REMUNERATION POLICY

SUMMARY FOR THIRD PARTY SUPPLIERS

1.0 INTRODUCTION

This policy has been designed to manage the risk of third party supplier remuneration arrangements leading to poor outcomes for the Group's customers and ensure that third party remuneration policies are designed, implemented and embedded effectively and in line with regulatory requirements.

This policy ensures that the Group's third party suppliers are rewarding their employees and sub-contractors, in a way that encourages the right behaviours and generates positive customer outcomes for the Group's customers by ensuring 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 instrument when another product may better meet the customer's needs.

This policy is fully aligned with (1) the FCA Remuneration handbook, in particular SYSC 19F, which implements MiFID II requirements on staff incentives and the remuneration of sales staff and advisers, (2) the PRA rulebook (Remuneration Instrument 2015 (PRA 2015/53)), (3) follows the guidance issued in FG18/2 published by the FCA in March 2018 and (4) the new Consumer Duty rules (PS22/9).

2.0 APPLICATION

The third party supplier remuneration policy applies to suppliers who have been invited to complete their policy compliance questions via FSQS (Financial Services Qualification System) and have the following:

1. Customer contact: regular and / or substantive contact with the Group's customers, e.g. via calls, face to face or direct individual emails;
2. Tied Agents: offering Lloyds Banking Group specific services or products to the Group's customers, e.g. mortgages;
3. Activity: completing transactions, providing 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;
4. Reward: (i) awarding a form of variable reward which is additional to basic salary, e.g. bonus, commission, incentive or recognition payments or (ii) an employee's salary could be delayed or reduced if objectives are not met.

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

3.0 POLICY

Third party remuneration policies and practices should be designed in such a way so as not to create incentives that may lead third party employees to favour their own interest, or that of the third party supplier, to the potential detriment of the Group customers.

Suppliers may operate several variable reward plans to differentiate between different roles or teams. The Group expect suppliers to operate in line with the following best practice, determined by the Group's own risk appetite and guidance issued by the Financial Conduct Authority.

Pay/Plan Structure

- The proportion of fixed and variable components of remuneration should be appropriately balanced with the level of the fixed component representing a sufficiently high proportion of total remuneration in order not to create an over reliance on variable remuneration. Ideally, employees should receive at least 70% of their total remuneration in salary or other fixed remuneration, and 30% or less in variable reward. Deviation from that should only occur for exceptional performers, or where market norms clearly demonstrate a different approach is required.
- Incentives for managers should not be based on the same performance outcomes as their teams: this will avoid undue pressure being placed on colleagues to deliver results as opposed to treating customers fairly and appropriately.
- Incentive schemes should not lead to disproportionate awards for marginal transactions. This is where the reward outcome is significantly impacted by the following:
  - a single transaction has a very large impact on the size of the award
  - an all or nothing performance threshold being reached
  - or through the use of accelerators or stepped payments where a minimum threshold must be reached in order to substantially increase the overall outcome
  - awards should not be based on cliff edge performance in order to avoid a 'race for the line' which might see service quality sacrificed as an employee aims to achieve their award
- Incentive schemes should not encourage campaigns or promotions that are designed to promote one product over another

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

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 positive customer outcomes are maintained, e.g. under performers are recognised and provided additional support or high performers are genuine

Business Quality Monitoring

- Ensure a customer focus: employees should be encouraged to deliver great customer service and advocacy

Deferral / Claw back

- Ensure deferral or claw back arrangements are linked to appropriate measures and are carefully monitored.
- Avoid inappropriate salary adjustments: an employee's salary should not be delayed or reduced if objectives are not met. Similarly, employees should not receive substantive salary rises (outside of, for example, promotion) for meeting their objectives

Other

- Comply with the Real Living Wage (Living Wage Foundation): applied to outsourced employees (over the age of 18) who work for two or more hours a week in any given day in a week, for eight or more consecutive weeks in a year, on the third party suppliers premises or property and land owned or occupied by the third party supplier.
- Ensure there is clear communication: employees should receive annual communication on how their variable reward operates, and how customer service and risk factors can increase or decrease their award
- Undertake an annual review: a senior policy owner (e.g. HR Director, Finance Director) should annually review and approve the variable reward plan to ensure it remains fit for purpose and in line with risk appetite and market practice.

Controls

- 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.
- Third party suppliers should satisfy themselves that staff are following processes and that they are leading to appropriate 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 should assess and regularly 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 increase or decrease their award.

Terminology

Terminology may differ between companies. The Group is interested in the following:

- Bonus plans: typically awarded at the end of the financial year based on annual / 12 month performance (but can be a shorter period). Employees may be eligible if they performed well in their role and the company had a good year;

- Commission / Incentive plans: often described as 'X gets Y' arrangements. The employee will be set an objective to deliver a specified amount and will receive a corresponding level of award;
- Recognition plans: if any one employee has received more than £500 in a financial year;
- Salary adjustments: an employee's salary should not be delayed or reduced if objectives are not met. Similarly, employees should not receive substantive salary rises (outside of, for example, promotion) for meeting their objectives.

4.0 MANDATORY REQUIREMENTS

On an annual basis, all in-scope suppliers are required to answer the remuneration questions hosted in the Financial Services Qualification System (FSQS).

Non-Compliance

Any material differences between the requirements set out above and the supplier's own controls should be raised by the supplier with the Group's Supplier Manager. The Supplier Manager 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 way forward.

Version Number	Author	Effective Date	Status / Comments
6.0	Claire Lewis	7 October 2019	Each year the policy is reviewed alongside the Group Remuneration Policy, but to date no further changes have been required
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	December 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.