

Notes on the accounts continued

11 Asset quality

Asset grades

Internal reporting and oversight of risk assets is principally differentiated by credit ratings. Internal ratings are used to assess the credit quality of borrowers. Customers are assigned an internal credit grade based on various credit grading models that reflect the probability of default. All credit ratings across the Group map to a Group level asset quality scale.

Expressed as an annual probability of default, the upper and lower boundaries and the midpoint for each of these Group level asset quality grades are as follows:

Asset quality grade	Annual probability of default		
	Minimum %	Midpoint %	Maximum %
AQ1	0.00	0.10	0.20
AQ2	0.21	0.40	0.60
AQ3	0.61	1.05	1.50
AQ4	1.51	3.25	5.00
AQ5	5.01	52.50	100.00

The following table provides an analysis of the credit quality of financial assets by the Group's internal credit ratings.

	Group								
	AQ1 £m	AQ2 £m	AQ3 £m	AQ4 £m	AQ5 £m	Accruing past due £m	Non- accrual £m	Impairment provision £m	Total £m
2007									
Cash and balance at central banks	17,866	—	—	—	—	—	—	—	17,866
Treasury and other eligible bills	18,218	—	11	—	—	—	—	—	18,229
Loans and advances to banks*	204,083	5,797	4,937	407	1,119	—	25	(3)	216,365
Loans and advances to customers	275,926	174,249	221,701	84,896	55,343	13,236	10,337	(6,438)	829,250
Debt securities	240,677	15,688	2,328	1,372	16,361	—	5	(4)	276,427
Settlement balances	14,491	98	344	21	68	1,567	—	—	16,589
Derivatives	300,122	23,333	11,299	2,352	304	—	—	—	337,410
Other financial instruments	649	—	—	20	143	65	—	—	877
	1,072,032	219,165	240,620	89,068	73,338	14,868	10,367	(6,445)	1,713,013
Commitments	131,750	89,682	74,126	25,320	17,301	—	—	—	338,179
Contingent liabilities	26,120	16,314	11,740	4,032	3,714	—	—	—	61,920
Total off-balance sheet	157,870	105,996	85,866	29,352	21,015	—	—	—	400,099
2006									
Cash and balance at central banks	6,121	—	—	—	—	—	—	—	6,121
Treasury and other eligible bills	5,491	—	—	—	—	—	—	—	5,491
Loans and advances to banks*	77,513	748	416	346	111	1	2	(2)	79,135
Loans and advances to customers	149,221	85,511	124,215	72,622	24,703	8,324	6,230	(3,933)	466,893
Debt securities	122,152	2,707	1,206	345	841	—	3	(3)	127,251
Settlement balances	4,936	473	261	454	—	1,301	—	—	7,425
Derivatives	89,292	18,827	7,776	505	281	—	—	—	116,681
Other financial instruments	604	—	—	29	269	51	—	—	953
	455,330	108,266	133,874	74,301	26,205	9,677	6,235	(3,938)	809,950
Commitments	112,505	52,279	46,742	18,954	14,577	—	—	—	245,057
Contingent liabilities	6,172	7,870	3,453	1,468	883	—	—	—	19,846
Total off-balance sheet	118,677	60,149	50,195	20,422	15,460	—	—	—	264,903

* Excluding items in the course of collection of £3,095 million (2006 – £3,471 million).

Industry risk – geographical analysis

The following table analyses financial assets by location of office and by industry type.

2007	Group					Netting and offset(2) £m
	Loans and advances to banks and customers £m	Treasury bills, debt securities and equity shares £m	Derivatives £m	Other(1) £m	Total £m	
UK						
Central and local government	4,728	30,285	3,912	—	38,925	1,531
Manufacturing	21,083	2,751	4,800	—	28,634	4,032
Construction	12,363	456	741	—	13,560	1,684
Finance	295,366	106,201	299,867	12,716	714,150	246,428
Service industries and business activities	74,399	16,801	4,411	—	95,611	6,687
Agriculture, forestry and fishing	2,570	66	58	—	2,694	104
Property	63,715	640	969	7	65,331	2,033
Individuals						
Home mortgages	73,916	1,795	5	—	75,716	—
Other	28,747	1,140	15	23	29,925	7
Finance leases and instalment credit	15,632	131	27	—	15,790	5
Interest accruals	3,512	1,607	—	—	5,119	—
Total UK	596,031	161,873	314,805	12,746	1,085,455	262,511
US						
Central and local government	386	23,506	10	212	24,114	—
Manufacturing	7,399	608	111	—	8,118	13
Construction	793	96	—	—	889	—
Finance	69,867	39,049	9,354	3,095	121,365	23,026
Service industries and business activities	16,474	2,190	233	1	18,898	18
Agriculture, forestry and fishing	20	4	—	—	24	—
Property	6,456	4,089	—	—	10,545	—
Individuals						
Home mortgages	27,882	—	—	—	27,882	—
Other	10,879	—	—	—	10,879	—
Finance leases and instalment credit	2,228	—	—	—	2,228	—
Interest accruals	1,421	379	—	—	1,800	2
Total US	143,805	69,921	9,708	3,308	226,742	23,059
Europe						
Central and local government	2,371	30,593	132	—	33,096	9
Manufacturing	15,159	13	361	—	15,533	214
Construction	4,779	—	13	—	4,792	—
Finance	40,498	42,418	6,285	157	89,358	84,200
Service industries and business activities	46,500	540	481	—	47,521	24,648
Agriculture, forestry and fishing	4,650	2	42	—	4,694	—
Property	15,768	67	8	—	15,843	—
Individuals						
Home mortgages	81,557	18	—	—	81,575	—
Other	16,292	3,292	—	—	19,584	—
Finance leases and instalment credit	1,620	—	—	—	1,620	—
Interest accruals	2,872	1,101	—	—	3,973	—
Total Europe	232,066	78,044	7,322	157	317,589	109,071
Rest of the World						
Central and local government	2,592	18,821	94	—	21,507	—
Manufacturing	8,078	46	738	—	8,862	—
Construction	825	79	3	—	907	1
Finance	37,502	16,919	3,797	1,210	59,428	6,059
Service industries and business activities	14,449	1,825	661	—	16,935	103
Agriculture, forestry and fishing	1,941	—	—	—	1,941	—
Property	2,898	217	28	—	3,143	—
Individuals						
Home mortgages	1,740	—	—	—	1,740	—
Other	12,261	—	—	—	12,261	3
Finance leases and instalment credit	18	—	254	45	317	—
Interest accruals	945	11	—	—	956	—
Total Rest of the World	83,249	37,918	5,575	1,255	127,997	6,166

Notes on the accounts continued

11 Asset quality (continued)

Industry risk – geographical analysis

2007	Group					Netting and offset(2) £m
	Loans and advances to banks and customers £m	Treasury bills, debt securities and equity shares £m	Derivatives £m	Other(1) £m	Total £m	
Total						
Central and local government	10,077	103,205	4,148	212	117,642	1,540
Manufacturing	51,719	3,418	6,010	—	61,147	4,259
Construction	18,760	631	757	—	20,148	1,685
Finance	443,233	204,587	319,303	17,178	984,301	359,713
Service industries and business activities	151,822	21,356	5,786	1	178,965	31,456
Agriculture, forestry and fishing	9,181	72	100	—	9,353	104
Property	88,837	5,013	1,005	7	94,862	2,033
Individuals						
Home mortgages	185,095	1,813	5	—	186,913	—
Other	68,179	4,432	15	23	72,649	10
Finance leases and instalment credit	19,498	131	281	45	19,955	5
Interest accruals	8,750	3,098	—	—	11,848	2
	1,055,151	347,756	337,410	17,466	1,757,783	400,807

Notes:

(1) Includes settlement balances of £16,589 million.

(2) This column shows the amount by which the Group's credit risk exposure is reduced through arrangements, such as master netting agreements, which give the Group a legal right to set-off the financial asset against a financial liability due to the same counterparty. In addition, the Group holds collateral in respect of individual loans and advances to banks and to customers. This collateral includes mortgages over property (both personal and commercial); charges over business assets such as plant, inventories and trade debtors; and guarantees of lending from parties other than the borrower. The Group obtains collateral in the form of securities in reverse repurchase agreements. Cash and securities are received as collateral in respect of derivative transactions.

2006	Group					Netting and offset(2) £m
	Loans and advances to banks and customers £m	Treasury bills, debt securities and equity shares £m	Derivatives £m	Other(1) £m	Total £m	
UK						
Central and local government	7,629	28,211	345	1,624	37,809	1,553
Manufacturing	15,259	521	915	49	16,744	4,540
Construction	9,667	115	179	3	9,964	1,458
Finance	128,463	47,274	80,577	2,199	258,513	93,403
Service industries and business activities	57,895	4,330	2,616	769	65,610	5,289
Agriculture, forestry and fishing	2,819	61	3	—	2,883	99
Property	51,303	561	646	11	52,521	1,291
Individuals						
Home mortgages	70,884	—	1	—	70,885	—
Other	28,594	861	29	58	29,542	61
Finance leases and instalment credit	14,218	5	—	—	14,223	189
Interest accruals	1,890	62	—	—	1,952	—
Total UK	388,621	82,001	85,311	4,713	560,646	107,883
US						
Central and local government	435	24,013	—	102	24,550	1
Manufacturing	3,842	251	157	—	4,250	52
Construction	790	48	12	—	850	—
Finance	31,785	28,333	29,989	3,495	93,602	26,037
Service industries and business activities	10,678	1,267	168	—	12,113	22
Agriculture, forestry and fishing	64	—	—	—	64	—
Property	5,781	—	24	—	5,805	19
Individuals						
Home mortgages	34,230	—	—	—	34,230	—
Other	11,643	—	—	—	11,643	—
Finance leases and instalment credit	2,282	—	—	—	2,282	—
Interest accruals	526	343	—	—	869	2
Total US	102,056	54,255	30,350	3,597	190,258	26,133

2006	Group					Total £m	Netting and offset(2) £m
	Loans and advances to banks and customers £m	Treasury bills, debt securities and equity shares £m	Derivatives £m	Other(1) £m			
Europe							
Central and local government	488	423	—	3	914	—	
Manufacturing	4,067	—	—	—	4,067	—	
Construction	2,751	—	—	—	2,751	—	
Finance	6,067	1,938	860	49	8,914	7	
Service industries and business activities	9,607	100	7	7	9,721	—	
Agriculture, forestry and fishing	469	2	—	—	471	—	
Property	8,781	21	—	—	8,802	—	
Individuals							
Home mortgages	13,661	—	—	—	13,661	—	
Other	3,774	—	—	—	3,774	—	
Finance leases and instalment credit	1,325	—	—	—	1,325	—	
Interest accruals	221	—	—	—	221	—	
Total Europe	51,211	2,484	867	59	54,621	7	
Rest of the World							
Central and local government	185	921	16	—	1,122	1	
Manufacturing	129	—	3	—	132	3	
Construction	80	—	—	—	80	—	
Finance	6,116	6,652	106	7	12,881	2,271	
Service industries and business activities	2,664	2	27	2	2,695	2	
Agriculture, forestry and fishing	13	—	—	—	13	—	
Property	1,250	19	1	—	1,270	—	
Individuals							
Home mortgages	273	—	—	—	273	—	
Other	782	—	—	—	782	—	
Finance leases and instalment credit	10	—	—	—	10	—	
Interest accruals	44	—	—	—	44	—	
Total Rest of the World	11,546	7,594	153	9	19,302	2,277	
Total							
Central and local government	8,737	53,568	361	1,729	64,395	1,555	
Manufacturing	23,297	772	1,075	49	25,193	4,595	
Construction	13,288	163	191	3	13,645	1,458	
Finance	172,431	84,197	111,532	5,750	373,910	121,718	
Service industries and business activities	80,844	5,699	2,818	778	90,139	5,313	
Agriculture, forestry and fishing	3,365	63	3	—	3,431	99	
Property	67,115	601	671	11	68,398	1,310	
Individuals							
Home mortgages	119,048	—	1	—	119,049	—	
Other	44,793	861	29	58	45,741	61	
Finance leases and instalment credit	17,835	5	—	—	17,840	189	
Interest accruals	2,681	405	—	—	3,086	2	
	553,434	146,334	116,681	8,378	824,827	136,300	

Notes:

(1) Includes settlement balances of £7,425 million.

(2) This column shows the amount by which the Group's credit risk exposure is reduced through arrangements, such as master netting agreements, which give the Group a legal right to set-off the financial asset against a financial liability due to the same counterparty. In addition, the Group holds collateral in respect of individual loans and advances to banks and to customers. This collateral includes mortgages over property (both personal and commercial); charges over business assets such as plant, inventories and trade debtors; and guarantees of lending from parties other than the borrower. The Group obtains collateral in the form of securities in reverse repurchase agreements. Cash and securities are received as collateral in respect of derivative transactions.

Notes on the accounts continued

12 Past due and impaired financial assets

The following table shows the movement in the provision for impairment losses for loans and advances.

	Group					
	Individually assessed £m	Collectively assessed £m	Latent £m	Total 2007 £m	2006 £m	2005 £m
At 1 January	697	2,645	593	3,935	3,887	4,174
Implementation of IAS 39 on 1 January 2005	—	—	—	—	—	(29)
Currency translation and other adjustments	58	61	18	137	(61)	51
Acquisition of subsidiaries	952	907	351	2,210	—	—
Amounts written-off ⁽¹⁾	(525)	(1,646)	—	(2,171)	(1,841)	(2,040)
Recoveries of amounts previously written-off	129	261	—	390	215	172
Charged to the income statement	274	1,744	88	2,106	1,877	1,703
Unwind of discount	(28)	(138)	—	(166)	(142)	(144)
At 31 December ⁽²⁾	1,557	3,834	1,050	6,441	3,935	3,887

Notes:

- (1) Amounts written-off include £2 million in 2005 relating to loans and advances to banks.
 (2) Impairment losses at 31 December 2007 include £3 million relating to loans and advances to banks (2006 – £2 million; 2005 – £3 million).
 (3) There is no provision for impairment losses in the company.

	Group		
	2007 £m	2006 £m	2005 £m
Impairment losses charged to the income statement			
Loans and advances to customers	2,106	1,877	1,703
Debt securities	20	—	—
Equity shares	2	1	4
	22	1	4
	2,128	1,878	1,707

	Group		
	2007 £m	2006 £m	2005 £m
Gross income not recognised but which would have been recognised under the original terms of non-accrual and restructured loans			
Domestic	390	370	334
Foreign	155	77	62
	545	447	396
Interest on non-accrual and restructured loans included in net interest income			
Domestic	165	142	130
Foreign	16	15	14
	181	157	144

The following table shows analysis of impaired financial assets.

	2007			2006		
	Cost £m	Provision £m	Net book value £m	Cost £m	Provision £m	Net book value £m
Group						
Impaired financial assets						
Loans and advances to banks ⁽¹⁾	25	3	22	2	2	—
Loans and advances to customers ⁽²⁾	10,337	5,388	4,949	6,230	3,340	2,890
Debt securities ⁽¹⁾	5	4	1	3	3	—
Equity shares ⁽¹⁾	142	70	72	182	85	97
	10,509	5,465	5,044	6,417	3,430	2,987

Notes:

- (1) Impairment provisions individually assessed.
 (2) Impairment provisions individually assessed on balances of £3,178 million (2006 – £1,196 million).

The Group holds collateral in respect of certain loans and advances to banks and to customers that are past due or impaired. Such collateral includes mortgages over property (both personal and commercial); charges over business assets such as plant, inventories and trade debtors; and guarantees of lending from parties other than the borrower.

The following table shows financial and non-financial assets, recognised on the Group's balance sheet, obtained during the year by taking possession of collateral or calling on other credit enhancements.

Group	2007 £m	2006 £m
Residential property	32	12
Other property	8	—
Cash	18	9
Other assets	5	3
	<u>63</u>	<u>24</u>

In general, the Group seeks to dispose of property and other assets obtained by taking possession of collateral that are not readily convertible into cash as rapidly as the market for the individual asset permits.

The following loans and advances to customers were past due at the balance sheet date but not considered impaired:

	Group				Total £m
	Past due 1-29 days £m	Past due 30-59 days £m	Past due 60-89 days £m	Past due 90 days or more £m	
2007	8,768	2,745	1,354	369	13,236
2006	6,254	1,300	665	105	8,324

These balances include loans and advances to customers that are past due through administrative and other delays in recording payments or in finalising documentation and other events unrelated to credit quality.

Loans that have been renegotiated in the past 12 months that would otherwise have been past due or impaired amounted to £930 million as at 31 December 2007 (2006 – £744 million).

13 Derivatives

Companies in the Group transact derivatives as principal either as a trading activity or to manage balance sheet foreign exchange, interest rate and credit risk.

The Group enters into fair value hedges, cash flow hedges and hedges of net investments in foreign operations. Fair value hedges principally involve interest rate swaps hedging the interest rate risk in recognised financial assets and financial liabilities. Similarly, the majority of the Group's cash flow hedges relate to exposure to variability in future interest payments and receipts on forecast transactions and on recognised financial assets and financial liabilities and hedged by interest rate swaps for periods of up to 25 years. The Group hedges its net investments in foreign operations with currency borrowings and forward foreign exchange contracts.

For cash flow hedge relationships of interest rate risk the hedged items are actual and forecast variable interest rate cash flows arising from financial assets and financial liabilities with interest rates linked to LIBOR, EURIBOR or the Bank of England Official Bank Rate. The financial assets are customer loans and the financial liabilities are customer deposits and LIBOR linked medium-term notes and other issued securities.

For cash flow hedging relationships, the initial and ongoing prospective effectiveness is assessed by comparing movements in the fair value of the expected highly probable forecast interest cash flows with movements in the fair value of the expected changes in cash flows from the hedging interest rate swap or by comparing the respective changes in the price value of a basis point. Prospective effectiveness is measured on a cumulative basis i.e. over the entire life of the hedge relationship. The method of calculating hedge ineffectiveness is the hypothetical derivative method. Retrospective effectiveness is assessed by comparing the actual movements in the fair value of the cash flows and actual movements in the fair value of the hedged cash flows from the interest rate swap over the life to date of the hedging relationship.

For fair value hedge relationships of interest rate risk the hedged items are typically large corporate fixed-rate loans, fixed-rate finance leases, fixed-rate medium-term notes or preference shares classified as debt. The initial and ongoing prospective effectiveness of fair value hedge relationships is assessed on a cumulative basis by comparing movements in the fair value of the hedged item attributable to the hedged risk with changes in the fair value of the hedging interest rate swap or by comparing the respective changes in the price value of a basis point. Retrospective effectiveness is assessed by comparing the actual movements in the fair value of the hedged items attributable to the hedged risk with actual movements in the fair value of the hedging derivative over the life to date of the hedging relationship.

	Group					
	2007			2006		
	Notional amounts £bn	Assets £m	Liabilities £m	Notional amounts £bn	Assets £m	Liabilities £m
Exchange rate contracts						
Spot, forwards and futures	2,134	29,829	29,629	1,158	11,290	11,806
Currency swaps	887	14,785	13,789	255	5,023	4,735
Options purchased	488	13,750	—	361	7,408	—
Options written	519	—	13,892	364	—	6,646
Interest rate contracts						
Interest rate swaps	24,798	202,478	201,487	12,038	76,671	78,979
Options purchased	4,084	30,681	—	1,763	10,852	—
Options written	3,640	—	31,199	1,589	—	10,489
Futures and forwards	3,164	807	987	1,823	285	328
Credit derivatives	2,402	34,123	29,855	346	2,336	2,338
Equity and commodity contracts	281	10,957	11,222	82	2,816	2,791
		337,410	332,060		116,681	118,112
Included above are derivatives held for hedging purposes as follows:						
Fair value hedging:						
Exchange rate contracts		62	344		—	—
Interest rate contracts		1,598	1,062		804	384
Cash flow hedging:						
Exchange rate contracts		155	78		41	—
Interest rate contracts		738	1,014		336	451
Net investment hedging:						
Exchange rate contracts		—	211		—	—
Hedge ineffectiveness recognised in other operating income comprised:						
				2007 £m	2006 £m	2005 £m
Fair value hedging:						
Gains on the hedged items attributable to the hedged risk				81	219	56
Losses on the hedging instruments				(87)	(215)	(80)
Fair value ineffectiveness				(6)	4	(24)
Cash flow hedging ineffectiveness				9	4	12
				3	8	(12)

	Company					
	2007			2006		
	Notional amounts £bn	Assets £m	Liabilities £m	Notional amounts £bn	Assets £m	Liabilities £m
Exchange contracts	13	154	178	1	—	42
Interest rate contracts	1	19	1	—	—	—
		173	179		—	42

Included above are fair value hedging derivatives liabilities of £54 million (2006 – nil).

Notes on the accounts continued

14 Debt securities

2007	Group								
	UK government £m	US government, state and federal agency £m	Other government £m	US government sponsored entity £m	Bank and building society £m	Mortgage- backed securities ⁽¹⁾ £m	Corporate £m	Other £m	Total £m
Held-for-trading	9,163	12,791	43,743	18,422	7,830	43,680	35,769	1,246	172,644
Designated as at fair value through profit or loss	2,235	397	101	—	154	330	2,125	435	5,777
Available-for-sale	1,030	6,867	33,840	5,830	11,835	23,680	6,505	5,747	95,334
Loans and receivables	—	—	1,988	—	—	612	—	72	2,672
	12,428	20,055	79,672	24,252	19,819	68,302	44,399	7,500	276,427
Available-for-sale									
Gross unrealised gains	29	14	56	3	12	15	22	1	152
Gross unrealised losses	—	(62)	(276)	(66)	(42)	(115)	(22)	(10)	(593)
2006									
Held-for-trading	8,122	10,965	13,839	10,065	34	28,658	23,194	315	95,192
Designated as at fair value through profit or loss	1,730	—	85	—	609	98	2,867	600	5,989
Available-for-sale	843	6,234	1,218	6,651	4,584	3,434	2,211	334	25,509
Loans and receivables	—	—	—	—	—	—	21	540	561
	10,695	17,199	15,142	16,716	5,227	32,190	28,293	1,789	127,251
Available-for-sale									
Gross unrealised gains	—	6	4	1	1	6	12	—	30
Gross unrealised losses	(5)	(88)	(20)	(142)	(8)	(47)	(16)	(13)	(339)

Note:

(1) Excludes securities issued by US federal agencies and government sponsored entities.

The following tables analyse by issuer the Group's available-for-sale debt securities by remaining maturity and the related yield (based on weighted averages).

2007	Within 1 year		After 1 but within 5 years		After 5 but within 10 years		After 10 years		Total	
	Amount £m	Yield %	Amount £m	Yield %	Amount £m	Yield %	Amount £m	Yield %	Amount £m	Yield %
UK government	96	4.9	306	5.5	625	4.2	3	5.2	1,030	4.7
US government, state, and federal agency	99	4.6	167	4.9	1,431	4.2	5,170	5.2	6,867	5.0
Other government	11,933	3.8	12,515	5.3	7,262	4.0	2,130	4.3	33,840	4.4
US government sponsored entity	—	—	—	—	44	5.5	5,786	5.0	5,830	5.0
Bank and building society	9,023	5.3	1,795	4.4	445	3.3	572	3.8	11,835	5.0
Mortgage-backed securities ⁽¹⁾	1,069	5.1	4,202	4.5	10,308	3.5	8,101	4.6	23,680	4.1
Corporate	1,616	3.7	3,119	5.3	1,357	4.7	413	4.7	6,505	4.7
Other	1,603	3.5	1,600	4.2	1,851	4.9	693	5.5	5,747	4.4
Total fair value	25,439	4.3	23,704	5.0	23,323	3.9	22,868	4.8	95,334	4.5

2006

UK government	562	5.6	146	5.7	97	5.0	38	4.7	843	5.5
US government, state, and federal agency	11	4.8	627	4.8	22	4.7	5,574	5.1	6,234	5.1
Other government	180	2.6	822	3.7	213	1.1	3	3.9	1,218	3.1
US government sponsored entity	—	—	140	5.4	368	5.6	6,143	5.0	6,651	5.0
Bank and building society	2,427	5.1	1,368	4.8	28	5.4	761	6.9	4,584	5.3
Mortgage-backed securities ⁽¹⁾	259	5.1	232	5.6	294	5.5	2,649	4.9	3,434	5.0
Corporate	360	3.9	1,256	4.5	413	4.7	182	4.6	2,211	4.4
Other	188	4.5	135	4.0	11	5.3	—	—	334	4.3
Total fair value	3,987	4.9	4,726	4.6	1,446	4.6	15,350	5.1	25,509	4.9

Note:

(1) Excludes securities issued by US federal agencies and government sponsored entities.

The tables below show the fair value of available-for-sale debt securities that were in an unrealised loss position.

	Less than 12 months		More than 12 months		Total	
	Fair value £m	Gross unrealised losses £m	Fair value £m	Gross unrealised losses £m	Fair value £m	Gross unrealised losses £m
2007						
UK government	—	—	114	—	114	—
US government, state, and federal agency	2,704	38	2,146	24	4,850	62
Other government	18,802	275	655	1	19,457	276
US government sponsored entity	1,133	11	4,190	55	5,323	66
Bank and building society	715	26	671	16	1,386	42
Mortgage-backed securities ⁽¹⁾	17,062	68	1,480	47	18,542	115
Corporate	1,053	11	542	11	1,595	22
Other	1,403	10	—	—	1,403	10
	42,872	439	9,798	154	52,670	593
2006						
UK government	263	5	—	—	263	5
US government, state, and federal agency	829	10	4,215	78	5,044	88
Other government	63	3	633	17	696	20
US government sponsored entity	1,102	17	5,149	125	6,251	142
Bank and building society	2,245	3	268	5	2,513	8
Mortgage-backed securities ⁽¹⁾	624	14	1,440	33	2,064	47
Corporate	827	14	62	2	889	16
Other	44	13	—	—	44	13
	5,997	79	11,767	260	17,764	339

Note:

(1) Excludes securities issued by US federal agencies and government sponsored entities.

Gross gains of £60 million (2006 – £34 million) and gross losses of £12 million (2006 – £19 million) were realised on the sale of available-for-sale securities.

Interest receivable includes £2,197 million (2006 – £1,559 million; 2005 – £1,624 million) in respect of debt securities.

Notes on the accounts continued

15 Equity shares

	Group					
	2007			2006		
	Listed £m	Unlisted £m	Total £m	Listed £m	Unlisted £m	Total £m
Held-for-trading	33,696	3,850	37,546	3,033	5	3,038
Designated as at fair value through profit or loss	1,856	6,010	7,866	2,051	559	2,610
Available-for-sale	5,622	1,992	7,614	6,367	1,489	7,856
	41,174	11,852	53,026	11,451	2,053	13,504
Available-for-sale						
Gross unrealised gains	3,467	130	3,597	4,377	177	4,554
Gross unrealised losses	(3)	(7)	(10)	—	(6)	(6)

Gross gains of £475 million (2006 – £357 million) and gross losses of £9 million (2006 – £3 million) were realised on the sale of available-for-sale equity shares.

Dividend income from available-for-sale equity shares was £137 million (2006 – £92 million; 2005 – £108 million).

The Group's private equity investments are generally unquoted. They are held for capital appreciation over the medium term. In December 2007, the Group disposed of a significant proportion of its private equity portfolio to private equity funds managed by the Group.

Unquoted equity investments whose fair value cannot be reliably measured are carried at cost and classified as available-for-sale financial assets. They include capital stock (redeemable at cost) in the Federal Home Loans Bank and the Federal Reserve Bank of £0.5 billion (2006 – £0.8 billion) that the Group's banking subsidiaries in the US are required to hold; and a number of individually small shareholdings in unlisted companies. Disposals in the year generated gains of £0.5 million (2006 – £56 million; 2005 – £85 million) based on cost of sales of £4 million (2006 – £14 million; 2005 – £17 million).