

To Bank Shareholders

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Bank Investors Campaign – Update No. 9

Investigations of the Past

Several parties seem to be looking into what happened at Royal Bank of Scotland (RBS) and Lloyds (particularly the HBOS part) with a view to possible legal action. For example, the Daily Telegraph reported that Kroll had been hired by institutional investors to look at RBS. Several rumoured legal actions are in the offing and we hope to report further on these at a later date.

Sir Fred Goodwin's Pay

The public furore about the amount Sir Fred Goodwin is receiving as pension continues. Despite the fact that there was clearly a written agreement on his total "severance package" including pension arrangements between him and the company when he left, which was waived through by Government Minister Lord Myners, the Government wishes to revisit it.

Breaking such a contract is not easy in English law, and it has even been suggested that a "Sir Fred Goodwin Bonus Reclamation Act" be put through Parliament but that is unlikely on human rights grounds. A general Act to reclaim all bank bonuses and pension top-ups might be possible though. The other thing the Government seems to be doing is considering a possible "breach of duty" claim and it is probably easier for the Company to pursue this than for shareholders (not that there is much distinction now the Government effectively has an interest in 95% of RBS).

My personal view is that this is a case of trying to close the barn door after the horse has bolted. One commentator called it "retrospective scapegoating". More effort should surely be expended on trying to ensure that such things do not happen in future by ensuring that total remuneration, bonus packages and severance terms are prudent, sensible and moderate than in trying to rewrite contracts retrospectively.

Can Lloyds Escape?

Negotiations between Lloyds Banking Group and the Government about financial support, and particularly insurance of their assets, is still proceeding. The difficulty is that Lloyds is trying to avoid giving the Government more than 50% of their equity, and hence effective control. The Government currently holds 43%.

The cause of this difficulty is of course the decision to merge LloydsTSB with HBOS, and I was quoted by the Telegraph as saying " *This merger has been an absolute disgrace and Sir Victor Blank should go. The directors of LloydsTSB ignored the objections of shareholders and mixed an essentially safe investment that paid a high dividend into a risky one.*"

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Since then numerous ex LloydsTSB shareholders have told me that they said similar things to the board before the merger, but were of course ignored.

The Scotsman newspaper, one of the most reputable commentators on the business scene, was even banned by Lloyds from attending a press conference on the latest results because of its past criticism of the merger.

HBOS Problems

More revelations are coming out daily of the reasons why HBOS got into difficulty with a particular emphasis on their commercial property lending division formerly led by Peter Cummings. Lloyds warned that the amount of provisions on the HBOS portfolio are now going to be substantially larger than expected, which rather reinforces the impression that due diligence done before the merger was inadequate. But the directors of Lloyds continue to defend the long term merits of the merger.

Lord Turner of the FSA admitted on the BBC that the Government was previously aware that the HBOS losses might be higher than were forecast when the merger was announced. *"The Losses that are being revealed this week are not huge surprises to the FSA"* he said.

The Lloyds annual financial report also showed profits down 80% in 2008 as a result of increased retail mortgage arrears and provisions, while "corporate impairments" remained high. A loss is forecast for 2009.

More Funding for RBS

Royal Bank of Scotland announced the biggest loss in UK corporate history, and a new cash infusion from the Government to insure their toxic assets against further losses. This will raise the total financial stake the Government has in this company to 95%, leaving not much left for the original shareholders. The Government seems to still be trying to avoid total nationalisation, but it's getting more and more academic. The original shareholders have been effectively wiped out, and the Government clearly has control and will be dictating company strategy in future. With the latest deal, it's pretty much a poodle of the Government from now on.

HSBC Rights Issue

HSBC announced a massive rights issue to raise £12.5 billion, similar to the RBS one which proved an absolute disaster for investors who took it up. The share price of HSBC predictably tanked. Perhaps it was the "rebasings" of the dividend to a much lower level that particularly spooked investors, or the large discount on the rights price – a sure sign that investors need strong encouragement to even consider the offer.

The above is only a brief summary of recent events, with a few added comments. It's difficult to add more because the pace of events, and the effort involved in keeping up with them, precludes a more extended commentary.

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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