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Company Secretary

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Dear Sirs

FINANCIAL REPORTING COUNCIL CONSULTATION ON PROPOSED REVISIONS TO THE UK CORPORATE GOVERNANCE CODE (THE 'CODE')

Lloyds Banking Group (the 'Group') welcomes the opportunity to provide comment on the consultation, published last December and proposing a number of updates to the Code, including responses to earlier related recommendations from the Department for Business, Energy and Industrial Strategy.

The Group has the largest private shareholder base in the FTSE100, and is a leading provider of financial services to individual and business customers in the UK. Our main business activities are retail and commercial banking, general insurance, and long-term savings, protection and investment. We provide services under a number of brands including Lloyds Bank, Halifax, Bank of Scotland and Scottish Widows, through a range of distribution channels.

We are broadly supportive of the proposals and in particular the restatement of the importance of the effective application of principles and the flexibility offered to companies and investors through "comply or explain". We place a great importance on relationships with shareholders. In our Annual Report and Accounts for the year ended 31 December 2016, we reported that we had held more than 1100 meetings with institutional investors and analysts. The resources of companies and investors however, vary considerably and the need to make voting decisions within tight timescales invariably means that some shareholders or their advisers will adopt a "tick box" approach on the basis of compliance rather than explanation. It is therefore a matter of concern that the proposals have the effect of making the Code more prescriptive in certain key areas.

Rather than provide responses to the individual questions posed in the consultation we highlight below some key points of principle on the proposed revisions, cross referencing the proposed Principles and Provisions where possible.

Leadership and Purpose

- Principle A states that a board's function is "to promote the long-term sustainable success of the company, generate value for shareholders and contribute to wider society". This is inconsistent with section 172 of the Companies Act 2006 and is likely to create confusion as to the nature and extent of Directors' duties.

- Provision 3 states that the board should establish a method for gathering the views of the workforce, normally either a director appointed from the workforce, a formal workforce advisory panel or a designated non-executive director. There is an associated Principle that the board should ensure effective engagement with all stakeholders. The drafting of this provision should be reviewed to make it clear that the Board has the flexibility to choose a method of complying with the Principle which, in their judgement, best suits the organisation in question. It would be unfortunate if the specification of three methods of gathering views were to prevent innovation and creativity in determining the most effective way of complying with the Principle. A further matter of concern is the expression “workforce”, the meaning of which is unclear.

Division of Responsibilities

- Provision 11 provides that independent non-executive directors, including the chair, should constitute the majority of the board.
- Provision 15 states that non-executive directors, including the chair, should not be considered independent if any one of them fails to meet the criteria set out in the Provision, including serving on the board for more than nine years from the date of their first election. This contrasts with the provisions of the existing Code, which require the Board to exercise judgement concerning the independence of non-executive directors and make appropriate disclosure. We do not support this proposed change, which tends to reduce flexibility for Boards, particularly in respect of succession planning for the Chairman, for no clear benefit.

Remuneration

- Provision 33 expands the remit of the remuneration committee, to include responsibility for oversight of all company remuneration and related workforce policies and practices.
- The wording of this Provision should be reviewed, as it appears to have the effect of expanding the oversight responsibilities of the Remuneration Committee significantly beyond remuneration and taking it into matters which are properly the responsibility of executives.

Revised Guidance on Board Effectiveness

We note the statements in the Introduction that the Guidance (which extends to 113 paragraphs) is not mandatory and is not intended to be prescriptive. We would therefore suggest that the wording of individual provisions be reviewed to ensure a consistent tone and content to what are intended to be “good practice suggestions for meeting the Principles and Provisions of the Code”.

Paragraph 20, for example, begins: “For significant discussions, a board may wish to consider” while paragraph 21 provides: “Once a decision has been made and implemented; the board should review the effectiveness of the decision including process, and the merits of the decision itself”. The latter provision appears to be unnecessarily prescriptive.

Should you wish to discuss any of the content within this response, please do not hesitate to contact me

Yours faithfully

Malcolm J. Wood
Group Company Secretary