

Gartmore Investment Management Limited

Lord Myners Financial Services Secretary to the Treasury Her Majesty's Treasury 1 Horse Guards Road London SW1A 2HQ Gartmore House 8 Fenchurch Place London EC3M 4PB Telephone +44 (0) 20 7782 2000 Fax +44 (0) 20 7782 2075 Telex 896873 GIM G

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Dear Lord Myners

I would like to thank you for your letter dated 28 January and appreciate the opportunity to comment on bank remuneration policies and related matters.

At Gartmore, we are of the view that the principle flaw in the banking sector leading to the present crisis was, and remains, inadequate levels of equity capital. We are further of the view that the banking sector will be unable to resume its principle role of credit origination until equity capital levels have been restored. We support, therefore, those proposals that are likely to raise equity capital levels and urge the banks to do so. We are particularly supportive of three measures:

- Firstly, we urge banks to take advantage of the improvement in equity markets over the last year to raise capital. A number of British banks have done so, and we will continue to support them
- Secondly, while we understand banks will need to remain competitive, remuneration polices should recognise the need to retain earnings. Total compensation levels should be based upon proven measures of profitability. Furthermore, we would expect, at this stage of the economic cycle, that total compensation levels should be low by historical standards. We also expect "deferrals" to be now standard practice within the industry. We support the FSA's guidelines on this matter
- Thirdly, shareholders should refrain from pressing banks on dividends. Shareholders should not
 expect capital markets to support their demand for capital, nor expect employees to show
 restraint if shareholders seek dividend increases.

We believe that these measures taken together will boost equity capital levels at banks that can support future growth. We would anticipate this process will take a further 2 – 3 years.

Currently, Gartmore does not own a significant proportion of the equity of any of the large UK banks, less than 0.5%, which limits the influence that we can directly exercise over bank remuneration policy. Nevertheless, over the last two years, Gartmore's corporate governance specialist has participated in a number of meetings organised through one of the trade bodies specifically to discussion remuneration with the directors of two of the banks. Separately with a third bank we participated in remuneration discussions organised jointly by a group of institutions.

In your letter you ask how we will appraise the decisions of remuneration committees when voting on their reports. In addition to the factors outlined above we will take into account the explanation of policy offered by the remuneration committee about the components of executive pay, the structure and total value of remuneration. We expect remuneration policy for senior executives to

- · Align the interests of senior employees with shareholders to create value
- Recognise good performance by the company and individual
- Encourage the right behaviours to achieve good performance
- Recruit and retain successful employees by being commercially competitive
- Take into account alignment with the rest of the staff.

May I thank you once more for the opportunity to express our views to you on these important matters. Gartmore will continue to engage with the banks and we fully recognise the role the fund management industry can play in strengthening the banking sector

Yours sincerely

Dominic Rossi Chief Investment Officer

Cc: Simon Peters Leigh Himsworth