LLOYDS BANKING GROUP	**THIRD PARTY SUPPLIER REMUNERATION POLICY**

1.0 INTRODUCTION

The purpose of this policy is to ensure that third party supplier remuneration arrangements are designed, implemented and embedded effectively and in line with regulatory requirements, so that they lead to good customer outcomes.

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.

LBG is an accredited Living Wage employer, in addition to directly employed colleagues our accreditation includes ensuring regularly contracted staff including those employed by third parties also benefit from the real Living Wage.
This policy is fully aligned with (1) the FCA Remuneration handbook, particularly 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 are required to complete their policy compliance questions via FSQS (Financial Services Qualification System) and 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) and/or 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;

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's customers.

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.

An employee's base pay should not be delayed or reduced if performance objectives pertaining to variable awards are not met.

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.

Incentive / Variable 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 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.

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

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, 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 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 suppliers must attest that they comply with the Living Foundations' Living Wage rates of base pay for all their employees regularly contracted to work for the Group.Third party employees should receive annual communication on how their variable reward operates, and how customer service and risk factors can impact their award.

Terminology

Terminology may differ between companies; for the avoidance of doubt, the Group defines the terms used above 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

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 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.

5.0 SUPPORTING DOCUMENTATION

Living Wage Foundation	Link to the Living Wage Foundation website.

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	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.