

The UK Shareholders Association (UKSA)

Northern Rock Meeting

Roger Lawson

UKSA_Northern_Rock.ppt (Revised 5-Dec-07)



UKSA

Health Warning

Anything I say is likely to be opinionated and much of it could be downright wrong. You should not pay any attention to individual company comments without doing your own independent research and any reference to current portfolio holdings should not be taken to suggest that the constituents represent good investments at this time. UKSA does not provide individual investment advice and you should consult a professional advisor before buying or selling shares.

What UKSA Does

- Promotes your rights as a shareholder.
- Promotes good standards of corporate governance.
- Campaigns for a fair market and fair tax treatment for private investors.
- Provides education and other benefits to members.

Promotes Shareholder Rights

- To the Government and Institutions (eg. Company Law Reform Bill, Share Transfer Dematerialisation and Nominee Enfranchisement). See “News” and “Policies” section of web site for examples.
- To Companies. For example, Railtrack, Murray VCTs, Northern Rock.

Railtrack "Action Group"



Education Provision

- Regional & Local Meetings
- “Analyst” Style Company Visits
- National Conference
- Education Programme
- Web Site

Local Meetings



London speakers: Sir David Lees, Chairman, Tate & Lyle plc; Phil Moses, Director Investor Relations, BT; Stuart Rose, Chief Executive, Marks & Spencer; Tim Melville-Ross, Chairman, DTZ Holdings; Jonathan Jenkins, Director, Ofex; Prof. Deakin, Professor of Corporate Governance, University of Cambridge; Tim Bush, Hermes Focus Management; Tom Pearson, Director, Jupiter Unit Trust Managers; Paul Myners + general discussions and learning from other members.

Web Site

- Go to www.uksa.org.uk

The screenshot shows a web browser window displaying the homepage of the UK Shareholders' Association (UKSA). The browser's address bar shows the URL <http://www.uksa.org.uk/index.htm>. The website header features the UKSA logo and the tagline "The independent voice of the private shareholder". Below the header, a navigation menu lists various sections: Home, About, Membership, News, Newsletters, Events, Education, Policies, Companies, Links, Legal, Search, and Contact. The main content area includes a brief introduction to UKSA, a photograph of an "action" group, and a section for "Latest News" with links to "It's Raining Corporate Governance Statements" and "BAA Forced to Take Vote on Free Parking for MPs". A sidebar on the right contains a message from Roger Lawson, the webmaster, and a copyright notice at the bottom.

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UKSA

The United Kingdom Shareholders' Association
The independent voice of the private shareholder

Home Page - A Brief Introduction to UKSA

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UKSA is the leading independent organisation which represents the interests of private shareholders in the United Kingdom. We campaign to protect your rights as a shareholder in public companies, and promote improved standards of corporate governance (the picture on the right shows one of our "action" groups).

Our educational activities, regular regional meetings and the resources on this web site also enable you to become more expert in investment management, whether your portfolio is large or small.

To learn more about **UKSA**, click on the [About](#) link from the menu on the left. For terms of use of this web site go to the [Legal](#) page. For more information on the benefits of joining the Association, go to the [Membership](#) page.

Latest News (click on story for more details)

- [It's Raining Corporate Governance Statements](#)
- [BAA Forced to Take Vote on Free Parking for MPs](#)

[More News Stories.....](#)

This web site has just been relaunched with several new pages, but not all is yet complete. Please bear with us. But if you have any comments, please go to the Contact page and give us your thoughts.....

*Roger Lawson,
Webmaster*

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Internet

UKSA Organisation

- UKSA is a non-profit making organisation owned by its members (a company limited by guarantee).
- Governed by an unpaid board of directors, and supported by a regional network.
- The Northern Rock Shareholders Action Group is effectively a sub-group within UKSA led by a committee of NR shareholders, and supporters don't have to join UKSA.

UKSA Summary

If you want to protect your own interests, and learn about investment, UKSA is an organisation you should join.

And the cost is very low.

Northern Rock Events

- Jan 07 – Preliminary results: profits £627m
- June – Pre close statement: minor profits warning
- July – Interim results: substantial increase in lending; Applegarth says “the medium term outlook for the company is very positive”.
- Aug 9th – Interbank lending market closes, due to subprime lending crisis in the USA.
- Aug 13th – NR approached FSA re looming funding crisis. Share price continues to fall on rumours of profits warning.
- Sept 5th – LloydsTSB rejects takeover unless Bank of England (BofE) provides £30bn facility.

Northern Rock Events - 2

- Sept 12th – Governor of BofE warns MPs about “the moral hazard of bailing out reckless lenders”.
- Sept 13th – BBC leaks grant of emergency financial aid by BofE as “lender of last resort” to NR.
- Sept 14th – Company rushes out statement. Queues appear at NR branches and share price falls rapidly.
- Sept 17th – Treasury guarantees NR deposits.
- Sept 25th – Dividend cancelled.

Northern Rock Events - 3

Subsequently:

- Matt Ridley resigned as Chairman
- Bryan Sanderson appointed.
- Issued “information memorandum” re possible sale or asset disposals.
- Several expressions of interest, including Cerberus, JCFlores, Virgin Group etc.
- More board changes and Applegarth resigned.

Current Financial Position

Funding from BofE now £23bn
£10bn of retail deposits withdrawn (45%)

Last reported net assets: £2.3 bn

Level of new mortgages granted very substantially reduced.

Forecasts in Information memorandum:
Profits (under normal market conditions):
Next year (2008): £148m post tax
2010: £643m

Valuing the Company

Companies are typically valued on either future “sustainable” profits and cash flow, or on realisable assets. On either basis, it is clear that the market valuation of Northern Rock is anomalous and the share price is less than one might expect simply because of the future uncertainties associated with the company.

But a company that runs out of cash is worth very little, so dependence on funding by the BofE is a major problem.

Future Scenarios

BofE and the Government seem keen to get their money back as soon as possible and provisional deadline for a “solution” is the end of February.

Do any of the likely “offers” ensure this? Probably not. At best it means shareholders give up their “equity” in the business to satisfy the Government who were the cause of a lot of the difficulties to start with. And a forced Administration is not sensible.

Even a partial asset sale is not likely to achieve a good return because of the problem of selling mortgage backed assets in the current markets.

Quote from The Daily Telegraph by Jeff Randall who said: "This is an outrageous - and unacceptable - demand for private profit at public expense. The intention it seems is that someone should make off with the gold mine while the rest of us are given the shaft".

A Better Solution

Work out a debt repayment schedule backed up by a viable business plan and a new management team (the Luqman Arnold/Olivant solution?)

Northern Rock's cash flow can be managed to repay the loans quite rapidly.

Why should the shareholders be screwed simply to satisfy the Governments short term needs?

Particularly when none of the apparent bids provide repayment in full by next February.

Other options

- Administration (not practical unless a pre-arranged “dirty trick” is used).
- Bid as per J.C.Flowers. But would any shareholders vote for a nil value deal?
- Nationalisation? Surely not sensible.
- Virgin Group proposal – merger with dilution.

The Key Question

Will the owners of this business (i.e. you the shareholders) have the final say in what happens?

The EGM Requisition

PRESS RELEASE

Friday 23/11/2007

FOR IMMEDIATE DISTRIBUTION

SRM Global Fund (“SRM”) today confirms that the board of directors of Northern Rock plc (the “Company”) has been asked to convene an extraordinary general meeting to amend the Company’s articles of association. The amendment, if approved, would require that shareholder approval be obtained for any disposal of more than 5% of the Company’s assets.

What You Can Do

- Write to your MP, the Chancellor of the Exchequer and the Chairman of Northern Rock.
- Write to the media to correct false stories and put your point of view.
- Make a donation to support our campaign.

Questions

