

Press Release

For immediate release

01 June 2009

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Government Defaults on Bradford & Bingley Bonds

Bradford & Bingley has announced that it will not be paying interest on some of its subordinated debt when the next payments are in June and July. This affects the 11.625% Perpetual Subordinated Bonds (formerly called PIBS) which were purchased by many private investors to provide retirement income. It seems likely that similar announcements will be made in due course concerning the other perpetual subordinated bonds that the UK Shareholders Association (UKSA) has been making representations about.

This is of course exceedingly bad news for all the subordinated bond holders and it is not at all clear why the company has chosen to cease payment. They declined to give a reason when asked. Is it a case of can't pay or won't pay? It suggests that the Government is trying to ensure it gets its money back as a priority over all other debtors and hence is prejudicing the bondholders.

This announcement caused a collapse in the market price of the subordinated bonds, which are still trading of course, so the bondholders have not only had their income removed, they have also had their capital destroyed.

The terms of the former PIBS, now called perpetual subordinated bonds, did permit the company discretion to suspend payment of the interest on them if ordinary dividends were ceased. So legally there is possibly no technical "default". But in essence as the company is now owned entirely by the Government, it is in reality an arm of the Government defaulting on its debt.

The missed interest payments will be deferred under the terms of these bonds, but there is no certainty that they will ever be paid as the company is being wound up, and in the meantime what do the pensioners who bought these bonds live on?

This decision emphasises that the bondholders are now totally at the mercy of the Government and so far they have taken no notice of the representations of the bondholders for a clear statement of future intentions in respect of these bonds.

Treasury Statements

The Treasury and Lord Myners have been suggesting that the nationalisation of Bradford & Bingley has not affected the position of the subordinated creditors (ie. the PIBS holders). This is technically correct, but in reality it grossly misrepresents the reality of the situation. Clearly nationalisation and the subsequent disposal of the retail deposits to Santander has totally changed the structure of the company, and the likely future outcome.

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The company is now being wound-up which significantly affects the position of the "undated" subordinated debt because there is not going to be a company in existence sooner or later to pay the interest due, and there is no certainty of capital repayment.

If the company had not gone into a wind up, and continued trading as a going concern, it would be a much more viable structure. It is blatant misrepresentation to suggest that the risk profile of the company, and of their investment so far as holders of the undated subordinated debt is concerned, has not changed very substantially.

The latest news on cessation of interest payments on the subordinated debt demonstrates very clearly that the security of bondholders is now very weak and that bondholders are being treated very differently to what would have likely happened if the company had remained in the private sector, where any default on its debt would have been seen as anathema.

In essence this is a default of a company which is now a wholly owned subsidiary of the Government. It is totally under Government control and its finances can be manipulated at their whim. The Government's apparent sole desire is to protect its own interest irrespective of the impact on its obligations to the subordinated bondholders. Is it surprising that the credit rating of the UK Government is being downgraded if they treat bondholders in this manner?

More details:

The full announcements from Bradford & Bingley can be read at:
www.bbg.co.uk/bbg/ir/news_prs/groupnews/

Background information on the position of the Bradford & Bingley subordinated bondholders is given on this page of the UKSA web site:
www.uksa.org.uk/B&B_Subordinated_Bonds.htm

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About the UK Shareholders Association (UKSA)

UKSA is the leading independent organisation which represents the interests of private shareholders in the United Kingdom. We campaign to protect the rights of shareholders in public companies, and to promote improved standards of corporate governance. Our educational activities, regular regional meetings, company "analyst" meetings and the resources of our web site, help to inform the public on investment management. UKSA is a "not for profit" organisation which is financially supported primarily by its individual members.