



RBoS Shareholders Action Group
PO Box 62
Chislehurst
BR7 5YB
Phone: 020-8467-2686
Email: info@rbosaction.org
Web: www.rbosaction.org

Press Release

09 November 2009

For immediate release

Shareholders Recommended to Vote Against the Royal Bank of Scotland Asset Protection Scheme.

The RBoS Shareholders Action Group has considered the announcements made last week by the Government and the Royal Bank of Scotland and has decided to recommend to shareholders that they oppose the Asset Protection Scheme (APS) and the associated fund raising.

A brief summary of the proposals was previously issued in this note which is on our web site: www.rbosaction.org/RBOS_Update_13.pdf. In our view the proposals are unnecessary and enormously expensive in terms of their impact on existing shareholders. It would appear to us that this proposal is being forced on the company, and on its shareholders, by the Government using its regulatory powers and in the name of "financial stability". But in reality it simply enables the Government to extend its control over the banking sector or to make a large profit at the expense of other shareholders.

Why is the APS Unnecessary?

The proforma Core Tier 1 Capital ratio (as at September 2009) with the APS in place would be 11.1% according to RBS (an increase from 6.4% as reported in June, and well above the company's stated target of 8%). This is higher than other UK banks – for example Lloyds will have 8.6% after the proposed fund raising and Barclay's proforma figure after the BGI disposal was 7.9%. Bearing in mind that these ratios are calculated on "risk-weighted" assets, there is no obvious justification for the higher ratios being imposed on RBS by the FSA.

Why is it Too Costly?

The fees for participation in the APS are very substantial, with fees of £700m per annum initially, which falls somewhat later. To pay for the APS and to strengthen its balance sheet to meet the imposed capital ratio requirements, the company is having to issue £25.5 billion in "B" shares to the Government, with a possible further £8 billion later if the company's capital ratios fall below a certain level. The annual fee for the APS might also be paid in "B" shares. These "B" shares not only effectively dilute the interest of existing shareholders in the profits of the company but are enormously expensive to service because dividends at the rate of 250% of the rate paid on ordinary shares will need to be paid (i.e. two and half times the normal dividend) – in addition there is a minimum dividend of 7% per annum so even if ordinary shareholders are getting no dividends, this will have to be paid.

Nominally this increases the existing Government stake in the company from 70% (former shareholders have already suffered massive dilution), to 84%, but in reality the implied dilution is higher because of the superior dividends paid on the "B" shares. These "B" shares will be a noose around the company's neck for as long as they are in existence and there is no longer a mandatory conversion provision. From an intrinsic value perspective, because of the higher dividends paid on the "B" shares, the effective dilution reduces "non-Government" shareholder interests to 9%.

There are of course two likely consequences of this proposal. Firstly the company will be reluctant to pay substantial ordinary share dividends. Secondly, although the company has suggested that it might look to raise alternative funds to reduce the need to raise as much capital from the Government, it looks very unlikely that any institutional investor would wish to get involved in a company with such an arrangement in place. The additional commitments by the company as part of this deal (see our previous note for a summary) also constrain what the company can do and might impact its profitability.

In summary, it would appear that the Government is taking advantage of the difficulties faced by the company to acquire a larger stake, and to make substantial profits on the various elements of this transaction at the expense of existing shareholders. We would also question whether this process is legal. Using regulatory powers (in essence those of the FSA, a part of the Government) to impose a commercial deal on a company is very questionable.

Our Recommendation

Our recommendation is therefore that shareholders vote against the APS and associate fund raising unless the deal is changed very substantially before the vote is put.

For further information, please contact:

Roger Lawson, RBoS Shareholders Action Group
Telephone: 020-8467-2686
Email: roger.lawson@btclick.com

Notes for Editors:

The RBoS Shareholders Action Group was formed in early 2009 to represent the interests of shareholders in the Royal Bank of Scotland (RBS). This group is considering legal action on behalf of shareholders in RBS, and was formed at the request of a number of RBS shareholders who have lost substantial sums of money as a result of their investment in this company. More information is present on our web site at www.rbosaction.org

File: RBOS_Press005_APS.doc