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Press Release

No Tears for the Death of "Northern Rock"?

No tears for the death of "Northern Rock" – at least not from the Government one presumes. Virgin Money have acquired the company and intend to phase out the brand as soon as possible. Virgin are paying £747m in cash immediately and up to £300m subsequently. Bearing in mind that the Government paid nothing for the equity of the company to the previous shareholders when they nationalised the company in early 2008, this is surely a good deal? Indeed it was alleged at the time by shareholders that the Government had the intention to turn a profit on the deal from day one, and this was the sole reason why they nationalised it rather than accept one of the existing refinancing propositions.

One of those proposals was of course from Virgin Money but shareholders vigorously opposed it and made it clear they would vote it down – that probably precipitated the nationalisation as shareholders insisted they were not going to be bullied by the Government into a poor deal.

So now it seems Virgin and Sir Richard Branson have got what they wanted all along and at quite a reasonable price. They are paying up to £1.05bn when the "equity" in the bank is £1.1bn based on the June accounts. Meanwhile the Northern Rock shareholders are pursuing legal action in the European Court of Human Rights. The sale of the business may help their case indirectly as it indicates there was some value attachable to the company.

However, the valuation is not as straightforward as it might seem because the company sold is only the "good" part of Northern Rock after the "good" and "bad" parts were split. The latter part contains many of the past loans and is still owned by the Government (in UKFI) – but the bad part made profits while the good part made a loss on the last set of financial results. The "good" part had to some extent been inhibited in developing the business since nationalisation by Government and EU limitations. With the "bad" part being wound up (along with the rump of Bradford & Bingley), it really depends on how much in due course is realised from those assets. The assets of this company are valued at £66bn but they still had loans outstanding to the Government of £21bn according to the last annual UKFI report (or possibly more as they claim £50bn in the latest press release and it is difficult to reconcile these figures). Shareholders equity of this business was £1.1bn though at the end of 2010. It is very likely that the Government will in due course realise an even larger profit from the wind up of that company.

Meanwhile what will be the reaction of people in Newcastle to the loss of one of their favourite brands? Although there is a promise to continue funding the Northern Rock Foundation which does a lot of local charitable work, there is only a firm commitment to that for one year. But Newcastle will "become the operational HQ for Virgin Money" and there is a guarantee of no further redundancies for some time (if you accept that is enforceable).

In summary this looks a reasonable deal for the Government, but yet another poke in the eye for the former shareholders and those in Newcastle who had a loyalty to the company and its brand.

ShareSoc Chairman Roger Lawson, who was involved in the original campaign to preserve the independence of the company and to protect the shareholders, has this to say:

"This is a classic example of how shareholders are treated by Governments as simply speculators in shares rather than the part owners of a valuable asset. Their interests were ignored and legislation passed to confiscate their property with compensation terms deliberately set to zero to undermine any true and fair valuation by the nominally "independent" valuer who was appointed. In essence this was an absolutely disgraceful attack on shareholder rights and their private property.

As an organisation that protects the interests of individual shareholders, we urge the current Government to consider how it can rectify this injustice".

Postscript: Some commentators claimed that the Government made a loss on the deal, because they had put some equity into the Northern Rock part that they sold. In reality they got shot of a loss-making business at a good price, and although there was a nominal loss of about £300m on the equity, this will be more than offset by the profit they are going to make on the "bad" part in due course. But the media seem to prefer "bad" news to "good". As indicated above, the whole of Northern Rock needs to be considered, not just a part.

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Note any members of the press who wish to receive a complimentary copy of our informative monthly newsletter should send a request to sharesoc@btconnect.com . Our newsletters cover not just the affairs of our organisation but contain general financial news and commentary. Examples of our past newsletters are available on our web site.

About the UK Individual Shareholders Society (ShareSoc)

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