

**LLOYDS BANKING GROUP
BOARD RISK COMMITTEE
TERMS OF REFERENCE
(LLOYDS BANKING GROUP PLC, LLOYDS BANK PLC,
BANK OF SCOTLAND PLC & HBOS PLC)**

These terms of reference are the terms of reference for the Board Risk Committee (the “Committee”) of the Boards of each of Lloyds Banking Group plc, Lloyds Bank plc, Bank of Scotland plc and HBOS plc. References to the Board are to the Board of each of Lloyds Banking Group plc, Lloyds Bank plc, Bank of Scotland plc and HBOS plc as appropriate. References to Company are to each of Lloyds Banking Group plc, Lloyds Bank plc Bank of Scotland plc and HBOS plc as appropriate. Meetings of the Banks Risk Committees and the Group Board Risk Committee will occur concurrently but will have discrete sections for each Company, normally covering Bank matters first before considering reports from other sub groups and the aggregate view of Group risks.

Where necessary or appropriate the terms of reference set out any aspect unique to Lloyds Banking Group plc, Lloyds Bank plc, Bank of Scotland plc or HBOS plc.

1. SCOPE

PURPOSE

The Board Risk Committee is responsible for reviewing and reporting its conclusions to the Board on:-

- the Group’s current and future risk appetite (the extent and categories of risk which the Board regards as acceptable for the Company to bear);
- the Group’s risk management framework (setting out the procedures to manage risk, embracing principles, policies, methodologies, systems, processes, procedures and people); and
- the Group’s risk culture to ensure that it supports the Group’s risk appetite.

In that regard, the Committee will take a forward looking perspective, anticipating changes in business conditions.

AUTHORITY

The Committee is a committee of the Board of the Company. The Committee is authorised by the Board to:-

- a) investigate any activity within its terms of reference and have such direct access to the resources of the Group as it may reasonably require;
- b) seek any information that it requires from any employee, and all employees are directed to co-operate with any request made by the Committee; and
- c) engage outside legal or other independent professional advisers and obtain appropriate funding for the payment of relevant fees and expenses.

The Committee may delegate all or any of its responsibilities to one or more sub-committees including one established solely for that purpose.

The Committee shall have regard to any relevant advice from the Audit Committee or Group Internal Audit concerning the effectiveness of the control framework.

2. RESPONSIBILITIES

The responsibilities of the Committee shall be to:-

2.1 RISK

- 2.1.1 provide advice to the Board on risk strategy and oversee the development, implementation and maintenance of the Group's overall risk management framework and its risk appetite (including the metrics to be used to monitor the Group's risk management performance), strategy, principles and policies, to ensure they are in line with emerging regulatory, corporate governance and industry best practice;
- 2.1.2 oversee the Group's current risk exposures (including prudential risk), risk/return and proposed improvements to the Group's risk management framework and its risk appetite, strategy, principles, policies and standards;
- 2.1.3 provide oversight and challenge of the design and execution of stress and scenario testing;
- 2.1.4 provide oversight and challenge of the day-to-day risk management and oversight arrangements of the executive including adherence to Group risk principles, policies and standards and any action taken resulting from material policy breaches across the Group, based upon reports from the Group Chief Executive and the Chief Risk Officer ("CRO");
- 2.1.5 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;
- 2.1.6 providing advice, oversight and challenge necessary to embed and maintain a supportive risk culture throughout the Group;
- 2.1.7 review whether pricing frameworks take fully into account the Group's business model and risk appetite and present recommendations to the Board when the framework is not adequate;
- 2.1.8 provide advice to the Board on the assessment of emerging and principal risks. Principal risks should include those that might threaten the Group'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;
- 2.1.9 **FOR LLOYDS BANKING GROUP PLC ONLY** - review new risk principles and policy and material amendments to risk principles and policy recommended by the Group Chief Executive and CRO, for approval by the Board;
- 2.1.10 provide formal sign-off for the Board Risk Report and other risk related sections within the annual report and accounts;
- 2.1.11 facilitate the effective contribution and involvement of non-executives and aid their understanding of risk issues and the Group risk management framework;

2.2 REMUNERATION

- 2.2.1 provide input/advice to the Remuneration Committee on the alignment of remuneration to risk performance including an examination of whether remuneration incentives take into consideration capital, liquidity and the likelihood and timing of earnings;
- 2.2.2 confirm that, in relation to the Group's end to end risk adjusted bonus process, the report provided to the Remuneration Committee setting out the outcomes of that bonus process takes into account all relevant risk matters;
- 2.2.3 **FOR LLOYDS BANKING GROUP PLC ONLY** - in relation to the Group's end to end risk adjusted bonus process the Chair of the Risk Committee, on behalf of the Committee, shall approve the performance assessment of Risk Division and individual ratings for Code Staff in Group Risk and, as necessary, recommend to the LBCM Board the individual ratings for the relevant risk staff that are working within LBCM;

2.3 CRO/ RISK DIVISION

- 2.3.1 review the appointment and resignation or dismissal of the CRO and make appropriate recommendations to the Board;
- 2.3.2 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/including the duties of Compliance Officer.
- 2.3.3 review and discuss with the CRO the scope of work of the Risk Division, its plans, the issues identified as a result of its work, how management is addressing these issues and the effectiveness of systems of risk management;
- 2.3.4 review the adequacy of the Risk Division's resources, and its authority and standing within the Company;
- 2.3.5 review co-ordination between the Risk Division and both Group Internal Audit and the external auditors;
- 2.3.6 periodically review and update its own terms of reference to reflect best practice, requesting Board approval for all proposed changes and, at appropriate intervals, evaluate its own performance against the terms of reference; and
- 2.3.7 determine the nature, amount, format and frequency of the information on risk received by the Committee.

FOR LLOYDS BANK PLC AND BANK OF SCOTLAND PLC ONLY:

2.4 BANKS RISK OFFICER

- 2.4.1 receive assurance from the risk officer appointed to the Banks alone ("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 Banks Boards as appropriate;
- 2.4.2 receive such materials as the Banks Risk Officer shall seek to present to the Committee and in particular where the Bank CRO may be conflicted;
- 2.4.3 meet with the Banks Risk Officer twice yearly in private without the Banks CRO present to enable the Banks Risk Officer to identify and escalate any potential RFB Conflict Matters, if any, at such meetings;

- 2.4.4 consider any matter which the Banks Risk Officer has escalated as a matter where the Banks Risk Officer seeks to veto the Bank CRO, 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 require to be escalated to the relevant Bank Board;
- 2.4.5 approve the appointment and removal of the Banks Risk Officer, taking into account feedback from the directors in considering 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 Bank CRO and the Chairman. Decisions in relation to the appointment and removal of the Banks Risk Officer shall require the support of the majority of the Bank Only NEDs; and
- 2.4.6 request such information as the directors consider appropriate from the Banks Risk Officer.

3. MEMBERSHIP AND ATTENDANCE

3.1 MEMBERSHIP

- 3.1.1 Members of the Board Risk Committee shall be appointed by the Board on the recommendation of the Nomination and Governance Committee in consultation with the chairman of the Board Risk Committee. Members shall be independent non-executive directors.
- 3.1.2 At least one of the members of the Committee is required to have recent and relevant financial experience (holding a professional qualification from one of the professional accounting bodies).
- 3.1.3 As often as required, without the executive management present, the Committee shall meet with the relevant Risk Officer and/or such other individuals as may be requested by the Chairman.

FOR LLOYDS BANK PLC AND BANK OF SCOTLAND PLC ONLY:

- 3.1.4 For each of Lloyds Bank plc and Bank of Scotland plc all three Bank Only NEDs will be members of the Committee.

FOR LLOYDS BANK PLC AND BANK OF SCOTLAND PLC ONLY:

- 3.1.5 Each of the Bank Only NEDs may appoint an alternate (who must be a Bank Only NED) to attend a meeting of the Committee on his/her behalf. In exceptional circumstances where a Bank Only NED or his/her alternate cannot attend the Board or Committee meeting the Chairman will, in so far as possible, seek to obtain the views of the Bank Only NEDs on any potential RFB Conflict Matter which is to be considered at that meeting, in so far as possible, also ensuring that the PRA is notified should such a situation arise.

3.2 CHAIRMAN¹

The Chairman of the Committee shall be appointed by the Board. The role of the Chairman may be held by the Chairman of the Lloyds Banking Group Board Risk Committee. In the

¹ The Chairman of the 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 requires approval by the PRA/FCA.

Chairman's temporary absence, one of the Committee members nominated by the Chairman or elected by the other members of the Committee will act as chairman.

The Chairman's primary responsibility is chairing, and overseeing the performance of the role of the Committee and ensuring and overseeing the integrity, performance and independence of the compliance and risk functions.

The Chairman's other responsibilities include:

- ensuring that the Committee meets with sufficient frequency;
- fostering an open, inclusive discussion which challenges executives, where appropriate;
- ensuring that the Committee devotes sufficient time and attention to the matters within its remit;
- helping to ensure that the Committee and its members have the information necessary to its and their tasks;
- reporting to the Board on the Committee's activities;
- facilitating the running of the Committee to assist it in providing independent oversight of executive decisions;
- safeguarding the independence and overseeing the performance of the Committee;
- ensuring that the regulatory requirements in relation to the Committee are satisfied; and
- engaging with stakeholders, including the PRA, FCA and principal shareholders, on behalf of the Committee.

3.3 ATTENDEES

All other non-executive directors will be invited to attend if they wish. Only members have the right to attend meetings. The Committee may invite such other attendees as it deems necessary to fulfil its duties as set out above.

The Group Chief Executive, Group Chief Internal Auditor, the CRO and the Banks Risk Officer will normally attend meetings and other members of management will attend as appropriate.

The Chief Risk Officer has full access to the Board Risk Committee and attends its meetings with or without the executive management team present.

3.4 QUORUM

The quorum for meetings of the Committee shall be any three members.

4. COMMITTEE MANAGEMENT

4.1 SECRETARY

The secretary to the Committee will be the Company Secretary or their nominee.

4.2 PAPERS/AGENDA

Group Secretariat will support the chairman in managing the business of the Committee. The agenda and papers will be circulated to all members of the Committee at least 4 working days before the meeting. Such circulation of agenda and papers may be in paper or electronic format as preferred.

Where appropriate relevant agenda items and meeting papers will be clearly identified as being for consideration by the relevant Committee of the appropriate entity. Active consideration will be given to the distribution of meeting papers, to ensure that the correct papers are provided to the relevant Board and Committee members.

4.3 MINUTES

The secretary shall minute the proceedings of all meetings of the Committee, including recording the names of those present and in attendance. Minutes of Committee meetings will be circulated promptly to all members of the Committee, and the Committee chairman will report formally to the Board on the Committee's proceedings.

The minutes of each meeting will be produced as separate documents and will clearly identify the issue being considered as discussed by the meeting(s), any potential RFB Conflict Matter and any action to be taken in relation to any potential RFB Conflict Matter.

4.4 FREQUENCY

The Committee shall meet as often as is necessary to fulfil its responsibilities but not less than six times a year.

At least quarterly the CRO may request a meeting with the Committee or its Chairman if he considers that one is necessary.

At least twice a year the Committees of each of the Banks shall meet to consider matters that relate to the Banks alone.

5. TERMS OF REFERENCE

5.1 REVIEW REQUIREMENTS

These terms of reference are drafted and amended (as necessary) by Group Secretariat and require to be approved by the Board. These terms of reference are subject to review annually by the Risk Committee, along with a review of its own effectiveness and will then be subject to review by the Nomination and Governance Committee at least annually, or as required by the Board.

5.2 APPROVAL

These Terms of Reference were approved by the Board of the Company on 18 December 2018.