

Investis

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Operator: Good morning ladies and gentlemen and welcome to the Bradford & Bingley Interim Management Statement Conference Call hosted by Steven Crawshaw and Chris Wilford. My name is Lisa and I will be your conference coordinator for this morning. Throughout the conference you remain on listen only. Should you require operator assistance at any time then please key *0 and an operator will be pleased to assist you. I would like to advise all parties that this conference is being recorded for audio replay purposes. Thank you now it is over to your host Steven, please go ahead.

Steven Crawshaw: Hi good morning this is Steven and many thanks for joining us on the call today. Now it is somewhat unusual for us to hold a call on our AGM day but we are moving on to a new world of IMS; so I am delighted to talk to you on the same day that we address our shareholders here in Bradford.

You will have had time to digest our short trading statement, I will not read through it now you will be relieved to learn, but we would just like to make a couple of points before moving straight onto your questions; and I am sure you will appreciate that we are more time constrained than usual this morning, we - because I have got my shareholders waiting for me downstairs later on and it is a busy morning for you. Chris is here with me as usual and we will be delighted to take your questions but we may have to draw those to a close earlier than we would normally like.

Now we have continued to successfully fund the bank during the first quarter of 2008 with funding in place well into 2009. Our 2 billion of committed funding facilities that we announced in February remain undrawn and we have raised 1.9 billion of retail savings deposits to date, which is an excellent performance from our savings channel. With no large un-maxed liabilities occurring so under no strain to chase expensive wholesale debt. We will watch to see what happens to these markets following the Bank of England's initiative to create some new liquidity.

Our specialist mortgage market remains resilient and in buy-to-let we are seeing robust demand from landlords and tenants. We have managed new

business levels lower as we have re-priced our mortgage products. We have also been able to rebuild margins as we see a return for a more sensible risk adjusted pricing environment.

The fly in the market has clearly become markedly more constrained and we see the evolving supply and demand characteristics as an opportunity for us. With enhanced business quality with increased minimum credit requirements and selectively lowered [maximal] LTVs which we think is prudent at the current time. We have taken steps to de-risk our structured finance portfolio and will give you some more disclosure on that today including the sale of assets and we will continue to reduce our exposure wherever possible.

Going forward we are in good shape in a difficult market; we have funding in place and have a focussed business model that helps us to respond quickly to these changing conditions and to take advantage of market opportunities as they arise and on that I will hand straight back to the operator for your questions.

Operator: Thank you. Ladies and gentlemen your question and answer session will now begin. If you would like to ask a question then please key *1 on your telephone keypad. If you change your mind and decide to withdraw your question simply key *2. All questions will be answered in the order received and you will be advised when to ask your question or otherwise remain on listen only. So once again if you would like to ask a question it is *1. Okay we have two questions on the line and the first one comes from the line of [Cormack Leach] please go ahead.

Cormac Leach: Hi it is Cormac Leach here from ABN, could I ask a question regarding your short term funding position; I think Moodys recently downgraded your business financial strength by one notch. I was just wondering if you could give some colour/information on what would happen to your funding profile if Moodys was to further downgrade you such that your short term rating became P2; I think they have been quite focussed on the MPL to asset ratio and I think based on your trading statement that has been rising somewhat in Q1?

Chris Willford: Yes Cormac, this is Chris on the line. Year to date our short term funding has increased somewhat. Moodys have a stable outlook for our short term rating so S&P have it on negative watch at the moment. I suppose what I point out is that we have only in terms of S&P we have only

had our A1 rating for a year and therefore the structure of the book in the bank is such that we have not built our funding and treasury plans based on an A1 P1 rating; so when we have it, it is nice to have but we literally don't bet the bank on it and so whilst you can anticipate some modest outflow of funds in the event of a downgrade from S&P or Moodys, it should not be transformational for us for the reason that I gave which we only got the short term rating from S&P a year ago.

Cormac Leach: This is actually the Moodys quoted opinion I was looking at.

Chris Willford: I am aware of the Moodys one, that was referring to our medium term and long term outlook rather than our short term outlook.

Cormac Leach: Right. Well I think they downgraded your bank financial strength by one notch which does feed through to your short term rating, isn't that right?

Chris Willford: Well they have maintained our short term ratings so that has not been affected by their latest publication.

Cormac Leach: I see. Can I ask a follow-up question on the initiative announced yesterday by the government regarding liquidity; what impact is that likely to have or can you give us any detail on how that is likely to impact your funding drivers, your net interest margin and what the timing might be on how that would come through?

Steven Crawshaw: I think I have to answer that question at a slighter higher level, in terms of the fact that is an industry wide issue and an industry wide initiative that has been under debate and under design for a month now and therefore that is exactly the support that I think the industry has been looking for, in terms of putting some serious liquidity into the market, in order to try and open up these markets which are so gummed up. To that extent I am vaguely bemused by the market reaction yesterday in terms of the fact that nobody seemed terribly excited about it because it was a definite step. I think people have got a little over excited by the haircuts in terms of the fact that that would make that expensive, because frankly that is the nature of secured funding at the moment. Therefore it does not come as a great shock to anybody. To that extent we remain cautiously optimistic; we are a bank that qualifies as being big enough to play and therefore it is a source of liquidity which was not open to us the day before yesterday. As such I took that as

being good news and we are looking through the detail and looking through the collateral to make sure that we can take whatever advantage of that. I think it is expected of the large banks to take from that 50 billion and whatever subsequently follows. The idea being that some of that money then trickles down to both the customers and into the smaller building societies et al. There is a certain moral pressure there I think for the big banks to get together and to try and start the market moving a bit. To that extent I think at an industry level it was a good response from the bank and one that I would hope will start to address some of the issues which are becoming all too real.

Cormac Leach: Is it fair to assume that you can take your market share of stock as a pro rata amount of that funding and then secondly is it fair to assume that that would effectively become Libor flat to Libor term funding for you, is that the right way to think about it?

Steven Crawshaw: I think you are heading in the right direction, but I am not sure if anyone fully understands it well enough for me to be able to give you anymore guidance on that; I think that's got to be worked through, I mean you can see from the Bank of England statement that it is embryonic rather than in place and as such each of the desks are sitting working together and working out how much they should take and in what form and over what term etc. The good news is this is effectively three year term money in a market which has been desperately short of term and if that starts to open up and the term money starts to trickle down to some of the smaller players then that helps to open up the mortgage market. So to that extent it is a kind of an appropriate reaction to a very difficult set of circumstances.

Cormack Leach: Great. My last question, regarding your structured finance portfolio am I right in thinking that the mark-to-market, the impairment numbers you have given us this morning relate to the end of March and if so, how does marks change since then?

Steven Crawshaw: They are the end of March and that is the information that our statement is based on so we are not going to try and give you an update as at 22 April.

Cormac Leach: Okay then, thanks.

Operator: Thank you for your question. The next question comes from the line of Phillip Ingram, please go ahead.

Phillip Ingram: Could you quantify the deterioration in arrears which you highlighted?

Steven Crawshaw: We are not today this is just an interim management statement and effectively an extension of our AGM statement so we are not going into the level of detail that we will at the half year.

Phillip Ingram: Okay that is fine.

Operator: Our next question comes from the line of Sandy Chen, please go ahead.

Sandy Chen: Morning gentlemen, Sandy Chen from Panmure Gordon. Just to follow up to that question; on the covered bond securitisation monthly reports the three arrears, three months and over has gone up, I think I have got the numbers right. From 0.92% as at end of December to 1.65% in the April monthly covered bonds securitisation report; I mean is that increase in arrears kind of where we should be looking at in terms of the increase in arrears for the book overall especially given that it's the covered bond portfolio that's underlying?

Steven Crawshaw: Sandy can I try and give you some help on this because I am even listening to myself answering the last question. I don't like to answer questions quite so unhelpfully; so let me try and give you all some guidance on where arrears are going. There is a lot of data out there in the markets and you are quite proper to look at the covered bonds and securitisation programmes. They can be false friends to you in terms the fact this depends on the ageing of them, it depends on the shape of the particular pool, however I think it will be helpful for me to say that directionally that kind of leads you in the right direction and we have certainly seen the sort of increase we would expect under the sort of incomes frame that's out there.

Sandy Chen: Okay; thanks very much.

Steven Crawshaw: The thing that we are seeing is that there is definite payments strains starting to come through the books and it is a general credit stress as

opposed to people worrying about jobs, people losing tenants etcetera, it is more to do at this stage - more to do with finances.

Sandy Chen I mean would you say that one of these strains or one of the drivers might be the deterioration in kind of effective rental yields if you are factoring in negative house price assumptions? Non negative house prices though, negative house price assumptions – sorry?

Steven Crawshaw: No this is straight forward economic stress coming through the book rather than anything more structural.

Sandy Chen Okay thank you.

Steven Crawshaw: I hope that's helpful.

Operator: Thank you for your question. The next question comes from the line of Ian Gordon; please go ahead.

Ian Gordon: Morning it is Ian Gordon from Exane, clearly I can see that the underlying business performance is strong, but I hope you'll forgive me for focussing on the balance sheet. Just to look at the disclosure you have given us both today and on previous occasions, you have been very clear and specific on those elements of the treasury assets which you wanted to draw to our attention and looking at the SIVs the written down value is £11 million I believe that the written down value of your ABS CDOs with US sub-prime exposure is now 50 million or less. I guess really I wanted to invite you to draw to our attention any of the other asset classes which you think are worthy of note, namely other elements of the CDOs without US sub-prime exposure. Elements of the CLOs, elements of the PPNs or indeed elements of your triple A rated European mortgage backed securities; or even UK government securities if you think we should be worrying about those. Is there anything out there you would draw to our attention to get us to a more meaningful black hole which might justify today's evaluation?

Steven Crawshaw: And finally I saw where you were you going with that question so thank you. Can I answer it very generally and if Chris needs to chip in with anything more specific in this time, not a [fashion] that he will; but I think that it is important we draw you back to what we said in February in terms of the asset classes which we thought looks likely to be problematic, what we found is the stress flowing through that book has been almost

exclusively limited to those particular problem areas and thus we are finding the rest of the book is holding up, shouldn't say astonishingly well, but is holding up as it ought to do according to its ranting. So to that extent I think would draw you back to the effect of the...basically anything with US bias to it and anything with US mortgage buyers to it, are the areas where we have seen the write downs and having pointed at that in November those are still the areas where the impairment is coming through and that I think helps to give you some sense that that contagion doesn't then spread upwards through the credit spectrum until it hits UK government securities.

Ian Gordon: That's very good, thank you.

Operator: Thank you for your question next question comes from the line of Irfan Younis. Please go ahead.

Irfan Younis: Hi Irfan Younis from NCB Stockbrokers; I have two question if I may please. The first one is about net interest margin what I gather from the interim management statement is that there were funding pressures last year and surely in the first half of this year, which is cutting into margins, but as you stated that the product has been re-priced to a bit higher and for the widening products you would get the benefit of margins in the second half. I just want to get a bit more colour for the full year, how likely it will be to compare to the last year and can this be sustainable if the Bank of England stops [possibility] to the competitors and they may try to gain in the market at the lower margins?

Steven Crawshaw: Let me try and take that one; what we are trying to get to and again we are trying to give people as much guidance as we possibly can in an interim management statement without numbers, which is never that easy, but what we are trying to do is to give you a sense of the over hang as I described it in terms of clearly mortgages are onto a three month roll, so what we are writing today we dreamt up three months ago and what we wrote three months ago, we dreamt up three months before that etcetera. And so in the early days, if I can call it that, the early days of the credit crunch back in September, October, November last year, quite clearly the loans being written then on the book where at customer margins that did not reflect the rising cost in funding; that's a roll forward through the book and what we have been able to do is to put that increase in funding through to customers, but there will be an inevitable drag if we put some pressure on the short term margin in the meantime; but what we are trying to point to is the

kind of dip during the first half, but the new business margins we are writing today have recovered to the extent that they are probably better than we have seen for a long, long, long time and so that will pull through, slowly through 2008, but makes for a much happier feeling in 2009 and that's what we are trying get across at the moment so that people have quite properly heard us say that new business margins are super. What we don't want people to then do is assume that that just immediately floods straight through the book – result, untold happiness. What we are just trying to flag you up to is the fact that there will be some short term pressure on that, but actually the new margins that we are getting today are holding up very nicely, they won't necessarily stay like this forever and if I can try and answer the second part of your question; I am not sure that the bank funding announced yesterday will lead to an immediate resumption of hostilities between us because I think as a lending industry we have learned the fact that we are going to have put some margin back into this product.

I would anticipate that those of us with access to that flow of funding will be pleased, but I do not think that will lead to a return to us each kicking lumps out of each other and taking that margin down. However, in our planning, we are making sure that we are not getting over excited, but this almost exponential growth in margins continue forever because it won't once as our volume starts to come through again, so to that extent we are feeling very comfortable with margin and I hope that you gives you some end portrait of how it is shaping up.

Irfan Younis: No that's good, and my second question is a bit more to a dividend cover. We have clearly seen that turning margins, rising impairments, slow asset growth, I mean it would actually eat into the earnings, but would you like to comment and give a bit more colour on dividend cover, is it likely to maintain or what can you expect about it?

Steven Crawshaw: I am going to fall back on what I said in February on this one because I think with what turned out to be a remarkable [unclear] I think it was far too early for any bank Chief Executive to be talking about next year's dividend as early as February and so I did say to the market that have been asking this year for a little bit of wriggle room and actually that dividend decision for us for effectively next year and as such I will come back to that during the course of the balance of this year rather than try and deal with this, this early in the year, there is just too much going on I think it would be fair to say, for me to be able to give you any sensible guidance on that at the

moment; you know the world is moving literally day-by-day and today's no different and therefore we are keeping a weather eye on everything that's going on and watching all the dials.

Irfan Younis: Sure; thank you very much.

Operator: Thank you for your question and the next question comes from the line of Raul Singha. Please go ahead.

Raul Singha: I am from Lehman Brothers morning; can I ask two questions please. Firstly I think at the full year results meeting you mentioned that you were comfortable with a consensus impairment forecast of less than double the second half charge given the rise in impairments that we have seen out there and arrears we have seen; are you still okay with that?

Steven Crawshaw: I think it would be fair to say I hope you have taken the hint in the statement today that we are comfortable with that being allowed to drift up somewhat. The simple reason being HPI the House Price Inflation, I think that we have put a more gloomy prospect into our model and I think that's entirely reflecting the supply side constraint which frankly we underestimated in terms of looking at how we thought the market would shape up this year, assumes that the large lenders would carry on lending and the small lenders would disappear. And that the non balance sheet lenders would disappear so also [funding] lenders disappear and that has certainly been the case; however the slowdown in the large lenders and the absence of deployment of capital, we have underestimated slightly and therefore we take a slightly gloomier view now than we would have done back in February. And to that extent I think that you are correctly reading the rumours in this statement in terms of saying that we will expect that impairment number to start to drift up.

Raul: Thank you; secondly, will it be possible for you to give us an indication of your balance sheet capacity to use the new bank of England's facility in terms of eligible and income backed assets?

Steven Crawshaw: I am not able talk about how much of the pot we are entitled to have a crack at, but it's a welcome slice and as such we will review what we are doing with the collateral that we have got and we were blessed with a lot of high quality collateral and we have been finding that we have been able to fund the bank on the back of that high quality collateral, we are not

perturbed by the collateral requirements of the bank line and as such it is a welcome addition to the armoury.

Raul: Okay thank you, could I just sneak in a follow up? There has obviously been no comment on the consensus trading with this concern, any update or comment on that?

Steven Crawshaw: Yes, the only comment really is that it looks wilder and wilder as each day goes by. And brutally there were so many variants on every single line of every single part of consensus we felt it was just frankly unhelpful. So we hope with a statement like this people will start to go back to their lines and work through it again and we don't like not referring to consensus, but frankly at the moment it would be deeply misleading and deeply unhelpful; and just frankly the complicated particularly as people are treating things in different way etcetera and it is probably a wilder disparity than we have ever seen.

Ralph: Thank you.

Operator: Thank you for your question. The next question comes from the line of Robin Down. Please go ahead

Robin Down: Obviously looking at the statement today the write downs you are seeing on SIV and conduits aren't too [egregious]. Can I just come back and ask you why you were actually contemplating doing a rights issue? It is clearly not related to the write downs that we are seeing within the treasury book. Was it just because you felt there were some opportunities you could take advantage of if you had more capital; or is it some sort of other fear within the book in terms of credit write offs?

Steven Crawshaw: Thanks for the question. We deal in statements for the market; we don't deal in rumour and hearsay and gossip etcetera, etcetera. We put out a clear statement, it was a week or so ago as a result of some pretty irritating coverage over the weekend and I hope that statement was A-clear, but also was clear enough due to the fact that the Board keeps the capital structure of the bank under review at all times, I would be a complete mug to sit here and say that the bank wasn't keeping the capital structure of this and indeed every other bank under review at the moment and as such we are looking at the opportunities that might be available to us and as I say the world is moving at a pace so therefore I hope that you took the steer in that

statement that we put in there, but for the sake of clarity we stand by the statement not the weekly drip, drip, drip of increasing bizarre rumours.

Robin Down: It just seems bizarre say given the very strong headlines Tier 1 ratios that we see at the bank, that this is even being contemplated.

Steven Crawshaw: I am not confirming that it was even being contemplated , I stand by what we said in the statement other than the normal prudence that no bank in the current market should stand here and say that never over my dead body; because you just don't know what's around the next corner, we do not know what's is deeply unfashionable one week, becomes fashionable the next week and becomes compulsory the third week; so to that extent I think we just have to hang loose on that, but you quite rightly pointed our Tier 1 ratio and I can understand why some people were mystified by some of what came out over those couple of weekends.

Operator: Okay thank you for your question. There are no further questions in the queue.

Steven Crawshaw: I think on that basis, unless there is anything coming through we will wrap up and I will pop downstairs and do our AGM and I will leave you to another long morning; okay take good care thank you very much indeed, bye, bye.

Operator: Ladies and gentlemen this concludes your conference for today, you may now disconnect.