

Press Release

For immediate release

08 May 2008

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UKSA Pursues Legal Action for Fair Compensation for Northern Rock Shareholders

Lawyers representing a group of private shareholders today intend to file an application for a judicial review of the compensation terms offered by the Government to the former shareholders in Northern Rock. A similar application is being filed by SRM Global one of the major institutional shareholders in the company.

The UK Shareholders Association (UKSA) is promoting the interests of the approximately 150,000 small private shareholders who held as much as 25% of the shares.

In essence our argument is that the compensation terms should be fair based on the normal approach taken in any commercial valuation of a business. It should be decided by an independent expert using the common approach taken to such cases and past practice. But the Government seems to have determined that it wishes to pay nothing and has set totally artificial terms of reference.

In addition the nationalisation of a solvent business to which the Government had lent money on commercial terms and under the Bank of England's obligations to act as a "lender of last resort" is unprecedented. We suggest this has been done by the Government to enable the Treasury to make a substantial profit in due course.

Roger Lawson, Chairman of the Northern Rock Shareholders Action Group had this to say: *"Many smaller shareholders do not seem to have realised that the Government is intent on paying them nothing. In addition they are under the false impression that the shares will be returned to them after the period of 'temporary public ownership' trumpeted by the Government – which is clearly not the case. I have had shareholders in tears to me on the telephone after I have explained to them the true situation and that their investment in the company is effectively lost. They were often holding the shares as an investment for their retirement, or to provide valuable dividends to supplement otherwise meagre incomes. They simply do not understand why the Government would take away their shares, which were backed by substantial assets, and not pay fair compensation"*.

Why the Compensation Terms are Unfair and Inequitable

In our view the Government has deliberately rigged the terms laid down in the Compensation Order to ensure that they pay zero in compensation. They have set the terms of reference for the independent valuation by specifying that the following assumptions (amongst others) should apply:

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- a) that the company is unable to continue as a going concern; and
- b) that the company is in administration.

These “assumptions” clearly did not apply when the nationalisation took place. The company was not in administration, and was trading normally and as a going concern.

The shareholders also rely on the evidence of an independent expert valuer to show that the constraints imposed by the Government’s compensation scheme will lead to a valuation which is far removed from Northern Rock’s true value. The Government’s compensation scheme can be expected to produce a nil value whereas Northern Rock’s true value is several pounds per share. Compare that with the figure of a few pence, or even nothing, that the press and other experts have suggested will be the figure from the Government’s approach. But he suggests that value would be zero if the terms of reference are not changed.

In essence our legal advice is that the Government’s actions are disproportionate and basically unfair. Hence they are a breach of both established UK legal precedents and European law on human rights.

We also believe more evidence will come out from the legal action that throws more light on the mishandling of the affairs of Northern Rock by the Government and will demonstrate that the Government has not acted reasonably in relation to the interests of shareholders. In our view, the Government has exploited its position as “lender of last resort”, followed by the threat of nationalisation and the subsequent passing of an inappropriate Act of Parliament to make a commercial gain, even though it had demonstrated a failure to adhere to reasonable standards of supervision in its role as the company’s regulator.

What former Northern Rock shareholders should do

Former shareholders in Northern Rock can be assured that the UK Shareholders Association will continue to pursue the case for fair compensation, and they are urged to contact UKSA by phone (0870-70-60-600) or email (uksa@uksa.org.uk) to register their interest and to support our campaign and the associated legal action.

For further information, please contact:

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More information on the history of events at Northern Rock and our comments on them is available on this page of our web site: www.uksa.org.uk/NorthernRock.htm

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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