

18 July 2010

PO Box 62
Chislehurst
BR7 5YB

Phone: 0113-281-3941
Web: www.bbactiongroup.org
Email: dwwb@btinternet.com

Ordinary Shareholders' Update (No. 2)

As you are no doubt aware, the Independent Valuer of the ordinary shares in Bradford & Bingley, Mr Peter Clokey, has declared the shares to be worthless at the date of nationalisation. So unless that valuation can be challenged, you will not be getting any compensation.

The valuation is based primarily on Mr Clokey's decision that the company should be valued as if it was "in Administration". This follows from two key points that he makes. Firstly that the company had received £5bn in loans from the Bank of England; and secondly that the directors are alleged to have been considering putting the company into Administration if nationalisation did not take place. This information had not previously been disclosed and there is considerable further information in the Assessment Notice which was not made public before despite us repeatedly asking questions about why the company was nationalised. We simply got evasive answers. Indeed it seems quite likely that the previous Government would have known that this information almost certainly guaranteed a nil valuation because of the terms of reference set for the valuer, which helps to explain why we could not get straight answers on this subject. In effect, the terms of reference for the valuation (as defined by the Compensation Order), rigged the valuation process very effectively. It would appear that the Government tried to ensure shareholders will get nothing.

The assumption of immediate withdrawal of Government support in the Compensation Order, implies that the company would have to go into Administration and most companies in Administration produce no value for ordinary shareholders because assets have to be sold off rapidly and the Administration process is always costly.

The only way this valuation can be challenged is if we can understand these key issues more fully and identify some defect in the process. I have therefore written to Peter Clokey asking him to provide all the information to the Action Group and to all other investors that was available to him while making his assessment. Below is what else was said in a press release we have issued:

"Transparency is critically important. Without that our complaint is that we are not in a position to assess whether the basis of the valuation is fair and to make representations on this matter.

We are particularly concerned that the valuation of the company as "in Administration" is prejudicial to the shareholders, and this seems to depend on two decisions taken by the valuer:

1. That the Special Liquidity Scheme (SLS) loans were not "ordinary market assistance", and hence had to be assumed to be immediately withdrawn, when more than 30 banks had used and continued to use that facility and it had in effect become a part of the normal operations of the Bank of England to maintain adequate market liquidity.

2. That the company would have been put into Administration by the board of directors if it had not been nationalised by the Government. This is contrary to the evidence given by the directors to the Treasury Select Committee.

Bradford & Bingley had completed a large rights issue only weeks before nationalisation, and claimed as a result to have a stronger balance sheet than most other banks. There seems to be no obvious reason why it was not eligible for further support under the SLS if necessary to meet short term liquidity requirements, as was made available to other banks.

We are also unable to judge the basis of the valuation without more details of the assumptions on asset value trends and asset disposals, mortgage default levels and the impact of Administration used in the valuation process.

With the valuer only allowing seven weeks in which representations can be made, this information is needed urgently to enable us to make adequate submissions."

It is also worth noting that it appears that the Bank of England (BoE), the FSA and the Treasury (the Authorities) colluded with the Directors of Bradford & Bingley to keep secret the true state of the company's finances, specifically by suppressing all information relating to the £5 billion loan made to the company by the BoE. This action made a false market in the shares for many weeks and investors were misled by the incomplete information provided to the market in regard to the true state of the banks finances. This secrecy could have aided B&B if the Authorities had determined that they intended to support the bank until such time as the worst effects of the credit crisis passed but they later changed their view and refused to offer any further lending support to B&B when the international markets in traded debt closed. The Authorities then nationalised the bank, seizing the shareholders property. The Authorities have replaced the shareholders with the Secretary to the Treasury as the sole shareholder and in doing so have seized the existing shareholders equity in the bank together with all future profits which will accrue to the shareholder. The Valuer's findings include a series of stress tests (financial models) which show that there will be profits for the shareholder once the bank is run off, in all of a range of increasingly difficult economic situations modeled.

Given the situation in the financial markets at the time which caused many UK banks to access the SLS scheme and the BOE readiness for them to do so, combined with the Authorities massive financial support for RBS, HBOS and later LLOYDS who should all have failed any similar test of their credit worthiness, the Authorities must explain their action in nationalising and destroying B&B which provided record profits for a foreign bank, Santander. To date the Authorities have failed to provide any proper explanation to the public, or the 1 million shareholders of the reasons for their actions. From the evidence supplied by the Valuer and included in his report, it appears that B&B was seized and nationalised solely because the Authorities would not continue to support the bank while waiting for 4 weeks for it to reschedule its covered bond debt.

In conclusion, we will advise you further on whether it is possible to mount a challenge to the nil valuation when we have more information.

David Blundell
Chairman