

To Bradford & Bingley Shareholders

14 December 2008

UK Shareholders Association
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Bradford & Bingley Action Group – Update No. 7

Compensation Order Published

On the 11th December the Compensation Order for Bradford & Bingley shareholders was published by the Government - see www.opsi.gov.uk/si/si2008/draft/ukdsi_9780111471180_en_1 . Unlike that for Northern Rock, no artificial assumptions are placed on the valuation process and terms of reference. As with Northern Rock though, an independent “expert” valuer will be appointed and it will be many months before the outcome of that process is known and a payment made to shareholders (assuming that the valuation determined is higher than nil, which is not a foregone conclusion).

We can possibly count this as the first success of our campaign because it would appear that the Government is taking a more reasonable stance in this case, and we will therefore not have to rely on the outcome of the Northern Rock judicial review. However, this does not mean that this campaign no longer has a major task to perform. It will be necessary to make submissions to the valuer concerning the appropriate valuation of this company on behalf of shareholders. In addition there is still the question of the probity of the “rights issue” to be examined.

It is also worth pointing out that the valuation task is not going to be a straightforward or easy matter for whoever is appointed. The possible value of Bradford & Bingley at the nationalisation date (which is the key date) depends partly on the future likely prospects for the company at that date. The value of the mortgage, and other assets of the company, depends to a large extent on the future health of the UK housing market and the general economic environment. So there are likely to be a wide range of possible estimates. Also any attempt to use comparable bank valuations as a benchmark, or the stock market price that applied just before nationalisation, is also likely to result in considerable argument. In the latter case for example, the price was affected by the threat of nationalisation, so would be unlikely to be seen as “what a willing buyer would pay a willing seller in normal market conditions” – which is the normal valuation principle applied to commercial valuations of companies.

There is also the difficulty that the full extent of the financial circumstances of the company at the nationalisation date have probably not been revealed. For example, we do not yet know what prompted the Government to go ahead with nationalisation. Will this information be released to us and to shareholders so that we can see the same data as the expert valuer may look at?

In addition the Government may well argue that as the company "no longer met its conditions for being a deposit taker" (which is apparently why it was nationalised), and hence its license was effectively withdrawn then the company would have been forced into administration and was probably no longer a going concern. Therefore the reason the Government has decided not to impose the same artificial conditions as it had in the Northern Rock Compensation Order may simply be because they thought it was unnecessary to do so.

Clearly we may still have a considerable fight going forward to ensure fair compensation is paid - we would of course argue that the threat of nationalisation and leaks concerning that caused the company's final difficulties and therefore any valuation should ignore the impact of those events. Likewise any withdrawal of its banking license was a measure taken as part of the nationalisation process and with the likely Compensation Order in mind and not a cause of it.

No comment on the position of the Subordinated Bond (PIBs) holders is given in the announcement of the Compensation Order.

Interest Paid on Subordinated Bonds

An interest payment is due on the 11 5/8% Perpetual Subordinated Bonds on the 20th January and it will be paid apparently. This is good news. However, it is clear that this is an "optional" payment at the discretion of the company and its new owners and there is no certainty that future payments will continue to be made. We are still trying to get information on the future of these bonds and what will happen to them.

Incorrect Phone Number

Note that there was an error in respect of the phone number for our new office and for Deborah Newman given in our last newsletter. The correct number is 020-8468-1027.

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Note that all previous information issued by UKSA in respect of Bradford & Bingley is present on the following web site page: www.uksa.org.uk/BradfordBingley.htm