

The Right Honourable
David Cameron MP,
10 Downing Street,
London SW1A 2AA
28 July, 2014

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**Re: The Nationalisation of Bradford & Bingley: Gross Incompetence or
Criminal Deception?**

Dear Mr Cameron,

Thank you for your letter dated 18th July 2014. Regretfully it was riddled with inaccuracies and offered the same stale excuses that Bradford & Bingley (B&B) share and bond holders have suffered over the last six years. Detailed below is the sequence of events, which provides the reality in this matter.

The B&B audited accounts for 2007 were passed as a 'going concern' and a dividend was paid in 2008. A rights issue was completed in August 2008 at a price of 55p (per share) - less than eight weeks before the decision of Gordon Brown to nationalise B&B on the 26/09/08 when the net asset per share (NAV) was of the order of £1.00.

Also, in August 2008 at the time of the completion of the rights issue the interim accounts were passed by the auditors KPMG, again as a going concern. Within days of the expropriation of B&B the Government provided over £60 billion of covert support to Halifax Bank of Scotland (HBOS) and Royal Bank of Scotland (RBS). B&B nevertheless had a far stronger balance sheet than these two banks as shown in the Banking Crisis 'post mortem' published by the Local Authority Pension Fund Forum (LAPFF).

Furthermore, the public statements of the B&B board emphasised the balance sheet strength on the 29/08/08 and the 25/09/08 - a day before Gordon Brown's nationalisation decision. The balance sheet strength was again confirmed by Messrs Pym and Kent, the chief executive and chairman of B&B at the Treasury Select Committee hearing on the 18/11/08, which conflicted directly with the statements of the Government. So, who was telling the truth?

The current B&B accounts suggest we can place more trust in Messrs Pym and Kent rather than the Government. Not only was B&B expropriated soon after a successful rights issue but its savings book was sold, thus ensuring it was destroyed as an ongoing business unlike other banks with far weaker balance sheets.

The LAPFF paper indicates that based on balance sheet strength B&B should have been only partly nationalised by 40% at worst. Despite thousands of Freedom of Information Act (FOIA 2000) requests B&B share and bond holders (around one

million) still have no details as to how and why their company was expropriated in the manner that it was. We do not even know whether the decision was agreed by the Cabinet or any details of the competitive process in the sale of the B&B savings book and retail network to Santander.

Peter Clokey of PWC was appointed as the independent valuer by Her Majesty's Treasury (HMT) for the purposes established under the B&B Plc Compensation Scheme Order 2008. His 'nil' valuation was published in July 2010, two months after the General Election. BBAG has a high regard for Mr Clokey and his colleague James Worsnip - both in terms of their personal integrity and the level of cooperation provided within the limits of their remit.

Their behaviour compares favourably with the treatment BBAG has suffered from various Government ministers, the Cabinet Office, HMT and the Financial Conduct Authority (FCA) - formerly the Financial Services Authority (FSA).

However, the Compensation Order's terms of reference were too narrow and the Government concealed the fact that B&B had received funding support prior to the nationalisation, pretended the valuation would be fair and independent for many months when knowing it would not because the 'in administration' approach of the Order ensured a 'nil' valuation and prejudiced legal claims and submissions to the Independent Valuer and the Upper Tribunal review body.

BBAG believes the valuation exercise was a successful attempt to cloud the issue and dampen media and press interest in the period prior to the 2010 General Election. BBAG and the Association of British Insurers contested the Government's assumption that the Special Liquidity Scheme (SLS) loans to B&B were not ordinary market assistance.

The Government's position in respect of the B&B valuation was that the Bank of England (BoE) support through the SLS was not ordinary market assistance despite over thirty banks including HBOS, RBS and Northern Rock having the use of that facility. However, the European Commission's statement giving clearance to State aid by the UK Government in the early part of the financial crisis in banking markets included the following statement:

“The UK Authorities accept that the recapitalisation and guarantee schemes contain State aid elements. In their view the extension of the SLS is part of the essential role of the Bank of England (BoE) and therefore not State aid. In the event that the Commission concludes the liquidity measures do contain aid elements the UK Government submits it forms part of a wider package to remedy a serious disturbance in the economy of the UK which is compatible with the Common Market”.

Therefore the UK Government has argued to the EU that the SLS is part of the normal workings of the BoE, but specified the converse in respect of the B&B

valuation. This is another example of the inconsistent manner in which B&B has been treated compared with other financial institutions.

The position of successive UK Governments has been that the B&B's demise was part of a worldwide banking crisis. This is not correct. The crisis related to the USA and parts of Europe. Many banks, which continued to use conservative accounting standards, emerged unscathed. It should be noted that Australia, Canada, South America, the Middle and Far East together with the emerging nations remained largely untouched.

The adoption of the International Financial Reporting Standards (IFRS) and IAS 39 by the Government in 2005 was a catastrophically defective decision, which may even contravene UK law. The LAPFF, Universities Superannuation Scheme and Threadneedle Asset Management together with other investor groups sought the opinion of Leading Counsel George Bompas QC. His opinion suggests that directors must override IFRS in order to comply with company law and may need to ignore the legal advice obtained by the Financial Reporting Council on this issue.

The opinion also states that the defective accounting outcomes of IFRS should be overridden by invoking the true and fair view requirement of the law. Lord Mervyn King, the former Governor of the Bank of England, supports this view and is on record in November 2012 as stating:

“Bank accounts are dishonest because Britain’s accounting rules are faulty. Reckless lending, inflated profits, irresponsible bonuses have all been possible, not just because of greedy bankers, but because of the rules themselves - and a failure of regulators and politicians to recognise the problems”.

The main reasons for the banking crisis, were, firstly, the introduction of IFRS in 2005 that enabled the banks to indulge in what may be fairly described as false accounting, which included the accounts supporting rights issues by banks. Secondly, the Government's 'light touch' regulatory approach when the banks were out of control. Thirdly, the failures of the tripartite regulatory authorities, particularly the Treasury and the FSA whose box ticking myopic meddling was a recipe for failure.

The IFRS is still in place although the Parliamentary Commission on Banking Standards (PCBS) has suggested a review of how the IFRS was introduced in the European Union. BBAG believes changes to accounting standards should be made as a matter of urgency in order to prevent further crises such as the Co-operative Bank and Britannia Building Society whose auditors were also KPMG.

All the evidence that we have - both direct and circumstantial - suggests the expropriation of B&B was a flawed and inequitable decision made in haste and not consistent with the treatment of other banks with far weaker balance sheets. Recently and against the background of greater financial stability BBAG has asked both Alistair Darling and Gordon Brown if their decision to nationalise B&B was correct, and consistent, with the treatment of other financial institutions at the time.

Mr Darling referred me to my Member of Parliament and Mr Brown has failed to reply to the two requests sent to him. In fact he has not replied to or acknowledged any of the many FOIA requests sent to him since the nationalisation.

BBAG has direct evidence of subterfuge and obfuscation by the Cabinet Office and the FCA and circumstantial evidence relating to HMT which indicates a determination by Whitehall to avoid revealing the truth.

This reinforces BBAG's view that the EU and the UK Government may well have been guilty of gross misfeasance in adopting IFRS. The latter's use of the public interest argument to avoid providing the facts requested under the FOIA 2000 for nearly six years after the nationalisation is a desperate attempt to avoid providing the full facts to which the B&B share and bond holders are entitled.

The public interest demands the whole truth in order to ensure that such a fiasco is far less likely to happen again. Furthermore, BBAG fails to understand why the FCA, formerly the FSA, is inquiring into the failure of the RBS, when its own failure was one of the main catalysts for the banking crisis.

In your statement to the House of Commons announcing significant amendments to strengthen the remit of the Leveson Inquiry, you emphasised the need for transparency several times and every citizen's right to know the facts on any matter. Unfortunately the relevant Government departments and regulatory authorities have made a mockery of your words, thus ensuring nearly one million B&B share and bondholders continue to wait for the justice to which they are entitled.

In my previous letter to you I asked what action you would take in this matter if you form the Government after the May 2015 General Election. This question was also sent to Messrs Miliband, Clegg and Farage. To date the question remains unanswered.

Yours Sincerely,

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