

# Cost Savings Increase By 50%

Members will have seen the letter from Sir Victor Blank setting out the case for the takeover of HBOS by Lloyds TSB. He has also announced that the new, combined organisation will be called 'Lloyds Banking Group plc'.

When the takeover was first announced the Bank said that it expected to achieve cost savings of £1 billion and there was much speculation that between 14 - 40,000 jobs would be lost from the new super bank. Today the Bank has announced that it expects to achieve savings of £1.5 billion by the end of 2011, some 50% more than the original figure. Members will be surprised, given that it is able to say what the cost savings are, that the Bank is not in a position to say how many jobs will be lost as a result of the takeover. In the absence of any official position, the media will produce their own figures and that in turn will create greater uncertainty and anxiety for staff in both organisations concerned about whether they will have jobs in the New Year.

Given the scale of the forecast savings it is important that the Bank respond quickly and decisively to LTU's key issues which are

- **The key priority is to ensure that any job reductions are achieved via voluntary means**

---

## INSIDE

### **Pension Deficits v Preference Shareholder**

---

and not through compulsory redundancies.

We have asked the Bank to set up a voluntary severance register.

- **In order to ensure that job reductions are achieved by voluntary means the Bank should guarantee the continuation of the 1997 voluntary severance/voluntary early retirement terms for a period of 5 years.**
- **There should be an immediate freeze of all programmes that involve the transferring of yet more jobs to India. The Bank should begin the phased return of jobs in India to the UK.**
- **The Pension Scheme Trustees should negotiate significant up front pension contributions from the Bank before any takeover is allowed to go ahead.**

Members with any questions or comments on this Newsletter can contact the Bedford Office on 01234 262868 or email us [24hours@ltu.co.uk](mailto:24hours@ltu.co.uk)

# Cost Savings To Top £1.5 Billion

The new super bank will be called Lloyds Banking Group plc, although for a period of time both the Lloyds TSB and HBOS brands will continue to exist.

**The Bank has now said, having had a closer look at the books, 'cost synergies and operational efficiencies' will enable it to make annual cost savings of more than £1.5 billion per annum or 15.7% of the combined cost base by the end of 2011.**

The Bank has identified 61 (21 in UKRB, 10 in Insurance and Investment, 25 in Wholesale and International Banking and 5 in Central and Support Functions) cost saving initiatives that will enable it to deliver the £1.5 billion worth of savings. In UKRB for example, those initiatives include combining the branch networks and call centre operations and integrating the organisations' retailing banking IT platforms.

The potential cost savings announced by the Bank are significantly greater than the £1 billion predicted when the deal was first unveiled. In fact, the letter from the Chairman talks about "cost savings **greater** than £1.5 billion by the end of 2011". The cost savings initiatives

announced by the Bank today are just the start and only when Senior Management have got their feet firmly under the HBOS table will they be able to say with any certainty what costs can be stripped out of the combined business.

Members will recall that when the takeover was first announced Sir Victor Blank said the suggestion of 40,000 jobs being lost was ludicrous. That may be correct but the Bank has missed an opportunity to say what the impact on jobs will be.

**LTU is concerned by the substantial increase in cost savings that the new super bank is expected to achieve over the next three years and we believe it is essential for the Bank to commit itself to introduce measures, such as scrapping plans to change the severance terms, to minimise the scale of compulsory redundancies.**

---

## Impact Of New Dividend Policy

HM Treasury will hold some £4 billion worth of preference shares in the new super bank and no dividend to ordinary shareholders can be paid whilst any of those shares are outstanding. **LTU has made it clear that dividend payments are an important source of income for both active and retired members of staff and that a freeze on such payments to smaller shareholders is unnecessary.**

The Bank has said that its intention is to achieve the repurchase of the HM Treasury Preference Shares during 2009 so as to enable it to pay dividends. For this year the Bank intends to pay a dividend by issuing shares. However, the Bank acknowledges that the

repurchase of the preference shares requires the approval of the FSA and HM Treasury and must take into account the Group's capital position. None of those factors can be guaranteed or predicted.

**Whilst we support the fight to save the dividend our main concern is that in seeking to pay back the £4 billion next year the Bank will try to achieve cost savings faster than is justifiable and in the process staff interests and rights will not be properly recognised.** We will return to this issue in our next Newsletter.

# Pension Deficits v Preference Shareholder

Members will be aware that the Trustees of the LTSB Pension Funds now have more power than ever before when it comes to takeovers and they must use that power to get the best possible deal for pension scheme members. **Given those powers, what members will find surprising is that the Trustees have said nothing publicly about the takeover and what, if anything, they are doing to protect the interests of pension scheme members. We have written to the Chairman of the Trustee Boards to ask if the Trustees have met to discuss the takeover and we are awaiting a response to that letter.**

In the takeover document the Bank has said "It is expected that the funding and investment strategy in relation to the defined benefit schemes will be reviewed and discussed with the trustees during the 15-month period following the triennial actuarial valuations of the schemes."

The valuation date for the Lloyds TSB Schemes is the 30th June 2008 and we understand that the actuarial valuation is nearing completion. The trustees should complete that work as a matter of priority because only then will we know the size of the pension deficits in both funds. **The Trustees should also be reviewing the value of the Bank's covenant post the takeover. In our letter to the Chairman we asked if the Trustees had commenced an employer covenant review to establish whether there was any weakening of the Bank's covenant because of the takeover and if there was such a weakening whether that would be detrimental to the ability of the pension schemes to meet their liabilities. Again we have not been told whether such a review is taking place.** Once they have got the actuarial valuation and covenant review then the Trustees should be negotiating what contributions the Bank should be

paying into the pension schemes and over what period the pension deficits should be cleared. **Given that the Trustees may need to exact significant up front contributions from the Bank, it is important that those negotiations are commenced now rather than in 15 months time.**

In the takeover document the Bank says that in respect of its dividend policy its clear aim is to repurchase the preference shares from the Government during 2009. That means that next year, subject to the approval of the FSA and HM Treasury, the Bank will buy back £4 billion of preference shares from the Government. Given that profits will be lower in both organisations because of the economic downturn, the likelihood is that whatever profits are available will be used to buy back the preference shares. In those circumstances there may not be enough money for the Bank to increase its contributions to the pension schemes or to pay off the pension scheme deficits over a shorter time period.

**The Trustees should be sitting down with the Bank now to talk about increasing contributions to the pension schemes rather than next year when all the available money could be earmarked for buying back preference shares. The spotlight is firmly on the Trustees and they need to explain what they are doing to protect scheme members.**

Members with any question on this Newsletter can email me direct at [Mark.Brown@ltu.co.uk](mailto:Mark.Brown@ltu.co.uk)

Mark V Brown  
Assistant General Secretary