



Third Party Supplier Remuneration Policy

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Version	Author	Approval Date	Effective Date	Status
7.0	Claire Lewis		22 September 2021	The government has re-named the 'minimum wage' the 'living wage'. In order to be clear the policy has been updated to state 'Real Living Wage (Living Wage Foundation)'
8.0	Claire Lewis		November 2022	Greater clarity as to the Group expectations for remuneration arrangements managed by third party suppliers. The policy has been further reviewed against the new Consumer Duty rules (PS22/9) as well as the Group Remuneration Policy. Changes are not required as a result of that review.
9.0	Claudio Gallicchio/ Claire Lewis		October 2023	Minor changes to terminology for better alignment with consumer duty - Change references from 'positive outcomes' to 'good outcomes'.
10.0	Claudio Gallicchio/ Claire Lewis		August 2024	LBG is accredited to the Living Wage Foundation where we commit to pay the Living Wage to our colleagues. To maintain our accreditation, third party suppliers are required to pay the Living Wage. The policy has been updated to reflect the importance of this commitment and to build it into the controls. Furthermore, customer outcome assessments have been incorporated into a control whereby supplier managers are required to highlight any areas of concern.
11.0	Claire Lewis		August 2025	Policy updated to clarify the expectation that all suppliers (other than certain limited exceptions defined in the policy) are expected to pay the real Living Wage, not just those that operate variable reward arrangements.



1. PURPOSE

The purpose of this policy is to set out what is expected from third party supplier remuneration arrangements.

LBG is an accredited Living Wage employer. All third-party suppliers must adhere to the requirements of Lloyds Banking Group's Real Living Wage employer accreditation, extending fair pay to regularly contracted staff, including those employed by third parties.

Third party suppliers must ensure that their remuneration arrangements are designed, implemented and embedded effectively and in line with regulatory requirements, so that they lead to good customer outcomes, avoiding incentives that could lead to customer harm.

LBG is aware that its remuneration strategy and practices ultimately impact on our customers through the way we reward our colleagues.

Therefore, the Policy is fully aligned with the Consumer Duty rules and fully supports the implementation of the Group Customer Policy by ensuring that incentive structures are designed to promote good outcomes for customers and do not contain features that would encourage negative behaviours that could result in customer harm.

This policy ensures that the Group's third-party suppliers are rewarding their employees including sub-contractors in a way that encourages the right behaviours and generates good outcomes for the Group's customers. It ensures that they do not reward or assess an employee's performance in a way that conflicts with their duty to act in the best interest of the Group's customers or provides an incentive for recommending or selling a particular financial product when another may better meet the customer's needs.

This policy aligns with:

- the FCA Remuneration handbook, particularly FCA Remuneration Code (SYSC 19F) - implementing MiFID II requirements on staff incentives and the remuneration of sales staff and advisers.
- the PRA rulebook (Remuneration Instrument 2015 (PRA 2015/53)),
- FCA guidance (FG18/2) published in March 2018
- the new Consumer Duty rules (PS22/9) – ensuring fair value and good outcomes for customers.

2. APPLICABILITY

The Third-Party Supplier Remuneration Policy applies to ALL suppliers.

It is expected that all third-party suppliers will adhere to the requirements of the [Living Wage Foundation](#).

There are additional expectations for those suppliers who reward their employees, including sub-contractors with any form of variable award in addition to base pay (e.g. bonus, commission, incentive or recognition payments).

If clarification is required, then contact your supplier manager at the Group.



3. SCOPE

3.1 In Scope

In this policy 'Third Party Supplier' refers to any external third-party companies, organisations or partnerships that provide goods and services to the Group and/or our customers on the Group's behalf.

In addition to our own employees, regularly contracted staff, including those employed by third parties, are expected to be paid the real Living Wage as a minimum. Regularly contracted staff in this context are defined as contracted staff who work for the group for 2 or more hours a week, for 8 or more consecutive weeks a year.

Suppliers defined as having customer contact include:

- Those with regular and / or substantive contact with the Group's customers, e.g. via calls, face to face or direct individual emails;
- Tied Agents: offering Lloyds Banking Group specific services or products to the Group's customers, e.g. mortgages;
- Those who complete transactions, provide advice, sales or services which involves contact with the Group's customers, e.g. debt collection services, insurance claims handling, administrative services or selling of financial products;

3.2 Out of Scope

The real Living Wage does not apply to contractors that only supply products to the group e.g. stationary suppliers.

Suppliers who don't offer a variable reward to their employees do not have to adhere to the additional expectations of this policy but are still expected to pay the real Living Wage.

4. POLICY REQUIREMENTS

4.1 Real Living Wage

In addition to our own employees, regularly contracted staff, including those employed by third parties, are expected to be paid the real Living Wage as a minimum. Regularly contracted staff in this context are defined by the Living Wage Foundation as contracted staff who work for the group for 2 or more hours a week, for 8 or more consecutive weeks a year. The real Living Wage does not apply to contractors that only supply products to the group e.g. stationary suppliers.

4.2 Third Party Remuneration Principles

Third party remuneration policies must NOT incentivise behaviours that prioritise personal or supplier interests, over the best interests of the Group's customers.

Base pay must not be delayed or reduced if performance targets linked to variable awards are not met.

Suppliers may operate several variable reward plans tailored to different roles or teams. However, these must align with the Group's own risk appetite and guidance issued by the Financial Conduct Authority.



4.3 Incentive / Variable Plan Structure

- **Balanced Remuneration:** Fixed pay should form a substantial portion of total remuneration—ideally at least 70%—to avoid over-reliance on variable pay. Exceptions should be limited to exceptional performers or where market norms justify it.
- **Manager Incentives:** Managers' incentives should be based on different metrics than their teams to prevent undue pressure and ensure fair treatment of customers.
- **Proportional Rewards:** Incentive schemes must avoid disproportionate rewards for marginal transactions, such as:
 - Single transactions significantly impacting awards
 - All-or-nothing thresholds
 - Accelerators or stepped payments
 - Cliff-edge performance targets that may compromise service quality
- **Product Neutrality:** Campaigns or promotions must not favour one product over another.

4.4 Performance Metrics

- Performance must not be solely based on sales targets such as volume, profitability, or productivity (e.g. number of products sold, calls handled, and cases administered).
- Performance metrics must include quality metrics that promote and ensure right behaviours and better customer outcomes (e.g. call monitoring, cancellation rates and customer feedback).
- Performance metrics must not encourage the sale of one product being preferred over another (i.e. product bias).
- Risk factors must be considered when an award is determined, e.g. complaints, customer service levels or not following due process.

4.5 Management Information

- MI should be scrutinised regularly with performance and spend tracked to ensure the plan is awarding as expected. Regular (or significant) under and over performers should be assessed to ensure good customer outcomes are maintained, e.g. under performers are recognised and provided additional support or the results of high performers are reviewed to ensure that they are based on good customer outcomes.

4.6 Business Quality Monitoring

- Ensure a customer focus: employees should be encouraged to prioritise excellent customer service and advocacy.

4.7 Deferral / Claw back

- Deferral or claw back arrangements must be linked to appropriate measures and are carefully monitored.
- Salary should not be delayed or reduced due to unmet objectives.
- Substantial salary increases should only occur through formal processes (e.g. promotions), not for meeting performance objectives.

4.8 Controls

- Third party suppliers must evidence that they comply with the Living Foundations real Living Wage rates of base pay for all their employees regularly contracted to work for the Group.
- Third party suppliers should ensure that they take reasonable care to organise and control their affairs responsibly, effectively and with adequate risk management systems.



- The types of controls and governance a third party supplier must have in place should reflect the nature, scale and complexity of its business and the risk its activities may pose to the Group's customers.
- Third party suppliers should consider how incentives or performance management might cause, or increase, the risk that they may not comply with recommended guidance, this must be determined through the completion of the customer outcome questions.
- Third party suppliers should satisfy themselves that staff are following processes and that they are leading to good customer outcomes. This could be evidenced through appropriate management information which helps identify potential indicators of risk and/or business quality monitoring.
- A senior policy owner at a third party supplier must review and approve their incentive schemes, at least annually to ensure it remains fit for purpose and in line with risk appetite and market practice.
- Third party employees should receive annual communication on how their variable reward operates, and how customer service and risk factors can impact their award.

4.9 Terminology Clarification

To avoid confusion, the Group defines the key terms as follows:

- **Bonus plans:** typically awarded at the end of the financial year based on annual individual, business or overall company / group performance;
- **Commission / Incentive plans:** arrangements where the level of an employee's award is directly influenced by performance against individual metrics including, but not limited to sales, revenue or productivity targets;
- **Recognition plans:** An award made in recognition of individual performance that exceeds £500 in a financial year;
- **Salary adjustments:** a change to an employee's contractual fixed pay outside of the usual pay / promotion process.

5. COMPLIANCE

In line with the Group's criticality assessment approach, suppliers with a criticality assessment outcome of Super Severe, or Severe, have assurance assessments carried out between 1 and 3 years dependent on risk factors.

5.1. Non-Compliance

Any material differences between the requirements set out above and the supplier's own variable pay arrangements should be raised with the supplier by the Group's Supplier Manager who will then discuss the non-compliance with the Accountable Executive for the relationship, the Reward function within the Group's People and Places team and the local Risk team to agree a way forward.

6. APPENDICES

6.1. Appendix A: Glossary

Term	Definition
Living Wage Foundation	Link to the Living Wage Foundation website.