

To Bank Shareholders

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Bank Investors Campaign – Update No. 4

Panorama Analysis of the Credit Crunch

Just before Christmas the BBC's Panorama programme covered the recent banking crisis. This was billed as an analysis of the events leading to recapitalisation of the UK banking system but turned out to mainly a puff for the BBC's Business Editor, Robert Peston. As a result it was somewhat short of detail, but at least they did include one interview that criticised Mr Peston's keen desire to publish "scoops" which resulted in the release of confidential information about the affairs of Northern Rock, Bradford & Bingley and other banks, with resulting financial turmoil.

Alistair Darling was interviewed and said that Royal Bank of Scotland "*needed an awful lot of money*", and explained briefly how he gave them an ultimatum to accept the Government's terms overnight, but no details were provided. The Deputy Governor of the Bank of England, Sir John Gieve, spoke on the programme and made it clear that the Government effectively dictated to the banks what was going to happen. Fred Goodwin has said about this process that "*you know it's more a drive-by shooting than a negotiation*".

The best comment on the year's events is probably that of the Telegraph's cartoonist "Matt". He shows a fortune-teller saying to her client: "*You will keep seeing a tall, dark stranger next year – Robert Peston will be on TV all the time*".

The Irish Bank Recapitalisations

A similar "bail-out" of Irish banks to those in other countries has just been announced. Yet again the terms are more favourable to shareholders than those imposed by the UK Government. The Irish Government is buying Euro 5.5bn in preference shares but no equity shares so shareholders will not be diluted (although the preference shares will have voting rights). In addition, the interest rate being paid is between 8 to 10 per cent versus 12 per cent in the UK, and there are no restrictions on dividend payments on the ordinary shares.

My personal conclusion: the UK Government penalised the banks and their shareholders simply because they wished to punish them, who they generally see as "fat cats". Similarly they do not respect the property rights of shareholders and wanted to take control of significant chunks of the banking sector, which the credit crisis gave them a golden opportunity to do.

How They Do Things In Europe

The events at Fortis, a large Dutch/Belgian bank, have received little coverage in the UK media. This was yet another bank that ran into liquidity problems, and where the Governments of Holland and Belgium intervened. Holland nationalised the Dutch parts of Fortis less than a week after a 11 billion Euro public bailout, with BNP Paribas agreeing to buy the Belgium and Luxembourg parts of the company. In effect they proposed to break it up and dispose of various parts, without the consent of shareholders (a bit like Bradford & Bingley was carved up in the UK).

Euroshareholders (a European grouping of private shareholders' organisations of which UKSA is a part) challenged this in the courts and won an initial court ruling. It seems the Belgian Government tried to influence the court to rule in its favour and received a lot of criticism as a result. This caused the prime minister of Belgium Yves Leterme to resign, thus requiring the formation of new Government in Belgium.

How very different from the UK, where the recent nationalisations have gone unchallenged by either shareholders or politicians – indeed they have barely been debated in Parliament at all.

Why is this possible in Holland and Belgium but not in the UK? Because the legal system is different and does not provide protection for shareholders to the same extent. Similarly shareholder organisations such as those in Holland are much more powerful because they have more members (hence more resources, more money and more support from institutions). It emphasises the importance of joining UKSA as a member, so we can grow our influence in the future.

Meeting on "The State of the Banks"

The public meeting organised by UKSA in London on the 11th December was well attended although unfortunately one of our speakers, Bill Brown, could not make it as he was grounded by fog at Edinburgh airport. We hope to circulate a report on the meeting at a later date, but no specific actions going forward were agreed. There seemed to be support for the representations that UKSA has already made, but few other concrete ideas on how to progress the matter, or volunteers willing to help do so. If anyone who receives this newsletter wishes to help on this campaign, please contact me.

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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