“Rewards for Failure”

Is UK Banking CEO Short Term Remuneration aligned with Short Term Performance, in accordance with Corporate Governance Principles?

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Abstract and Recommendations

This research paper discusses the UK's 5 main banks in regard to finding out whether the banks CEO's short term remuneration is linked to short term performance. The banks performance over a five year period (2004-2008) was examined to understand the performance linkages with pay paying particular regard to non financial and financial measures as a way to incentivise the CEO.

This research paper though extensive research evidenced in Chapter 1 and 2 proposes a need to strengthen the non financial and financial elements of the short term remuneration structure.

These proposals are:

1. *Linking the financial and non financial elements*.

   This would mean that only when both elements are satisfied to a predetermined percentage, will a payout be warranted. This would mean CEOs cannot in poor economic markets benefit from the non financial element of the short term award to bolster his salary.

2. *Reweighting of the non financial and financial elements*.

   Currently the weighting is 50/50; this gives far too much weight to the "soft" non financial targets. I propose a reweighting to 66.66% based on financial performance and 33.33% based on non financial. This would significantly lower the CEOs remuneration in the current economic climate, and would realign the incentive

structure with the shareholders to incentivise the CEO to help rebuild the company's balance sheet quicker.

3. *Greater transparency of the remuneration report*.

To separate the short term remuneration structure into financial and non financial elements. This would allow investors to be better informed about how well the CEO has performed. Furthermore, it would ensure accountability by the remuneration committee in justifying the setting of pay arrangements. (Ferrarini and Maloney, 2005)

4. *Regulation of banks shareholdings in other banks*.

The cross shareholdings of banks in rival banks have created a conflict of interest, in regards to remuneration and the use of voting and comparator groups.

Myners (2009) has called for "differential voting rights for different classes of investors". This research does not advocate those proposals as they would change the hierarchy of shareholders, and have a negative effect in distorting market competition. Though, the impact of this shareholding arrangement needs to be examined further.

5. *Service Contract Remuneration Clause*

This research has shown that a binding vote on the remuneration report is needed. It is proposed that if at least 50% of shareholders vote against the report, then the remuneration committee would be given 60 days to create a more suitable remuneration structure. It is envisaged that in this time period some negotiation will take place with the shareholders to get the report passed. If agreement is still not reached after 60 days then a remuneration clause in the service contract of the CEO and Board will kick in.

This clause will lower the Board and CEOs remuneration to a multiplier of the lowest paid employee. (E.g. 20x)

This remuneration clause may never get utilised but would focus the minds of the CEO and Board to ensure a demanding and challenging remuneration structure is created, and give investors a greater say on pay.

Chapter 1 and 2 will give an in-depth analysis of the current system and will help inform the reader as to why I feel strongly that these proposals are needed to strengthen the Corporate Governance arrangements within UK Banking.

Chapter 1

Governance of CEO Remuneration

All of the Company's directors are independent, and the Audit, Nominating and Corporate Governance, Finance and Risk, and Compensation and Benefits Committees are composed exclusively of independent directors."

- **Lehman Brothers Annual Report 2007**

1. Remuneration Consultants

Remuneration consultants are employed by companies to create complex remuneration structures. They are highly influential and advise the remuneration committee on an appropriate pay structure for the CEO and board. Remuneration consultants are utilised for their expertise as they understand the relevant laws and have a keen understanding of the market as a whole and how remuneration can be constructed to gain the best from and for the individuals involved. Furthermore, they carry out detailed research on pay practices with sector specific information to help identify pay structures or new methods of calculating pay to benefit the parties involved.

Little is published about how they help influence remuneration and whether they have helped inflate the pay awards of CEOs. However, in the last recession, remuneration consultants were responsible for the large increases in executive remuneration and were only hired if they proposed an increase. (Crystal, 1991)

This trend has continued in this recession as research findings by New Bridge Street gives an insight into the advice that consultants are proposing. They suggest a "lowering of targets in bearish conditions and a reweighting of short and long term incentives". (New Bridge Street, 2008)

Worryingly, the report by New Bridge Street (2008) also notes, a "one off higher short term bonus will "fill the gap" in reward because the long term incentive will fail in the next few years". Remuneration consultants argue that now is a critical time to retain key talent. This ability to manipulate the remuneration structure when the economic climate changes removes the need to incentivise the CEO as the "bar" is lowered when they don't achieve.

Companies regard remuneration consultants as independent as this will legitimise the CEOs pay as outside of the boards' control. However, this independence is a mere fallacy as Murphy and Sandino (2008) found; remuneration consultants will "seek to secure repeat business from the client and do not want to jeopardise that". By offering additional services, such as actuarial and pension advice the consultants could be overly generous in their remuneration structure created for their clients. This is so that they "protect their other highly lucrative assignments". (Morgenson 2007), (Waxman, 2007) (Cadman, Carter and Hillegeist, 2009)

Table 1 – Use of Remuneration Consultants by the 5 banks analysed.
(Source: Annual Reports)

Bank 1		**Bank 2***		**Bank 3**		**Bank4**		**Bank 5**
Towers Perrin		New Bridge St		Towers Perrin		Towers Perrin		Watson Wyatt
Keplar Assoc		Mclagan				New Bridge St		
		Hay				Keplar Assoc		

*Bank 2 absorbed into Bank 4 since Annual Report (2008).

Table 1 shows all the banks analysed use the services of the large remuneration consultants of Towers Perrin, Keplar Associates, New Bridge Street and Watson Wyatt. Furthermore since the merger of Watson Wyatt and Towers Perrin, these two consultants will advise on remuneration for all of the UK's top 4 banks. This lack of competition in the

marketplace is noted by Cadman (2009) who found in the USA, 76% of the companies researched use at least one of the top 6 remuneration consultants. This reinforces the suggestion that the use of remuneration consultants is consistent with the “ratcheting effect” of CEO pay. (Walker and Voulgaris, 2009)

Therefore, only when the shareholders long term interests are aligned with the remuneration consultants short term interests, will the long term interests of the company be protected.

Chapter 2

Empirical Research into 5 UK Banks

"I feel more like corporal of the universe, not captain of the universe."

- Ken Lewis, Chief Executive of Bank of America

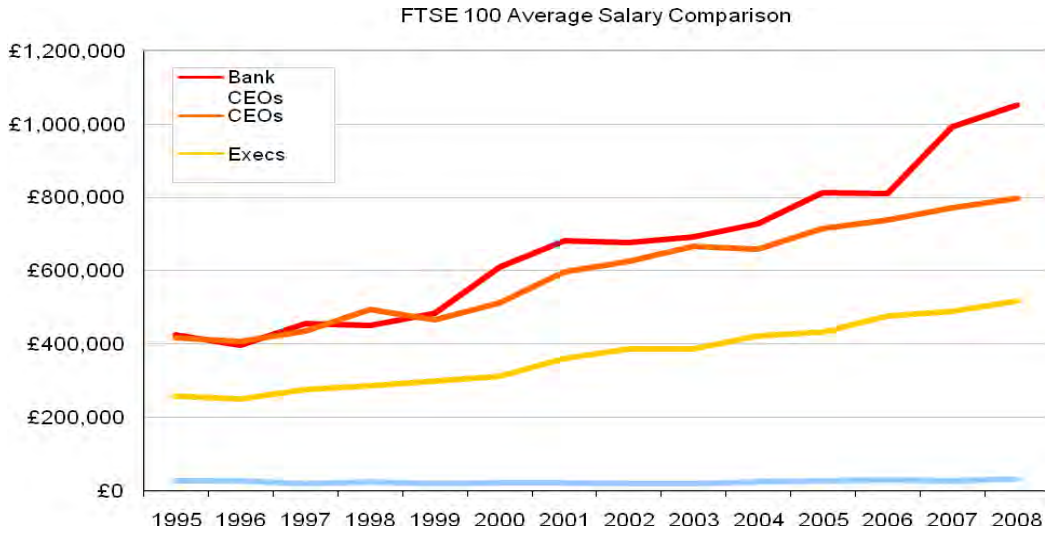
While completing this analysis, trends reveal:

- Performance bonus has increased significantly in the last 5 years and fuelled the rise in CEO total pay.

- Basic salaries have acted as a multiplier, with inflation beating growth. This means that the bonus rose more than 250% when taking into account the multiplier effect of yearly increased basic pay.

- When banks have performed poorly financially, a bonus is still paid for non financial "soft targets"; it can seem like CEOs are "rewarded for failure".

Graph 1: Bank CEO against FTSE 100 CEO's (Source: Manifest, 2009)



Graph 1 underlines the fact that Bank CEO total compensation has risen significantly compared to other FTSE 100 CEO's. This is because the rise in short term remuneration in banks has fuelled a higher total compensation than many other organisations within the FTSE 100.

2.1 Performance Measures

The 5 banks researched use various performance measurements to calculate the bonus entitlements. The measures can be objective and subjective in determining the bonuses eligibility and amount.

The financial element is made up of profits, earnings per share and share price performance as a way to determine the CEOs overall financial performance. There may also be departmental financial targets, which are not disclosed in the annual report. These financial targets are compared against a comparator group chosen by the remuneration committee, made up of banks of similar size and type anywhere in the world. If a bank is in the top quartile of the comparator group, then the award is paid out.

Profits

This research has shown due to the sustained rise in share prices and earnings from 2004 to mid 2007, this "bull market" allowed the CEOs annual incentive bonus to rise sharply (over 92% in some cases). However, once the share prices and profits fell in the 2nd half of 2007, the CEOs of banks 1-2 took home a lower bonus to account for the change in market conditions and lowering of profits. Bank 3 and 5, had higher profits than in 2006 so were awarded with higher bonuses of £1.9 and £2.86 million.

Strangely, Bank 4 is the anomaly, as the CEO took home a higher bonus, of £1,811million even though profits were down by £248 million in 2007, a drop of 6%.

These figures indicate that bonuses are linked to financial performance in 4 out of the 5 banks. However, it is unclear why CEO 4 achieved a higher bonus in 2007 even though profits were lower. This suggests other targets were achieved to compensate this lowering of profit and underlines the ability for a company to perform poorly financially

but the CEO still able to gain a higher bonus. (For 5 years of Profits, see Appendix 1)

Share Price Analysis

Share price performance is related to the company's financial performance through information the company tells the market. Graph 2 shows that share price gains were made until 2007, where the onset of the credit crunch caused share prices to plunge.

However, in 2007, the CEO's were awarded their bonus, which are usually paid year end, (Nov – Jan) by which point the share price had fallen further.

It is therefore, surprising that when comparing each of the banks share prices to the bonus given for that year; the bank whose share price performed the worst; (bank 5) paid the highest bonus of £2.86 million. Bank 3 paid the 2nd highest bonus (£1.913m) but outperformed its peers. Therefore, these bonus figures do not correlate with share price performance. Only Bank 1 and 2 paid a lower bonus to account for the lowering in share price. However, these figures are the 5 UK banks compared against each other. In reality, they each use a different comparator group of banks from around the world.

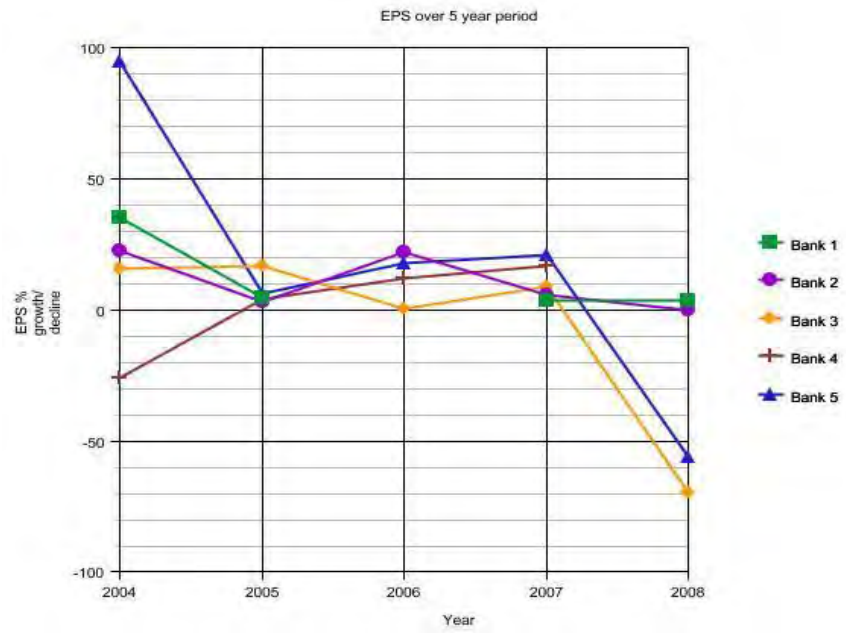
This makes it very difficult to compare the UKs 5 banks against each other and may be why bank 5 did pay more, because its comparator group performed worse. (Graph 2)

If an average is taken over the previous 5 years the share returns were all markedly lower, with an average 10% loss. This deterioration in share price can have implications for remuneration policy makers, especially for the use of “Clawbacks”.

Graph 2: EPS and Share Price Change over 5 years. (Source: Thomson One Banker)

Share Price performance (2004-2008)
Reset to 0)

EPS over a 5 year Period (2004-2008)
(Reset to 0)



Earnings per share

This financial measure shows investors what the earnings of the company are in relation to the initial investment amount. EPS is a major component in analysing the profitability of the companies, because of the information that has come to market, gives a good indicator as to how the company is faring and what analysts expect for the future. Only banks 1 and 2s EPS fared relatively well, lowering 40%. Again banks 1 and 2 had lower bonuses to reflect the lowering in EPS, whereas, Banks 3, 4 and 5 still paid a higher bonus. This suggests that factors other than financial performance contributed to this rise. Furthermore, the problem of using EPS as a measure of performance is that earnings calculations can be manipulated. The CEO could make disposals of assets, just before the end of the financial year, which enhance the banks earnings and thus materially alter his remuneration. All achieved, without necessarily better management or performance. (For Data Table and Further Analysis, see Appendix 1)

Non-Financial Performance Analysis

The non financial measurement uses a balanced scorecard approach. This is used by all the 5 banks analysed. The banks argue that "utilising non financial measures gives a fuller and more accurate view of the CEO's performance". (Annual Report, 2008)
Also the market could contribute to the financial performance measure that will not fully reflect the CEOs individual performance. (Murphy and Oyer, 2003)

None of the annual reports go into detail or depth on how these are measured and met. Company law does not currently require companies to detail the performance breakdown. Bank 4 is the only bank that actually notes that for the CEO, 90% of the bonus was for corporate targets and 95.6% for individual performance out of a possible combined opportunity of 250%. (Annual Report, 2007)

Table 2: Non – Financial KPI of Banks (Source: Annual Report)

Bank 1	**Bank 2**	**Bank 3**	Bank 4	**Bank 5**
Leadership Contribution	Customer Satisfaction	Employee Engagement	People Development	Customer Numbers
~Does not disclose other qualitative targets	Growing UK Franchise	Brand Perception	Customer Service	Customer Satisfaction
	Colleague Development	Customer Satisfaction	Financial	Employee Efficiency
		IT Performance	Franchise Growth	Employee Engagement
		Customer transaction Processed	Risk	
		It Services Outperforming Targets		

The problem with this non financial element of performance related pay is all the banks in Table 2 use vague terms such as "people development", "customer service" and "process management". Bank 3 in its annual report notes a key non financial performance indicator (KPI) is "employee engagement" and describes it as "a measure of the employee's rational and emotional attachment to Bank 3", thus making it difficult to understand the CEO's contribution. (Annual Report, 2008)

Brand Perception is another non financial measure used. This gives a measure out of 10 on how the brand of the bank is perceived in key areas, such as risk and customer service but does not discuss how this data was collected. These non financial measures are a good

way to incentivise the CEO in ways other than pure financial performance. However, they seem to have become too “soft”, with a lack of transparency and quantitative assessment that does not show how the CEO actually achieved them.

Furthermore, by utilising vague performance measures they can be open to manipulation and its subjectivity means it is difficult to hold CEOs accountable. Also the CEO‟ s ability to receive nearly the maximum amount of non financial performance implies these incentives are merely extensions of the basic salary. This is why critics have argued that non financial measures make it difficult for shareholders to understand and assess targets being met, because they are actually designed to “camouflage” CEO pay. (Bebchuk, 2004)

The lack of transparency is particularly worrying for non financial measures. Some incentives have to remain confidential such as corporate strategy, due to market competitiveness. However, shareholders want to know what these “soft targets” are and whether they are challenging enough to get the best out of the CEO.

Successful achievement of “soft targets” can create a dichotomy in that the CEO is performing well, in terms of non financial targets, but at the same time not performing financially. The ability for the non financial measure to be worth 50% of the total short term remuneration creates this problem.

Policy makers, should create a link between the financial and non financial element, in which if one element goes down, it can affect the other. The elements of the bonus should not be mutually exclusive and should be reweighted, to give more weight to financial performance. For example I would propose a maximum weighting of 33.33% (83.33% of basic salary) for non financial and 66.66% (166.67% of basic salary) based on financial performance.

This would mean that the emphasis for banks which perform financially poorly would result in lower financial reward. Transparency is also needed so investors understand why a bonus was paid and for which element, either financial, non financial or both.

This would provide information to the market to allay any fears that CEO's are being "rewarded for failure".

2.2 Bank Compensation and Bonus analysis

Table 3: Total CEO Remuneration 2004-2008 (Source: Annual Report) £000

	Bank 1	Bank 2	Bank 3	Bank4	Bank 5
2004	4602	3110	1757	2331	3439
2005	3882	3316	3886	2390	4421
2006	3874	*2526	2868*	2945	5920
2007	5185	2314	2421	3662	5517
2008	1098	1075	1667	2884	*216

*Does not include Pension Entitlements.

*Bank 2 change of CEO (2006) Lowered Total Comp than 2005 due to this change.

*Bank 3 change of CEO, (2007) Lowered Total Comp than 2005 due to this change.

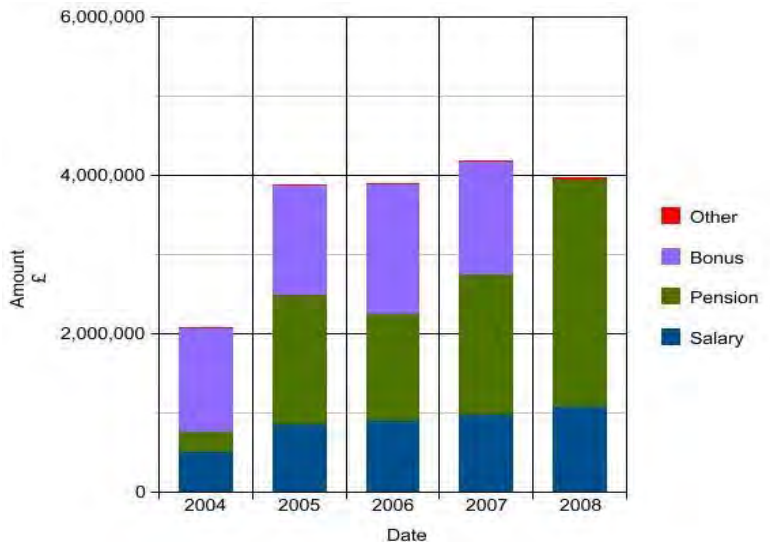
*Bank 5 change of CEO, (2008) Lower Total Comp than 2007 due to this change.

Table 3 shows the total remuneration package for CEOs of the UK top 5 banks from 2004-2008. The makeup of the total remuneration package for the CEOs has grown significantly from 2004-2007. Many are over £3 million, and for 2007 the average was £3.2m for a CEO. (Treasury Report, 2009)

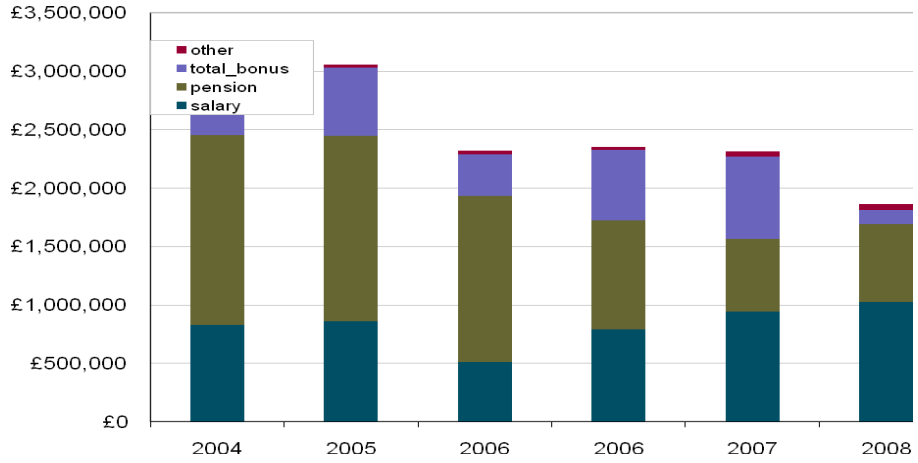
Graph 3: Components of CEO pay. (Not Including Long term Incentives, but including Pension) (Source: Manifest, 2009)

To make it easier to see the escalation of the different components of pay in the last 5 years, graph 3 shows that in the past 5 years the performance award has risen significantly as an amount of total remuneration. In 2008, the bonus has been cut significantly to reflect the current economic climate. What has been surprising is that as well as a rising bonus over the last 5 years, the CEOs pensions have risen dramatically as well. Even though the banks have not paid a bonus in 2008, they have increased the amount put into their pensions to compensate for this loss. These pension increases could be a short term effect of the recession but further research should be conducted as pensions are not linked to performance but are an entitlement as part of the CEOs service contract.

Bank 1



Bank 2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£2,000,000
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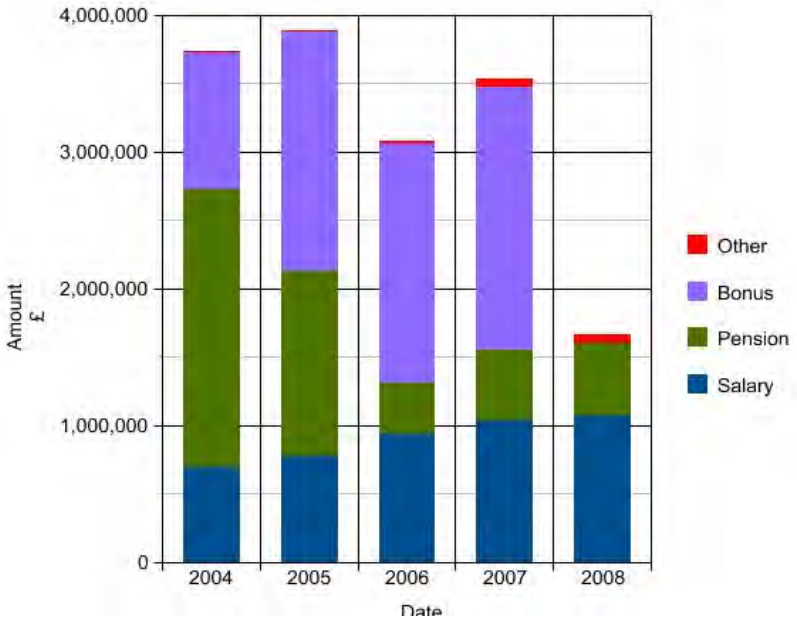
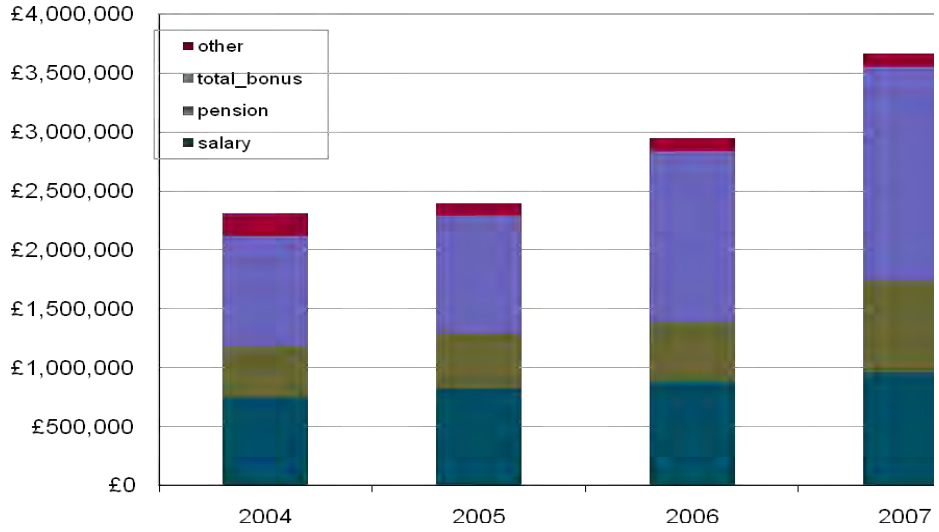
£0
other
total_bonus
pension
salary
2004
2005
2006
2006
2007
2008

Bank 3


4,000,000
3,000,000
2,000,000
1,000,000
0
Amount £
2004
2005
2006
2007
2008
Date
Other
Bonus
Pension
Salary

Bank 4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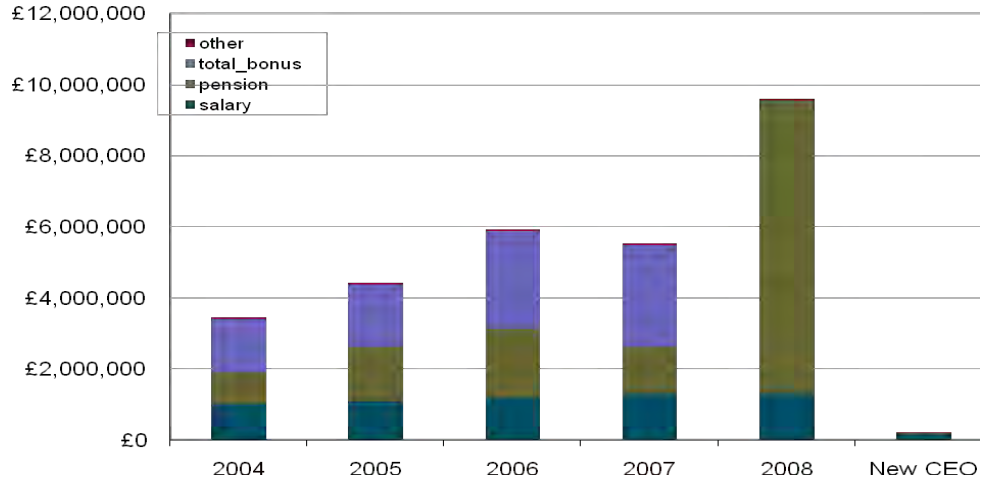
other
total_bonus
pension
salary
2004
2005
2006
2007

Bank 5


£12,000,000
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£8,000,000
£6,000,000
£4,000,000
£2,000,000
£0
other
total_bonus
pension
salary
2004
2005
2006
2007
2008
New CEO

Table 4: Correlating Performance and Remuneration of UK Top 5 banks

Correlation 2003-2008. Co-efficient -1 to 1 (Source: Treasury Report (2009)

Variables	CEO's
Bonus-Profit	0.48
Bonus- Earnings Per Share	0.59
Total Remuneration- Profit	-0.08
Total Remuneration- EPS	0.09

Utilising research by the Treasury (2009), from 2003-2008, CEO bonuses at the 5 banks had a relatively weak co-efficient of 0.46 and 0.59 with profits and share returns. However, there is an even weaker association with total remuneration and profits with a 0.08 correlation. This is partially due to the fact bonuses cannot be negative for 2008.

Academics have understood that "the pay and performance relationship is significantly weakened in a downturn" such as this financial crisis. (Gregg, Jewell and Tonks, 2005)

This weakness lies in the fact, non financial measures pay out a bonus regardless of the financial performance of the bank. This analysis is important because it shows that short term pay is linked to performance, and that in the years 2004-2007, there was a stronger correlation with performance. However, this is significantly weakened in 2008 as the non financial element is paid out but unconnected to the financial performance of the company.

Annual Incentive Bonus Analysis

Table 5 shows the rapid rise in CEO bonuses over the past 5 years. The mean average increase in bonuses for the 5 years 2004 to 2008 is 70%. Overall bonus and performance linkages significantly weakened in 2008 and the banks showed a stronger correlation of annual incentive with performance before 2008. (Treasury Report, 2009)

From 2004-2007, the mean percentage of short term remuneration of total pay, for banks 1-5, is 32%, 30.8% 46.5%, 46.2% and 46.2% respectively. Therefore Bank 2 had the lowest percentage of performance related pay at 30.8%.

Table 5: CEO's Short Term Incentive 2004-2008 (Source: Annual Report) £000

	BANK									
	Bank 1	**5yr Movement**	**Bank 2**	**5 yr Movement**	**Bank 3**	**5 yr Movement**	**Bank4**	**5 Yr Movement**	**Bank 5**	**5 yr Movement**
		+ 22.8%		+47.20%		+92%		+88.6%		+ 90.7%
	CEO1		CEO 2		CEO 3		CEO 4		CEO 5	
2004	1,313		53		1,00		96		1,50	
2005	1,388		58		1,75		1,00		1,76	
2006	1,613		78		1,53		1,45		2,76	
2007	1,425		70		1,91		1,81		2,86	
2008	0		0		**2,140***		*** up to 2,328**		*0	

* Bank 2 had a change of CEO in year 2. Have omitted cash/share incentive from 2001/2002 for comparison purposes.

* Bank 3 bonus deferred for 3 years, turned into restricted shares.

* Bank 4 bonus deferred until June 2011, and then available in 3 tranches with 100%"Clawback" if performance that generates incentive is not sustained performance.

Bank 5 New CEO and no bonus for 2008

In 2008, banks 1, 2 and 5 did not pay a bonus. However, Banks 3 and 4 still gave bonuses. These will not be paid out immediately but will be deferred for 3 years, with a payout due in 2011. It should be noted that these banks did perform better than their comparators. Bank 3 has had the highest bonus percentage increase over the past 5 years, rising 92%, though has remained financially stable throughout the crisis.

Bank 1 did not pay a bonus in 2008 and the bonus has risen the lowest at only 22.8%. This could be because CEO 1 has one of the highest basic salaries so did not need a bonus rise to compensate. Bank 5 had the highest bonus amount in 2004 and the CEO‟ s bonus has risen 90% over the last 5 years, paying out £2.86 million in 2007, even with the onset of the credit crunch and the devaluing of its share price. However, Bank 5 performed the best in terms of profits in 2007, though; this profit was unsustainable and underlines the problems of short term remuneration not addressing the long term interests of the company.

2.3 Bonus Achievements, Opportunities and Rewards

Table 6: Percentage of Short term bonus target achieved as percentage of base salary (Source: Annual Report)

	Bank 1	CEO 1	**Bank 2**	CEO 2	**Bank 3**	CEO 3	**Bank4**	CEO 4	**Bank 5**	CEO 5
	Max	Actual	Max	Actual	Max	Actual	Max	Actual	Max	Actual
2004	250%	175.10	75%	51.30	250%	143.90	150%	128%	1.5-2x salary	151.5
2005	250%	163.30	75%	46.40	250%	224.90	150%	121.50	250%	161.5
2006	250%	181.60	75%	69.65	250%	163.50	175%	162.50	250%	230.9
2007	225%	146.2	75%	52.20	250%	184.10	225.00	185.60	250%	221.7
2008	225%	0	0	0	250%	*deferred	225%	* deferred	0	0

*Bank 1: 75% Actual delivered in cash, 25% in restricted shares.

* Bank 2: Performed worse in 2005 from 2004 but paid more because base salary grows every year.

For the next part of this research Table 6 has been compiled which denotes the maximum annual bonus award the CEO can obtain against the actual bonus achieved as a percentage of his base salary. For Bank 1, the CEO has a basic salary of £975,000 and achieved a bonus of £1.425 million. This is 146.2% of the basic salary out of the total opportunity of 250% or £2.437 million. It is unusual that bank 4 achieved 185.60% of his bonus, 23.10% higher than 2006, even though, profits lowered by £248 million. Other incentives must have been achieved that offset the lowering of profits, such as the use of non financial performance.

On average all the banks achieved a 60-70% success rate hitting their targets from 2004- 2007. For 2008 none of them received a payout. This would seem odd, because the banks would at least hit some of their "soft" targets such as "customer service", even in these difficult times. However, the nonpayment of bonuses in 2008 is more to do with it being inappropriate to pay out a bonus in the current financial climate than the fact they are not entitled to them.

2.4 The Shareholdings of the 5 Banks

Table 7: Top 100 Shareholders in the 5 Banks analysed (Source: Fame)

Shareholdings as of 16/06/09

	Bank 1		**Bank 2***		**Bank 3**		**Bank 4**		**Bank 5**
% Bank shareholders	23.14%		0		40.40%		11.6%		12 %
% Institutional Investors	22.96%		0		11%		9.40%		13.45%
Government %*	0		0		0		43%		70.03%
Investment Companies	48.15		0		47.91%		34.5%		4.52
self owned via funds	5.75%				0.69		1.50%		0
Total	100%		0		100%		100%		100%

* Bank 2 now part of Bank 4

* Government shareholding Bank 4 = UKFI (43%)

* Government Shareholding Bank 5 = Her Majesty Dept of Treasury (70.03%)

For the final part of this research Table 7 shows the top 100 shareholders divided into their constituent shareholdings. The role of bank shareholdings in other banks is an area which has a significant impact on director's remuneration. This is because all the banks have similar remuneration policies, and share similar remuneration consultants. This research has found that Bank 3, has bank shareholdings held by other banks as high as 40%. This is much higher than the other banks, and further research is needed to see what the shareholdings of Banks 4 and 5 were before the government took a significant stake and diluted the value of the other shareholders. One explanation for this large bank shareholding comes out of research by Focarelli and Pozzolo (2002). With, the rise of equities from 2005 -2007, and the increased shareholder wealth, the banks may have used this share price rise to increase the banks wealth by proxy rather than actual financial performance. Furthermore, restrictions on UK banks buying into non UK banks may have expanded the use of it internally in the UK. An area for further development is whether this cross shareholding structure creates a conflict of interest in regard to the banks use of comparator groups for the remuneration incentive. The limited research conducted on this does find that many of the banks remuneration comparator groups include companies who are also the banks shareholders. This corporate governance problem is one which must be addressed.

2.5 Research Findings

This research coupled with the Treasury's into the same five banks shows that CEOs *bonuses are linked with overall performance and returns albeit with a weak correlation*. This linkage is reinforced with research by Towers Perrin that during 2008 the "median annual bonus fell by 19% and that bonuses fell the fastest in those industries which experienced the steepest fall in profits". (Economist, 2009)

However, when the non financial and financial elements are separated, the linkage is significantly weakened. This is because from 2007, as the credit crunch takes hold and financial results deteriorate, all the banks had lower share returns and financial results.

However, in 2007, and for Banks 3 and 4 in 2008, the non financial element of the award is still paid and not connected to the financial performance of the bank. This can look like the CEO is being rewarded for the financial failure of the bank because the non financial element still accounts for 50% of the total short term remuneration award, or 125% of basic salary. There needs to be tighter scrutiny and disclosure of the financial and non financial elements of short term remuneration and a reweighting of the two elements so that it will not look like the CEO is being paid excessively, when the company is failing financially.

Conclusion

The banking crisis has shown that many stakeholders have an interest in the CEOs remuneration. From shop floor to trading floor, investor to governments. A poorly incentivised CEO can destroy a company. A culture needs to develop so that the appointment to CEO is a privilege and should be treated with respect. They must leave their short term interests behind and contribute to the company for its long term future.

A CEOs incentive structure should be justified, discussed and challenged at every opportunity so that firm linkages to performance are made year on year. The reforms proposed do not go far enough in reigning in executive pay and swinging the pendulum back in favour of all the companies' stakeholders.

Britain however, has a need to be competitive and remain a financial hub but this should not come at the risk of a poorly incentivised CEO. The concept of personal financial accountability needs to be addressed, to ensure the CEO is incentivised in the appropriate way. Otherwise, organisations will carry on creating complex remuneration structures and the fundamental link between pay and performance will be lost forever.

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Appendix 1

Financial Measures of Performance over 5 year period for Banks

£ Thousands

Bank 1

	2004	2005	2006	2007	2008	Movement
Net Profit	4580	5280	7136	7076	6077	
Total Return	22.39%	8.90%	24.80%	-26.45%	-66.49%	(-7.37%) 5 year
Share Price Change	17.57%	4.36%	19.72%	-31.10%	-68.83%	
EPS	35.29%	4.76%	-	3.55%	3.55%	
EPS 5 year Growth	14.71%	9.82%	20.16%	22.15%	10.01%	
ROCE	16.23	0.99	1.26	13.36	12.25%	
ROE	19.34%	20.71%	24.56%	20.50%	15.58%	
Market Cap	-	-	-	-	36.44b	

Bank 2

	2004	2005	2006	2007	2008	Movement
Net Profit	4592	4808	5706	5474	-7580	
Total Return	21.53%	21.37%	18.33%	-30.77%	-90.60%	(-12.03%) 5 year
Share Price Change	16.98%	17.11%	14.16%	-35.08%	-90.60%	
EPS	22.8	3.14	22.38	5.57	0	
EPS 5 Year Growth	N/A	10.50%	16.74%	15.98%	0	
ROCE	1.61%	1.27%	-0.15%	7.73%	0.00%	
ROE	18.76%	18.68%	19.82%	18.82%	-44.05%	
Market Cap					* 0	

Bank 3

	2004	2005	2006	2007	2008	Movement
Net Profit	18675	20966	22086	24212	9307	
Total Return	3.97%	10.75%	4.36%	-4.82%	-16.97%	(-0.54%) 5 year
Share Price Change	0.06%	6.08%	-0.21%	-9.61%	-21.30%	
EPS	16	16.89	0.47	9.07	-69.85	
EPS 5yr Growth	8.09	8.34	12.95	13.11	-12.95	
ROCE	16.39%	19.96%	17.91%	14.10%	5.15%	
ROE	14.83%	17.03%	15.70%	16%	4.80%	
Market Cap	-	-	135b	-	90.55b	

Bank 4

	2004	2005	2006	2007	2008	Movement
Net profit	3523	3854	4248	4000	807	
Total Return	20.53%	-1.25%	41.60%	-10.75%	-72.28%	(-4.43% 5 year
Share Price Change	13.03%	-8.13%	34.11%	-16.94%	-79.55%	
EPS	-25.73	4.21	11.88	16.83	-	
EPS 5 year growth	-1.29%	2.10%	2%	12.75%	-25.40%	
ROCE	8.33%	31.46%	27.15%	14.45%	4%	
ROE	26.98%	25.74%	26.26%	28.24%	-	
Market Cap	-	-	42.2b	-	18.47b	

Bank 5

	2004	2005	2006	2007	2008	Movement
Net Profit	7284	7936	9186	9832	-40667	
Total Return	-	-3.09%	0.31%	-	-85.57%	(-29.45%) 5 year
Share Price Change	-	-3.09%	0.31%	-64.90%	-91.31%	
EPS	95.25%	6.11%	17.76%	21.21%	-55.90%	
EPS 5 year growth	12.21%	23.05%	30.03%	34.84%		
ROCE	10.99	10.09	18.1	10.16	-2.37%	
ROE	16.08%	15.54%	16.52%	15.95%	-46.54%	
Market Cap	-	-	-		20.86b	