Lloyds bank shareholders lose legal battle over ‘disastrous’ HBOS takeover

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Eric Daniels, who was then chief executive of Lloyds TSB, addresses journalists at the bank’s headquarters after announcing that the bank was taking over Halifax Bank of Scotland, its distressed rival

Thousands of Lloyds shareholders have lost a £385 million claim over the bank’s ill-fated purchase of HBOS as a senior judge ruled in favour of the bank and five directors.

Sitting in the High Court today, Sir Alastair Norris dismissed an action by 5,803 former Lloyds TSB shareholders who claimed that they were “mugged” when the bank recommended the deal in 2009 without disclosing HBOS’s true financial position.

Lawyers for the shareholder group said that they were considering an appeal, with a claimant leader saying that the ruling “smacks of the elite getting away with it”.

The deal for HBOS left Lloyds saddled with what were described as worthless assets after the purchase. The bank later needed a £20.3 billion government bailout, which has been seen in part because of the takeover.

However, lawyers for Lloyds contested the civil legal action, saying that the bank did not consider there was any merit in the claims.

During the hearing, the legal team for the shareholders argued that senior Lloyds figures recommended the “disastrous” acquisition when, based on information they had, no reasonable director would have done so.

Lawyers for the bank and its directors told the court, however, that the allegations of wrongdoing were “entirely devoid of merit”, and the unprecedented claim was “fundamentally flawed at every level”.

In a 279-page ruling handed down at the Royal Courts of Justice in London, Sir Alastair dismissed the shareholders’ claim.

Finding against the shareholders, Sir Alastair said: “In my judgment a reasonably competent chairman or executive director of a large bank could reasonably have reached the view at the end of October 2008 that the acquisition was beneficial to Lloyds shareholders and could reasonably have maintained that view until the shareholders’ vote on the acquisition taken.

“I do not think that such a director so placed would of necessity have concluded that the acquisition ought not to proceed.”

The judge made it clear at the beginning of his written ruling that he had stuck purely to legal issues in considering the claim.

“This is not the outcome of a public enquiry into the reverse takeover by Lloyds TSB Group plc of HBOS plc at the start of the great credit crunch in 2008,” the judge said.

“It is a judgment following the trial of specific allegations made by a group of Lloyds shareholders — or former shareholders — who seek to make each of five former directors of Lloyds personally liable to pay £385 million to that group for alleged carelessness or breach of fiduciary duty, or more accurately ‘equitable’ duty. It has not been my task to investigate or to seek to answer all questions that arise from the takeover.”

A Lloyds Banking Group spokeswoman said: “The group welcomes the court’s decision. Throughout this process, the group has sought to act in the interests of our shareholders as a whole.”

Damon Parker, of the law firm Harcus Parker, which represents 300 institutions and almost 6,000 individuals in the case, said: “Our clients are deeply disappointed by today’s judgment. They wish to assess their options and will be considering whether to appeal.”

Wayne Kitcat, a member of the committee bringing the action and a former Lloyds executive, described the court ruling as “a bitter disappointment to thousands of Lloyds shareholders many of whom have been left destitute by the acquisition of HBOS by Lloyds”.

Mr Kitcat, 75, pointed out that included in the class action were thousands of Lloyds employees who were persuaded to invest in the bank’s save as you earn scheme and to buy Lloyds shares.

He said that they had “relied on senior management’s recommendation to do so”.

Mr Kitcat added: “We hope that a higher court will come to a different conclusion as we are determined to continue this legal battle.”

Damien Byrne Hill, a partner at the City law firm Herbert Smith Freehills, led the legal team for Lloyds and the directors, Sir Maurice Blank, John Daniels, Timothy Tookey, Helen Weir and George Tate.

He said that while “it will be a disappointment to historians of the financial crisis, the court rightly resisted the temptation to undertake a public enquiry into the acquisition of HBOS by Lloyds”.

Mr Hill said that in dismissing the claims this morning, the judge had demonstrated “how difficult such claims are to bring successfully, particularly given the complexity of proving that any defects in a recommendation or disclosure actually caused loss to shareholders”.