

To Lloyds Banking Group Shareholders

15 July 2009

UK Shareholders Association
PO Box 62
Chislehurst
BR7 5YB
Phone: 020-8468-1027
Email: uksa3@btconnect.com
Web: www.uksa.org.uk

Lloyds Bank Shareholders Action Group – Update No. 2

New Lloyds Chairman?

Several newspapers reported that Sir Win Bischoff may be the next Chairman of Lloyds Bank. The 67-years old former chairman of Citigroup has been invited to take over from Sir Victor Blank by the UKFI, it is rumoured. He built a strong reputation at Schroders but was less successful at Citigroup according to commentators.

More Job Losses

Lloyds announced a further 2,100 job losses which seem to mainly stem from the integration of the Lloyds and HBOS operations. The figure of job losses as a result of the merger is now 7,000.

Merger Benefits to Disappear?

On the same day as the above announcement, Ms Neelie Kroes, the European Unions Competition Commissioner, gave a speech to a London banking conference indicating that after tackling the German banks she was now looking at UK banks. She said "*The massive aid received by banks such as Lloyds and RBS allows these banks to remain leaders in markets which are concentrated*". She hinted that this might require "significant divestments".

Any such action would of course totally undermine the justification for the original merger of Lloyds TSB and HBOS, for which they received a waiver from the UK Government on competition issues. Any requirement to dispose of major chunks of merged company would prejudice the claimed financial benefits of the merger. The directors are still claiming that it will all come good in the end, because of the major costs rationalizations that can be achieved, but that looks questionable if European competition law enforces disposals.

Here's what Jeff Randall had to say on this in the Daily Telegraph when discussing the Chancellors options: "*As for competition, thanks to the intervention of Mr Brown, Lloyds Bank was permitted to buy HBOS, creating the biggest force for monopoly the British retail banking market has ever known. Before the takeover was nodded through, the pair accounted for about one third of all mortgages, the same proportion of domestic current accounts, and operated 3,000 branches. If Mr Darling were really concerned about competition, this monster would be broken up. But with the Hand of Gord on the deal, that is not an option*".

HBOS Loan Quality

A report by Philip Scott of This is Money recently highlighted one reason why nobody else wanted to acquire HBOS. It is alleged that as many of 80% of loans had no income check, i.e. they were mostly "self-certified" income loans. It quoted Ray Boulger of mortgage broker John Charcol who said that HBOS introduced a new automated system in 2001 which bypassed a full evaluation by a traditional underwriter.

No Quick Exit

John Kingman recently presented the first report from UK Financial Investments Ltd (UKFI) who hold the Government's stake in Lloyds Bank and RBS. He said it "would inevitably take several years" for them to dispose of these holdings. This rather scotched speculation in the press that the Government was looking for a quick exit. However he also said that "opportunities for us to sell the government's shares might emerge" as the economy came out of recession. It would appear that some minor disposals might be contemplated later this year but the bulk will not be sold until the prices obtainable for bank shares are much better – the Government would suffer substantial losses if they sold now and it would clearly be wise for them to defer this and either pick an opportune moment or do it in stages.

Another Group

You may have seen in the press an announcement by another group who are intending to pursue legal claims on behalf of former LloydsTSB shareholders (they were also mentioned in our last newsletter). We have no connection with them although we have had some discussions with them and might co-operate on any legal action.

They seem to have raised the issue of what took place between Sir Victor Blank and Gordon Brown that may have persuaded the former to pursue the merger. They apparently propose using the Freedom of Information Act to obtain details of the exchanges, but from our experience on other campaigns they will be unsuccessful in obtaining any useful information via that method. Apart from general obstruction if civil servants and politicians don't wish to respond, there are a number of provisions in that Act that can be used to inhibit disclosures by the Government. The Act is not very effective if the potential disclosers do not want to co-operate. The disclosure process associated with any legal action might be more helpful though.

Campaign Status

We have sent letters to the largest holders of shares of Lloyds Banking Group and got a good response to date. Our mailing campaign is now being expanded to cover as many shareholders as we can. In the meantime we have identified more than one possible legal route to enable shareholders to get some compensation and these are being looked into further.

Roger Lawson

Communications Director, UK Shareholders Association

Email: uksa@uksa.org.uk, Web: www.uksa.org.uk, Direct telephone: 020-8467-2686

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