

**LLOYDS BANKING GROUP PLC
GROUP REMUNERATION COMMITTEE
TERMS OF REFERENCE**

These terms of reference are for the Remuneration Committee of the Board of Lloyds Banking Group plc.

1. SCOPE

PURPOSE

- 1.1.1 To oversee the design of, and recommend to the Board, an overall remuneration policy and philosophy for the Company that is aligned with its long term business strategy, its business objectives, its risk appetite, values and the long term interests of the Group and recognises the interests of relevant stakeholders (the “Group Remuneration Policy”).
- 1.1.2 To oversee the implementation of the Group Remuneration Policy, and to review performance and approve remuneration arrangements as set out in these Terms of Reference.

AUTHORITY

The Committee is a committee of the Board of the Company. The Committee is authorised by the Board to:

- 1.2.1 investigate any activity within its terms of reference and have such direct access to the resources of the Group as it may reasonably require;
- 1.2.2 seek any information that it requires from any employee or member of the wider workforce, and all employees and wider workforce members are directed to co-operate with any request made by the Committee; and
- 1.2.3 engage outside legal or other independent professional advisers and obtain appropriate funding for the payment of relevant fees and expenses.

The Committee may delegate all or any of its responsibilities to one or more sub-committees including one established solely for that purpose.

2. RESPONSIBILITIES

The responsibilities of the Committee shall be to:

2.1 SET THE REMUNERATION POLICY

- 2.1.1 review and make recommendations to the Board on the Directors’ Remuneration Policy and the Group Remuneration Policy, taking into account the long term business strategy, the Group Values, Group Culture framework, regulatory requirements, as well as the need to promote effective risk management. Alignment between the two policies must also be considered;
- 2.1.2 ensure the Group’s policies, practices and procedures and all remuneration arrangements comply with all relevant regulation, legislation, codes of conduct and good remuneration practice and have regard to the remuneration trends for all Group

colleagues and the wider workforce where applicable. When determining remuneration policy and procedures, the Committee should give particular consideration to the principles of clarity, simplicity, risk, predictability, proportionality and alignment to culture;

2.2 MONITOR REMUNERATION POLICY

- 2.2.1 review annually the report from the Group People and Productivity Director on the operation of the Remuneration Policy and its effectiveness including procedures and processes to avoid conflicts of interest and to note the arrangements in place to ensure employees receive adequate information to understand the requirements of the Remuneration Policy and regulatory requirements;
- 2.2.2 monitor the application of the authority delegated to the Group Chief Executive to ensure that policies and principles are being consistently and effectively applied, seeking support and input from the People and Productivity function and Risk Division as appropriate;
- 2.2.3 liaise as required with the Board Risk Committee and Risk Function in relation to risk-adjusted performance measures to confirm that the Remuneration Policy is in line with sound and effective risk management;
- 2.2.4 commission an annual review of the risks arising from the Lloyds Banking Group remuneration policies for the purposes of the Internal Capital Adequacy Assessment Process;
- 2.2.5 periodically review the general principles of the Remuneration Policy and its implementation including compliance with the Remuneration Part of the PRA Rulebook and FCA Handbook SYSC 19 and the UK Corporate Governance Code;

2.3 REPORT AND DISCLOSURE

- 2.3.1 report annually to the Board the substance of the Group Remuneration Policy and propose any substantive changes. This report will be supported by independent commentary from the Chief Risk Officer in the context of the Group's risk appetite and by positive assurance from the each Group Executive Committee member that all remuneration arrangements within their business area/function reflect fully the Group's overall approach;
- 2.3.2 at least annually report to the Board on how the Committee has ensured that colleagues, and the wider workforce where applicable, have received sufficient information to understand how the Director's Remuneration Policy and Group Remuneration Policy align;
- 2.3.3 at least annually ensure that the Remuneration Policy is subject to central and independent internal review for compliance;
- 2.3.4 at least annually review the 'LBG Performance Share Approach' document and Deferral and Performance Adjustment policy;
- 2.3.5 consider and note the contents of the annual Remuneration Policy Statement for each of Lloyds Bank plc and Bank of Scotland plc for the PRA and FCA;

2.3.6 consider and approve the Directors Remuneration Report in the Annual Report and Accounts; and

2.3.7 consider and make recommendations to the Board on remuneration-related shareholder resolutions.

2.4 DIRECTORS

2.4.1 propose fees payable to the Chairman and Deputy Chairman to the Board for approval; and provide the Group's recommendation for fees payable to the non-executive directors of Lloyds Bank Corporate Markets plc. Non-executive Director fees for the Company (and each of the Banks) shall be determined by the relevant Board: and shall take into consideration time committed and responsibilities. Share options or performance related elements should not be included;

2.4.2 determine and approve the contracts of employment and the terms of service, including all aspects of remuneration (including the terms and any other commitments to be made on retirement, resignation or dismissal to ensure fairness, avoid reward for failure and recognise the duty to mitigate loss) in respect of Executive Directors and the Company Secretary, ensuring the reward and conditions available to colleagues and the wider workforce where applicable are taken into account;

2.4.3 determine the pension policy taking into account pension provisions available to colleagues and the wider workforce where applicable, and consider the individual pension impact and associated costs of salary increases for the Executive Directors and Company Secretary;

2.4.4 determine the design and targets for any annual performance-related variable remuneration plans and review individuals' performance against these targets and determine any payments proposed, taking into account variable remuneration plans of colleagues and the wider workforce where applicable;

2.4.5 determine the design of, eligibility for and targets for, any longer term performance-related remuneration plans, including determining the size of awards taking into account long-term variable remuneration plans of colleagues and the wider workforce where applicable. Subsequently, review performance against such targets and agree any payments proposed;

2.4.6 determine whether an appropriate level of risk management and performance adjustment has been applied in performance assessments and remuneration awarded to the Executive Directors and Company Secretary;

2.4.7 agree the policy for authorising claims for expenses incurred by the Group Chief Executive, Company Chairman and Deputy Chairman, taking into account expenses provisions available to colleagues and the wider workforce where applicable;

2.4.8 no director shall be involved in determining their own remuneration;

2.5 GROUP EXECUTIVE COMMITTEE

- 2.5.1 approve the performance assessments and determine all aspects of remuneration (including the terms of employment and any other commitments to be made on retirement, resignation or dismissal to ensure fairness, avoid reward for failure and recognise the duty to mitigate loss) for each Group Executive Committee member and attendee (who is not also an Executive Director), ensuring the reward and conditions available to colleagues and the wider workforce where applicable are taken into account;
- 2.5.2 determine the design and targets for any annual performance-related variable remuneration plans and review individuals' performance against these targets and determine any payments proposed taking into account variable remuneration plans of colleagues and the wider workforce where applicable;
- 2.5.3 determine the design of, eligibility for and targets for, any longer term performance-related remuneration plans, including determining the size of awards taking into account long-term variable remuneration plans of colleagues the wider workforce where applicable. Subsequently, review performance against such targets and agree any payments proposed;
- 2.5.4 determine whether an appropriate level of risk management and performance adjustment has been applied in performance assessments and remuneration awarded to these colleagues;

2.6 HIGH EARNERS AND BUY-OUTS

- 2.6.1 approve the performance assessments and determine all aspects of remuneration (including the terms and any other commitments to be made on retirement, resignation or dismissal to ensure fairness, avoid reward for failure and recognise the duty to mitigate loss) in respect individuals whose Total Compensation (defined as base salary, benefits, fixed share awards, Group Performance Share awards and Group Ownership Share awards) exceed £1,000,000 per annum ("High Earners");
- 2.6.2 determine whether an appropriate level of risk management and performance adjustment has been applied in performance assessments and remuneration awarded to these colleagues;
- 2.6.3 approve any buy-out award or guarantee exceeding £500,000;

2.7 SENIOR MANAGERS

- 2.7.1 approve the performance assessments and determine all aspects of remuneration (including the terms and any other commitments to be made on retirement, resignation or dismissal to ensure fairness, avoid reward for failure and recognise the duty to mitigate loss) in respect of any colleagues performing a Senior Manager Function and/or Senior Insurance Manager Function;
- 2.7.2 determine whether an appropriate level of risk management and performance adjustment has been applied in performance assessments and remuneration awarded to these colleagues;

2.8 RISK AND AUDIT FUNCTIONS

- 2.8.1 approve the performance assessments and determine all aspects of remuneration (including the terms and any other commitments to be made on retirement, resignation or dismissal to ensure fairness, avoid reward for failure and recognise the duty to mitigate loss) in respect of any direct reports of the Chief Risk Officer and Chief Internal Auditor at Grade H or above;
- 2.8.2 determine whether an appropriate level of risk management and performance adjustment has been applied in performance assessments and remuneration awarded to these colleagues;

2.9 OTHER MATERIAL RISK TAKERS

- 2.9.1 set and monitor the policy and principles to be applied by the Group Chief Executive in relation all aspects of remuneration for all other individuals who are considered to be Material Risk Takers or Identified Staff in accordance with the Remuneration Part of the PRA Rulebook or FCA Handbook SYSC 19;
- 2.9.2 set and monitor the policy and principles to be applied by the Group Chief Executive in relation to any annual performance-related variable remuneration plans;

2.10 ALL COLLEAGUES

In respect of all colleagues being all persons engaged under a contract of employment:

- 2.10.1 determine the pension policy;
- 2.10.2 monitor annual base salary increase budgets;
- 2.10.3 review pay and benefit principles;
- 2.10.4 review financial and non-financial reward policies and procedures;

2.11 WIDER WORKFORCE

In respect of the wider workforce being all persons engaged under any other arrangement than a contract of employment to do work or provide services to the Group:

- 2.11.1 review pay and benefit principles; and
- 2.11.2 review financial and non-financial reward policies and procedures;

3. ACCESS TO ADVICE

- 3.1 The Committee may seek advice from any internal source, and all colleagues and members of the wider workforce are directed to co-operate with any request made. The Committee will take into account any additional feedback or advice received from colleagues or the wider workforce either directly or through a Group internal method for collating or receiving feedback. The Committee may also engage with union representatives annually in relation to base salary increase budgets.

- 3.2 The Committee may engage any external advisers, as it deems necessary, at the expense of Lloyds Banking Group plc. Any advisers engaged by the Committee shall not also be engaged by management for the purposes of obtaining remuneration advice without the consent of the Committee Chairman. Any advisers engaged by the Committee shall be subject to at least annual review by the Committee.
- 3.3 The Chief Risk Officer and the Chief Financial Officer shall each attend meetings at least twice a year to advise on the setting and review of performance targets.
- 3.4 The Committee shall meet with the Chief Risk Officer, as required, without management being present.
- 3.5 The Committee shall receive a report from the Chief Risk Officer on the implications of the Remuneration Policy for risk and risk management, at least annually.

4. MEMBERSHIP AND ATTENDANCE

4.1 MEMBERSHIP

Members of the Committee shall be appointed by the Board on the recommendation of the Nomination and Governance Committee in consultation with the Chairman of the Remuneration Committee and shall comprise at least three independent non-executive directors.

The Chairman of the Board may also serve on the Committee as an additional member provided he was considered independent on his appointment as Chairman.

Membership shall include at least one member of the Board Risk Committee and at least one member of the Audit Committee.

Appointments to the Committee shall be for a period of up to three years, which may be extended for two further three-year periods, provided the director still meets the criteria for membership of the Committee.

4.2 CHAIRMAN¹

An independent non-executive director who has served at least twelve months as a member of the Committee shall be appointed by the Board to act as Chairman of the Committee.

The Chairman of the Board may not chair the Remuneration Committee.

The Chairman's primary responsibility is to chair and oversee the performance of the role of the Remuneration Committee.

The Chairman's other responsibilities include:-

- ensuring that the Committee meets with sufficient frequency;
- fostering an open, inclusive discussion which challenges executives, where appropriate;
- ensuring that the Committee devotes sufficient time and attention to the matters within its remit;
- helping to ensure that the Committee and its members have the information necessary to its and their tasks;

¹ The Chairman of the Committee (insofar as it considers issues on behalf of or in relation to an SMCR Entity) is a Senior Manager for the purposes of the SMCR. This role requires approval by the PRA/FCA.

- reporting to the Board on the Committee's activities;
- facilitating the running of the Committee to assist it in providing independent oversight of executive decisions;
- safeguarding the independence and overseeing the performance of the Committee; and
- ensuring that the regulatory requirements in relation to the Committee are satisfied.

The Chairman shall engage with the following stakeholders on behalf of the Committee, in relation to the business of the Committee:

- the PRA and FCA;
- Shareholders, including attending the AGM and responding to shareholder questions on the Remuneration Policy and related matters at the AGM; and
- Recognised Unions in relation to Remuneration Policy and related matters.

4.3 ATTENDEES

Only members of the Committee have the right to attend Committee meetings. However, all other independent non-executive directors have an open invitation to attend meetings.

The Committee Chair may invite others to attend all or part of a meeting including (but not limited to):

- The Group Chief Executive
- Chief Financial Officer
- Chief Risk Officer
- Group People and Productivity Director
- Group Reward Director

External advisers may be invited to attend all or part of the meeting as appropriate.

No person shall be in attendance when matters concerning their own remuneration or fees are discussed.

4.4 QUORUM

The quorum shall be any two members.

4.5 NOTICE

Meetings of the Committee shall be called by the Secretary of the Committee at the request of the Committee Chairman.

Unless otherwise agreed, notice of each meeting confirming the venue, time and date together with an agenda of items to be discussed, shall be forwarded to each member of the Committee, any other person required to attend and all other non-executive directors, no later than 4 working days before the date of the meeting. Supporting papers shall be sent to Committee members and to other attendees, as appropriate, at the same time.

4.6 DELEGATION

The Committee has delegated authority to the Group Chief Executive to establish, implement and maintain remuneration policies, procedures and practices that adhere to the Group

Remuneration Policy and are consistent with and promote principles of effective risk management.

5. COMMITTEE MANAGEMENT

5.1 SECRETARY

The Secretary to the Committee shall be the Company Secretary or their nominee.

5.2 PAPERS/AGENDA

Group Secretariat will support the Chairman in managing the business of the Committee. The agenda and papers will be circulated to all members of the Committee at least 4 working days before the meeting. Such circulation of agenda and papers may be in paper or electronic format as preferred.

5.3 MINUTES/REPORTING

The Secretary shall minute the proceedings of all meetings of the Committee, including recording the names of those present and in attendance. Minutes of Committee meetings will be circulated promptly to all members of the Committee, and the Committee Chairman will report formally to the Board on the Committee's proceedings.

The minutes of the meeting will clearly identify the issues being considered as discussed by the meeting and any potential RFB Conflict Matter and any action to be taken in relation to any potential RFB Conflict Matter.

5.4 FREQUENCY

The committee shall meet as often as is necessary to fulfil its responsibilities but not less than four times a year.

6. TERMS OF REFERENCE

6.1 REVIEW REQUIREMENTS

These terms of reference are drafted and amended (as necessary) by Group Secretariat and require to be approved by the Board. These Terms of Reference are subject to review annually by the Committee, along with a review of its own effectiveness and then be subject to review by the Nomination and Governance Committee at least annually, or as required by the Board.

6.2 APPROVAL

These Terms of Reference were approved by the Board of the Company on 18 December 2018.

**LLOYDS BANK PLC, BANK OF SCOTLAND PLC & HBOS PLC
REMUNERATION COMMITTEE
TERMS OF REFERENCE**

These terms of reference are for the Remuneration Committee (the “Remuneration Committee”) of the Boards of each of Lloyds Bank plc, Bank of Scotland plc and HBOS plc. HBOS plc is not a regulated bank and does not require to have a Remuneration Committee, should one be required for any reason these terms of reference shall be amended accordingly. References to the Board are to the Board of each of Lloyds Bank plc, Bank of Scotland plc and HBOS plc as appropriate. References to Company and Bank are to each of Lloyds Bank plc, Bank of Scotland plc and HBOS plc as appropriate.

Where necessary or appropriate the terms of reference set out any aspect unique to either Lloyds Bank plc, Bank of Scotland plc or HBOS plc.

1. SCOPE

1.1 PURPOSE

The Remuneration Committee is responsible for reviewing and making recommendations to the Board on the remuneration policy for the Bank and for performing such other duties as may be prescribed for remuneration committees by the Regulators of the Bank, taking into account the principles, policies and governance requirements of Lloyds Banking Group plc (“the Group”) and the recommendations of the Group Remuneration Committee.

1.2 AUTHORITY

The Committee is a committee of the Board of the Banks. The Committee is authorised by the Board of the Banks to:-

- 1.2.1 investigate any activity within its terms of reference and have such direct access to the resources of the Group as it may reasonably require ;
- 1.2.2 seek any information that it requires from any colleague, and all colleagues are directed to co-operate with any request made by the Committee; and
- 1.2.3 engage outside legal or other independent professional advisers and obtain appropriate funding for the payment of relevant fees and expenses.

The Committee may delegate all or any of its responsibilities to one or more sub-committees including one established solely for that purpose.

2. RESPONSIBILITIES

The responsibilities of the Committee shall be to:-

- 2.1 review and make recommendations to the Board of the Bank on the remuneration policy of the Bank and on such other matters on which the Board relies on recommendations from the Committee in accordance with the matters reserved for the Board of the Bank;
- 2.2 perform such other duties as may be prescribed for remuneration committees by the Regulators of the Bank;
- 2.3 in performance of its duties, review (and, if considered appropriate by the Committee, recommend to the Board of the Bank) the recommendations of the Group

Remuneration Committee always taking into account the principles, policies and governance requirements of the Group;

- 2.4 consider and approve the contents of the annual Remuneration Policy Statement for the PRA and FCA; and
- 2.5 consider and approve the remuneration arrangements of the Bank's Risk Officers, such approval requiring the support of the Bank Only NEDs represented on the Committee.

3. MEMBERSHIP & ATTENDANCE

3.1 MEMBERSHIP

Members of the Remuneration Committee shall be appointed by the Board of the Bank on the recommendation of the Nomination Committee. Members shall be independent non-executive directors. For each of Lloyds Bank plc and Bank of Scotland plc at least two members shall be Bank Only NEDs.

Each of the Bank Only NEDs may appoint an alternate (who must be a Bank Only NED) to attend a meeting of the Committee on his/her behalf. In exceptional circumstances where a Bank Only NED or his/her alternate cannot attend the Board or Committee meeting the Chairman will, in so far as possible, seek to obtain the views of the Bank Only NED on any potential RFB Conflict Matter which is to be considered at that meeting, in so far as possible, also ensuring that the PRA is notified should such a situation arise.

3.2 CHAIRMAN²

The Chairman of the Committee shall be appointed by the Board of the Banks and will be an Independent Non-Executive Director. The role of the Chairman may be held by the Chairman of the Lloyds Banking Group Remuneration Committee. In the Chairman's temporary absence, one of the Committee members nominated by the Chairman or elected by the other members of the Committee will act as Chairman.

The Chairman's primary responsibility is to chair and oversee the performance of the role of the Committee. The Chairman's other responsibilities include:

- ensuring that the Committee meets with sufficient frequency;
- fostering an open, inclusive discussion which challenges executives, where appropriate;
- ensuring that the Committee devotes sufficient time and attention to the matters within its remit;
- helping to ensure that the Committee and its members have the information necessary to its and their tasks;
- reporting to the Board on the Committee's activities;
- facilitating the running of the Committee to assist it in providing independent oversight of executive decisions;
- safeguarding the independence and overseeing the performance of the Committee;
- ensuring that the regulatory requirements in relation to the Committee are satisfied; and
- reporting to the Group Remuneration Committee at the request of the Chairman of the Group Remuneration Committee, on matters with the responsibility of the

² In relation to discharging this role for the SMCR Entities, the Chairman is a Senior Manager for the purposes of the SMCR. This will require prior approval of the individual by the PRA/FCA.

Remuneration Committee and escalating matters to the Group Remuneration Committee as appropriate.

3.3 ATTENDEES

Only members and alternates have the right to attend meetings. The Committee may invite such attendees as it deems necessary to fulfil its duties.

3.4 QUORUM

The quorum for meetings of the Committee shall be any three members.

4. COMMITTEE MANAGEMENT

4.1 SECRETARY

The secretary to the Committee shall be the Company Secretary or their nominee.

4.2 PAPERS/AGENDA

Group Company Secretariat will support the chairman in managing the business of the Committee. The agenda and papers will be circulated to all members of the Committee at least 4 working days before the meeting. Such circulation of agenda and papers may be in paper or electronic format as preferred.

Where appropriate relevant agenda items and meeting papers will be clearly identified as being for consideration by the relevant Committee of the appropriate entity. Active consideration will be given to the distribution of meeting papers, to ensure that the correct papers are provided to the relevant Board and Committee members.

4.3 MINUTES

The secretary shall minute the proceedings of all meetings of the Committee, including recording the names of those present and in attendance. Minutes of Committee meetings will be circulated promptly to all members of the Committee, and the Committee chairman will report formally to the Board on the Committee's proceedings.

The minutes of each meeting will be produced as separate documents and will clearly identify the issue being considered as discussed by the meeting(s) and any potential RFB Conflict Matter and any action (in particular escalation) to be taken in relation to any potential RFB Conflict Matter.

4.4 FREQUENCY

The Committee shall meet as often as is necessary to fulfil its responsibilities and at least twice a year the Remuneration Committee shall meet to consider matters that relate to the Bank alone.

5. TERMS OF REFERENCE

5.1 REVIEW REQUIREMENTS

These terms of reference are drafted and amended (as necessary) by the Company Secretary and require to be approved by the Board. These terms of reference are subject to review annually by the Nomination Committee or as required by the Board taking into account, in both

cases, recommendations from the Group Remuneration Committee and from the Group Nomination and Governance Committee.

5.2 APPROVAL

These Terms of Reference were approved by the Board of the Company on 18 December 2018.