

**LLOYDS**  
BANKING GROUP



# INSTITUTIONAL SHAREHOLDER LUNCH

## Corporate Governance Presentation

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10 October 2018



# AGENDA



12.00pm	<b>Lord Blackwell</b> Chairman
12.15pm	<b>Simon Henry</b> Audit Committee
12.30pm	<b>Sara Weller</b> Responsible Business Committee
1.00pm	<b>Stuart Sinclair</b> Remuneration Committee
1.15pm	<b>Alan Dickinson</b> Risk Committee
1.30pm	<b>Q&amp;A</b>

# GROUP ATTENDEES



**Lord Blackwell**  
Chairman



**Anita Frew**  
Deputy Chairman



**Stuart Sinclair**  
Non-Executive Director



**Sara Weller**  
Non-Executive Director



**Alan Dickinson**  
Non-Executive Director



**Simon Henry**  
Non-Executive Director



**Malcolm Wood**  
Company Secretary



**Carla Antunes Da Silva**  
Group Strategy, Corporate Ventures  
& IR Director



**Douglas Radcliffe**  
Group Investor Relations Director

# Introduction

Lord Blackwell  
Chairman



# AREAS OF BOARD FOCUS



- Execution of our customer focused, digital transformation programme (GSR3)
- Strengthening customer trust/reducing conduct risk
- Strategic opportunities in areas that support business development and growth
- Operational resilience, including Cyber risk
- Oversight of market and credit risk exposure against uncertain economic environment
- Responsible Business/Sustainability agenda
- Board/Leadership team skills and succession planning

# EXECUTION OF GSR3 – OBJECTIVES



**Major strategic transformation programme, with extensive Board engagement in the conception and design to deliver 'Bank of the Future'**

- Build on and secure our position as largest UK digital bank with low cost/income advantage
- Re-engineer all the core customer journeys and other business processes from end to end to deliver straight through digital processing, using robotics, AI and migration to Cloud technology platform where appropriate
- Deliver transformation in customer experience (ease, speed, features, errors) combined with operational efficiency
- Effective use of 'single view' customer data to personalise customer propositions
- Achieved via structure of multi-discipline workstreams for each business process, adopting agile lab-based methodologies to accelerate innovation and implementation

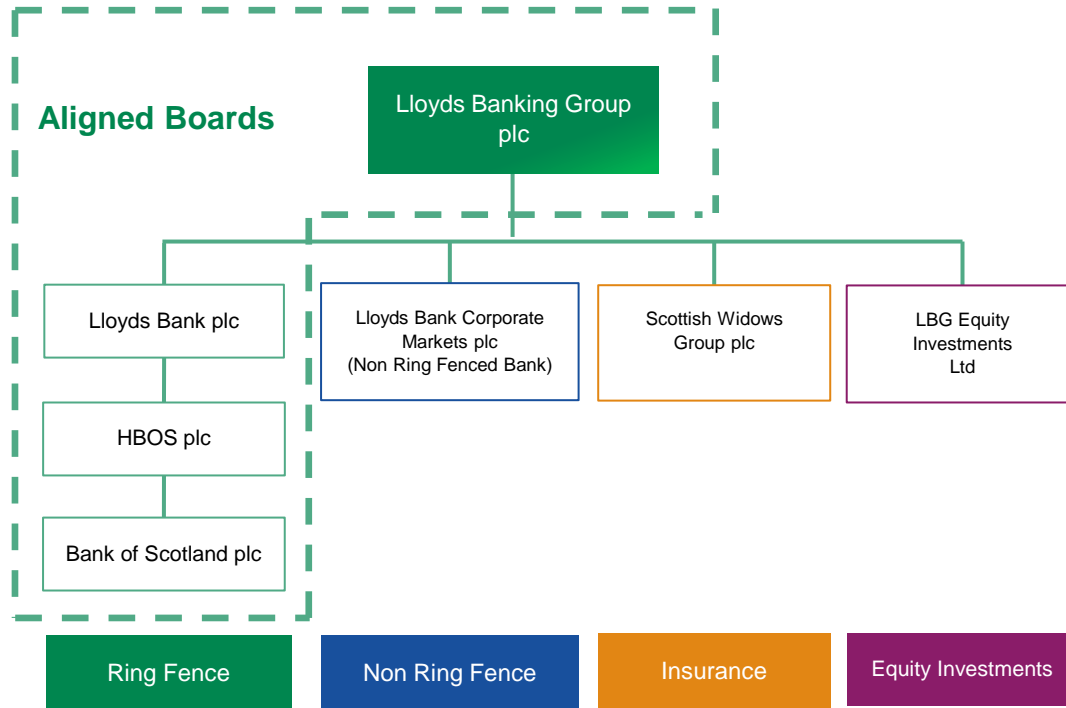
## **Strong Board oversight important alongside executive governance framework**

- **Delivering this scale and pace of change brings significant execution challenges**
  - Shifting significant organisational decision making & controls from business/functional lines to cross-cutting workstreams
  - Managing risks from technology implementation
  - Managing significant accompanying transformation in colleague roles, skills and culture
  - Maintaining effective management of overall programme
- **Board engaged through multiple touchpoints**
  - Annual cycle of 2 offsites to debate priorities, agree implementation plans
  - Suite of formal Board metrics and qualitative reporting to monitor progress and risks
  - ‘Deep Dive’ sessions on key areas
  - ‘Walk through’ sessions with workstream teams in Lab environment
  - A wide range of informal interactions to ‘feel the pulse’



- **Heritage Lloyds culture of strong commitment to customers and values**
- **Faced up to need to redress historic emphasis on product sales and targets, which resulted in mis-selling**
  - Retail business removed branch targets and sales incentives; measuring and managing around serving customer needs
  - Commercial business re-emphasised dominance of customer relationship versus product sales in organisational matrix
  - All products reviewed by product governance committee to ensure meet customer needs
  - Led industry in launching redesigned overdraft proposition
  - Promoting ‘doing the right thing for customers’ as core behaviour
- **GSR3 driven by customer perspective**
- **Focus on reducing customer complaints, with strong emphasis on ‘root cause’ analysis**
- **Created measures for Board to track customer trust as well as ‘net promoter score’, compliance and complaints**
- **Cultural Change programme – desired behaviours – owned by Board and Group Executive, led by the CEO**
- **Employee engagement shown significant improvement, and now attaining scores consistent with the High Performing benchmark of external companies**

# GOVERNANCE STRUCTURE POST RING FENCING<sup>1</sup>



- Restructure of Group driven by Ring Fencing requirements
- Business not permitted within the Ring Fence was transferred to the newly created Non-Ring Fenced Bank, Lloyds Bank Corporate Markets Plc (LBCM) on 28 May 2018
- LBCM has an independent Board and is provided services by the Ring Fenced Banks to supplement its own resource under Intra-group Service arrangements
- Investments not permitted within the Ring Fence, and not falling within the remit of LBCM will all be transferred to LBG Equity Investments Ltd before 1 January 2019
- Aligned Group/ Ring Fenced Bank Boards reflecting >90% of Bank Assets are within the Ring Fenced Bank

<sup>1</sup>Subject to final regulatory approval

# GROUP AND RING FENCED BANK BOARD GOVERNANCE: BOARD COMPOSITION FROM JANUARY 1 2019



- 3 EXECUTIVE DIRECTORS
- 9 GROUP AND RING FENCED BANK NON EXECUTIVE DIRECTORS
- 3 RING FENCED BANK INDEPENDENT DIRECTORS

		FTSE 100 Board	Banking / FS Experience	Technology / Digital Experience	Consumer Business Experience	CFO	Risk Committee	Audit Committee	Remuneration Committee	Responsible Business Committee
Lord Blackwell	2012	✓✓	✓✓	✓	✓		M		M	M
Anita Frew	2010	✓✓	✓		✓		M	M	M	M
Sara Weller	2012	✓	✓	✓	✓✓		M		M	C
Simon Henry	2014	✓	Corporate	✓		✓✓	M	C		
Nick Prettejohn*	2014	✓	✓✓ (Insurance)		✓		M	M		
Alan Dickinson	2014		✓✓	✓	✓		C	M	M	
Stuart Sinclair	2016	✓	✓✓	✓	✓		M		C	M
Lord Lupton**	2017		✓✓ (Advisor)				M	M		
Amanda Mackenzie	2018		✓ (Insurance)	✓	✓✓		M			M
Nigel Hinshelwood	2018		✓✓	✓✓	✓		M	M	M	
Brendan Gilligan	2018		✓✓		✓	✓✓	M	M		
Sarah Bentley	2018		✓	✓✓	✓✓		M		M	

C = Committee Chairman, M = Committee Member, \* = Chair Scottish Widows, \*\* Chair LBCM

# Audit Committee

Simon Henry



# AUDIT COMMITTEE – GOVERNANCE STRUCTURE



Principal legal entities covered:

- Lloyds Banking Group plc
- Lloyds Bank plc
- Bank of Scotland plc
- HBOS plc



**RFB Audit Committee**

Will generally have aligned membership and meetings

**Insurance  
Audit Committee**

Principal legal entities covered:

- Scottish Widows Group Limited
- Scottish Widows Limited

**Non-ring fenced bank  
Audit Committee**

Principal legal entities covered:

- Lloyds Bank Corporate Markets plc

- All audit committees comprise non-executive directors of the principal legal entities
- Regular updates are provided to the Group Audit Committee highlighting key issues discussed

## Key Accounting Issues

- PPI
- Other conduct risk provisions
- Impairment, including the implementation of IFRS 9
- Ring-fencing
- Pensions
- Tax, including deferred tax
- Financial instrument valuations
- Viability statement
- One-off transactions
- New accounting standards including IFRS 16

## Risk and Other Issues

- Pillar 3 and regulatory reporting issues
- Sarbanes-Oxley, internal control weaknesses and remediation plans
- Balance sheet substantiation
- Group Audit
- Speak up

# AUDIT COMMITTEE – EXTERNAL AUDIT



- PwC reappointed auditors until the completion of the audit of the 2020 financial year. Auditors will change in 2021
- Annual review of audit effectiveness showed standards being maintained
- Rigorous process requiring approval of non-audit assignment with fees above a “de minimis” limit
- Fees are closely controlled – increase in 2017 due to IFRS 9 and MBNA

(£m)	2017	2016
Audit	23	19
Audit-related	1	3
Non-audit	4	2
	<b>28</b>	<b>24</b>

# Responsible Business Committee

Sara Weller





# LLOYDS BANKING GROUP'S PURPOSE IS TO HELP BRITAIN PROSPER DOING BUSINESS RESPONSIBLY IS CRITICAL TO OUR SUCCESS



- As the largest UK Bank, our prosperity is interwoven with the prosperity of the UK
- Responsible Business is not a separate strategy; it's how we deliver our business strategy
- We recognise the responsibility our unique position in the UK places on us and we want to make our contribution to help solve the economic, social and environmental challenges facing the UK
- Our approach to responsible business is firmly embedded in our governance process



# OUR APPROACH IS ARTICULATED THROUGH OUR HELPING BRITAIN PROSPER PLAN, FOCUSING WHERE WE FEEL WE CAN HAVE THE GREATEST IMPACT



1. **Enable more people in Britain get a home** – Lend **£30bn by 2020** to first time buyers
2. **Support businesses looking to start up & grow** – Increase net lending to SMEs and Mid-Market businesses by **£6bn by 2020**
3. **Help people plan for the future** – Growing the amount of open book assets we hold on behalf of retirement and investment customers by **£50bn by 2020**
4. **Building Britain's digital capability** – Support a further **1.8m individuals, SMEs and charities** to develop their digital skills by 2020
5. **Champion Britain's diversity** – Increasing the percentage of **senior roles held by women to 40%** and the percentage of roles held by **Black, Asian and Minority Ethnic colleagues to 10% by 2020**
6. **Tackle social disadvantage** across Britain – Support **7,500 charities** through our independent charitable foundations by 2020

# THERE ARE FOUR AREAS OF WORK THAT EXEMPLIFY OUR APPROACH



## Mental Health

- Mental health approach that is CEO led
- 200+ Leaders completing Optimal leadership resilience programme
- Online training completed by 40,000 colleagues since May 2017
- Charity of the Year partnership with Mental Health UK: established first Money and Mental Health advice line
- #GetTheInsideOut Campaign on Channel 4

## Digital Skills

- Long term objective to increase the UK's productivity and bridge the digital skills gap:
  - 1.2m Specialist skilled people needed by corporates by 2022
  - 100k charities do not have Basic Digital Work Skills
- Building a proposition, working with charities, businesses and individuals to enhance digital skills capability for those who need it

## Foundations

- Over £70m donated from the Group in the last 5 years to our four regional, independent charitable foundations
- Helped more than 2,800 charities across the UK in 2017 focusing on social disadvantage
- Supporting the development of the third sector
- Colleagues volunteering their time to mentor Foundation supported charities
- Partnering on key topics for UK communities including domestic abuse and Mental Health

## Environmental Sustainability

- Aligning our approach to the UK's Clean Growth Strategy with an ambition to be seen as a leading UK bank supporting the transition to a low carbon economy
- Strengthening executive and board level governance and appointed first Head of Sustainability
- Awareness sessions held with Board and business executive leadership teams
- Approach will focus on; taking opportunities to finance the transition; identifying and managing risk; developing thought leadership; and embedding sustainability in the way we run our business
- Full adoption of TCFD recommendations over next 5 years
- Innovative financing propositions launched: **£2bn Clean Growth Finance Initiative**; £1bn Green loan initiative for commercial real estate; £1m Electric vehicle support to help customers achieve 25m zero emission miles in 5 years

# OUR APPROACH HAS BOTH SCALE AND IMPACT



Responsible  
Business  
of the Year  
2018

Helped almost  
**90,000**  
people plan for later life

**£500,000**  
raised by colleagues for Mental Health  
UK as part of our Walk the Talk  
signature challenge

Paid  
**£2.5bn**  
in taxes making us one of  
the UK's largest corporate  
tax payers

Championed the national roll out of the  
Banking Protocol, which prevented an  
estimated  
**£9m**  
of fraud in 2017

**£5m** invested in our Credit Union  
Development Fund since 2014, resulting in  
£25m of additional lending to Credit Union  
customers by the end of 2018

Over  
**8,500**  
Colleagues given specialist empathy  
training to support  
bereaved customers

Our specialist support team helped  
**1,900**  
customers with cancer in 2017, in  
partnership with MacMillan

Helped more than  
**700,000**  
individuals, small businesses and charities  
improve their digital skills

**£58m**  
Given to communities

Grew our net lending to SMEs by  
**15%**  
since 2014, compared to a market  
which has grown by 1%

Delivered  
**£13bn**  
of lending to first time  
buyers – more than any other lender

Helped  
**124,000**  
businesses to start up

# WE ARE BUILDING A WORKFORCE THAT REFLECTS MODERN BRITAIN



**89%**  
of colleagues agree that the Group is an inclusive place to work where diverse perspectives are valued

Increased the % of senior roles held by women to **34%** (from 28% in 2014)

First FTSE 100 company to commit to a public goal to increase ethnic diversity in senior management to **8%** by 2020



First FTSE 100 to have a public goal on gender: **40%** by 2020

# WE ARE COMMITTED TO PARTNERING WITH OTHERS TO TAKE A LEADING POSITION ON RESPONSIBLE BUSINESS ISSUES



UNIVERSITY OF BIRMINGHAM | BIRMINGHAM BUSINESS SCHOOL



CENTRE *for* RESPONSIBLE BUSINESS

Sponsor of the Centre for Responsible Business at the University of Birmingham



BUSINESS IN THE COMMUNITY

Partnering with BITC on the development of the UK's first Responsible Business Tracker, linked to the UN Sustainable Development Goals



UNIVERSITY OF CAMBRIDGE

INSTITUTE FOR SUSTAINABILITY LEADERSHIP

Strategic partner with Cambridge Institute for Sustainability Leadership, enabling them to invest in new work areas

# Remuneration Committee

Stuart Sinclair



# OUR REMUNERATION AGENDA



## **No structural changes in 2018**

- 2018 is an implementation year; we will seek approval for our next policy at the 2020 AGM
- We continue to align our remuneration principles to the Group's strategic objectives to ensure we pay for performance with a focus on skills and capabilities rather than experience
- Variable remuneration will continue to align to performance evaluated through financial and non-financial strategic measures and be heavily weighted towards long term performance
- We continue to align our remuneration policies for both the ring-fenced and non-ring fenced bank

## **Forward planning**

- Remuneration focus remains on Group as a whole and not just senior management with a close alignment to the Groups' GSR3 strategy of Digitise, Maximise, Transform
- FRC's Corporate Governance Code compliance and legislative considerations for future disclosures
- Future policy design will consider how remuneration structures can be simplified
- Continue to encourage staff share ownership: >99% of staff hold LBG shares representing >1.3% of the share register

We seek to continuously improve and will engage with shareholders as our approach to remuneration evolves



# SHAREHOLDER FEEDBACK – SEPTEMBER 2018



At the 2018 AGM, the resolution to approve the Directors' Remuneration Report received 79.22% of votes in favour. Although a lower than usual vote, we consider that our policies, procedures and the level of awards are in line with performance, but recognise that we need to do more to simplify our approach and enhance disclosure in next year's report.

What Shareholders have shared	How we intend to respond
<p><b>Disclosure</b> levels are generally good, but illustrate an overly complex process for determining bonus and Executive Director remuneration.</p>	<p>We will focus on ensuring that disclosure within the 2018 DRR provides a clear articulation of how Group performance and GPS awards for Executive directors are directly aligned.</p>
<p><b>Bonus calculations:</b>  <b>Clarity needed on –</b></p> <ul style="list-style-type: none"> <li>• The decision making process for using 5.1% of Underlying profit;</li> <li>• The use of a Balanced Scorecard modifier in addition to the UP calculation;</li> <li>• Financial strategic measures within the BSC and their assessment.</li> <li>• Where judgement (if any) is applied vs mechanical outturn.</li> </ul>	<p>We will provide:</p> <ul style="list-style-type: none"> <li>• The rationale behind how the percentage of UP is determined including funding limits.</li> <li>• How the BSC modifier works within the overall assessment of financial and non-financial performance when determining the overall GPS outcome.</li> <li>• How our current approach is mechanically driven with relatively limited judgemental inputs.</li> </ul>
<p>Greater <b>simplicity</b> in award structures with higher and longer share ownership by Executive Directors.</p>	<p>Points for consideration in future policy design.</p>

# Risk Committee

Alan Dickinson



# CURRENT KEY PRIORITIES FOR BOARD RISK COMMITTEE



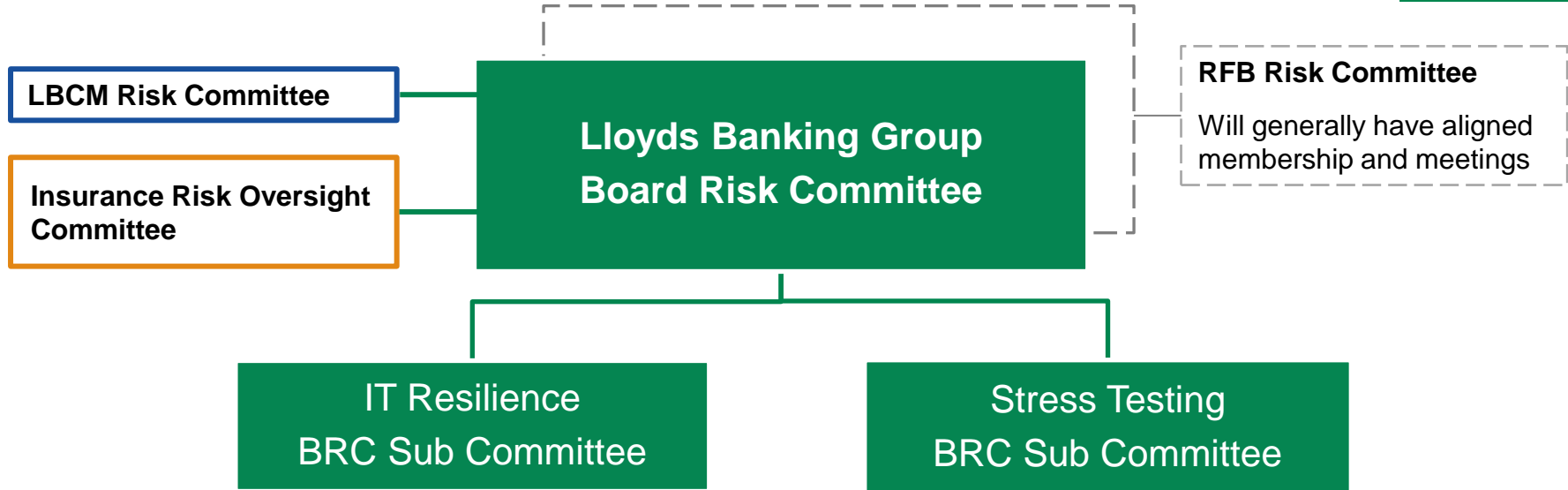
## 1. Financial Risk

- a) Oversight of Credit and Market Risk appetite, set by the Board to ensure performance “through the cycle”
- b) Review portfolio information and trends in key markets to detect early warning signs
- c) Test resilience of the portfolio to downside economic scenarios through various stress tests as well as regular consideration of external trends

## 2. Operational Resilience

- a) Board oversight of risk appetite in key aspects of operational resilience; Cyber Security, IT Security, Sourcing, People and Property
- b) Clearly defined critical business processes with regular customer testing of acceptable downtime
- c) Dedicated sub-committee to focus on Cyber and IT risks, supplemented by external experts

# BOARD RISK COMMITTEE – GOVERNANCE STRUCTURE



Principal legal entities covered by Lloyds Banking Group Board Risk Committee:

- Lloyds Banking Group plc
- Lloyds Bank plc
- HBOS plc
- Bank of Scotland plc

Group Risk Committees and Sub Committees comprise non-executive directors of the principal legal entities

Regular updates from Scottish Widows Group plc and Lloyds Bank Corporate Markets plc are provided to Lloyds Banking Group Risk Committee highlighting key issues discussed

# BOARD RISK COMMITTEE – THEMES DISCUSSED IN 2018



## Deep Dives

- Retail Secured
- Consumer Unsecured (Indebtedness and Persistent Debt)
- Automotive Sector
- Commercial Credit Quality
- EU Exit Planning

## Other Areas of Focus

- Third Party Suppliers
- Money Laundering and Fraud
- Data Risk
- Operational Resilience Strategy
- Model Risk

## Regular Updates

- Economic Update
- Stress Testing
- Conduct
- Legal
- Cyber Security
- Complaints
- Change and Execution Risk
- Rectifications and Remediations
- Performance of Credit Portfolios
- People Risk

# Questions & Answers



# Forward looking statement and basis of presentation



## Forward looking statement and basis of presentation

This document contains certain forward looking statements with respect to the business, strategy, plans and /or results of Lloyds Banking Group (the “Group”) and its current goals and expectations relating to its future financial condition and performance. Statements that are not historical facts, including statements about the Group’s or its directors’ and/or management’s beliefs and expectations, are forward looking statements. By their nature, forward looking statements involve risk and uncertainty because they relate to events and depend upon circumstances that will or may occur in the future. Factors that could cause actual business, strategy, plans and/or results (including but not limited to the payment of dividends) to differ materially from forward looking statements made by the Group or on its behalf include, but are not limited to: general economic and business conditions in the UK and internationally; market related trends and developments; fluctuations in interest rates, inflation, exchange rates, stock markets and currencies; the ability to access sufficient sources of capital, liquidity and funding when required; changes to the Group’s credit ratings; the ability to derive cost savings and other benefits including, but without limitation as a result of any acquisitions, disposals and other strategic transactions; changing customer behaviour including consumer spending, saving and borrowing habits; changes to borrower or counterparty credit quality; instability in the global financial markets, including Eurozone instability, instability as a result of the exit by the UK from the European Union (EU) and the potential for other countries to exit the EU or the Eurozone and the impact of any sovereign credit rating downgrade or other sovereign financial issues; technological changes and risks to the security of IT and operational infrastructure, systems, data and information resulting from increased threat of cyber and other attacks; natural, pandemic and other disasters, adverse weather and similar contingencies outside the Group’s control; inadequate or failed internal or external processes or systems; acts of war, other acts of hostility, terrorist acts and responses to those acts, geopolitical, pandemic or other such events; changes in laws, regulations, practices and accounting standards or taxation, including as a result of the exit by the UK from the EU, or a further possible referendum on Scottish independence; changes to regulatory capital or liquidity requirements and similar contingencies outside the Group’s control; the policies, decisions and actions of governmental or regulatory authorities or courts in the UK, the EU, the US or elsewhere including the implementation and interpretation of key legislation and regulation together with any resulting impact on the future structure of the Group; the ability to attract and retain senior management and other employees and meet its diversity objectives; actions or omissions by the Group’s directors, management or employees including industrial action; changes to the Group’s post-retirement defined benefit scheme obligations; the extent of any future impairment charges or write-downs caused by, but not limited to, depressed asset valuations, market disruptions and illiquid markets; the value and effectiveness of any credit protection purchased by the Group; the inability to hedge certain risks economically; the adequacy of loss reserves; the actions of competitors, including non-bank financial services, lending companies and digital innovators and disruptive technologies; and exposure to regulatory or competition scrutiny, legal, regulatory or competition proceedings, investigations or complaints. Please refer to the latest Annual Report on Form 20-F filed with the US Securities and Exchange Commission for a discussion of certain factors and risks together with examples of forward looking statements. Except as required by any applicable law or regulation, the forward looking statements contained in this document are made as of today’s date, and the Group expressly disclaims any obligation or undertaking to release publicly any updates or revisions to any forward looking statements contained in this document to reflect any change in the Group’s expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based. The information, statements and opinions contained in this document do not constitute a public offer under any applicable law or an offer to sell any securities or financial instruments or any advice or recommendation with respect to such securities or financial instruments.

