

To Northern Rock Shareholders

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## **Northern Rock Shareholders Action Group – Update No. 37**

### **Basis of our Legal Action**

We have added a note to our web site at [www.uksa.org.uk/NRK\\_Legal\\_Case.pdf](http://www.uksa.org.uk/NRK_Legal_Case.pdf) on the legal case that shareholders are pursuing - just click on that link to access it. This tries to explain in simple terms, that an intelligent layman will understand, the legal basis of the application for a Judicial Review of the compensation terms for shareholders. Even this brief explanation is 15 pages long although there are many hundreds of pages in the applications themselves. But hopefully it will serve to clarify and justify our claim for a fair and independent valuation process rather than the rigged process the Government has instituted.

Note that this is a pdf document like many on our web site (e.g. past “update” notes are in that format). You will need the Adobe Acrobat software installed on your system to be able to open and read these documents which is available free of charge from [www.adobe.com/products/acrobat](http://www.adobe.com/products/acrobat) . It is preinstalled on most modern PCs.

The note includes a summary of not just the filing on behalf of private shareholders but also those of SRM and the supporting witness statements of Professor Tim Congdon and a company valuation expert, David Ashton. It is particularly worth reading the latter as it explains exactly why any valuer using the terms of reference laid down by the Government is likely to come up with a figure of zero compensation for your shares.

### **Progress on Appointing an Independent Valuer**

Meanwhile the Government is progressing slowly with the totally pointless selection of an independent valuer. They advertised the position recently and anyone who cares to apply should go to this web page for further details:  
[www.hm-treasury.gov.uk/consultations\\_and\\_legislation/banking/banking\\_independent\\_valuer.cfm](http://www.hm-treasury.gov.uk/consultations_and_legislation/banking/banking_independent_valuer.cfm)

The Government seems to anticipate selecting someone by the end of July with the expectation that they will then take several months to come up with an answer. It all seems to be totally unreal, bearing in mind that anyone with experience of company valuations can deduce that the answer could be given in 5 minutes once they understand the terms of reference. The Government has however given the valuer the task of communicating the news to the shareholders and justifying the valuation basis so it may not be a totally trivial job.

The Financial Times reported on June 14<sup>th</sup> that the valuer could face litigation from former Northern Rock shareholders. This does not refer to UKSA. It quoted SRM as saying that it believed it would have a strong professional negligence case against anyone who took on the role because of the conditions the Treasury has imposed on the process. But the Treasury denied that it would be difficult to fill the position and said it had already received several expressions of interest.

At the end of the article by Megan Murphy, it says "*SRM, RAB and smaller investors, backed by the UK Shareholders Association insist the bank's book value would entitle them to between £4 and £5 per share*". To clarify our position on this, here is what I subsequently wrote in a letter to the editor:

*"Misrepresentation of the views of Northern Rock shareholders*

*Your correspondent Megan Murphy stated on Saturday that "SRM, RAB and smaller investors, backed by the UK Shareholders' Association insist the bank's book value would entitle them to between £4 and £5 per share". I cannot speak for the other parties to the litigation but that is certainly not our stance. We have always avoided making claims for any specific valuation figure. All we are asking for is a fair and independent valuation and we would be perfectly happy for such a process to determine the fair value of the shares.*

*SRM have submitted to the Judicial Review evidence from an expert independent valuer, and he was unable to determine a precise figure of the probable value. But he was able to say that the valuation likely to be produced by the Government appointed valuer would be zero using the terms of reference in the Compensation Order and the nationalisation Act. Obviously we believe that a figure of several pounds per share would be a more realistic figure if the valuer was allowed to use his/her own judgment and follow normal commercial and legal practice.*

*The application for a Judicial Review is about the process being followed and the fairness of the legislation, not about claims for specific value."*

## **Legal Teams**

For those who work in the legal sector, the legal personnel working on this matter are David Greene of Edwin Coe for the private shareholders – he has appointed George Bompas QC. SRM are represented by White and Case partner John Reynolds who have called on David Pannick QC, Claire Weir (both of Blackstone) and Matthew Collings QC of Maitland. RAB Capital are using Michael Beloff QC and Iain Steele of Blackstone, plus David Wolfson.

The Government is represented by Slaughter and May, who have appointed Lord Grabner QC, Philip Sales QC, Clive Lewis QC and Paul Nicholls. You can no doubt see why the legal costs will be very substantial when the case gets to court.

## **Other Banks Now in Some Difficulties**

Some readers may have shares in Bradford & Bingley or HBOS as well as Northern Rock. These were all former building societies who "demutualised", and hence have large numbers of private shareholders – even more than Northern Rock in the first two. Bradford & Bingley is particularly analogous to Northern Rock in that they seem to have pursued a risky expansion strategy, but in a different way. Bradford & Bingley concentrated on "buy-to-let" mortgages which are now more than 50% of their loan base, and "self-certificated" mortgages and hence was able to grow rapidly. But such loans are inherently more sensitive to the risk of default in bad economic times. However, with the recent rise in defaults and other liquidity problems they have now realised they need more cash and hence have launched a major rights issue.

It seems 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. But the initial rights issue has been abandoned after it looked like the issue would be poorly taken up and the share price might go below the rights issue price. So a revised rights issue was put in place plus the sale of 23% of the company to TPG. There is more on the UKSA web site about this case (see [www.uksa.org.uk/Bradford%20&%20Bingley.htm](http://www.uksa.org.uk/Bradford%20&%20Bingley.htm) ), but it is interesting to see how differently it is being handled to that of Northern Rock.

### **What Was Northern Rock Worth?**

In answer to the above question, one could listen to what Chancellor Alistair Darling had to say on the Channel 4 Dispatches programme broadcast on the 12<sup>th</sup> June (programme entitled "Gordon Brown: Where Did It All Go Wrong"). He said "*We did try and see if we could get someone to buy it. But in the Autumn, conditions got worse and worse. You just could not sell a bank at that time. The people who were interested were offering to take it off our hands at a fraction of what it was worth*". Odd that the Government later decided it was worthless and they did not wish to pay shareholders any significant compensation for the confiscation of our shares. But it justifies the stance that we took at the time of opposing the Virgin Group proposal.

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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](http://www.uksa.org.uk/NorthernRock.htm)*