

# Bradford & Bingley plc

19 March 2010

## 2009 Annual Report and Accounts

Bradford & Bingley has today released its Annual Report & Accounts for the year to 31 December 2009. This document is available in full on its website at [www.bbg.co.uk](http://www.bbg.co.uk) within the Company Information section.

### **Richard Banks, Managing Director, commented:**

"We have made substantial progress against our business objectives in 2009 and met all of the financial goals in our agreed business plan. The loss before tax of £196.0m for the year was £71.0m better than our original plan.

"We have completed our restructure to create an organisation that is fit for purpose to deliver a high quality service to our customers whilst reducing costs, minimising losses and delivering value to the taxpayer."

### **Summary Financial information**

Group loss before tax for 2009 was £196.0m. This is £71.0m lower than the figure of £267.0m forecast in the Business Plan and £82.0m lower than the comparable loss of £278.0m in 2008. (The reported 2008 statutory profit of £134.3m was positively impacted by two significant items, the £216.3m one-off gain on the sale of the retail deposit business to Abbey, and the £196.0m adjustment to net interest income due to the lengthening of expected lives of mortgage accounts. Removing these items gives a loss of £278.0m, a more appropriate base on which to compare 2008 and 2009 results.)

The Bank's tier 1 capital ratio ended the period at 8.7% (FY 2008: 8.9%), and no additional capital has been provided since nationalisation. The cost base reduced by £116.1m to £137.1m, a fall of 46% (FY 2008: £253.2m). The cost:asset ratio reduced to 0.29% (FY 2008: 0.50%).

### **Strategic Priorities**

The Group has four strategic priorities:

#### **1. Run down the Balance Sheet**

The Group took a number of actions to facilitate mortgage redemptions, such as the introduction of an Early Redemption Charge waiver, which contributed to a reduction in lending balances of £2.8bn to £39.0bn (FY 2008: £41.8bn).

The residential mortgage redemption rate fell to 6.0% (FY 2008: 10.6%) which is reflective of the current low interest rate environment and reduced availability of mortgages across the market.

#### **2. Minimise impairment and losses**

The Group continues to work closely with those customers experiencing payment difficulties and arrears, whilst working to improve the performance of its collections and fraud management processes.

#### Support for customers experiencing payment difficulties

During 2009, the Group made over 12,000 mortgage arrangements to assist customers falling behind with their payments. All reasonable efforts are exhausted before commencing repossession proceedings, which is viewed as a last resort. The Group will not take possession of an owner-occupied property for a full six months after the customer first falls behind with their mortgage payments.

Where a buy-to-let landlord is in arrears, the Group endeavours 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.

#### Improve collections performance and manage fraud

The total number of cases three months or more in arrears or in possession equates to 5.54% of mortgage accounts (FY 2008: 4.60%; H1 2009: 5.88%). During the second half of the year arrears levels (particularly early arrears) fell as a result of lower interest rates and improved credit collection processes and this downward trend has continued in the early part of 2010. Overall, the performance in the arrears book is better than anticipated in the Group's Business Plan.

Prudent provisions for loan losses have been made resulting in a charge to the Income Statement for impairment of £593.7m (FY 2008: £507.7m). The Balance Sheet provision for residential loan impairment was £884.1m (FY 2008: £467.7m).

During the year, the Group conducted a thorough and systematic review of the mortgage book in order to highlight any suspected historic instances of mortgage fraud and professional negligence. For all such cases, the Group has made prudent and conservative provisions for the potential estimated losses.

The overall Balance Sheet provision for residential loan impairment therefore includes £388.4m (FY 2008: £173.9m) relating to potential losses from fraud and professional negligence. The Group is confident that the majority of the cases of fraud and professional negligence have now been identified and accounted for in the provision.

### **3. Restructure and realign the business**

The restructure of the Group in order to realign the business behind its new objectives was completed in October with a renewed focus on risk management.

#### Administrative expenses and employment

Ongoing administrative expenses have reduced by £116.1m to £137.1m, a fall of 46% (FY 2008: £253.2m). At the same time, we have made significant investment in key areas such as arrears management. As expected, staff numbers remained similar to twelve months ago with 943 employees in total at the end of the period (FY 2008: 995).

#### Remuneration

Following nationalisation, remuneration packages have been substantially revised. The defined benefit pension scheme closed to future accruals at 31 December 2009 and all current members were offered the option to participate in a defined contribution scheme. A pay freeze was implemented in 2009 for senior management other than for promotion. Bonus entitlements were significantly reduced and the new bank payroll tax liability is £37,000. There are no long-term share or other incentive schemes in operation.

No Directors received a cash bonus in respect of 2009, that would have been payable in 2010. In February 2009, Bradford & Bingley Chairman, Richard Pym, waived his contractual entitlement to a guaranteed bonus of £187,500 that would have been payable with respect to 2009. Managing Director, Richard Banks, who joined Bradford & Bingley during 2009, voluntarily deferred his entitlement to a bonus payment of £10,000 for 2009, that would have been payable in 2010.

#### **4. Provide transitional services to Abbey**

The Group successfully provided services to Abbey in accordance with the terms of the Transitional Services Agreement which ended on 29 September 2009 enabling Bradford & Bingley to focus entirely on its own business.

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#### **Notes to Editors**

On 27 March 2009, Bradford & Bingley submitted its Business Plan and application for State Aid to the European Commission, in accordance with state aid rules after having been taken into public ownership on 29 September 2008. This Business Plan outlined the Group's objectives to repay HM Treasury and the Financial Services Compensation Scheme (FSCS) as soon as market conditions allow, and protect taxpayers, whilst treating customers and creditors fairly. A summary of the Business Plan is available at [www.bbg.co.uk](http://www.bbg.co.uk).

On 25 January 2010 the European Commission approved the Business Plan and application for State Aid, a decision that ratifies the strategy and approach that is outlined in the Business Plan and is an essential requirement that will help the Group achieve its business objectives.

## Appendix

### Summary of Results

		12 months to 31 December 2009	6 months to 30 June 2009	12 months to 31 December 2008
<b>Key Performance Indicators</b>				
(Loss)/profit before taxation	£m	(196.0)	(160.0)	134.3
<b>Adjusted loss before taxation***</b>	<b>£m</b>	<b>(196.0)</b>	<b>(160.0)</b>	<b>(278.0)</b>
Ongoing costs: assets ratio*	%	0.29	0.27	0.50
Lending balances	£bn	39.0	40.3	41.8
Wholesale asset balances	£bn	6.3	6.3	7.5
Residential mortgage redemption rate	%	6.0	8.0	10.6
Residential mortgage arrears:				
Arrears and possessions balance: total mortgage balance	%	0.33	0.33	0.27
Arrears and possessions**	%	5.54	5.88	4.60
Residential loan impairment charge	£m	572.2	309.2	477.1
Commercial impairment charge	£m	21.5	19.2	30.6
<b>Capital structure</b>				
Tier 1	£m	1,714.8	1,676.2	1,793.7
Tier 2	£m	1,464.9	1,449.6	1,260.6
Tier 1 ratio	%	8.7	8.7	8.9
Total capital ratio	%	16.1	15.9	14.9
Risk weighted assets	£bn	19.8	19.3	20.2
Period end total headcount	no.	943	997	995
Number of mortgage accounts	no.	346,440	358,880	377,267

\* Ongoing costs: assets ratio represents ongoing administrative expenses divided by the mean interest-earning assets.

\*\* Number of cases of arrears over 3 months and possessions, as a percentage of number of mortgage accounts.

\*\*\* Loss before taxation after adjusting for the one-off £216.3m gain on the sale of the retail deposit business to Abbey, and a £196.0m adjustment to net interest income due to the lengthening of expected lives of mortgage accounts.

### Summary Income Statement

	12 months to 31 December 2009	6 months to 30 June 2009	12 months to 31 December 2008
<b>£m</b>			
Net interest income	612.4	298.3	737.4
Fee and commission income	52.6	30.1	63.3
Realised gains less losses on financial instruments	(8.5)	0.1	(120.3)
Fair value movements	(79.1)	(57.2)	183.0
Hedge ineffectiveness	44.1	32.5	18.5
Other operating income	1.1	0.4	4.8
<b>Net operating income</b>	<b>622.6</b>	<b>304.2</b>	<b>886.7</b>
Administrative expenses:			
- Ongoing	(137.1)	(65.3)	(253.2)
- Other net expenses	-	-	(23.7)
FSCS levy	(7.9)	-	-
Loan impairment loss	(593.7)	(328.4)	(507.7)
Investment impairment loss	(93.3)	(70.5)	(191.6)
Defined benefit pension scheme curtailment	13.4	-	-
Gain on sale of assets and liabilities	-	-	216.3
Non-operating income	-	-	7.5
<b>(Loss)/profit before taxation</b>	<b>(196.0)</b>	<b>(160.0)</b>	<b>134.3</b>
<b>Less gain on asset sale<sup>1</sup></b>	<b>-</b>	<b>-</b>	<b>(216.3)</b>
<b>Less net interest adjustment<sup>2</sup></b>	<b>-</b>	<b>-</b>	<b>(196.0)</b>
<b>Adjusted loss before taxation</b>	<b>(196.0)</b>	<b>(160.0)</b>	<b>(278.0)</b>

<sup>1</sup> Sale of the retail deposit business to Abbey

<sup>2</sup> Adjustment due to lengthening of expected lives of mortgage accounts

## Summary Balance Sheet

At	31 December 2009	30 June 2009	31 December 2008
<b>Em</b>			
Residential mortgages - Buy-to-let	24,201.2	24,562.8	24,889.1
- Self-cert	7,985.1	8,304.5	8,716.7
- Other	5,981.0	6,568.2	7,361.5
Commercial and other secured loans	818.9	831.0	858.7
<b>Loans and advances to customers</b>	<b>38,986.2</b>	<b>40,266.5</b>	<b>41,826.0</b>
<b>Wholesale assets</b>	<b>6,321.2</b>	<b>6,261.8</b>	<b>7,474.3</b>
Fair value adjustments on portfolio hedging	294.2	387.1	561.3
Derivative financial instruments	3,660.6	3,359.4	6,022.9
Fixed and other assets	132.4	30.4	38.1
<b>Other assets</b>	<b>4,083.2</b>	<b>3,776.9</b>	<b>6,622.3</b>
<b>Total assets</b>	<b>49,394.6</b>	<b>50,305.2</b>	<b>55,922.6</b>
<b>Statutory Debt</b>	<b>18,416.2</b>	<b>18,415.9</b>	<b>18,413.9</b>
<b>HM Treasury Working Capital Facility</b>	<b>8,537.8</b>	<b>8,163.3</b>	<b>2,275.7</b>
<b>Retail deposits</b>	-	-	-
Wholesale	6,610.5	7,159.7	14,544.3
Securitised*	6,021.9	6,998.3	8,264.6
Secured*	5,768.2	5,647.5	8,004.0
<b>Wholesale funding</b>	<b>18,400.6</b>	<b>19,805.5</b>	<b>30,812.9</b>
Fair value adjustments on portfolio hedging	-	-	-
Derivative financial instruments	665.6	867.5	1,230.2
Other liabilities	425.8	396.8	414.7
<b>Other</b>	<b>1,091.3</b>	<b>1,264.3</b>	<b>1,644.9</b>
<b>Interest-bearing capital</b>	<b>1,554.5</b>	<b>1,552.5</b>	<b>1,617.1</b>
<b>Share capital and reserves</b>	<b>1,394.1</b>	<b>1,103.7</b>	<b>1,158.1</b>
<b>Total equity and liabilities</b>	<b>49,394.6</b>	<b>50,305.2</b>	<b>55,922.6</b>

\* Includes only securities issued to external counterparties.