

# Lloyds Banking Group plc, Lloyds Bank plc, Bank of Scotland plc and HBOS plc Board Risk Committee Terms of Reference

## 1. Purpose

The purpose of each Board Risk Committee is to assist its Board in fulfilling its risk governance and oversight responsibilities and any such matter as may be referred to it by its Board. Each Committee shall report to its Board on its activities.

## 2. Aligned Board Model

The Board Risk Committees of Lloyds Banking Group plc, Lloyds Bank plc and Bank of Scotland plc and, to the extent relevant, HBOS plc operate an aligned board model. This includes aligned meetings for the Board Risk Committees of each entity, where meeting agendas clearly identify which items concern which entity.

## 3. Entities to which these terms of reference apply

These terms of reference apply to each of Lloyds Banking Group plc, Lloyds Bank plc and Bank of Scotland plc and, to the extent relevant, HBOS plc.

- Sections of these terms of reference which apply only to the Board Risk Committee of the Board of Lloyds Banking Group plc are headed "*Group Committee only*".
- Sections of these terms of reference which apply only to the Board Risk Committee of the Board of Lloyds Banks plc and Bank of Scotland plc are headed "*Banks' Committees only*".
- HBOS plc will have a Board Risk Committee and such Board Risk Committee will undertake the actions set out in paragraph 6 'Responsibilities', only insofar as considered necessary for legal or regulatory purposes.

## 4. Defined terms

Definitions used in these terms of reference are those adopted in the Corporate Governance Framework Board Authorities. In these terms of reference:

- the "Committee" means each Board Risk Committee;
- the "Banks" means Lloyds Bank plc and Bank of Scotland plc;
- the "Group" in the context of Lloyds Banking Group plc, Lloyds Bank plc, Bank of Scotland plc and HBOS plc should be read as "Lloyds Banking Group plc and its subsidiaries and associates from time to time", "Lloyds Bank plc and its subsidiaries and associates from time to time", "Bank of Scotland plc and its subsidiaries and associates from time to time" and "HBOS plc and its subsidiaries and associates from time to time", respectively;
- the "Group Committee" means the Board Risk Committee of Lloyds Banking Group plc; and
- the "Banks' Committees" means the Board Risk Committees of each of Lloyds Bank plc and Bank of Scotland plc.

In paragraph 6 'Responsibilities', in the context of Lloyds Banking Group plc references to the "Company" should be read as meaning "Lloyds Banking Group plc and its subsidiaries and associates from time to time".

(Other than as specifically defined above, the following defined terms as set out in the Corporate Governance Framework Board Authorities document are applicable: the "Company" means each of Lloyds Banking Group plc, or where the context needs, Lloyds Bank plc, Bank of Scotland plc and HBOS plc as appropriate; and the "Group" means Lloyds Banking Group plc and its subsidiaries and associates from time to time.)

## 5. Authority

Each Committee has been established by its Board and is authorised to:

- 1 investigate any matter within these terms of reference;
- 2 have such direct access to the resources of the Group as it may reasonably require;

- 3 seek any information that it requires from any employee (and all employees are directed to cooperate with any request made by the Committee);
- 4 secure the attendance of any employee, or third parties with relevant experience and expertise, at meetings of the Committee if it considers this necessary;
- 5 engage outside legal or other independent professional advisers and access appropriate funding for the payment of relevant fees and expenses;
- 6 obtain assurances and, when appropriate, reports from the boards of subsidiary companies which have appointed separate risk committees; and
- 7 delegate any of its responsibilities to any person, including any of its members, or to one or more sub-committees which are to report back to the Committee.

Each Committee shall work and liaise as necessary with all other Committees of its Board, and periodically review interactions between its Board and the other Committees.

## **6. Responsibilities**

The responsibilities of each Committee will be to:

### **A. Risk appetite**

- 1 Oversee the development, implementation and maintenance of the Company's risk appetite, policies and procedures on at least an annual basis and recommend to the Board for approval.
- 2 Monitor the Company's risk appetite to ensure it is in line with emerging regulatory, corporate governance and industry best practice.
- 3 Advise the Board on the Company's current and future risk appetite.
- 4 Review reports on any breaches of risk appetite and the remediation action taken.
- 5 Periodically review and approve the methodology used to prepare the Company's risk appetite, and where appropriate propose improvements.

### **B. Risk management framework and internal controls**

- 1 Oversee the development, implementation and maintenance of the Company's overall risk management framework (including the metrics to be used to monitor the Company's risk management performance), strategy, principles and policies, to ensure they are in line with emerging regulatory, corporate governance and industry best practice.
- 2 Review and recommend to the Board for approval the risk management framework on an at least annual basis.
- 3 Provide oversight and challenge of the day-to-day risk management and oversight arrangements of the executive including adherence to Company risk principles, policies and standards and any action taken resulting from material policy breaches across the Company. This should be based upon reports from the Group Chief Executive and the Chief Risk Officer.
- 4 Review whether the pricing frameworks take fully into account the Company's business model and risk appetite and present recommendations to the Board when the frameworks do not reflect risks in accordance with the Company's business model and risk strategy.

### **C. Risk exposures**

- 1 Oversee the Company's current risk exposures (including prudential risk), risk/return and proposed improvements to the Company's risk management framework and its risk appetite, strategy, principles, policies and standards.

### **D. Emerging and principal risks**

- 1 Provide advice to the Board (making recommendations where appropriate) on the assessment of emerging and principal risks, together with any appropriate mitigation to manage such risks and the principles and process associated with transitioning emerging risks into business as usual risks where relevant, as well as reviewing and challenging new risk principles and policies and any material amendments to the same recommended by the Group Chief Executive and Chief Risk Officer. Principal risks include those that might threaten the Company's business model, future performance, solvency or liquidity and reputation, taking account of the potential impact and probability of the events, circumstances and timescales over which they may occur.
- 2 Ensure that a review of emerging and principal risks, and a review of the risk principles and policy, are carried out on an at least annual basis.

### **E. Regulatory stress-testing**

- 1 Provide oversight and challenge of the design and execution of stress and scenario testing, including review and approval of the Internal Capital Adequacy Assessment Process (ICAAP) and Internal Liquidity Adequacy Assessment Process (ILAAP) submissions.

- 2 Review and approve all other stress-testing submissions, excluding the results of each of the Bank of England and the European Banking Association stress testing exercises which are to be considered and approved by the Board following review by the Committee.
  - 3 Assess risk management matters raised by any Company regulator and actions being taken to address such matters. Where appropriate, provide recommendations to the Board.
- F. Material transactions and change programmes**
- 1 Provide oversight and challenge of due diligence on risk issues relating to material transactions and strategic proposals that are subject to approval by the Board.
  - 2 Assess the impact of any material transactions and change programmes on the risk appetite and risk tolerance of the Company.
- G. Risk culture**
- 1 Provide advice, oversight and challenge to the Board to embed and maintain a supportive risk culture throughout the Company.
- H. Reports and disclosure**
- 1 Review and approve the Board Committee Report in the annual report and accounts.
  - 2 Review and approve other risk related sections within the annual report and accounts.
- I. Chief Risk Officer**
- 1 Review the appointment and resignation or dismissal of the CRO and make appropriate recommendations to the Board.
- J. Banks' Committees only - additional responsibilities in relation to Banks' Risk Officer**
- 1 *Banks' Committees only* - Approve the appointment and removal of the Banks' Risk Officer, taking into account feedback on the performance and effectiveness of the Banks' Risk Officer (and that feedback will be taken into account in the Banks' Risk Officer end of year review to be undertaken by the Chief Risk Officer and the Senior Independent Director). Decisions in relation to the appointment and removal of the Banks' Risk Officer will need the support of the majority of the RFB-Only NEDs.
  - 2 *Banks' Committees only* - Before meetings of the Banks' Committees, receive assurance from the Banks' Risk Officer regarding the risks facing the Banks and that potential RFB Conflict Matters have been properly identified and escalated to the Committee and the Bank Boards as appropriate.
  - 3 *Banks' Committees only* - Receive such materials as the Banks' Risk Officer seeks to present to the Committee including where the Chief Risk Officer may be conflicted. The Banks' Risk Officer has an unfettered right to present such materials to the Committee.
  - 4 *Banks' Committees only* - Meet with the Banks' Risk Officer twice yearly in private without the Banks' Chief Risk Officer present to enable the Banks' Risk Officer to identify and escalate any potential RFB Conflict Matters, if any, at such meetings.
  - 5 *Banks' Committees only* - Consider any matter which the Banks' Risk Officer, supported by the Functional Risk Directors, has escalated as a matter where the Banks' Risk Officer seeks to veto the Chief Risk Officer, including matters relating to budgets, headcount, investment and reporting all as detailed in the Banks' Risk Officer role profile in place from time to time. Final determination of the matters would need to be escalated to the Committee's Board.
  - 6 *Banks' Committees only* - Request from the Banks' Risk Officer such information as the Committee considers appropriate.
  - 7 *Banks' Committees only* - The Banks' Risk Officer will be supported by the Functional Risk Directors who provide oversight of the relevant risks in the respective areas of business. They are primarily responsible to the Banks. The functional risk reporting process provides a clear view of the Banks to the Chief Risk Officer and this provides a safeguard to the independent consideration of the second line oversight from each of the Bank's perspective.
- K. Risk Function**
- 1 Review and discuss with the Chief Risk Officer the scope of work of the Risk Function (including Conduct, Compliance and Operational Risk), including its plans, issues identified, how management is addressing these issues and the effectiveness of systems of risk management.
  - 2 Review the adequacy of the Risk Function's resources, its independence, and its authority and standing within the Company.
  - 3 Review co-ordination between the Risk Function and both Group Internal Audit and the external auditors.
  - 4 Approve the appointment, resignation or dismissal of the Group Director, Conduct, Compliance and Operational Risk or such other role as has been identified as performing the duties of Compliance Officer.
- L. Audit**
- 1 Have regard to any relevant advice from its Board's Audit Committee or Group Internal Audit concerning the effectiveness of the control framework.

#### M. Remuneration

- 1 Provide advice to the Group Remuneration Committee and the Banks' Remuneration Committees through the output of the ICAAP and the ILAAP as to whether remuneration incentives take into consideration the Company's risk, capital, liquidity and the likelihood and timing of earnings. The Committee may also advise the Group Remuneration Committee and the Banks' Remuneration Committees on the consideration of risk in the assessment of performance adjustment under the UK regulatory regime.
- 2 Confirm that the report provided to the Group Remuneration Committee and the Banks' Remuneration Committees setting out the outcomes of the Group and Banks' end to end risk adjusted bonus process considers all relevant risk matters.
- 3 The Chair (on behalf of the Committee) will recommend to the Group Remuneration Committee and the Banks' Remuneration Committees the outcome of performance assessment of in scope individuals within the Risk function (including the Group Director, Conduct, Compliance and Operational Risk), as determined by that function, and the outcome of individual risk adjustment for the Group Chief Risk Officer and persons reporting directly to them who work within Group Risk.
- 4 **Group Committee only** - The Chair will separately recommend to the LBCM Remuneration Committee the outcome of individual risk adjustment for relevant risk colleagues that work within LBCM.
- 5 **Bank Committees only** - The Chair (on behalf of the Committee) will recommend to the Banks' Remuneration Committee the outcome of individual risk adjustment for the Banks' Risk Officer.

#### N. Other matters

- 1 Review periodically the Recovery and Resolution Plans, including noting the nominated Executive Director responsible for each of these plans.
- 2 Receive and consider periodically reports on Health & Safety matters.
- 3 Give due consideration to all applicable laws and regulations, including the provisions of the UK Corporate Governance Code and associated guidance and best practice, the relevant FCA and PRA rules and guidance.
- 4 Assist the Board on such other matters as the Board may request.
- 5 Determine the nature, amount, format and frequency of the information on risk received by the Committee.

## 7. Membership

#### A. Members

- 1 At all times each Committee shall comprise at least three members. Members of each Committee must all be independent Non-Executive Directors (within the meaning of the UK Corporate Governance Code).
- 2 Members of each Committee shall be appointed by its Board on the recommendation of its Board's Nomination and Governance Committee, in consultation with the Chair of the (Board Risk) Committee.
- 3 Appointments to each Committee shall be for a period of up to three years, which may be extended for two further three-year periods provided that the director still meets the criteria for membership of the Committee.
- 4 At least one of the members of each Committee must have recent relevant financial experience (including holding a professional qualification from one of the professional accounting bodies).
- 5 At least one of the members of each Committee must also be a member of its Board's Audit Committee and Remuneration Committee.
- 6 Members of each Committee must have the appropriate knowledge, skills and expertise to fully understand and monitor the risk strategy and risk appetite of the firm.
- 7 Members of each Committee shall be provided with appropriate and timely training coordinated by Group Secretariat, both in the form of an induction programme for new members and on an ongoing basis for all members.
- 8 **Banks' Committees only** - At least two members of each Committee shall be RFB-Only NEDs.
- 9 **Banks' Committees only** - Each of the RFB-Only NEDs may appoint any other RFB-Only NED (not already on the Committee) as their alternate to attend a meeting of the Committee. Where no RFB-Only NED who is a member of Committee nor any such alternate can attend, the Chair shall:
  - a. in so far as possible, seek the view of the RFB-Only NEDs on any potential RFB Conflict Matter which is to be considered at that meeting; and
  - b. notify the PRA of the situation.

#### B. The Chair

- 1 The Chair of each Committee shall be appointed by its Board.

- 2 In the Chair's temporary absence, one of the other members of the Group Committee nominated by the Chair in advance or elected by the other members of that Committee will act as Chair.
- 3 The Chair of each Committee may not perform a similar role for any of the Group's other sub-groups.
- 4 The Chair's primary responsibility is chairing and overseeing the performance of the role of their Committee.
- 5 The Chair's other responsibilities in respect of each Committee include:
  - a. ensuring that the Committee meets with suitable frequency;
  - b. fostering an open, inclusive discussion which challenges executives, where appropriate;
  - c. ensuring that the Committee devotes enough time and attention to the matters within its remit;
  - d. helping to ensure that the Committee and its members have the information necessary to discharge its and their duties and tasks;
  - e. reporting to the Board on the Committee's activities;
  - f. facilitating the running of the Committee to assist it in providing independent oversight of executive decisions;
  - g. safeguarding the independence and overseeing the performance of the Committee;
  - h. ensuring that the regulatory requirements in relation to the Committee are satisfied; and
  - i. engaging with stakeholders, including the PRA, FCA and principal shareholders, on behalf of the Committee.
- 6 The Chair will be available, wherever possible, at the Group's AGM.
- 7 The Chair of each Committee (insofar as it considers issues on behalf of or in relation to an SMCR Entity) is a Senior Manager for the purposes of the SMCR. This role needs pre-approval from the PRA/FCA.

#### C. Quorum, Voting and Written Resolutions

1. The quorum for meetings of each Committee will be any three members.
2. If a quorum of members is not available for a particular meeting, a majority of the members present may co-opt any independent Non-Executive Director of its Company to that Committee for that meeting, if necessary, to constitute a quorum.
3. Voting at meetings and the adoption of any written resolutions shall be in accordance with the procedures set out in the Company's Articles of Association

#### D. Attendees

- 1 Only members of each Committee have a right to attend meetings of that Committee.
- 2 Each Committee may invite such non-Member attendees as it deems necessary to fulfil its responsibilities. The Group Chief Executive Officer, Group Chief Internal Auditor, Chief Risk Officer and Banks' Risk Officer will normally attend meetings.
- 3 **Group Committee only:** *Two RFB-Only NEDs will normally attend the Group Committee meetings.*
- 4 The Chief Risk Officer must have full access to the Committee and will be permitted to attend its meetings, with or without the executive management team present.

## 8. Committee management

### A. Secretary

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

### B. Frequency

- 1 Each Committee shall meet as often as is necessary to fulfil its responsibilities, and not less than six times a year.
- 2 The Chair of each Committee, in consultation with the Company Secretary, will decide on the frequency and timing of the Committee meetings, ensuring that enough time is allowed for each meeting to enable the Committee to discuss the agenda items in as much detail as may be required.
- 3 The Chief Risk Officer may request a meeting with the Chair of any Committee at any time they consider necessary.
- 4 As often as needed, each Committee shall meet with the Risk Officer and/or such other persons as may be requested by the Chair of the Committee without executive management present.

- 5 ***Banks' Committees only*** - *In light of the Aligned Board Model, each of the Banks' Committees shall meet at least twice a year to consider matters that relate to its Bank alone.*

**C. Notice, agenda and papers**

- 1 The secretary to each Committee shall call meetings of the Committee at the request of any of:
- the Chair of the Committee;
  - any member of the Committee;
  - the Chief Risk Officer or the Banks' Risk Officer; or
  - the Group Chief Internal Auditor.
- 2 Group Secretariat shall circulate notice of the meeting (confirming date, time and venue), the agenda and papers to all members of the Committee electronically at least four working days before the meeting (or such shorter period as may be agreed by the Chair of the Committee) to enable full and proper consideration of the relevant issues.

**D. Minutes and Record of Membership**

- 1 The secretary to each Committee shall minute the proceedings of all meetings, including recording the names of those present and in attendance. In light of the Aligned Board Model, the minutes of the meetings of the various Committees will be produced as a composite document but will identify the Committee(s) by which any issue has been considered, so as to make clear the Company to which such issue relates; however, separate minutes will be produced in respect of such meetings of the Banks' Committees as are held (at least twice a year) to consider matters that relate to the Banks alone; and minutes of all meetings will identify any potential RFB Conflict Matter, whether the RFB-Only NEDs elected to exercise their weighted voting rights in respect of any RFB Conflict Matter and any action taken or to be taken in relation to any potential RFB Conflict Matter.
- 2 The secretary to each Committee shall ascertain, at the beginning of each meeting, the existence of any conflicts of interest and minute them accordingly.
- 3 The secretary to each Committee shall circulate minutes of meetings promptly to the Chair for approval in principle and, following confirmation of such approval, shall in due course circulate such minutes to all members of the Committee as part of the materials for the Committee's next meeting.
- 4 The secretary to each Committee shall keep a record of the membership, and the dates of any changes in such membership, of the Committee.

**E. Review**

- 1 Each Committee shall review at least annually these terms of reference and propose any amendments it deems necessary or desirable to its respective Nomination and Governance Committee for consideration and, if appropriate, recommendation to its Board for approval.
- 2 Each Committee shall review at least annually its performance and effectiveness (and shall be subject to review by its Board's Nomination and Governance Committee) and shall propose any recommendations it deems necessary or desirable to its Board for approval.

**These terms of reference became effective as of 28 March 2024.**