Directors' remuneration report
Remuneration Committee Chairman's statement

The Committee is particularly mindful of its obligation to ensure that reward for Executive Directors is clear and transparent, is encouraging strong and sustainable performance, and that the variable components of remuneration are truly variable.

KEY MESSAGES

- Underlying profit increased 6 per cent to £8,066 million
- Executive Director single figure remuneration outcomes are approximately 2 per cent lower than prior year
- Gender pay gap reduced 1.3 per cent to 31.5 per cent – better than the average for Financial Services
- Pay budget increase of 2.6 per cent for all colleagues – increases for Executive Directors and other senior colleagues set lower at 2 per cent
- Minimum full time salary for all colleagues now exceeds National Living Wage by 7 per cent
- Financial and strategic performance in 2018 delivered a Group Balanced Scorecard outcome of 83 per cent of maximum
- Group Performance Share outcome is down 3 per cent year-on-year when adjusted for changes to eligible population. The total pool for 2018 is £464.5 million.
- 2016 Long Term Incentive Plan is vesting at 68.7 per cent

Composition of Executive Director Remuneration

30% | 70%

Fixed
Salary, Fixed Share Award, Pension, Benefits

Variable
Group Performance Share, Group Ownership Share

Variable Reward Components

c.70% | c.30%

Long-term
3+ years

Short-term
1 year

95% | 5%

Shares | **Cash**

Dear Shareholder

On behalf of the Board, I am pleased to present our Directors' remuneration report for the year ended 31 December 2018. This is my first report to you, and on behalf of the Board I would like to thank Anita Frew for her chairmanship of the Committee in the period to September 2018, when I took over. I hope to continue the excellent work Anita did in ensuring that remuneration is actively debated and transparent to all relevant stakeholders.

This report covers the information required to meet the Group's regulatory disclosures, but also provides additional context and detail on the Group's broader remuneration framework, its alignment with our strategy and other factors considered relevant by the Committee.

Responding to feedback

We were disappointed that our report for 2017 did not receive the high level of support from shareholders at the 2018 AGM that we had previously experienced. We place great importance on the opinions of our shareholders and other stakeholders when considering our remuneration policy and its implementation.

During 2018, I took the opportunity to meet a broad selection of shareholders and other key stakeholders, to obtain feedback on our approach. This included shareholders who opposed the 2017 remuneration report. It became clear in these discussions that, while disclosure levels were generally considered good, the way we determined bonus awards for Executive Directors was perceived to be too complex, and we could make clearer both how the annual awards were calculated and where judgement or discretion had been applied by the Committee. This report has been designed in part to respond to that feedback and I believe we have listened to, and addressed, the concerns raised. I have summarised the key changes below.

We are not seeking to make any changes to the Directors' Remuneration Policy for 2019, however we will consult widely on policy changes ahead of the Annual General Meeting in 2020.

Our performance and remuneration philosophy

We continue to operate four core reward principles:

- Customer alignment
- Simple, affordable and motivating
- Shareholder alignment
- Competitive, performance-driven and fair

These principles underpin all our decisions and ensure that our remuneration approach and outcomes are aligned to the Group's purpose and priorities.

What we have changed in response to your feedback

To provide greater clarity on the process for determining variable remuneration for Executive Directors, on page 87 we have provided a step-by-step walk-through of the approach to bonus awards. This shows how we determine the proportion of profit allocated to variable pay for on target performance, which remained at 5.1 per cent for 2018, and the mechanical approach to determining individual awards.

The Committee is also mindful of the changes to corporate governance and reporting regulations which take effect from next year and has begun to prepare for their formal introduction and reporting.

In this report we have published details of our CEO pay ratio, which can be found on page 95. We have also provided an overview of activity that the Board will undertake with regard to understanding the views of the wider workforce on page 64. We anticipate that the role of the Committee will evolve and develop during 2019 and intend to provide full details in 2020. Other aspects the Committee intends to focus on in 2019 include post employment shareholding and pension contributions of Executive Directors relative to the majority of the workforce.

As in previous years, we believe any remuneration awarded to Executive Directors must be supported by strong performance achieved with the interests of all our stakeholders in mind.

The remuneration awarded to Executive Directors is heavily weighted towards the delivery of long-term, sustainable performance that aligns with shareholder experience. For the variable awards made under the Group Performance Share and Group Ownership Share plans in respect of performance in 2018, over 95 per cent is awarded in shares, and 70 per cent is subject to performance conditions applying over three years.

Delivery through collective success

We believe it is important that all our colleagues share in the collective success of the Group when we deliver at our best. Therefore for 2019, significant changes are being made to the Group's performance management framework. Our new approach, which we are calling Your Best, is a simpler approach to performance management, with a stronger emphasis on teamwork and a greater focus on personal growth, skills and development. This is highly relevant to all colleagues in this fast changing economy.

Our colleagues are the stewards of the Group's future. We are therefore investing significantly in transforming ways of working to enhance our colleagues' skills and capabilities. All eligible colleagues in the Group will receive a Colleague Group Ownership Share award in 2019, continuing our practice of promoting long-term ownership and alignment to shareholder interests. 99 per cent of colleagues hold shares in the Group.

To ensure that the Committee understands the views of a broad range of stakeholders, I have consulted with the Group's recognised unions who represent the interests of around 30,000 colleagues. I am pleased to confirm that the unions have agreed our pay approach for 2019 receiving overwhelming support from their members. The total pay budget of 2.6 per cent for 2018 for all colleagues has been allocated such that higher pay increases are made to colleagues who are positioned lower in the pay range for their role, supporting a policy of real wage growth and pay progression. Increases range from 0.25 per cent to 9.9 per cent. The proposed salary increases for Executive Directors for 2019 have been set at 2 per cent, in line with other senior colleagues but lower than the overall colleague population.

From April 2019, all full-time colleagues in the Group will be paid a minimum salary of £17,510, 7 per cent above the National Living Wage, and where eligible will receive a minimum pay increase of £600 in 2019. This reflects the Group's commitment to offering colleagues a competitive reward package, which aims to reward all colleagues fairly for their contribution. The Group has been recognised as a Living Wage employer since 2015.

The Group has also made progress in reducing the Gender Pay Gap by 1.3 per cent, with the median gap reducing from 32.8 per cent to 31.5 per cent, lower than the average for Financial Services, through a combination of targeting our salary increases and our efforts to increase female representation at senior levels in the Group.

2018 remuneration in the context of business performance and the perspective of our wider stakeholders

We have taken on board feedback received in 2018 that suggests our approach to measurement of Group performance was overly complex. For 2018, we operated a scorecard with 20 measures across five blocks (as set out in full on page 86), but have reduced this to 15 measures and four blocks for 2019. We have weighted the scorecard measures to provide a balance of performance expectations across financial, customer and colleague related outcomes. We will disclose details of the 2019 targets in 2020, but the revised balance of measures is summarised as follows:

33% Financial + 33% Customer + 33% Colleague and Conduct

The 'Remuneration Overview' section on the following pages provides a summary of the 2018 remuneration outcomes and policy for Executive Directors.

The Committee places great importance on ensuring there are clear links between remuneration and delivery of both financial and strategic objectives aligned to the long-term sustainable success of the Group.

In 2018, the Group made significant business progress, providing a strong platform for the Group's strategic development and delivery of key priorities. The Group delivered strong financial performance in a period of political and economic uncertainty. This uncertainty weighed heavily on the Group's share price during 2018; however, the Group's resilient and low risk business model enabled strong underlying performance. Underlying Profit increased by 6 per cent and the Group's capital position strengthened. The Group's cost:income ratio remains market leading at 49.3 per cent.

Reflecting the Group's performance in 2018, the Committee determined that the total Group Performance Share funding should be 3 per cent down year-on-year (adjusted for changes in eligible population). Individual awards for Executive Directors reduced on average by 12 per cent year-on-year. Awards for Executive Directors were determined at 67.6 per cent of maximum.

The value of the 2016 Long Term Incentive Plan awards has vested at 68.7 per cent in respect of the three-year performance period ending 31 December 2018. This reflects the significant progress made by the Group towards its strategic and financial goals, while reflecting the fall in share price over the performance period.

How we determine remuneration for Executive Directors and our wider colleague population

The Committee seeks to be transparent in its approach to setting and delivering remuneration. Our policy for 2019 and the implementation report for 2019 can be found on pages 97 and 93.

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, it has been determined that the Fixed Share Award for António Horta-Osório should be increased to £1.05 million. At the same time, the Group Chief Executive has agreed to reduce his Pension Allowance to bring this closer to that of the majority of the colleagues. His Pension Allowance will reduce from its current contractual level of 46 per cent of base salary to 33 per cent of base salary. This results in a decrease in total remuneration and greater value delivered in shares subject to a longer-term release schedule. Details are provided on page 93.

Variable remuneration for Executive Directors and other senior colleagues is weighted heavily toward long-term performance, ensuring our colleagues build an ownership interest in the Group and are motivated by delivering superior and sustainable returns for shareholders.

All colleagues, including Executive Directors, participate in the Group Performance Share plan. This single approach to bonus awards ensures there is a fair and transparent link between individual remuneration outcomes and Group performance.

The approach to determining awards for Executive Directors is as follows:

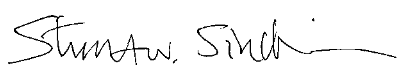
- **Evaluation of performance:** The Committee reviews financial and non-financial performance against the Balanced Scorecard objectives. Judgement may then be used to ensure that mechanical scorecard outcomes are aligned to individual contribution, including how Executive Directors have performed.
  Full details are provided on page 86.
- **Determination of Group Performance Share award:** The performance assessment determines the maximum opportunity and the range that judgement can be applied within.
  Full details are provided on page 87.
- **Final awards:** To ensure fairness with all other colleagues, awards are adjusted to reflect the final pool funding.
  Full details are provided on page 87.

In 2018, the Committee did not exercise any discretion over remuneration outcomes. Further details on how the use of discretion was considered can be found on page 89 in respect of the 2016 LTIP vesting outcome and page 87 in respect of the 2018 Group Performance Share awards.

I hope you find the additional explanation in this report helpful in clarifying our approach.

2019 Annual General Meeting

Together with my Committee members, I look forward to hearing your views on the remuneration arrangements outlined in this report, and to welcoming you to the 2019 AGM where I hope you will support the resolution relating to remuneration.



Stuart Sinclair
Chairman, Remuneration Committee

Directors' remuneration report continued

Remuneration overview
How we pay in line with performance and our strategic goals

Total Remuneration for Executive Directors 2017 vs 2018

The charts below summarise the Executive Directors' remuneration for the 2017 and 2018 performance years. Full details are provided on page 88.

Fixed pay | Group Performance Share | Long term incentive/Group Ownership Share

António Horta-Osório
Group Chief Executive (GCE)

Year	Fixed pay	Group Performance Share	Long term incentive/Group Ownership Share	£000
2018	46% – 2,876	19% – 1,178[1] (67.6% of max)	35% – 2,216[2] (68.7% of max)	**6,270**
2017	44% – 2,842	21% – 1,323 (77% of max)	35% – 2,269 (66.3% of max)	6,434

George Culmer
Chief Financial Officer (CFO)

Year	Fixed pay	Group Performance Share	Long term incentive/Group Ownership Share	£000
2018	47% – 1,524	16% – 527[1] (67.6% of max)	37% – 1,223[2] (68.7% of max)	**3,274**
2017	45% – 1,501	18% – 599 (78% of max)	37% – 1,228 (66.3% of max)	3,328

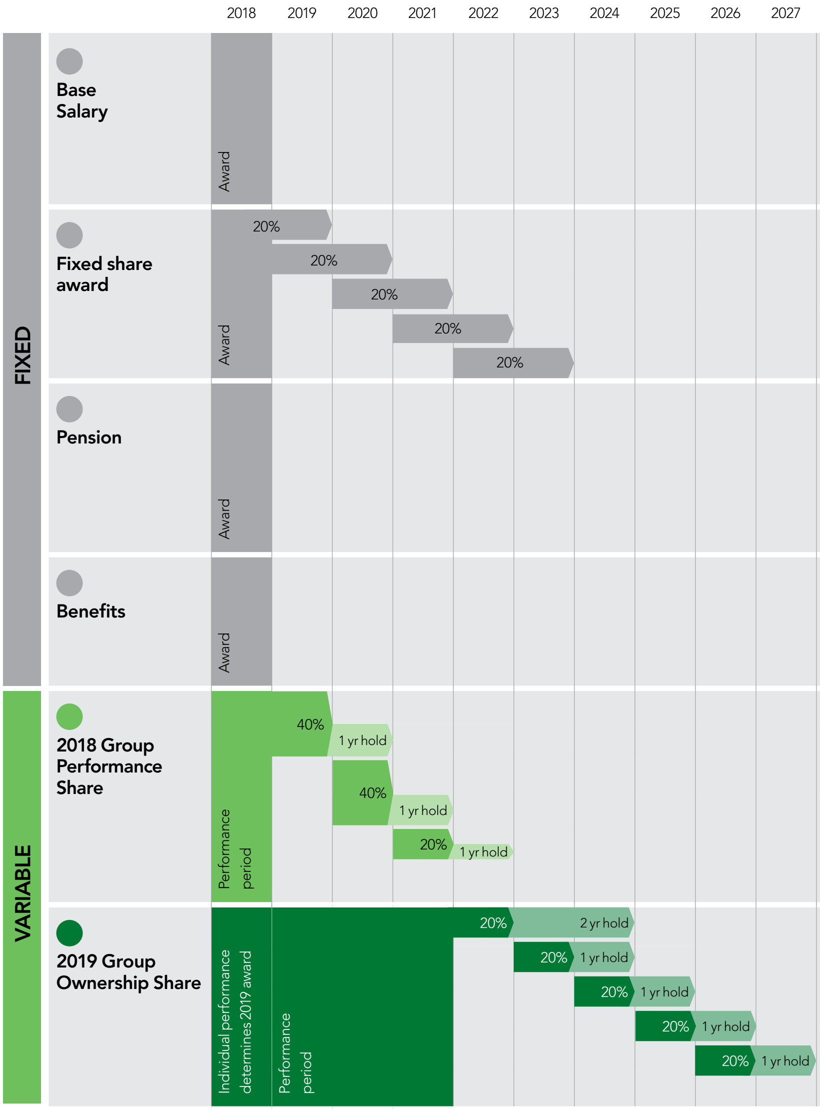
Juan Colombás
Chief Operating Officer (COO)

Year	Fixed pay	Group Performance Share	Long term incentive/Group Ownership Share	£000
2018	47% – 1,540	16% – 527[1] (67.6% of max)	37% – 1,206[2] (68.7% of max)	**3,273**
2017	46% – 1,510	18% – 599 (80% of max)	36% – 1,211 (66.3% of max)	3,320

1 2018 Group Performance Share, awarded in March 2019.

2 The 2016 LTIP vesting and dividend equivalents awarded in shares were confirmed by the Remuneration Committee at its meeting on 14 February 2019. The average share price between 1 October 2018 and 31 December 2018 (56.04 pence) has been used to indicate the value. The shares were awarded in 2016 based on a share price of 72.978 pence.

How Executive Director remuneration is composed[1]



Implementation

Base Salary
For 2019:
The Group has applied a total pay budget of 2.6 per cent for the wider colleague population.
GCE: £1,269,288 (1 January 2019) (2 per cent)
CFO: £779,351
COO: £794,938 (1 January 2019) (2 per cent).

Fixed share award
For 2019:
GCE: £1,050,000
CFO: £504,000
COO: £497,000
Awards are released in shares in equal tranches over a five year period.

Pension
For 2019:
GCE: 33 per cent of base salary
CFO: 25 per cent of base salary
COO: 25 per cent of base salary

Benefits
Benefits remain unchanged from 2018. Executive Directors receive a flexible benefits allowance in line with colleagues, (4 per cent of salary). This can be used to select benefits including life assurance and critical illness cover. Other benefits include car allowance, transportation and private medical cover.

2018 Group Performance Share
For 2018, the following awards were made:
GCE: £1,177,700
CFO: £526,841
COO: £526,841
£2,000 is paid in cash in March 2019, with the balance of the upfront 40 per cent delivered in shares. Half of this is delivered in June 2019 and the remainder subject to holding until March 2020. The remaining 60 per cent is deferred into shares with 40 per cent vesting in 2020 and 20 per cent in 2021. Half of each deferral is also subject to holding for one year.[2] See page 93.

2019 Group Ownership Share
For 2019 the following awards are being made:
GCE: 300 per cent of base salary.
CFO: No award
COO: 275 per cent of base salary. Awards will be subject to a three year performance period with vesting between the third and seventh anniversary of award. Any shares released are subject to a further holding period in line with regulatory requirements and market practices.[2]
See page 94.

1 All references to CFO refer to George Culmer in role on 1 January 2019.

2 Variable remuneration is subject to malus and clawback. See page 94.

How our reward emphasises long term performance and is aligned to our strategic priorities

Financial targets that form the basis of the outcomes for both short term and long term awards are directly linked to the Group's Four Year Operating Plan.

Variable remuneration awards are subject to a balance of financial and strategic measures as summarised below.

Short Term Variable Remuneration

			Performance Assessment Year 1	Year 2	Year 3
c. 30%	Group Performance Share	Financial Performance measures	Underlying Profit		
		Strategic Performance measures	Group Balanced Scorecard		

Long Term Variable Remuneration

			Performance Assessment (Years 1–3)
c. 70%	Group Ownership Share	Financial Performance measures	Cost: income ratio / Total Shareholder return / Economic profit
		Strategic Performance measures	Customer satisfaction / Digital active customer growth / Customer complaints Colleague engagement

Shareholding requirements are in line with FTSE 100 practice and actual Executive Director shareholdings are significantly above the required levels as can be seen on page 91.

How we performed against the key performance indicators which directly impact remuneration outcomes and support the delivery of our reward principles

For details of all Group KPIs, see pages 6 to 7

How we have performed over one year

Financial performance

£8,066m

+6%

Underlying profit

How we have performed over three years (2016 LTIP measures) – see page 89.

Cost:income ratio[1] (10% weighting)

Actual: 44.7% — 100%

25% payout	100% payout
47.3% or less	46.1% or less

Total shareholder return (2016–2018) (30% weighting)

Actual: (4.8%) — 0%

25% payout	100% payout
8% p.a. or more	16% p.a. or more

Economic profit (25% weighting)

Actual: £3,291m — 94.8%

25% payout	100% payout
£2,507m	£3,308m or more

Customer satisfaction (10% weighting)

Actual: 1st — 100%

25% payout	100% payout
3rd place	1st place

Digital active customer growth[2] (7.5% weighting)

Actual: 14.1m — 100%

25% payout	100% payout
13.4m	14.0m

Customer complaints per 1,000 (5% weighting)

Actual: 3.04 — 100%

25% payout	100% payout
4.18	3.78

Colleague engagement (7.5% weighting)

Actual: 73 — 100%

25% payout	100% payout
66	72

Customer complaints FOS change rate (5% weighting)

Actual: 18% — 100%

25% payout	100% payout
=<29%	=<25%

1 Adjusted total costs, excluding remediation.
2 Excludes MBNA.

Directors' remuneration report continued

Annual report on remuneration

2018 Group Balanced Scorecard

A balanced scorecard approach is used to assess Group performance and divisional performance. The Group Balanced Scorecard is made up of 20 measures with clearly defined performance targets agreed by the Committee in Q1 2018. Each receives a mechanical score of 1 to 5 depending on performance against those targets, resulting in an overall score and performance rating, see table on page 87. The Group Chief Executive's individual performance is measured through the Group Balanced Scorecard.

The 2018 Group Balanced Scorecard is as follows:

		Objective	Measure	Performance Range/Outcome	Minimum: 1	Maximum: 5	Score
Non-Financial	Customer	Satisfying our customers	Customer Dashboard (score relating to c. 120 customer specific measures)	73	0-29	85-100	4
		Retaining and growing customers	Customer Index (Reviewing customer experience and customer value)	8	<4	≥9	4
		Making business with us easier	Improvement of customer journeys	50% standardised / 50% optimised	The Group has standardised the majority of its customer journeys with little progress to optimise.	The Group has optimised the majority of its customer journeys with the remainder being standardised.	4
		Fewer complaints, better handled, driving better outcomes	Total FCA Complaints per '000	3.04	>3.25	<3.00	4
			FOS Change Rate	18%	>30%	≤25%	5
	People	More engaged colleagues	Banking Standards[1] Board Colleague Survey results – Score movement (absolute)	-2	>-6	≥1	3
			Banking Standards[1] Board Colleague Survey results – Change vs BSB median (relative)	-1	>-2	≥1	
		Building a better culture	Colleague and cultural engagement scores	70.1	<63	≥73	4
		Building skills for the future	Colleague upskilling/ retraining completion	13,548	<3,000 training interventions	≥4,200 training interventions	5
	Control environment	Maintaining a low risk Bank	Board Risk Appetite	0.0%	>10% red metrics	≤4% red metrics	5
		Change delivered safely	Change Execution Risk	92.9% Green / 4.7% Red	Less than 75% of change indicators rated Green, over 15% rated Red	Over 92.5% of change indicators rated Green, less than 5% rated Red	4
		Major programmes delivered as planned	Successful delivery of Major Group Core Programmes (based on time, cost and quality approach)	11	<5	≥14	4
		Building great relationships with regulators	Regulatory Management and Engagement	All metrics rated Good	Under performance of ≥3 metrics	Top performance in ≥4 metrics. No metrics at Good, Developing or Under.	3
	Building the business	Faster and simpler change	Change delivered through Agile methodology	15.5%	<10% of portfolio	≥17.5% of portfolio	4
		Building great relationships with external stakeholders	Reputation with external stakeholders – excluding regulators	2.90	<0.55	≥3.55	3
		Managing investments and delivering benefits	Investment Performance (based on time, cost and quality approach)	11	<5	≥14	4
		Making the most of our data	Data Maturity Level	2.86	<2.6	>2.9	4
		Helping Britain Prosper	Deliver Helping Britain Prosper targets	90.9% rated Green	<Less than 50% of metrics rated Green	≥90% metrics rated Green, none Red	5
Financial	Finance	Delivering a capital efficient, low cost, profitable Bank	Cost: Income Ratio (including remediation)	49.3%	>52.9%	<48.9%	4
			Statutory Profit after tax	4,400m	<3,180m	≥4,373m	5
			Common Equity Tier 1 generation	210bps	<140bps	>200bps	5

1 Banking Standards Board measure combines the absolute and relative movement in one metric.

Overall 4.15

Calculating the 2018 Group Performance Share outcome

The Annual Group Performance Share outcome is calculated using the following steps.

	Timeline	Process	Calculation step
Funding inputs	Q1. 2018	Group underlying profit target determined. Threshold set 20 per cent below target, below which no bonus payable.	£8,616m[1]
		The Committee set a funding level to award at target which is 30 per cent of max opportunity for EDs, as per policy, and 50 per cent for all other colleagues.	£447.5m[2]
		Percentage of underlying profit used to fund Group Performance Share determined.	£447.5m / £8,616m = 5.1%
Funding calculation	Q4. 2018	Group underlying profit reported (adjusted).	£9,154m[3]
		Application of funding percentage.	£9,154m x 5.1% = £466.9m

Balanced Scorecard Outcome	1.00 – 1.59	Threshold	1.60 – 2.59	2.60 – 2.79	2.80 – 3.19	3.20 – 3.59	3.60 – 3.79	3.80 – 4.19	4.20 – 4.59	4.60 – 4.79	4.80 – 5.00	Maximum
Group Scorecard Rating	Under		Developing	Good Minus	Good	Good Plus	Strong Minus	Strong	Strong Plus	Top Minus	Top	
Group Balanced Scorecard Modifier	0		0.55 – 0.80	0.90	1.00	1.05	1.10	1.15	1.20	1.25	1.30	

Assessment of performance against Group Balanced Scorecard objectives agreed in Q1 2018.	Balanced Scorecard Outcome 4.15/5
Group Balanced Scorecard Modifier.	£466.9m x 1.15 = £536.9m
Reduction for conduct, and other factors.	£536.9m – £72.4m = £464.5m
	Overall pool £464.5m
Final approved GPS funding for the Group was 4 per cent greater than the original target.	£464.5m / £447.5m = 104% (Group Funding Modifier)

		Underlying profit £m	Pool Funding %	Funding (mechanical) £m	GPS Funding Performance Adjustment £m	Conduct, risk and other factors £m	**Overall Pool £m**	Final % of Underlying Profit %
2017	Target	7,846	5.1%	400.0		–	**–**	–
	Actual	8,567		436.9	87.4	(109.6)	**414.7**	4.8
2018	Target	8,616[1]		447.5[2]		–	**–**	–
	Actual	9,154[3]		466.9	70	(72.4)	**464.5**	5.1

1 Target full year underlying profit agreed by Board, adjusted for conduct and target GPS expense.
2 On target increased year-on-year due to population change, including colleagues moving from incentives to Group Performance Share in 2018.
3 Underlying profit of £8,066m adjusted by £600m for conduct provision, £27m for year-on-year Prudential Value Adjustment in line with regulatory requirement and £461m for Group performance share expense in 2018.

Executive Directors' Group Performance Share outcome for 2018 (audited)

Individual awards for Executive Directors are determined through the assessment of individual performance using the Group or their divisional balanced scorecard. Personal contribution may be considered where it diverges from scorecard outcomes. Awards will not be made if the Group does not meet threshold financial performance or if an individual is rated Developing or below.

Awards are based on pre-determined formulaic pay out ranges commensurate with performance as follows:

Individual Performance	Under – Developing	Threshold	Good Minus	Good	Good Plus	Strong Minus	Strong	Strong Plus	Top Minus	Top	Maximum
Opportunity (% of maximum)	No award		12.5% – 24.15%	24.16% – 35.83%	35.84% – 47.49%	47.5% – 59.15%	59.16% – 70.82%	70.83% – 82.49%	82.5% – 94.15%	94.16% – 100%	

Based on the mechanical outturn of individual scorecards, a recommendation is made on the award level within the pre-determined pay out range. This was the mid point of the range and no discretion was applied.

The Group modifier is applied to all colleague awards to take into account Group Performance against target. For 2018 an adjustment of 4 per cent.

Executive Director	Balanced Scorecard	Final Individual rating	Award (% of max)	Group Funding Modifier	**Final Award (% of max)**	GPS Maximum Opportunity (% of salary)	**Final Award (% of salary)**
António Horta-Osório	Group	Strong	65%	104%	**67.6%**	140%	**94.60%**
George Culmer	Finance	Strong	65%		**67.6%**	100%	**67.60%**
Juan Colombás	Chief Operating Office	Strong	65%		**67.6%**	100%	**67.60%**

Read more page 88

Directors' remuneration report continued

Individual performance ratings are determined on the basis of whole job contribution taking account of both (i) what has been achieved against the balanced scorecard objectives for the area for which they have responsibility and (ii) personal performance that considers how performance has been achieved through their leadership approach. For the Group Chief Executive the relevant Balanced Scorecard is the Group Balanced Scorecard, for the Chief Financial Officer the Finance Division Scorecard, and for the Chief Operating Officer the Chief Operating Office Scorecard. Discretion may be applied in deciding whether personal performance rating should vary from the mechanical outcome provided by the Balanced Scorecard metrics. No discretion has been exercised for 2018.

António Horta-Osório
Group Chief Executive

The Group Chief Executive's performance assessment for 2018 reflected the Group's objectives, assessed as Strong.

For Group Balanced scorecard please see **page 86**

George Culmer
Chief Financial Officer

Finance Balanced Scorecard rating

BSC category	Assessment	Rating
Customer	4.00	Strong
People	3.75	Strong minus
Control environment	4.00	Strong
Building the business	3.67	Strong minus
Finance	4.60	Top minus

- The Chief Financial Officer's individual performance assessment for 2018 reflected the Finance division's objectives, assessed as Strong. The individual block ratings and assessment are shown above.

Juan Colombás
Chief Operating Officer

COO Balanced Scorecard rating

BSC category	Assessment	Rating
Customer	4.20	Strong Plus
People	3.50	Good Plus
Control environment	4.25	Strong Plus
Building the business	4.00	Strong
Finance	4.50	Strong Plus

- The Chief Operating Officer's individual performance assessment for 2018 reflected the Chief Operating Office objectives, assessed as Strong. The individual block ratings and assessment are shown above.

Key considerations factored into assessing performance and overall rating include, but are not limited to, the following:

Other performance considerations (António Horta-Osório)

- Launched the third stage of the Group's strategic plan with strategic investment of more than £3 billion over three years.
- Increased customer 'net promoter' score, with reduction in compliants, set against continuing legacy conduct issues and remediation.
- Further progress in building market leading savings and wealth proposition with agreed Schroders JV.
- Maintained colleague engagement above UK high-performing norm, with significant increase in skills training.
- Continued progress against Helping Britain Prosper targets.
- Financial performance above plan, allowing for increased return of capital to shareholders.

Overall rating
Strong

Other performance considerations (George Culmer)

- Strong financial performance delivered in a continuing challenging low interest rate environment.
- Continued improvement in the Group's cost:income ratio to 46 per cent (49.3 per cent including remediation).
- CET1 capital generation of 210 bps, comfortably exceeding market guidance of 200 bps.
- Effective management of the establishment of the non-ring fenced bank, Lloyds Bank Corporate Markets plc.
- Very strong leadership of the Finance, Legal and Strategy division with excellent colleague engagement.

Overall rating
Strong

Other performance considerations (Juan Colombás)

- Maintained a strong operational environment including developing and implementation of Change, Information and Cyber Security risk control, reporting and insight.
- Delivered customer complaint reductions which saw an 8.2 per cent year-on-year reduction to a close of 3.04 FCA complaints per thousand.
- Exemplary leadership of delivery of the latest strategic plan, transforming the Group for success in a digital world.
- Fully supported the People transformation activities across the Group, delivering in excess of 1 million training and development hours for colleagues.
- Maintained colleague engagement at levels in excess of the UK high performing norm.

Overall rating
Strong

Single total figure of remuneration (audited)

	António Horta-Osório		George Culmer		Juan Colombás		Total	
£000	**2018**	2017	**2018**	2017	**2018**	2017	**2018**	2017
Base salary	**1,244**	1,220	**776**	760	**779**	753	**2,799**	2,733
Fixed share award	**900**	900	**504**	504	**497**	497	**1,901**	1,901
Benefits	**157**	156	**49**	46	**68**	71	**274**	273
Group Performance Share	**1,178**	1,323	**527**	599	**527**	599	**2,232**	2,521
2016 Long-term incentive (LTIP)[1]	**2,216**	2,269	**1,223**	1,228	**1,206**	1,211	**4,645**	4,708
Pension allowance	**573**	565	**194**	190	**195**	188	**962**	943
Other remuneration[2]	**2**	1	**1**	1	**1**	1	**4**	3
Total remuneration	**6,270**	6,434	**3,274**	3,328	**3,273**	3,320	**12,817**	13,082

1 The 2016 LTIP vesting (see page 89) at 68.7 per cent and dividend equivalents awarded in shares were confirmed by the Remuneration Committee at its meeting on 14 February 2019. The total number of shares vesting were 3,445,449 and 509,271 shares delivered in respect of dividend equivalents for António Horta-Osório, 1,901,209 shares vesting and 281,017 shares delivered in respect of dividend equivalents for George Culmer and 1,874,804 shares vesting and 277,114 shares delivered in respect of dividend equivalents for Juan Colombás. The average share price between 1 October 2018 and 31 December 2018 (56.04 pence) has been used to indicate the value. The shares were awarded in 2016 based on a share price of 72.978 pence and as such no part of the reported value is attributable to share price appreciation. LTIP and dividend equivalent figures for 2017 have been adjusted to reflect the share price on the date of vesting (67.1043 pence) instead of the average price (66.75 pence) reported in the 2017 report.

2 Other remuneration payments comprise income from all employee share plans, which arises through employer matching or discounting of employee purchases.

Pension and benefits (audited)

Pension/Benefits £	António Horta-Osório	George Culmer	Juan Colombás
Cash allowance in lieu of pension contribution	**573,400**	**193,883**	**194,838**
Car or car allowance	**12,000**	**17,943**	**12,000**
Flexible benefits payments	**48,800**	**30,563**	**30,138**
Private medical insurance	**38,151**	**760**	**17,342**
Tax preparation	**24,000**	**–**	**5,881**
Transportation	**34,265**	**–**	**2,542**

Defined benefit pension arrangements (audited)

António Horta-Osório has a conditional unfunded pension commitment. This was a partial buy-out of a pension forfeited on joining from Santander Group. It is an Employer-Financed Retirement Benefits Scheme (EFRBS). The EFRBS provides benefits on a defined benefit basis at a normal retirement age of 65. The benefit in the EFRBS accrued during the six years following commencement of employment, therefore ceasing to accrue as of 31 December 2016.

The EFRBS was subject to performance conditions. It provides a percentage of the GCE's base salary or reference salary in the 12 months before retirement or leaving. No additional benefit is due in the event of early retirement. The rate of pension accrued in each year depended on share price conditions being met and the total pension due is 6 per cent of his base salary of £1,244,400 or £74,664.

There are no other Executive Directors with defined benefit pension entitlements.

Under terms agreed when joining the Group, Juan Colombás is entitled to a conditional lump sum benefit of £718,996 either (i) on reaching normal retirement age of 65 unless he voluntarily resigns or is dismissed for cause, or (ii) on leaving due to long-term sickness or death.

2016 LTIP vesting (audited)

Awards in the form of conditional rights to free shares in 2016 were made over shares with a value of 300 per cent of reference salary for the GCE and 275 per cent of salary for the CFO and COO. These LTIP awards are vesting at 68.7 per cent, as detailed in the table below. This reflects the Group's strong financial and strategic performance over the three financial years ended 31 December 2018, balanced against significant uncertainty in the economic and political environment impacting negatively on share price performance, resulting in no vesting for the Total Shareholder Return component.

The Committee has an overarching discretion to reduce the level of award that will vest, regardless of whether the performance condition for partial or full vesting has been met. This qualitative judgement ensures that vesting is not simply driven by a formula that may give an unexpected or unintended remuneration outcome compared to Group performance. The Committee considers this discretion carefully, taking into account circumstances that are relevant to the performance measures and the period under consideration. No discretion has been applied in respect of the vesting outcome for the 2016 LTIP. This was discussed, but it was agreed that the formulaic outcomes were fair and reflective against the original targets set in 2016. Executive Directors are required to retain any vested shares for a further two years after vesting.

Weighting	Measure	Threshold	Maximum	Actual	Vesting
30%	Absolute total shareholder return (TSR)	8% p.a.	16% p.a.	**(4.8%)**	**0%**
25%	Economic profit	£2,507m	£3,308m	**£3,291m**	**23.7%**
10%	Cost:income ratio[1]	47.3%	46.1%	**44.7%**	**10%**
10%	Customer complaint handling[2]	4.18	3.78	**3.04**	**5%**
	(FCA reportable complaints/FOS change rate)	=<29%	=<25%	**18%**	**5%**
10%	Customer Satisfaction	3rd	1st	**1st**	**10%**
7.5%	Digital active customer growth	13.4m	14.0m	**14.1m**	**7.5%**
7.5%	Colleague engagement score	66	72	**73**	**7.5%**
				LTIP (% maximum) vesting	**68.7%**

1 Adjusted total costs.

2 The FCA changed the approach to complaint classification and reporting from 30 June 2016. The Committee determined that the original target should be translated on a like-for-like basis into the new reporting requirement. The Committee was satisfied that the revised targets, set on a mechanical basis, were no less stretching.

Chairman and Non-Executive Directors (audited)

	Fees £000		Total £000	
	2018	2017	**2018**	2017
Chairman and current Non-Executive Directors				
Lord Blackwell[1]	**743**	728	**755**	740
Alan Dickinson	**230**	248	**230**	248
Anita Frew	**380**	364	**380**	364
Simon Henry	**182**	166	**182**	166
Lord Lupton	**318**	161	**318**	161
Amanda Mackenzie[2]	**31**	–	**31**	–
Deborah McWhinney	**174**	142	**174**	142
Nick Prettejohn	**449**	441	**449**	441
Stuart Sinclair	**172**	152	**172**	152
Sara Weller	**199**	190	**199**	190
Former Non-Executive Directors				
Anthony Watson (retired May 2017)	**–**	91	**–**	91
Nick Luff (retired May 2017)	**–**	69	**–**	69
Total	**2,878**	2,752	**2,890**	2,764

1 Benefits: car allowance (£12,000).

2 Appointed 1 October 2018.

Directors' remuneration report continued

Loss of office payments and payments within the reporting year to past Directors (audited)

There were no payments for the loss of office during 2018. In April 2018, following a Court judgment in relation to Integration Awards granted under the Group's Long-Term Incentive Plan (the LTIP) in 2009, 2,063,640 shares were released and £271,169 paid to John Eric Daniels, former Group Chief Executive and 1,424,778 shares were released and £386,167 paid to Truett Tate, former Executive Director.

External appointments

António Horta-Osório – During the year ended 31 December 2018, the GCE served as a Non-Executive Director of Exor, Fundação Champalimaud, Stichting INPAR Management/Enable and Sociedade Francisco Manuel dos Santos. The Group Chief Executive is entitled to retain the fees, which were £380,569 in total.

Relative importance of spend on pay

The graphs illustrate the total remuneration of all Group employees compared with returns of capital to shareholders in the form of dividends and share buyback.

Dividend and share buyback[1] £m

1 2018: Ordinary dividend in respect of the financial year ended 31 December 2018, partly paid in 2018 and partly to be paid in 2019 and intended share buyback.
2017: Ordinary dividend in respect of the financial year ended 31 December 2017, partly paid in 2017 and partly to be paid in 2018 and intended share buyback.

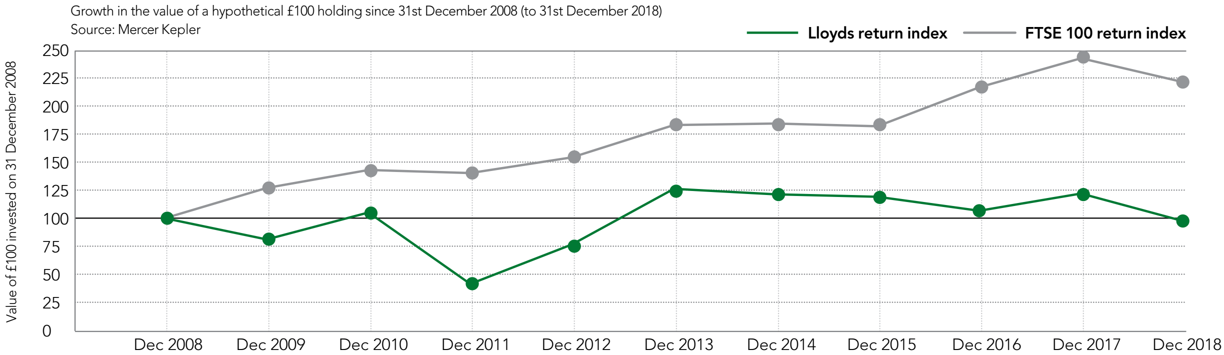
Salaries and performance-based compensation £m

Comparison of returns to shareholders and GCE total remuneration

The chart below shows the historical total shareholder return (TSR) of Lloyds Banking Group plc compared with the FTSE 100 as required by the regulations.

The FTSE 100 index has been chosen as it is a widely recognised equity index of which Lloyds Banking Group plc has been a constituent throughout this period.

TSR indices – Lloyds Banking Group and FTSE 100



	CEO	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
GCE single figure of remuneration £000	J E Daniels	1,121	2,572	855	–	–	–	–	–	–	–
	António Horta-Osório	–	–	1,765	3,398	7,475	11,540	8,704	5,791	6,434	6,270
Annual bonus/ GPS payout (% of maximum opportunity)	J E Daniels	Waived	62%	0%	–	–	–	–	–	–	–
	António Horta-Osório	–	–	Waived	62%	71%	54%	57%	77%	77%	67.6%
Long-term incentive vesting (% of maximum opportunity)	J E Daniels	0%	0%	0%	–	–	–	–	–	–	–
	António Horta-Osório	–	–	0%	0%	54%	97%	94.18%	55%	66.3%	68.7%
TSR component vesting (% of maximum)	J E Daniels	0%	0%	–	–	–	–	–	–	–	–
	António Horta-Osório	–	–	0%	0%	25.3%	30%	30%	0%	0%	0%

Notes: J E Daniels served as GCE until 28 February 2011; António Horta-Osório was appointed GCE from 1 March 2011. António Horta-Osório declined to take a bonus in 2011.

Directors' share interests and share awards

Directors' interests (audited)

	Number of shares			Number of options		Total shareholding[1]		Value
	Owned outright	Unvested subject to continued employment	Unvested subject to performance	Unvested subject to continued employment	Vested unexercised	Total at 31 December 2018	Total at 20 February 2019	Expected value at 31 December 2018 (£000s)[2]
Executive Directors								
António Horta-Osório	25,751,860	1,520,915	17,059,116	36,282	–	44,368,173	44,368,878[7]	18,582
George Culmer	14,754,666	695,245	9,621,899	14,554	–	25,086,364	25,086,978[7]	10,512
Juan Colombás	9,679,888	696,217	9,488,262	29,109	–	19,893,476	19,894,091[7]	7,854
Non-Executive Directors[3]								
Lord Blackwell	150,000	–	–	–	–	150,000	n/a[7]	n/a
Alan Dickinson	200,000	–	–	–	–	200,000	n/a[7]	n/a
Anita Frew	450,000	–	–	–	–	450,000	n/a[7]	n/a
Simon Henry	250,000	–	–	–	–	250,000	n/a[7]	n/a
Lord Lupton	1,000,000	–	–	–	–	1,000,000	n/a[7]	n/a
Amanda Mackenzie OBE[4]	–	–	–	–	–	–	n/a[7]	n/a
Deborah McWhinney[5]	250,000	–	–	–	–	250,000	n/a[7]	n/a
Nick Prettejohn[6]	69,280	–	–	–	–	69,280	n/a[7]	n/a
Stuart Sinclair	–	–	–	–	–	–	n/a[7]	n/a
Sara Weller CBE	340,000	–	–	–	–	340,000	n/a[7]	n/a

1 Including holdings of connected persons.

2 Awards subject to performance under the LTIP had an expected value of 50 per cent of face value at grant (in line with the Remuneration Policy). Values are based on the 31 December 2018 closing price of 51.85 pence. Full face value of awards are £23,004,897 for António Horta-Osório, £13,007,279 for George Culmer and £10,314,767 for Juan Colombás.

3 Deborah McWhinney resigned 31 December 2018. Shares held as at date of resignation.

4 Appointed 1 October 2018.

5 Shareholdings held by Deborah McWhinney are either wholly or partially in the form of ADRs.

6 In addition, Nick Prettejohn held 400 6.475 per cent preference shares at 1 January 2018 and 31 December 2018.

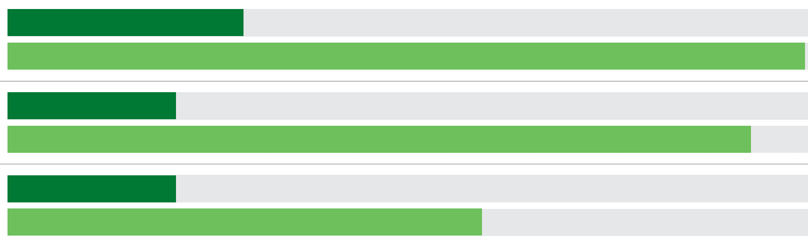
7 The changes in beneficial interests for António Horta-Osório (705 shares), George Culmer (614 shares) and Juan Colombás (615 shares) relate to 'partnership' and 'matching' shares acquired under the Lloyds Banking Group Share Incentive Plan between 31 December 2018 and 20 February 2019. There have been no other changes up to 20 February 2019.

Shareholding requirement (audited)

Executives are expected to build and maintain a company shareholding in direct proportion to their remuneration in order to align their interests to those of shareholders. The minimum shareholding requirements Executive Directors are expected to meet are as follow: 350 per cent of base salary for the GCE and 250 per cent of base salary for other Executive Directors. Newly appointed individuals will have three years from appointment to achieve the shareholding requirement.

There is no appetite for non-compliance with the Shareholding Policy. In the event that exceptional individual circumstances exist resulting in an Executive not being able to comply with the Policy, the Remuneration Committee will consider whether an exception should apply.

In addition to the Group's shareholding requirements, shares vesting are subject to holding periods in line with regulatory requirements.



António Horta-Osório	Shareholding requirement	350%
	Actual shareholding[1]	1,294%
George Culmer	Shareholding requirement	250%
	Actual shareholding[1]	1,184%
Juan Colombás	Shareholding requirement	250%
	Actual shareholding[1]	777%

1 Calculated using the average share price for the period 1 January 2018 to 31 December 2018 (62.554 pence). Includes ordinary shares acquired through the vesting of the deferred Group Performance Share plan, Fixed Share Awards as the shares have no performance conditions; American Deposit Receipts (ADRs) with each one ADR equating to four shares, Executive Share Awards which have vested but have not been exercised; shares held in the Share Incentive Plan (SIP) Trust, i.e. Free, Partnership, Matching and Dividend shares which are no longer subject to forfeiture, as defined in the SIP Rules. Shares held by Connected Persons, as defined by the Companies Act, but broadly meaning spouse or partner and children, may also be included.

The current Shareholding Policy does not take into account post-employment requirements. Consideration of how post-employment shareholding will be incorporated into the Policy will be undertaken in 2019, ahead of a revised policy being implemented in 2020.

As per the diagram on page 84 illustrating how share based remuneration is delivered to our Executive Directors, shares are deferred for up to seven years and clawback provisions can be implemented for up to ten years. Deferred bonus awards and long term incentive awards that are yet to vest are not currently included within the total shareholding for Executive Directors. Based on the number of outstanding bonus deferrals and number of in-flight long term incentive awards granted to each Executive Director, a post-employment shareholding requirement could be achieved until a formal policy is implemented.

None of those who were Directors at the end of the year had any other interest in the capital of Lloyds Banking Group plc or its subsidiaries.

Directors' remuneration report continued

Outstanding share plan interests (audited)

	At 1 January 2018	Granted/ awarded	Dividends awarded	Vested / released / exercised	Lapsed	At 31 December 2018	Exercise price	Exercise periods From	Exercise periods To	Notes
António Horta-Osório										
LTIP 2015-2017	**4,579,006**	–	346,087	3,035,880	1,543,126	**–**				1, 2, 3
LTIP 2016-2018	**5,015,210**	–	–	–	–	**5,015,210**				3
GOS 2017-2019	**5,318,685**	–	–	–	–	**5,318,685**				3
GOS 2018-2020		6,725,221	–	–	–	**6,725,221**				3, 4
Deferred GPS awarded in 2018		1,555,288	–	388,822	–	**1,166,466**				5
2014 Sharesave	**14,995**	–	–	14,995	–		60.02p			6
2016 Sharesave	**14,554**	–	–	–	–	**14,554**	47.49p	01/01/2020	30/06/2020	
2017 Sharesave	**21,728**	–	–	–	–	**21,728**	51.03p	01/01/2021	30/06/2021	
George Culmer										
LTIP 2015-2017	**2,477,167**	–	187,227	1,642,361	834,806	**–**				1, 2, 3
LTIP 2016-2018	**2,767,409**	–	–	–	–	**2,767,409**				3
GOS 2017-2019	**2,993,565**		–	–	–	**2,993,565**				3
GOS 2018-2020		3,860,925	–	–	–	**3,860,925**				3, 4
Deferred GPS awarded in 2018		704,426	–	176,106	–	**528,320**				5
2014 Sharesave	**14,995**	–	–	14,995	–		60.02p			6
2016 Sharesave	**14,554**	–	–	–	–	**14,554**	47.49p	01/01/2020	30/06/2020	
Juan Colombás										
LTIP 2015-2017	**2,442,762**	–	184,627	1,619,551	823,211	**–**				1, 2, 3
LTIP2016-2018	**2,728,973**	–	–	–	–	**2,728,973**				3
GOS 2017-2019	**2,951,987**		–	–	–	**2,951,987**				3
GOS 2018-2020		3,807,302	–	–	–	**3,807,302**				3, 4
Deferred GPS awarded in 2018		704,426	–	176,106	–	**528,320**				5
2016 Sharesave	**29,109**	–	–	–	–	**29,109**	47.49p	01/01/2020	30/06/2020	

1 The shares awarded in March 2015 vested on 12 March 2018. The closing market price of the Group's ordinary shares on that date was 67.50 pence. Shares vested are subject to a further two-year holding period.

2 2015 LTIP award was eligible to receive an amount equal in value to any dividends paid during the performance period. Dividend equivalents have been paid based on the number of shares vested and have been paid in shares. The dividend equivalent shares were paid on 12 March 2018. The closing market price of the Group's ordinary shares on that date was 67.50 pence. The dividend equivalent shares are not subject to any holding period.

3 All LTIPs /GOS have performance periods ending 31 December at the end of the three-year period. Awards were made in the form of conditional rights to free shares.

4 Awards (in the form of conditional rights to free shares) in 2018 were made over shares with a value of 300 per cent of reference salary for António Horta-Osório (6,725,221 shares with a face value of £3,660,000); 275 per cent for George Culmer (3,860,925 shares with a face value of £2,101,193); and 275 per cent for Juan Colombás (3,807,302 shares with a face value of £2,072,010). The share price used to calculate face value is the average price over the five days prior to grant (27 February to 5 March 2018), which was 68.027 pence. As regulations prohibit the payment of dividend equivalents on awards in 2018 and subsequenet years, the number of shares awarded has been determined by applying a discount factor to the share price on award. An adjustment of 25 per cent was applied. Performance conditions for this award are set out in the table below.

5 GPS is deferred into shares. The face value of the share awards in respect of GPS granted in March 2018 was £1,058,016 (1,555,288 shares) for António Horta-Osório; £479,200 (704,426 shares) for George Culmer; and £479,200 (704,426 shares) for Juan Colombás. The share price used to calculate the face value is the average price over the five days prior to grant (27 February to 5 March 2018), which was 68.027 pence.

6 Options exercised on 14 June 2018. The closing market price of the Group's ordinary shares on that date was 63.13 pence.

2018 Group Ownership Share performance measures (for awards made in March 2018)

As requested in the 2017 Directors' Remuneration report, (see implementation of the policy in 2018), the following awards were granted in March 2018. 25 per cent of the proportion of the award attributable to each performance measure will vest at threshold performance.

Strategic priorities	Measure	Basis of payout range	Metric	Weighting
Creating the best customer experience	Customer satisfaction	Major Group average ranking over 2020	Threshold: 3rd Maximum: 1st	10%
	Digital net promoter score	Set relative to 2020 targets	Threshold: 64 Maximum: 67	7.5%
	FCA total reportable complaints and Financial Ombudsman Service (FOS) change rate	Set relative to 2020 targets Average rates over 2020	Threshold: 2.97 Maximum: 2.69 Threshold: =<29% Maximum: =<25%	10%
Becoming simpler and more efficient	Statutory economic profit[1]	Set relative to 2020 targets	Threshold: £2,300m Maximum: £3,451m	25%
	Cost:income ratio	Set relative to 2020 targets	Threshold: 46.4% Maximum: 43.9%	10%
Delivering sustainable growth	Absolute total shareholder return (TSR)	Growth in share price including dividends over 3-year period	Threshold: 8% p.a. Maximum: 16% p.a.	30%
Building the best team	Employee engagement index	Set relative to 2020 markets norms	Threshold: +5% vs UK Norm Maximum: +2% vs UK High Performing Norm	7.5%

1 A measure of profit taking into account Expected Losses, tax and a charge for equity utilisation.

Implementation of the policy in 2019

It is proposed to operate the policy in the following way in 2019:

Base Salary	The Group has applied a total pay budget of 2.6 per cent including a minimum pay award of £600 for eligible colleagues. This is considered an appropriate and competitive budget in the current economic and business climate. Salary increases for the Group Chief Executive (GCE) and Chief Operating Officer (COO) are set below the budget for the wider colleague population at 2 per cent. Following confirmation that the Chief Financial Officer (CFO) is due to retire in 2019, his salary is due to remain in line with 2018.	Salaries will therefore be as follows: GCE: £1,269,288 (with effect from 1 January 2019) CFO: £779,351 COO: £794,938 (with effect from 1 January 2019) CFO Designate[1]: £794,938
Fixed share award	GCE: £1,050,000 CFO: £504,000 COO: £497,000 CFO Designate[1]: £504,000 Shares will be released in equal tranches over a five year period.	
Pension	The level of pension allowances for 2019 are: GCE: 33 per cent of base salary CFO: 25 per cent of base salary COO: 25 per cent of base salary	CFO Designate[1]: 25 per cent of base salary Any new Executive Director appointments in 2019 will attract a maximum allowance of 25 per cent of base salary.
Benefits	Benefits remain unchanged from 2018. Executive Directors receive a flexible benefit allowance in line with colleagues, (4 per cent of salary). This can be used to select benefits including life assurance and critical illness cover. Other benefits include car allowance, transportation tax preparation and private medical cover.	
Group Performance Share	The approach to determining the Group Performance Share outcome for 2019 will remain unchanged from 2018. It will be based on a percentage of the Group's underlying profit, adjusted by a scorecard modifier commensurate with Group Balanced Scorecard performance. Adjustments for conduct and risk factors will also be considered. A financial performance threshold will be set at 20 per cent below the Group's underlying profit target, at which no award will be payable. The Group Balanced Scorecard must also exceed a threshold score of 1.6, below which no award will be payable. Individual award maxima for Executive Directors will remain unchanged from 2018 at 140 per cent of base salary for the GCE and 100 per cent of base salary for other Executive Directors. No award will be payable if an individual is rated below an expected level from a performance, regulatory or risk perspective. Individual awards will be based on pre-determined formulaic pay out ranges commensurate with performance and will be determined by the Remuneration Committee through the assessment of individual performance via a balanced scorecard and personal performance considerations. The Group Chief Executive's individual performance will be measured through the Group Balanced Scorecard, the Chief Financial Officer will be measured through the Finance Division scorecard and the Chief Operating Officer will be measured through the Chief Operating Office scorecard.	The 2019 scorecard will provide a balanced view across financial, operational and strategic measures. This will be equally weighted between financial, customer and conduct measures. Each measure will be assigned a target assessed against a rating scale of 1 to 5. The Committee considers the specific measures and targets that apply to 2019 to be commercially sensitive but will provide information on the level of payout relative to the performance achieved in next year's annual report on remuneration. For the 2019 performance year, any Group Performance Share opportunity will be awarded in March 2020 in a combination of cash (up to 50 per cent) and shares. 40 per cent will be released in the first year following the award with £2,000 paid in cash, and the balance of the upfront 40 per cent delivered in shares; 50 per cent of which will be subject to holding until March 2020. The remaining 60 per cent is deferred into shares with 40 per cent vesting in 2020 and 20 per cent in 2021. 50 per cent of each release will be subject to a further 12-month holding in line with regulatory requirements. The Committee may consider the application of malus and clawback as outlined in the performance adjustment section.
Group Ownership Share	The maximum Group Ownership Share award for Executive Directors is 300 per cent of salary (unchanged from 2018). Awards in 2019 are being made as follows: GCE: 300 per cent of base salary CFO: No award COO: 275 per cent of base salary As regulations prohibit the payment of dividend equivalents on awards in 2019 and subsequent years, the number of shares subject to the award has been determined by applying a discount factor to the share price on grant, as previously disclosed. The Committee approved an adjustment of 29.8 per cent for colleagues who are senior managers, including the Executive Directors. Awards will be subject to a three-year performance period with vesting between the third and seventh anniversary of award, on a pro-rata basis. Any shares released are subject to a further holding period in line with regulatory requirements and market practice.	Awards made in 2019 will vest based on the Group's performance against the financial and strategic measures, set out in the table opposite. In line with the Directors' remuneration policy, the Committee has full discretion to amend payout levels should the award not reflect business and/or individual performance. Business performance includes, but is not limited to, consideration of returns to shareholders. There are no changes to proposed financial and strategic measures to provide consistency with the 2018 plan, while aligning to the key strategic priorities as set out in the third Group Strategic Review. The Committee may consider the application of malus and clawback as outlined in the performance adjustment section.

1 Remuneration for the CFO Designate will take effect from commencement of employment.

Directors' remuneration report continued

	Strategic priorities	Measure	Basis of payout range	Metric	Weighting
Group Ownership Share continued	Creating the best customer experience	Customer satisfaction	Major Group average ranking over 2021	Threshold: 3rd Maximum: 1st	10%
		Digital net promoter score	Set relative to 2021 targets	Threshold: 65.3 Maximum: 68.3	7.5%
		FCA total reportable complaints and Financial Ombudsman Service (FOS) change rate	Set relative to 2021 targets Average rates over 2021	Threshold: 2.88 Maximum: 2.60 Threshold: =<29% Maximum: =<25%	10%
	Becoming simpler and more efficient	Statutory economic profit[1]	Set relative to 2021 targets	Threshold: £2,210m Maximum: £3,315m	25%
		Cost:income ratio	Set relative to 2021 targets	Threshold: 45.9% Maximum: 43.4%	10%
	Delivering sustainable growth	Absolute total shareholder return (TSR)	Growth in share price including dividends over 3-year period	Threshold: 8% p.a. Maximum: 16% p.a.	30%
	Building the best team	Employee engagement index	Set relative to 2021 markets norms	Threshold: +5% vs. UK norm Maximum: +2% vs. UK high Performing norm	7.5%

1 A measure of profit taking into account expected losses, tax and a charge for equity utilisation.

Performance adjustment

Performance adjustment is determined by the Remuneration Committee and/or Board Risk Committee and may result in a reduction of up to 100 per cent of the GPS and/or GOS opportunity for the relevant period. It can be applied on a collective or individual basis. When considering collective adjustment, the Senior Independent Performance Adjustment and Conduct Committee (SIPACC) submits a report to the Remuneration Committee and Board Risk Committee regarding any adjustments required to balanced scorecards or the overall GPS and/or GOS outcome to reflect in-year or prior year risk matters.

The application of malus will generally be considered when:

- there is reasonable evidence of employee misbehaviour or material error or that they participated in conduct which resulted in losses for the Group or failed to meet appropriate standards of fitness and propriety;
- there is material failure of risk management at a Group, business area, division and/or business unit level;
- the Committee determines that the financial results for a given year do not support the level of variable remuneration awarded; and/or
- any other circumstances where the Committee consider adjustments should be made.

Judgement on individual performance adjustment is informed by taking into account the severity of the issue, the individual's proximity to the issue and the individual's behaviour in relation to the issue. Individual adjustment may be applied through adjustments to balanced scorecard assessments and/or through reducing the GPS and/or GOS outcome.

Awards are subject to clawback for a period of up to seven years after the date of award which may be extended to 10 years where there is an ongoing internal or regulatory investigation.

The application of clawback will generally be considered when:

- there is reasonable evidence of employee misbehaviour or material error; or
- there is material failure of risk management at a Group, business area, division and/or business unit level.

Chairman and Non-Executive Director fees in 2019

The annual fee for the Chairman was increased by 2 per cent to £757,700, in line with the overall salary budget for the executive population.

The annual Non-Executive Director fees were increased by 2 per cent, in line with the base salary increase awarded to the senior management of the Group. These changes took effect from 1 January 2019.

	2019	2018
Basic Non-Executive Director fee	**£79,600**	£78,000
Deputy Chairman	**£104,000**	£102,000
Senior Independent Director	**£62,400**	£61,200
Audit Committee Chairmanship	**£72,800**	£71,400
Remuneration Committee Chairmanship	**£72,800**	£71,400
Board Risk Committee Chairmanship	**£72,800**	£71,400
Responsible Business Committee Chairmanship	**£41,600**	£40,800
Audit Committee membership	**£33,300**	£32,650
Remuneration Committee membership	**£33,300**	£32,650
Board Risk Committee membership	**£33,300**	£32,650
Responsible Business Committee membership[1]	**£15,600**	£15,300
Nomination and Governance Committee membership[2]	**£15,600**	£15,300

1 New members only.

2 Including payments to Chairmen of other Committees who are members.

Non-Executive Directors may receive more than one of the above fees.

Percentage change in remuneration levels

Figures for 'All employees' are calculated using figures for UK-based colleagues subject to the GPS plan. This population is considered to be the most appropriate group of employees for these purposes because its remuneration structure is consistent with that of the GCE. For 2018, 65,537 colleagues were included in this category.

	% change in base salary (2017 to 2018)	% change in GPS (2017 to 2018)	% change in benefits (2017 to 2018)
GCE (salary increase effective 1 January 2019)	2	(11)[1]	2
All employees	2.6[2]	1.4[2]	2.6[2]

1 Reflects the increase in base salary from 1 January 2018 against which the award is determined.
2 Adjusted for movements in staff numbers and other impacts to ensure a like-for-like comparison. Salary increases effective 1 April 2019.

Additional disclosures

CEO pay ratio

The Group is committed to ensuring remuneration is competitive, performance-driven and fair. The Group has decided to publish the CEO pay ratio in advance of the formal disclosure requirement using the prescribed Methodology A, as shown in the table below together with an alternative view based on fixed pay.

In assessing the pay ratio for 2018, the Committee has considered likely ratios at industry and sector peers, and companies with a similar employee profile. The Remuneration Committee views pay ratios as a useful reference point to inform policy-setting, but also takes into consideration a number of other factors when considering remuneration levels, including direct engagement on pay with the Group's recognised unions and shareholders. The Committee is confident that the Group's policy on pay is fair and that improvements to pay progression will continue to ensure that lower paid colleagues receive a greater share of pay awards.

	Total remuneration (Methodology A)			Fixed pay		
Year	P25 (Lower Quartile)	P50 (Median)	P75 (Upper Quartile)	P25 (Lower Quartile)	P50 (Median)	P75 (Upper Quartile)
2018	237:1	**169:1**	93:1	113:1	**81:1**	48:1
2017	245:1	**177:1**	97:1	113:1	**82:1**	48:1
Y-o-Y		**(4%)**			**(1%)**	

The median ratio has decreased 4 per cent year-on-year. The median ratio provides a fair reflection of the Group's approach to pay as colleagues at this level make up approximately 70 per cent of the Group's employee base, however, these colleagues do not receive long-term incentive plan awards which are more volatile. For the majority of colleagues, year-on-year changes in remuneration are principally driven by pay awards, which the Group directs to the lowest grades. For example, the P25 colleague in 2017 received a 5 per cent pay increase in 2018, meaning this colleague moved up in the percentile ranking to P25.5. The colleague who is now at P25 for 2018 received a 3 per cent pay increase which brought them up from P24.5 to that level. For 2019, the pay budget has been set at 2.6 per cent, but only 2 per cent for senior colleagues, including the Group Chief Executive. To support the Group's policy of real wage growth and commitment to pay progression, there is a focus on ensuring higher pay awards for colleagues who are lower paid, or paid lower within their pay range. From April 2019, all full-time colleagues will be paid a minimum salary of £17,510. For some colleagues, this will result in an increase of up to 9.9 per cent. This salary level is 7 per cent above the National Living Wage.

Notes to the calculation:

- The P25, P50 and P75 colleagues were determined based on calculating total remuneration for all UK employees as at 31 December 2018. This methodology was selected on the basis that it provided the most accurate means of identifying the median, lower and upper quartile colleagues.
- The 2018 total remuneration for the colleagues identified at P25, P50 and P75 are as follows: £26,490, £37,058, £67,225.
- The 2018 base salary for the colleagues identified at P25, P50 and P75 are as follows: £21,560, £30,364, £45,230.
- The colleague identified at P50 is not eligible to receive a car benefit unless required for role and does not participate in the long term incentive plan, therefore the ratio does not provide a like-for-like comparison to the total remuneration of the Group Chief Executive. Each of the three individuals identified was a full-time employee during the year.
- The single total figure of remuneration calculated for each of the 65,537 UK colleagues includes full time equivalent base pay, Group Performance Share awards for the 2018 performance year, long term incentive plan payments (for eligible colleagues), core benefits, pension, overtime and shift payments, travel/relocation payments and private medical benefit.
- Due to operational constraints, the calculation of the colleague Pension Input Figure excludes the adjustment to uprate the opening value for defined benefit plans specified in section 229 of the Finance Act 2004. The omission of this factor does not materially affect the outcome of the ratio and/or distort the validity of the valuation. All other data has been calculated in line with the methodology for the single total figure of remuneration for the Group Chief Executive.

Directors' remuneration report continued

Gender pay

We reduced our gender pay gap by 1.3 per cent in 2018

The Group is committed to offering all colleagues a reward package that is competitive, performance-driven and fair.

We recognise that supporting gender equality and diversity more broadly supports the success of the UK as a whole. We regularly review our pay levels to ensure that men and women are paid equally for doing equivalent roles across the Group and the Group is committed to increasing the number of women in senior roles. As a result of progress made in hiring female talent into senior positions and targeting greater pay awards for lower graded colleagues (where there is a majority of female colleagues), we have reduced our gender pay gap by 1.3 per cent. An increase in part time working at lower grades and a reduction in the number of female colleagues at the most senior grades, offset the progress made in female colleagues taking on more senior positions in the Group. As a result the mean bonus gap increased by 1.2 per cent from 2017 to 2018. Further information is available at: https://www.lloydsbankinggroup.com/globalassets/our-group/responsible-business/reporting-centre/gender-pay-gap-report-2017-18-final.pdf.

Mean Pay Gap %

Mean Bonus Gap %

Remuneration Committee

The Committee comprises Non-Executive Directors from a wide background to provide a balanced and independent view on remuneration matters. During the year Anita Frew stepped down as Chair of the Committee and was replaced by Stuart Sinclair with effect from 1 September 2018. Stuart has been a member of the Committee since January 2016 and Anita remains a member of the Committee.

For details of membership and attendance at meetings, please see pages 52 to 53 and 56.

The purpose of the Committee is to set the remuneration for all Executive Directors and the Chairman, including pension rights and any compensation payments. It recommends and monitors the level and structure of remuneration for senior management and material risk takers. It also considers, agrees and recommends to the Board an overall remuneration policy and philosophy for the Group that is aligned with its long-term business strategy, its business objectives, its risk appetite, values and the long-term interests of the Group that recognises the interests of relevant stakeholders, including the wider workforce.

Annual effectiveness review

During 2018, the Committee met its key objectives and carried out its responsibilities effectively, as confirmed by the annual effectiveness review.

How the Remuneration Committee spent its time in 2018

The Committee held five scheduled meetings during 2018 where the following key matters were considered.

Committee:

- Approval of terms of reference
- Results of the effectiveness review and suggestions for improvement

Group wide remuneration approach:

- Determination of the overall 2017 Group Performance Share outcome
- Approval of the 2015 LTIP vesting
- Approval of the 2018 Group Performance Share methodology including performance measures included within the Group Balanced Scorecard
- 2018 Colleague Group Ownership Share
- 2018 Sharesave offer
- Approval of a simplified 2019 Balanced Scorecard approach following stakeholder feedback
- Review of the Group's new approach to performance, 'Your Best'

Senior Executives and Executive Directors:

- Review of performance and remuneration arrangements for Executive Directors and key senior management

Key Stakeholders:

- Shareholder feedback following the 2018 AGM in May
- Feedback sessions following engagement with the PRA/FCA
- Consideration of the revised UK Corporate Governance Code and how the Committee intends to ensure compliance moving into 2019 and beyond
- Consideration for ensuring a clear link between pay and performance following the launch of the Group's new approach to performance, 'Your Best'
- Review and approval of MBNA integration remuneration approach
- Review and approval of LDC bonus award approach

Key Priorities for 2019

We are not seeking to make any changes to our Directors Remuneration Policy for 2019 but the Committee will undertake a full review of the Policy in 2019 ahead of the 2020 AGM. During 2019, the Committee will increase its level of oversight on remuneration matters for the wider workforce to support with key decision making when setting the policy. This will include implementation of changes supporting the Group's new performance management approach.

In light of the recent enhancements in corporate governance, the Committee will continue to focus on implementing the revised principles of the UK Corporate Governance Code. In addition to continuous engagement with stakeholders, the Committee intends to increase the level of engagement it has with the wider workforce on remuneration matters.

Advice provided to the Committee:

Mercer is the appointed advisor to the Committee, following a competitive tender process in 2016 and was retained during the year. The Committee is of the view that Mercer provides independent remuneration advice to the Committee and does not have any connections with the Group that may impair its independence. The broader Mercer company provides unrelated advice on accounting and investments. Mercer is a founding member and signatory to the UK Remuneration Consultants Code of Conduct which governs standards in the areas of transparency, integrity, objectivity, confidentiality, competence and due care, details of which can be found at www.remunerationconsultantsgroup.com.

During the year, Mercer attended Committee meetings upon invitation and provided advice and support in areas such as market and best practice, regulatory and governance developments, drafting the remuneration report, and benchmarking pay and performance.

Fees payable for the provision of Remuneration Committee services in 2018 were £89,870, based on time and materials.

António Horta-Osório (Group Chief Executive), Juan Colombás (Chief Operating Officer), Jen Tippin (Group People and Productivity Director), Matt Sinnott (Group Reward Director), Stuart Woodward (Reward Regulation, Governance and Variable Reward Director) and Letitia Smith (Group Director, Conduct, Compliance & Operational Risk) provided guidance to the Committee (other than for their own remuneration).

Stephen Shelley (Chief Risk Officer) and George Culmer (Chief Financial Officer) also attended the Committee to advise as and when necessary on risk, financial and other operational matters.

Statement of voting at Annual General Meeting

The table below sets out the voting outcome at the Annual General Meeting in May 2018.

	Votes cast in favour		Votes cast against		Votes withheld
	Number of shares (millions)	Percentage of votes cast	Number of shares (millions)	Percentage of votes cast	Number of shares (millions)
Directors' remuneration policy (binding vote in 2017)	47,673	98.03%	959	1.97%	535
2018 annual report on remuneration (advisory vote)	39,664	79.22%	10,405	20.78%	645

Directors' remuneration policy

The Group's remuneration policy was approved at the AGM on 11 May 2017 and took effect from that date. It is intended that approval of the remuneration policy will be sought at three-year intervals, unless amendments to the policy are required, in which case further shareholder approval will be sought; no changes are proposed for 2019. The full policy is set out in the 2016 annual report and accounts (pages 90–98) which is available at: https://www.lloydsbankinggroup.com/investors/annual-reports/download-centre/.

The tables in this section provide a summary of the Directors' remuneration policy. There is no significant difference between the policy for Executive Directors and that for other colleagues. Further information about the remuneration policy for other colleagues is set out in section 'Other remuneration disclosures'.

Remuneration policy table for Executive Directors

Base salary

Purpose and link to strategy
To support the recruitment and retention of Executive Directors of the calibre required to develop and deliver the Group's strategic priorities. Base salary reflects the role of the individual, taking account of market competitiveness, responsibilities and experience, and pay in the Group as a whole.

Operation
Base salaries are typically reviewed annually with any increases normally taking effect from 1 January. When determining and reviewing base salary levels, the Committee takes into account base salary increases for employees throughout the Group and ensures that decisions are made within the following two parameters:

- An objective assessment of the individual's responsibilities and the size and scope of their role, using objective job-sizing methodologies.
- Pay for comparable roles in comparable publicly listed financial services groups of a similar size.

Salary may be paid in sterling or other currency and at an exchange rate determined by the Committee.

Maximum potential
The Committee will make no increase which it believes is inconsistent with the two parameters above. Increases will normally be in line with the increase awarded to the overall employee population. However, a greater salary increase may be appropriate in certain circumstances, such as a new appointment made on a salary below a market competitive level, where phased increases are planned, or where there has been an increase in the responsibilities of an individual. Where increases are awarded in excess of the wider employee population, the Committee will provide an explanation in the relevant annual report on remuneration.

Performance measures
N/A

Fixed share award

Purpose and link to strategy
To ensure that total fixed remuneration is commensurate with role and to provide a competitive reward package for Executive Directors with an appropriate balance of fixed and variable remuneration, in line with regulatory requirements.

Operation
The fixed share award will initially be delivered entirely in Lloyds Banking Group shares, released over five years with 20 per cent being released each year following the year of award. The Committee can, however, decide to deliver some or all of it in the form of cash.

Maximum potential
The maximum award is 100 per cent of base salary.

Performance measures
N/A

Pension

Purpose and link to strategy
To provide cost effective and market competitive retirement benefits, supporting Executive Directors in building long-term retirement savings.

Operation
Executive Directors are entitled to participate in the Group's defined contribution scheme with company contributions set as a percentage of salary.

An individual may elect to receive some or all of their pension allowance as cash in lieu of pension contribution.

Maximum potential
The maximum allowance for the GCE is 50 per cent of base salary less any flexible benefits allowance.

The maximum allowance for other Executive Directors is 25 per cent of base salary.

All future appointments as Executive Directors will attract a maximum allowance of 25 per cent of base salary.

Performance measures
N/A

Benefits

Purpose and link to strategy
To provide flexible benefits as part of a competitive remuneration package.

Operation
Benefits may include those currently provided and disclosed in the annual report on remuneration.

Core benefits include a company car or car allowance, private medical insurance, life insurance and other benefits that may be selected through the Group's flexible benefits plan.

Additional benefits may be provided to individuals in certain circumstances such as relocation. This may include benefits such as accommodation, relocation, and travel. The Committee retains the right to provide additional benefits depending on individual circumstances.

When determining and reviewing the level of benefits provided, the Committee ensures that decisions are made within the following two parameters:

- An objective assessment of the individual's responsibilities and the size and scope of their role, using objective job-sizing methodologies.
- Benefits for comparable roles in comparable publicly listed financial services groups of a similar size.

Maximum potential
The Committee will make only increases in the benefits currently provided which it believes are consistent with the two parameters above. Executive Directors receive a flexible benefits allowance, in line with all other employees. The flexible benefits allowance does not currently exceed 4 per cent of base salary.

Performance measures
N/A

Directors' remuneration report continued

All-employee plans	**Purpose and link to strategy** Executive Directors are eligible to participate in HMRC-approved share plans which promote share ownership by giving employees an opportunity to invest in Group shares. **Operation** Executive Directors may participate in these plans in line with HMRC guidelines currently prevailing (where relevant), on the same basis as other eligible employees.	**Maximum potential** Participation levels may be increased up to HMRC limits as amended from time to time. The monthly savings limits for Save As You Earn (SAYE) is currently £500. The maximum value of shares that may be purchased under the Share Incentive Plan (SIP) in any year is currently £1,800 with a two-for-one match. Currently a three-for-two match is operated up to a maximum employee investment of £30 per month. The maximum value of free shares that may be awarded in any year is £3,600. **Performance measures** N/A
Group Performance Share plan	**Purpose and link to strategy** To incentivise and reward the achievement of the Group's annual financial and strategic targets whilst supporting the delivery of long-term superior and sustainable returns. **Operation** Measures and targets are set annually and awards are determined by the Committee after the year end based on performance against the targets set. The Group Performance Share may be delivered partly in cash, shares, notes or other debt instruments including contingent convertible bonds. Where all or part of any award is deferred, the Committee may adjust these deferred awards in the event of any variation of share capital, demerger, special dividend or distribution or amend the terms of the plan in accordance with the plan rules. Where an award or a deferred award is in shares or other share-linked instrument, the number of shares to be awarded may be calculated using a fair value or based on discount to market value, as appropriate. The Committee applies its judgement to determine the payout level commensurate with business and/or individual performance. The Committee may reduce the level of award (including to zero), apply additional conditions to the vesting, or delay the vesting of deferred awards to a specified date or until conditions set by the Committee are satisfied, where it considers it appropriate as a result of a risk matter coming to light before vesting. Awards may be subject to malus and clawback for a period of up to seven years after the date of award which may be extended to 10 years where there is an ongoing internal or regulatory investigation.	**Maximum potential** The maximum Group Performance Share opportunities are 140 per cent of base salary for the GCE and 100 per cent of base salary for other Executive Directors. **Performance measures** Measures and targets are set annually by the Committee in line with the Group's strategic business plan and further details are set out in the annual report on remuneration for the relevant year. Measures consist of both financial and non-financial measures and the weighting of these measures will be determined annually by the Committee. All assessments of performance are ultimately subject to the Committee's judgement, but no award will be made if threshold performance (as determined by the Committee) is not met for financial measures or the individual is rated 'Developing performer' or below. The expected value of the Group Performance Share is 30 per cent of maximum opportunity. The Committee is committed to providing transparency in its decision making in respect of Group Performance Share awards and will disclose historic measures and target information together with information relating to how the Group has performed against those targets in the annual report on remuneration for the relevant year except to the extent that this information is deemed to be commercially sensitive, in which case it will be disclosed once it is deemed not to be sensitive.
Group Ownership Share plan	**Purpose and link to strategy** To incentivise and reward Executive Directors and senior management to deliver against strategic objectives designed to support the long-term success of the Group and encourage working as a team. It ensures executives build an ownership interest in the Group and are motivated by delivering long-term superior and sustainable returns for shareholders. **Operation** Awards are granted under the rules of the 2016 Long-Term Incentive Plan approved at the AGM on 12 May 2016. Awards are made in the form of conditional shares or nil cost options. Award levels are set at the time of grant, in compliance with regulatory requirements, and may be subject to a discount in determining total variable remuneration under the rules set by the European Banking Authority. The number of shares to be awarded may be calculated using a fair value or based on a discount to market value, as appropriate. Vesting will be subject to the achievement of performance conditions measured over a period of three years, or such longer period, as determined by the Committee. The Committee retains full discretion to amend the payout levels should the award not reflect business and/or individual performance. The Committee may reduce (including to zero) the level of the award, apply additional conditions to the vesting, or delay the vesting of awards to a specified date or until conditions set by the Committee are satisfied, where it considers it appropriate as a result of a risk matter coming to light before vesting. Awards may be subject to malus and clawback for a period of up to seven years after the date of award which may be extended to 10 years where there is an ongoing internal or regulatory investigation.	**Maximum potential** The maximum annual award for Executive Directors will normally be 300 per cent of salary. Under the plan rules, awards can be made up to 400 per cent of salary in exceptional circumstances. **Performance measures** Measures and targets are set by the Committee annually and are set out in the annual report on remuneration each year. At least 60 per cent of awards are weighted towards typical market (e.g. Total Shareholder Return) and/or financial measures (e.g. economic profit), with the balance on strategic measures. 25 per cent will vest for threshold performance, 50 per cent for on-target performance and 100 per cent for maximum performance. The measures are chosen to support the best bank for customers strategy and to align management and shareholder interests. Targets are set by the Committee to be stretching within the context of the strategic business plan. Measures are selected to balance profitability, achievement of strategic goals and to ensure the incentive does not encourage inappropriate risk-taking. Following the end of the relevant performance period, the Committee will disclose in the annual report on remuneration for the relevant year historic measure and target information, together with how the Group has performed against those targets, unless this information is deemed to be commercially sensitive, in which case it will be disclosed once it is deemed not to be sensitive.

Deferral of variable remuneration and holding periods

Operation

The Group Performance Share and Group Ownership Share plans are both considered variable remuneration for the purpose of regulatory payment and deferral requirements. The payment of variable remuneration and deferral levels are determined at the time of award and in compliance with regulatory requirements (which currently require that at least 60 per cent of total variable remuneration is deferred for seven years with pro-rata vesting between the third and seventh year, and at least 50 per cent of total variable remuneration is paid in shares or other equity linked instruments subject to a holding period in line with current regulatory requirements).

A proportion of the aggregate variable remuneration may vest immediately on award. The remaining proportion of the variable remuneration is then deferred in line with regulatory requirements.

Further information on which performance measures were chosen and how performance targets are set are disclosed in the relevant sections throughout the report.

Remuneration policy table for Chairman and Non-Executive Directors

Chairman and Non-Executive Director fees

Purpose and link to strategy

To provide an appropriate reward to attract and retain a high-calibre individual with the relevant skills, knowledge and experience.

Operation

The Committee is responsible for evaluating and making recommendations to the Board with regards to the Chairman's fees. The Chairman does not participate in these discussions.

The GCE and the Chairman are responsible for evaluating and making recommendations to the Board in relation to the fees of the NEDs.

When determining and reviewing fee and benefit levels, the Committee ensures that decisions are made within the following parameters:

- The individual's skills and experience.
- An objective assessment of the individual's responsibilities and the size and scope of their role, using objective sizing methodologies.
- Fees and benefits for comparable roles in comparable publicly listed financial services groups of a similar size.

The Chairman receives an all-inclusive fee, which is reviewed periodically plus benefits including life insurance, car allowance, medical insurance and transportation. The Committee retains the right to provide additional benefits depending on individual circumstances. NEDs are paid a basic fee plus additional fees for the chairmanship/membership of committees and for membership of Group companies/boards/non-board level committees.

Additional fees are also paid to the senior independent director and to the deputy chairman to reflect additional responsibilities.

Any increases normally take effect from 1 January of a given year.

The Chairman and the NEDs are not entitled to receive any payment for loss of office (other than in the case of the Chairman's fees for the six month notice period) and are not entitled to participate in the Group's bonus, share plan or pension arrangements.

NEDs are reimbursed for expenses incurred in the course of their duties, such as travel and accommodation expenses, on a grossed-up basis (where applicable).

Maximum potential

The Committee will make no increase in fees or benefits currently provided which it believes is inconsistent with the parameters above.

Performance metrics

N/A

Service agreements

The service contracts of all current Executive Directors are terminable on 12 months' notice from the Group and six months' notice from the individual. The Chairman also has a letter of appointment. His engagement may be terminated on six months' notice by either the Group or him.

Letters of appointment

The Non-Executive Directors all have letters of appointment and are appointed for an initial term of three years after which their appointment may continue subject to an annual review. Non-Executive Directors may have their appointment terminated, in accordance with statute and the articles of association, at any time with immediate effect and without compensation.

All Directors are subject to annual re-election by shareholders.

The service contracts and letters of appointments are available for inspection at the Company's registered office.

On behalf of the Board

Stuart Sinclair

Stuart Sinclair
Chairman, Remuneration Committee

Other remuneration disclosures

This section discloses the remuneration awards made by the Group to Material Risk Takers (MRTs) in respect of the 2018 performance year. Additional information summarising the Group's remuneration policies, structure and governance is also provided. These disclosures should be read in conjunction with the disclosures for Executive Directors contained in the Directors' Remuneration Report (DRR) on pages 82 to 99, and together comply with the requirements of Article 450 of the Capital Requirements Regulation (EU) No. 575/2013 (CRR). The remuneration principles and practices detailed in the DRR apply to MRTs and non-MRTs in the same way as to Executive Directors (other than where stated in this disclosure).

The Group has applied the EBA Delegated Regulation (EU) No 604/2014 to determine which colleagues should be identified as MRTs. MRTs are colleagues who are considered to have a material impact on the Group's risk profile, and include, but are not limited to:

- Senior management, Executive Directors, members and attendees of the Group Executive Committee (GEC) and their respective executive level direct reports;
- Non-Executive Directors
- Approved persons performing significant influence functions (SIFs) and/or all colleagues performing a senior management function
- Other highly remunerated individuals whose activities could have a material impact on the Group's risk profile

Decision making process for remuneration policy

The Group has a strong belief in aligning the remuneration delivered to the Group's executives with the successful performance of the business and, through this, the delivery of long-term, superior and sustainable returns to shareholders. It has continued to seek the views of shareholders and other key stakeholders with regard to remuneration policy and seeks to motivate, incentivise and retain talent while being mindful of the economic outlook. An essential component of the Group's approach to remuneration is the governance process that underpins it. This ensures that the policy is robustly applied and risk is managed appropriately.

The overarching purpose of the Remuneration Committee is to consider, agree and recommend to the Board an overall remuneration policy and philosophy for the Group that is defined by, supports and is closely aligned to its long-term business strategy, business objectives, risk appetite and values and recognises the interests of relevant stakeholders. The remuneration policy governs all aspects of remuneration and applies in its entirety to all divisions, business units and companies in the Group, including wholly-owned overseas businesses and all colleagues, contractors and temporary staff. The Committee reviews the policy annually and Committee pays particular attention to the top management population, including the highest paid colleagues in each division, those colleagues who perform senior management functions for the Group and MRTs. Further details on the operation of the Remuneration Committee can be found on page 96 of the DRR.

The Group has a robust governance framework, with the Remuneration Committee reviewing all compensation decisions for Executive Directors, senior management, senior risk and compliance officers, high earners and any other MRTs. This approach to governance is cascaded through the Group with the Group People Committee having oversight for all other colleagues.

Governance and risk management

An essential component of the approach to remuneration is the governance process that underpins it. This ensures that the policy is robustly applied and risk is managed appropriately.

In addition to setting the overall remuneration policy and philosophy for the Group, the Remuneration Committee ensures that colleagues who could have a material impact on the Group's risk profile are provided with appropriate incentives and reward to encourage them to enhance the performance of the Group and that they are recognised for their individual contribution to the success of the organisation, whilst ensuring that there is no reward for excessive risk taking. The Remuneration Committee works closely with the Risk Committee in ensuring the Group Performance Share (GPS) plan outcome is moderated. The two Committees determine whether the proposed GPS outcome and performance assessments adequately reflect the risk appetite and framework of the Group; whether it took account of current and future risks; and whether any further adjustment is required or merited. The Group and the Remuneration Committee are determined to ensure that the aggregate of the variable remuneration for all colleagues is appropriate and balanced with the interests of shareholders and all other stakeholders.

The Remuneration Committee's terms of reference are available from the Company Secretary and are displayed on the Group's website, www.lloydsbankinggroup.com/our-group/corporate-governance. These terms are reviewed each year to ensure compliance with the remuneration regulations and were last updated in November 2018.

Link between pay and performance

The Group's approach to reward is intended to provide a clear link between remuneration and delivery of its key strategic objectives, supporting the aim of becoming the best bank for customers, and through that, for shareholders. To this end, the performance management process has been developed, with the close participation of the Group's Risk team, to embed performance measures across the Group's reward structure which are challenging and reflect Group and divisional achievement in addition to personal contribution.

The use of a balanced scorecard approach to measure performance enables the Remuneration Committee to assess the performance of the Group and its senior executives in a consistent and performance-driven way. The Group's remuneration policy supports the business values and strategy, based on building long-term relationships with customers and colleagues and managing the financial consequences of business decisions across the entire economic cycle.

Further detail can be found in the DRR. In particular, see pages 86 to 87, 89, 92 to 94 and 97 to 99 of the DRR.

Design and structure of remuneration

When establishing the remuneration policy and associated frameworks, the Group is required to take into account its size, organisation and the nature, scope and complexity of its activities. For the purpose of remuneration regulation, Lloyds Bank plc is treated as a proportionality level I firm and therefore subject to the more onerous remuneration rules.

Remuneration is delivered via a combination of fixed and variable remuneration. Fixed remuneration reflects the role, responsibility and experience of a colleague. Variable remuneration is based on an assessment of individual, business area and Group performance. The mix of variable and fixed remuneration is driven by seniority, grade and role. Taking into account the expected value of awards, the performance-related elements of pay make up a considerable proportion of the total remuneration package for MRTs, whilst maintaining an appropriate balance between the fixed and variable elements. The maximum ratio of fixed to variable remuneration for MRTs is 200 per cent, which has been approved by shareholders (98.77 per cent of votes cast) at the AGM on 15 May 2014.

Remuneration for control functions is set in relation to benchmark market data to ensure that it is possible to attract and retain staff with the appropriate knowledge, experience and skills. An appropriate balance between fixed and variable compensation supports this approach. Generally, control function staff receive a higher proportion of fixed remuneration than other colleagues and the aggregate ratio of fixed to variable remuneration for all control function staff does not exceed 100 per cent. Particular attention is paid to ensure remuneration for control function staff is linked to the performance of their function and independent from the business areas they control.

The table below summarises the different remuneration elements for MRTs (this includes control function staff) and non-MRTs.

Base salary	Base salaries are reviewed annually, taking into account individual performance and market information. Further information on base salaries can be found on page 97 of the DRR.	**Applies to:** • Senior Management, Executive Directors, members/attendees of the GEC and their respective direct reports • Approved Persons performing SIFs and/or all colleagues performing a Senior Management Function • Other MRTs • Non-MRTs
Fees	Non-Executive Director fees are reviewed periodically by the Board. Further information on fees can be found on page 94 of the DRR.	**Applies to:** • Non-Executive Directors (NEDs)
Fixed share award	The fixed share award, made annually, delivers Lloyds Banking Group shares over a period of five years. Its purpose is to ensure that total fixed remuneration is commensurate with the role, responsibilities and experience of the individual; provides a competitive reward package; and is appropriately balanced with variable remuneration, in line with regulatory requirements. The fixed share award can be amended or withdrawn in the following circumstances: • to reflect a change in role; • to reflect a Group leave policy (e.g. parental leave or sickness absence); • termination of employment with the Group; • if the award would be inconsistent with any applicable legal, regulatory or tax requirements or market practice. Further information on fixed share awards can be found on page 97 of the DRR.	**Applies to:** • Senior Management, Executive Directors, members/attendees of the GEC and their respective direct reports • Approved Persons performing SIFs and/or all colleagues performing a Senior Management Function[1] • Other MRTs[1] • Non-MRTs[1]
Benefits	Core benefits for UK-based colleagues include pension, private medical insurance, life insurance, car or car allowance (eligibility dependent on grade) and other benefits that may be selected through the Group's flexible benefits plan. Further information on benefits and all-employee share plans can be found on pages 97 to 98 of the DRR. Benefits can be amended or withdrawn in the following circumstances: • to reflect a change to colleague contractual terms; • to reflect a change of grade; • termination of employment with the Group; • to reflect a change of Reward Strategy/benefit provision; • if the award would be inconsistent with any statutory or tax requirements. Details of NEDs' benefits are set out on page 99 of the DRR.	**Applies to:** • Non-Executive Directors (NEDs) • Senior Management, Executive Directors, members/attendees of the GEC and their respective direct reports • Approved Persons performing SIFs and/or all colleagues performing a Senior Management Function • Other MRTs • Non-MRTs
Short-term variable remuneration arrangements	The Group Performance Share (GPS) plan is an annual discretionary bonus plan. The plan is designed to reflect specific goals linked to the performance of the Group. The majority of colleagues and all MRTs participate in the GPS plan. Individual GPS awards are based upon individual contribution, overall Group financial results and Balanced Scorecard ratings over the past financial year. The Group's total risk-adjusted GPS outcome is determined by the Remuneration Committee annually as a percentage of the Group's underlying profit, modified for: • Group Balanced Scorecard performance • Collective and discretionary adjustments to reflect risk matters and/or other factors. The Group applies deferral arrangements to GPS and variable pay awards made to colleagues. GPS awards for MRTs are subject to deferral and a holding period in line with regulatory requirements and market practice. Further information on the GPS plan can be found on pages 93 and 98 of the DRR.	**Applies to:** • Senior Management, Executive Directors, members/attendees of the GEC and their respective direct reports • Approved Persons performing SIFs and/or all colleagues performing a Senior Management Function • Other MRTs • Non-MRTs

1 Eligibility based on seniority, grade and role

Other remuneration disclosures continued

Group Ownership Share Plan	The Group Ownership Share (GOS) plan is a core part of the reward strategy and an important tool for aligning the Group's reward strategy to the long-term performance of the business. Through the application of carefully considered, stretching target measures, the Group can ensure that awards are forfeited or restricted where performance does not meet the desired level. The GOS pays out in shares based on performance against Group financial and other non-financial strategic targets measured over a three-year period. Shares are released over a minimum three to five-year period and are then subject to a holding period (MRTs only) in line with regulatory requirements and market practice. Further information on the GOS plan can be found on pages 98 and 99 of the DRR.	**Applies to:** Senior Management, Executive Directors, members/ attendees of the GEC and their respective direct reports Approved Persons performing SIFs and/or all colleagues performing a Senior Management Function[1] Other MRTs[1] Non-MRTs[1]
Deferral, vesting and performance adjustment	At least 40 per cent of MRTs' variable remuneration above certain thresholds is deferred into Lloyds Banking Group Shares. For all MRTs, variable remuneration is deferred in line with the regulatory requirements for three, five or seven years, (depending on MRT category). At least 50 per cent of each release is subject to a 12 month holding period. For all colleagues, any deferred variable remuneration amount is subject to performance adjustment (malus) in accordance with the Group's Deferral and Performance Adjustment Policy.	MRTs' vested variable remuneration (including variable remuneration subject to a holding period) can be recovered from colleagues up to seven years after the date of award in the case of a material or severe risk event (clawback). This period may be extended to ten years where there is an ongoing internal or regulatory investigation. Clawback is used alongside other performance adjustment processes. Further information on deferral, vesting and performance adjustment can be found in the DRR on pages 94 and 99.
Guaranteed variable remuneration	Guarantees, such as sign-on awards, may only be offered in exceptional circumstances to new hires for the first year of service and in accordance with regulatory requirements. Any awards made to new hires to compensate them for unvested variable remuneration they forfeit on leaving their previous employment ('buy-out awards') will be subject to appropriate retention, deferral, performance and clawback arrangements in accordance with applicable regulatory requirements. Retention awards may be made to existing colleagues in limited circumstances and are subject to prior regulatory approval in line with applicable regulatory requirements.	**Applies to:** Senior Management, Executive Directors, members/ attendees of the GEC and their respective direct reports Approved Persons performing SIFs and/or all colleagues performing a Senior Management Function Other MRTs Non-MRTs
Shareholding requirement	Executive Directors: see DRR page 91. All other MRTs and non-MRTs: 25 per cent to 100 per cent of the aggregate of base salary and fixed share award depending on grade.	**Applies to:** Senior Management, Executive Directors, members/ attendees of the GEC and their respective direct reports Approved Persons performing SIFs and/or all colleagues performing a Senior Management Function[2] Other MRTs[2] Non-MRTs[2]
Termination payments	Executive Directors and GEC members: see page 96 of the 2016 DRR. All other termination payments comply with the Group's contractual, legal and regulatory requirements and are made in such a way as to ensure they do not reward failure or misconduct and reflect performance over time.	**Applies to:** Senior Management, Executive Directors, members/ attendees of the GEC and their respective direct reports Approved Persons performing SIFs and/or all colleagues performing a Senior Management Function Other MRTs Non-MRTs

1 Eligibility based on seniority, grade and role
2 Requirement based on seniority and grade

Table 1 Analysis of high earners by band

Number of Material Risk Takers paid €1 million[1,2] or more	2018 Material Risk Takers[3,4]	2017 Material Risk Takers[4]
€1.0m – €1.5m	30	35
€1.5m – €2.0m	8	11
€2.0m – €2.5m	7	2
€2.5m – €3.0m	1	1
€3.0m – €3.5m	2	3
€3.5m – €4.0m	4	4
€4.0m – €4.5m	–	–
€4.5m – €5.0m	–	–
€5.0m – €6.0m	–	–
€6.0m – €7.0m	–	–
€7.0m – €8.0m	1	1

1 Converted to Euros using the exchange rate €1 = £0.89135 (average exchange rate 1 December 2018 – 31 December 2018 based on the European Commission Budget exchange rates). The exchange rate used for 2017 was €1 = £0.88293.

2 Value of LTIP/Group Ownership Share awards based on expected value at grant pre the application of the EBA discount factor.

3 Total number of Material Risk Takers earning more than €1m has decreased from 57 in 2017 to 53 in 2018.

4 2018 and 2017 data has been calculated using methodology consistent with EBA guidelines.

Table 2 Aggregate remuneration expenditure (Material Risk Takers)

Analysis of aggregate remuneration expenditure by division[1]

	Retail and Community Banking £m	Commercial Banking £m	Insurance & Wealth £m	Group Functions & Services[1] £m	Total £m
Aggregate remuneration expenditure	22.7	62.1	10.8	95.6	191.2

1 Chief Operating Office comprises People and Productivity, Group Transformation, Chief Information Office and Chief Security Office. Group Functions comprises Risk, Finance, Legal, Strategy, Group Corporate Affairs, Group Internal Audit, Company Secretariat and Responsible Business.

Table 3 Fixed and variable remuneration (Material Risk Takers)

Analysis of remuneration between fixed and variable amounts

	Remuneration £m	Awarded in relation to the 2018 performance year				
		Management body				
		Executive Directors	Non-Executive Directors	Senior Management[2]	Other MRTs	2018 Total
Fixed Remuneration £m	Number of employees	3	10	147	120	280
	Total fixed remuneration	5.8	–	61.6	36.0	103.4
	Of which: Cash based	3.9	–	54.6	34.4	92.9
	Of which: Shares[1]	1.9	–	7.0	1.6	10.5
Variable Remuneration £m	Total variable remuneration	6.0	–	57.0	24.7	87.7
	Of which: Upfront cash based	–	–	0.3	0.2	0.5
	Of which: Share based[3]	6.0	–	56.7	24.5	87.2
	Of which: Deferred					
	Vested	0.9	–	20.3	13.3	34.5
	Unvested	5.1	–	36.4	11.2	52.7
	Total remuneration	11.8	–	118.6	60.7	191.2

1 Released over a five year period.

2 Senior Management are defined as Group Executive Committee (GEC) members/attendees (excluding Group Executive Directors and Non-Executive Directors) and their direct reports (excluding those direct reports who do not materially influence the risk profile of any in-scope group firm).

3 Values for LTIP/Group Ownership Share awards based on expected value at the date of grant pre the application of the EBA discount factor.

Other remuneration disclosures continued

Table 4 Total outstanding deferred variable remuneration

	Remuneration £m	Total outstanding deferred variable remuneration at 31 December 2018				
		Management body				
		Executive Directors	Non-Executive Directors	Senior Management	Other MRTs	2018 Total
Variable Remuneration £m	Number of employees	3	10	147	120	280
	Total outstanding deferred variable remuneration	26.2	–	116.1	40.4	182.7
	Of which: Vested	5.9	–	16.7	7.4	30.0
	Of which: Unvested	20.3	–	99.4	33.0	152.7

Table 5 Other payments awarded in relation to the 2018 performance year

	Guaranteed bonuses		Sign-on awards		Severance payments	
	Number of awards made	Total £m	Number of awards made	Total £m	Number of awards made	Total £m
Management body	–	–	–	–	–	–
Senior management	–	–	–	–	–	–
Other Material Risk Takers	–	–	–	–	–	–

Table 6 Deferred remuneration

Analysis of deferred remuneration at 31 December 2018

Remuneration £m	Total amount of outstanding deferred[1] and retained[2] remuneration	Of which: Total amount of outstanding remuneration exposed to ex-post explicit and/or implicit adjustment	Total amount of amendment during the year due to ex-post explicit adjustments	Total amount of deferred remuneration paid out in the performance year
Management body[3]	26.2	26.2	–	1.7
Senior management	116.1	116.1	–	12.7
Other Material Risk Takers	40.4	40.4	–	9.6

1 Deferred in this context refers only to any unvested remuneration.

2 Retained refers to any variable remuneration for which the deferral period has ended but which is still subject to a holding period before release.

3 Reference to the 'Management Body' relates to Executive Directors only. Non-Executive Directors are not eligible to receive variable remuneration.