

2012 PAY REVIEW PROPOSAL



LINE MANAGER PACK

DECEMBER 2011

Today we are communicating the Group's proposal for the 2012 pay review.

A number of factors have been considered in determining this year's pay budget including the movement of pay in the financial sector, the distribution of individuals in our pay ranges and the need to manage Group costs.

ACTION FOR LINE MANAGERS:

- Read this pack
- Brief your team this week to ensure they understand the 2012 pay review proposal

There are three priorities for the 2012 pay review:

- To ensure that the limited funds available are directed towards employees on lower salaries, whilst ensuring that pay for Grades E to G generally keeps pace with the market.
- To encourage the movement of employees from the Market Primary zone to the Market zone within their pay range.

- To have a simpler method of distributing the pay budget.

2012 PAY REVIEW BUDGET

Grades A to D	Grades E to G
2.5%	2%

2012 PAY REVIEW AT A GLANCE

Grades A to D	<ul style="list-style-type: none">• Pay awards will be determined primarily by position in the pay range• Performance will not be taken into account, except for those with a performance rating of Underperformer who will not receive a pay award• Awards will be made based on the matrix overleaf - no action is required by managers
Grade E to G	Awards will be determined by recommending managers, taking into account: <ul style="list-style-type: none">• Individual performance• Current salary• Position in the pay range

As part of the award process a central review has taken place which concluded that all employees who:

- Are above the maximum of their pay range will **not** receive an increase
- Have a performance rating of Underperformer will **not** receive an increase
- For individuals who chose **not** to accept the harmonised Terms and Conditions:
 - Those in the Market Primary or Market pay zones of the harmonised pay range **will** receive a pay award at a **lower rate** than those on the harmonised Terms and Conditions.
 - Those in **Market Plus pay zone, or above**, will **not** receive an increase.

PAY RANGES EXPLAINED

Pay ranges are used to give structure and transparency to the way pay is managed.

They ensure that the pay offered to employees is appropriate to their role and grade and is in line with the external job market. The ranges are based on comprehensive benchmarking against the Group's competitors and are published on the 'Your Reward' pages on Interchange.

2012 PAY RANGES

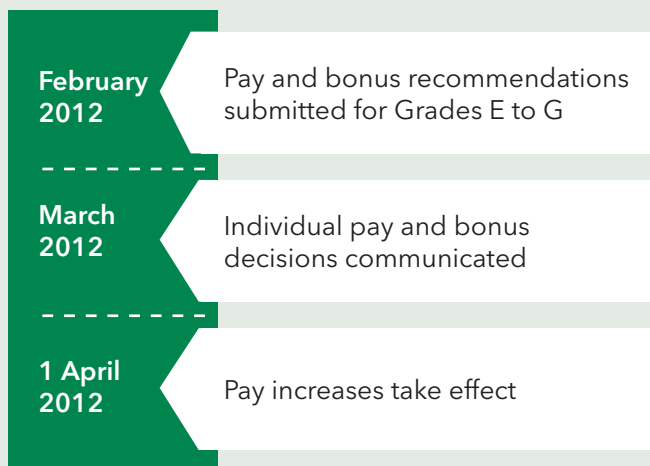
Our analysis of the external market data for the financial services sector indicates that our pay ranges for **Grades A to C** remain appropriate and **will not change**. The pay ranges for **Grades D to G** will generally **increase by 2%**.

WHAT HAPPENS NEXT?

UNION NEGOTIATIONS

- Negotiations regarding our pay proposals have taken place with Accord, GMB, LTU and Unite
- We expect them to consult with their members in due course
- Further discussions will take place as appropriate and we will keep you updated

ANNUAL PAY AND BONUS REVIEW



Recommending managers involved in the pay and bonus review will receive further details, including guidance and supporting materials in January 2012. Proposed pay awards will be validated by senior business leaders, working with HR.

OUT OF SCOPE

Some business areas are not included in the Group's annual pay review (including non-UK and Channel Islands). Individuals in those areas will be advised separately.

DEFINED BENEFIT PENSION SCHEME

Pensionable Pay for employees in any of the Group's defined benefit (DB) pensions schemes will be reviewed on 1 April 2012 and be subject to the cap on increases to pensionable pay.

Specifically, pensionable pay is reviewed annually on 1 April and increased by the lowest of:

- 2%
- The change in RPI (measured as at the end of December 2011) or
- The actual percentage increase in the individual's base pay over the period 2 April 2011 to 1 April 2012

Any increases to base pay will be offered on the condition that employees accept that the increases will be subject to the cap on increases to pensionable pay. Employees may reject this condition, but to do so they must also reject the pay award.

Letters will be issued to affected employees at the end of March 2012.

MANAGING PAY IN THE FUTURE

Moving forward, it is intended that position in the pay range will continue to be the primary influence on the annual pay review, with individual performance being recognised through incentive and bonus schemes.

GROUP ANNUAL BONUS PLANS

Bonus arrangements are separate to pay. Individual performance will continue to be a key determinant of bonus awards for members of the Group Annual Bonus Plan and further details about any 2011 bonus arrangements will be communicated early next year.

2012 PAY AWARD TABLES

The tables on this page detail the percentage pay increases that will be awarded to employees.

Employees who have accepted the Group’s harmonised Terms and Conditions

GRADE A TO D

2.5% budget allocated using a fixed matrix.

	Top performer	Strong performer	Good performer	Developing performer	Under performer
Market Primary or below			3.00%		zero
Market			2.00%		zero
Market Plus			1.00%		zero
Over Maximum			zero		zero

GRADE E

2% budget allocated. The pay system will be populated with the following awards which can be amended at recommending manager’s discretion.

	Top performer	Strong performer	Good performer	Developing performer	Under performer
Market Primary or below			2.50%		zero
Market			1.50%		zero
Market Plus			1.00%		zero
Over Maximum			zero		zero

GRADE F & G

Awards can be made at recommending manager’s discretion within the business unit’s 2% budget in line with guidelines provided.

Colleagues who have not accepted the Group’s harmonised Terms and Conditions

GRADE A TO D

Allocated using a fixed matrix.

	Top performer	Strong performer	Good performer	Developing performer	Under performer
Market Primary or below			1.50%		zero
Market			1.00%		zero
Market Plus			zero		zero
Over Maximum			zero		zero

GRADE E

The pay system will be populated with the following awards which can be amended at the recommending manager’s discretion.

	Top performer	Strong performer	Good performer	Developing performer	Under performer
Market Primary or below			1.25%		zero
Market			0.75%		zero
Market Plus			zero		zero
Over Maximum			zero		zero

GRADE F & G

Awards can be made at recommending manager’s discretion within a 1% budget in line with guidelines provided.