

To Northern Rock Shareholders

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Northern Rock Shareholders Action Group – Update No. 35

Support from RAB Capital and Legal & General

As reported in our last “update”, an application for a judicial review of the nationalisation Act and the associated Compensation Order was filed on behalf of a representative sample of private shareholders on the 8th May. SRM Global also filed a similar application on that date and we now understand that RAB Capital have also filed such an application.

In addition on the 23rd May Legal & General issued a press release which contained the following:

“Legal & General today confirmed it would become an interested party in the Judicial Review proceedings issued by SRM and the Shareholders Action Group on 8 May and by RAB Capital on 16 May.

Northern Rock was formerly part of the All Share Index and, consequently, Legal & General was a major shareholder in Northern Rock. Legal & General has been served as an interested party to the judicial review proceedings issued by SRM, RAB Capital and the Shareholders Action Group. Legal & General has a significant interest in the outcome of the judicial review and, therefore, wishes to monitor events closely. Legal & General wishes to ensure that the valuation of shares is conducted on a fair basis and believes that it is right and appropriate for the Court to consider whether the proposed method of valuation is fair. Legal & General considers that the valuation should be independent and transparent without the prescriptive assumptions imposed by the Treasury. We therefore broadly support the substance of the applications brought by the Claimants.”

With these four groups all supporting the principle embodied in the application for a judicial review – namely the demand for a fair and independent valuation – the position is that bodies representing more than 50% of shareholders in Northern Rock at the date of nationalisation are now behind it. This clearly demonstrates that our arguments have some merit and that this is not simply an issue being pursued by a few disgruntled individuals as the Government may care to suggest.

Fund Raising, Mailings to Shareholders and On-Line Payments

We continue to raise funds for this campaign and the legal action. Note that if you are wondering why the legal action has commenced without all the necessary funds being raised this is simply because applications for a judicial review have to be filed promptly, and at least within 3 months of the matter causing the complaint. Therefore an application could not be delayed.

UKSA—The independent voice of the private shareholder

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We have recently done a mailing to 38,000 shareholders on the Northern Rock share register (ie. those people who held a share certificate primarily) and another 38,000 will go out soon. We previously mailed about 35,000 shareholders, but some of them were mailed as long ago as October last year so we have mailed some of them again more recently and got another good response. All of this is taking considerable effort and some expense.

Shareholders in Nominee Accounts

As pointed out above, we will soon have mailed everyone who was on the share register of Northern Rock, i.e. those people who held a share certificate or who held the shares in a personal crest account. However many private shareholders purchase shares via stockbrokers and are placed into a nominee account. Even those who acquired shares in the original demutualisation often transferred them into ISA or PEP accounts, which are also nominee accounts. We have no way of writing to such shareholders and rely on the goodwill of the stockbrokers to advise them or media coverage to bring our group to their attention. Unfortunately with a few exceptions, stockbrokers will generally not pass on communications to their customers.

Therefore please spread the word to your friends, relatives, neighbours and work associates about our campaign. There are undoubtedly many shareholders in nominee accounts who still know nothing about our activities and we would like to get their support if possible.

Incidentally nominee shareholders do of course have the same financial interest in the legal action as shareholders on the register as they are "beneficial" shareholders and have a financial interest in the matter as a result.

Government Valuation Status

A question was asked in Parliament last week about the status on the appointment of a valuer. The answer from the Government was that the position will soon be advertised, but that no specific timetable has been laid down. Clearly the Government does not seem to be progressing this matter with any urgency.

Other News

The new Executive Chairman of Northern Rock, Ron Sandler, recently spoke to MPs and indicated that the company was on track to repay the £27 billion loan to the Bank of England by the end of 2010. But he did warn that a significant fall in house prices may put some pressure on this plan. It would of course impact all banks that were focussed on the UK mortgage market so this is hardly a surprising comment.

The company has also reported an increase in "mortgage arrears" recently but this seems to be accounted for primarily by a more conservative approach taken by the company in reporting such arrears than any significant deterioration in its business. Retail deposits at the bank continue to grow and are now back at £12.8bn. In essence the company seems to be well on track to full recovery.

Shareholders are reminded though that when the Government subsequently sells off this business, there is no commitment to return your shares, any interest in the company or any value resulting from such a sale to you.

A Comic Message with a Serious Underlying Point

A recent report on the financial difficulties of the Labour Party prompted me to write the following letter to Gordon Brown:

"Following the report in the Financial Times on 8/5/2008 on the financial position of the Labour Party I hereby offer you £100 for the organisation. According to the report the Party is currently reliant on major businessmen who lent it funds but who now want it back. However the organisation is unable to repay it immediately and has asked to extend the repayment terms.

Following the principles laid down by the Government in the compensation terms for Northern Rock shareholders at the date of nationalisation, the Labour Party is clearly worthless and therefore this is a very generous offer. In addition, and unlike the terms offered to Northern Rock shareholders, we will also give the existing Party members the opportunity to buy it back in 5 years time at the same price.

The FT report also suggested that the Labour party has net liabilities unlike Northern Rock which has always been solvent. Clearly it is questionable whether it is a "going concern", or to paraphrase the words of Angela Eagle M.P., Exchequer Secretary to the Treasury, when referring to Northern Rock, perhaps it is a "gone concern".

Bearing in mind the current difficulties that are facing the Party, a period of "temporary private ownership" under a new management team may well give it the breathing space it needs to recover and protect the interests of all the stakeholders.

You may consider this financial offer on the low side, but Mr Darling who is known to be an expert on such financial matters clearly believes that any organisation which is reliant on loans from third parties is in essence of no value to the members, and the fact that it has a surplus of assets over liabilities and enormous amounts of goodwill in its public franchise is of no account.

I will await your response to this offer with anticipation."

The above was written before the recent electoral defeat in Crewe so Mr Brown may not appreciate the joke, but the Northern Rock shareholders certainly need something to lighten their spirits at this time. I have yet to receive a reply.

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Note that all previous "Update" notes on Northern Rock that we have issued are present on the following web site page: www.uksa.org.uk/NorthernRock.htm