



RBOS Shareholders Action Group

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Appointment of Olswang

We have appointed Olswang LLP as solicitors to prepare the formal claim document in respect of the rights issue in May 2008. They are one of the largest London based firms with more than 100 partners. They are very experienced in corporate law and litigation and we considered it necessary to appoint a firm that could match the resources likely to be deployed against the claim – for more information see: www.olswang.com. The counsel appointed to the case is Philip Marshall, Q.C., of Serle Court chambers. He has extensive experience in commercial litigation, particularly in the banking and finance sector – www.serlecourt.co.uk/Members/member.aspx?memberid=14&membertypeid=1 gives more background.

ABN-AMRO Acquisition

When looking at the prospectus issued for the rights issue in May 2008 by RBS there were a number of positive comments about the ABN-AMRO acquisition. But soon after there were massive write-offs associated with the assets of that bank. Subsequently the new Chairman has admitted it was clearly a mistake and the write-offs offset most of the other profits of RBS in that year.

It has been brought to my attention that there were some notable quotations in the Times published on the 29th February 2008 on the view of that acquisition by Sir Fred Goodwin. It read:

"Royal Bank of Scotland calmed nervous shareholders yesterday by revealing that it had come across no nasty shocks after its joint acquisition of ABN Amro and expected to squeeze more synergies from the deal than it originally pencilled in.

Announcing an 8 per cent increase in pre-tax profits to £9.9 billion in 2007, Sir Fred Goodwin, the chief executive of RBS, said, "We are happy we bought what we thought we bought."

There were 'no eureka moments or silver bullets' but many cost savings such as a 20 per cent cut in ABN's stationery bill and savings in shared computer software. 'There are a lot of areas where it just goes ching, ching, ching, ching, ching,' Sir Fred said.

RBS expects to make annual cost savings of €1.59 billion (£1.2 billion) and gain revenue benefits of €688 million from the deal by the third year, compared with €1.32 billion and €395 million estimated in its offer document in July."

These statements obviously raise some important questions in the light of the comments of the new Chairman.

Bonus Payments and Bank's Progress

The House of Commons Treasury Committee has recently been interviewing bank directors on the subject of bonus packages. Chief Executive Stephen Hester of RBS said that even his parents probably thought he was overpaid, but that in reality his bonus package was currently worthless because the bank's share price had fallen lately and his bonus was share price based. He said his single biggest problem was recruiting staff bearing in mind the Government's ability to influence the affairs of the company, and he needed to be able to compete on pay. Mr Hester did at least say that the bank's restructuring was progressing ahead of expectations. He expected the Government to be able to sell some of its stake over the next few years.

Lord Myners, City Minister, said it was necessary for RBS to compete in a global world. Restricting pay arbitrarily would be a significant erosion of competitiveness in the bank.

Pay is clearly a difficult issue. Many shareholders see the enormous figures paid to senior bank executives as unreasonable bearing in mind their own impoverishment. My personal view is that RBS should not be forced into an impossible situation. Any solution to the general problem of excessive pay for bankers needs to be introduced on an international basis - and taxing bonus payments at a special rate in the UK alone is not a practical solution. But the Government should use its influence where appropriate and should have thought more carefully about the example it was setting by Mr Hester's pay package (see our previous comments on that).

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