

Mark V Brown
General Secretary
Affinity
St John's Terrace
3-7 Ampthill Street
Bedford
MK42 9EY

The Investment Association

Camomile Court, 23 Camomile Street,
London, EC3A 7LL

T +44 20 7831 0898
E enquiries@theia.org
W theinvestmentassociation.org
Twitter @InvAssoc

Date: 1 May 2019

Dear Mr Brown,

Further to our recent correspondence regarding executive remuneration at Lloyds Banking Group, I am writing to let you know the Investment Association's Institutional Voting Information Service (IVIS) has now conducted its analysis of Lloyds Banking Group's remuneration report in advance of the company's AGM on Thursday 16 May 2019.

IVIS analysis exists to complement a wider range of engagement which shareholders undertake. It is one source of information which investors will draw upon when making voting decisions and informing the discussions they wish to have with companies ahead of their AGMs. We do not, and could not, instruct IVIS subscribers on how to vote but we see it as our role to highlight issues or concerns which we believe that our members should consider prior to voting. IVIS has issued an amber top against the approval of the Lloyds Banking Group remuneration report. As you will know, each IVIS report is colour coded to reflect breaches of best practice or to highlight areas of concern. An amber top reflects a significant issue which members will have to consider prior to voting.

The Report specifically highlights that shareholders will need to consider the changes proposed to the CEO's fixed remuneration for 2019. Mr Horta-Osorio has received a 2% salary increase, while his Fixed Share Award has been increased by 16.7% to £1.05 million for 2019. The remuneration report states that this is as a result of taking on the role of Chief Executive of the Ring-Fenced Bank from 1 January 2019 in addition to his existing responsibility as Group Chief Executive. At the same time, Mr Horta-Osorio's pension contribution has been reduced from 46% to 33% of base salary.

In addition, the company has confirmed to IVIS that Mr Horta-Osorio agreed that the employer financed retirement benefits scheme (EFRBS) should be based on his salary in 2014 (£1,220,000), in line with other employees participating in the Group's defined benefit pension arrangement. This equates to a pension contribution of £73,200 under the EFRBS.

When considering the proposed changes on face value terms, the reduction in the CEO's pension is £153,559, while at the same time Mr Horta-Osorio's Fixed Share Award is increasing by £150,000 for 2019. Shareholders have been clear that they do not expect that compensation should be awarded for reductions in contributions in order to align executive pensions with those available to the workforce. Shareholders will have to be satisfied that this increase in fixed share award reflects an increase in the responsibilities undertaken by the Chief Executive.

Shareholders will also note that the CFO, the CFO-designate and the COO will all continue to receive pension contributions of 25% of salary in 2019. On 21 February, we announced the approach which IVIS will take to colour topping reports ahead of a company's AGM based on their approach to executive director pension contributions. Investors expect newly appointed directors to receive a pension contribution equal to that of the majority of the workforce while the contribution rates for incumbent executive directors should be reduced as soon as possible to the contribution rate available to the majority of the workforce. Mr Chalmers' appointment as CFO was announced by the Company in February 2019 before the publication of IVIS' new approach to pension contributions but this new approach nonetheless states that any existing executive director receiving a pension contribution of 25% of salary or more will be amber topped on the remuneration report.

An amber top is a reflection of a significant issue and IVIS has identified three areas within Lloyds Banking Group's remuneration report – relating to the remuneration of the CEO, the COO, and the CFO-designate – which would individually warrant an amber top. I trust that this information answers your initial enquiries and demonstrates the seriousness with which we approach issues relating to fairness in executive pay.

Yours sincerely



Andrew Ninian

Director, Stewardship and Corporate Governance