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PO Box 62
Chislehurst
BR7 5YB

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

The Tender Offer to Bondholders (Update No. 9)

On the 9th November 2010 Bradford & Bingley [B&B] announced an offer to holders of the 13%, 11.625% Perpetual Subordinated Bonds [PSB] and the 6.462% Perpetual Preferred Securities [PFS]. Many of you with these investments in nominee accounts may not have received this information the main details of which are: 13% and 11.625% PSB, offers of £3800 and £3600 respectively for every £10,000 of principal amount and £550 for every £1000 of PFS. The deadlines for acceptance are 5.00pm on the 2/12/2010 for the PFS and 3.00pm on the 03/12/2010 for the PSB.

BBAG believes these offers are opportunistic as in the case of the PSB they are only slightly above the previous open market value. Furthermore B&B and the Government are well aware that many PSB holders are pensioners and are in severe financial difficulties due to the nationalisation of the company and the non payment of interest on their investments, consequently some may be desperate to retrieve what remains of their capital as they can no longer take a long term view.

B&B's stated objectives in making these offers is to generate a profit thus increasing shareholders' funds and strengthening further the quality of the capital base. In this context it should be remembered that the Government is now the only shareholder. Those investors who do not sell may secure a financial advantage in the long term, but it depends on what happens to the assets of the business as it is gradually wound down, whether a surplus remains at the end from realization of the assets, and the steps taken by the Government as the controlling shareholder in the meantime. A key question is probably whether you trust the Government to deal fairly and act not to prejudice your interests in this matter, even if you take the view that the assets of the business are sufficient to ensure recovery in due course (which may well depend on what happens to the housing market over the next few years because a high level of defaults on loans, particularly in the buy-to-let sector might damage those assets). However the current offer is clearly very substantially less than the nominal value of the subordinated bonds, and ignores the accrued interest that would be payable if the company returns to a profitable financial position.

BBAG are unable to offer individual investment advice in regard to this matter as your decision is likely to depend on your personal circumstances and you may wish to take professional advice on this although the cost of doing so may be self defeating. Some investors due to age or finances may have no alternative but to accept the offer, others may adopt the 'bird in the hand' approach. My own circumstances allow me to take a long term view and I will not be accepting the offer.

David Blundell
Chairman