



**RBOS Shareholders Action Group**

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## Update No. 18

### AGM Resolutions

The RBS Annual General Meeting takes place on the 28<sup>th</sup> April in Edinburgh. In addition there is a separate General Meeting immediately after to approve the repurchase agreements for some of their debt securities and preference shares. Several people have asked us to comment on the resolutions for the latter meeting as they had some difficulty in understanding what they were about.

These comments are only directed to ordinary shareholders and if you hold any of the securities or preference shares affected by this transaction, you should take professional advice.

The objective is to buy back some of the debt and preference shares which are currently trading at a discount to their nominal value. By so doing, the company realises a recognisable profit, and also improves its core tier 1 capital ratios, and net assets per share. This transaction should have no significant impact on the underlying financial strength of the company or its cash profits and therefore can be seen more as window dressing to improve the capital ratios and profits within the rules set for their calculation than anything else. We see no reason why shareholders should not vote in favour of the transaction.

### Pell Retires

Gordon Pell, one of the board under Sir Fred Goodwin which presided over the near demise of the bank, has retired with a pension fund of more than £13 million. Mr Pell was latterly Deputy Chief Executive and was apparently kept on to help sort out the mess.

### Bank Taxes

Both Labour and Conservatives seem to be promising new taxes on banks as a measure to ensure they pay back the country for the financial support they have required. This seems to be aimed at electoral popularity now that most people hate bankers and banks. It does not bode well for bank shareholders however. The only argument seems to be whether such taxes can be imposed without international agreement or not. Clearly banks might migrate to more tax friendly jurisdictions if there was any bias.

## **Share Price Recovers**

The price of RBS shares has been moving up lately, along with other banks, reaching 50p at one point on Friday the 16<sup>th</sup> April. At this level, the Government is probably showing a small profit on its investment. Shareholders who subscribed for the rights issue in May 2008 at 200p will not be quite so overjoyed however.

Even before the latest share price increase, Nomura were commenting that RBS would have to generate profits over 20% higher than peak levels in a normalized earnings scenario to justify the current valuation of the shares.

The improved share price suggests that the Government may wish to try and dispose of some of its holding in the bank (over 68%) in the near future. However, if the next government is Conservative, this might be delayed because they have promised a review of the competitiveness of the whole UK retail banking sector – that of course might be bad news for RBS as it is such a major player in that area.

## **Disposals Moving Ahead**

There were several press reports of RBS receiving as many as five offers for the Williams & Glyn part of its branch network. In addition it has received significant interest in the RBS Worldpay electronic payment operations. These disposals are necessary to meet the agreement with the European Commission on downsizing of the bank.

## **Goldman Sachs Lawsuit**

The latest news is that Goldman Sachs has been accused of fraud (which they deny), in relation to their involvement in the sub-prime mortgage sector in the USA. The Collateralised Debt Obligations (CDOs) that were created were sold to ABN-AMRO (now part of RBS of course) and they would only make a profit if the underlying scheme performed strongly. In reality it did the opposite with the result that hedge fund operator Paulson & Co made very large profits instead. RBS has apparently lost \$841 million as a result and is assisting the SEC with the case.

## **Your Choice of Government**

Soon after the RBS Annual General Meeting you will be going to the polls to elect a new Government. What has been the impact on the current Labour administration on the value of shareholders' investments in banks, not just in RBS but others also? Well it is clear that while the Government had to step in during the credit crunch and general financial crisis in the banking sector, they did this in a way that almost ensured they would make a profit (and as pointed out above they already are) while it guaranteed that existing shareholders would lose out. Depositors and taxpayers interests were protected while shareholders interests were ignored.

The refinancing of the banking sector involved an enormous transfer of wealth from the existing shareholders to the new one, ie. to the Government. One of the few major UK banks that managed to stay clear of accepting Government money was Barclays, and shareholders in that company are a lot happier than those in RBS. Likewise Lloyds shareholders were prejudiced by the Government's encouragement of the merger with HBOS, which has turned out to be a real disaster.

Although it is clear that RBS was in some financial difficulty when the Government stepped in, was the massive dilution of existing shareholders by pumping in large amounts of equity the only solution? And was the size of the investment really necessary? To my mind this was an unreasonable solution to a temporary liquidity crisis and a temporary closure of money markets. There surely were better solutions that could have been found that would have solved the problem while still protecting shareholders interests.

Of course these comments do not affect our views on the rights issue in May 2008 which are the main focus of this Group. We did consider the more general issue of the Government's role and any possible legal action on it, but the legal system that we have in England would make it an extremely difficult and complex case. Governments are generally immune to actions that target "political" decisions, and the FSA is also generally above the law.

### **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](http://www.rbosaction.org/Membership.htm) . We do need as many people as possible to register as our legal and investigatory costs are proving to be higher than we initially anticipated.

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