

Risk Oversight Committee - Terms of Reference

1. SCOPE

1.1 PURPOSE

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

- the Group's risk appetite (the extent and categories of risk which the Board regards as acceptable for the company to bear); and
- the Group's risk management framework (embracing principles, policies, methodologies, systems, processes, procedures and people).

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

1.2 AUTHORITY

The committee is authorised by the Board to:

1. investigate any activity within its terms of reference;
2. 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
3. obtain outside legal or other independent professional advice.

1.3 RESPONSIBILITIES

The responsibilities of the committee shall be to:

1. oversee the development, implementation and maintenance of the Group's overall risk management framework and its risk appetite, strategy, principles and policies, to ensure they are in line with emerging regulatory, corporate governance and industry best practice;
2. oversee the Group's risk exposures, risk/return and proposed improvements to the group's risk management framework and its risk appetite, strategy, principles, policies and standards;
3. facilitate the effective contribution and involvement of non-executives and aid their understanding of risk issues and the Group risk management framework;
4. 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;

5. oversee 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 CRO;
6. (i) review the appointment, resignation or dismissal of the CRO and make a recommendation to the Board;
(ii) review and discuss with the CRO the scope of work of the Group 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;
(iii) review the adequacy of the Group Risk division's resources, and its authority and standing within the company; and
(iv) review co-ordination between the Group Risk division and the external auditors; and
7. 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.

2. MEMBERSHIP AND ATTENDANCE

2.1 MEMBERSHIP

Details of committee membership can be obtained from Group Secretariat.

2.2 CHAIRMAN

The chairman of the committee shall be appointed by the Board. In the chairman's temporary absence, one of the directors nominated by the chairman or elected by the other members of the committee will act as chairman.

2.3 REGULAR ATTENDEES

All other non-executive directors will be invited to attend if they wish.

The Group Chief Executive and the Chief Risk Officer (CRO) will normally attend meetings and other members of management will attend as appropriate.

2.4 QUORUM

The quorum shall be any two members.

3. COMMITTEE MANAGEMENT

3.1 SECRETARY

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

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 5 working days before the meeting.

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.

3.2 FREQUENCY

Quarterly. The CRO may request a meeting with the committee or its chairman if she feels that one is necessary.

4. VERSION CONTROL

4.1 REVIEW REQUIREMENTS

These terms of reference are subject to review by the Nomination and Governance Committee at least annually, or as required by the Board.

4.2 APPROVED

Lloyds Banking Group Board

APPENDIX

MEMBERSHIP OF THE RISK OVERSIGHT COMMITTEE

Details of committee membership can be obtained from Group Secretariat.

Audit Committee - Terms of Reference

1. SCOPE

1.1 PURPOSE

To monitor and review the formal arrangements established by the Board in respect of:

- (a) the financial statements and reporting of the Group;
- (b) internal controls and the risk management framework;
- (c) internal audit; and
- (d) the Group's relationship with its external auditors.

1.2 AUTHORITY

The committee is authorised by the Board to:

- (i) investigate any activity within its terms of reference and have such direct access to the resources of the group as it may reasonably require;
- (ii) seek any information that it requires from any employee, and all employees are directed to co-operate with any request made by the committee;
- (iii) obtain assurances and, when appropriate, reports from the boards of subsidiary companies which have appointed separate audit committees; and
- (iv) engage outside legal or other independent professional advisers and obtain appropriate funding for the payment of relevant fees and expenses.

1.3 RESPONSIBILITIES

The responsibilities of the committee shall be as follows:

1.3.1 The Financial Statements and Reporting of the Group

(a) monitor the integrity of the financial statements of the Group, including annual and half-yearly reports, interim management statements and other formal announcements relating to the Group's financial performance, reviewing significant financial reporting issues and the judgements which they contain;

(b) review, and challenge where necessary, the actions and judgements of management, in relation to the interim and annual financial statements before submission to the Board, paying particular attention to:

- critical accounting policies and practices, and any changes in them;
- disclosures and estimates requiring a major element of judgement;
- the extent to which the financial statements are affected by any unusual transactions in the year, the methods used to account for any significant or unusual transactions where different approaches are possible, and how such transactions are disclosed;

- the clarity of disclosures, and the context within which financial statements are made;
- compliance with accounting standards;
- compliance with legal and regulatory requirements;
- the going concern assumption;
- the representation letter to the auditors; and
- all material information presented with the financial statements, such as the operating and financial review and the corporate governance statement (insofar as it relates to the financial statements);

(c) review any significant adjustments to financial reporting resulting from the audit, and resolve any disagreements between management and the external auditors regarding financial reporting;

(d) review and recommend to the Board for approval, in connection with the Bank for International Settlements Basel Accord - Basel II - Pillar 3, the Group's Pillar 3 disclosure policy; assess annually whether the frequency of the Group's Pillar 3 disclosures remains appropriate; receive periodic independent review reports conducted on the Pillar 3 disclosures; and review and recommend to the Board for publication the Group's periodic Pillar 3 reporting;

1.3.2 Internal Controls and the Risk Management Framework

(a) review management's reports on the effectiveness of systems for internal control and financial reporting;

(b) review Internal Audit's reports on the effectiveness of systems for internal control;

(c) review management's reports on critical control issues that have an impact on financial reporting;

(d) review the Group's procedures for detecting financial reporting fraud;

(e) review the Group's procedures for handling:

- the receipt, retention and treatment of complaints received by the Group regarding accounting, internal accounting controls or auditing matters; and
- the confidential submission by employees of the group (which may be anonymous) of concerns on any matter, including those regarding questionable accounting or auditing matters;

(f) consider the major findings of any relevant internal investigations into control weaknesses, fraud or misconduct and management's response (in the absence of management where appropriate);

(g) review management's and the Chief Risk Officer's reports on the effectiveness of systems for risk management;

(h) review the Group's statement on internal control and risk management systems for the purposes of the Turnbull Guidance on internal control, prior to endorsement by the Board;

1.3.3 Internal Audit

(a) Monitor and review the effectiveness of the Group's internal audit function in the context of the Group's overall risk management system;

(b) approve the appointment or dismissal of the Group Audit Director;

(c) review the internal audit programme and ensure that the internal audit function is adequately resourced and has appropriate access to information and standing within the Group; and

(d) consider the major findings of any significant internal audit escalated to the committee by the Group Audit Director, and consider management's response to Internal Audit's recommendations;

1.3.4 The Group's Relationship with its External Auditors

(a) make recommendations to the Board, to be put to shareholders for approval at the Annual General Meeting, on the appointment, reappointment and removal of the external auditor. The Audit Committee shall oversee the process for selecting the external auditor;

(b) oversee the relationship with the external auditor, including:

- approving the terms of engagement of the external auditor, including the remuneration to be paid;
- assessing the external auditor's effectiveness, independence and objectivity, ensuring that key partners are rotated at appropriate intervals;
- approving the provision of non-audit services by the external auditor and the related remuneration;
- agreeing with the Board a policy on the employment of former employees of the Group's auditor, and monitoring the implementation of this policy;

(c) review and approve the annual audit plan, and ensure that it is consistent with the scope of the audit engagement, and co-ordinated with the activities of the Internal Audit function;

(d) discuss with the external auditor, before the audit commences, the nature and scope of the audit and review the auditor's quality control procedures and steps taken by the auditor to respond to changes in regulatory and other requirements;

(e) review the findings of the audit with the external auditor, considering the external auditor's management letter and management's response to the auditor's findings and recommendations; and

(f) review such reports prepared by the external auditor as the Audit Committee shall require, considering management's response to any major external audit recommendations;

1.3.5 Other Matters

(a) undertake similar duties for all subsidiary companies where a legal or regulatory provision requires audit committee involvement, except where the subsidiary company's board has appointed a separate audit committee; and

(b) review any other matters referred to it by the Chairman or the Board.

2. MEMBERSHIP AND ATTENDANCE

2.1 MEMBERSHIP

Members of the Audit Committee shall be appointed by the Nomination and Governance Committee in consultation with the chairman of the Audit Committee. Members shall be independent non-executive directors. At least one of the members of the committee is required to have recent and relevant financial experience. The members of the Audit Committee are as shown in the Appendix.

2.2 CHAIRMAN

The chairman of the committee shall be appointed by the Board. In the chairman's temporary absence, one of the directors nominated by the chairman or elected by the other members of the committee will act as chairman.

2.3 REGULAR ATTENDEES

Only members of the Audit Committee have the right to attend meetings. However, the Group Finance Director, the Group Audit Director, the Chief Risk Officer and a representative of the external auditors will normally attend meetings, and other members of management will attend as appropriate.

The Chairman of the Group, the Group Chief Executive and other board members will attend if requested by the committee.

2.4 QUORUM

Quorum for meetings of the Audit Committee will be three members. If members are unavailable for a particular meeting, any two members may co-opt an independent non-executive director if necessary to constitute a quorum.

3. COMMITTEE MANAGEMENT

3.1 SECRETARY

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

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.

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.

3.2 FREQUENCY

Meetings shall be held as circumstances require, but at least twice a year. The external auditors and the Group Audit Director may request a meeting with the committee or its chairman if they consider that one is necessary.

At least once a year, without the presence of executive management, the committee shall meet with the external auditors and with the Group Audit Director.

4. VERSION CONTROL

4.1 REVIEW REQUIREMENTS

These terms of reference are subject to review by the Nomination and Governance Committee at least annually, or as required by the Board.

4.2 APPROVED

Lloyds Banking Group Board.

APPENDIX

MEMBERS OF THE AUDIT COMMITTEE

Details of committee membership can be obtained from Group Secretariat.