

To Northern Rock Shareholders

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Northern Rock Shareholders Action Group – Update No. 45

Company Recovery Ahead of Plan

Among all the welter of bad financial news recently, one announcement by Alistair Darling almost escaped the limelight. This was the information that Northern Rock had now repaid more than half of the £27bn it had borrowed from the Bank of England, and had continued to repay the loan ahead of schedule. This is despite the fact that the housing market is definitely in a much worse state than anticipated when those loans were taken out, but how much the movement of retail deposits back to Northern Rock has been encouraged by the unlimited Government guarantee is not known. However, it reinforces the views of many Northern Rock shareholders when the company was in crisis that it only needed temporary financial assistance to survive and that nationalism was not necessary.

No Action Against the Former Directors

More details of the company's financial recovery were given in a *"Quarter 3 Trading Statement"* which is available on the Northern Rock web site. In there is a statement that following an investigation by the company's lawyers they had concluded that *"there are insufficient grounds to proceed with any legal action for negligence against the former Directors, and [the board] has no intention of bringing such action."*

Of course we did tell you some time ago that there were unlikely to be grounds for such action and that any such investigation was more "hot air" than based on any real hope of identifying grounds for such action.

Government Support for the Banking Sector

On the 8th October the Government announced wider support for the banking sector including about £500bn of total funding under the Special Liquidity Scheme and the willingness to subscribe for both preference shares and equity. UKSA issued a press release which included the following comments: *"The provision of up to £200bn under the Special Liquidity Scheme is also welcomed as a short term measure to improve liquidity in the banking system. This and the other measures reinforces the point we have made before concerning Northern Rock that this company was not a special case but was simply one of the first victims of this general crisis in the banking sector. If similar measures based on a private sector solution had been applied to helping Northern Rock instead of the nationalisation that took place, the Government would not now be facing so many disgruntled shareholders and a legal action"*.

Note though that after the details of the Government support were announced by the companies, shareholders were astonished to discover that it seemed the Government was intent on making large profits at the expense of shareholders. Also it was "nationalisation by stealth" in the case of Royal Bank of Scotland and LloydsTSB as in both cases the Government will probably end up with effective control. Shareholders will also suffer because dividends will be non-existent for some time and profits in the companies eroded by high Government charges on the preferred shares being offered. We issued a press release which spelled out our concerns and it is present at: www.uksa.org.uk/UKSA_Press070_Bank_Support_Terms.pdf

Press Comment

An article in the Independent by Jeremy Warner on the 7th October included these comments: *"Similar policy mistakes were made in Britain over the collapse of Northern Rock. Rather than support the bank with the liquidity it needed, or provide the government guarantees that would have enabled a smooth takeover, Northern Rock was demonised as a bad bank whose reckless expansion deserved to meet its nemesis in nationalisation without compensation. As events have proved, Northern Rock was, in fact, only the outrider for a funding problem that would become common to the banking system as a whole."*

The media, and the general public, are now coming to realise that Northern Rock was not a bad bank but one simply suffering from the same problems that all banks have been experiencing. If the steps now being taken had been applied to Northern Rock at an early stage, then the company could have got through its difficulties relatively easily, and the lack of confidence those difficulties instilled in the whole banking sector could have been avoided.

Reminder re Meeting for Shareholders in London

The UK Shareholders Association regularly exhibits at the World Money Show in London. This is the premier event for stock market investors in the UK. This year we are in addition holding an open meeting for Northern Rock shareholders thanks to the generous support of the organisers, and have also decided that as we have a full two hours available we will also cover Bradford & Bingley in the last hour (many of the issues are similar and some shareholders had the misfortune to hold shares in both companies). Incidentally we do now have a separate "Shareholder Action Group" for B&B shareholders so let us know if you want to go on the contact list for that also.

The World Money Show is at the Queen Elizabeth II Conference Centre on the 14-15 November 2008 and the meeting we are holding for shareholders runs from 10.00 am to 12.00 am on Saturday the 15th in the Thames Room on the 1st floor. Note that Admission to the Meeting for Shareholders and to the event in general is free but you do need to register. To register Online, visit The World Money Show London Web site today at: www.moneyshow.com/msc/ukms/main.asp

If you cannot make the shareholder meeting, we will have a stand in the Exhibition hall and you are welcome to come and have a chat on any of the two days that the venue is open.

Campaign Status

We now have about 38,000 registered supporters for this campaign and the numbers continue to rise. It is surprising how many people who held their shares in nominee accounts have only just found out about our campaign.

Please note that with that number of supporters it can prove difficult for us to answer individual questions from supporters, so please excuse any brevity in our responses.

Fund raising is also going reasonably well although we must again ask those who have not yet contributed anything to do so. The judicial review has progressed and the case gets into court on Jan 13th 2009, but we do need to raise more funds to cover our legal expenses and other costs. Please contribute if you wish us to win this fight and get fair compensation for the confiscation of your property. Please remember that you may get several pounds per share compensation if we win this case, but little or nothing if we do not. So please donate however much you can afford. Donations can be made via credit card or debit card from this page of our web site: www.uksapay.org.uk/donation.cfm

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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