

press release

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The banks – two years on

An interim report from Gavin Oldham, CEO of The Share Centre

Its two years now since the credit crunch led to the culmination of the near collapse of the banks. As international regulators set the seal on new capital requirements it's a fitting time to see how they're doing. In summary, there's a bit of improvement but a long way to go. We may well see a return to quantitative easing, but until the Bank of England tells the banks to start competing again it will see its attempts to stimulate liquidity thwarted by high margins designed to choke off lending and pay out big bonuses. Also, what price a double dip? It must surely be stronger than 50:50.

In market terms, here's a round up.

Royal Bank of Scotland

Currently trading at 49.88p it has made little progress since May 2009, when it reached much the same price after plumbing the depths in January 2009 at 10p per share (yes, that's cash – not share option pricing!). In July 2009 we described the damage as 'probably permanent' and there's no reason to sound much more optimistic now. Don't expect a dividend for a long time.

Lloyds Banking Group

Lloyds didn't fall so far but at 78.05p its share price is now looking much healthier. The low was 33p, and it promptly climbed back up to 60p: but with its substantial UK revenues (£45bn pa) offering the potential of a brisk return to profitability, investors have already seen a rise of over 50% in 2010. We pointed to this recovery in July 2009, and some hope for a return to dividends in 2011.

Barclays

A skilful piece of Middle Eastern recapitalisation at the depths of banking despair kept Barclays out of the Government's hands, and its current price 325.25p shows that investors have been

handsomely rewarded already from its low of 47p. However the adroit handling of the Lehman Brothers takeover in autumn 2008 was well recognised by mid 2009 and the shares have gone nowhere since reaching a high of 389p. Will Bob Diamond draw another rabbit from the hat? That's anyone's guess. Perhaps a restoration of dividends will do the trick.

HSBC

The queen of banks sails serenely on, as we predicted in July 2009. At 678.1p it's made good ground since its low of 304.13p, which is not bad for a bank which was never tainted by the worst fears of the collapse. Stephen Green has steered this great international business with aplomb, and now it's time for a change at the top. What an act to follow – but there's no reason to see other than continuing progress.

Banks and the economy

The story on the street, however, looks rather different. Money is still very tight for businesses and householders, lending rates are high and deposit rates are pathetic. The regulators told the banks to retain their earnings to help rebuild their capital ratios, and that's a recipe for walking all over people. UK banks may already meet the international capital requirements, but until the mood music asks for growth it's making money that counts. Competition has taken a back seat as the banks are braced for massive debt roll-overs in 2011, and money is not circulating.

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