The Right Honourable Dame Harriett Baldwin MP
Chair of The House of Commons
Treasury Select Committee
House of Commons
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Northern Rock Shareholders
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Dear Chair and Members of the Treasury Select Committee

SUBJECT: FAIR VALUE COMPENSATION FOR NORTHERN ROCK SHAREHOLDERS - APPEAL FOR TSC INVESTIGATION AND ADJUDICATION.

Executive Summary

- We represent a significant number of individuals, namely the over 150,000 shareholders who were adversely impacted by the 'temporary' (now permanent) nationalisation of Northern Rock plc (NR). As set out below, our shares were essentially confiscated during this nationalisation and zero compensation was given to us despite the government ultimately accruing significant profits. This act has been proven to have been a 'knee jerk' reaction during a much larger situation (2008 global banking crisis).

- We are seeking fair and equitable compensation for this erroneous confiscation of our investment through the act of nationalisation.

- Notwithstanding the actual global banking crisis of 2008, we demand to know why Northern Rock plc was treated differently to all other affected banking institutions (none of which were nationalised) and why this continues even today, 16 years later – only Northern Rock has repaid all monies advanced by the government during the banking crisis and yet the shareholders still have zero ownership and compensation for Northern Rock, despite it continuing as a going concern.

- The nationalisation of Northern Rock plc was an unprecedented act in the history of the UK banking sector – what could possibly have been the rationale behind this decision?

- Every subsequent evaluation of the actions taken shows there was no cost impact to the UK taxpayer (see appendix 1). These evaluations are from several reputable sources (including the Government itself/Office of Budget Responsibility (OBR)) they all show that, in varying degrees, Northern Rock has contributed not insignificant surpluses to the HM Treasury - this is despite the application of punitive charges from interest and fees – surely these gains should be redistributed to their rightful owners (the shareholders).

- In recent months, we have all been made aware of The Horizon IT scandal affecting the Post Office Postmasters. This has been devastating for the affected parties and rightly deserves Government's attention. The confiscation of over 495 million £0.25 ordinary shares in Northern Rock has been equally devastating to shareholders.

- The shareholders of Northern Rock are owed explanations why they are the only ones to have lost not only their investment at the time but also access to future dividend benefits – for many individuals this represented their life savings, as well as their hopes and aspirations for a more comfortable life in later years.

- The following pages provide detailed discussion of the events leading to the Northern Rock plc nationalisation, as well as the events afterwards, and the causes, the reactions and the ultimate consequences of the actions taken.

- We implore the TSC to review, investigate and adjudicate the above and to put right a grave wrong which has adversely impacted tens of thousands of ordinary individuals.

TIMELINE OF EVENTS

1. The events leading to NR nationalisation began with the well-known difficulties affecting the global financial market in 2007 (i.e. the 2007-2008 financial crisis). NR Management (NRM) held initial discussions with the Financial Services Authority (FSA) from early Spring 2007 focusing on their difficulties to access and refinance loans, particularly medium-term debt maturing later in 2007/08. NRM particularly highlighted the issues concerning access to wholesale markets for medium- and long-term loans. Later the FSA urged NR to take urgent measures to boost liquidity. NRM stated some initiatives were underway, specifically lower lending to the commercial property, and loan finance from Irish, Canadian, Australian, and Scandinavian markets. An additional £2.2 Billion was secured by June 2007. UK LIBOR based interbank loans 'were more costly' as the Bank of England interest rate increases of January, May and July 2007 made the credit squeeze worse, and the wholesale market freeze was worsening rapidly.

2. Several urgent Tripartite/NRM meetings (with Hector Sants leading the FSA from July 2007) and intense discussions took place from June 2007 onwards. Market rumours and speculation increased in parallel, with evidence of 'higher Short Selling'. The NR share price had declined from £12 a share in January 2007 to £8.50 by midsummer, despite good half year results reported in July 2007.

3. The Tripartite members/NR Board agreed that one attractive option was to encourage a friendly takeover of NR by a major UK Bank (Lloyds Bank had expressed interest). Negotiations from July 2007 through end August 2007 failed due to a combination of issues. The Bank of England (Bank) was concerned with 'moral hazard' of loan guarantees and considered the £3.20 per share offered by Lloyd's bank too low. The Treasury was focused on NRM failure to assess risk, and with implicit loan guarantees the FSA mediation efforts failed. The Treasury expressed concerns over the delays in Tripartite decision processes and considered that the tripartite should have pursued the potential takeover option with more urgency and dedicated effort, cohesion.

4. During August, the question of Lender of Last Resort (LOLR) facility by the Bank of England was being seriously debated and finally agreed in early September 2007. The provision of LOLR to NR was scheduled for 17 September 2007, in an orderly manner that would also assure depositors and investors. The LOLR facility was agreed internally and was to be kept confidential/not for disclosure to the public. The BBC made a news report about this, and this is what we believe exacerbated the fear and panic of shareholders. This information was leaked to the media and panic ensued; significant amounts of cash was withdrawn by investors which resulted in the government stepping in to reassure those investors that the government would guarantee their investments.

5. On 17 February 2008, ordinary and preference shares were transferred to public ownership and the bank was taken into temporary public ownership, which later was made permanent. The government had been unable to provide anyone of the calibre needed to manage a situation of this magnitude and the financial analysis underpinning the decision to opt for public ownership was prepared by Goldman Sachs. The National Audit Office asked the Treasury to request the detailed calculations, but Goldman Sachs declined this request. Under the terms of the contract with the Treasury, the financial model remained the intellectual property of Goldman Sachs even though this had been paid for from the public purse (*Source House of Commons, Public Accounts Committee – The Nationalisation of Northern Rock).* The shareholders were promised compensation *(The Northern Rock Compensations Scheme Order 2008),* but none materialised as the valuations calculated deemed the value of NR as nil. With the passage of time, further financial details have surfaced to question this zero valuation, hence our request for fair and equitable compensation for this erroneous confiscation of our investment through the act of nationalisation.

UK GOVERNMENT ERRED IN THEIR POLICY RE: NR

6. The chronology from early 2007 (see appendix 3) exposes FSA regulatory defects, delays in decision making, and unclear roles, leadership, and committee structure inherent in the tripartite arrangements. These severely delayed effective NR supervision and crisis response, and UK market stability in general, during the rapidly emerging global financial tsunami. Tripartite regulatory weaknesses are evident in the failure to agree an urgent, appropriate response and abandon moral hazard dogma, and in the confusion about legal advice on EU regulations. This delay is not, in our view, acceptable responsible conduct in the highly dynamic global and UK money markets, interdependent banking system.

7. LOLR is provided *(*at penal interest rates above Bank Rate) based on rigorous commercial criteria regarding the recipient bank's recovery prospects. These validate the bank's ability to cover both the with-interest payment schedules agreed with the Bank of England, and to repay the LOLR loans provided over an average three year, maximum four-year, period. Assessment of the 'cover' provided by (audited) balance sheet asset book values is part of the risk assessment undertaken. NR comfortably met LOLR criteria as a profitable, solvent, going concern. The FSA stated its view that NR property assets were of 'good quality'*.*

8. Despite this being confidential information not for disclosure to the public, a news report was published on 13 September 2007 from the BBC stating that LOLR facilities by the Bank of England (agreed by the tripartite) were being considered. This catalysed fear and panic among NR members that manifested in a 'run' on NR, with depositors lining up to withdraw all their savings as quickly as possible (the first UK bank run in over 150 years). The 'leak' of highly price-sensitive news resulted in a massive diminution of the NR share price and exacerbated the credit squeeze, lost market confidence in UK retail banking, and damaged UK financial stability and our global reputation.

9. The run forced the Bank of England to announce the provision of LOLR on 14 September 2007 (instead of the 17th of September agreed with NR management and other tripartite members) to provide a liquidity support facility.

10. The LOLR provision could have been accompanied with an immediate suspension on trading NR Shares thus avoiding 'short selling'. This could have been imposed 'before' the London Stock Exchange commenced trading on the 14 September 2007. The net result was to reduce the NR share price by a minimum of 32% thereby creating an unstable market that inaccurately represented the reality of the situation in NR Shares, and other UK bank shares. This represents a major tripartite execution failure that effectively encouraged speculation and established a 'false market' for NR Shares, with systemic effects on other UK bank shares.

11. It is imperative that the TSC (in closed session if necessary) identify the source that provided the 'scoop' to the BBC. The gravity in terms of NR value destruction, subsequent valuation and sale prospects, and systemic effects on other UK banks fully justify disclosure in the national interest. The tripartite failure to agree appropriate crisis response resulted in several weeks of delay in LOLR provision (that was being discussed from July 2007 by the tripartite). This delay and market rumours encouraged 'short selling' and speculation.

12. Hector Sants' expert view was that the crisis and the 'run' may have been averted by prompt, decisive Tripartite response. We urge the TSC to seek and consider his expert testimony. We also urge the TSC to invite testimony from the ex-Governor of the Bank of England, Lord King, and Sir John Kingman (head of the Treasury Team concerned

with NR and liaison with Goldman Sachs). Hector Sants' initiative to impose a temporary ban on *'short selling'* of UK Bank equities in Autumn 2008 is commendable.

13. UK Bank of England policy lagged by months to align with the US FED and ECB initiatives to improve banking stability, credit market liquidity, and lower interest rates progressively from late September 2007, eventually playing 'catch up' in autumn 2008 with a decisive 2 percent cut in bank rate. The UK central bank appears to have placed higher priority on inflation management and 'moral hazard' and less on interpreting the scope of option permissible under the law when considering NR. This is clear when the Bank of England considered that the September 2007 provision of LOLR to NR facilities required public disclosure, yet a few months later it provided secret loans of at least £60 billion to Halifax, Bank of Scotland, and the Royal Bank of Scotland. It appears that the Bank was wrong in interpreting EU state aid disclosure criteria and NR bore the resulting fallout.

14. The Bank was to offer limited parcels of liquidity from October 2007. UK banks were reluctant to avail themselves of this facility in case it caused loss in market confidence and/or a 'run'. Only in April 2008 did the Bank realise the imperative for a significant liquidity injection into the UK banking system/interbank credit market and participated in the Treasury-led support package of several hundred billion pounds worth of guarantees, warranties, and other incentives to restore confidence in UK banking, risk management, and financial stability.

15. HM Treasury appointed Goldman Sachs as Advisers and replaced NR top management with Government selected professionals. The primary objective was to ensure disciplined cash and balance sheet control and determine sale prospects and value. Goldman Sachs was tasked with drafting a Prospectus for Sale of NR that would attract Private Sector bids. The issued Prospectus highlighted Goldman Sachs' professional view that NR acquisition would reward the potential bidder with a net present value in the range of £2.8 billion to £3 billion over two to three years.

16. The Government never consulted with NR shareholders on the private sector bids submitted nor on any other proposals for crisis resolution. This directly conflicts with established private sector practice and the democratic principles of our free enterprise economy. Shareholders were neither given the opportunity to vote on any rights issue, nor on the alternative that combined a rights issue with private equity capital injection. Requests for clarification of the piecemeal Treasury measures were never provided.

THE RATIONALE FOR NATIONALISATION OF NR WAS ERRONEOUS

17. We strongly question the appropriateness of the financial and economic rationale for the 'temporary' nationalisation of NR. Specifically, we question the compensation order assumptions based on Andrew Caldwell, the Independent Valuer's calculations (appointed by HM Treasury) to determine shareholder compensation. We further assert that HM Treasury has failed to meet the criteria for professional and prudential management of the '*de facto confiscated'* (since no fair value compensation was paid) NR assets, with total disregard of shareholder interests.

18. Our issues and concerns over the rationale for policy decisions, specifically the compensation order assumptions given to the Independent Valuer (appointed by HM Treasury) on which to base the valuation outcome, have never been credibly responded to, justified, or addressed. All our shareholders and savers regard this appeal to the TSC as 'The last resort' to 'Right the Wrong' based on the facts and evidence. Key concerns never responded to are: -

- No rationale for the policy, to urgently 'sell' NR after it had just sustained a historic damaging 'run', that caused £billions of shareholder value destruction.
- No explanation of the 'leak' of LOLR provision.

- No temporary ban on trading/short selling of NR shares, to stem damage to the NR market value.
- Details of the professional advice given by Goldman Sachs. These were never made public or shared with NR shareholders.
- Why would a responsible Government want to sell any bank in an undeniably worst possible time? We need clarification as to why the government tried to urgently sell a UK mortgage bank in a highly volatile, dysfunctional, UK/Global market gripped with immense concerns of subprime mortgage asset toxicity, systemic risk exposure, in the middle of a historic banking crisis.
- Why did the Government block the 23 pence per share interim dividend payment even though LOLR had been provided at punitive interest rates.
- Justification for the decision to take NR into 'temporary' public sector ownership.
- Justification of why 100% state ownership. Why not 25%, proportionate to the maximum £ 26.5 billion of LOLR provided relative to a £110 billion balance sheet?

THE NATIONALISATION LEAVES MANY UNANSWERED QUESTIONS

19. Government stated that the best option was *'temporary'* public ownership that would protect the interests of (a) customer deposits (b) protect taxpayer interests and (c) support UK market stability. **Why was shareholder compensation, based on the £3 billion prospectus valuation, not awarded, after deducting expenses? Goldman Sachs was a reputable valuer, advising HM Treasury?**

20. The three core objectives of the Government's (unilateral) decision, whilst securing parliamentary support, were in fact neither necessary nor achieved. **Why nationalise NR**?

21. The FSA had already established, and publicly stated in September/October 2007 that NR had a 'good quality' asset book. The central bank progressively accepted mortgage-based assets as collateral and made a provision for up to £40 billion of LOLR if required. **Why nationalise***?*

22. Regarding UK financial stability, the Government was fully aware that tripartite members, led by the Treasury and the Bank, possibly with Goldman Sachs advice, were at an advanced stage of finalising a £100 - £150 billion bank rescue package of Government loans, guarantees, and other incentives to stabilise interbank lending, and assist with the reduced liquidity resulting from toxic asset exposure. The Government launched the rescue package in early April 2008, less tha*n* six weeks after NR's compulsory nationalisation. **Why was parliament not informed during the debate on NR nationalisation in February?**

23. A substantial support package for all UK banks of £100 - £200 billion was announced in April 2008, just weeks after NR Nationalisation - so why nationalise NR? From the NR shareholder perspective the LOLR, provided several months earlier, was already showing success and NR was able to reduce the LOLR by £16 billion within a year, from £26.5 billion down to £11 billion, despite penal interest rates and virtual prohibition to offer new mortgages or loans. Why pass the emergency legislation before the April 2008 rescue package? The April 2008 business plan formulated by the interim management team was approved with the objective to 'return NR to the private sector' – this was accomplished by 2009 after the NR business model had been de-risked in terms of funding and growth with ample liquidity – **why was this not acted upon?**

24. Systemic risks and exposure were highly prevalent, evident, in the UK and Europe by spring 2008. Risk assessment of interbank loan toxicity CDO exposure ranged between 30-80% among many global investment banks (the USA and Europe primarily). Concerns that integrated retail/investment institutions had utilised retail deposits to increase their leverage substantially created further fear of financial exposure. The April 2008 UK Government package proved inadequate as global conditions deteriorated, systemic risks and contagion spread yet NR had virtually no systemic risk and minimal asset toxicity – **Why was nationalisation necessary**?

25. Despite the rescue Freddie Mac and Fannie May in the USA. Lehman Brothers collapsed later in September 2008.To its credit, the UK Government then launched a UK Bank support/rescue package of £500 Billion up to £800 Billion requiring massive quantitative easing from the Bank of England to avoid a collapse of the UK banking system. This major initiative was successful, and the Treasury acquired an 80% ownership of the Royal Bank of Scotland and 40% in the combined Lloyds/ HBOS bank. Barclays preferred to launch huge rights issues in the UK and overseas and borrow £billions from Middle East investors at 14% rather than the UK Treasury 6% interest rate – **Why was NR treated differently to other UK troubled banks?**

26. We question why there was the reclassification of LOLR to 'state aid' in the March 2008 NR compensation order that mandated the assumption of 'in administration'. LOLR is provided (on a 'going concern' basis) typically for up to three or four years and commenced on the 14 September 2007. The temporary Nationalisation in February 2008, and compensation order, effectively transferred all assets and loans to the Treasury and redesignated LOLR as 'State Aid' thus allowing all future gains to accrue to the exchequer. - **why was the NR valuation conducted on the assumption of 'in administration' as opposed to Bradford & Bingley's 'going concern' basis?**

THE 'NIL' VALUATION OF NR WAS ERRONEOUS

27. Profits would have accrued to NR shareholders, after repayment of the LOLR, fees and other charges. NR repaid £16 Billion in a year and could have fully repaid the £26.5 Billion LOLR in under two years.

28. In a 2017 television interview Lord King (Governor of the Bank of England at the time of the crisis) stated, guardedly, that "he had hoped that shareholders would receive 'compensation based on the residual value' of NR assets". We believe that the assumptions were drafted by HM Treasury executives led by Sir John Kingman with Goldman Sachs support. The independent valuation concluded zero compensation.

29. The Government stated that shareholders would receive appropriate compensation determined by an "independent "valuation. However, the independent valuer was severely constrained by the requirement to return the LOLR instantly – this was a material constraint and had never been applied previously to any other UK bank. Indeed, such an assumption is anomalous with the very purpose of LOLR. Andrew Caldwell in his valuation report stated that the assumption was "unreal". We respectfully suggest the TSC seek professional guidance on this aspect that resulted in the Nil valuation.

MORE APPROPRIATE NR VALUATION APPROACHES

30. We submit our views on professional, equitable, approaches to determine NR valuation and a range of estimates for NR shareholder compensation.

31. Our belief is that NR failed to be assessed for compensation based on any of the key professional valuations that comply with company law: accounting standards such as the US FASB; international reporting standards; institutional accounting directive; and established practices and conventions. Company reports must include notes that assure compliance and transparency, and assessment of known and potential risks to operations. Professional valuations comply with the regulatory regime and allow the valuer discretion on any assumption made and associated rationale. Legal and financial institute members are compelled to apply the ethos of utmost good faith, 'Uberrimae Fidei'.

32. Regarding the NR valuation, we consider it appropriate and professional to start with the published, audited, accounts as a 'key' (book value) valuation basis. This methodology excludes speculation, short selling, or subjective forecasts /projections. Published, audited, accounts detail the 'book value' of assets and liabilities stated in the balance sheet, the profit and loss account for the year in question, and the statement of sources and application of funds, including cash flow analysis and notes to the accounts.

33. We believe that analysis of Government published accounts from the accounting year 2007 through to the last NRAM (Treasury) accounts for 2021 indicate that 'cumulatively' HM Treasury made a 'net surplus of £7.8 Billion after repayment of loans, interest charges and fees. It is important to note that the creation of the asset management entities, UKFI, UKAR, NRAM, etc is both complex and not helpful to precise analysis. Our banking expert, the late esteemed Bill Brown, took several weeks to forensically sift through the accounting data. The separation of the proportion of NR's operations into the so called 'good bank 'makes the forensic tracking more difficult.

34. Key Government statements of NR Value: -
    - **November 2007,** Prospectus for sale stated Goldman Sachs supported £2.8 Billion - £3 Billion NBV over up to three years.
    - **February 2008**, NR is placed in a state of 'temporary' nationalisation. The Chancellor, Alistair Darling, stated that the Government would inject £3.3 Billion of Capital into NR but only £1.4 Billion was injected.
    - **2012,** the UKFI estimated that Government would achieve a net gain up to £11 billion over a period of up to 15 years.
    - **10 June 2015,** the Chancellor, George Osborne, stated 'that the Government would secure a Net Surplus of £9.6 Billion from NR/ Bradford & Bingley, based on Rothschild/Treasury Estimates'.
    - **2020,** a letter from Steve Barclay HM Treasury Minister to the NR Action Committee stated that any 'surplus' from NR would be used to cover losses on the Royal Bank of Scotland. The Minister neither accepted nor rejected our assertion of a (cumulative) £9 Billion Net Value – **How can a surplus from NR be morally justified to support other banks?**
    - **2015 and 2021** estimates from the OBR (established by HM Treasury) gave a valuation of £10.6 and 16.9 billion respectively**.

**** Both valuations relate to UKAR – the combined total of Bradford & Bingley and NR**

Shareholder Enterprise Value adjustments - See Appendix 2.

35. We appreciate that a TSC forensic accounting validation of our figures and acknowledgement that some of the causal factor/ cost benefit analysis is subjective and estimates are not precise. Clearly the impact of 16 years delay and unintended consequences is exceedingly difficult to assess.

36. Our appeal, evidence, facts, and analysis are stated in 'good faith' to the best of our knowledge, primarily based on information available in the public domain.

37. We ask, was the HM Treasury NR Compensation Order Legislation equitable and fair? For decades from the 1980s Thatcher government, citizens have been encouraged to become more active 'stakeholders' so that they benefit from UK business growth, enterprise, and endeavour. home ownership, shareholding in private enterprises, savings schemes such as PEPs, ISAs, SIPPs, and Employee Savings/ Share Schemes. These all provide potential benefits from a successful private enterprise-driven UK economy.

38. NR shareholders have invested, saved, purchased property to achieve these aspirations and values. Clearly some private enterprises, like NR, did experience severe difficulties (mainly global factors outside their control imprudent management). Is it fair to *confiscate* their shares and savings without 'fair value compensation'? Our valuation estimates acknowledge NR management failure, and that shareholders must accept diminution of value. We also estimate the loss of future profit and dividend prospects because of a lower risk, sustainable business model.

39. Should we endorse a 'denial and delay' approach in government administration that delays 'equitable justice' for years or decades, with huge cost implications of delayed justice? The Equitable Life case and Postmasters scandal are appropriate examples. Each case of injustice is unique but regulatory failure is equally evident in the case for NR shareholder compensation delayed for 16 years that has disastrously affected many individuals unfairly.

40. The evidence and facts support the award of 'fair value compensation'. We emphasise the disastrous 'unintended consequences' and 'unjust enrichment' of inappropriate legislation and political opportunism. There is damning evidence of regulatory failure and NR management failure. The BBC leak greatly damaged both NR shareholders, delayed Tripartite crisis management and disrupted UK financial stability during a global banking crisis. Despite NR having the least toxic mortgage assets among UK banks it became the first victim and the only one to have its shares confiscated.

41. To conclude we would like to thank all members of the TSC for their time and consideration. The Northern Rock situation is unprecedented in British banking history, this is an opportunity **to 'Right a Grave Wrong' and consider our appeal for fair compensation.** Should you require any additional information or have any questions relating to the above please do not hesitate to contact either of us via UKSA office email.

Yours faithfully

Sue Gibbons

Co-Chair

ACTION COMMITTEE (UKSA)

Peter Camponi

Co Chair

ACTION COMMITTEE (UKSA)

List of Appendices

1. Documents and References to NR surplus

2. Shareholder Enterprise Value adjustments

3. Glossary of terms

4. Chronology of events

Appendix 1. – Documents and References to NR surplus

a. The OBR report 2021 – see page 235 - https://assets.publishing.service.gov.uk/media/618264e1e90e07197d8fb94b/CCS1021486854-001_OBR-EFO-October-2021_Web-Accessible.pdf

b. The OBR report 2015 – see page 101 –

   Office for Budget Responsibility: Economic and fiscal outlook Cm 9153 (publishing.service.gov.uk)

c. NRAM 2021 Treasury Accounts - UK Asset Resolution Limited Annual Report & Accounts for the 12 months to 31 March 2022 (publishing.service.gov.uk)

d. Rothschild report 2015 - Rothschild_report_on_the_UK_investment_in_RBS.PDF (publishing.service.gov.uk)

e. 2015 George Osborne Mansion House speech - Chancellor George Osborne speaks at the Mansion House on 10 June 2015 (youtube.com)

f. 2012 UKFI - UKFI report on sale of Northern Rock_2012.pdf

Appendix 2. Shareholder Enterprise Value adjustments

We stated that 'Unjust Enrichment' ranged between £7.8 billion (based on the Book Value of NR Accounts) and up to £16 billion (Shareholder Enterprise Value). We offer a 'roadmap' of the range of relevant 'Key Causal Factor Cost/Benefits Analysis' that could be applied to the Accounts Based £7.8 billion to the £16 billion valuation.

£7.8 billion – Actual Accounts based Book Value

- ADD £2.2 billion -estimated loss of dividend Income over 16 years.
- ADD £1.5 billion – sale to Virgin Money at Book loss of £400M (NAO estimate) combined with loss of future interest income/ profits from best value customers.
- ADD £5 billion potential estimated loss due to Regulatory Failures, BBC Leak, including delay in LOLR, FSA supervision failure, no trading/short selling ban, Brand Value damage, False Market.
- ADD £1 billion – estimated loss of interest income from book value/ distress asset disposals.
- ADD £6 billion intangible loss for Unintended Consequences for 150,000 Shareholders stress, anxiety, health problems, pension value destruction, delayed Compensation.
- DEDUCT £2.5 billion estimated for NRB Management Failure, Liquidity Exposure, Inadequate Insurance, extra LOLR interest costs.
- DEDUCT £2 billion estimated Shareholder Contribution
- DEDUCT £3 billion estimated lower NR Profit Growth from Lower Risk Business Model

Revised Enterprise Value Shareholder £16 billion (estimated).

Appendix 3. – Glossary of terms

CDO - Ccollateralized debt obligation (CDO) is a type of structured asset-backed security (ABS). Originally developed as instruments for the corporate debt markets.

FSA - The **Financial Services Authority** (**FSA**) was a quasi-judicial body accountable for the regulation of the financial services industry in the United Kingdom between 2001 and 2013. It was founded as the **Securities and Investments Board** (**SIB**) in 1985. Its board was appointed by the Treasury, although it operated independently of government. It was structured as a company limited by guarantee and was funded entirely by fees charged to the financial services industry.

ISA- Individual savings accounts

LIBOR - The London Inter-Bank Offered Rate is an interest rate average calculated from estimates submittec the leading banks in London.
Each bank estimates what it would be charged were it to borrow from other banks. It is the primary benchmar

LOLR – Lender of Last Resort - the discretionary provision of liquidity to a financial institution (or the market as a whole) by the central bank in reaction to an adverse shock which causes an abnormal increase in demand for liquidity which cannot be met from an alternative source.

NBV - Net book value refers to the historical value of a company's assets or how the assets are recorded by the accountant. NBV is calculated using the asset's original cost – how much it cost to acquire the asset – with the depreciation, depletion, or amortization of the asset being subtracted from the asset's original cost.

NRAM – Northern Rock (Asset Management)

PEPS - A personal equity plan (PEP) was an investment plan introduced in the United Kingdom that encouraged people over the age of 18 to invest in British companies. Participants could invest in shares, authorized unit trusts, or investment trusts and receive both income and capital gains free of tax

Short Selling - Short selling occurs when an investor borrows a security (like a stock) and sells it on the open market, with the intention of repurchasing it later at a lower price. In essence, short sellers bet on and profit from a drop in a security's price.

SIPPS - A self-invested personal pension (SIPP) is a way of saving and investing for your retirement. It's a tax-efficient investment 'wrapper' used to build a pension pot of money for the future. It works in a similar way to a company pension except it is organised by the individual not an employer.

UKAR - UK Asset Resolution Ltd (UKAR) is wholly owned by HM Treasury (HMT) whose shareholding is managed by UK Government Investments (UKGI).

UKAR is responsible for meeting the contractual obligations and managing the remaining liabilities and other strategic matters arising out of the Government's former ownership of NRAM Ltd (NRAM), Bradford & Bingley (B&B), Mortgage Express (MX) and their respective subsidiaries.

UKFI - UK Financial Investments Limited. It is a company that manages the UK government's investments in several financial institutions. Specifically, UKFI oversees the government's holdings in the following entities:

1. Royal Bank of Scotland (RBS): UKFI manages the government's investments in RBS.
2. Lloyds Banking Group (Lloyds): UKFI also oversees the government's investments in Lloyds.
3. UK Asset Resolution Ltd (UKAR): Additionally, UKFI manages investments related to UKAR, which holds the residual assets of NRAM plc and Bradford & Bingley

Appendix 4. – Chronology of events

Taken from BBC Reporting

Timeline: Northern Rock bank crisis

25-Jul-07 Global credit concerns are ignited by French bank BNP Paribas' decision to suspend three of its investment funds with exposure to the troubled US sub-prime market.

Share prices fall sharply as banks curb lending to each other, and the European Central Bank (ECB) injects 94bn euros ($130bn; £65bn) of liquidity into the European banking system.

Northern Rock issues an upbeat set of trading results, saying the outlook for the business is "very positive".
It reveals it has sold mortgages worth a record £10.7bn in the first half of 2007, up 47% on the same period a year before.
This is equivalent to 19% of all new mortgage policies sold over that time, making it the market leader in the UK.
Interim profits are up 0.7% to £296m and the firm pledges to boost its dividend - its payment to shareholders - by 30%.
It notes that "sharp increases" in borrowing rates in the money markets are likely to make life more difficult and that changes in "interest rate and credit risk environments" will influence the size of its annual profits.
But it says its assets have grown 28% to £113bn, its new residential lending remains "low risk" and that sales growth from its core mortgage business remains good.

09-Aug-07 Bank of England governor Mervyn King is alerted to the potential impact of the global credit squeeze on Northern Rock's business in a phone call with officials at the Financial Services Authority (FSA) and the Treasury.

14-Aug-07 The rate at which British banks lend to each other - known as the London Interbank Offered Rate (Libor) - rises to its highest level in almost nine years.

The three-month loan rate hits 6.7975%, above the Bank of England's emergency lending rate of 6.75%, suggesting that banks are reluctant to lend money to each other.

04-Sep-07 Mervyn King says the Bank of England would be prepared to provide emergency loans to any bank that ran into short-term difficulties as a result of temporary market conditions.

But he appears to rule out following the lead of the ECB and US Federal Reserve in pumping huge sums into the banking system to ease the liquidity drought.

12-Sep-07 The BBC reveals that Northern Rock has asked for and been granted emergency financial support from the Bank of England, in the latter's role as lender of last resort.

BBC Business Editor Robert Peston says Northern Rock is not in danger of going bust and there is no reason for its customers to panic.

But he adds that "the fact it has had to go cap in hand to the Bank is the most tangible sign that the crisis in financial markets is spilling over into businesses that touch most of our lives".

13-Sep-07 Northern Rock says "extreme conditions" in financial markets forced it to approach the Bank of England for assistance.
In a statement, the Bank, Treasury and FSA say they believe Northern Rock is solvent and that the standby funding facility will enable the bank to "fund its operations during the current period of turbulence in financial markets".

Northern Rock boss Adam Applegarth stresses that it is "business as usual" for the firm.

But their comments do not reassure either analysts or customers.

The firm's shares plunge 32% in the city as worries about its future viability escalate.

Meanwhile, queues begin to form outside a number of Northern Rock branches with hundreds of worried savers seeking to withdraw their money.

Experts point out that current legislation only protects savings of up to £33,000 - guaranteeing a maximum payout of £31,700 - in the event of a bank collapse.

The bank's website collapses under the strain and all its phone lines are jammed.

14-Sep-07 The sense of crisis surrounding Northern Rock grows as the queues at many of its 76 branches show no sign of dying down and the firm's shares plunge a further 40%.

There are growing fears this will undermine confidence in the whole banking system.

Just before 1800, Chancellor Alistair Darling dramatically intervenes to try to end the crisis by agreeing to guarantee all deposits held by Northern Rock.

He says savers will not lose a penny and that his action was motivated by the "importance I place on maintaining a stable banking system".

It also emerges that the Bank of England had been in talks with Lloyds TSB about possibly buying Northern Rock, but these discussions had foundered.

17-Sep-07 The chancellor's move appears to have its desired effect as the queues gradually disappear outside most branches.

In a series of newspaper adverts, Northern Rock says the firm has suffered "troubled times" but that "it will prevail, and we will not let you down".

18-Sep-07 The Bank of England says it will inject £10bn into the money markets to try to bring down the cost of inter-bank lending.

In another significant development, the assets that banks are allowed to use as collateral will be wider than usual, including mortgage debt.

Critics accuse it of a U-turn and say it should have acted sooner to help Northern Rock.

19-Sep-07 Mervyn King defends his handling of the banking crisis before MPs amid rumours that his job is on the line.

Facing accusations of "being asleep at the wheel", Mr King said it would have been "irresponsible" to have intervened earlier to save Northern Rock.

He says he would have liked to have offered financial support to Northern Rock in secret, but that UK and EU regulations made this impossible.

20-Sep-07 Northern Rock announces that it is cancelling the dividend that it was due to pay shareholders in October. This would have cost the bank £59m.

The bank also says that it is in preliminary talks with people who want to buy all or part of its business.

25-Sep-07 Chancellor Alistair Darling announces that the scheme to protect savers with money deposited in UK banks is being expanded to guarantee 100% of the first £35,000 of savings.

He adds that this is the first stage of a wider reform of the compensation system.

01-Oct-07 The decision extends the previous guarantee, made the previous month, which covered deposits made up to 19 September.

The chief executive of the Financial Services Authority, Hector Sants, admits that there are "lessons to be learned" from the regulation of Northern Rock.

Appearing before the Treasury Select Committee, Mr Sants tells MPs: "In terms of the probability of this organisation getting into difficulty, we had it as a low probability."

09-Oct-07 A consortium led by Sir Richard Branson's Virgin Group puts forward a proposal to rescue Northern Rock.

Under the plans, Northern Rock would keep its stock market listing but would be rebranded as Virgin Money.

The Treasury agrees to protect new savings deposited at Northern Rock.

12-Oct-07 Northern Rock announces that chief executive Adam Applegarth has resigned.

It says he will step down from his post once he has helped the lender complete the second phase of its strategic review, which is scheduled for completion no later than the end of January 2008.

16-Nov-07 Northern Rock names a consortium headed by Virgin Group as its preferred bidder.

The Virgin offer includes an immediate repayment of £11bn of the £25bn the bank owes the Bank of England, with the remainder to be paid over the next three years.

RAB Capital, which is the second-largest shareholder in Northern Rock with a stake of about 6.7%, says it will oppose the move from Virgin.

26-Nov-07 The Olivant group, led by former Abbey boss Luqman Arnold, unveils plans of its rescue proposal, and says it could repay immediately up to £15bn of government money that is propping up Northern Rock.

07-Dec-07 Olivant threatens to abandon its attempted rescue of Northern Rock, citing frustrations over the negotiation process.

Northern Rock is dropped from the FTSE 100 index of leading London-listed blue chips, in the biggest shake-up of the index since the dotcom crash in 2001.

12-Dec-07 Northern Rock announces that its chief executive Adam Applegarth has left the company, earlier than planned.

13-Dec-07 Northern Rock agrees to hold an emergency meeting for shareholders to discuss its sale process on 15 January.
The meeting will be the first high-profile occasion for shareholders to grill management since the bank ran into trouble.

Two of the bank's major shareholders are calling for restrictions on the board's ability to sell the company's assets or issue new shares.

21-Dec-07 Chancellor Alistair Darling tells the Financial Times he is planning to give the Financial Services Authority more power to deal with failing banks to avoid another Northern Rock-style crisis.
He proposes giving the FSA the power to seize and protect customers' cash if their bank gets into difficulties.

04-Jan-08 It emerges that SRM, a hedge fund that controls 9.9% of Northern Rock shares, has warned Alistair Darling not to consider nationalising the bank for less than a fair price.
In a letter sent to the chancellor before Christmas, SRM said it had been advised that otherwise there would be a breach of the Human Rights Act and it would have a strong case to pursue ministers through the courts.

08-Jan-08 Northern Rock agrees to sell £2.2bn, or 2%, of its mortgage assets to US investment bank JP Morgan.

The price represented a 2.25% premium of the value of the assets, which BBC Business Editor Robert Peston pointed out was encouraging.
It says it will use the funds to pay back some of the £25bn of emergency loans it has been given by the Bank of England.

11-Jan-08 The BBC learns that the government has got a plan in place should the Northern Rock be taken into public ownership.

Legislation will be used, rather than the Treasury simply acquiring the firm in the conventional way or allowing it to go into administration and then buying the assets.
Earlier, about 600 Northern Rock shareholders attend a key meeting with management.

They vote against proposals put forward by Northern Rock's two biggest investors, hedge funds RAB Capital and Monaco-based SRM Global, that would effectively prevent the bank negotiating a sale without consent from its shareholders.

Northern Rock had urged shareholders to reject the resolutions - saying they would make securing a rescue deal much more difficult.

15-Jan-08 The prime minister confirms that talks are taking place to secure a private sale of Northern Rock.

But Gordon Brown also says he has not ruled out the possibility of nationalising the bank.

One proposal suggested is to turn the billions of pounds of state loans made to Northern Rock into bonds, which would be sold.

The prime minister backs the scheme which is the brainchild of bankers Goldman Sachs.

19-Jan-08 Chancellor Alistair Darling announces a plan to convert Northern Rock's £25bn Bank of England loan into bonds before selling them to investors.

The bonds would be guaranteed by the government to speed up a private sale of the troubled lender.

Potential bidders are given until 4 February to come forward with rescue proposals based on the Treasury's plans.

Northern Rock shares rise by about 42% on the news.

21-Jan-08 The Commons Treasury Committee says the Financial Services Authority was guilty of a "systematic failure of duty" over the Northern Rock crisis.

MPs say the UK's financial watchdog should have spotted the bank's "reckless" business plan.

They also call for the Bank of England to set up a head of financial stability.

The FSA says it has already admitted failings in relation to Northern Rock and insists it is "addressing" them.

26-Jan-08 The deadline for offers for Northern Rock. Sir Richard Branson's Virgin Group and Northern Rock's own board both make rescue proposals for the bank.

They are the only two parties to submit proposals to the Treasury after investment fund Olivant pulled out, reportedly because the government wanted its £25bn of direct loans to Northern Rock repaid within three years.

Under the terms of its rescue plan, Virgin would inject £1.25bn into Northern Rock and take a stake of 55% in the firm.

Northern Rock's managers say their proposal - which gained shareholder backing - includes raising at least £500m, reducing the assets on the bank's balance sheet, and reorganising its operations.

04-Feb-08 Northern Rock bosses and union leaders criticise Virgin Group's plans to cut jobs at the troubled bank.

The BBC learns that up to 1,000 jobs could go if the Treasury accepts Virgin's rescue proposals.

Virgin abandons a commitment to no redundancies because government-backed bonds to be issued by Northern Rock have to be repaid within three years.

Northern Rock's current management, which has submitted a rival plan, says it will fight to prevent job cuts.

06-Feb-08 Northern Rock will appear on government accounts, the Office for National Statistics decides.

The move means the government may be at risk of breaking its rule to keep net debt below 40% of national income.

The ONS stresses that the statistical change to public status should not be confused with nationalisation.

07-Feb-08 The Virgin-led consortium is told by the Treasury that it is the frontrunner to take control of Northern Rock, the BBC learns.

But the Treasury sees nationalisation as a better outcome for the taxpayer and tells Virgin Group to improve the terms of its rescue plan.

It wants Virgin to offer more for the billions in financial support being provided by the government and a bigger potential stake in Northern Rock for the taxpayer.

12-Feb-08 The board of Northern Rock, leading an in-house proposal to rescue the troubled bank, boosts its package, pledging to inject more cash into the bank by selling shares.
The offer submitted to the government and regulators says it will inject £700m, compared with £500m in its original proposal.

15-Feb-08 Neither of the two proposals tabled for Northern Rock - one from a group led by Virgin and the other from in-house management - offer enough value to the taxpayer, Chancellor Alistair Darling announces.

Therefore, he says, the bank will be nationalised.

Ron Sandler is confirmed as the executive chairman of the Northern Rock.

17-Feb-08 Shares in Northern Rock are suspended.

Prime Minister Gordon Brown says the decision to nationalise is "the right move at the right time" and is one which "protects savers" and is in "the best interests of taxpayers".

Ron Sandler, the new chairman of Northern Rock, says it will take years for the bank to pay back its loans from the taxpayer but declines to comment on potential job losses.
Chancellor Alistair Darling says the nationalised bank will operate "at arm's length" from the government and says the bill to begin the nationalisation process will be launched in Parliament on Tuesday.

Shadow chancellor George Osborne tells MPs Mr Darling “Is a dead man walking" and Conservative leader David Cameron says Mr Brown should remove Mr Darling from his role.

18-Feb-08 The Northern Rock crisis could hurt the UK's financial services sector if it leads to any hasty new government regulations, the CBI warns.

Its director general Richard Lambert says any "seismic" changes could be as harmful as the US Sarbanes Oxley laws brought in after Enron collapsed.
And he said a government consultation document on reforming the banking system did not deal with all issues.

06-Mar-08 Northern Rock says it will cut about 2,000 jobs and reduce its residential mortgage lending by half. The job cuts, which account for about a third of its staff, will be made by 2011 under plans to turn around the ailing bank's fortunes.

The staff unions strongly protested the move.

19-Mar-08 The Financial Services Authority admits failures in its supervision of Northern Rock but says it should continue to have responsibility for regulating the banking system.
The FSA said there was "a lack of adequate oversight and review" by the agency of the troubled bank.
It said too few regulators were assigned to monitor Northern Rock, which ran into trouble in September.
The FSA said it would be overhauling its procedures as a result of the weaknesses identified.

26-Mar-08 Northern Rock publishes results for 2007 showing a pre-tax loss of £167.6m and says it will be "significantly loss-making" in 2008.

It also pledges to repay its £24bn state loan by 2010 and reveals that former chief executive Adam Applegarth will get severance payments totalling £785,000.

31-Mar- The EU says it will launch a full investigation into the UK government's bailout plan of Northern Rock.

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Under EU rules, public support can be allowed to stop firms from going bankrupt, but long-term government aid that is seen to undermine competition is not permitted.

02-Apr-08 Shareholders in Northern Rock launch a court challenge overcompensation they are due to receive.
The UK Shareholders Association (UKSA) submits an application for a legal review into the terms of the Rock's nationalisation.
About 7,000 shareholders are backing the action, the UKSA says.

08-May-08 Northern Rock says the UK mortgage market remains "uncertain" and arrears have increased.
The bank says mortgages in arrears for at least three months stood at 0.95% of total lending on 30 April, up from 0.57% on 31 December.

12-May-08 Northern Rock appoints the vice-chairman of Barclays, Gary Hoffman, as its new chief executive.
Mr Hoffman replaces current chief executive Andy Kuipers, who will leave on 31 August after 20 years at the Newcastle-based lender.
Mr Kuipers is the final member of Northern Rock's original board to leave the bank after last year's crisis.

23-Jul-08 Northern Rock says it expects to make about 1,300 staff redundant - fewer than expected - as part of its restructuring plans.
It hopes to limit the number of compulsory redundancies to 800, while 500 staff will leave voluntarily.
The bank says it expects to be left with an estimated 4,000 staff.

30-Jul-08 Northern Rock announces bigger-than-expected losses of £585.4m for the first six months of the year.
Much of the loss came from the charges it takes to cover losses from struggling mortgage borrowers.
But it also managed to repay £9.4bn of its loan from the Bank of England, reducing the amount owed to £17.5bn.
The government, which nationalised the lender in February after the first run on a UK bank in more than a century, will inject £3bn to help its finances.

05-Aug-08 Funding problems at Northern Rock, the country's fifth-largest mortgage lender, triggered the first run on a British bank in more than a century.
After months of uncertainty, the stricken bank has been nationalised, while the debate over who was to blame continues.