

Press Release

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Why Northern Rock is Worth Defending

The UK Shareholders Association (UKSA) feels that the board of Northern Rock has failed to put their case strongly as to why the company should remain in business as an independent entity. Indeed some parts of the media have suggested it should even be allowed to go bust. We have therefore written the following note to explain some of the history of the company and why it is, in essence, a fine business that should be able to recover relatively quickly.

Northern Rock was originally a building society with a relatively low profile outside its north east base. Within the building society movement, it was well respected and renowned as one of the most cost efficient operators with one of the lowest management expense ratios. To put it simply, through cost control it was able to write its business at a lower cost than its competitors and thus it found its competitive edge. Under the stewardship of the late Christopher Sharp it grew to become a major savings and mortgage provider. In 1997 it demutualised and converted to a public company - qualifying account holders and borrowers were rewarded with an allocation of 500 shares each, representing a significant windfall. That was however only the beginning.

When announcing its plans to demutualise, the board stated that it would form a charitable foundation to be known as the Northern Rock Foundation which would receive 5% of its annual profits to be donated to good causes. In 2006 this equated to £31.4m, a proud achievement which saw Northern Rock achieve the status of the third most charitable FTSE 100 company in 2006. This is some achievement for a company with its original roots in the industrial heartland of the north, where building societies were formed by our forefathers in the 1800's to enable future generations to own their own homes. Ask any charity who have benefited and they will tell you that The Northern Rock Foundation has more than delivered on its promise.

In addition, savers with Northern Rock have consistently enjoyed market leading rates of interest on their accounts and an efficient administration system. Those who have borrowed from Northern Rock have also enjoyed very competitive mortgage and personal loan rates and have experienced significant financial benefits from home ownership.

Northern Rock also has one of the lowest rates of defaults in the industry and has not participated significantly in the "sub-prime" sector so it has a very high quality mortgage "book" (press allegations about reckless lending on high salary multiples by Northern Rock are grossly misleading).

So for the original shareholders, a significant number of whom will still be sitting on all or part of their original 500 share allocation, the company has delivered results far beyond expectation in terms of profitability and dividends.

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Northern Rock also has very strong relationships with intermediary partners who have benefited from their products and services. Which organisation came up with the unique 'Together' mortgage? How many elderly clients have Northern Rock helped to retain their own home with their extremely successful Equity Release range and how many savers have enjoyed the superb rates on offer through their Silver Savings accounts? Ask yourselves, would the Financial Services sector be a more competitive sector without Northern Rock or will it be better with it?

So the management of Northern Rock has clearly developed innovative and market leading savings and mortgage products for which Northern Rock is renowned within the financial services industry and this has enabled a rapid expansion of the business beyond its northern roots. Possibly this led to over-reliance on money market funding rather than retail deposits but other banks have similar structures and nobody was likely to have anticipated the closure of such markets to new lending. The business model may require slight modification but has over a considerable time and in 'normal' market conditions proven to work. Thus far the company has delivered to its customers in terms of products, and to its shareholders in terms of well managed growth and dividends.

As an irreplaceable employer based in the north east, the staff, the trading partners and the local economy as a whole, rely upon the company for their financial security. Lessons will be learned and subsequent changes will no doubt take place, but let's get back on the offensive and remind all what good things this organisation has done for those who have had the fortune to come into contact with it, whether as a customer, charity, business partner, shareholder or employee. Here is an organisation with an ethical approach that has delivered for all when needed. Even after it became a public limited company, its principles and purpose have mirrored and even surpassed those of its founding forefathers and original building society heritage. It is surely in the interests of all that the company remains independent.

Note that there is a page dedicated to Northern Rock and its recent problems on the UKSA web site at www.uksa.org.uk/NorthernRock.htm

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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.