

To Northern Rock Shareholders

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Northern Rock Shareholders Action Group – Update No. 17

The EGM Resolutions Requisitioned by RAB and SRM

Shareholders on the share register of the company should have received notes written by RAB Capital and SRM Global explaining why they requisitioned the first four resolutions to be voted upon at the Extraordinary General Meeting on Tuesday the 15th. Other shareholders can read versions of these documents on our web site on the following pages: www.uksa.org.uk/RAB.pdf and www.uksa.org.uk/SRM.pdf (both of them are pdf documents of course).

These explain at more length and more eloquently why our recommendation was to vote in favour of those four resolutions - they are more discursive than the note we issued – but they did have a couple more weeks to write them of course.

Suggested Questions for the EGM Meeting

For those shareholders who intend to attend the EGM Meeting, here is a list of some suggested questions you may care to ask:

1. What is the board doing to re-establish the confidence of retail depositors and revive it's financial base? Although more marketing to retail customers does seem to have appeared lately, it hardly seems to be communicating any major new messages or themes and it is unlikely to rectify the concerns of the public.
2. What is the company doing to improve its media coverage which has been abysmal since the crisis arose with grossly misleading stories appearing in the national press and on television. A simple example of where it is failing is that I have been told the directors have refused to give interviews before or after this EGM. It seems that the company's PR activities are falling down when it is such a critical activity if a company is in difficulties.
3. Bearing in mind that it is always a good idea to align the interests of the directors with those of shareholders, when do the new directors intend to purchase shares? It is clearly of concern when directors have no clear financial interest in the shares of the company. Or if they are not happy to do that, perhaps I could suggest that they simply be paid in Northern Rock shares rather than in cash for their services?

4. Why was the dividend cut at the last minute, even after it had been publicly declared, and then soon after Northern Rock staff were given significant pay rises? Many small shareholders depend on their dividends for income so they were surely entitled to expect that the dividend would be paid if the company could afford to pay wage increases.

5. Why did the company decide on a "strategic review" (a euphemism for "looking for a buyer") when there was no reason why it could not have borrowed the same funds as the prospective bidders so as to repay the Government loans? What would the likely bidders bring to the party that the company could not have organised for itself - except for racking up major fees for the financial advisers involved of course? In reality it seems that the search for "strategic partners" might prove fruitless and months have been wasted, and management distracted, to no advantage.

6. What is the plan to rebuild the company if the "strategic review" comes to nothing? Do you have any "plan B"?

7. Why did you choose the Virgin Group consortium as the "preferred bidder" when it was clear that this involved a major transfer of value from shareholders to Virgin, and a massive dilution of existing shareholders? The Virgin Group offer simply looks like an opportunistic attempt to acquire major assets on the cheap.

8. Will the board assure us that they will vigorously oppose any attempt by the Government to Nationalise the company, or any artificial Administration scheme that extracts the company from the ownership of the current shareholders?

9. Will the Chairman confirm the promise made to Roger Lawson of the UK Shareholders Association that shareholders will be given a vote on any significant transaction that affects the future of the company, irrespective of the result of the vote on resolutions 1 to 4?

10. Bearing in mind the moral obligation of the directors to keep shareholders informed about the situation of the company, supported by the UK Listing Rules, why was no announcement made by the company about its financial position between the 14th August and the 14th September 2007 when clearly the company had already anticipated the financial crisis and had been in discussions with the Bank of England? Did this not create a false market in the company's shares and enable some City speculators to make a fortune at the expense of other shareholders when rumours were widespread in the City about the position of the company?

I will of course be attending the meeting and will try to ask at least one or two questions.

Voting at the EGM

It is now too late to return a proxy voting form, so if you have not voted by post as yet the only way to get your vote recorded is to attend the meeting in person.

It is worth pointing out that resolutions 2, 3 and 4 on the agenda are "Special" resolutions. This means that they require a 75% majority of those voting to pass. All the other resolutions are "Ordinary" ones so only a 50% majority of those voting is required.

Numerous shareholders who hold their shares in nominee accounts have reported great difficulties in voting. Stockbrokers and other nominee operators have in most cases not even informed their clients about this meeting and how they might vote.

Even when the shareholders have requested the nominee operator exercise their rights to vote, some have refused to do so. And the delays created by the sloth of nominee operators, and the slow turn-around of documents, means the deadline for voting has often been missed. As an example of the problems, I almost missed voting some Northern Rock shares held in an ISA because my stockbroker failed to notify me via email of the forthcoming vote and send me a voting form, even though they had had promised to do for all my holdings.

As this is unlikely to be the last or most decisive vote on the affairs of Northern Rock, we suggest that you consider how you hold your shares (the only way you can be guaranteed voting rights is to hold your shares in paper certificate form or in a personal crest account), and which stockbroker you do business with. If necessary you should transfer your shares into a different form or to a different broker.

Company Raises £2.2bn from Mortgage Portfolio Sale

On the 11th January Northern Rock announced that they were selling its portfolio of "Lifetime" home equity release mortgages to JPMorgan for £2.2 billion. This is about 2.2% more than the book value of the assets and therefore it seems to be a reasonable deal. The cash will be used to help repay the Bank of England funding. Note that this transaction would be within the terms of the requisitioned EGM resolutions so it shows that they would not necessarily inhibit the company excessively.

Pension Trustees Demand Protection

Trustees of the Northern Rock pension scheme have written to their members to say that the scheme now has a deficit of £100 million. This has arisen because although the scheme previously appeared to be fully funded, the trustees have switched much of the investment portfolio into gilts which reduces the projected returns. It seems this may have been done because of the future uncertainties associated with Northern Rock, although the logic of this escapes me.

The trustees are asking for additional security from the company if any deal results from the "strategic review" and even seem to be suggesting that the Government should provide similar guarantees to those provided to depositors.

In essence this demand seems quite unreasonable to me. All pension schemes depend to some extent on the future health of the company that is funding them. Even if it is reasonable to have changed their investment strategy, the figure of £100 million is not a very large amount in relation to the activities of the company and demands for additional security seem to be somewhat unrealistic.

Current Funding Position

Virgin and Olivant both still seem to be working on their proposals, and Goldman Sachs are still searching for funding on behalf of the Government. Rumours continue to suggest that they are all having difficulty in raising the required cash on reasonable terms to enable a reasonable proportion of the funding from the Bank of England to be repaid.

One suggestion has been to convert the Bank of England loans in bonds which could be sold in due course to financial institutions worldwide – including "sovereign wealth" funds that seem to be some of the few people who have spare cash at present. The Government might need to provide some guarantees on these bonds to make them saleable, or other insurance might need to be arranged to enable them to get the required "credit rating".

Chancellor Again Disparages Shareholders

The Chancellor of the Exchequer, Alistair Darling, spoke again to the Commons Treasury Committee last Thursday. He once more emphasised the importance of protecting depositors and for the Government to get its money back. But he again criticised the shareholders for being obstacles to a solution. However he did still emphasise that a private sector solution is preferable.

It is unfortunate that the Government and certain sections of the media continue to characterise Northern Rock shareholders as short term speculators when in fact nothing could be further from the truth. This particularly applies to the 150,000 small shareholders who have mainly held their shares for the ten years since the company was privatised, and have often been relying on the dividends paid by the company for their income in retirement.

Shareholders clearly accept the risk of share price volatility when they buy or hold shares. But that does not mean that they accept that their rights and interest in this "property" can be disposed of at the whim of the Government, or the value represented by the underlying assets held by the company should be transferred at an unrealistic price to someone else – whether it be Virgin Group, the Government or some subsequent buyer.

On the latter point, it is clear that if the Government does pursue the Nationalisation course, which incidentally seems to be opposed by almost everyone, including the Unite trade union representing the employees, then it would only be on a temporary basis. So it would be highly likely that this valuable property would be sold at a knock-down price as quickly as possible.

You can be assured that this organisation will do everything within our power to stop this happening.

Yours sincerely

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