

Bradford & Bingley plc

Interim Management Statement

22 April 2008

"The first quarter of 2008 has seen excellent growth in our retail deposit base. Bradford & Bingley has a strong capital base and has funded its business activities through 2008 and into 2009. We have a focused strategy, and a business model that is adaptable to changing market conditions."

Steven Crawshaw, Group Chief Executive

Funding and liquidity

We continue to fund the bank successfully, and remain funded into 2009, despite on-going difficulties in the wholesale markets. Our diverse funding sources and prudent management policies have served us well, and the expected average life of our mortgage book reflects that of our funding, ensuring our asset and wholesale liability maturities are well matched. The £2bn committed funding facilities we announced at our preliminary results are currently undrawn. Although the medium-term senior funding markets remain uneconomic for mortgage lenders, we continue to use the strength of our franchise to attract retail balances and access secured wholesale money using our high quality mortgage collateral.

Savings

Savings deposit inflows have continued very strongly during 2008, with an increase of £1.9bn to date. Branch savings balances have performed particularly well following increased focus on savings throughout the network. Our other distribution channels have also been successful, attracting new funds to the Group and proving that our well-trusted, established brand is attractive to savers.

Lending volumes

During the first quarter, we managed business levels lower than the same period last year as we repriced our mortgage products to deliberately regulate volumes and widen new business margins. To enhance business quality, we have increased minimum credit requirements and selectively lowered maximum loan-to-value levels. As a result, the new business pipeline is below the same period last year, but in line with our plan for 2008.

Supply has clearly becoming more constrained with the withdrawal of several competitors from the UK mortgage market. However, demand for buy-to-let remains robust, with landlords reporting continuing tenant demand and rising rents.

Net interest margin

Margins on loans written in the second half of 2007 were affected by the emerging liquidity crisis which has impacted the overall Group margin in the first quarter of 2008. Holding a larger proportion of our liquidity in gilts is also affecting the net interest margin.

We have repriced our mortgage products in recent weeks which has widened new business margins considerably, more than compensating for the higher cost of funds on these most recent loans. The impact of this wider margin lending should start to offset the dilution in the second half of the year.

Structured finance portfolio

The structured finance portfolio comprises the bank's investments in PPNs, CDOs, CLOs and SIVs. We have disposed of £111m of PPNs at book value. In the first quarter, losses on these assets that we believe to be permanent increased by a further £38m, which was charged to the Income Statement. This impairment was confined to the SIVs and in conjunction with disposals and restructuring, has reduced the value of SIVs to £11m. Reductions in market values have continued and the reduction in fair value of derivatives within synthetic CDOs and CLOs was £44m, which is required to be charged to the Income Statement. A further redirection of £43m, after tax, has been recorded in the available for sale reserve on the Balance Sheet, being the movement on the remainder of the structured finance portfolio. Following movement in the fair value of derivatives, the net exposure to synthetic CDOs is £94m and synthetic CLOs is £58m.

A more detailed update of the structured finance portfolio is shown in appendix 1.

Credit quality

As we anticipated, arrears levels have continued to rise in the first quarter, reflecting increasing payment strain. Combined with our current assumption that house prices will fall, albeit modestly, in 2008 this has resulted in higher credit impairment provisions. We have significantly increased our management focus on collections processes and treatment of arrears cases in light of the tightening credit conditions.

Board changes

Robert Dickie, Group Operations Director, resigned from the Board with effect from 21 April and will leave Bradford & Bingley on 30 April 2008. The Board would like to thank Robert for his contribution to the Group over the past five years and his considerable achievement in improving our operational capability.

Outlook

Our Savings business continues to perform very well, with a strong start to the second quarter. Demand for buy-to-let mortgages remains high with continuing tenant demand and rising rents. The supply of mortgages to meet this demand is constrained by the lack of funding generally and the withdrawal of several competitors from the mortgage market. We have a focused strategy, and a business model that helps us to respond quickly to changing conditions.

END

Appendix

Structured finance portfolio at 31 March 2008

	Total £m	AAA	AA	A	BBB	CCC & Below	Total
PPNs	442.5	53%	41%	5%	1%	-	100%
Non synth CDOs	27.3	23%	46%	16%	15%	-	100%
Synthetic CDOs	183.6	78%	7%	5%	10%	-	100%
Non synth CLOs	167.9	52%	44%	-	4%	-	100%
Synthetic CLOs	61.7	81%	-	13%	6%	-	100%
SIVs	10.8	-	-	-	-	100%	100%
Credit Funds	67.2	-	-	53%	47%	-	100%
Total	961.0	54%	29%	9%	7%	1%	100%

Net value of investments containing embedded derivatives

As at 31 March 2008

	£m
Value of synthetic CDO assets	184
Embedded derivative in synthetic CDOs	(90)
Net value of synthetic CDOs	94
Value of synthetic CLO assets	62
Embedded derivative in synthetic CLOs	(4)
Net value of synthetic CLOs	58
Fair value of structure finance portfolio	961
Embedded derivative	(94)
Net value of structured finance port	867

Note : Embedded derivatives within synthetic CDOs and CLOs are recorded as a liability on the Balance Sheet

Analysis of investment by geographic region

	Total £m	UK	Europe	US	Other	Total
PPNs	442.5	55%	41%	4%	-	100%
Non synth CDOs	27.3	-	46%	54%	-	100%
Synthetic CDOs	183.6	2%	28%	70%	-	100%
Non synth CLOs	167.9	-	64%	36%	-	100%
Synthetic CLOs	61.7	-	48%	52%	-	100%
SIVs	10.8	19%	25%	48%	8%	100%
Credit Funds	67.2	2%	90%	7%	1%	100%
Total	961.0	26%	46%	27%	1%	100%

Analysis of investment by type of asset

	Total £m	Mortgage Backed Securities	Asset Backed Securities	Corporate Loans	Other	Total
PPNs	442.5	-	4%	80%	16%	100%
Non synth CDOs	27.3	100%	-	-	-	100%
Synthetic CDOs	183.6	43%	-	57%	-	100%
Non synth CLOs	167.9	-	-	100%	-	100%
Synthetic CLOs	61.7	-	-	100%	-	100%
SIVs	10.8	-	100%	-	-	100%
Credit Funds	67.2	-	-	83%	17%	100%
Total	961.0	11%	3%	78%	8%	100%

Conference call details

Bradford & Bingley will hold a conference call at 0900 hours today with analysts and investors to discuss the information that is contained within this statement.

Live dial in number: +44 (0) 1296 480180
Passcode: 926 452#

48-hr replay dial in: +44 (0) 207 136 9233
Passcode: 46634073

The replay of the conference call will also be available on our website at www.bbg.co.uk

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