	66,276.7
Loans from HM Treasury	20,717.9	22,533.4	21,727.3
Wholesale funding	38,288.0	43,491.9	40,954.2
Derivative financial instruments	575.2	1,253.9	826.4
Other liabilities	300.7	194.6	349.7
Other capital instruments	1,088.0	1,218.5	1,100.7
Equity	1,689.2	1,192.9	1,318.4
Total liabilities and equity	62,659.0	69,885.2	66,276.7

Northern Rock (Asset Management) plc Condensed Financial Statements**Consolidated Income Statement**

£m	Note	6 months to 30 June 2011	Restated* 6 months to 30 June 2010	12 months to 31 December 2010
Interest receivable and similar income	4	822.4	770.7	1,741.8
Interest expense and similar charges	4	(254.2)	(224.7)	(481.9)
Net interest income	4	568.2	546.0	1,259.9
Fee and commission income		12.1	9.2	19.1
Fee and commission expense		(8.7)	(8.9)	(15.9)
Net fee and commission income		3.4	0.3	3.2
Net realised gains less losses on investment securities		(0.9)	-	0.2
Unrealised fair value movements on financial instruments	6	(32.9)	220.6	417.7
Hedge ineffectiveness	6	(18.2)	(38.2)	(65.0)
Provision for customer redress		-	-	(160.0)
Other operating income		4.4	3.5	7.1
Non-interest income		(44.2)	186.2	203.2
Net operating income		524.0	732.2	1,463.1
Administrative expenses:				
- Ongoing	5	(53.7)	(75.0)	(165.2)
- Other net expenses	5	(1.5)	(23.6)	(138.4)
Impairment on loans and advances to customers	9	(171.9)	(277.6)	(812.8)
Net impairment on investment securities		(5.4)	(15.4)	(15.0)
Defined benefit pension scheme curtailment		-	9.1	9.1
Gain on repurchase of capital instruments		-	-	59.7
Profit before taxation		291.5	349.7	400.5
Taxation	7	(52.2)	9.1	9.1
Profit for the financial period		239.3	358.8	409.6
Attributable to:				
- Appropriations		-	-	-
- Profit attributable to equity shareholder		239.3	358.8	409.6
Total		239.3	358.8	409.6

NRAM's business and operations comprise one single activity, principally within the United Kingdom. The results above arise from continuing activities and are attributable to the equity shareholder.

* As described in note 3, for the full year 2010 NRAM amended its classification of certain Income Statement items, with no impact on profit before taxation. Consequently, the comparative Income Statement information for the 6 months ended 30 June 2010 shown above has been restated from that reported in NRAM's Interim Financial Report for the 6 months ended 30 June 2010.

Northern Rock (Asset Management) plc Condensed Financial Statements (continued)**Consolidated Statement of Comprehensive Income**

6 months to 30 June 2011	Gross of tax	Tax	Net of tax
£m			
Profit for the financial period	291.5	(52.2)	239.3
Available-for-sale instruments:			
- Net gains recognised in available-for-sale reserve during the period	55.5	23.5	79.0
- Amounts transferred from available-for-sale reserve and recognised in profit during the period	1.1	0.5	1.6
Cash flow hedges:			
- Net gains recognised in cash flow hedge reserve during the period	27.9	11.9	39.8
- Amounts transferred from cash flow hedge reserve and recognised in profit during the period	(1.2)	(0.5)	(1.7)
Actuarial gains on post-retirement benefit obligations	11.3	1.5	12.8
Other comprehensive income	94.6	36.9	131.5
Total comprehensive income for the financial period	386.1	(15.3)	370.8
Attributable to:			
- Appropriations	-	-	-
- Comprehensive income attributable to equity shareholder	386.1	(15.3)	370.8
Total	386.1	(15.3)	370.8

6 months to 30 June 2010	Gross of tax	Tax	Net of tax
£m			
Profit for the financial period	349.7	9.1	358.8
Available-for-sale instruments:			
- Net gains recognised in available-for-sale reserve during the period	76.6	-	76.6
- Amounts transferred from available-for-sale reserve and recognised in profit during the period	8.5	-	8.5
Cash flow hedges:			
- Net losses recognised in cash flow hedge reserve during the period	(11.5)	-	(11.5)
- Amounts transferred from cash flow hedge reserve and recognised in profit during the period	15.4	-	15.4
Actuarial losses on post-retirement benefit obligations	(6.4)	-	(6.4)
Other comprehensive income	82.6	-	82.6
Total comprehensive income for the financial period	432.3	9.1	441.4
Attributable to:			
- Appropriations	-	-	-
- Comprehensive income attributable to equity shareholder	432.3	9.1	441.4
Total	432.3	9.1	441.4

Northern Rock (Asset Management) plc Condensed Financial Statements (continued)**Consolidated Statement of Comprehensive Income** (continued)

12 months to 31 December 2010	Gross of tax	Tax	Net of tax
£m			
Profit for the financial year	400.5	9.1	409.6
Available-for-sale instruments:			
- Net gains recognised in available-for-sale reserve during the year	134.6	-	134.6
- Amounts transferred from available-for-sale reserve and recognised in profit during the year	7.9	-	7.9
Cash flow hedges:			
- Net gains recognised in cash flow hedge reserve during the year	43.5	-	43.5
- Amounts transferred from cash flow hedge reserve and recognised in profit during the year	15.8	-	15.8
Actuarial losses on post-retirement benefit obligations	(6.2)	-	(6.2)
Other comprehensive income	195.6	-	195.6
Total comprehensive income for the financial year	596.1	9.1	605.2
Attributable to:			
- Appropriations	-	-	-
- Comprehensive income attributable to equity shareholder	596.1	9.1	605.2
Total	596.1	9.1	605.2

Northern Rock (Asset Management) plc Condensed Financial Statements (continued)**Consolidated Balance Sheet**

At	Note	30 June 2011	Restated* 30 June 2010	Restated* 31 December 2010
£m				
Assets				
Cash and balances at central banks		7,396.7	6,936.9	6,983.8
Loans and advances to banks		1,351.6	2,100.7	1,944.4
Loans and advances to customers	8	44,745.7	50,933.6	47,762.2
Fair value adjustments on portfolio hedging		330.9	825.3	539.6
Investment securities and unsecured investment loans		2,272.2	2,405.4	2,402.2
Derivative financial instruments		6,427.4	6,484.9	6,542.5
Prepayments and accrued income		2.3	-	2.5
Other assets		17.5	26.5	16.1
Current tax assets		-	11.9	6.6
Deferred tax assets		8.5	-	-
Retirement benefit assets		38.1	9.0	8.3
Investment property		26.6	-	26.6
Property, plant and equipment		41.5	120.1	41.9
Intangible assets		-	30.9	-
Total assets		62,659.0	69,885.2	66,276.7
Liabilities				
Loans from HM Treasury		20,717.9	22,533.4	21,727.3
Deposits by banks		4,394.7	4,672.1	4,902.8
Derivative financial instruments		575.2	1,253.9	826.4
Debt securities in issue:				
- Securitised notes		22,162.4	26,079.6	24,027.2
- Covered Bonds		10,165.1	9,732.7	9,936.1
- Other		1,565.8	3,007.5	2,088.1
Other liabilities		71.8	108.9	117.7
Accruals and deferred income		8.7	11.3	13.5
Current tax liabilities		20.5	-	-
Deferred tax liabilities		-	3.5	3.3
Provisions	14	199.7	70.9	215.2
Subordinated liabilities		947.7	958.3	962.8
Tier one notes		140.3	260.2	137.9
Total liabilities		60,969.8	68,692.3	64,958.3
Equity				
Issued capital and reserves attributable to equity holder of the parent:				
- Share capital		124.0	124.0	124.0
- Share premium reserve		403.2	403.2	403.2
- Capital redemption reserve		7.3	7.3	7.3
- Available-for-sale reserve		(147.0)	(285.0)	(227.6)
- Cash flow hedge reserve		(28.4)	(121.9)	(66.5)
- Retained earnings		1,121.0	706.9	868.9
Share capital and reserves		1,480.1	834.5	1,109.3
Non-shareholders' funds				
Reserve capital instruments		156.2	299.3	156.2
Subordinated notes		52.9	59.1	52.9
Total non-shareholders' funds		209.1	358.4	209.1
Total equity		1,689.2	1,192.9	1,318.4
Total equity and liabilities		62,659.0	69,885.2	66,276.7

* As described in note 3, NRAM has amended its classification of accrued interest. Consequently the comparative Balance Sheet information for 30 June 2010 and 31 December 2010 has been restated from that reported in NRAM's interim Financial Report for the 6 months ended 30 June 2010 and the Annual Report and Accounts for the year ended 31 December 2010 respectively.

Northern Rock (Asset Management) plc Condensed Financial Statements (continued)**Consolidated Statement of Changes in Equity**

	Share capital	Share premium reserve	Capital redemption reserve	Other reserves	Retained earnings	Total share capital and reserves	Non-shareholders' funds	Total equity
6 months to 30 June 2011								
£m								
At 1 January 2011	124.0	403.2	7.3	(294.1)	868.9	1,109.3	209.1	1,318.4
Other comprehensive income:								
- Net movement in available-for-sale reserve	-	-	-	56.6	-	56.6	-	56.6
- Net movement in cash flow hedge reserve	-	-	-	26.7	-	26.7	-	26.7
- Actuarial gains and losses	-	-	-	-	11.3	11.3	-	11.3
- Tax effects of the above	-	-	-	35.4	1.5	36.9	-	36.9
Total other comprehensive income	-	-	-	118.7	12.8	131.5	-	131.5
Profit for the financial period	-	-	-	-	239.3	239.3	-	239.3
At 30 June 2011	124.0	403.2	7.3	(175.4)	1,121.0	1,480.1	209.1	1,689.2
6 months to 30 June 2010								
£m								
At 31 December 2009	124.0	403.2	7.3	(512.1)	(408.4)	(386.0)	1,441.1	1,055.1
Transferred to Northern Rock plc	-	-	-	16.2	(17.1)	(0.9)	-	(0.9)
At 1 January 2010	124.0	403.2	7.3	(495.9)	(425.5)	(386.9)	1,441.1	1,054.2
Other comprehensive income:								
- Net movement in available-for-sale reserve	-	-	-	85.1	-	85.1	-	85.1
- Net movement in cash flow hedge reserve	-	-	-	3.9	-	3.9	-	3.9
- Actuarial gains and losses	-	-	-	-	(6.4)	(6.4)	-	(6.4)
- Tax effects of the above	-	-	-	-	-	-	-	-
Total other comprehensive income	-	-	-	89.0	(6.4)	82.6	-	82.6
Profit for the financial period	-	-	-	-	358.8	358.8	-	358.8
Gain on the repurchase of capital instruments	-	-	-	-	780.0	780.0	(1,082.7)	(302.7)
At 30 June 2010	124.0	403.2	7.3	(406.9)	706.9	834.5	358.4	1,192.9

Northern Rock (Asset Management) plc Condensed Financial Statements (continued)**Consolidated Statement of Changes in Equity** (continued)

12 months to 31 December 2010	Share capital	Share premium reserve	Capital redemption reserve	Other reserves	Retained earnings	Total share capital and reserves	Non-shareholders' funds	Total equity
£m								
At 31 December 2009	124.0	403.2	7.3	(512.1)	(408.4)	(386.0)	1,441.1	1,055.1
Transferred to Northern Rock plc	-	-	-	16.2	(17.1)	(0.9)	-	(0.9)
At 1 January 2010	124.0	403.2	7.3	(495.9)	(425.5)	(386.9)	1,441.1	1,054.2
Other comprehensive income:								
- Net movement in available-for-sale reserve	-	-	-	142.5	-	142.5	-	142.5
- Net movement in cash flow hedge reserve	-	-	-	59.3	-	59.3	-	59.3
- Actuarial gains and losses	-	-	-	-	(6.2)	(6.2)	-	(6.2)
- Tax effects of the above	-	-	-	-	-	-	-	-
Total other comprehensive income	-	-	-	201.8	(6.2)	195.6	-	195.6
Profit for the financial period	-	-	-	-	409.6	409.6	-	409.6
Gain on the repurchase of capital instruments	-	-	-	-	891.0	891.0	(1,232.0)	(341.0)
At 31 December 2010	124.0	403.2	7.3	(294.1)	868.9	1,109.3	209.1	1,318.4

Northern Rock (Asset Management) plc Condensed Financial Statements (continued)**Consolidated Cash Flow Statement**

£m	Note	6 months to 30 June 2011	6 months to 30 June 2010	12 months to 31 December 2010
Cash flows from operating activities				
Profit after taxation for the financial period		239.3	358.8	409.6
<i>Adjustments to reconcile profit to cash flows used in operating activities:</i>				
- Taxation		52.2	(9.1)	(9.1)
- Depreciation and amortisation		0.8	1.4	54.8
- Impairment of goodwill		-	-	30.7
- Impairment on loans and advances to customers	9	171.9	277.6	812.8
- Net impairment on investment securities		5.4	15.4	15.0
- Provision for customer redress		-	-	160.0
- Gain on repurchase of capital instruments		-	-	(59.7)
- Income taxes refunded		-	-	5.2
- Fair value adjustments on financial instruments		78.8	566.3	645.5
- Other non-cash movements		6.6	611.8	404.0
Cash flows from operating activities before changes in operating assets and liabilities		555.0	1,822.2	2,468.8
<i>Net (increase)/decrease in operating assets:</i>				
- Deposits held for regulatory or monetary control purposes		-	63.8	63.8
- Loans and advances to banks and customers		2,790.4	12,966.8	15,723.6
- Derivative financial instruments receivable		115.1	988.9	931.3
- Other assets		(1.4)	2.4	12.8
- Prepayments and accrued income		(1.9)	13.7	11.8
<i>Net increase/(decrease) in operating liabilities:</i>				
- Loans from HM Treasury		(1,008.4)	8,203.8	7,397.9
- Deposits by banks		(508.5)	(1,352.1)	(1,121.5)
- Customer accounts		-	(20,556.9)	(20,556.9)
- Derivative financial instruments payable		(251.2)	(419.9)	(847.4)
- Debt securities in issue		(2,034.0)	(3,595.3)	(6,208.0)
- Other liabilities		(45.9)	21.0	29.8
- Accruals and deferred income		(18.5)	(233.5)	(209.2)
- Provisions		(13.6)	(16.4)	(31.8)
Net cash used in operating activities		(422.9)	(2,091.5)	(2,335.0)
Cash flows from investing activities				
Net (purchase)/disposal of property, plant and equipment and intangible assets		(0.4)	56.0	54.4
Purchase of investment securities		(19.0)	(14.5)	(83.5)
Proceeds from sale and redemption of investment securities		262.3	232.9	527.2
Net cash from investing activities		242.9	274.4	498.1
Cash flows used in financing activities				
Repurchase of capital instruments		-	(302.7)	(392.3)
Net cash used in financing activities		-	(302.7)	(392.3)
Net decrease in cash and cash equivalents		(180.0)	(2,119.8)	(2,229.2)
Cash and cash equivalents at beginning of period		8,924.8	11,154.0	11,154.0
Cash and cash equivalents at end of period		8,744.8	9,034.2	8,924.8
Represented by cash and assets with original maturity of three months or less within:				
- Cash and balances at central banks		7,393.6	6,933.8	6,980.8
- Loans and advances to banks		1,351.2	2,100.4	1,944.0
- Investment securities and unsecured investment loans		-	-	-
Total		8,744.8	9,034.2	8,924.8

Notes to the Financial Information

1. Reporting entity

Northern Rock (Asset Management) plc ('NRAM') is a public limited company which was incorporated in the United Kingdom under the Companies Act 1985 and is registered in England and Wales.

The financial information in this Interim Financial Report consolidates NRAM and its subsidiaries (including special purpose vehicles ('SPVs')), together referred to as the NRAM Group. NRAM's Consolidated Financial Statements for the year ended 31 December 2010 are included in NRAM's 2010 Annual Report & Accounts available on NRAM's website www.nram.co.uk.

2. Basis of preparation

This Interim Financial Report has been prepared on a going concern basis. At the date of approval of this Interim Financial Report NRAM is reliant on the financing facilities and also upon the guarantee arrangements provided to NRAM by HM Treasury. Withdrawal of the financing facilities or the guarantee arrangements would have a significant impact on NRAM's operations and its ability to continue as a going concern, in which case adjustments may have to be made to reduce the carrying value of assets to recoverable amounts and to provide for further liabilities that might arise. At the date of approval of this Interim Financial Report, HM Treasury has confirmed its intentions to continue to provide funding until at least 31 December 2012.

In preparing this Interim Financial Report there have been no material changes to the accounting policies previously applied by NRAM in preparing, and detailed in, its Annual Report & Accounts for the year ended 31 December 2010.

The Directors consider that NRAM's accounting policies are the most appropriate to NRAM's circumstances, have been consistently applied in dealing with items which are considered material, and are supported by reasonable estimates and judgements.

The preparation of this Interim Financial Report requires the use of estimates and assumptions that affect the reported values of assets and liabilities at the Balance Sheet date and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results ultimately may differ from those estimates.

This Interim Financial Report has been prepared in accordance with IAS 34 'Interim Financial Reporting'.

The information in this document does not include all of the disclosures required by IFRS in full annual financial statements, and it should be read in conjunction with the Consolidated Financial Statements of NRAM for the year ended 31 December 2010, which were prepared in accordance with IFRS as adopted by the EU.

Notes to the Financial Information (continued)**3. Reclassifications****(a) Income Statement**

For the full year 2010 NRAM amended its classification of certain Income Statement items, with no impact on profit before taxation. Consequently, the comparative Income Statement information for the 6 months ended 30 June 2010 shown in the Income Statement has been restated from that reported in NRAM's Interim Financial Report for the 6 months ended 30 June 2010. The reclassifications applied are as follows:

6 months to 30 June 2010 £m	Reported	Reclassification					Total Adjustments	Restated
		A	B	C	D	E		
Interest receivable and similar income	712.6	-	-	58.1	-	-	58.1	770.7
Interest expense and similar charges	(204.8)	-	-	(19.9)	-	-	(19.9)	(224.7)
Fee and commission income	9.2	-	-	-	-	-	-	9.2
Fee and commission expense	(13.4)	4.5	-	-	-	-	4.5	(8.9)
Losses on available-for-sale securities	(8.1)	-	-	-	8.1	-	8.1	-
Unrealised fair value movements on financial instruments	-	-	220.6	-	-	-	220.6	220.6
Hedge ineffectiveness	-	-	-	(38.2)	-	-	(38.2)	(38.2)
Net trading income	220.6	-	(220.6)	-	-	-	(220.6)	-
Other operating income	3.5	-	-	-	-	-	-	3.5
Administrative expenses – ongoing	(85.0)	(4.5)	-	-	-	14.5	10.0	(75.0)
Administrative expenses – other net expenses	-	-	-	-	-	(23.6)	(23.6)	(23.6)
Impairment on loans and advances to customers	(277.6)	-	-	-	-	-	-	(277.6)
Impairment credits on investment securities reclassified as loans and receivables and unsecured investment loans	(7.3)	-	-	-	7.3	-	7.3	-
Net impairment on investment securities	-	-	-	-	(15.4)	-	(15.4)	(15.4)
Defined benefit pension scheme curtailment	-	-	-	-	-	9.1	9.1	9.1
Profit before taxation	349.7	-	-	-	-	-	-	349.7
Taxation	9.1	-	-	-	-	-	-	9.1
Profit for the financial period	358.8	-	-	-	-	-	-	358.8

Reclassifications:

- A. In H1 2010 a number of third party administrator costs were included within fee and commission expense. These costs have been reclassified to administrative expenses.
- B. In H1 2010 fair value movements of derivative financial instruments in economic but not accounting hedge relationships were classified as net trading income. This has been reclassified as unrealised fair value movements on financial instruments.
- C. In H1 2010 fair value movements of derivative financial instruments in accounting hedge relationships, along with corresponding movements in the fair value of the underlying items being hedged, were included within net interest income. These amounts have been reclassified as hedge ineffectiveness.
- D. In H1 2010 losses on available-for-sale ('AFS') securities included both realised and impairment losses on these instruments. This has been reclassified to separate captions for realised and impairment losses. For consistency, impairment amounts in respect of investment securities reclassified as loans and receivables and unsecured investment loans have also been reclassified as impairment in respect of investment securities.
- E. In H1 2010 all administrative expenses were classified as ongoing. Costs relating to other net expenses and the defined benefit pension scheme curtailment have now been shown separately.

None of the reclassifications above affect the Balance Sheet.

Notes to the Financial Information (continued)**3. Reclassifications** (continued)**(b) Balance Sheet**

NRAM has amended its classification of accrued interest in the Balance Sheet. Previously where an asset or liability was not fair valued the accrued interest was included within prepayments and accrued income or accruals and deferred income. These amounts are now included with the instrument. Consequently, the comparative Balance Sheet information for 30 June 2010 and 31 December 2010 has been restated from that reported in NRAM's Interim Financial Report for the 6 months ended 30 June 2010 and the Annual Report and Accounts for the year ended 31 December 2010 respectively. The reclassifications applied are as follows:

At 30 June 2010	Reported	Reclassification	Restated
£m			
Cash and balances at central banks	6,933.8	3.1	6,936.9
Loans and advances to banks	2,100.4	0.3	2,100.7
Loans and advances to customers	50,929.8	3.8	50,933.6
Investment securities and unsecured investment loans	2,399.1	6.3	2,405.4
Prepayments and accrued income	13.5	(13.5)	-
Other assets	7,508.6	-	7,508.6
Total assets	69,885.2	-	69,885.2
Loans from HM Treasury	22,519.3	14.1	22,533.4
Deposits by banks	4,670.2	1.9	4,672.1
Debt securities in issue:			
- Securitised notes	26,068.5	11.1	26,079.6
- Covered bonds	9,607.0	125.7	9,732.7
- Other	2,997.4	10.1	3,007.5
Accruals and deferred income	207.6	(196.3)	11.3
Subordinated liabilities	935.8	22.5	958.3
Tier one notes	249.3	10.9	260.2
Other liabilities	1,437.2	-	1,437.2
Total liabilities	68,692.3	-	68,692.3
Share capital and reserves	834.5	-	834.5
Non-shareholders' funds	358.4	-	358.4
Total equity	1,192.9	-	1,192.9
Total equity and liabilities	69,885.2	-	69,885.2

At 31 December 2010	Reported	Reclassification	Restated
£m			
Cash and balances at central banks	6,980.8	3.0	6,983.8
Loans and advances to banks	1,944.0	0.4	1,944.4
Loans and advances to customers	47,758.5	3.7	47,762.2
Investment securities and unsecured investment loans	2,396.4	5.8	2,402.2
Prepayments and accrued income	15.4	(12.9)	2.5
Other assets	7,181.6	-	7,181.6
Total assets	66,276.7	-	66,276.7
Loans from HM Treasury	21,713.4	13.9	21,727.3
Deposits by banks	4,900.8	2.0	4,902.8
Debt securities in issue:			
- Securitised notes	24,015.1	12.1	24,027.2
- Covered bonds	9,783.8	152.3	9,936.1
- Other	2,084.4	3.7	2,088.1
Accruals and deferred income	231.9	(218.4)	13.5
Subordinated liabilities	930.6	32.2	962.8
Tier one notes	135.7	2.2	137.9
Other liabilities	1,162.6	-	1,162.6
Total liabilities	64,958.3	-	64,958.3
Share capital and reserves	1,109.3	-	1,109.3
Non-shareholders' funds	209.1	-	209.1
Total equity	1,318.4	-	1,318.4
Total equity and liabilities	66,276.7	-	66,276.7

Notes to the Financial Information (continued)**4. Net interest income**

	6 months to 30 June 2011	6 months to 30 June 2010	12 months to 31 December 2010
£m			
Interest receivable and similar income			
On secured advances	717.8	668.4	1,537.5
On other lending	65.1	67.4	131.0
On investment securities and deposits	39.5	34.9	73.3
Total interest receivable and similar income	822.4	770.7	1,741.8
Interest expense and similar charges			
On other deposits including loans from HM Treasury	(92.3)	(95.3)	(191.1)
Other	(161.9)	(129.4)	(290.8)
Total interest expense and similar charges	(254.2)	(224.7)	(481.9)
Net interest income	568.2	546.0	1,259.9
Average balances			
Interest-earning assets ('IEA')	57,534	65,299	63,425
Financed by:			
- Interest-bearing funding	55,448	63,230	61,314
- Interest-free funding*	2,086	2,069	2,111
Average rates %			
- Gross yield on IEA	2.86	2.36	2.75
- Cost of interest-bearing funding	(0.92)	(0.71)	(0.79)
Interest spread	1.94	1.65	1.96
Contribution of interest-free funding	0.03	0.02	0.03
Net interest margin on average IEA	1.97	1.67	1.99
Average Bank Base Rate	0.50	0.50	0.50
Average 1-month LIBOR	0.63	0.55	0.56
Average 3-month LIBOR	0.81	0.66	0.70

* Interest-free funding is primarily share capital and reserves.

5. Administrative expenses and staff numbers

	6 months to 30 June 2011	6 months to 30 June 2010	12 months to 31 December 2010
£m			
Ongoing administrative expenses:			
- Costs recharged by Northern Rock plc	-	69.3	115.5
- Costs transferred by Bradford & Bingley plc	37.8	-	10.3
- Other costs incurred directly by the NRAM Group	15.9	5.7	39.4
Ongoing (underlying) administrative expenses	53.7	75.0	165.2
Other net administrative expenses:			
- Impairment of goodwill	-	-	30.7
- Accelerated depreciation	-	-	51.8
- Transformation project	1.5	25.9	47.2
- Restructure costs	-	(2.3)	8.7
Total other net administrative expenses	1.5	23.6	138.4
Total administrative expenses	55.2	98.6	303.6
Ratio of ongoing costs to average IEA %	0.19	0.23	0.26
Ratio of costs to average IEA %	0.19	0.30	0.48
Ratio of ongoing costs to total average assets %	0.17	0.21	0.23
Ratio of costs to total average assets %	0.17	0.27	0.43

Notes to the Financial Information (continued)**5. Administrative expenses and staff numbers** (continued)

A service level agreement exists whereby costs are transferred in respect of services provided by B&B to NRAM. Costs transferred by B&B of £37.8m include £12.2m in respect of pass-through charges from Northern Rock plc (12 months to 31 December 2010: transfer of £10.3m includes pass-through charges of £4.2m). In addition to the amount shown within ongoing administrative expenses an additional £1.5m transfer from B&B is included in other net administrative expenses (12 months to 31 December 2010: £1.7m).

On 1 January 2010 all employees previously employed by NRAM transferred to Northern Rock plc and on 1 November 2010 1,254 of these employees transferred to B&B. Throughout 2010 and 2011 services were provided to NRAM by employees of Northern Rock plc and B&B, consequently NRAM had no employees during the whole of the periods presented.

At 30 June 2011 943 full time and 400 part time employees of B&B provided services to NRAM, for which a cost transfer was made (31 December 2010: 933 full time and 321 part time; 30 June 2010: nil). Additionally, there were 120 temporary staff (31 December 2010: 70; 30 June 2010: nil) accounted for and paid by NRAM.

6. Unrealised fair value movements on financial instruments and hedge ineffectiveness

£m	6 months to 30 June 2011	6 months To 30 June 2010	12 months to 31 December 2010
Fair value movements of future cash flows, excluding accruals, on derivatives not in hedge accounting relationships	121.8	152.2	561.7
Translation (losses)/gains on underlying instruments	(154.7)	68.4	(144.0)
Total unrealised fair value movements on financial instruments	(32.9)	220.6	417.7
Fair value hedge ineffectiveness			
- on hedging instruments	423.3	(114.0)	313.1
- on the hedged items attributable to the hedged risk	(441.1)	93.3	(356.3)
	(17.8)	(20.7)	(43.2)
Cash flow hedge ineffectiveness	(0.4)	(17.5)	(21.8)
Total hedge ineffectiveness	(18.2)	(38.2)	(65.0)
Total unrealised fair value movements on financial instruments and hedge ineffectiveness	(51.1)	182.4	352.7

7. Taxation

The tax charge for the 6 months ended 30 June 2011 has been calculated using the expected effective tax rate for the full year 2011, i.e. 26.5% (2010: 28.0%). Deferred taxation appropriately reflects a change to the standard rate of UK corporation tax from 27% to 26% with effect from 1 April 2011. This change was substantively enacted on 29 March 2011. The announced further rate reductions by an additional 1% on each of 1 April 2012, 2013 and 2014 to 23% would have the maximum potential impact of reducing the NRAM Group's deferred tax assets by approximately £0.1m.

No deferred tax assets have been recognised in respect of unused tax losses and deductible differences. £26.7m (30 June 2010: £231.8m; 31 December 2010: £152.4m) of deferred tax assets have not been recognised, relating to unused tax losses and other deductible differences of £102.7m (30 June 2010: £827.9m; 31 December 2010: £564.4m).

Notes to the Financial Information (continued)

8. Loans and advances to customers

	30 June 2011 Balances		30 June 2010 Balances		31 December 2010 Balances	
	£m	%	£m	%	£m	%
Residential						
Buy-to-let	4,456.1	11	4,684.8	10	4,553.5	10
Together	15,157.0	36	16,675.5	35	16,031.7	36
Standard and other specialist	22,026.8	53	25,796.4	55	23,748.5	54
Total residential	41,639.9	100	47,156.7	100	44,333.7	100
Residential	41,639.9	93	47,156.7	92	44,333.7	93
Commercial	314.9	1	300.4	1	314.7	1
Unsecured loans	2,790.9	6	3,476.5	7	3,113.8	6
Total	44,745.7	100	50,933.6	100	47,762.2	100

Balances include accounting adjustments in respect of EIR and provisioning requirements, which account for the calculated difference of opening and closing balances when subtracting redemptions.

Loans and advances to customers include advances secured on residential properties amounting to £22,118.7m (30 June 2010: £25,598.2m; 31 December 2010: £23,886.5m) which have been sold to bankruptcy remote SPVs whereby substantially all of the risks and rewards of the portfolio are retained by NRAM. Accordingly, all of these loans and advances are retained on NRAM's Balance Sheet.

NRAM does not have significant balances of loans acquired from other lenders or of self-cert loans.

9. Impairment on loans and advances to customers

In the Balance Sheet the carrying values of the impaired assets are presented net of these impairment allowances.

	On advances secured on residential property	On advances secured on residential buy-to-let property	On commercial secured advances	On unsecured loans	Total
6 months to 30 June 2011					
£m					
Allowances for impairment against loans and advances to customers have been made as follows:					
Opening provision at 1 January 2011	920.3	92.7	30.0	542.3	1,585.3
Net movements during the period	(29.5)	8.7	(2.0)	(3.8)	(26.6)
Closing provision at 30 June 2011	890.8	101.4	28.0	538.5	1,558.7
Total Income Statement charge	77.8	14.9	(2.1)	81.3	171.9

	On advances secured on residential property	On advances secured on residential buy-to-let property	On commercial secured advances	On unsecured loans	Total
6 months to 30 June 2010					
£m					
Allowances for impairment against loans and advances to customers have been made as follows:					
Opening provision at 1 January 2010	495.8	100.3	12.5	564.3	1,172.9
Net movements during the period	71.8	(4.2)	3.0	1.2	71.8
Closing provision at 30 June 2010	567.6	96.1	15.5	565.5	1,244.7
Total Income Statement charge	169.2	0.2	4.4	103.8	277.6

Notes to the Financial Information (continued)**9. Impairment on loans and advances to customers** (continued)

	On advances secured on residential property	On advances secured on residential buy-to-let property	On commercial secured advances	On unsecured loans	Total
12 months to 31 December 2010					
£m					
Allowances for impairment against loans and advances to customers have been made as follows:					
Opening provision at 1 January 2010	495.8	100.3	12.5	564.3	1,172.9
Net movements during the year	424.5	(7.6)	17.5	(22.0)	412.4
Closing provision at 31 December 2010	920.3	92.7	30.0	542.3	1,585.3
Total Income Statement charge	609.0	3.6	18.9	181.3	812.8

10. Residential and unsecured arrears and possessions

Arrears and possessions are monitored for NRAM as a whole, and also split by type of product

At	30 June 2011		30 June 2010		31 December 2010		
	Residential	Unsecured	Residential	Unsecured	Residential	Unsecured	
Arrears							
3 months and over							
Number of cases	Number	24,636	30,760	22,837	25,146	23,435	26,274
Proportion of total	%	6.76	9.83	5.64	6.27	6.07	7.48
Asset value	£m	3,449.8	444.2	3,182.2	384.7	3,284.4	397.9
Proportion of book	%	8.28	15.92	6.75	11.07	7.41	12.78
Total value of payments overdue	£m	146.4	48.5	173.8	37.4	146.1	42.5
Proportion of total book	%	0.35	1.74	0.37	1.08	0.33	1.36
Possessions							
Number of cases	Number	2,374		1,846		1,984	
Proportion of total	%	0.65		0.45		0.51	
Asset value	£m	328.7		236.4		254.1	
Proportion of book	%	0.79		0.50		0.57	
Total value of payments overdue	£m	23.6		14.8		16.6	
Proportion of total book	%	0.06		0.03		0.04	
Total arrears and possessions							
Number of cases	Number	27,010		24,683		25,419	
Proportion of total	%	7.41		6.09		6.58	
Asset value	£m	3,778.5		3,418.6		3,538.5	
Proportion of book	%	9.07		7.25		7.98	
Total value of payments overdue 3 months and over	£m	170.0		188.6		162.7	
Proportion of total book 3 months and over	%	0.41		0.40		0.37	
Residential loan impairment balance							
As % of residential balances	%	2.33		1.39		2.23	
As % of residential arrears and possessions	%	26.26		19.41		28.63	

Notes to the Financial Information (continued)**10. Residential and unsecured arrears and possessions** (continued)**Analysis of residential and unsecured accounts in arrears of 3 months and over by product**

At	30 June 2011		30 June 2010		31 December 2010		
	Residential	Unsecured	Residential	Unsecured	Residential	Unsecured	
Arrears							
Buy-to-let							
Number of cases	Number	1,550		1,220		1,450	
Proportion of total	%	5.01		3.88		4.56	
Asset value	£m	275.0		200.1		244.7	
Proportion of book	%	6.17		4.27		5.37	
Total value of payments overdue	£m	11.9		9.7		11.4	
Proportion of total book	%	0.27		0.21		0.25	
Together							
Number of cases	Number	11,655	16,290	11,248	14,722	11,262	15,239
Proportion of total	%	8.01	10.73	7.14	8.93	7.40	9.61
Asset value	£m	1,317.6	285.4	1,272.0	262.8	1,281.6	272.2
Proportion of book	%	8.69	14.32	7.63	11.79	7.99	12.85
Total value of payments overdue	£m	57.3	22.0	79.4	14.0	58.5	20.4
Proportion of total book	%	0.38	1.10	0.48	0.63	0.36	0.96
Other							
Number of cases	Number	11,431	14,470	10,369	10,424	10,723	11,035
Proportion of total	%	6.08	8.99	4.80	4.41	5.30	5.73
Asset value	£m	1,857.2	158.8	1,710.1	121.9	1,758.1	125.7
Proportion of book	%	8.43	19.89	6.63	9.76	7.40	12.64
Total value of payments overdue	£m	77.2	26.5	84.7	23.4	76.2	22.1
Proportion of total book	%	0.35	3.32	0.33	1.87	0.32	2.22

Further information regarding the credit quality of loans and advances to customers:

	Advances secured on residential property	Other secured advances	Unsecured personal loans	Total
At 30 June 2011				
£m				
Neither past due nor impaired	36,257.3	299.9	2,652.6	39,209.8
Past due but not impaired:				
- Up to 3 months	2,556.2	8.2	125.9	2,690.3
- 3 to 6 months	1,465.9	1.1	7.4	1,474.4
- 6 to 12 months	439.2	1.0	6.0	446.2
- Over 12 months	256.6	-	8.4	265.0
Individually impaired	1,656.9	32.7	529.1	2,218.7
	42,632.1	342.9	3,329.4	46,304.4
Impairment allowances	(992.2)	(28.0)	(538.5)	(1,558.7)
Loans and advances to customers net of impairment allowances	41,639.9	314.9	2,790.9	44,745.7

The NRAM Group offers forbearance methods to borrowers, subject to compliance with loan terms, including capitalisation, extension of repayment date and switching to interest only products, the aim of these being to assist the borrower. During the period 2,656 account modifications were made.

Notes to the Financial Information (continued)

10. Residential and unsecured arrears and possessions (continued)

	Advances secured on residential property	Other secured advances	Unsecured personal loans	Total
At 30 June 2010				
£m				
Neither past due nor impaired	42,230.8	290.8	3,350.6	45,872.2
Past due but not impaired:				
- Up to 3 months	2,054.4	7.0	120.2	2,181.6
- 3 to 6 months	1,191.3	-	7.3	1,198.6
- 6 to 12 months	525.3	-	8.0	533.3
- Over 12 months	357.3	-	7.8	365.1
Individually impaired	1,461.3	18.1	548.1	2,027.5
	47,820.4	315.9	4,042.0	52,178.3
Impairment allowances	(663.7)	(15.5)	(565.5)	(1,244.7)
Loans and advances to customers net of impairment allowances	47,156.7	300.4	3,476.5	50,933.6

	Advances secured on residential property	Other secured advances	Unsecured personal loans	Total
At 31 December 2010				
£m				
Neither past due nor impaired	39,321.2	321.4	2,986.3	42,628.9
Past due but not impaired:				
- Up to 3 months	2,408.4	0.4	123.2	2,532.0
- 3 to 6 months	1,276.7	0.2	7.9	1,284.8
- 6 to 12 months	492.4	4.0	6.4	502.8
- Over 12 months	350.7	-	8.9	359.6
Individually impaired	1,497.3	18.7	523.4	2,039.4
	45,346.7	344.7	3,656.1	49,347.5
Impairment allowances	(1,013.0)	(30.0)	(542.3)	(1,585.3)
Loans and advances to customers net of impairment allowances	44,333.7	314.7	3,113.8	47,762.2

11. Average loan to value ratios of residential loans and advances to customers

At	30 June 2011	30 June 2010	31 December 2010
Indexed average loan to value (LTV)	%	%	%
Neither past due nor impaired	68.2	67.6	67.9
Past due but not impaired	81.5	80.6	81.2
Individually impaired	131.9	119.1	111.0
Total book	70.8	69.4	69.9
Indexed average loan to value (LTV) by product			
Buy-to-let LTV	82.9	82.5	82.1
Together LTV	98.5	95.6	96.4
Other LTV	57.7	57.5	57.4
Total book	70.8	69.4	69.9

Notes to the Financial Information (continued)

12. Wholesale assets

At 30 June 2011		AAA	AA	A	BBB to B	CCC and below
	£m	%	%	%	%	%
Cash and balances at central banks	7,396.7	100	-	-	-	-
Loans and advances to banks:						
- Bank and time deposits	747.4	14	28	58	-	-
- Cash and other collateral	604.2	-	14	86	-	-
Total loans and advances to banks	1,351.6	8	22	70	-	-
Investment securities and unsecured investment loans:						
- Available-for-sale securities	109.6	25	14	28	4	29
- Investment securities held as loans and receivables	1,797.6	17	21	26	33	3
- Unsecured investment loans	365.0	-	-	-	100	-
Total investment securities and unsecured investment loans	2,272.2	15	18	21	42	4
Total wholesale assets	11,020.5	71	6	13	9	1

At 30 June 2011, the NRAM Group held no investment securities issued by the Governments of Portugal, the Republic of Ireland, Italy, Greece or Spain.

At 30 June 2010		AAA	AA	A	BBB to B	CCC and below
	£m	%	%	%	%	%
Cash and balances at central banks	6,936.9	100	-	-	-	-
Loans and advances to banks:						
- Bank and time deposits	1,113.2	19	27	54	-	-
- Cash and other collateral	987.5	-	9	91	-	-
Total loans and advances to banks	2,100.7	10	19	71	-	-
Investment securities and unsecured investment loans:						
- Available-for-sale securities	91.5	36	5	24	4	31
- Investment securities held as loans and receivables	1,978.4	19	21	28	30	2
- Unsecured investment loans	335.5	-	-	-	100	-
Total investment securities and unsecured investment loans	2,405.4	17	17	24	39	3
Total wholesale assets	11,443.0	66	7	18	8	1

Notes to the Financial Information (continued)**12. Wholesale assets** (continued)

At 31 December 2010		AAA	AA	A	BBB to B	CCC and below
	£m	%	%	%	%	%
Cash and balances at central banks	6,983.8	100	-	-	-	-
Loans and advances to banks:						
- Bank and time deposits	1,207.2	18	44	38	-	-
- Cash and other collateral	737.2	-	17	83	-	-
Total loans and advances to banks	1,944.4	12	33	55	-	-
Investment securities and unsecured investment loans:						
- Available-for-sale securities	124.3	26	12	21	3	38
- Investment securities held as loans and receivables	1,927.7	18	21	27	31	3
- Unsecured investment loans	350.2	-	-	-	100	-
Total investment securities and unsecured investment loans	2,402.2	16	17	23	40	4
Total wholesale assets	11,330.4	67	9	14	9	1

13. Debt securities in issue

During the period £2,578.5m of debt securities in issue were redeemed (30 June 2010: £2,931.1m; 31 December 2010: £6,134.4m).

14. Provisions

Provisions include £189.8m (30 June 2010: £57.4m; 31 December 2010: £203.1m) in respect of potential claims from customers regarding Payment Protection Insurance and other mis-sold products.

15. Contingent liabilities

As part of the transfer of assets and liabilities to Northern Rock plc on 1 January 2010, NRAM agreed to indemnify Northern Rock plc against potential claims arising from past business up to a maximum of £100m.

16. Related party disclosures

The key management personnel of NRAM are NRAM's Executive and Non-executive Directors and senior managers. Transactions during the period with NRAM's key management personnel and other related parties were similar in nature to those during the year ended 31 December 2010.

Notes to the Financial Information (continued)**17. Capital structure**

NRAM met its capital requirements in full throughout the period, and has received no additional capital from HM Treasury since nationalisation. NRAM is regulated by the FSA as a mortgage administration company under the MIPRU regime. MIPRU regulation is applied at individual company level, not at NRAM Group level. Under MIPRU, the composition of capital is different from the BIPRU regime, and the concepts of tier 1 and tier 2 capital are not recognised. The Board considers core equity, formerly tier 1 capital, of pre-eminent importance in the capital structure of the business and continues to monitor this, in addition to total level of capital, closely. The Directors believe NRAM has appropriate and adequate levels of capital to support its activities, subject to the continuing support of HM Treasury.

The table below sets out NRAM's regulatory capital resources under MIPRU.

At	NRAM 30 June 2011	NRAM 30 June 2010	NRAM 31 December 2010
£m			
Share capital and reserves	1,334.9	787.6	957.8
Available-for-sale reserve adjustments	147.2	284.7	227.7
Cash flow hedge reserve adjustments	28.4	121.9	66.5
Pension scheme asset	(38.1)	(9.0)	(8.3)
Reserve capital instruments	156.2	299.3	156.2
Tier one notes	134.2	249.3	135.7
Subordinated notes	52.9	59.1	52.9
Subordinated liabilities	900.1	909.5	905.0
Total capital	2,715.8	2,702.4	2,493.5

18. Risks and uncertainties

The Directors are aware of the following material risks and uncertainties which may affect the NRAM Group during the remainder of 2011: external economic factors including unemployment, house price movements, the extent and timing of changes in interest rates, operational risks arising as a result of the separation from Northern Rock plc and ongoing integration with B&B and the rate of interest charged on the Government loan. There may be other risks that are not listed above that the Directors are not aware of or that the Directors do not consider material. The business, financial condition or results of operations of the NRAM Group could be adversely affected by any of these risks. Further discussion of risk management and control were provided on pages 30-36 of the NRAM Group's 2010 Annual Report and Accounts.

19. Events after the reporting period

On 24 June 2011 holders of various classes of credit linked notes issued by Graphite Mortgages plc were invited to tender such notes for purchase by NRAM for cash. The result of this tender was announced on 6 July 2011 and as a consequence NRAM purchased notes with a par value of €216.1m. On 7 July 2011 NRAM announced that it intended to exercise its right to terminate the credit default swap between NRAM and KfW to which these notes related as of the payment date scheduled to fall on 10 August 2011. As a result of this, Graphite Mortgages plc will be obliged to redeem all notes in issue on that date at par with NRAM receiving €216.1m for the notes that it has acquired. The redemption of the notes will lead to the termination of a basis swap resulting in the reversal of hedge ineffectiveness losses of around £30m that have previously been recognised.

The financial information in this document is unaudited and does not constitute statutory accounts within the meaning of section 435 of the Companies Act 2006. The comparative figures for the financial year ended 31 December 2010 are not the statutory accounts for that financial year for Northern Rock (Asset Management) plc. The 2010 statutory accounts of Northern Rock (Asset Management) plc have been reported on by that company's auditors and delivered to the Registrar of Companies. The report of the auditors was unqualified, did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report, and did not contain a statement under section 498(2) or (3) of the Companies Act 2006. This document may contain forward-looking statements with respect to certain plans and current goals and expectations relating to the future financial conditions, business performance and results of Northern Rock (Asset Management) plc. By their nature, all forward-looking statements involve risk and uncertainty because they relate to future events and circumstances that are beyond the control of Northern Rock (Asset Management) plc including, amongst other things, UK domestic and global economic and business conditions, market related risks such as fluctuation in interest rates and exchange rates, inflation, deflation, the impact of competition, changes in customer preferences, risks concerning borrower credit quality, delays in implementing proposals, the timing, impact and other uncertainties of future acquisitions or other combinations within relevant industries, the policies and actions of regulatory authorities, the impact of tax or other legislation and other regulations in the jurisdictions in which Northern Rock (Asset Management) plc and its affiliates operate. As a result, the actual future financial condition, business performance and results of Northern Rock (Asset Management) plc may differ materially from the plans, goals and expectations expressed or implied in these forward-looking statements.

Statement of Directors' Responsibilities

The Directors confirm that this Interim Financial Report has been prepared in accordance with IAS 34 as adopted by the European Union and that the management commentary and related notes includes a fair review of the information required by DTR 4.2.7 and DTR 4.2.8, namely:

- An indication of important events that have occurred during the first six months and their impact on the condensed Financial Statements and a description of the principal risks and uncertainties for the remaining six months of the financial year; and
- Material related party transactions in the first six months and any material changes in the related party transactions described in the last annual report.

The Directors of Northern Rock (Asset Management) plc at the date of this report are:

Richard Pym
Richard Banks
Phillip McLelland
Louise Patten
Michael Buckley
John Tattersall
Kent Atkinson
Sue Langley
Keith Morgan

By order of the Board

Richard Banks
Chief Executive Officer
28 July 2011

Phillip McLelland
Finance Director
28 July 2011

Independent Review Report to Northern Rock (Asset Management) plc

Introduction

We have been engaged by the company to review the condensed Financial Statements in the Interim Financial Report for the six months ended 30 June 2011, which comprise the Consolidated Income Statement, Consolidated Statement of Comprehensive Income, Consolidated Balance Sheet, Consolidated Statement of Changes in Equity, Consolidated Cash Flow Statement, and the related notes. We have read the other information contained in the Interim Financial Report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed Financial Statements.

Directors' Responsibilities

The Interim Financial Report is the responsibility of, and has been approved by, the Directors. The Directors are responsible for preparing the Interim Financial Report in accordance with the Disclosure and Transparency Rules of the United Kingdom's Financial Services Authority.

As disclosed in note 2, the Annual Financial Statements of the Group are prepared in accordance with IFRS as adopted by the European Union. The condensed set of Financial Statements included in this Interim Financial Report has been prepared in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union.

The maintenance and integrity of the Northern Rock (Asset Management) website is the responsibility of the Directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the Financial Statements since they were initially presented on the website.

Legislation in the United Kingdom governing the preparation and dissemination of Financial Statements may differ from legislation in other jurisdictions.

Our Responsibility

Our responsibility is to express to the company a conclusion on the condensed Financial Statements in the Interim Financial Report based on our review. This report, including the conclusion, has been prepared for and only for the company for the purpose of the Disclosure and Transparency Rules of the Financial Services Authority and for no other purpose. We do not, in producing this report, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity', issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland), and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed Financial Statements in the Interim Financial Report for the six months ended 30 June 2011 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Services Authority.

Mark Hannam

PricewaterhouseCoopers LLP
Chartered Accountants
28 July 2011
Leeds

This document, included the respective 2011 Interim Results for both Companies are available on the websites at www.bbg.co.uk and www.nram.co.uk within the Company Information sections.

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