

Day 100 : 09.00

The 100-day milestone has been reached and staff will shortly receive an update from the Bank detailing what's been achieved since Day 1.

Bringing together an organisation with 140,000 staff, 3,000 branches and 30 million customers with the Government and a baying media looking over the Bank's shoulder all the time has not been easy and with an election looming it's not going to get any easier.

The integration of the two organisations is going to result in large numbers of staff losing their jobs over the next few years. Within the last few weeks Asset Finance has said that the Group is reducing the size of its motor finance business with the loss of up to 1,000 jobs. A few days ago, Scottish Widows announced that the Clerical Medical brand would be closing to new business; the IFA salesforce is being merged and up to 395 jobs will be lost.

Whilst the resultant Bank will be much stronger and although the Group will try and mitigate the impact of these job losses, the fact is that these two announcements are just the first of many that are going to be made over the next few weeks and months.

It is difficult to say what the likely total number of job losses is going to be, but we are talking about thousands of staff and that fact alone should temper any celebrations about achieving the 100-day milestone.

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Members will recall from our previous Newsletters that the Bank has said that the decision to withdraw the Free Share Scheme for Lloyds TSB staff was because of pressure from UKFI.

The Bank has said that it had no choice in the matter and wanted to continue with the Scheme. UKFI has confirmed that position and said that one of the terms set when the Lloyds Banking Group participated in the Government Asset Allocation Scheme was that there would be no free shares for Lloyds TSB staff.

Free Shares are worth 3% of basic salaries for Lloyds TSB staff and that money, which the Bank had budgeted to spend, is still available. If the Bank wanted to spend the money and it's been budgeted for then there is no reason why it can't be given to staff in the form of a one-off cash payment now. We have put this proposal to the Bank and we await their response.

Members with any questions can contact the Union on 01234 262868.

Transparency Of Bonuses

When we announced that bonus payments had been reduced again in March, in addition to the reduction in January, staff reacted angrily, particularly because Lloyds TSB made profits of £850 million last year.

This second round of cuts was decided by the Bank and was not required by the Treasury in the form of UK Financial Investments Ltd, the body charged with protecting the Government's shareholding in Lloyds TSB.

Our concern with this second round of bonus reductions was that every Division of the Bank had been dealt with equally and that none had received any form of special treatment, either by permission not to reduce bonuses at all or by having been given special dispensation to reduce bonuses less than others.

When large 'chunks' of basic pay were replaced with bonuses for all staff some years ago the idea that they were in some way gifts went out the window. Bonuses now form a significant part of the Bank's overall expenditure on pay and there needs to be real transparency in the way the money being spent is used across the Bank. Certainly staff should be satisfied that they and their colleagues are being treated fairly and that, at a time of financial cutbacks, the misery of cuts in bonuses is being shared equally.

LTU is discussing with the Bank ways of increasing transparency in the bonus allocation process and we will advise members of the outcome of those discussions shortly.

Economical With The Truth?

When Group Executive Functions announced the bonus reductions in March it told staff that "For Lloyds TSB, the Group Annual Bonus Plan pot was reduced to 50% in Group Executive Functions and this was announced in January 2009. Subsequently, following discussions with UKFI, there have been further reductions to bonus awards.....".

The clear implication of that sentence is that the decision to reduce bonuses again was as a result of discussions with UKFI. That is simply not true and Senior Management in Group Executive Function must have or should have known that what they were saying was misleading when they said it. None of the other Divisions tried to blame UKFI for the second round of bonus reductions.

The decision to reduce the value of bonuses across the whole of the Lloyds Banking Group was made by the Group Executive Committee. At our last meeting UKFI confirmed that their role was limited to determining when and how bonuses would be paid and not at the level of individual bonus awards.

Principles from the FSA's draft code of practice

General principle

Firms must ensure that their remuneration policies are consistent with effective risk management.

Specific principles

Governance

Boards and relevant remuneration committees should exercise independent judgement and demonstrate that the decisions are consistent with the firm's financial situation and future prospects. Their members should have the skills and experience to reach an independent judgement on the suitability of the remuneration policies, including the implications of the risk and risk management.

The procedures for setting compensation within the firm should be clear and documented, and they should include measures to avoid conflicts of interest. Risk and compliance functions (in consultation with the firm's HR function as may be deemed appropriate) should have significant input into setting compensation for business areas.

Compensation for staff in the risk and compliance functions should be determined independently of the business areas. They should have different performance metrics, with greater emphasis on the achievement of their own objectives.

Measurement of performance the calculation of bonuses

Assess financial performance to calculate bonus pools should be principally based on profits. The bonus pool calculation should include an adjustment for current and future risk, and take into account the cost of capital employed and liquidity required.

Firms should not assess performance solely on the results of the current financial year.

Non-financial performance metrics, including adherence to effective risk management and compliance with regulations, should form a significant part of the performance assessment process.

Measurement of performance for long-term incentive plans

The measurement of performance for long-term incentive plans, including those based on the performance of shares, should also be risk-adjusted.

Composition of remuneration

The fixed component of the remuneration should be a sufficiently high proportion of total remuneration to allow the company to operate a fully flexible bonus policy.

The major part of any bonus which is a significant proportion of the fixed component should be deferred, with a minimum vesting period.

It is highly desirable that the deferred element of variable compensation should be linked to the future performance of the division or business unit as a whole.

Loans For Bonuses

LTU was the first to propose to the Bank that staff whose bonuses are being deferred should have the option of taking loans, equivalent to the value of any deferred bonuses, with the loans being paid back over an agreed period of time. The Bank responded positively to LTU's proposal and the exact details of how such a scheme may work are still being discussed. We hope to communicate with members on the details of the 'Loans For Bonuses' Scheme shortly.

We've said from the outset that the use of loans is only a palliative to the deferral of bonuses and not a long-term solution. UKFI and the Bank will shortly be engaged in a three-month review of the terms of the Asset Allocation Scheme, particularly how it applies to bonuses, and we intend to be part of that review. **UKFI need to understand that the current system of bonus deferrals driven by salary and the level of bonus is not sustainable in the long-term and needs to be changed now.**

FSA - The Future Of Bonuses

Incentive pay arrangements and their impact on the way in which employees behave is now firmly under the spotlight, following the publication of the FSA's draft Code Of Practice on remuneration policies which covers all FSA regulated firms. The focus of the Code Of Practice is not what is, or is not, an appropriate level of reward for an individual member of staff but how they are structured to encourage the right behaviours. **This review is not just about executive pay arrangements but will in fact cover all staff at all levels of the Lloyds Banking Group.**

One of the proposed principles set out in the Code Of Practice is that not less than two-thirds of larger bonuses should be deferred for a minimum period of time and the payment of that deferred element should be linked to future performance. The other main principles set out in the FSA's Draft Code Of Practice are highlighted in the table opposite. What is meant by larger bonuses and over what period bonuses should be deferred, is something that the FSA are consulting on. LTU will be submitting a paper detailing our concerns with the proposed guidelines shortly. Members with any comments on the Code Of Practice can contact Mark. Brown@ltu.co.uk.

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