

## ANNUAL GENERAL MEETING – CHAIRMAN’S SPEECH

16 MAY 2019

Good morning ladies and gentlemen and welcome to our Annual General Meeting.

2018 was another year of significant progress for Lloyds Banking Group. Last year, we provided you with details of the Group’s new three-year strategy and today we will update you on what we have achieved in the first year.

Subject to my re-election today, my task will be to continue to oversee the successful delivery of this strategy, transforming the business into a ‘bank of the future’ that can continue to help Britain prosper in a rapidly changing world. A responsible business that focuses on customers’ needs and earns their trust. As I said last year, and I repeat today, this is essential if we are to achieve our long term aim of becoming the best bank for customers, colleagues and shareholders.

We have structured the day along similar lines to previous years. Following my opening remarks you will hear from António Horta-Osório, our Group Chief Executive, on the progress made in 2018 under his and his team’s leadership. He will also provide an update on our financial performance in the first quarter of this year. António will be followed by Sara Weller, an Independent Director and Chairman of our Responsible Business Committee, who will talk to you about the Group’s Responsible Business agenda and our Helping Britain Prosper Plan.

Shareholders will then have an opportunity to ask questions about the business of the meeting, before we move to voting on the proposed resolutions. I will aim to conclude the meeting within a couple of hours, which should allow plenty of time for questions, before we offer shareholders a light lunch.

I would like to remind you that the meeting today is your opportunity to hear more about our plans for the coming years and to ask us questions about our progress since we last met a year ago. I am keen to see as many shareholders as possible ask questions and for us to be able to answer. As in previous years, I am sure everyone will understand that we

will not be able to answer questions in this public forum about personal grievances or legal disputes with the Group. As usual, there are representatives of our customer service and legal teams here who would be happy to help you with queries outside the hall after the meeting.

Similarly, we have provided shareholders with a detailed update on the status of matters relating to HBOS Reading on our website, which is also in the handout provided to you when you arrived and which I will talk through in more detail later.

In my introductory remarks, I would like to say a few words about:

- The Board;
- The company's performance over the last year;
- What we are doing to support our customers and communities;
- Our remuneration policy;
- And, finally a few words on dividends.

## **BOARD OF DIRECTORS**

Let me start with the Board.

Since our AGM in 2018, two members of our executive management team have given notice to the Board of their plans to retire from the Group: our Chief Financial Officer and Board Member, George Culmer, and our Group Company Secretary, Malcom Wood.

In October, George announced that he would be retiring later this year, having served the Group so well since joining in 2012. I want to pay tribute to George's tremendous contributions and to thank him on behalf of the Board, our colleagues and our shareholders.

Malcom's stewardship as Company Secretary has similarly been a great support to the Board and all the Directors of the Group. I would like to take this opportunity to thank him for his hard work over the years.

In the past year, we have made a number of changes to the Board. In October, Amanda Mackenzie joined the Board as a Non-Executive Director, and serves as a member of the Board Risk Committee, Remuneration Committee and Responsible Business Committee.

At the end of 2018, Deborah McWhinney stepped down as a Non-Executive Director of the Group; and Stuart Sinclair succeeded Anita Frew as Chairman of the Board Remuneration Committee. Anita has continued to be a member of the Committee, alongside her roles as the Group's Deputy Chairman and Senior Independent Director.

In February, we announced that William Chalmers will succeed George Culmer as Executive Director and Chief Financial Officer. I look forward to welcoming William to the executive team and the Board.

And finally, I am delighted that Kate Cheetham will become Group Company Secretary in July, in addition to her role as Group General Counsel.

A full description of our Directors, their backgrounds and qualifications is set out in the Notice of Annual General Meeting and on pages 52 to 55 of the Annual Report.

One of the principal tasks of the Board is to oversee the development of a strategy that achieves long-term sustainable success for the Group. But we are also acutely aware that, to be truly successful, the strategy needs to be underpinned by the highest standards of corporate governance.

We conducted an external review of our Board effectiveness this year which confirmed our confidence that our Board governance – combined with an excellent management team – enables us to provide the leadership needed to continue to build a sound and successful business and deliver sustainable returns for you, our shareholders.

I would like to take this opportunity to express my thanks to all our Board Members for their judgement, wisdom and commitment throughout the past year.

## **REVIEW OF 2018**

Let me now move on to provide a brief overview of the past year.

As I have said, 2018 was a year of substantial progress for Lloyds Banking Group. The Group once again delivered strong financial performance in 2018. We made major strides in executing the new strategy we launched in February of last year.

We outlined four priorities for further transforming the Group to meet the financial needs and behaviours of our customers in a rapidly-changing environment. These four pillars were:

- further enhancing our leading customer experience;
- further digitising the Group;
- transforming our ways of working;
- and maximising the opportunities we get from bringing together our capabilities across the Group.

During 2018, the Board were pleased to see that good progress had been made during the first year of the plan in each of these areas.

Our aim is not just to maintain our position as Britain's biggest digital bank, but to seize the opportunities this brings to create more value from the deeper relationships we can build with our customers through digital channels.

Shareholders should rightly be proud of the positive impact Lloyds Banking Group has had in helping Britain prosper in 2018 – which as you know is our overarching purpose.

During the year, the Group helped 190 first time buyers buy a home every single day. Our lending to small businesses enabled over 300 businesses to start up every day. Those lending commitments remain in place irrespective of the UK's departure from the EU and shareholders will have seen our campaign reassuring British small and medium sized business by putting £18 billion of gross lending at their disposal in 2019, to help them through uncertain times.

As a result of the Group's performance in 2018 and our strong financial position, the Board has once again been able to follow through on its policy of recommending an increased ordinary dividend, which I will talk more about later. The Group has also distributed surplus capital in the form of an increased share buyback programme.

The Board is convinced we have the right strategy and that the Group is well-placed to continue supporting customers through our lending activity, no matter how the economy evolves, and to continue building value for shareholders.

António will go through the Group's recent financial performance in a moment, but I would like to take this opportunity to thank him – and his management team – for their continued leadership, which has driven the growth and transformation of the Group. Since the launch of our first strategic review in 2011, we have been on a journey to become a simpler, lower risk organisation – and the PRA's decision earlier this month to reduce the Group's capital requirements, enabling us to reduce our capital target by 50 basis points or around £1 billion, reflects our success in these efforts.

I would also like to take this opportunity to thank all of our colleagues for their contribution to the Group's progress in 2018. It is the commitment, support and dedication from all of them that delivers for our customers and enables us to succeed.

We are the largest UK retail financial services provider with around 26 million customers and we have a role in nearly every community. With a business that has the breadth and scale that we do, we of course don't always get things right. But we aim to learn from our mistakes and do better. We understand the responsibility that comes with the place we hold in our communities, and we take it very seriously.

We have recently provided shareholders with a detailed update on the status of matters relating to the HBOS Reading fraud, historic failures and the current position. This is available on our website and also in the handout provided to you when you arrived. These matters continue to be the subject of ongoing enquiries, so it is important we allow the enquiries to reach their conclusions before I comment further on the matters under review. As a result I will not be able to add anything in response to questions on that topic here, but I trust that the detailed handout goes some way to keep shareholders updated. This is an important topic about which we are committed to keeping shareholders informed.

While this Board was not in place at the time of these events, we of course take responsibility for dealing with the consequences. The Group has publicly apologised for the harm done to victims and it has worked with the police, regulators and other authorities to get to the bottom of what happened.

The information for shareholders sets out the actions we have been taking following the criminal convictions in early 2017. This included establishing an independent Customer Review to compensate those affected by the fraud, and an independent assurance review which will be undertaken by Sir Ross Cranston. Separately, we also set up an independent

review into how the Group handled the issue after acquiring HBOS in 2009, led by retired High Court judge Dame Linda Dobbs.

The Customer Review, led by Professor Griggs, was a voluntary review carrying the objective of providing fair compensation in a way which would exceed the compensation available to victims through a lengthy and costly legal process.

The Review has now completed its work and closed to new complaints. We are pleased to report that all 71 business customers that have participated in the review have now received compensation offers, and that 98% of the individuals involved have accepted these offers.

To provide assurance that the Customer Review has delivered fair and reasonable outcomes, it was announced earlier this month that Sir Ross Cranston, a retired High Court judge, has been appointed to undertake an independent Assurance Review of the process.

Finally, the ongoing review conducted by Dame Linda Dobbs is assessing whether the issues relating to HBOS Reading were properly investigated and appropriately reported to the relevant authorities after Lloyds' acquisition of HBOS in 2009.

The Board and Executive of Lloyds Banking Group recognise that the criminal activities that took place in HBOS Reading over a decade ago have not only had a damaging impact on the lives of those customers impacted but have also cast a long shadow in undermining confidence and trust more widely. We are determined to rebuild that trust by ensuring the various investigations get to the bottom of what went on.

But going forward, since the treatment of small businesses by banks is often in the news, let me take this opportunity to say how proud we are – and how proud you should be as shareholders – of this bank's current record in supporting the small business community.

Antonio will talk more on this shortly, but our support for small businesses has increased substantially at a time when market-wide lending to this sector has been decreasing.

Our Helping Britain Prosper Plan includes a commitment to lend an additional £6 billion to start-ups, small businesses and Mid Markets businesses between 2018 and 2020 – an extra £2 billion every year – to help them achieve their business goals.

We are also investing in skills across the economy.

Through our £10 million commitment to the Advanced Manufacturing Training Centre in Coventry we will support the funding and training of over 3,500 skilled apprentices and engineers by 2024, helping to address the skills shortages that businesses across the UK are facing.

These commitments send a clear message that we are by the side of British businesses of all sizes, regardless of the challenges they face.

## **REMUNERATION**

Turning to executive remuneration, we have listened carefully to our shareholders and other key stakeholders and have made a number of changes to simplify our process for determining bonus awards for Executive Directors and to enhance our disclosures.

We continue to set our remuneration principles to ensure we pay for performance, and to ensure our approach to remuneration is aligned to the interests of our shareholders.

Despite the Group's strong financial performance, the annual Group Performance Share award for Executive Directors has decreased relative to last year. As set out in the Remuneration Report, this reflects the assessed performance against other stretching operational and strategic goals which, while strong in 2018, was a step down from the higher rating achieved in 2017.

More information on how we ensure our approach to remuneration supports our strategy can be found in the Directors' remuneration report on pages 82 to 104.

## **DIVIDENDS**

Turning to dividends, as I previously mentioned, 2018 saw the Group deliver a further improvement in our financial performance, allowing the Board to propose an increase in the ordinary dividend.

As a result, the Board is recommending a final ordinary dividend of 2.14 pence per share, taking the total ordinary dividend for the year to 3.21 pence per share. This equates to a 5 per cent increase year on year.

In addition, the Board's current preference is to return surplus capital by way of buybacks. And we have announced a further programme to repurchase up to £1.75 billion of ordinary shares. This programme started on the 1<sup>st</sup> March.

I know some shareholders have questioned why we have adopted share buybacks rather than continuing to distribute surplus capital through a special dividend. Our primary objective is to ensure shareholders have a progressive and sustainable ordinary dividend, a policy which we plan to maintain through normal economic fluctuations.

Distributing surplus capital through a share buyback programme gives us more flexibility in the event that economic and regulatory conditions change. Shareholders still benefit because reducing the number of shares in issue means that future dividends are spread over fewer shares, and shareholders receive a commensurately higher proportion of the dividends paid. Over time shareholders should also be rewarded by higher dividends being reflected in a higher share price.

We fully recognise the importance of dividends to shareholders, and the Group will continue to pursue its policy of delivering progressive and sustainable ordinary dividends, while distributing surplus capital when appropriate to do so. We are one of the UK's largest dividend payers and we have a very large retail shareholder base, and we are today announcing that from next year we will be paying dividends on a quarterly basis.

## **OUTLOOK**

As we look further ahead, the UK continues to face uncertainty around the near-term outlook for the economy reflecting both EU exit negotiations and wider global economic risks.

However, we have a strong and resilient business. As we accelerate into the second year of our strategic transformation, we believe that our customer focus and simple business



model – with its multi-brand, multi-channel proposition – will continue to provide the best opportunities for building competitive advantage and long term success.

Our ambition is to build a business that lives up to its heritage and stands the test of time – a business we can all be proud of.

So I would like to thank all our shareholders for their continued support.

Now let me hand over to António.

## **CHAIRMAN'S CLOSING REMARKS**

Thank you, Sara.

In a moment we will give shareholders the opportunity to ask questions. But before we do, I would like to point out an important change to voting this year: voting will open before shareholder questions and will remain open for the duration of shareholder questions.

I will give you a reminder to vote towards the end of shareholder questions and again before voting closes.

Unless there are any objections, I will now take the Notice of Annual General Meeting, as read. Thank you.

Resolutions 1 to 20 are Ordinary Resolutions and to be approved require a simple majority of more than 50 per cent of the total votes cast to be voted in their favour.

Resolutions 21 to 26 are Special Resolutions and to be approved require at least three quarters of the votes cast to be in their favour.

All of the resolutions will be decided by a poll, which means that all shareholder votes will be taken into account according to the number of shares they hold.

Turning to the voting handsets, can I first check that everyone who would like a handset has one? Please raise your hand if you need one.

Many of you will have used them before. The leaflet handed to you on arrival and the slides behind me will inform on how to use them for voting. Once I declare voting open, the list of resolutions will appear on your devices.

I would remind you that while you have the choice to withhold your vote this is not a vote in law and so does not count either 'for' or 'against' a resolution. If you wish to vote on all resolutions in accordance with the Board's recommendations, there is an option to do this which is shown at the top of the list of resolutions.

To change your vote, you should choose the resolution and simply vote again and your original instruction will be replaced.

To cancel a vote, select the resolution and press the 'X' button. The vote will be removed and not counted.

Paper poll cards, for those who have chosen this means of voting, should be completed, signed and then placed in one of the poll boxes outside the meeting room when you leave the meeting.

If you require help please raise your hand and one of our stewards will be pleased to assist you.

I now declare the voting open.

We will now move to the part of the meeting where shareholders or their appointed proxies have the opportunity to ask questions.

Out of respect for all shareholders we ask that your questions keep to the order of the meeting – so they should relate to the items of business before the meeting.

We take customer complaints very seriously, and it is important that they are dealt with properly. As I am sure you will appreciate, these are not something we can resolve in the room at the AGM and it would be inappropriate to do so.

There is a shareholder area downstairs in the reception hall, where my colleagues are available to assist you with any specific queries on customer matters. Could I therefore ask you to raise any individual customer issues or enquiries with colleagues outside this hall, after the meeting.

As I said in my earlier remarks, we will also not be able to add substantively to the detailed update we have provided to shareholders on the HBOS Reading matter.

As I said earlier, I aim to conclude the meeting within around two hours, which means we will be finishing questions by around 1.00pm. In the interests of other shareholders, I

would ask you to keep your questions short and refrain from delivering long speeches. If you have more than one question, please ask all your questions at the same time.

If you have already registered a question, and made this known to colleagues when entering the auditorium, you should now be seated in the area adjacent to a question point. At the appropriate time during the meeting, you will be asked to go to one of the question points so that you may ask your question.

For those of you who have not registered a question but who would like to do so, please go to the stewards near one of the question points, so that a colleague can assist you.

When you ask a question, please give your name.

### **[FOLLOWING QUESTION & ANSWER SESSION]**

We are now drawing to the end of the question and answer session, so please ensure you vote now if you wish to do so as I will be closing the voting when the question and answer session ends.

Now we have come to the end of the question and answer session and I am about to close the voting. Please register any final votes now.

I now declare the vote closed.

That concludes the voting at the meeting. Thank you.

Ladies and gentlemen, as shown on the screen behind me the provisional result is that all the resolutions have been carried and I want to thank shareholders for their continued support.

The poll count will be conducted by our registrar, Equiniti, who will also act as poll scrutineers.

The final results of the poll will be announced to The Stock Exchange as soon as reasonably practicable following the conclusion of this meeting and will appear on our website.

That concludes the business of the Annual General Meeting. Please return your voting handset to one of the collection points outside this room.

For those of you able to stay we will be offering a light lunch and refreshments in the reception area downstairs. Thank you for attending the meeting today and for your support which we all value highly. I wish you all a safe journey home.

**END**