

Chris Cummings
Chief Executive Officer
Investment Association
Camomile Court
23 Camomile Street
London, EC3A 7LL

22nd March 2019

Dear Mr. Cummings

Lloyds Banking Group – Executive Remuneration & Pensions

I refer to my letter dated 13th March regarding Antonio Horta-Osorio's pension allowance.

Since we published that letter on the union's website and following a number of newspaper articles, Mr. Horta Osorio has chosen to relinquish the final salary part of his defined benefit pension scheme. However, whilst that climbdown by Mr. Horta-Osorio is to be welcomed, it's simply a clumsy attempt to distract attention away from his pension allowance. That's the real issue which the Investment Association needs to deal with now.

Mr. Horta-Osorio's pension allowance was worth £573,000 (46% of salary) last year. This year it is being reduced to £419,000 or 33%. That is a reduction of £154,000. However, Mr. Horta-Osorio is being compensated for the reduction in his pension allowance in the form of fixed shares worth £150,000. Taking those two elements together, Mr. Horta-Osorio's fixed pay is only being reduced by £4,000. In fact, it's even worse than that because Mr. Horta-Osorio's total fixed pay will increase from £2,876,000 in 2018 to £2,895,288 in 2019, an increase of £19,288. And that's despite the fact that his pension allowance has been reduced from 46% to 33%. That is simply outrageous and the most blatant attempt by Lloyds Banking Group to circumnavigate the Investment Association's rules on executive pay that we have seen.

The Bank has sought to argue that Mr. Horta-Osorio is taking on new responsibilities in the ring-fenced bank but that's another attempt to distract attention away from his pension allowance. Mr. Horta-Osorio was the Group Chief Executives in 2018 and he'll be the Group Chief Executive in 2019. Nothing is changing. In the Report and Accounts it says in respect of the ring-fenced bank that:

“As a predominantly UK retail and commercial bank, the effect on the Group has been relatively limited, with minimal impact on the majority of the Group's retail

and commercial customers. As the vast majority of the Group's business has continued to be held by Lloyds Bank plc and its subsidiaries there has not been a material impact on the financial strength of Lloyds Bank plc."

Other than the desire to want to compensate Mr. Horta Osorio for the 'reduction' in his pension allowance, there is a complete absence of any rational productivity justification by the Remuneration Committee for handing him £150,000 worth of fixed shares. Moreover, other banks have introduced ring fencing – some with more complicated business models - but they haven't sought to increase the pay of their chief executives for taking on extra responsibilities.

The Bank is also being disingenuous when it tells commentators that staff can get employer pension contributions of up to 25%. That is not true. Only members of the Group Executive Committee (9 males and 2 females), which includes the Executive Directors, get employer pension contributions of 25%. The overwhelming majority of the 65,537 staff in Lloyds get employer pension contributions of between 8 – 13%, depending on employee contributions. Even if you ignore Mr. Horta-Osorio's £150,000 compensation payment, he will still get a pension allowance which is worth 20% more than the maximum that's available to ordinary members staff.

In a speech to the Scottish CBI, Mr. Horta-Osorio said: "We must remember that the way we see ourselves is not always the way others perceive us". The perception amongst staff, shareholders, customers and the wider public – who are sick to death of overpaid executives feathering their own nests – will be that it's one rule for Mr Horta-Osorio and another for everyone else.

The Investment Association should immediately 'red top' Lloyds Banking Group and make it clear that its members will oppose the Remuneration Report at the Annual General Meeting. Equally, it should make it clear that those members of the Association who refuse to oppose the Remuneration Report will be named and explanations sought for their actions. The credibility of the Investment Association is on the line and everyone expects you to do the right thing.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Mark V Brown', with a long, sweeping horizontal line extending to the right.

Mark V Brown
General Secretary