

To Northern Rock Shareholders

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Northern Rock Shareholders Action Group – Update No. 44

Newcastle Journal's Poll Results

The Newcastle Journal recently ran a poll on what caused the problems at Northern Rock and who people think were to blame. Some of our supporters did manage to vote although our reminder to do so was too late for many. More than 70% rated the Government's handling of the situation as either poor or very poor, and almost 60% of people believe nationalizing the company to be the wrong decision. Some still blamed poor judgment by the former management as a contributory cause but on a positive note, 60% believe the brand is strong enough to survive although most thought that it would be a much smaller operation in few years time.

Banking Reform Consultation

Because of the perceived problems in handling of the Northern Rock crisis, the Government is proposing some reforms to the banking regulation regime. It has launched a consultation on its proposals and UKSA has submitted a response which can be seen at: http://www.uksa.org.uk/Banking_Reform_2008.pdf. Others have expressed concerns about the wide ranging powers that might be introduced to interfere with the rights of shareholders and take control of assets of banks in apparent difficulties, even in secret possibly without the knowledge of shareholders. One of the frustrating aspects of the Northern Rock affair, at least as far as the Government was concerned, was its inability to take control and override the wishes of shareholders. Our response is an attempt to widen out the debate.

Radio interviews

Our North-Eastern representative Dennis Grainger gave a good interview for the BBC which can be heard by going to this web site page:

www.bbc.co.uk/80/tyne/content/articles/2008/08/11/northern_rock_stories_feature.shtml

You can also hear the excuses by Robert Peston for leaking the story of the rescue funding that precipitated the panic and run by depositors. He also makes some other comments but we do not agree with his analysis of Northern Rock at all. As the interviewer suggested, which Peston does not seem to agree with, other banks have taken advantage of the Bank of England's special liquidity scheme to help them through the credit crisis, but that was not available to Northern Rock. The beneficiaries have been kept secret however whilst Northern Rock's plight was promoted in a blaze of publicity.

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Mr Peston suggests Northern Rock was a special case but the same liquidity problems hit Bradford & Bingley, and more recently, HBOS. In addition both Barclays and Royal Bank of Scotland have undertaken major rights issues to strengthen their balance sheets, while Alliance and Leicester has fallen to an opportunistic bid from Santander.

Note that the Government has encouraged and supported (via the extension of the Special Lending Scheme to the end January 2009 and dropping of competition issues) the rescue of HBOS whereas a year ago it did nothing to assist the proposed Lloyds-TSB takeover of Northern Rock - this demonstrates the Government's 'U' turn and discriminatory policy execution and supports our view that the Valuation terms are unethical given the £500 Billion of "state support" now being given without much publicity to other banks.

Valuation Process

Accountancy Age has reported some comments by Treasury staff about the valuation process. Apparently the agreed fee of £4.5 million for the valuation by BDO Stoy Hayward could be increased by "top-fee" fees – for example if there are legal disputes or for the handling of appeals. It was also made clear that Northern Rock will be charged with the cost of the process.

Liberal Democrat Comments

Nick Clegg (LibDem leader) referred to Northern Rock obliquely in his speech to the Liberal Democrat party conference. He said "*When reckless bankers come with gold-plated begging bowls to ask for shareholders to be bailed out our answer should be a resounding no*". Unfortunately these comments are misconceived. In the case of Northern Rock the shareholders were not looking for a free lunch – they were actually willing to support a major rights issue as part of the recovery plan, and any loans provided by the Government were done so on commercial terms – indeed on penal terms. Any Liberal Democrat supporters may care to write to Mr Clegg to correct him on this point.

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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