Investors in UK banks get the worst deal

INVESTORVOICE Press Release Investors in UK banks get the worst deal (Updated) The forced suspension of dividend payments is bad for shareholders and taxpayers. 21 October, 2008. Now that other countries are announcing their rescue schemes for their troubled banks, it has become apparent that shareholders in the UK banks are being treated less more favourably than their US and many EU counterparts. The United Kingdom government has demanded that any bank seeking government assistance should not be permitted to pay a dividend until they have redeemed all of the preference shares taken by the government. With the possibility that some banks may not be able to repurchase the preference shares back from the Treasury for a number of years, this could mean no dividends will be received by pension funds and individual investors for many years to come. In addition, UK banks entering the scheme will pay interest to the government of 12% on the preference shares. In contrast, in the United States, the regulators have stated that those institutions receiving federal assistance cannot increase their dividend nor undertake share buy backs without receiving prior approval from the regulators. The interest rate payable by the banks is 5% for the first five years. Whilst in Switzerland, the Government has agreed to purchase CHF 6 billion ordinary shares of UBS without imposing any restrictions on the bank’s future dividend payments. In addition, the Swiss National Bank is allowing the bank to transfer up to US$ 60 billion of distressed assets into a separate fund in which both the central bank and UBS will share in any upside. UBS shareholders will suffer a near 10% dilution but will have escaped from any further write downs on the toxic assets. The bank expects to pay a dividend again in 2010 for the year 2009. The French government announced that it would purchase subordinated loans from those banks entering its support scheme. The interest rate will be base rate, currently 3.75%, plus 400 basis points. The loans will be non-dilutive for current shareholders and the government placed no restrictions on future dividends. In Holland, ING will issue 1 billion non-voting core Tier-1 securities to the Dutch State at a price of EUR 10 per security. The securities are pari passu with ordinary common equity meaning the Dutch State will rank exactly the same as common shareholders. The structure of the transaction is designed to avoid dilution of existing shareholders. The coupon on the core Tier-1 securities is only payable if a dividend - either interim or final - is paid on common shares over the financial year preceding the coupon date. The annual coupon per security will be the higher of EUR 0.85 or an amount equal to 110% of the dividend paid on ordinary shares for the year 2008, 120% for 2009 and 125% from 2010 and onwards. The UK dividend restriction is self defeating in that it will discourage investors from participating in the proposed ordinary share capital raising planned by the banks and underwritten by the Treasury. The shares will then be owned by the Treasury at a cost to the taxpayer of £ 30 billion. In addition, the interest rate being charged by the UK government is substantially higher than that being charged in any of the other schemes. Whilst the rate charged should be at a level to encourage early redemption of the preference shares, the punative rate charged by the UK government is unreasonable. InvestorVoice requests the United Kingdom government to renegotiate the agreement with the banks involved for the mutual benefit of both their shareholders and all taxpayers. contact@investorvoice.co.uk