

HBOS, Losses and Bonuses...

The weekend's media frenzy surrounding the HBOS merger and the payment of bonuses is doing nothing at all to help the current very difficult environment for all the Banks and the Government's attempts to stabilise the UK financial services sector.

Specifically for Lloyds TSB staff there is the danger that misleading comment and information will bounce the Government into taking unjustified action to prevent the payment of bonuses.

The HBOS Merger

Lloyds' merger with HBOS represented the only opportunity Lloyds was going to get to takeover another major UK financial institution, something that was going to be in the interest of both Lloyds and the UK economy.

The rationale for the merger, attacked over the weekend by politicians and some in the media is as strong now as it ever was.

With known huge HBOS losses things were never going to be plain sailing but Lloyds has supported the merger from the beginning and nothing has happened to change that view.

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- **Media**
 - **Politicians**
 - **Government**
 - **Nationalisation**

The Government has reiterated its view that Lloyds Banking Group will become a very strong business. **It doesn't take much thought to realise that the problems of HBOS, limited largely to its corporate banking area, would have been just as great if not greater without the merger and that, whilst the move provided a great opportunity for Lloyds, it also gave the Government its best option for stabilising the UK finance sector.**

Finally, it's important to remember that Lloyds made a substantial profit in 2008 and that the underlying HBOS franchise is itself inherently profitable.

The Media

Whilst the media's job is to report the news we would all like to think they will do so accurately and responsibly even if experience tells us not to expect them to. The fact is of course that all journalists want a good story and many are not too concerned about getting a balanced picture: to put it bluntly, for many the facts are seldom allowed to get in the way of sensationalism.

Bank bonuses have had this sort of treatment for the last few weeks even though the **journalists and broadcasters concerned know perfectly well that very few staff in the major High Street banks either earn high salaries, get large bonuses or can contribute much to the sort of large losses reported by HBOS.**

Politicians

Some politicians, scenting the opportunity to get cheap publicity knocking the Banks and the Government's rescue package, have not been slow to offer up increasingly hostile comments on banks and bonuses when they also know perfectly well that the sort of bonuses paid to most staff is nothing more than basic pay, paid in another form that is intended to increase performance rather than encourage risk taking.

Yesterday's news coverage and in particular comments from David Cameron of the Conservatives and Vincent Cable of the Liberal Democrats just added to the misinformation being fed to the public.

Perhaps the most stunning idea is the proposal from the Conservatives that the Banks should be forced to break the contracts of employment they have with their employees and simply not pay bonuses earned in 2008.

It's often said that we get the politicians we deserve but I don't think any of us have done anything to deserve this sort of opportunism or incitement to unlawful behaviour.

We've written to all MP's today to ensure that none of them can justifiably claim that bonuses in Lloyds TSB have rewarded excessive risk taking or contributed in any way to the problems of HBOS or the wider banking sector.

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FT: 16th Feb. 2009

The Government and UKFI

So far the Government has tried to differentiate between the sort of bonuses that have driven excessive risk taking and those that are really just part of a modern pay package.

But as I said earlier there is now a real danger that the Government will be pushed unwillingly into a move on bonuses that it seems to have tried hard to avoid.

We have written to both the Chancellor of the Exchequer and the Chairman of UK Financial Investments (the body set up to look after the taxpayer's investments in UK banks) to set out the facts on bonuses as opposed to the serious misrepresentations in the media. There is little doubt that they already understand all of this but it's equally important that they hear the message from staff loud and clear.

Nationalisation

One other effect of the press onslaught and agitation from politicians has been to push the government to change its stance on nationalisation.

Over the last week it has moved from saying that nationalisation was not under consideration, to saying that it was "not under active consideration" and this morning to saying that it isn't "contemplating nationalisation at the moment". This shift of position is very subtle but there's no doubt that the pressure being exerted on the Government to nationalise is very real.

Nationalisation for any prolonged period will not be in the interest of the UK economy, customers or staff. Political influence over Bank lending decisions would certainly not be a good way of allocating the amount of money in the economy to businesses.

Politicians would always have one eye on their local electoral prospects rather than on the risk involved in any lending.

For staff, the current pressure on bonuses should have shown what could be expected in a nationalised bank subject to constant interference from politicians.

Ian Partridge
General Secretary

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