

Press Release

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UK Shareholders Association

Chislehurst Business Centre

1 Bromley Lane

Chislehurst

BR7 6LH

Email: northernrock@uksa.org

Web: www.uksa.org.uk

From the UKSA Northern Rock Shareholders' Action Group

Northern Rock Plc – sold to Virgin, the original bidder from February 2008

Coming up to 4 years after the bank was nationalised after the Government decreed a suitable buyer couldn't be found, the latest bids for Northern Rock plc sees Virgin winning the prize.

Commenting on the news of the sale to Virgin, Chris Hulme, Chairman of the Northern Rock Shareholders Action Group said: "Whilst the former shareholders have no monetary interest on the sale itself, it's a bitter pill to swallow that their Bank has been sold to the same bidder who was there in 2008 to prevent the debacle of Nationalisation in the first place."

He adds: "Despite its argument to the contrary, the Government has made significant sums of money [profit, fees and punitive interest] out of its ownership of Northern Rock and has done so to the detriment of the shareholders who rightfully owned it and have still not seen the fair independently assessed compensation they are entitled to."

Dennis Grainger, lead Plaintiff in the legal case against the Government commented: "Whilst the Small shareholders would of course recognise that a sale of Northern Rock away from Government hands is in the best interest of the taxpayer (and possibly the company itself) it has to be remembered that this company was seized from its 160,000 shareholders by HMG for no actual payment. Many of these shareholders were pensioners leaving their shares for their children or grandchildren"

In February 2008, Northern Rock was a commercially viable business, the bids from Virgin at the time demonstrating such value and viability yet the Government tried to maintain its view that it was in administration, defunct and bankrupt at the time it decided to appropriate the shares from the shareholder owners of the business.

Chris Hulme comments: "We now see the Government taking the proceeds of assets they should never have seized in the first place and still haven't paid the original owners for." That is why the shareholders' case (against no compensation being paid) is currently with the European Court of Human Rights (ECHR) awaiting a hearing. Shareholders are confident that the ECHR will rule that the Government behaved unfairly in the arrangements for compensation.

ENDS

For further information:

UKSA—The independent voice of the private shareholder

The United Kingdom Shareholders' Association Limited. Registered in England No. 4541415

(Chairman of the UKSA Northern Rock Shareholders Action Group)

Notes to editors:

The case before the European Court of Human Rights

The European case is made under Article 34 of the European Convention on Human Rights and Rules 45 and 47 of the Rules of Court

Two main arguments are being put before the Court:-

The case raises an issue of considerable public importance: is it consistent with Article 1 of the First Protocol to the European Convention on Human Rights ('A1P1') for the State to nationalise a company which has valuable assets, and yet pay no compensation to its shareholders; or can the Government justify the lack of compensation by relying on the fact that it had earlier assisted the company, in accordance with standard central banking practice, when it was facing short term liquidity difficulties, by providing loans and guarantees, for which the company paid on penal terms imposed by the Government?

Even if the provision of support to Northern Rock did entail some cost or risk, and even if the State were entitled, in principle, to some recompense for that additional to the fees paid by Northern Rock, it is clearly disproportionate for it to take 100% of the value of Northern Rock, leaving nothing for the former shareholders. Furthermore, it is surely fair to judge - as part of the 'fair balance' - that when the asset is ultimately disposed of by the Government (via sale back into the private sector) most if not all of the value being realised will stem from the original inherent or underlying value of the asset - as bought by, and developed by the original shareholder owners.

Northern Rock

Background and implications of the judgments of the British Courts

The principle of compensation being paid is not in doubt. It is the fairness of the compensation regime (in fact, a "no compensation regime") that is at issue. Before the bank was nationalised, SRM and RAB were prepared that their stake would be held for the long term and that they would also put in fresh capital (contrast that with others who were shorting the shares.). All shareholders are equal and all shareholders in companies should enjoy equal protection.

Northern Rock had a good quality loan book; its assets were comfortably more than its liabilities; it was solvent on a balance sheet basis; the Government said NRK was solvent and that it would make a profit from owning the company.

Although in receipt of funds from the Government, Northern Rock was not insolvent.

But the Government has legislated that valuation must be on the basis that following the money it put into the bank it was no longer a 'going concern' and was 'in administration'.

The issue of being in receipt of financial help is crucial. The loans could never have been called in as this would have sent Granite, the special-purpose financing vehicle set up to allow Northern Rock to sell off large parts of its mortgage book to bondholders, into a tailspin. The Government loans would have gone to the bottom of the repayment pile with a loss to the tax payer of £7bn. HM Treasury/Kingman said in their evidence they would never have called the loans in.

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The obverse to the argument is therefore worth looking at: the Government would have suffered huge consequences had it pulled its loans. If it is true for Northern Rock it is true for RBS and Lloyds too

Conclusion

The Government will make a significant profit from its shareholding in Northern Rock that it acquired for nil compensation. The shareholders are not asking for 100% of the value, but they also think it unfair that the Government will get 100% of the upside.

The Government conceded in the original legislation that compensation should be paid to the shareholders in Northern Rock. However, despite the bank having nearly two billion pounds in book value when it was nationalised, the shares were expropriated by the Government which then rigged the valuation process. Shareholders will receive nothing for their savings. The shareholders of other solvent banks which were assisted such as RBS & Lloyds did not see their owners deprived of their property (despite in RSB/HBOS case, £62bn of lending support in secret).