

To Northern Rock Shareholders

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UK Shareholders Association
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Northern Rock Shareholders Action Group – Update No. 39

Reminder re Meetings for Shareholders

We have arranged two meetings for Northern Rock shareholders:

On Thursday the 17th July commencing at 6.30 p.m. at the Banqueting Suite, Newcastle Civic Centre, Barras Bridge, NE99 1RD - next to the Haymarket Metro and Bus Stations. Note that parking is available in the council's car park in Sandyford Road after 6.0 pm, and in nearby public car parks.

On Saturday the 26th July at 10.30 am at St.Columba's Church, Pont Street, London, SW1X 0BD. The nearest tube stations are Knightsbridge or Sloane Square which are less than 10 minutes walk away. There is an NCP car park in Cadogan Place, SW1X 9SA, which about 5 minutes away.

All shareholders and media representatives are welcome, but if you plan to attend either venue then please let us know so we can get some idea of likely numbers of attendees (make sure you advise which venue/date).

These meetings will contain a briefing and explanation on what we have been doing on your behalf and the status on the legal action. They will also enable you to ask questions of course.

Book Reviews

Two books have been published that cover the events at Northern Rock in the last few weeks. Both books should be readily available from bookshops and are certainly worth reading if you are interested in what happened and why – I could not spot any major inaccuracies in either. Here are some brief reviews:

The Fall of Northern Rock by Brian Walters (ISBN 9781905641802)

This volume was written by a former Northern Rock employee who worked in the Commercial Lending operations in Leeds - so he was not at the centre of affairs but it gives the typical view of an employee as the crisis unfolded. It is a sober account that describes in sufficient detail the events as they occurred and his reactions to them.

He correctly identifies the leak of the Bank of England funding which was publicised by the BBC in a dramatic way as one of the critical factors in the cause in the run on the bank, a factor that the Treasury Select Committee did not look into. The Government has also consistently refused to look into the source of this leak.

But the author misses the significance of the EGM vote where in reality it became clear that shareholders had sufficient votes to block the Virgin proposal, and his coverage of the later events about the search for a private sector solution is somewhat limited.

The Crunch – The Scandal of Northern Rock and the Escalating Credit Crisis by Alex Brummer (ISBN 9781847940087)

This book, which has just been issued, was written by a financial journalist who is currently City Editor of the Daily Mail. It has a wider brief in that it covers the general credit crisis and the sub-prime lending debacle and their impact on the financial sector in addition to the events at Northern Rock. The author is more sensational in style and tends to attack almost everyone involved in the crisis including the board of the company, Mervyn King the Governor of the Bank of England, the FSA for defects in regulation, and others. He includes quite unnecessary jibes at SRM and RAB, but surprisingly has positive comments about John Kingman the Treasury mandarin who was much involved in the affair (the fact that he was a former journalist may have some relevance here).

He even includes a quotation from me. But that is just a repetition of a comment I made on the BBC about how much I had personally lost on my shares without any other background. As you can see, the style is populist in tone and tends to repeat the surface platitudes that one read in the press over the months that the crisis ran. Some idea of his style can be gained from his comments on the board of Northern Rock, which includes: *"But in choosing Matt Ridley as chairman, the bank's directors showed they were living in a past age when adorning the board room with the local toff was considered the normal thing to do"*; and *"The one non-executive director with the knowledge and experience that should have kept the trouble at bay was the chairman of the risk committee, Sir Derek Wanless. But just as he failed at NatWest, so he failed again at the Rock"*; and *"The Northern Rock board, with its cadre of weak non-executives, was ideal for Applegarth. It allowed him to run riot, without checks and balances"*. Strong stuff but are these commonly held views supported by real evidence?

As with the first author he identifies the leak and its promotion by the BBC as one of the critical factors in causing the run. But he misses the significance of the EGM vote and the opposition of shareholders to the Virgin proposal, and his analysis of why the Government chose nationalisation is questionable.

Both authors suffer from a lack of detailed analysis of source material, and a shortage of first hand reporting from the players involved but it may be too early for that and clearly these books were rushed out quickly while the subject was topical and hence suffer as a result.

My recommendation if you want a different view on events to what you could have read in the popular press, and a less verbose and dramatic writing style, is the first book rather than the second. But both of them give a reasonable overview of the events as they occurred. Both publications mention the UK Shareholders Association and our activities.

Incidentally you can get a very good view on the history of events at Northern Rock simply by reading all the past "update" notes on our web site, which if put together would constitute a book by themselves.

Campaign Status

We continue to raise funds to support this campaign and the legal action by private shareholders and have now received donations of more than £125,000 - this figure is growing rapidly. But we still need more so please contribute if you have not yet done so. Some supporters have donated several times and seem to assume that whenever we remind people about donating they should donate again – thanks to all those contributors. But we really need those who have not donated anything to come forward.

We have recognised that the minimum suggested donation of £25 can be viewed as too much for those shareholders on limited incomes. There are large numbers of shareholders who received a few hundred shares in the original demutualisation. Many of these shareholders are now very elderly and are living on very small incomes (state retirement pensions for example). We suggest that if you fall into this category, or are otherwise living on state benefits, that a more appropriate donation would be £10 or £15.

However, you should bear in mind that if we win the legal case, then even a few hundred shares might be worth a considerable amount whereas if we lose you are likely to get nothing from the Government in compensation. We do need adequate funds to pursue this campaign and get good legal representation for shareholders.

Donations can be made via our web site (see www.uksa.org.uk/Appeal.htm) or via post to PO Box 62, Chislehurst, BR7 5YB (cheques should be made payable to the UK Shareholders Association).

Legal Action Status

As we have told you before, an application for a judicial review of the nationalisation Act and the Compensation Order has been filed on behalf of a representative group of private shareholders. We are still awaiting confirmation that it will go to a full hearing from the court which is likely to be in December of this year. We are also awaiting a response from the Government to the points raised in the application.

Calls for Pension Trustees to Take Action

Many of you are likely to have company pensions where the pension fund held shares in Northern Rock. As a FTSE member, it was widely held by pension schemes. It would be good to get their support for our campaign for fair compensation for shareholders, and we request that you to write to the pension fund trustees to ask them to pursue a claim for such compensation. A suitable proforma letter is present on our web site at: www.uksa.org.uk/NRK_Pension_Fund_Proforma.pdf

Media Coverage

We understand there will be an item on Northern Rock which will mention our campaign on the "Politics Show" on BBC2 television at 12.00 am on Sunday the 13th July but only in the regional edition for the north-east. However you will probably be able to view it on-line afterwards from this web page: http://news.bbc.co.uk/1/hi/programmes/politics_show/regions/north_east_and_cumbria/default.stm Dennis Grainger has also done radio interviews in the north east and we continue to get good national press coverage.

Changes in Tripartite Policy

Considering the apparent recent changes in the policy of the Tripartite Authorities on banking sector support, and partial acceptance that they did not deal competently with the Northern Rock crisis, it seems unreasonable to us to insist that Northern Rock be valued on the assumption that no Government support is available. The Tripartite have made up to £100 Billion available to support UK banks in recent weeks. The terms, duration and scope of support now being provided were denied to Northern Rock. Northern Rock was not an isolated case, and its valuation should be on a "going concern" basis. To insist on "administration" as one of the pre-conditions for valuation is to discriminate against Northern Rock, and contrasts sharply with the approach taken by the Tripartite towards other mortgage banks such as Bradford & Bingley, HBOS and Alliance & Leicester. Government resistance to a fair valuation have forced the shareholders to commence litigation which would have been unnecessary if the Authorities had handled the matter more competently to start with.

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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