

Press Release

For immediate release
21 January 2008

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Government Dictates Tough Terms for Rock Rescue

Although the UK Shareholders Association (UKSA) welcomes the proposals to convert the existing loans from the Bank of England to Northern Rock into bonds, we are critical of several aspects of the announcement by the Treasury. We appreciate the efforts the Government has made to find a politically acceptable solution to the crisis at the company, but our detailed comments are:

1. The Government expects the company to pay a fee for the provision of the "note guarantee" even though the bonds will be secured primarily against the assets of the company. However, it also expects as "*additional consideration for the provision of support*" to require "*an appropriate share in potential upside equity returns of the company*". In our view this suggests that the company, and indirectly its shareholders, will be paying twice over for the support of the Treasury. In addition, the company is in fact taking the risk associated with possible difficulties in the housing market because any reduction in the value of the securitised assets that back these bonds falls first on the interest in the pool that the company is retaining.

In essence the Government is to some extent appearing to profit from the difficulties of Northern Rock to the prejudice of existing shareholders.

2. As regards the contingency legislation for nationalisation, we are glad to see that the Government is proposing an independent third party valuation of the compensation to be paid to shareholders. But it has rigged the result by setting the terms of reference for such valuation so as to ensure that shareholders would almost certainly get nothing. The proposed terms indicate that the company would be viewed as if it was in administration with the financial assistance withdrawn, i.e. it would clearly no longer be a "going concern". This is in our view grossly prejudicial, and unfair, and would be contrary to European law. Fortunately it now seems that such nationalisation is unlikely to be required so this may be a gratuitous parting shot aimed at those "speculators" such as hedge funds who have purchased the shares more recently.

On the basis of the above comments, we suggest that the Government is possibly trying to dictate terms for any rescue that are unreasonable and which are clearly detrimental to the interests of shareholders. In addition they make it clear that they solely will determine which proposals that are put to the company will get their support and will veto any others. This undermines the proper duty of the directors of the company to decide this matter.

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Note that the UK Shareholders Association has formed a "Shareholders Action Group" to promote the interests of private shareholders in this company and this page of our web site is dedicated to our campaign: www.uksa.org.uk/NorthernRock.htm . There are currently over 5,000 shareholders who have joined this campaign many of whom have contributed to a fighting fund to promote their rights.

About the UK Shareholders Association (UKSA)

UKSA is the leading independent organisation which represents the interests of private shareholders in the United Kingdom. We campaign to protect the rights of shareholders in public companies, and to promote improved standards of corporate governance. Our educational activities, regular regional meetings, company "analyst" meetings and the resources of our web site, help to inform the public on investment management. UKSA is a "not for profit" organisation which is financially supported primarily by its individual members.

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