To Northern Rock Shareholders

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Northern Rock Shareholders Action Group

Report on the Extraordinary General Meeting Held on 15/1/2008

Shareholders in Northern Rock gathered on a gloomy and wet day in Newcastle for an Extraordinary General Meeting (EGM) on the 15th January. The temperature of the venue, the Metro Radio Arena, was also cool as it is normally an ice rink – this may have helped to suppress the tempers of shareholders who were less vociferous than expected. The meeting was called due a requisition by two major shareholders for resolutions to inhibit the actions of the board without further shareholder approval – details of those resolutions and our voting recommendations are present on our web site on this page: www.uksa.org.uk/NorthernRock.htm

This note gives an impression of what was said at the meeting, but is not intended to be a verbatim report. It seems that about 700 people attended the meeting, but the early start time of 10 am may have deterred many.

The Chairman, Bryan Sanderson, commenced with a 30 minute presentation which generally reassured shareholders about the merits and financial strength of the business, and the activities of the board. He said the assets are sound, and they had not had to make substantial write-downs. But the company has struggled to refinance its liabilities (i.e. the Bank of England loans which the Government wants repaid as soon as possible). He said it was vital that "we act responsibly for all stakeholders" but "to promote the success of Northern Rock we need continuing support from the Government" and "we must work with the Tri-Partite Authority". However the "art of the possible is constrained by EU laws on financial support".

He declared that his job was the "second toughest in Newcastle" – I think he was suggesting the first was the management of the local football team. He remarked that this period was the worst time in 15 years, with credit extremely hard to come by and financial institutions have become much more risk averse. As shareholders have recognised, now is not a good time to dispose of financial assets.

The Board was focussing on the Virgin and Olivant proposals and will put these to shareholders for approval if progressed. The Strategic Review is expected to be completed by mid February, as originally scheduled. He can understand why shareholders would want to put the Board on a "shorter leash" but explained why he did not think this was a good idea in the current circumstances.

As regards possible Nationalisation he said it would be enormously damaging to the financial reputation of the UK and to the North East. However he did not feel he could “call the bluff” of the Government as some shareholders had suggested (I think this was a reference to my suggestion that he take a tougher stance when talking to the Government on the future options). He felt the Board had to steer a path between the different interests and their views on what should be done.

The Chairman’s presentation was well pitched in terms of content and tone, and shareholders probably felt more hopeful of a positive outcome in due course. But he clearly emphasised that there were still some uncertainties about what was possible.

The Chairman’s speech was followed by short presentations from Philip Richards of RAB Capital and Jon Wood of SRM Global, who had requisitioned the meeting.

Mr Richards lauded the achievements of Northern Rock. He emphasised that RAB are UK taxpayers and are supporters of any solution that is good for all stakeholders. He believed the requisition has ensured shareholders are not wiped out as it is now recognised that shareholders do have an interest. But nationalisation would be bad for all stakeholders. As a nationalised business Northern Rock would undoubtedly shrink in size and it would simply result in a “slow” fire sale as opposed to a fast one. There would hence also be shrinking employment and the company would suffer a slow death.

He suggested the crisis arose out of a mishandling of the credit crunch by the Bank of England (BofE). So it is perverse to say shareholders should be wiped out. The Bank of England is currently sucking the profits out of the company to the benefit of the Government and taxpayers.

Jon Wood said he had been a shareholder since Northern Rock began and he said that SRM are incredibly long term shareholders, not short term ones. He had been told not to criticise Mervyn King but he felt he must do so. The Banking Act made it clear that the BofE should act as the lender of last resort, but King had introduced “moral hazard” and refused to lend the company money when other central banks did make such loans in other countries.

Both RAB and SRM had recommended voting for the re-election of the board, and SRM have offered financial support to both Olivant and Virgin. He concluded by saying that we have to stick together but we will come out stronger.

Questions then we taken from shareholders. These had to be submitted in writing before the start of the meeting and only one per shareholder was permitted. This reduced the spontaneity of such occasions and of course meant that no questions could be asked on what the Chairman or other speakers had just said.

A shareholder put the question “*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?”* (this was one of UKSA’s suggested questions in the list we issued, but I learned later that the directors had seen this list so should have been well prepared with the answers). The answer given to the first part was the directors were unable to buy shares because the company had been in a “close period” since the strategic review was announced. No answer was given to the latter part of the question.

I put the question: "*What is the plan to rebuild the company if the "strategic review" comes to nothing? Do you have any "plan B"?".* The answer was that the company was looking at a number of other options in addition to the Virgin and Olivant proposals.

Dermot Driscoll (one of our committee members), put the question: "*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?"*. The answer given was the company had no control over the decisions taken by the Government. Note that this seems an unsatisfactory response in that clearly the company could obstruct such plans in some ways, and in addition it could influence Government policy indirectly if it chose to do so. Incidentally the Chairman did indicate later that he had talked to MPs including Vince Cable.

Robin Ashby, of the Small Shareholders Group, promoted the merits of depositing money with Northern Rock and asked the new board members to give more information as to why they had joined the board. They each spoke briefly and well. On the whole I think shareholders will have been impressed by the intelligence and experience of the board and by what they said. Mr Ashby said he would after all vote for their re-election whereas previously he had suggested shareholders should not.

Other questions were also put re staff bonuses, with some justification given in response, and about the recent disposal. One speaker suggested that the company consider a bid for Virgin Group rather than vice-versa, based on the fact that Virgin group was relatively small in comparison with Northern Rock – the Chairman refused to comment on that.

The only really enlivening speech was when one shareholder suggested that former chief executive Adam Applegarth had obviously sold shares based on some inside knowledge of the state of the company, much to the approval of the audience. The Chairman said the company had no control over when directors sold shares and in general he avoided going over the past events at the company. He expressly said that the board was certainly not currently looking at the past actions of the directors, although they might later.

The meeting was thankfully devoid of much retrospection about past failings and did look more to the future. The questions by shareholders were generally reasonable and sensible.

The meeting then proceeded to a vote. Only a poll was done - no "show of hands" vote which avoided an obvious demonstration of the views of attendees which would almost certainly have been contrary to the boards recommendations on the first four resolutions. The poll was done electronically using handheld voting machines. Normally when this method has been used in the past it means an instant result can be given. But this was not the case here because corporate proxies had to fill out voting cards manually. This is a result of the new Companies Act where corporate proxies (i.e. typically those representing nominee shareholders) now have to split their vote based on the preferences of their clients. This again takes the tension and real democracy out of a General Meeting and is to be deplored. The result was therefore declared a couple of hours later – our comments on the results can be seen in this press release on our web site:
www.uksa.org.uk/UKSA_Press054_Northern_Rock_EGM.pdf

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