



RBS Shareholders Action Group

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These newsletters are sent to all our contacts who have an interest in the affairs of RBS and in the activities of our Group. They cover some news about recent events at RBS and in the banking sector as well as on our legal activities, because most of you are probably still holding RBS shares.

Myners' Comments

Here's a comment from Lord Myners, City Minister, made in the House of Lords that RBS shareholders may care to ponder: "*The truth is that the senior management of Royal Bank of Scotland and HBOS has changed almost entirely since the failures so there has been a complete re-engineering of leadership with new people brought in from other more successful operations. It is axiomatic that a failed bank must see the shareholders suffer and the management must be removed. This is what we have done in the case of failed banks*". Clearly shareholders in RBS cannot expect much sympathy from this Government, irrespective of their failings in regulation of the banking system.

Obama's Plans

US President Barack Obama plans to ban banks from trading on their own account. This would have a major impact on UK based banks, including RBS. Such "proprietary trading" provides a significant proportion of their profits. An immediate short term impact on RBS is that it may disrupt the proposed sale of RBS Sempra, a commodities trading business, to JPMorgan. This was expected to go through soon for about £4bn as part of the compliance with state aid rules. But JPMorgan may not want it if it is going to be later forced to dispose of it under the proposed US reform of the banking sector.

UK Banks Credit Ratings

Standard & Poors, one of the largest credit rating agencies, has downgraded many UK banks because of the country's "*weak economic environment*". They said "*we no longer classify the United Kingdom among the most stable and low-risk banking systems globally*". Both the stock market and the value of the pound fell after the announcement. The FT commented that this suggests that the credit-worthiness of the British banking system is now on a level with countries such as Chile and Portugal.

RBS Headquarters

The Daily Telegraph reported that RBS might dispose of its Gogarburn headquarters in a "sale and leaseback" arrangement. It cost £350m to build and opened in 2005. This shows the poor state of the RBS balance sheet because this is the kind of thing that only companies in some difficulties usually contemplate.

It's basically a way of selling off assets, while retaining operational use (there is no suggestion that the staff occupying the building would move). But it results in significant rental charges, to the profit of the new owner, going forward.

RBS Lending

We regularly receive complaints about RBS lending policies. For example, they reportedly part financed the Kraft/Cadbury deal and have underwritten a risky bond issue by MUFC. Typically the commentators suggest that a bank mainly owned by the UK Government (and hence taxpayers) should be more "ethical" in their approach. Indeed anti-poverty and environmental campaigners called the World Development Forum, working with Platform and People and Planet, have submitted an application for a Judicial Review in the High Court of the latest injection of Government cash into the bank. This is additional to the application mentioned in a previous newsletter. They object to the investment policies of the bank in essence, particularly in the environmental, energy and third world sectors. As we said before, this is the kind of problem one gets when a company in which you own shares is controlled by the Government, because it then becomes a political football.

Staff Bonuses

Staff bonuses for bankers have also become a common subject for political debate. Although it seems likely that RBS will be paying lower bonuses than some other banks to senior managers, it was revealed that the apparent "deferred" nature of bonuses in RBS might be a mirage. Although there is a nominal commitment to only pay bonuses in shares, a significant proportion of those can be sold within 12 weeks according to the Daily Telegraph. Most banks have of course apparently opted to absorb the cost of the 50% supertax on bank bonuses announced by Alistair Darling, to the disadvantage of shareholders, which was surely not his intention. It is not yet clear what the final position on bonuses will be at RBS because it still appears to be under negotiation with UKFI, the Government's stakeholder. Vince Cable seems to be suggesting they pay nothing in bonuses, but more likely a face-saving compromise of some kind will be reached. Or as the BBC's Robert Peston headlined an article on his blog, "What's the least it can pay?" and suggests it may be the minimum consistent with long-term shareholder value and the retention and recruitment of key staff.

Goodwin's New Job

Shareholders will no doubt have heard of the new job that Sir Fred Goodwin has obtained. He has joined architects RMJM. Why would anyone offer him a job, in a field that he probably knows little about? Well it transpires that he is an old pal of Sir Fraser Morrison, the head of RMJM's US operations, and stayed in the latter's villa in the France last summer when public anger in the UK over Sir Fred's pension pot was swirling around. It is surely ironic that Goodwin has already lined up a new job, when tens of thousands have lost theirs in the recession that the major UK banks such as RBS have created.

Legal Action Status

We are still doing the necessary work in preparation of the claim which is taking somewhat longer than we hoped. It is unfortunately not possible for us to go into more details of the prospective claim at this time. As mentioned in our last newsletter, the claim is being worked on by solicitors Olswang, one of the larger London firms, with the support of LECG who are doing financial analysis work.

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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.