

To Northern Rock Shareholders

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UK Shareholders Association
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Northern Rock Shareholders Action Group – Update No. 55

Meeting with Independent Valuer

On the 10th February, I and Shum Ghumman met with Andrew Caldwell who has been appointed by the Government as the independent “expert valuer” to determine the compensation payable to shareholders. The following is a brief summary of the meeting, which lasted about an hour and a half, based on the minutes which we have only recently received:

A – We declined to make any representations about the valuation process, as we had already stated previously to him in writing, because we considered the process to be a nonsense unless the valuation assumptions set up by the Compensation Order and the nationalisation Act were overturned.

B – I asked whether he was otherwise following the normal principles of commercial company valuations (ie. apart from the terms of reference in the Act and the Compensation Order). He confirmed that the short answer was there was no difference.

C – I asked whether he had reached any conclusion as to whether the company would be valued on a liquidation basis, or whether it was assumed that it could continue trading under Administration, assuming that the valuation assumptions were not overturned by the court? He said he had not formulated a view on this as yet, and hence had not reached any specific conclusion.

D – Release of information so that other parties could comment on the basis of valuation was discussed. Mr Caldwell said that some of it might be provided on a confidential basis to him so he may not be able to release it. But where he can provide the information he will do so. I pointed out this might make it difficult for us to comment on the valuation but he said that he would endeavour to ensure that what is in the outline valuation report is sufficient for people to be able to make representations.

E – Mr Caldwell indicated that it was taking him some time to collect the information he required from third parties, but this was probably down to the number of things that were going on in the financial markets at this time.

F – At the prompting of Mr Caldwell, we restated our view that Northern Rock was in essence a sound company, and was a going concern at the date of nationalisation. Northern Rock had several key competitive advantages including a strong brand, as had been demonstrated by the quick recovery of the business. Shum Ghumman made the point that there were three viable private sector solutions on the table at one point which implied a specific valuation.

G – Mr Caldwell raised the question of what we thought would have happened if the company had not been nationalised (effectively the four assumptions in the Compensation Order and Act were removed). Our view was that clearly it would have needed more capital and some years of active management. But when valuing any business you need to take a long term view.

H – Mr Caldwell reported that he believed there were over 200,000 shareholders – note that this implies about 80,000 people in nominee accounts, many of whom we have not been able to contact.

I – Mr Caldwell reported that he had found the UKSA web site and its coverage of Northern Rock to be very useful.

J – In response to a question from Mr Caldwell about the issue of the Government's view (as stated in court presumably) that SRM and RAB had invested for short-term commercial advantage, we restated the basic principle of company law that all shareholders should be treated as equal. A share represents a continuing interest and the fact that the owner of a share might change does not alter this. In reality SRM and RAB had actually benefited those shareholders who wished to sell and they were not short term speculators trying to make a fast buck. Both those companies, and our supporters, were facing the risk of further difficulties in the housing market but were generally willing to subscribe for a large rights issue. We don't attempt to differentiate between different shareholders, such as those who got their shares for free 10 years ago, or who purchased them more frequently. It would create enormously poor precedents if we were to do so.

We do not know how the valuation is progressing at this point in time but it is clearly taking longer than originally anticipated.

UKSA's Annual Conference

This year's annual convention of the UK Shareholders Association will be held in Bournemouth on the 7th to 9th of May. There is a strong emphasis on the banking sector this year with key note speakers Richard Moseley from HSBC, Angela Knight from the British Bankers Association and leading economist John Kay (whose latest book according to the publisher provides "*a guide for concerned citizens who want to understand how the apparently arcane world of derivatives, structured products, and sub-prime mortgages brought about the greatest crisis in the world economy for decades*"). On the Saturday there is also a session on the current state of the UKSA campaigns on the banking sector which covers such companies as Lloyds Banking Group, Royal Bank of Scotland, Northern Rock and Bradford & Bingley.

But this event is not just about the problems of the Banks. The programme also includes a series of educational presentations covering skills in stock picking, timing investments, Tax, AIM Companies, the Investment Trust Sector and Market Strategy. There is also a programme of company presentations from companies such as HSBC, Diageo and Cobham.

UKSA's InvestFest is a rare opportunity for private investors to get together and exchange views and opinions. The Conference is priced at £60 a day, a fraction of the commercial cost of such an event. The event is open to non-members of course and you can attend on odd days rather than the whole event if you wish to get some idea of what we do.

A conference brochure, detailed programme and booking form are present on our web site on this page: www.uksa.org.uk/InvestFest.htm . Do take a look if you have a general interest in stock market investment.

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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