

## Accord Conference – 16th April 2008



Good afternoon. It is a pleasure to be invited to your bi-ennial conference.

This is the first time I have had the privilege of addressing you since I have been Chief Executive of HBOS. I am delighted to be able to use this opportunity to reflect on our joint relationship with both Accord and Unite and to share with you some thoughts and challenges as to how I see this relationship developing.

I am going to divide my talk into four sections:

- firstly, some personal thoughts on how the relationship between HBOS and the Unions work;
- secondly, some brief reflections on our 2007 results;
- thirdly, some challenges for us all in 2008 and beyond;
- lastly some thoughts on the recent events of March 19<sup>th</sup>...how we handled it and the terrific support we received from colleagues and the Unions.

**To start with the relationship between HBOS and our Unions.... *My mum once told me that you really find out who your friends are when times get tough*....she was, of course, 100% right....I see the relationship between a**

company and its Unions in just the same way....when everything is going well and the markets are booming most companies have excellent relationships with their Unions...but when the markets are difficult and the "going gets tough", then the strength of relationship between a company and its Unions makes a **REAL DIFFERENCE.**

Since the worldwide credit crunch started last August we have been living in very different times....sadly we have seen one major competitor, Northern Rock, literally collapse.....the banking world really is getting much tougher. I am personally really proud of the way that HBOS has worked incredibly closely with both Accord and Unite over this past nine months...we are facing into the tough issues together....there is a lot of mutual trust....and I know the close collaboration between HBOS colleagues and the Unions is a massive help in us ensuring that we make the right decisions quickly to preserve the future prosperity of the company and for our 75,000 colleagues.

Let me give you a couple of practical examples of the way we've worked closely together over the last nine months:

- Firstly on bonus outcomes...2007 proved to be the first year since HBOS was formed that a large number of colleagues (especially in Retail and Group) missed their bonus outcomes largely due to market conditions beyond their control. Therefore, when considering bonus outcomes for 2007 – and following very constructive discussions with both Unions – the HBOS Remuneration Committee agreed to some significant upward adjustments to bonus outcomes for some 25,000 colleagues.

- Secondly – and again following discussions with both Unions – we made a 3.5% free shares award where strictly speaking the "formula" would have led to a zero award.

These are just two examples of what I would call "team work"...where the company has worked closely with the Unions to deliver a fair result for colleagues. I am 100% confident that this teamwork will stand us in good stead over the next two years when the banking environment will remain tough.

### **So, turning now to our 2007 performance**

In 2007, the disciplined execution of our strategy resulted in good earnings growth despite increasingly difficult market conditions.

Underlying earnings per share increased by 6% and underlying profit before tax increased by 3% to £5.7bn. Corporate, Insurance & Investment and International all achieved double digit underlying profit growth more than offsetting the reduced profit in Retail and Treasury.

Looking forward, the current turmoil in global financial markets inevitably introduces considerable uncertainty into the plans of all financial institutions. And HBOS is not immune from these pressures. Our current assumptions are that these uncertain conditions will continue through most of 2008 and 2009. Whilst inevitably there will be opportunities to be gained from these changed circumstances, nobody should be in any doubt that life is going to be tough for

HBOS and all banks in the UK over the next two years. We have already signalled to the market that our asset growth will be markedly slower than in recent years, that we will increase significantly our focus on deposits and – even though we have one of the best cost income ratios in the sector – we will have to manage our costs even more tightly than ever before.

However, I do believe our combination of balance sheet strength, a diversified business mix, stringent cost control and the dedication and capability of our colleagues, will leave us well positioned to deliver good growth in shareholder value over the next few years, to take advantage of the opportunities that will present themselves to us and to be one of the bank's that comes through these difficult times as a winner.

We will take whatever action is necessary to manage our way through the circumstances we face. And as always with HBOS, we will act decisively for the long term benefit of the business. And whilst this may mean some painful decisions for some of our colleagues, both my and my Board colleagues' objective will be to secure a sound and independent future for HBOS for our shareholders and for the vast majority of our 75,000 colleagues.

**Let me turn now to the challenges ahead and the way that HBOS can work with the Unions to help deliver success for all our colleagues**

Against this tough industry background the role of our partner Unions is even more critical.

Last year we signed a joint partnership agreement – something that I see as a groundbreaking deal. I know that many organisations have 'partnership agreements'. But, let's be clear – very few have agreements as comprehensive as ours. We have a very clear vision as to how we want our joint relationship to operate. This means that:

- we want to develop a much higher and a more engaged Union membership throughout HBOS which truly represents HBOS colleagues in levels 1 to 5;
- we must – and will - have greater and earlier consultation with our Union partners about our future plans.....particularly on tough issues like cost cutting. For example, your support in delivering our platform for growth initiatives is very much appreciated by me and the HBOS Board. Through Accord's continued involvement, we have managed this in a manner which has provided maximum support to affected HBOS colleagues and has provided further security of employment for many many more. We will need to maintain this approach in the challenging times that we now face.
- we need a single voice response from both our Union partners – Accord and Unite;
- we must – and will - commit jointly to upskilling our managers and workplace representatives to ensure that, wherever appropriate, industrial relations issues can be resolved satisfactorily, speedily and where the issues first arise.

I believe that HBOS is well served by having strong colleague representation with both our partner Unions. I know this is against the trend of many major companies. **In fact, I believe we are the only FTSE 100 company who has a stated aim to grow our level of Union membership.**

I was especially pleased to see that Accord grew Union membership in 2007. Currently you jointly represent over 50% of HBOS colleagues in the UK. I know that this percentage would be seen as a good level of membership in many organisations. ...But not in HBOS.

By 2012, I would like to see Union membership be at least **70%** of our UK workforce. Of course the desire to grow Union membership places real pressure on you.

You must have an offering that appeals to a broad range of colleagues – not just focusing on the protection and support which you importantly offer to our colleagues, but also ensuring that colleagues understand that by being a Union member they – as individuals – can have a real say in the shape of HBOS.

In addition though, I think you need to find a way of positioning yourself as a friend in good times, not just when a problem arises.

All of this is very important as this fosters the type of culture that I believe makes HBOS such a great place to work – notably openness, transparency and honesty in our working relationships at all levels.

I would also like to 'buck the trend' as far as Union representatives are concerned. In many organisations being a representative is often viewed by management as 'troublemaker'. I see it completely differently. To me a Union representative is a colleague who strongly wants to be part of a successful organisation and wants HBOS to succeed by working closely with management.

I am aware that all of what I have just said could be interpreted as though we, HBOS, are trying to influence the independence of our partner Unions. This could not be further from the truth. As I said on the video that we jointly produced for last year's TUC congress, **our partnership arrangement is not a 'cosy love in'**. It is essential that we both retain our respective identities and responsibilities.

Let's be honest. This year's pay negotiations are an example of this. The credit crunch, changing economic climate, our need to manage costs tightly and an uncertain outlook for RPI meant discussions took place over an extended period....and we didn't always see eye to eye. However, in the context of Total Reward I believe the final proposal was fair and it is pleasing to see that following your consultation exercise, we will be able to sign a joint agreement.

As evidence of our commitment to growing Union membership I am delighted to use this opportunity to tell you about a series of initiatives that we are launching to show our commitment to Union membership:.

Firstly, within the next few weeks, we will be including Union membership packs with offers of employment for the majority of our UK colleagues.

Secondly, alongside this, we – HBOS – will make a payment to new colleagues equivalent to their Union subscriptions for the first six months of employment, if the colleague joins either Accord or Unite.

We hope that by doing so that this will actively encourage the majority of new recruits to become your members.

I know that Ged – and Wendy Dunsmore of Unite - have been working closely with the Group HR team to set up all the arrangements in support of this initiative and I will leave them to answer any detailed questions you may have. However, I hope you see this as **real** evidence that HBOS is **genuinely** committed to supporting Union membership growth. Put bluntly we have put our money where our mouth is so **you** have the best chance to grow your membership.

Now is the time to take partnership to the next level and I challenge both Accord and Unite to grasp this opportunity and:

- elect workplace representatives where you currently have gaps
- put in place those training plans to upskill your representatives
- take every opportunity to engage with the company and influence our future.

So much for the relationship between HBOS and our Unions...**I would like to conclude if I may with a couple of personal reflections on the events of March 19<sup>th</sup>**....Everything that you read in the papers is fundamentally true...at 8.30am on March 19<sup>th</sup> vicious rumours were planted into the market about HBOS and our share price plummeted 20% wiping £4bn off our value in two minutes.

Myself and Dennis worked incredibly hard with the authorities to get formal denials issued....and the media reported this story for what it truly was...a criminal attempt to profit from planting a false rumour about a company and profiting from share price movements.

The point of recounting the story today is simple:

- firstly, it's a sign of the immense strength of HBOS that we have emerged from this vicious rumour-mongering in the eyes of the media as a strong and robust institution;
- secondly, I received literally hundreds of e mails and text messages from HBOS colleagues expressing support...I very much appreciated that;
- thirdly (and most crucially) I received an e mail that day from John Hallett saying that both Ged and Wendy were offering to help in any way they could in communicating to colleagues and in securing TUC support. Back to what my mum taught me...***you find out who your friends are when the going gets tough***...that day proved to me (not that I needed proof) that our relationship with Accord and Unite is special.

**PAUSE**

Thanks very much for listening today.

I would very much like to have stayed and had the chance to chat to many of you informally and answer any questions you may have. Sadly, my diary does not allow this – I have to dash from here for a plane to London. However, David Fisher is here and he will be running a Q & A Session later – I am sure he will be delighted to answer **all** your questions!

In conclusion, I would like to thank all of you for your time and commitment to the Unions – you do make a difference. In this tough environment, we all know that we are going to face some very tough decisions over the next two years. But we will face those decisions together.

At a recent meeting with John Hutton, Secretary of State for Business Enterprise and Regulatory Reform, I discussed our partnership arrangement and I know he has since gone on record as commending our joint relationship as a model that could be well followed by many organisations in Britain today. Indeed, I am please to see that John is taking time out of his busy diary to talk to you at conference – not something he does for every Union!

I have heard it said that 'you get the Unions you deserve'. Well, in HBOS we do have the Unions we deserve – good strong Unions that represent and support their members and help us to shape the business. Let's **all** work together to ensure this continues to flourish so that you can remain **right** at the heart of HBOS's future.

Thank you....and enjoy the rest of the conference.

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