

Shareholder Activism in the Banking Sector

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UKSA_Shareholder_Activism_in_the_Banking_Sector.ppt (Revised 28-Oct-09)

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A political analysis?

- Did Gordon Brown save the world from financial collapse?
- In his speech to the Labour Party conference, Prime Minister Gordon Brown said “not one British saver has lost a single penny” when referring to the Banking Crisis. Does that stand up to scrutiny?

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Timeline of Events

- In 2007, money markets started to close down impacting those companies particularly that were reliant on them for financing their loan books (Northern Rock, Bradford & Bingley, HBOS), but all banks in reality.
- Confidence in lending to all other banks evaporated because of the risk of undisclosed sub-prime liabilities.

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Northern Rock – the First UK Symptom



- On the 14th Sept 2007, a small liquidity problem at Northern Rock caused the fateful announcement of Bank of England support, and Robert Peston's "don't panic" broadcasts. A classic "run" on the bank ensued.
- £25bn was withdrawn over the next few weeks, and ultimately the BofE supplied about £30bn in funding.

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Bradford & Bingley



- By February 2008, Northern Rock was nationalised by an Act of Parliament.
- The same Act was used to nationalise Bradford & Bingley in September 2008 (for reasons which are still not clear).

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RBS Difficulties



- RBS acquired ABN-AMRO as a mainly cash deal in August 2007 (after competing with Barclays).
- By April 2008, they decided they needed to raise £12bn in a rights issue (the largest UK one ever at the time). **Why?**

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Lehman's Collapse

- The collapse of Lehman's (and the reluctance of Governments to rescue it created major uncertainties about the stability of all financial institutions, and a major "flight to safety", ie. liquidation of positions.

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Bank Recapitalisations

- By October 2009 the Government had announced a major recapitalisation of banks with raised capital ratios, and £200bn in a "special liquidity scheme". Basically banks such as RBS, Lloyds and Barclays had three months to strengthen their balance sheets.
- RBS clearly could only do this by taking money from the Government by equity/pref share capital raising with massive dilution of ordinary shareholders as a result. A "drive by shooting" as Sir Fred Goodwin called it.

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Barclays

- Barclays escaped by a massive “placing” with middle eastern interests, for which the Chairman, Marcus Agius, was much criticised at the time. Asset disposals have also taken place. But as a result they have stayed out of Government control and the share price has recovered with least impact on shareholders.

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HBOS/LloydsTSB



- The solution to the HBOS problem was a “shotgun” marriage with LloydsTSB where the stick was a threat of “recapitalisation” anyway, and the carrot was a waiver of competition law (since undermined by the demands of the European Commission).

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In summary

- In general, the Government have paid no heed to the interests of shareholders in banks, even though these are mostly “savers”. Their interest in promoting “financial stability” and taking control of the banking sector has taken precedence over protecting the interests of shareholders which have been totally ignored. The Lloyds Bank debacle is simply one example of this.
- The original Lloyds TSB and RBS shareholders have lost an enormous amount of their capital and dividends have been lost. There is not likely to be a quick recovery from these companys’ poor financial positions and the dilution of shareholders’ interests by the Government stake (soon to be compounded further by the APS) will mean a permanent reduction in the original shareholders equity stake and dividends.

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Why was Bank Recapitalisation Necessary?

- In reality, increasing bank core capital ratios simply encourages banks to hoard capital and not lend it out, thus creating an economic recession on top of the banking crisis.
- The FSA is of course an arm of the Government, so increasing tier 1 capital might be in their interest because most of it is invested in gilts.
- Increasing capital ratios to protect against future defaults on loans may be wise, but to do it abruptly simply creates instability.
- There was surely an element of “taking control” of the banks in this policy? And the way it was done ensured that in the UK, whereas it was done differently elsewhere.

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What has UKSA done?

- **Northern Rock:** formed an “action group”, opposed a “fire sale”, encouraged change of Chairman, encouraged a vote by shareholders on future options, supported EGM motion that made it clear shareholders would not support a Virgin deal. Have supported legal action for judicial review.
- Note blocking “fire sales” not likely to be possible in future due to the “Banking (Special Provisions) Act”.
- **Bradford & Bingley:** another “action group”. Most focus is on representations to the independent valuer as the “Compensation Order” is less prejudiced (perhaps because of the NRK action).
- **Lloyds Bank:** formed an “action group” that is looking at the legal issues . Encouraged Sir Victor Blank to depart.

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Royal Bank of Scotland (RBS)

An independent group - See www.rbosaction.org



The screenshot shows the homepage of the RBS Shareholders Action Group. The page features the RBS logo and the text "Royal Bank of Scotland Shareholders Action Group". A navigation menu on the left includes links for Home, About, Membership, News, Press Releases, Legal, Search, and Contact. The main content area contains a paragraph about the 2007 Annual Report of the Royal Bank of Scotland (RBS) issued in early 2008, discussing the company's financial performance and the impact of the Financial Services Authority's (FSA) requirements. A "Join the Campaign" box on the right encourages registration. The page also includes a "Latest News" section with links to "Meeting Report", "Latest News and Meeting Reminder", and "More News Stories".

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Other Groups ?

- Other groups working on Bradford & Bingley (the rights issue), Lloyds Bank, RBS, and possibly HBOS.
- Euroshareholders (Holland/Belgium and issues at ABN-AMRO and FORTIS).

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Education

- Educating our members, supporters and the general public, particularly politicians by press releases, interviews, articles, speeches, etc.
- Why are politicians so ignorant? Even Conservatives and Liberal Democrats seem to be very short of anything but simplistic ideas. But the media are not much better.
- Even some shareholders seem to think that stock market investment is about speculation, not investment.

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The APS

- Is this not a disguised dividend for the Government at the expense of minority shareholders?
- Will we see the actuarial basis of the cost of this insurance. Could the Government afford to pay out if the schemes were in full default?
- The Government has forced these schemes on these companies by using its regulatory powers.

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Other Issues

- Banker's Pay
- Corporate Governance: the Walker Review and "Shareholder Committees".
- Regulation by the FSA and the "Tripartite Authorities".
- Don't forget to look at www.uksa.org.uk or join our newsletter lists.

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Questions

