

Toxic banks

Published: January 13, 2026, 4:25 am

It seems every day brings news of a new banking crisis. HBOS continues to pull Lloyds down: RBS bumps along with the state unable to decide how or when it should intervene. Whatever initiative Brown and Darling showed last October has been long dissipated. Their current policy is based on fear, dogma and incapacity to make a decision.

It is glaringly obvious that Lloyds and RBS are now, for all practical purposes, toxic banks. We don't need to create another one to collect the failed assets of our banks. We already have two sitting on the shelf under effective state control. There is no need to decide at what price the state needs to buy the toxic assets - or even to decide which assets they are. For all practical purposes we have already acquired and paid for them, there's just a residual balance outstanding to the remaining private shareholders in these banks.

In that case the question is not how to extract these toxic assets from our banks, which most see as a necessary pre-condition to start any process of cleaning these banks up. It is more a question of how to get the shareholders out of these toxic banks so we can clear up the mess they'll leave behind.

It seems to me that there is an obvious solution to this problem. Both banks own assets that are performing. RBS is, for example, the owner of Directline and other insurance companies. Lloyds also has brands that are likely to deliver both cash flow and profits in the short term, and which are, therefore capable of having value attributed to them, and of paying dividends to shareholders, which is a remote prospect in their parent companies right now. In that case my suggestion is simple. These assets, which were in the case of RBS up for sale until very recently, and for which as a result it is highly likely that an appropriate valuation has already been determined, should now be floated in their own right as separate entities capable of performing as independent quoted companies. The shares in these new companies should then be used on a swap basis to buy out the remaining shares in public hands in RBS and Lloyds, and any other banks where similar arrangements might be required. As a result no cash need change hands to get the shareholders out of these banks, and to make those shareholders better off,

all at the same time.

The consequence is simple: the toxic assets can be taken under state control without extensive effort and without considerable risk as to false valuation arising: the valuation process will be on the value of performing assets to be released to shareholders for their current benefit, when they have little or no prospect of securing real benefit from their current holdings in these banks.

Then the toxic assets can be isolated in banks where the problems of PLC status and multi-shareholder considerations can be eliminated for the time being before the remaining worthwhile assets of these banks (their retail, clearing bank operations, for example) can be returned to the private sector in a further flotation designed to release cash to repay the state for the cost of dealing with the toxic remaining element which is likely to remain under state control for some time.

The result would be simple: nationalisation of these banks could be undertaken with no cash cost to the Exchequer, and the cost of restructuring of the banks could be considerably reduced by their being held in temporary complete state ownership.

Doesn't that make sense? Isn't this the strategy Brown and Darling are missing?