

To Bank Shareholders

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Bank Investors Campaign – Update No. 1

Introduction

This is the first newsletter that we are issuing to everyone who has contacted us about the bank recapitalisation programme in the UK and the associated restrictions on bank dividends. Several of the banks concerned have issued announcements in the last few days so it is a good moment to inform you on those.

We have received a large number of emails, letters and phone calls from the general public on this matter and we hope to place some of the comments received on our web site in the next few days. They will be available from: www.uksa.org.uk/Bank_Investors_Campaign.htm

We have also written to the Chancellor of the Exchequer on this matter but have yet to receive a response.

LloydsTSB and Royal Bank of Scotland Announcements

Both LloydsTSB and Royal Bank of Scotland have issued announcements in the last two days which spell out the terms of the fund raisings they are undertaking and the associated dividend restrictions. These announcements are available from the web sites of the companies or from any RNS delivery service (such as www.investegate.co.uk) and the full details will be posted to shareholders in due course.

Both companies indicate that they intend to repurchase the preference shares being issued to the Government as soon as possible. As the “no ordinary dividends” restriction is tied to those, early redemption of the preference shares would in theory remove that restriction. For example, LloydsTSB Chief Executive Eric Daniels has apparently said that they intend to repurchase the prefs in 2009. However the detailed announcements make it clear that although the UK Treasury is “encouraging” early repayment, this is not a contractually binding entitlement and any such repayment depends on the approval of the Treasury at the time. In addition there are repayment penalties that will be charged if they are repaid early.

Any such repayment will also need to be compliant with maintaining the required new tier 1 capital ratios and will be subject to the approval of the FSA.

Our comments are as follows:

A – This is really not adequate in that it depends on the whim of the Government and their policy at the time as to whether dividends can resume.

B – It is not at all clear what the level of dividends might be going forward even if the prefs are repaid and payments are resumed. With massive ordinary share dilution, reduced earnings arising from capital write-offs and business recession, any dividends may be small. Profit forecasts for the companies are not currently available. In addition, with the Government likely to be a very substantial shareholder in both companies, they may have some influence on dividend policy.

These arrangements do nothing to tackle the main problem facing many shareholders in these banks – namely the abrupt change in the level of dividends on which they rely for income. Dividend stability is of great importance to shareholders and this principle seems to have been ignored in any consideration of these financing proposals (and in the merger of LloydsTSB and HBOS).

One small glimmer of positive news was the comments included in their statement by RBoS that said "*The restriction on payment of dividends does not preclude the declaration of a capitalization issue paid out of non-distributable reserves*". There is of course more than one way for companies to return cash to shareholders other than via dividends which seems to have not been taken into account in the posturing over these "dividend limitations". But whether in practice the companies will be in a financial position to do so while maintaining the new "meltdown proof" capital ratios is uncertain.

Note that the abrupt raising of the required capital ratios by the FSA, to levels that have not been justified to the public, and which the banks seem to have considered unnecessary, is the major cause of this disruption to these companies. Why this was done and at such short notice, forcing the companies to raise enormous amounts of new capital, and forcing some of them into the arms of the Government is not clear. One could hypothesise that it was done to enable the Government to have a significant say in the way these banks are run in future – in other words there may be a political agenda as well as a financial one. The companies deny they will have such influence but it is certainly unclear whether they will in practice or not use their significant stake to influence lending and other policies.

Note that dividend exclusion was not a condition placed on other "recapitalizations" in the USA or in Europe. It has been suggested that this was a condition placed by the European Commission on these refinancings but clearly that was not the case as those in France and Holland have been done otherwise.

Barclays Announcement

Barclays has also announced their fund raising to meet the new capital ratios, and is raising money on onerous terms from Arab interests to avoid falling into the arms of the Government. Most people view the terms as expensive, and there is no opportunity for most shareholders to participate so "pre-emption rights" are being ignored. However, many shareholders might have been reluctant to participate in another fund raising round and the requirement to raise large sums at short notice was always going to prove difficult. Shareholders might prefer for the company to remain independent of Government influence even at such a high cost.

General Meetings Fixed

Both LloydsTSB and Royal Bank of Scotland have fixed the dates for General Meetings of the companies to approve the proposals. These are fixed for the 19th and 20th November respectively. These meetings are likely to be held in Scotland. Please ensure that you not only have a vote but do vote. If you are in nominee account (as opposed to having a paper share certificate or being a personal Crest member), then you need to talk to your nominee operator to ensure that you will be enfranchised and will be able to vote – not all stockbrokers do this and if they do not then you would need to switch to another stockbroker or change your holding into “certificated” form.

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Note that all previous information issued by UKSA in respect of our campaign on banks is present on the following web site page: www.uksa.org.uk/Bank_Investors_Campaign.htm