

Press Release

For immediate release

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Should Bradford & Bingley Shareholders Vote in Favour of the Rights Issue?

The UK Shareholders Association (UKSA) has been asked by a number of its members who are shareholders in Bradford & Bingley Plc as to what to do about the forthcoming rights issue. Private individuals, who are the main focus of UKSA's activities, represent a significant proportion of the shareholders in this company (see below for details), and therefore it is appropriate for us to comment.

There are two key questions:

1. Should shareholders vote in favour of the revised rights issue, and the associated sales of 23% of the company to TPG (the two are linked and one will not happen without the other).
2. Should shareholders take up the rights?

We are unable to comment on the latter because in general we can not give investment advice and it is up to individuals to decide based on their own financial position, the share price relative to the rights issue price and other factors. However as regards the former question we have this to say:

Revision of Rights Issue is Deplored

We are greatly concerned about the events at Bradford & Bingley in the last few weeks, and have already written to the Financial Services Authority (FSA) asking them to investigate the affairs of the company. Our letter can be seen on our web site at: www.uksa.org.uk/FSA_Letter_B&B.pdf

It seems that when the first rights issue proposal ran into difficulties (for reasons that we have asked the FSA to look into), and the share price was in free fall, the board decided to revise it substantially. The new rights issue price is at 55p rather than 82p and associated with the issue is the sale of 23% of the company to TPG.

In our view the revised rights issue is less favourable to ordinary shareholders than the previous one. Although it has been argued that the lower price might be helpful to private shareholders, we do not think this is a key issue. We think this argument is a red herring. Whilst the revised proposal does involve a greater level of dilution of existing shareholders who do not take up the rights, the real problem is the fact that part of the company is being sold, at favourable terms, to TPG.

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So instead of existing shareholders having rights to subscribe for all the new shares (the "pre-emption" principle), now up to 23% of the company is being sold to TPG with important benefits attached. For example they will have the ability to appoint two directors, and anti-dilution provisions to protect their stake.

We question whether this is a good proposition for existing shareholders, and do not accept that the need for "raising additional capital", as put forward by the company's chairman, justifies the way in which the fundraising has been revised, particularly when there has been such a short period of time between these two proposals.

What if Shareholders Reject the Proposal?

But of course the company may be in some difficulty if the shareholders vote against the proposals and reject the rights issue. What would happen then? The company may need to look at alternative funding or a major "strategic review" to cope with the new circumstances. They might even need to put the business up for sale. So shareholders should think carefully before rejecting the proposal.

We suggest shareholders should examine carefully the statements issued by the company Chairman, and attend the EGM on the 7th July to put questions and hear in person what he has to say if possible. And then make their own minds up.

But we do suspect that the revised rights issue is likely to be no more actively taken up than the original one would have been. Subscribing for a rights issue requires investors to have confidence in the company and the board, and this sequence of events can hardly have improved the confidence of smaller shareholders.

UKSA Welcomes the FSA Moves to Discourage Short Selling

Clearly one of the difficulties faced by Bradford & Bingley was the fall of the share price down below the original rights issue price. This may have been caused by speculators "short selling" the stock on the basis of being able to pick up the stock at the rights issue price later. We welcome the FSA's announcement of a requirement to disclose large short positions during a rights issue, and would like to see moves to restrict them absolutely at such times as we feel that they disrupt the normal "orderly" market.

Comparison with Northern Rock

Another point we would make is that Bradford & Bingley seems analogous to the problems faced by Northern Rock in that they seem to have pursued a risky expansion strategy, but in a different way. Bradford & Bingley have concentrated on "buy-to-let" mortgages which are now more than 50% of their loan base, and "self-certificated" mortgages. These have enabled the company to grow rapidly. But such loans are inherently more sensitive to the risk of default in bad economic times. With the recent rise in defaults and other liquidity problems they now seem to have realised they need more cash and hence the need for a major rights issue. It would appear that following the precedent set in the Northern Rock case, asking the Bank of England for support was not seen as a viable option in case they suffered the same reputational damage from over-blown media coverage. This sequence of events surely prompts the question of whether some changes in the board of Bradford & Bingley are necessary going forward.

For further information, please contact:

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Private shareholders represent over 800,000 of the total number of 970,000 shareholders in the company at present, and probably about 35% of the shares by value.

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.

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