

To Northern Rock Shareholders

03 March 2008

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Northern Rock Shareholders Action Group – Update No. 26

Legal Action Being Pursued

As I said in the previous note that we issued (all past notes are on the Northern Rock page of our web site at: www.uksa.org.uk/NorthernRock.htm), we are continuing to look into the legal issues with a view to challenging the Government so as to obtain fair compensation.

Although the Government is setting up an independent valuation of the shares which have been confiscated from you, they have set the terms of reference so that you will not get a fair and unbiased figure. Because of the terms of reference, the answer will almost certainly be very little or nothing, when Northern Rock was in essence a valuable business that will soon recover from its difficulties.

At this time we do not know who the valuers will be or how long they will take to come up with a figure, but it could take several weeks. One thing they will certainly require is a copy of the 2007 accounts which have been promised for publication in March.

Note that not only do we consider the terms of reference unfair, but we consider the whole sequence of events to be prejudicial because the Government is benefiting from its own actions and inactions. It should not be permitted to purchase Northern Rock cheaply when it has played a major role in the erosion of value in this business.

Head of FSA Concedes Failures

Just such evidence of Government incompetence that affected Northern Rock (and damaged the interests of shareholders) was the comment last week by Hector Sants, chief executive of the Financial Services Authority (FSA) who are the regulator for the company. He said: *"The standard of supervision of Northern Rock was not acceptable to us and certainly not to myself."*

The 2007 Accounts

One concern is that now the company is under the control of the Government, it is in their interest to have the worse possible set of figures in the 2007 accounts as it might affect the valuation. So will we see any number of write-offs, provisions and exceptional items stuffed into them? We will no doubt soon see.

Capital Gains/Losses

Some UK shareholders might want to take their capital losses and offset them against other capital gains in the current tax year, but it seems unlikely that HMRC will recognise the loss until the compensation figure is announced by the Government. We are looking into this and will try to advise you at a later date as to the tax position. Incidentally UKSA issued a press release concerning the new UK capital gains tax regime last week which you can see on our web site at: www.uksa.org.uk/UKSA_Press057_CGT.pdf . It criticises the fact that gains simply arising from inflation will be taxed as real gains in future. Not that many Northern Rock shareholders may consider this an important issue at present, as you are clearly going to mainly have losses rather than gains, but it shows you what other issues we campaign on.

Shareholders Whingeing?

One or two publications have printed editorial comments recently that have criticised shareholders for complaining about the terms of the nationalisation and the basis of compensation. Here's one response I sent out to try and put a stop to such ill-informed views:

"To suggest we are "whingeing" when the Government has outrageously set the terms for the evaluation of compensation to shareholders that bear no relation to reality is grossly unfair. All we are asking for is a fair and independent valuation of the company to be paid to shareholders as a result of the confiscation of their property (which of course is enshrined in the European Convention on Human Rights).

The "deferred equity" option you suggest has been considered by us but was rejected on the grounds of practicality, as I told Vince Cable personally when I met him (he has been pushing this option of course without really thinking through how it would work in practice).

In addition to suggest that the company was "bust" when it could no longer fund itself from the money markets is a nonsense. Firstly the Bank of England has a duty under the Banking Act to act as a lender of last resort and it was obvious to everyone that the Government would not let Northern Rock go bust by refusing such support - there were a lot of practical reasons why they should provide such support. In any case, when they first asked for such support they probably didn't in reality need it, but the subsequent leak (the media have a lot to blame in this regard) and the mishandling of the crisis by the Bank of England precipitated the run on the bank which was the crux of the problem. In essence the Government (in the form of the Tripartite Authorities) was as much to blame for the ultimate debacle at Northern Rock as were the company directors for any misguided business strategy.

But the Government should not benefit from their own failings in acquiring Northern Rock on the cheap from shareholders. There were two good private sector solutions on the table when the Government decided to nationalise it (one additional one had dropped out already due to excessive Government demands). We have yet to understand fully why they were not chosen instead of nationalisation, although it may yet come out in court. Was it because confiscating the shareholders property offered "better value for the Government" as Mr Darling put it, or was it because Brown and Darling were dismayed that shareholders were going to vote down the offer from their pal Richard Branson? We do not yet know."

If you get the opportunity to do so, don't forget to write similar responses when you see misleading articles in the media. We try to do what we can to counter misinformation and prejudice in the newspapers and on television, but we have limited time and resources to do this at present.

Questions and How to Get Them Answered

Note that I get a lot of questions, particularly via email, which are trivial and repetitious. Please ensure that you look at our web site page to see what has happened in the past and to obtain answers to most questions. There are two specific questions that come up regularly. These are:

1. What compensation will the Government offer? We don't know because this will be based on the "independent" valuation but in our view it is likely to be very low (e.g. a few pence), or even nothing, because the terms of reference for the valuation make the whole exercise a nonsense.

2. What would the valuation be if an unbiased valuation was performed, i.e. it was done in the usual way by an independent valuer taking the business as it stood at the time of nationalisation (and taking into account all the factors that might have affected it)? As I said on the BBC Moneybox programme, I feel that if I was arguing the case in front of an independent valuer then I would be starting at way over £4 per share. That figure would be the minimum based on the net asset value but other valuation methods might come up with a much higher number – for example £5 or £6 per share. It would be for the Government to argue that their funding was prejudicial to that valuation but as it was given at market rates of interest I think that would be a difficult justification.

We are not going to attempt to do a full valuation exercise at this time (we don't have all the information to hand to do it), but that gives you the measure of what shareholders might want to contemplate asking for, and how much you are likely to be short changed if the Government only offers you a few pence in compensation.

The Cost of Legal Action

Some shareholders have questioned whether private shareholders can afford the cost of legal action, even if we band together. But that is not necessarily a problem. For example sufficient money was raised for the Railtrack action for a very lengthy and expensive law suit from private individuals. In the case of Northern Rock there were over 400 million shares issued so it only needs a small subscription by each shareholder to raise a very large sum of money. Of course one cannot assume that everyone will contribute because simply communicating with some shareholders can be difficult, but the return to shareholders from the investment of a small amount in a successful legal action could be very large in comparison with the cost.

What We Are Working On

Note that there may not be much news forthcoming in the near future, and our strategy for this group is to continue to build our base of supporters and to raise funds. We will continue with this over the next few weeks while progressing some of the legal issues. Note that I would encourage those of you who have not yet made a donation to do so using the Appeal Form at: www.uksa.org.uk/Northern_Rock_Appeal_Letter.pdf . Many of our supporters have been most generous, with some supporters donating more than once already, but we really do need more funds from all shareholders to keep this group moving along as we are currently constrained in some of the things we can do by lack of cash.

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