

To Northern Rock Shareholders

21 March 2008

UK Shareholders Association
BM UKSA
London
WC1N 3XX

Phone: 0870-70-60-600
Email: uksa@uksa.org.uk
Web: www.uksa.org.uk

Northern Rock Shareholders Action Group – Update No. 29

Northern Rock Compensation – News on Legal Action and Appeal Launch

We held a press conference on Wednesday the 19th March to announce the first steps in the legal actions by shareholders to obtain fair recompense for the compulsory purchase of their shares by the Government. In addition we gave details of the launch of a campaign to raise funds to cover legal and other expenses associated with the campaign. The following is the text of a note we issued at the conference:

The Basis of Our Case

In our view the UK Government have confiscated the shares even though there was a good private sector solution on the table that would have enabled the company to recover and to repay the debts it owed to the Bank of England.

They have promised to pay some compensation but have rigged the basis of the valuation of the shares so that shareholders are likely to get very little or nothing (newspapers have been suggesting it could be as little as 5 pence per share and we also believe it will be a negligible figure).

Why have they done this and how? The reason they have done this is apparently because they have deduced that it offers “better value” to the Government to acquire the shares for a pittance, and then sell off the company after a period of “temporary public ownership” to the highest bidder. Note that there is no commitment to give back to former shareholders any interest in the company when it is subsequently sold, so they will not benefit from any recovery in the business.

Rigging the Independent Valuation

How have they rigged the compensation terms? They have set the terms of reference for the independent valuation by specifying that the following assumptions (amongst others) should apply:

- a) that the company is unable to continue as a going concern; and
- b) that the company is in administration.

These “assumptions” clearly did not apply when the nationalisation took place. The company was not in administration, and was trading normally and as a going concern (as Ministers have repeatedly said in Parliament and elsewhere). Such terms of reference for the valuation of any company are likely to result in a negligible valuation.

In addition the selection of the valuers is solely at the discretion of the Treasury and there is no guarantee that they will be unbiased and impartial.

The Government Benefiting from its Own Actions

It is a general principle followed in commercial disputes that anyone who damages the value of a business should not benefit as a result in any subsequent valuation of that business. But here the Government and its agencies caused many of the problems that Northern Rock faced.

A Legal Challenge is Justifiable

We consider the valuation approach to be unlawful, immoral and unethical and we believe that the Government should not gain by being able to purchase the company cheaply as a result of its own actions. We have taken legal advice on these issues and we believe there are good grounds to pursue legal action to challenge many aspects of this process and the likely compensation that will be offered.

We believe that shareholders have a prima facie case that their human rights have been violated under the Human Rights Act 1998 and the European Convention on Human Rights. In particular, the Act and the Convention protect rights in property from the type of action which has been taken by the Government here.

In our view a proper, independent valuation of this business when it was acquired by the Government might produce a figure of more like £5 than 5 pence per share, which gives you a measure of how much compensation we believe shareholders should be asking for as opposed to what the Government wishes to pay. However, please note that we do not wish to prejudge any valuation as not all the necessary financial information is available to us at this time – all we ask is that the valuation should be done on a normal commercial basis with shareholders and the Government being able to make submissions about the factors that might affect the conclusion.

But it is certainly not natural justice that a buyer of any business should dictate the terms of reference for the determination of the purchase price.

Launch of Legal Action Fund

We estimate that there are over 150,000 private individuals who have been affected by this matter. We are therefore asking everyone who was a shareholder in Northern Rock to register their interest in this legal challenge and contribute a minimum of £25. Larger donations are invited from shareholders with more than 1,000 shares, in proportion to their holdings.

Please donate to this fund if you have not already done so. We really do need contributions from everyone if we are to obtain justice for shareholders.

Details of Legal Action

David Greene of Edwin Coe, our solicitors, has sent a "letter before action" to the Treasury on behalf of three representative plaintiffs (members of our group) outlining our claim that there is a breach of the European Convention of Human Rights in how the nationalisation Act and the Compensation Order are framed and requesting a response within 21 days. The intention is to seek a judicial review if there is no acceptable response. We understand SRM Global has sent a similar letter and it is likely that other institutions may join in at a later date.

Note that although there is likely to be a joint case because clearly the claims are similar, we would need separate legal representation.

More Plaintiffs Required

Although we have several representative plaintiffs lined up, we do require more people to give us a good cross section of private shareholders. This does not involve a great obligation in time and we would ensure that you would be indemnified against any costs. Could anyone who would like to help in this regard please telephone me on the number below to discuss what is involved.

Credit Crunch Continues

The general credit crunch has led to the downfall of Bear Stearns. After a rescue by the Federal authorities it has been purchased by J.P.Morgan. Contrast the speed with which these actions took place and the hesitation and delays of the UK Tri-Partite Authorities when faced with the problems at Northern Rock.

It is also worth noting that the Bank of England has provided funding of £15bn in the last week to unspecified borrowers with no great drama or fuss, unlike what happened with Northern Rock.

Fund Raising

Donations have been coming in at a reasonable rate, and as you can see from the above we have launched a major new initiative in that regard. Our objective is to raise money from at least 30,000 shareholders to give us the required funds to pursue this campaign. We have revised the Donation Form to set a minimum donation of £25 because the previous amount of £10 was inadequate to cover more than our basic administration costs and we are now looking at much more substantial costs and a longer term campaign. In addition it is clear that if this campaign is a success then even shareholders who have only 500 shares will improve their compensation offer by at least several hundred pounds so it does make sense for you to fund this campaign adequately. The revised donation form is present at www.uksa.org.uk/Northern_Rock_Appeal_Letter.pdf .

Incidentally we introduced an offer of free UKSA membership for one year if you donate more than £45 and this is certainly worth taking up if you are an active investor.

InvestFest Conference

The UK Shareholders Association is holding its annual conference from the 15th to 17th of May in Leeds (see www.uksa.org.uk/InvestFest.htm for details). We hope to schedule a meeting for Northern Rock shareholders on the Saturday (the 17th) and more information on that will follow.

This conference is primarily for members of UKSA but non-members can attend also. We are also planning to hold some separate meetings for Northern Rock shareholders in London and Newcastle as we did some months ago. Details will follow later.

Roger Lawson
Communications Director, UK Shareholders Association; and
Chairman, Northern Rock Shareholders Action Group
Email: uksa@uksa.org.uk
Web: www.uksa.org.uk
Direct telephone: 020-8467-2686

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