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Lloyds Banking Group

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Lloyds and RBS back on their feet 10 years after government's bank rescue deal

Ten years ago on Monday, the British government unveiled a £500bn package to rescue banks left crippled by the global financial crisis.

The government stepped in to help stabilise the banking system after the collapse of investment bank Lehman Brothers on 15 September 2008 sent international stocks crashing.

The rescue deal was made available to all UK incorporated banks but Royal Bank of Scotland PLC (LON:RBS) and Lloyds Banking Group were the only major recipients to take the handout.

RBS was bailed out with £45.5bn in taxpayers' money while the government pumped £20.3bn into Lloyds.

Barclays PLC (LON:BARC) avoided a government bailout by taking a £12bn loan from state-owned Qatar Holdings in October 2008.

HSBC Holdings PLC (LON:HSBC) had maintained through the recession that it was strongly capitalised but in March 2009 embarked on a record £12.5bn cash call after its ill-fated purchase of Household International in the US in 2002.

Banking crisis hits RBS the hardest
Of the UK's four biggest banks, RBS was the worst affected by the financial crisis.

From the day before the Lehman Brothers entered bankruptcy until the end of 2008, RBS shares plunged 79%.

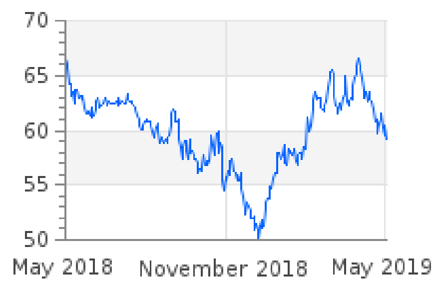
The gravity of problems at RBS during this time has been highlighted in BBC documentary, 'The Bank That Almost Broke Britain', which aired on October 1.

The documentary looked at how then-RBS chief executive Fred Goodwin embarked on a series of acquisitions, including the hostile takeover Natwest from rival Bank of Scotland, in the lead up to the crisis.

Price: 57.6p

Market Cap: £40686.02M

1 Year Share Price Graph



Share Information

Code:		LLOY
Listing:		LSE
52 week	**High**	**Low**
	67.35p	**49.52p**
Sector:		**Banks**

Website: www.lloydsbankinggroup.com

Company Synopsis:
Lloyds Banking Group has many household names like Lloyds Bank, Halifax, Bank of Scotland and Scottish Widows. Lloyds Banking Group is a leading UK based financial services group providing a wide range of banking and financial services, focused on personal and commercial customers.

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Everything seemed to be going well with Goodwin's expansion plan but then the US debt market turned out to be toxic and the lender ran out of cash.

RBS was sUBSequently rescued by the government and Goodwin lost his job as a condition of the bailout.

Fast forward to today and RBS is still more than 62% state-owned, although the government has started to sell down its stake again after the bank **posted its first annual profit in a decade in its 2017 results.**

Government winds down stake in RBS

The government sold a 7.7% stake in June, marking the first time shares have been sold in the bank since the summer of 2015 when then-Chancellor George Osborne sold the first batch at a loss of about £1bn.

The latest tranche of shares was sold at 271p each, almost half the 502p a share paid in the taxpayer-funded bailout, meaning the government made a £2.1bn loss.

Chancellor Philip Hammond had warned that RBS shares could be sold at a loss over coming years. The government intends to sell £15bn worth of shares by 2023.

Shares in RBS have continued to underperform since the June disposal and were worth about 250p at the time of writing. Since the collapse of the Lehman Brothers, shares have declined 89%.

The poor share performance comes despite RBS announcing in August at its interim results that it would resume dividends for the first time in a decade.

RBS was able to restart dividends after drawing a line under the last of its major litigation issues by agreeing to pay much smaller-than-expected **US$4.9bn fine to settle a US investigation** into the sale of mortgage-backed securities between 2005 and 2007.

Having returned to a profit and improved its capital position, some analysts see the shares as an attractive entry point with Shore Capital, Goldman Sachs, Citigroup, UBS and Deutsche Bank among the brokers recommending a 'buy' rating.

Successful turnaround at Lloyds
Lloyds Banking Group PLC (LON:LLOY) has taken less time to recover than RBS, having returned to private hands last May when the government sold the last of its shares for a nominal profit of £900mln.

The government took a 43% stake in Lloyds as part of its bank rescue package in October 2008, a month after the company's disastrous £12bn acquisition of HBOS. From the start of September 2008 until the end of the year, shares in Lloyds dropped 56%.

Shareholders who lost money following the acquisition of HBOS launched a court action against Lloyds in August last year, claiming they would not have voted through the deal if they had known the extent of its financial struggles.

While Lloyds continues to tackle legacy issues, including compensation payments for claims in the **payment protection insurance (PPI) scandal** and victims of **fraud at its HBOS Reading branch**, it has had a successful turnaround under chief executive Antonio Horta-Osorio.

Horta-Osorio joined Lloyds in 2011, helping to mend the bank by cutting costs, offloading toxic loans and tackling its payment protection insurance mis-selling scandal.

In February 2015, Lloyds said it would resume dividend payments for the first time since its bailout as it announced a fourfold rise in profits for 2014.

Lloyds focuses on digital transformation
In its 2017 results, published earlier this year, the company reported its highest pre-tax profit since 2006.

Yet shares are still down about 58% since the demise of the Lehman Brothers and Horta-Osorio has said there is still work left to do.

Under a three-year strategy unveiled in February, Lloyds will spend £3bn on its digital transformation as more customers opt for online banking and it faces rising competition from smaller financial technology firms. The plan also includes expanding the pension, insurance and business lending arms.

"These are ambitious targets," Horta-Osório said as he announced the strategy. "As you all know… this is the way we like to manage the bank because we think ambitious targets that are difficult to achieve but are achievable, drive the company to be a better and better bank."

Barclays faces pressure from activist investor to deliver improved returns
Barclays shares suffered the same level of decline as Lloyds from the start of September 2008 until the end of the year.

Shares are still down 39% since the banking crisis began as Barclays comes under increasing pressure from activist investor Edward Bramson to improve returns by winding down parts of the investment bank that do not directly serve corporate clients.

Bramson, whose investment vehicle Sherborne Investors took a 5% stake in Barclays in February, has also called for chairman John McFarlane to resign as part of his lobby for a major shake-up of the bank.

Berenberg noted in a recent broker note that concerns around the investment bank have driven a 15% drop in Barclays' shares in the year to date.

The lender **posted an after-tax loss of £1.9bn for 2017** after a net profit of £1.6bn the previous year due to hefty charges related to US tax changes, the collapse of Carillion, the cost of exiting Africa and legal battles. Profits at the investment bank fell 22% to £2.1bn.

In a bid to cut costs, chief executive Jes Staley has closed bank branches and slashed thousands of jobs.

Barclays has made progress in putting most of its legal battles behind it, including a settlement on PPI and Libor scandals as well as the sale of mortgage-backed securities in the lead-up to the financial crisis.

However, the **Serious Fraud Office in June applied to the high court** to revive its case against the bank over the bailout it secured from Qatar in 2008.

In May, the Southwark crown court had dismissed charges that Barclays conspired to commit fraud but the SFO has applied to the high court to reinstate the charges.

Asia drives growth at HSBC but US-China trade war a concern
HSBC managed to get by during the financial crisis without a rescue deal but that does not mean it came out of the rubble without a scratch. Shares have fallen about 27% since September 2008.

The Asia-focused bank lost the entire US$15bn it had spent on its investment in the US subprime mortgage market, which eventually triggered the financial crisis.

HSBC admitted it should never have bought Household International as it prompted the bank to launch a £12.5bn rights issue.

Like the rest of the UK's Big Four lenders, HSBC has been trying to repair its reputation after paying fines related to the rigging of the Libor benchmark interest rate and tax evasion by clients of its Swiss bank.

Most recently it **paid US$100mln to settle a US lawsuit** over claims the bank conspired to manipulate the Libor.

Last November HSBC agreed to pay a **€300mln to settle an investigation by French authorities** into tax evasion by clients of its Swiss bank.

Looking further back to 2012, HSBC paid US authorities US$1.9bn in a settlement accusing the bank of failing to implement anti-money laundering controls and wilfully flouting US sanctions**.**

In terms of its financial performance, HSBC has delivered solid earnings recently as its pivot towards Asia pays off.

Pre-tax profit surged 141% to US$17.2bn in 2017 from US$7.1bn a year earlier, led by an 89.3% growth in Asia.

HSBC plans to **spend US$15-17bn over three years** in such areas as technology and expanding in China, marking a switch in the lender's post-financial-crisis attitude of cost-cutting and restructuring to investment and growth.

Will history repeat itself?

While HSBC's focus on Asia has reaped benefits for the company recently, its strategy is not foolproof given the ongoing dispute between the US and China over trade tariffs.

For UK-focused peers Lloyds, RBS and Barclays, the biggest concern is about the impact of Brexit on the economy.

Given the risks facing the global economy, there is speculation about whether history could repeat itself unless banks are fully prepared.

Aside from Brexit and the trade war, other potential catalysts for another period of financial turmoil include higher debt levels among consumers, signs of trouble in emerging markets including Turkey and Argentina and a proposed deregulation of banks in the US.

To help UK banks cope with another recession, the Bank of England has raised its requirements on the amount of capital they must hold.

By increasing capital buffers, banks are more protected from risks related to Brexit, growing consumer credit and external shocks.