

To Bradford & Bingley Shareholders

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## **Bradford & Bingley Action Group – Update No. 8**

### **Call for a Public Inquiry**

Although the Government has published a “Compensation Order” defining how B&B shareholders will be compensated, we still do not know why the company was nationalised. Neither has the Chancellor of the Exchequer, Alistair Darling, responded to our previous letter on this subject. So another letter has been sent to him calling for a public inquiry into the affairs of B&B and what happened leading up to nationalisation. See [www.uksa.org.uk/Darling\\_Letter\\_Dec2008.pdf](http://www.uksa.org.uk/Darling_Letter_Dec2008.pdf) on our web site for the content.

### **Don't Forget to Sign the Petition**

If you have not yet done so, please sign the petition on the Prime Ministers web site which reads: “*We the undersigned petition the Prime Minister to ensure investors in Bradford & Bingley plc receive a fair price for their shares*”. Please click on the following link to sign this petition: <http://petitions.number10.gov.uk/Bradford-Bingley/> . It's already got over 1,500 signatures and is climbing up the ranks of all these petitions (now in about sixtieth position out of 4,700) which already demonstrates the high level of support.

### **Lords Considers the Compensation Order**

On the 15<sup>th</sup> December 2008, a “Grand Committee” of the House of Lords considered the Bradford & Bingley Compensation Order. Lord Myners, Financial Services Secretary presented it to the House. Some of his key comments were:

*“Once the extent of these problems [at Bradford & Bingley] became clear, the Government had two options: risk letting the bank go under, or provide support. Letting the bank go under would have risked instability spreading, with serious consequences for the UK's financial system and wider economy. It was because of the risk to stability, rather than the risk to shareholders, that the Government chose to save the bank”.*

*“The tripartite authorities had explored a range of private sector solutions before taking action. However, it was concluded that it was not sustainable to run the bank on a stand-alone basis, either as a listed company with public support or as a publicly owned company. A subsidy on the scale required would not, in the Government's judgment, have provided the best value for the taxpayer.”*

*"The Banking (Special Provisions) Act, whose provisions both Houses have debated and agreed, makes it mandatory for any compensation scheme to be based on the assumption that state support has been withdrawn and that no such support will be provided in future."*

*"When taken into public ownership in February 2008, Northern Rock had been in receipt of substantial institution-specific financial assistance for over five months, in the form of both loans from the Bank of England and the provision of Treasury guarantee arrangements. By contrast, no such guarantee arrangements had been provided to Bradford & Bingley, and the Bank of England had provided no loan facilities to it that were not also open to all qualifying institutions. As a result, it is right to impose no further assumptions beyond the mandatory assumptions under the Banking (Special Provisions) Act 2008. It will be for the valuer to assess the implication of those assumptions."*

*"It is fair that the value of any compensation should be determined by an independent valuer, but only on the assumption that public support was no longer available. This order allows for that to happen in a clear way, with opportunities for the valuer's decision to be challenged at an appropriate time."*

Baroness Noakes responded that it was rather odd that it seemed Bradford & Bingley was to be valued as a "going concern" when it was not apparently trading (the branch network and deposits have been transferred to someone else and it is no longer offering new mortgages), while Northern Rock was to be valued as "not a going concern" because of the Compensation Order put in place for it, when it apparently was. A good question indeed!

She also said: *"The nationalisation of Bradford & Bingley was justified in part because it did not meet the FSA's threshold for a deposit-taker. Of course, the Government have given no detailed information to back up that position, which means that both Parliament and the financial services world, which needs to understand these things, are in the dark"*. This is a point that we have been making for many weeks without any response from the Government and Baroness Noakes mentioned this and our group in her speech. She also raised the question of how long shareholders would have to wait for any compensation, and was it not advisable for the Government to communicate with shareholders as soon as possible to advise them what has happened.

Lord Oakeshott (Liberal Democrat) said that in his view there was likely to be a zero value for Northern Rock from the current process, and that he also said *"I find it hard to believe that there can be value in the shares of Bradford & Bingley in the way described. My general view is that a bank which runs out of cash and credit, which I am afraid basically was the situation at Bradford & Bingley at the moment when it had to be rescued, has no value"*. Unfortunately these views may be held by many, but they are somewhat biased. The "credit" of Bradford & Bingley was partly destroyed by the threat of nationalisation and the contingency arrangements already taken by the Government which leaked out. The resulting media comments undermined the position of the bank and also stimulated withdrawal of deposits, but only £326 million out of £20 billion had been withdrawn in the few days before nationalisation as Viscount Eccles pointed out. Clearly though these issues will be ones for the valuer to consider, and for us to make representations on.

Viscount Eccles (Conservative) questioned why nationalisation of Bradford & Bingley took place when it seems there was no "serious threat" to financial stability and reiterated the point that members were extremely short of information on these matters. *"Why was not Bradford & Bingley included in the recapitalization scheme"* he said (which was announced only ten days later) as it seemed simply to be facing the same problems that other banks were encountering.

Lord Myners failed to provide answers in the House to the important questions raised above, although he did promise to respond later in writing. The Compensation Order will now presumably be considered by the Commons.

### **Panorama Analysis of the Credit Crunch**

Just before Christmas the BBC's Panorama programme covered the recent banking crisis. This was billed as an analysis of the events leading to recapitalisation of the UK banking system but turned out to mainly a puff for the BBC's Business Editor, Robert Peston. As a result it was somewhat short of detail, but at least they did include one interview that criticised Mr Peston's keen desire to publish "scoops" which resulted in the release of confidential information about the affairs of Northern Rock, Bradford & Bingley and other banks, with resulting financial turmoil.

Alistair Darling was interviewed and said that Royal Bank of Scotland "*needed an awful lot of money*", and explained briefly how he gave them an ultimatum to accept the Government's terms overnight, but no details were provided. The Deputy Governor of the Bank of England, Sir John Gieve, spoke on the programme and made it clear that the Government effectively dictated to the banks what was going to happen. Fred Goodwin has said about this process that "*you know it's more a drive-by shooting than a negotiation*".

The best comment on the year's events is probably that of the Telegraph's cartoonist "Matt". He shows a fortune-teller saying to her client: "*You will keep seeing a tall, dark stranger next year – Robert Peston will be on TV all the time*".

### **Campaign Status and Activities**

We consider the biggest priority for this campaign is to build up the number of supporters. This will give us both more influence and more financial resources. We are therefore undertaking a lot of mailings at the present time to shareholders on the register and picking up others from other sources as best we can. The mailings alone are quite costly with current postal rates which is why we need more funds. We also expect to hold a public meeting in the new year (more details on that will follow), and we are actively progressing political contacts.

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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](http://www.uksa.org.uk/BradfordBingley.htm)*