

Royal Bank of Scotland Shareholders Action Group

London Shareholders Meeting – October 2009

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Warning

- This presentation only attempts to provide an outline of the problems faced by investors in RBS and of the claims that might be pursued and the possible basis of those claims. Until such claims are submitted, these are only mentioned as an overview of some of the issues that need to be examined and that may well have been put forward by other commentators in the public domain and which will require detailed substantiation.
- Shareholders should not take any statements made during this presentation as being investment advice or advice to deal or not in the shares of RBS.



What is Going to be Covered

- Who we are, ie. background info.
- Why you have lost money in RBS.
- The fund raising and prospectus in May 2008.
- The subsequent events.
- The current status of legal action.
- Questions from the audience.

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Question

- How many people here are registered with us already?

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Who we are

- The RBOS Shareholders Action Group was formed in early 2009 and is a “special purpose vehicle”– in reality a company limited by guarantee which is a common form for mutual associations and “not for profit” organisations. Each member has one vote and we will publish accounts and hold an AGM in the normal way that all companies do. We are subject to the Companies Act of course.
- But we also have an “associate class” of member to simplify administration.
- The directors are myself, Michael Fox, Brian Stokes and Rachel Walsh (point them out).



Why you have lost money in RBS

- To put the events at RBS into context, it is clear that if you look back over the events in recent years, that RBS had an aggressive growth strategy driven by Sir Fred Goodwin. They typically had lower capital ratios and higher gearing than other banks, which worked well in terms of shareholder returns in the good times when credit was cheap.
- So in early 2008 when they reported the 2007 results, earnings were up 18% there was an increase in the dividend of 10% and return on equity was reported as 19.9%.
- But in essence it was a risky strategy.



Why you have lost money in RBS-2

- But they got involved in the sub-prime debt problems in the US (although the extent of their exposure seems to have been downplayed), and the problems in this sector also later impacted the general willingness of banks to lend to each other via the money markets, which RBS was relying on to some extent.
- In 2007, they also decided to acquire ABN-AMRO (at least part of it as it was a three way split) in competition with Barclays who eventually dropped out. They bought a very expensive asset, at the top of the market and have subsequently had to write off most of the billions that it cost.

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Fund raising & prospectus in May2008

- Who read the prospectus before subscribing? Even if you did, the impression you received might have been misleading. For example, it said things such as

"Overall underlying performance of the Group remained satisfactory....."; and

"Following the rights issue, RBS believes that it will be in a strong position to realise the substantial value in its UK and international franchises and to take advantage of the growth opportunities available to it".

This is probably why many analysts, financial advisers and financial publications recommended people to take up the offer.

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Fund raising & prospectus - 2

- But it is clear looking at the financial position of the company based on its published accounts, that cash was leaking out of the company in 2007/8 and that even without any problems with the ABN-AMRO acquisition, the balance sheet (and hence the capital ratios) were coming under pressure.
- Of course there is no mention of any problems with the ABN-AMRO acquisition, and the goodwill they recognised from that acquisition, in the prospectus which is an issue we are looking at very carefully.

Fund raising & prospectus - 3

- In essence, it is likely that the fund raising (the largest ever UK rights issue) was more of a bail-out to cover the cost of the ABN-AMRO acquisition and looming financial problems and further toxic asset write-downs, rather than the “spin” put on it.

In addition the company said it is “of the opinion that, after taking into account existing available bank and other facilities and the net proceeds of the Rights Issue, the Group has sufficient working capital for its present requirements, that is, for at least the next 12 months from the date of this document”. A wildly inaccurate prediction.

Subsequent Events

- After the collapse of Lehmans, the whole banking sector went into crisis as no bank had confidence in any other, money markets froze and credit was difficult to obtain. This particularly impacted those banks that the market saw as being more highly geared or who had exposure to sub-prime loans and other complex credit derivatives.
- As Mervyn King, Governor of the Bank of England said recently about the events on the 6th and 7th of October 2008: *“two of our major banks which had had difficulty in obtaining funding could raise money only for one week then only for one day, and then on that Monday and Tuesday it was not possible even for those two banks really to be confident they could get to the end of the day”*. One of those was RBS.

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Status on Legal Action

- We are focussing on the prospectus in May 2008 because it provides a relatively simple basis for a claim. Such prospectuses have to be truthful in essence, and not omit significant information, i.e. they must not mislead investors. It is not necessary to prove fraud.
- At present we are doing the necessary research and analysis of the voluminous financial information published by RBS (Prof. Paul Klumpes is assisting us on this) after also taking some legal advice on the matter. It may yet be some weeks before a claim is ready to submit.
- Shareholders may also have other claims based on possible inaccuracies in the disclosure of the financial position of the company in the last three years.

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What Else Have We Done

- Written to more than 70,000 of the 100,000 people on the share register who took up the rights issue (some more than once). This is a massive and on-going task.
- We are so far only raising funds to cover the initial stages of formulating a claim. Any legal action is likely to be expensive and a lengthy process and would be needed to be funded by “litigation finance” or insurance arrangements.
- We have also built a web site, issued several press releases, issued 11 newsletters and put in place the necessary administration infrastructure.

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How You Can Help

- Support the Group financially by registering.
- Tell your friends and relations about us (many people are in nominee accounts who we cannot easily contact)
- If you are able and willing to take a more active role, then contact me.
- Try not to ask questions by sending us letters. We have very limited resources to deal with individual correspondence or phone calls, because control the costs of this action is a high priority. Please look at the web site (www.rbosaction.org) and read the newsletters to get your questions answered.

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Questions



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