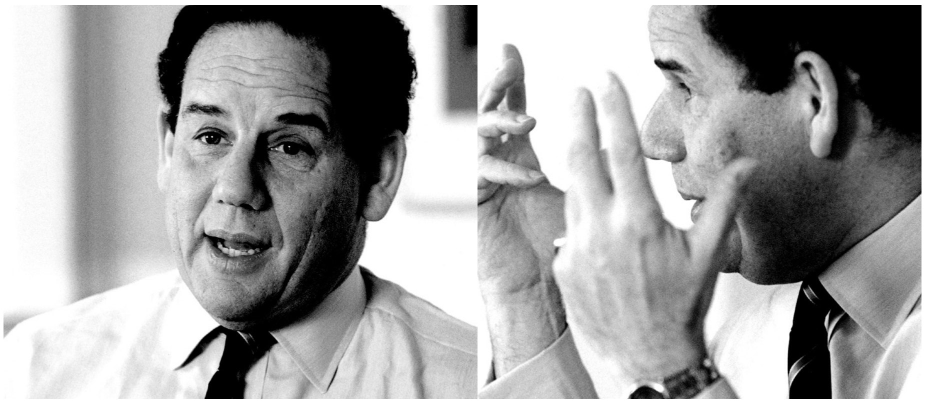
Group Chief Executive's review



"Our core lending business reached a key milestone in its development, with managed selective residential lending assets exceeding the old building society residential back book for the first time."

Christopher Rodrigues Group Chief Executive

The Group continues to follow its primary strategy of growing secured lending assets selectively and funding them with a robust savings business and an increasingly international wholesale funding operation. We have also developed two innovative financial services retailing brands and a strong property services business which require little capital but generate valuable fee income.

The transformation of the Group since flotation is emerging more and more clearly. The specialist lending book is growing strongly and is now considerably larger than the old building society back book. Our Charcol and The MarketPlace financial services brands are recognised and respected by consumers and the personal financial press. Bradford & Bingley is now the largest mortgage intermediary in the country.

The trading environment in 2003 was mixed:

- advantageous macro-economic conditions helped the markets for lending and mortgage broking;
- the housing market suffered during the second quarter but improved during the second half;
- consumer appetite for investment products did not improve despite the recovery in equity markets;
- after many months of falling interest rates, markets became more volatile around the middle of the year and interest rates began to rise.

In these conditions we traded satisfactorily and made good progress in the majority of our businesses.

Lending

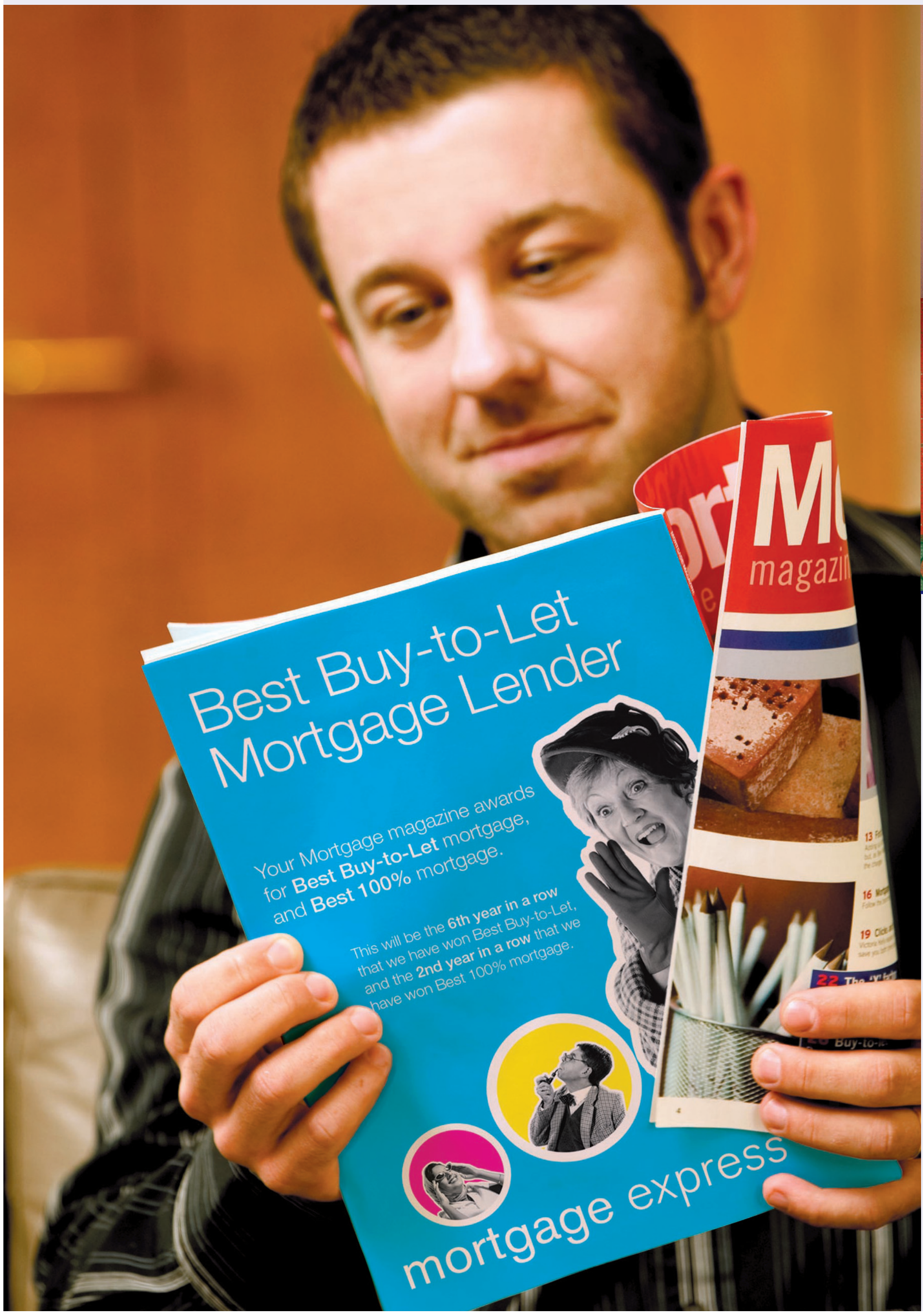
Our core Lending business reached a key milestone in its development with managed selective residential lending assets at £13.6 billion (2002: £7.9 billion) exceeding the old building society residential back book of £7.1 billion (2002: £8.9 billion) for the first time. Profit before tax increased by 9% to £228.1 million (2002: £210.2 million). All of our lending continues to be secured on property and we do not make unsecured loans.

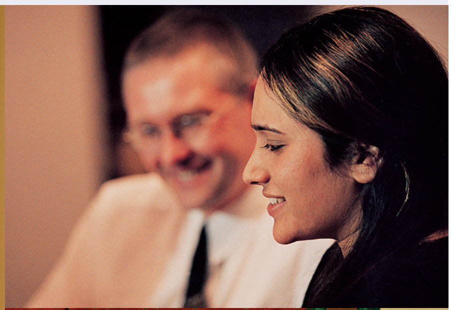
Gross new lending increased 70% to £9.9 billion. The 58% organic growth in new residential lending of £6.3 billion was complemented by the acquisition of a series of mortgage portfolios worth £1.4 billion and a £2.2 billion growth in our Commercial and Housing Association lending businesses. Of the £7.7 billion new residential loans in 2003 (2002: £4.6 billion), 61% were buy-to-let, (2002: 52%), 33% were other specialist residential loans (2002: 36%) and 6% were advances to building society back book customers (2002: 12%).

The momentum we reported at the interims has been maintained. In the first half year the net addition to managed residential balances was £1.9 billion and commercial balances grew £0.8 billion. Comparable numbers for the second half were £2.0 billion and £0.7 billion respectively. Of the £9.9 billion new loans during the year 78% were residential and 22% were commercial, in line with the mix achieved in 2002.

"Mortgage Express is a very efficient service with a quick turnaround and decision. Well presented products - very fair and reasonable."

George Stephens Mortgage Broker, Aberdeen





Mortgage Express
In a record year for new lending, our Mortgage Express business has grown significantly, building on its reputation as a leading player in the specialist areas of the mortgage market.

Diverse portfolio
Commercial Property and Housing Association Finance Lending provide additional revenue, diversity and growth.

Strong growth
Portfolio acquisitions from GMAC-RFC have further added to our lending business and complement our strong organic growth.

Group Chief Executive's review

The strong lending growth we delivered in 2003 will begin to flow through into profit towards the end of 2004. Profit growth lags lending growth for two reasons:

- margins on new selective lending, whilst higher than those available on vanilla lending, are lower than those historically achieved on the back book; and
- most of the cost of origination and new loan set-up is absorbed in the year in which the loan is put on the books.

As the size of the declining back book becomes smaller, relative to the growing selective lending book, profit momentum will increase.

Over the year, total managed residential lending balances grew 23% to £20.7 billion and commercial lending balances grew 40% to £5.2 billion generating a total lending balance increase of 26% to £25.9 billion.

The total lending book is now 80% residential (comprising 34% buy-to-let, 27% building society back book and 19% other specialist residential mortgages) and 20% Commercial Property and Housing Association lending.

Our Commercial Property and Housing Association lending grew 40% during the year to £5.2 billion. Our Commercial Lending team has been successful in building relationships with a number of larger banks and is an active participant in the commercial property syndication market. Housing Association lending also increased, although by a lesser amount, reflecting the competitive nature of this low risk segment of the market.

The credit environment in 2003 was benign and the credit quality of all our books has continued to be very strong. Provisions on our balance sheet and in our securitisation vehicles rose 9% to £60.7 million. This growth is lower than the growth in the balance sheet for two reasons:

- the continued improvement in loan-to-value ('LTV') ratios as house price inflation raises the market value of the housing stock against which we lend; and
- the continued decline in the number and value of non-performing loans.

LTV ratios on new lending increased to 77% (2002: 73%). The LTV ratio across the book was 66% (2002: 61%) and 45% (2002: 43%) when taking account of house price inflation. The number of cases in arrears dropped despite the increase in the volume of lending. The proportion of cases over three months in arrears fell to 0.99% of the total book (2002: 1.66%). We are well provided against potential losses and provisions cover has improved as a proportion of non-performing loans from 18.6% to 31.5%.

Savings

Savings balances increased slightly to £15.1 billion (2002: £15.0 billion). We remain a safe home for customer deposits offering competitive products and returns. Balances were maintained in a very aggressive market for new business.

The low interest rate environment that prevailed for most of the year, compressed margins. The recent change in the interest rate cycle provides an opportunity to develop new products and offer improved returns in the coming year.

Treasury

Our Treasury team capitalised on the declining interest rates in the first half of 2003, adding to interest income. Conditions in the second half did not offer similar opportunities although the team did position itself well for the interest rate rises that occurred in the latter part of the year.

The key task of the Treasury team during the year was to fund our rapid lending growth. They have secured a diverse range of funding from the UK, European, US and Asian capital markets. During the year they raised around £4 billion from overseas markets.

They also completed a £250 million issue of Upper Tier II subordinated debt in April and a further £200 million in December as we continued to improve capital efficiency.

Financial services

Overall, financial services revenues fell by just over 6% to £135.7 million (2002: £144.4 million). Individual sectors of the business performed quite differently.

The mortgage broking market was buoyant throughout the year and the continued growth in remortgaging showed that refinancing to reduce borrowing costs is becoming a way of life for the UK consumer. Our mortgage broking related revenues rose 25% to £70.3 million. By contrast the market for investment products remained weak and revenues from the sales of investment products fell 29% as consumers showed no sign of responding to the well publicised savings gap.

Equities recovered some lost ground in the second half, but continued adverse publicity about mis-selling and the troubles of the insurance sector were regularly in the headlines and small and medium sized investors, our main investment market segment, sat on the sidelines.

We have reduced our wealth advisory force in response to the weaker market. The total number of advisers employed by the Group declined from 1,031 to 960.

We have continued to expand our financial services retailing businesses and have introduced a number of new products and services, including personal loan, credit card and general insurance broking.

"As first-time buyers we saw it as a minefield, but our MarketPlace adviser was excellent at explaining everything - all went through smoothly in weeks whereas a friend who went elsewhere took months - thank you."

Michael & Caroline Rabin Doncaster

The MarketPlace
Our MarketPlace offices across the country provide customers with access to a full range of financial services offering the best products available to meet all borrowing, investment and proctection requirements.

Largest mortgage intermediary in the country
Providing consumers with a choice of mortgages to suit their needs.

Property services
Bradford & Bingley Estate Agency and SecureMove give us valuable market insight and our customers a suite of high quality property services.

Group Chief Executive's review

Our new insurance proposition has been well received by customers and staff alike which looks set to halt the decline in insurance revenues. The 18% decline to £21.6 million (2002: £26.2 million) was largely associated with the run-off of the building society back book and its linked insurance portfolio.

We acquired two premium advice businesses during the year, Holden Meehan, now Charcol Holden Meehan and Aitchison & Colegrave, now Charcol Aitchison & Colegrave. These acquisitions added scale and further skills to our wealth advice business, strengthening its position in the mid to high net worth financial planning and services market for both individual and corporate customers. The integration is proceeding well and the businesses have already become valuable parts of the Bradford & Bingley Group.

Property services

Property services revenues were flat year-on-year at £114.4 million (2002: £114.6 million). The Estate Agency business had a year of two halves while Surveying continued to go from strength to strength.

There was a substantial reduction in housing transaction volumes during the Spring which, coupled with a decline in margins, resulted in a fall in Estate Agency income in the first half to £35.5 million (2002: £42.5 million). New management responded by taking swift corrective action. Costs were reduced and yield and volumes were improved with the result that income for the second half was £41.8 million, only £0.4 million below the same period in 2002. Estate Agency has entered 2004 in a stronger position than it entered 2003.

Our Surveying business, SecureMove, has continued to perform well with revenues up 24% at £37.1 million for the full year. We acquired the Douglas Duff partnership in October. SecureMove is now one of the UK's largest survey businesses with over 275 professionals complemented by a network of contract surveyors who offer flexibility to respond to peaks and troughs in demand.

Market outlook

The lending market remains strong. As we enter 2004 we expect remortgaging will continue to be a major factor in the market. Equity release will gather momentum as a part of long-term financial planning.

We expect house prices to continue to rise, but at a much slower rate than in recent years. It is likely there will be a modest reduction in the total number of housing transactions as interest rates begin to rise and the shortage of properties coming on to the market continues. Prospective first time buyers will remain challenged by the price of starter houses, providing continued support for the lettings market.

We anticipate the beginnings of an improvement in investment product sales as confidence in the stock market improves, and growing awareness of the savings gap should encourage consumers to invest more for retirement.

Business outlook

We expect the overall environment for our businesses to remain relatively benign in 2004. Interest rates are still low and the employment market is strong and stable. Provided these economic conditions continue, we do not expect any dramatic changes in market conditions.

Given the strength of our lending pipeline, we start the year confident that we will deliver continued growth in our lending balances in 2004. However, we remain cautious lenders and do not plan to participate in the unsecured lending market.

Estate Agency started 2004 with better pipelines and margins than in 2003 and the Surveying business will benefit from the acquisitions made last year.

Our financial services businesses remain focused on improving their customer proposition and their margins. However, the regulatory change agenda will be particularly demanding in 2004. We face new or significantly changed regulation in mortgage lending, mortgage broking and insurance, coupled with the forthcoming introduction of new accounting standards and capital adequacy requirements. Many of the new regulations will improve market conditions but their introduction absorbs considerable amounts of money and management time. We expect these costs will be largely offset by the programme of operational process improvements that is currently underway. Overall, we move into 2004 confident that our business model works and will deliver increasing value to our shareholders.

Christopher Rodrigues
Group Chief Executive

"I found remortgaging so easy. My adviser was very knowledgeable, and gave clear, unbiased advice on several aspects of my remortgage. Overall I was very pleased and impressed."

Gary Deardon Cardiff

Charcol
Charcol is acknowledged as a leading provider of mortgage advice. During 2003, we have complemented this strong mortgage reputation with the addition of investment advisory services by the acquisition of Charcol Holden Meehan and Charcol Aitchison & Colegrave.

Charcolonline
Customers can access Charcol from any location, the online facilities provide access to the full range of mortgages, conveniently and simply.

Awards
Charcolonline were winners of Best Mortgage Broker (use of technology) at the Mortgage Strategy Awards, April 2003.