

To Northern Rock Shareholders

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Northern Rock Shareholders Action Group – Update No. 30

Web Site Revised

The Northern Rock pages on the UKSA web site have been revised and simplified. In addition an on-line payment facility has been added so you can easily donate by credit card or direct debit (see this page for more details: www.uksa.org.uk/Appeal.htm). Up to £1,000 can be donated by this means but you can of course still contribute by posting a cheque or by making a direct bank transfer.

A couple of photographs from the recent press conference are also present on this page: www.uksa.org.uk/NorthernRockPhotos.htm

Responses from MPs

A number of you have sent me copies of responses from your local Members of Parliament after you wrote to them. It is clear that both the Conservatives and Liberal Democrat MPs are using a standard "template" to respond as the wording is often almost identical.

The Conservative one includes the phrase "*Although the bids by Virgin and Northern Rock's own management would have given existing shareholders some hope for the future, both bids would have reduced the value of your shares*" - and later on "*Northern Rock has only continued to trade because of Bank of England and Treasury support and that has to be recognised in establishing the value of the business*".

Here's what I wrote in reply to my own MP which you may care to use: "*The first comment is misleading in that although both bids involved share dilution and hence might have been assumed to have reduced the value, in reality the fair value of those bids actually suggested that the implied price would have been higher than the then current market price, ie. if the bids had been successful the share price would have increased. In addition, the implied price was higher than the price I paid for the shares, and certainly much higher than the compensation offer that the Government is likely to produce. As regards the latter comment shareholders have no objection to a fair and independent valuation where the support of the Bank of England is taken into account - but that is not what is being proposed as anyone who has studied the Compensation Order will clearly understand*".

The Liberal Democrat version suggests that "*it is now appropriate for an independent valuer to determine what if any compensation should be available to shareholders, but that such determination can only be on the basis of a 'gone concern'*". This is of course nonsense as the company was never "bust" and has continued to trade as a "going concern" before, during and after the crisis. You can make up your own refutation for this balderdash.

The FSA Review

The Financial Services Authority (FSA) published a summary of its review of its regulation of Northern Rock last week – it can be seen on the internet at:

www.fsa.gov.uk/pages/Library/Communication/PR/2008/028.shtml

Among all the excuses it parades, the key paragraph is number 31 which says: *"the FSA's approach to liquidity reflected a presumption that, in the event of a crisis like that experienced in August 2007, general market liquidity provided by the Bank of England would be increased and, in extremis, liquidity would be provided for systematically important institutions"*. In other words, it was expected that the Bank of England would lend money based on its statutory role as *"lender of last resort"* to such companies as Northern Rock but this it failed to do. As we have pointed out before, the Governor of the Bank of England hesitated to do so because of his invention of *"moral hazard"* as an excuse not to take action, with the result that the action was delayed unnecessarily. The consequences were dire in the extreme.

Ultimately though the report accepts that there were many defects in the regulatory supervision of Northern Rock, with a general low level of supervision of the company in comparison with other large banks. Mr Sants, the head of the FSA, had already conceded this in a previous statement.

Accounts to be Published on Monday

The accounts for Northern Rock for the last financial year are apparently to be published on Monday (the 31st March). Don't expect them to look good as it is clearly in the interest of the new management (i.e. the Government) to make them look as awful as possible in case we get a proper independent valuation. There will also be a lot of exceptional costs related to the abortive *"strategic review"* process, and no doubt large provisions for restructuring. In the financial world this is known as *"taking a bath"* where all the dirt is washed away and a bright new business emerges – if excess provisions have been made, these are then brought back in to make the future figures look even better. We will supply an analysis in due course, but what really matters when valuing a business is the future profits and cash flow so don't assume that what you see at first glance or what the newspaper headline writers say bear much relation to reality.

Figures published by the Bank of England suggest that its borrowing to Northern Rock has already fallen to £21 billion (from £27 billion, implying a repayment already of £6 billion). New Executive Chairman, Ron Sandler has even written to all customers saying that although some things will change, *"in most other respects, however it will be business as usual"*. It seems the company is well on its way to recovery and could be lined up for sale sooner rather than later.

Other News

Thanks to the several people who volunteered to act as plaintiffs in a prospective law suit, and for the financial donations received. We are continuing to progress recruitment of supporters to this campaign and raise funds. More news will be supplied as soon as it is available regarding progress on the legal action.

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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