



RBOS Shareholders Action Group

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They Were Told

One of our contacts has pointed out that in March 2006 he attended a lecture by the Chief Economist of American Express at the Royal Bank of Scotland's Conference Hall in Gogarburn. The subject of his address was the coming crash of nearly all lending bodies in the UK and throughout the western world due to the failure of sub-prime lending. He predicted a tsunami of falling house prices followed by mass defaults of borrowers which would completely undermine the value of securitised loan paper. The lecture was attended by outgoing Chairman George Matheson, incoming Chairman Tom McKillop and Fred Goodwin. You probably don't need reminding that the exposure of RBS to these loans was one of the main causes behind the crisis at the company two years later that has eroded shareholders wealth.

Moody's Downgrades

Moody's has forecast further losses of £130bn in UK banks over the next few years as bad debts rise and profitability is squeezed. In a worst case scenario, they suggested that figure could be as much as £250bn. They also suggested that Lloyds/HBOS and the Royal Bank of Scotland were the most heavily exposed due to their high involvement in the construction and property sectors. They have downgraded or put under review the subordinated debt and preference shares of both companies, particularly bearing in mind the "*higher probability of coupon suspension on these securities as result of the ongoing discussions between the UK Government and the European Commission on the planned state aid package*".

Living Wills

The Chancellor is apparently to legislate to ensure that banks have "living wills" that enable them to be dismantled if they get into difficulties. One of the problems with the Lehman's collapse was that after it was allowed to go bust (and the recent BBC television documentary gives you some idea of why), it became apparent that the complexity of the firm, and the structure of many of the deals they were involved in, means that it is going to be very complex, and take many years, to liquidate.

Of course there may be a hidden agenda here. Banks have complex financial structures for two primary reasons: 1) a long and complex history; 2) a desire to minimize tax. Mr Darling's comments suggest that he would like to see a simplification of the structures of banks. But it is no secret that until recently banks were one of the major contributors to the UK take from corporation tax and the recent financial crisis is having an impact on UK tax revenues.

The Chancellor seems to be wanting to ensure that if they do recover, that they pay more tax in due course. This tends to reinforce the view that the historic profitability of UK banks such as RBS may never be recovered.

Indeed on the 28th September, Citywire published a story saying that a number of brokers had downgraded their ratings on RBS recently. It quoted ING analyst Andreas Mavrikakis as saying that a recovery will be slow to achieve, and in the meantime the group will be making losses, won't be paying a dividend and impairments could continue to be volatile.

King's Revelations

In an interview on BBC television, Bank of England Governor Mervyn King revealed how close the banking sector came to collapsing on the 6th and 7th of October 2008. He said *"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"*. The two banks he was referring to were RBS and HBOS, the BBC said.

The Future of RBS

Stephen Hester, the Chief Executive of RBS, recently gave a presentation to a Banking Conference that covers his vision for the future of RBS and banking in general. He commences by talking about the reduction of 40% in the RBS balance sheet that is forecast, but otherwise gives a pretty good explanation of his business plan. It's well worth listening to and can be obtained from this page of the company's web site:

www.investors.rbs.com/news/webcasts.cfm

Another RBS Fund Raising?

Several newspapers reported that RBS was considering another fund raising from shareholders to cut its commitment to the Government's Asset Protection Scheme (APS). There seems little chance of it being able to withdraw completely, but like Lloyds it seems to be finding that the APS looks expensive and by raising more funds itself it might reduce the cost. Less reliance on the Government scheme might also help it in its negotiations with the European Commission about state aid.

Early Day Motion

An Early Day Motion (No. 1721) has been presented in the House of Commons concerning the amount being paid to the new Chief Executive of RBS, and requesting the Government to take steps to control the bonus culture in banks. Over 40 MP's have already signed it and you may care to mention it to your local Member of Parliament.

Campaign Status

You may be wondering as to how the legal action is progressing. We are still doing the necessary financial analysis of the prospectus and other financial information published by RBS preparatory to submission of a claim. This may yet take some time to complete as the affairs of RBS are obviously exceedingly complex.

Meeting for Shareholders

All RBS Shareholders who have an interest in the prospective legal action are reminded that they are invited to attend a meeting on Saturday the 10th October in London – commencing at 2.0 pm (at St. Columba's Church, Pont Street). Everyone is welcome, whether you have yet registered with us or not. More details are present in this note on our web site: www.rbosaction.org/RBOS_Meeting_Notice.pdf . If you plan to attend this meeting please send an email to info@rbosaction.org indicating that you intend to do so. This will enable us to get some idea of the numbers likely to attend.

Registration Reminder

If you have not registered your interest in the proposed legal action you are reminded that you need to do so as soon as possible. Please use the form you can obtain from this page of our web site: www.rbosaction.org/Membership.htm .

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Note that all "Update" reports are posted on the News section of our web site (www.rbosaction.org) as soon as they are issued.