

Press Release

For immediate release

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UKSA Opposes Further Government Interference in the Banking Sector and in Royal Bank of Scotland

The UK Shareholders Association (UKSA) deplores the creeping nationalisation of the banking sector by the Government.

The banks are being put in an impossible position. The Government wants them to lend more money, and less prudently, to revive the housing market and general economy. But any shortage of liquidity is not just the banks' fault - it has been removed from the market by others to a large extent. In effect the Government wants to take control, dictate lending policies, dictate banks' views of their assets, and generally interfere with what are private companies in the public interest.

Royal Bank of Scotland

A good example of this has been the announcement today of the issue of more ordinary shares in Royal Bank of Scotland (RBS) to enable repayment of the preference shares previously issued to the Government. The announcements by the Government and the company make no mention of the interests of shareholders, simply of the interests of the Government and of taxpayers.

To quote from the Treasury announcement: "*The Government, in consultation with UK Financial Investments (UKFI), has today agreed to convert the Treasury's preference share investment in RBS to ordinary shares, with the aim of: supporting stability in the financial system; ensuring continued protection for ordinary savers, depositors, businesses and borrowers; and maintaining a safeguard of the interests of the taxpayer.*"

The new shares are being issued at 31.75p, a discount to the already very depressed RBS share price. This will have the effect of further diluting ordinary shareholders, and has had a predictable impact on the share price on the morning of the announcement (today).

It would seem clear to us that following the acquisition of a majority stake in RBS by the Government, it is being run in the interests of the Government (or in the interests of financial stability and taxpayers as they put it) rather than the interests of shareholders. The Government has a desire to improve lending by banks, and is influencing the policies of these banks in the interest of public policy. But RBS is not a public company – it is a company owned by its shareholders. Although the Government may be a majority shareholder, they seem to be ignoring the rights and interests of the minority shareholders.

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Neither is it clear in the announcements whether the change of capital structure will enable ordinary dividends to be made, which were inhibited under the terms of the preference shares. Such dividends are enormously important to private shareholders.

Lloyds Group and Barclays

The impact on the merged LloydsTSB/HBOS entity and on Barclays is not yet clear, but according to press reports the Government desires to make a similar arrangement with the former which would give it control, and may force Barclays to issue more equity also.

We strongly oppose any such proposals as not in the interests of shareholders.

Other Possibilities

UKSA suggests that forcing banks to make increase lending to levels that they consider imprudent given the financial circumstances and the economic outlook is the wrong policy and will fatally undermine the independence of these companies. It is nationalisation by stealth and will be enormously damaging to the interests of the UK financial sector in the long term. Who will invest in UK banks if they know the Government will interfere to dictate capital structures and lending policies at their whim?

Whilst we fully appreciate the need, set out in the Treasury's announcements, to meet lending demand to otherwise creditworthy businesses, we believe there are better solutions to improve liquidity in the banking sector that would be much more acceptable to shareholders while regaining stability and confidence in the financial sector.

For further information, please contact:

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About the UK Shareholders Association (UKSA)

UKSA is the leading independent organisation which represents the interests of private shareholders in the United Kingdom. We campaign to protect the rights of shareholders in public companies, and to promote improved standards of corporate governance. Our educational activities, regular regional meetings, company "analyst" meetings and the resources of our web site, help to inform the public on investment management. UKSA is a "not for profit" organisation which is financially supported primarily by its individual members.