

Andrew Caldwell Esq.,  
Independent Valuer re Northern Rock Compensation Order,  
C/o BDO Stoy Hayward LLP,  
55, Baker Street,  
London, W1U 7EU.

27<sup>th</sup>. November, 2008.  
Your ref. 49100B.

Dear Mr. Caldwell,

### **1,500 ORD. SHARES NORTHERN ROCK**

I thank you for your letter of the 13<sup>th</sup>. November, 2008 and confirm that I qualify as an Affected Party as holder of the subject shares, unlawfully nationalised.

There has been much speculation in the media as to whether any competent party would undertake the role of Independent Valuer under the Government's Compensation Scheme because he would be either compromised by the limitations of the remit or corrupted by the express intent of the authorities which are already compromised by their negligence. Under Article 6 of the Compensation Scheme Order, you admit that you are required to assume that Northern Rock was unable to continue as a going concern and is in administration – In contrast, I refer you to the Bank of England's letter of the 8<sup>th</sup> November 2007 which states that "the FSA judges that Northern Rock is solvent, exceeds its regulatory capital requirement and has a good quality loan book" – in other words, just 3 months before Northern Rock was nationalised on the 22<sup>nd</sup>. February, 2008, the evidence shows that Northern Rock was a going concern which did not need to go into administration but faced a liquidity shortfall which it was the Bank of England's primary function to resolve. On this basis, you should examine what occurred to change FSA's assessment in that ensuing 3 months, most particularly, what the authorities did or failed to do. In addition, you admit that you are required to assume that the role of the Bank of England as lender of last resort, present and future, is withdrawn – this presupposes that the Bank of England, said to be independent of Government, has either ceased to function or has ceased to exist or its independence has been compromised by the intervention of the Government. On this basis, you should examine the culpability and liability of the various authorities for the inferred admission that Northern Rock, the first of many Banks to be destabilised by the liquidity crisis, was singled out for confiscation contrary to the Law and the legal rights of shareholders.

Given that the assumptions you are required to apply are at best misconceived (and may be fraudulent by intent) and unsustainable, it is improper to value the realisable Net Capital Resources of Northern Rock as at the 22<sup>nd</sup>. February, 2008 after the authorities, through delay, muddle, inaction and possible manipulation leading to charges of misconduct, negligently allowed the incipient liquidity crisis of one Bank to spread to all the Banks. Instead, the appropriate date of the valuation should be circa August/September 2007 when Lloyds TSB Bank proposed to the Bank of England and the Treasury that it would purchase Northern Rock (as it subsequently did in the case of HBOS). On this basis, you should examine exactly what the authorities did, most particularly, the reason why the Lloyds TSB offer was reportedly not entertained, leading to the Northern Rock share price plunging from in excess of £6 to under £2 in the latter part of September 2007.

However, the crux of this matter is the enormously damaging impact on the share-price and trading conditions of Northern Rock by the ineptitude of the Government, most particularly the Tripartite authorities (it is generally accepted that the Tripartite regulatory structure introduced by New Labour was ineffectual); and by the inflammatory (and possibly inaccurate) reporting of the events by the media in general and the BBC in particular and their reporter Robert Peston especially:

1. The Bank of England should have continued the 200 years tradition of primary responsibility for Bank regulation which it lost under New Labour. It failed to understand the implications of the sub-prime loan crisis first reported by HSBC in early 2007; and it is evident that no regulator understood the implications of Banks buying securitised mortgage obligations from each other and of booking Securitised Investment Vehicles off-balance sheet. Proper regulation of Banks by the Bank of England should have had many regulations in force as the securitisation market evolved to restrict or prohibit such activities (as in Spain).

2. In addition, it was nothing other than established market practice for Northern Rock to approach the Bank of England as lender of last resort and that approach should have been kept confidential rather than leaked to the media which led to speculation. The importance of Banks in the economy should have been recognised by the Government and the Bank of England long before the Banks were, as recently, placed on a list of entities whose shares may not be short-sold and given by the Government exhortations/dictats to keep lending in increasingly adverse economic circumstances – previously, New Labour was talking more of windfall taxes for the Banks
3. The Treasury had no clue about the economy (as we have seen it since collapse) when it failed to support Lloyds TSB's takeover of Northern Rock which would have immediately allayed its liquidity crisis. It also had no right, together with the Treasury Committee, to suggest that the Northern Rock dividend should not be paid in Autumn 2007 which immediately depressed the share price – this was Government meddling in the affairs of a private company owned by shareholders. It is self-evident that Northern Rock was the first of many banks throughout the world to confront a “globalised” liquidity crisis and the extraordinary measures taken by the British, US and European authorities to bail out many of the Banks was an opportunity denied to Northern Rock which should have been used as a model for resolving the problems of other Banks as the crisis spread throughout the world financial system. The Treasury had no right to nationalise Northern Rock and its continued threats to nationalise the other British Banks (if they do not maintain historic lending levels) underlines the incompetence of New Labour dogma because this simply discourages investors from subscribing for the much needed rights issues essential to recapitalising the Banks
4. The FSA (and TSA/SFA before) has failed to deliver any effective regulation in more than 20 years and there was never any case for the FSA to be made responsible for Bank regulation. It purports to be competent to regulate the complexities of hedge-funds (another crisis waiting to happen) when it was not even competent to realise that Northern Rock's balance sheet revealed a dangerous imbalance in the ratio of long-term mortgage commitment funded predominantly by short-term loans. This issue should have been the subject of many discussions between the FSA and Northern Rock Directors but there is no evidence that any such concern was raised
5. The media was in search of a “story”/“breaking news” and the BBC led the race to a deadline to dramatise the routine functioning of the banking system by spreading speculation that several Banks, notably Barclays, Northern Rock, HBOS, Alliance & Leicester, and Bradford & Bingley, were “having to go to the Bank of England for assistance”. This in turn led to hedge-funds short-selling many of these Banks' shares which made the speculation a self-fulfilling prophecy – especially in the absence of any effective action by the Tripartite authorities – in Autumn 2007, the Bank of England was arguing that it should not assist Banks whose Directors had adopted unwise lending policies and it was making a merit of not intervening. This in turn led the media to refer to several Banks, particularly Northern Rock, as a “basket-case” (when this was a critique that should have been levelled at the Government). This led to the first run on a British Bank in 150 years even though the media and the Tripartite authorities should have made it clear at the earliest stage that depositors money was guaranteed by the Government – be it that on delaying such reassurances, the Government was forced to reform and increase the amount of that guarantee which it should have done long before any crisis arose
6. The London Stock Exchange has been content to allow the short-selling of shares it quotes despite the devastating effects this market activity has on the “permanent capital” of British companies and the interests of shareholders who are genuine investors seeking to support the growth of British companies by the provision of cheap capital. The simple measure of suspending Northern Rock shares in the face of massive media and market speculation would have brought some stability to its share price while the Tripartite authorities dealt with its liquidity problems and possible sale to Lloyds TSB (or other entity) but it took no action – and yet it has had no problem suspending the shares in Woolworths this week! Suspension of shares would also penalise short-sellers more effectively than any other measure
7. An inquiry into the conduct of Northern Rock's Board has absolved its members of any liability – that is because the Tripartite authorities were equally negligent in failing to ensure that the Board members had relevant experience to run a Bank and pursued properly funded and capitalised policies

From the foregoing, the facts suggest that the scope of your remit must include a proper examination of the central role of the Government in bringing about the demise of Northern Rock as an entity owned by shareholders whose property rights should have been protected by Law against nationalisation by that same Government whose Tripartite authorities had a duty to properly regulate Banks which, in turn, would protect automatically the interests of shareholders. There is also a case for examining the sensational style of reporting by the BBC in advance of Northern Rock's share-price collapse when more measured and informed comment, orchestrating the function of lender of last resort and deposit guarantees, may have averted or mitigated that collapse. As a result of such input, I believe a guide price of in excess of £4 per share should apply if not the £6.40 price traded at about the time the Lloyds TSB proposal was rejected by the Treasury; and the Government is most certainly liable – be it that it is regrettable that such compensation will come from taxpayers funds and not from those whose conduct caused or aggravated these events.

Yours sincerely,

Robert L.S. Harris.

Copies to: FSA, HM Treasury, Bank of England, Treasury Committee, UKSA.