LLOYDS BANKING GROUP

BECOMING THE BEST BANK FOR CUSTOMERS

Lloyds Banking Group
Annual Review

2015

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About us

Lloyds Banking Group 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 our services under a number of well recognised brands including Lloyds Bank, Halifax, Bank of Scotland and Scottish Widows and through a range of distribution channels including the largest branch network in the UK and a comprehensive digital proposition.

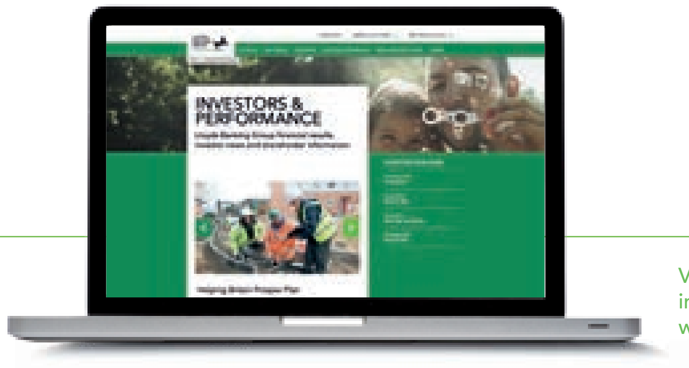
The Group is quoted on the London Stock Exchange and the New York Stock Exchange and is one of the largest companies in the FTSE 100 index of leading UK companies.

Reporting

Just as we operate in an integrated way, we aim to report in an integrated way. We have taken further steps towards this goal this year. As well as reporting our financial results, we also report on our approach to operating responsibly and take into account relevant economic, political, social, regulatory and environmental factors. You can download our full reporting suite of documents online.

This Annual Review incorporates the Strategic Report from the 2015 Annual Report and Accounts along with some information about the Board of Directors, a summary of Group results and detail on remuneration as well as some general shareholder information.

On behalf of the Board
Lord Blackwell
Chairman
Lloyds Banking Group
24 February 2016



View our Annual Report and Accounts and other information about Lloyds Banking Group at www.lloydsbankinggroup.com

By becoming the best bank for customers we believe we can help Britain prosper and deliver superior and sustainable returns for our shareholders.

We are meeting our customers' needs by creating a simpler, more responsive organisation. We are investing in our digital capability and maintaining a comprehensive branch network.

OUR STRATEGIC PRIORITIES

Creating the best customer experience

Becoming simpler and more efficient

Delivering sustainable growth

Read more on page 20

The Group has pledged £5 million over five years to support more than 500 skilled apprentices at the Lloyds Banking Advanced Manufacturing Training Centre in Coventry. One of these apprentices is Kerry Smith, a young woman with aspirations to become a research engineer working in advanced automation and robotics.

Highlights and strategic priorities

HIGHLIGHTS

CONTINUED STRENGTH ACROSS THE WHOLE BUSINESS

Underlying profit up 5% to

£8.1bn

Celebrating

250 years

of helping the people, businesses and communities of Britain

Strong balance sheet and liquidity position. Strong capital generation with pro forma CET1 ratio of

13.0%

Ordinary dividend per share

2.25p

with an additional special dividend of 0.5p per share

Supporting

1 in 5

of new business start-ups in the UK via our Retail Business Banking Segment

Statutory profit before tax

£1.6bn

Statutory profit before tax of £1.6 billion, despite £4.0 billion of PPI charges

Expanding our Environmental, Social and Governance (ESG) programme by issuing our second

ESG Bond

to finance SMEs, healthcare providers and renewable energy projects

Read more in our 2015 Annual Report and Accounts
or visit www.lloydsbankinggroup.com

STRATEGIC PRIORITIES

GOOD START TO THE NEXT PHASE OF OUR STRATEGIC JOURNEY

Creating the best customer experience

We are improving customer experience with our multi-brand, multi-channel approach, combining digital capabilities with face-to-face services. We are transforming our digital presence, providing simpler, seamless interactions across online and mobile while sustaining extensive customer reach through our leading branch network.

Becoming simpler and more efficient

We are creating operational capability which is simpler and more efficient than today through further system enhancement and integration and are becoming more responsive to changing customer expectations while maintaining our cost leadership amongst UK high street banks. This cost leadership enables us to provide increased value to our customers and competitive differentiation.

Delivering sustainable growth

As the UK economy continues to recover, we are further developing Groupwide growth opportunities within our prudent risk appetite. We are maintaining market leadership in our main retail businesses, making the most of our multi-brand, multi-channel strategy whilst also focusing on areas where we can grow.

Read more on page 20
or visit www.lloydsbankinggroup.com

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Divisional overview

We are a simple, low risk, customer focused bank operating through four divisions

Read more about our divisions in our 2015 Annual Report and Accounts or visit www.lloydsbankinggroup.com

RETAIL

Our Retail division is a leading provider of current accounts, savings, loans and mortgages to personal and small business customers in the UK.

UNDERLYING PROFIT

£3,514m
(2014 £3,228m)

44%[1]

£280bn
Retail deposit balances

1 in 4
First-time buyers helped by us to buy their first home

Key brands

LLOYDS BANK
SCOTTISH WIDOWS
BANK OF SCOTLAND
HALIFAX

COMMERCIAL BANKING

Our Commercial Banking division has a rich heritage of supporting UK businesses from SMEs to large corporates and financial institutions.

UNDERLYING PROFIT

£2,431m
(2014 £2,206m)

31%[1]

5%
Growth in SME lending in 2015

17%
Our share of mid-market banking relationships

Key brands

LLOYDS BANK
AMC
BANK OF SCOTLAND
LDC
SCOTTISH WIDOWS

[1] Proportion of Group underlying profit.

CONSUMER FINANCE

Our Consumer Finance division provides motor finance solutions and credit cards to consumer and commercial customers.

UNDERLYING PROFIT

£1,005m
(2014 £1,010m)

13%[1]

15%
Our share of credit card balances

17%
Growth in our UK consumer finance lending in 2015

Key brands

LLOYDS BANK
blackhorse
BANK OF SCOTLAND
LEX AUTOLEASE
HALIFAX

[1] Proportion of Group underlying profit.

INSURANCE

Our Insurance division provides customers with long-term savings, investment and protection products and general insurance.

UNDERLYING PROFIT

£962m
(2014 £922m)

12%[1]

5.6m
Life and pension customers

15%
Our share of the home insurance market

Key brands

LLOYDS BANK
SCOTTISH WIDOWS
BANK OF SCOTLAND
HALIFAX

Chairman's statement

Lord Blackwell
Chairman

One of my primary roles as Chairman is to ensure we build a business which is commercially successful, helps our customers with their financial needs and plays a valued role in Britain's long-term economic success.

Overview

2015 was another year of significant progress in our drive to restore the Group's financial strength and deliver our goal of becoming the best bank for customers – and a year in which I felt a renewed sense of pride across the organisation for what we do and what we stand for. While legacy issues still impact on our results, we have increased underlying profit, further strengthened our balance sheet, continued to improve the efficiency of the business and enabled the government to substantially reduce its remaining stake in the Group at a profit. We have taken further steps to reinforce a customer focused culture and our staff surveys show continued strong engagement and commitment.

As a result of our business performance and strong capital position, I am pleased to announce that the Board has recommended a final ordinary dividend of 1.5 pence per share. The total ordinary dividend per share for 2015 of 2.25 pence has increased from 0.75 pence in 2014. In addition, the Board has recommended a capital distribution in the form of a special dividend of 0.5 pence per share. This is in line with the Group's policy that aims to provide a progressive and sustainable dividend whilst distributing surplus capital when appropriate to do so.

Strategic development

We remain committed to our clear strategy of building Lloyds Banking Group as a highly focused, low risk and low cost UK retail and commercial bank. In an uncertain world we are reinforced in our belief that this focus provides the best opportunity to build a strong and successful organisation that can deliver sustainable shareholder value based on outstanding customer service. At the same time we recognise that technology is transforming banking and the way our customers interact with us, and our core processes and our competitive landscape are being substantially reshaped. In addressing these challenges we believe that our customer focus and simple business model will continue to provide opportunities for competitive advantage.

2.25p

ordinary dividend per share

Helping Britain prosper

2015 was also a milestone year for the Group as we marked the 250th anniversary of Lloyds Bank, the 200th anniversary of Scottish Widows and the 30th anniversary of the Lloyds Charitable Foundations. Our celebrations reinforced our commitment to sustain the traditional values of customer service and community support, the foundations on which the Group has been built.

The strength of our Group comes from our rich and diverse heritage, our iconic brands, and a strong commitment to our core purpose of helping Britain prosper. We believe we are in a unique position to use our scale, reach and influence to help improve the economic and social issues facing people, businesses and communities through our Helping Britain Prosper Plan.

Corporate culture, operating responsibly

One of my goals as Chairman is to ensure we build a business which everyone feels proud of. Not only should we be a commercially successful business, but we should also be seen as having a noble purpose in helping our millions of customers manage their financial needs whilst playing a core and highly valued role in funding enterprise and supporting Britain's long-term economic growth.

In achieving this the Board and senior management have a vital role to play in shaping and embedding a healthy corporate culture, and this has been a major focus for the Board's attention over the last year. The values and standards of behaviour we set are an important influence and there are strong links between governance and establishing a culture that supports long-term success. These values and standards also provide the foundation on which we are seeking to build sustainable success as a responsible business, supporting the communities in which we operate and serve.

Communities

Our commitment to invest in the long-term economic future of the UK is highlighted, not just through our lending to customers such as first-time buyers and SMEs, but also through the many community programmes we run and through our four charitable Foundations.

Our shared goal for our milestone year was to make it our greatest ever year for supporting local communities. In response our colleagues completed more volunteering hours than ever and, in our first year of partnership with BBC Children in Need, we raised £5 million, more than double our original target of £2 million.

Our Foundations are at the heart of our purpose to help Britain prosper and to bring communities closer together. In 2015, we provided £17 million to the Foundations and since their establishment, they have distributed almost £600 million to charities and projects tackling disadvantage in communities across the UK.

£5m

raised for our charity of the year

Regulation

The regulatory landscape in which we operate continues to evolve. Competition, conduct and capital remain central to reform and the regulators are continuing to undertake reviews into products and markets. We are however now starting to see greater clarity on a number of key areas. In particular, the Bank of England has provided more certainty on industry capital levels, the FCA announced a consultation on PPI time barring and we continue to make progress towards a final plan on ring-fencing and resolution. With regards to the ongoing Competition and Markets Authority (CMA) review, while believing there is already strong competition in UK markets, we welcome any proposals that help competition provide better choice and more transparency for customers and are committed to working with the CMA to ensure better account comparability and easier switching.

There are a number of regulatory developments where the impact on us is still unclear including the Fair and Effective Markets Review, the Senior Managers and Certification Regime and changes to the individual and corporate pensions market; but overall, we believe our simple, low risk, UK focused strategy puts us in a strong position to adapt to these regulatory changes.

COMMITTED TO GOOD GOVERNANCE

One of the principal tasks of the Board is to develop a strategy which can achieve long-term success and generate sustainable returns for shareholders. This needs to be underpinned by the high standards of corporate governance which are critical to the success of any business today and should be driven by the Board (led by the Chairman) and embedded in the thinking and processes of the business. We are confident we have a proven, strong and skilled management team, a well balanced, experienced Board and a commitment to good governance, enabling us to build a business that we believe will deliver sustainable success in the future.

Our Board

The Board has seen a number of changes this year, and in line with the provisions of the UK Corporate Governance Code and the interests of good corporate governance, all Directors are required to submit themselves for re-election on an annual basis. We are committed to ensuring we have the right balance of skills and experience within the Board, and we annually review its composition, and the diversity of backgrounds of its members.

Areas of focus

Corporate Governance Framework

In late 2014, we undertook an end-to-end review of the Group's governance arrangements from a fresh perspective. The review was informed by the 2014 annual review of Board Effectiveness as well as the work which is being carried out in the Group in preparation for the Senior Managers and Certification Regime. The review was completed in 2015 and the findings and the Board's response are set out in the corporate governance section of our 2015 Annual Report and Accounts.

Viability statement

The Board fulfilled its obligation to assess the Group's longer term viability during the year.

Strategy and customer focus

In 2015, the Board reviewed progress in implementing the Group's customer focused strategy whilst ensuring conduct, culture and values were at the forefront of how the business is run.

IT resilience and digital transformation

There is an ever increasing understanding of the criticality of technology in delivering customer service. During the year, the Board spent considerable time reviewing the delivery of the three-year IT resilience investment and digital transformation programmes.

Read more about corporate governance in our 2015 Annual Report and Accounts or visit www.lloydsbankinggroup.com

Chairman's statement continued

Directors

We have recently appointed two new Independent Non-Executive Directors to the Board. Deborah McWhinney joined in December and brings an extensive executive background from North America in managing technology, operations and new digital innovations in banking, payments and institutional investment. Stuart Sinclair joined in January and brings experience in retail banking, consumer and asset finance and insurance.

These appointments will help ensure the Board is well placed to address future technology and market risks across the full range of business areas in which we operate.

Non-Executive Director Carolyn Fairbairn retired from the Board in October to take up the position of Director-General of the Confederation of British Industry. Meanwhile, in December, Dyfrig John announced his intention to retire after our AGM in 2016. We are very grateful to both of them for their significant contribution to the Group.

2015 also saw a number of changes to the Board's structure and composition, including the establishment of a Responsible Business Committee which underlines our commitment to being a responsible business.

More information on these changes as well as an overview of our approach to culture and values can be found in our corporate governance report in our 2015 Annual Report and Accounts.

ESTABLISHMENT OF A NEW RESPONSIBLE BUSINESS COMMITTEE

In 2015, an important new Board Committee was established to focus on responsible business. The Committee provides oversight of Group strategy and plans for delivering our aspirations to be a leader in responsible business.

The Committee also provides oversight and challenge to executive management on those activities which impact on our reputation as a trusted, responsible business.

In terms of responsibilities, the Committee oversees:

- the expression, measurement, communication and maintenance of our culture and values;
- the design and development of the Responsible Business Plan and the Helping Britain Prosper Plan, the measurement of performance against such plans and their internal and external communication;
- the development of policies relating to the responsible treatment of customers and their implementation, including measurement of trust, customer satisfaction and advocacy. This includes policies for access and inclusion and responsible lending including our customer vulnerability agenda;
- our engagement with communities and charitable and philanthropic activities;
- our approach to the control of our environmental impact, including measurement and internal and external reporting;
- the policies relating to the responsible treatment of employees and their implementation, including inclusion and diversity, and our codes of responsibility; and
- the engagement of employees in relation to the Group's Responsible Business Plan.

Read more in our 2015 Annual Report and Accounts or visit www.lloydsbankinggroup.com

Remuneration

Our approach to reward is intended to provide a clear link between remuneration and delivery of the Group's key strategic objectives, supporting the aim of becoming the best bank for customers and, through that, for shareholders. We believe in offering fair reward. We are embedding a performance-driven and meritocratic culture where colleagues are rewarded for behaviours aligned to the long-term sustainable success of the business, our commitment to rebuilding trust and to changing the culture of the Group.

We want to ensure colleagues are empowered, inspired and incentivised to do the right thing for customers. Colleagues are rewarded in a way that recognises the very highest of expectations in respect of conduct and customer treatment, and when behaviour falls below acceptable standards, it is important that accountability is taken collectively as well as individually. This is particularly the case when dealing with, and learning from, mistakes of the past.

The Group has had a successful year, with a number of strategic milestones achieved. Nevertheless, despite better underlying results in 2015, the Group's total bonus outcome has reduced year-on-year to £353.7 million. This includes a 26 per cent collective performance adjustment being applied to the total bonus outcome to reflect the additional conduct-related provisions which impacted negatively on profitability and shareholder returns. As a percentage of pre-bonus underlying profit, the total bonus outcome has decreased to 4.2 per cent in 2015. Cash bonuses are capped at £2,000 with additional amounts paid in shares and subject to deferral and performance adjustment. Average bonus awards across all our colleagues are approximately £4,600.

More information on how we ensure our approach to remuneration supports our strategy can be found in the Directors' remuneration report of our 2015 Annual Report and Accounts.

Outlook

One of my primary roles as Chairman is to ensure we build a business which is commercially successful, helps our customers with their financial needs and plays a valued role in Britain's long-term economic success. Despite our progress we cannot be complacent. As I have described, we have to be increasingly focused on the scope and pace of change – in particular the speed of the digital revolution and the impact of new markets and technologies – if we are to remain well placed to serve customer needs in years to come. Managing that pace of change carefully is a major priority.

At the same time I believe we must also continue to focus on rebuilding the trust of our customers, regulators and politicians. Businesses are increasingly – and rightly – judged on how they demonstrate and communicate their broader value to society. Securing that position of trust, where we are doing the right things for our customers, the economy and society at large, is essential to a successful and sustainable future.

I would like to thank all my colleagues across the Group for their hard work and commitment in addressing these challenges and helping secure that future success.

Lord Blackwell
Chairman

Group Chief Executive's review

António Horta-Osório
Group Chief Executive

In our milestone year we have made a strong start to the next phase of our strategy and delivered a robust financial performance.

Highlights

2015 was a milestone year for Lloyds Banking Group. In a year in which we celebrated the 250th anniversary of Lloyds Bank and the 200th anniversary of Scottish Widows, we also continued to make strong progress in the next phase of our strategy to become the best bank for customers and shareholders. We improved customer experience, increased net lending in key customer segments, and delivered on key targets within the Helping Britain Prosper Plan. At the same time our financial performance has continued to improve, with an increase in underlying profitability and returns as well as a further strengthening of our already strong capital position, in spite of additional PPI provisions reflecting the Financial Conduct Authority's (FCA) consultation on time barring. This delivery has, in turn, enabled us to increase the ordinary dividend and to return surplus capital through a special dividend. As a result of our ongoing progress, the UK government has made further substantial progress in returning the Group to full private ownership.

The economic and regulatory environment

As a UK retail and commercial bank, we are well placed to continue to support and benefit from the sustainable recovery in the UK economy. While the current prolonged period of low interest rates and increasing competition have created challenges for profitability across the UK banking sector, we are well positioned, given our cost leadership position and low risk business model. The underlying health of the UK economy, to which we are inextricably linked, also remains resilient. This is reflected in strong employment levels, reduced levels of household and corporate indebtedness, and increased house prices, amongst other things, which provide a positive backdrop and underpin the Group's future prospects. In the face of current market volatility and uncertainties, including the forthcoming EU referendum, our strong balance sheet and low risk approach positions us well, while our differentiated business model continues to provide competitive advantage.

We remain well positioned in a regulatory environment that continues to evolve. 2015 brought greater clarity on a number of issues that are significant for the Group and the wider banking sector. We support the aims of the Competition and Markets Authority (CMA) in ensuring that small business customers and consumers have effective choice and are adequately protected, and we welcome the publication of its notice of possible remedies to ensure these objectives are achieved. Our simple, UK focused business model positions us well for ring-fencing and the Minimum Requirements for own funds and Eligible Liabilities (MREL).

In line with its broader aim of creating a safer and more stable UK banking sector, in December the Financial Policy Committee clarified its views on the future capital requirements for the industry. Importantly, these views for the industry as a whole are broadly consistent with the amount of capital we wish to retain to grow the business, meet regulatory requirements and cover uncertainties. This, in turn, supports the Group's expectation to be able to distribute a significant proportion of the capital it generates going forward. Finally, we welcome the decision of the FCA to consult on a deadline for PPI complaints and the certainty that this will bring for both customers and shareholders.

Group Chief Executive's review continued

Financial performance and balance sheet strength

The Group has delivered another robust financial performance in the year, with underlying profit increasing by 5 per cent to £8,112 million, or by 10 per cent excluding TSB, leading to an improvement in our underlying return on required equity to 15.0 per cent. This improvement was driven by net interest income, reflecting the strengthening of our net interest margin, lower operating costs and a significant reduction in impairment charges, which more than offset the more subdued outturn for other income. Statutory profit before tax was 7 per cent lower at £1,644 million, after additional charges that we have taken for PPI.

In 2015, we strengthened our provision for PPI by £4.0 billion, with a £2.1 billion increase taken in the fourth quarter primarily reflecting our interpretation of the FCA's consultation on a proposed time bar as well as the Plevin case. We also charged £745 million in relation to the disposal of TSB, bringing the total cost of delivering this commitment to the EU, which is now complete, to £2.4 billion over the past five years.

During the year, we have continued to strengthen our balance sheet, with our strong capital generation enabling us to increase our common equity tier 1 (CET1) ratio to 13.0 per cent, after increased dividend payments. This and our other capital and leverage ratios remain among the strongest of our major banking peers worldwide, in turn positioning us well for evolving regulatory capital requirements. In addition, the Group's liquidity position remains strong, with our total wholesale funding of £120 billion at the end of 2015 more than covered by our liquid assets of £123 billion.

The progress we have made in successfully executing our differentiated, simple and low risk business model is now being increasingly recognised, with the major credit rating agencies of Fitch, Moody's and Standard & Poor's having all either strengthened or reaffirmed the Bank's credit ratings during the course of the year. The transformation of the Group's risk profile has also been reflected in our credit default swap spread, which remains the lowest of our major UK banking peers. This and our cost:income ratio, which, at 49.3 per cent, is also the lowest of our major UK peers, remain ongoing sources of competitive advantage in line with the strategic plan presented to the market in June 2011.

Strategic progress

In 2015, we have made good progress in the three strategic objectives that we outlined at our strategic update in October 2014: creating the best customer experience; becoming simpler and more efficient; and delivering sustainable growth.

Creating the best customer experience

As a customer-focused business, we are committed to meeting our customers' evolving needs and preferences effectively through our multi-brand and multi-channel approach. In an environment where the pace of digital adoption is accelerating, we now have the largest digital bank, with our online customer base amounting to over 11.5 million customers and our mobile banking customer base of 6.6 million customers able to access the UK's no.1 rated banking app. Our strategic commitments for digital also remain on track, with c.55 per cent of customer needs being met digitally in 2015. We remain focused, however, on our integrated, multi-channel approach that our clients value and have continued to enhance and optimise the branch network to ensure that it meets our customers' evolving needs.
In particular, we have now introduced Wi-fi connectivity and automated solutions for more simple customer transactions in nearly 70 per cent of branches. In addition, we have now launched our remote advice proposition, enabling customers to interact with us from the comfort of their own homes.
In 2015 we also enhanced a number of customer processes, having launched an online feature which enables customers to obtain a mortgage agreement in principle in real time, and piloted a new process which has halved the time to open a new business bank account. Our progress in creating the best customer experience has been reflected in our net promoter score across the Group, which has continued to improve in 2015 and is now over 50 per cent higher than at the end of 2011. Group reportable banking complaints (excluding PPI) also remain significantly lower than the average of our major banking peers.

Becoming simpler and more efficient

Our cost leadership position remains a key source of competitive advantage and strategic priority for the Group. We continue to invest significantly in IT with a focus on ensuring that our systems and processes are both efficient and resilient and that our customers' experiences are improved through the end-to-end automation of key customer journeys. In addition, we achieved over £150 million of run-rate savings in third party spend in the year by managing demand more efficiently and negotiating better rates with our suppliers. Through these and other efficiency initiatives, we have to date delivered total run rate savings of £373 million in the second phase of our Simplification programme, and we remain ahead of target in achieving total run-rate savings of £1 billion by the end of 2017. In addition, we are actively responding to prolonged lower interest rates and have accelerated our cost savings delivery while also targeting further efficiency initiatives. The combination of this absolute focus on cost management and the resilience of our income generation has enabled us to improve our market-leading cost:income ratio to 49.3 per cent from 49.8 per cent in 2014.

c.55%

customer needs met digitally

Delivering sustainable growth

The Group aims to deliver growth across its key customer segments that is sustainable and consistent with its low risk business model. In 2015 we continued to make good progress in growing above the market in areas where we are underrepresented. Net lending to our SME customers increased by over £1 billion or 5 per cent in the year, continuing the trend of the last five years of significantly outperforming the market overall. Our Consumer Finance business is also generating strong growth with an ahead of plan 17 per cent year-on-year increase in UK lending, with motor finance continuing to deliver double digit growth and our credit card balances growing by approximately 4 per cent compared with the market growth rate of less than 2 per cent. We continue to support first-time buyers and remain the largest lender to this important customer group, providing 1 in 4 first-time buyer mortgages in 2015. We have taken the conscious decision, however, to balance margin considerations with volume growth in the mortgage business, growing our open book by around 1 per cent versus a market that grew by around 2.5 per cent. We believe this is the right approach as the leader in what is, at the moment, a low growth market where growth is predominantly coming from Buy-to-let.

Government stake and TSB sale

The combination of the significant progress we have made towards our strategic objectives and our robust financial performance has also enabled the UK government to make further substantial progress in returning the Group to full private ownership during the course of 2015. The government has now reduced its stake from 43 per cent to around 9 per cent, returning approximately £16 billion to the UK taxpayer above their 'in price', on top of the dividends paid in 2015. We will continue to support the proposed retail offer, but following the government's announcement on 28 January 2016, this has been deferred until it determines that the market conditions are appropriate. Separately, the completion of the sale of our interest in TSB to Banco Sabadell in June 2015 represents the continued delivery of our commitment to the European Commission under the terms of the state aid agreement.

Dividend

In line with our progressive and sustainable ordinary dividend policy, the Board has recommended a final ordinary dividend of 1.5 pence, taking the total ordinary dividend declared for the year to 2.25 pence per ordinary share.

In addition, the Board has recommended a special dividend of 0.5 pence per share, representing the distribution of surplus capital over and above the Board's view of the current level of capital required to grow the business, meet regulatory requirements and cover uncertainties.

Helping Britain Prosper and delivering growth in our key customer segments

As a customer-focused UK centric bank, our prospects are inextricably linked to the strength of the UK economy, which we continue to support through our strategic net lending targets in our key customer segments and the targets we have set through our Helping Britain Prosper Plan.

In our Retail division we continue to be a lead supporter of the UK government's Help to Buy scheme and have exceeded our lending target to small businesses within the Helping Britain Prosper Plan by supporting over 1 in 5 new business start-ups. In Commercial Banking we continue to play a lead role in supporting the UK economy and remain the largest net lender to SMEs in the UK government's Funding for Lending scheme.

Our Consumer Finance business also continues to deliver strong growth within our low risk appetite, increasing its market share, with the division also making a number of improvements to our customer propositions across motor finance and credit cards. In Insurance, following the completion of our first bulk annuity transaction with the Scottish Widows With-Profits fund in the first half, we have also successfully completed our first open market transaction in the fourth quarter and will continue to participate in this attractive market.

We continue to successfully deliver against our Helping Britain Prosper Plan targets to people, businesses and communities across the UK. Amongst these targets, in 2015 we donated £17 million to the Banks' four independent charitable foundations to tackle disadvantage, while also providing more than £1 million of additional funding to support credit unions and more than 320,000 colleague volunteering hours to support community projects.

Building the best team

We recognise the strategic importance of colleague engagement and the role that this plays in ensuring the continued delivery of our strategic priorities. The latest colleague survey results show that colleague engagement has continued to improve to the highest level to date and that our performance excellence score is above the UK 'high performance norm'. We have also made good progress with our target for gender diversity in senior management, with women now representing 31 per cent of senior managers, up from 28 per cent two years ago. These encouraging results demonstrate the Group's success in embedding a customer-focused culture and that our colleagues are committed to our aim of creating the best experience for our customers.

Outlook

Our strong strategic progress and good financial performance position the Group well for future success, with our business model allowing us to respond effectively to the challenges of the lower for longer interest rate environment and the current market volatility. We remain committed to our financial targets for return on required equity and cost:income ratio, although in light of the implementation of the corporation tax surcharge for banks and the lower for longer interest rate environment, we now expect to deliver a return on required equity of 13.5 to 15.0 per cent in 2018 and a cost:income ratio of around 45 per cent as we exit 2019, with improvements every year. Our capital generation will remain strong and we are increasing our guidance for annual pre dividend CET1 capital generation to around 2 per cent. In 2016, we expect an increased net interest margin of around 2.70 per cent and, in light of our low risk approach, a full year asset quality ratio of around 20 basis points, significantly lower than our medium-term guidance.

Summary

In our milestone year we made a strong start to the next phase of our strategy and have delivered a robust financial performance. The combination of this strategic and financial performance with our simple, low risk business model positions us well in the face of uncertainties regarding the global economic, political, competitive and regulatory environment and underpins our confidence in the Group's future prospects. From these firm foundations, we believe we are well placed to support the UK economy and become the best bank for customers, while delivering superior and sustainable returns for our shareholders.

António Horta-Osório
Group Chief Executive

Key performance indicators

Delivering for customers and shareholders

Our key performance indicators have been considered by the Board and identify the most effective output measures for assessing financial performance and progress towards becoming the best bank for customers. KPIs for balance sheet reduction and strategic investment are no longer included as they were directly related to our previous strategic priorities which have now been superseded.

As a result of strategic progress in 2015, we have reported improvements in underlying profits, strengthened our capital position despite conduct charges and announced increased dividend payments.

Customer relationships are key to our strategy and we specifically measure customer satisfaction and complaint levels. We also track our performance against the targets of our Helping Britain Prosper Plan, about which you can read more on page 13.

Remuneration aligned with performance

To ensure our employees act in the best interests of customers and shareholders, remuneration at all levels of the organisation is aligned to the strategic development and financial performance of the business and also takes into account specific risk management controls. Variable remuneration including bonuses for all staff, including our Executive Directors, is based on the performance of the individual, the business area and the Group as a whole. Performance is assessed against a balanced scorecard of objectives across five areas (customer, people, risk, building the business, financial) which are reviewed on a regular basis.

Executive management are also eligible to participate in a long-term incentive plan (LTIP), which encourages delivery on long-term financial objectives, including total shareholder return, and the Group's strategic objectives of becoming the best bank for customers and helping Britain prosper.

UNDERLYING PROFIT BEFORE TAX

	£m
2015	8,112
2014	7,756
2013	6,166

Underlying profit continued to increase in 2015, up 5 per cent.

STATUTORY PROFIT BEFORE TAX

	£m
2015	1,644
2014	1,762
2013	415

Pre-tax statutory profit was £1,644 million in 2015 compared to £1,762 million in 2014 with the reduction driven by increased PPI charges.

ORDINARY DIVIDEND

	p
2015	2.25
2014	0.75
2013	0

An increased ordinary dividend of 2.25 pence per share, in line with our progressive and sustainable dividend policy. In addition, the Board has recommended a special dividend of 0.5 pence per share.

UNDERLYING RETURN ON REQUIRED EQUITY

	%
2015	15.0
2014	13.6
2013	9.7

The underlying return on required equity improved in 2015, reflecting the growth in underlying profit.

EARNINGS PER SHARE

	p
2015	0.8
2014	1.7
2013	-1.2

Earnings per share reduced in the year, largely due to additional provisions for PPI.

COMMON EQUITY TIER 1 RATIO

	%
2015[1]	13.0
2014	12.8
2013	10.3

Our common equity tier 1 ratio continued to improve in 2015 despite increased dividends; this is a strong position in absolute and relative terms compared to our major UK banking peers.

1 Pro forma.

COST:INCOME RATIO

	%
2015	49.3
2014	49.8
2013	49.8

Our cost:income ratio further improved to 49.3 per cent and remains the lowest of our major UK banking peers.

ASSET QUALITY RATIO

	bp
2015	14
2014[1]	23
2013[1]	58

Our asset quality ratio continued to improve, reflecting our low risk position and the current interest rate environment.

1 Excluding TSB.

TOTAL SHAREHOLDER RETURN (TSR)

	%
2015	(2)
2014	(4)
2013	65

Our share price fell by 4 per cent in 2015, broadly in line with the FTSE100 but was better than the UK banking sector, with TSR also reflecting the benefit of our return to dividends. Share price performance and TSR in the last three years remain significantly ahead of the sector and the market.

Read more about our financial performance in our 2015 Annual Report and Accounts or online at www.lloydsbankinggroup.com

CUSTOMER SATISFACTION
(Net promoter score)

2015	59.3
2014	59.2
2013	54.5

Our net promoter score is the measure of customer service at key touch points and the likelihood of customers recommending us. It has continued to improve in the year.

CUSTOMER COMPLAINTS
(FCA reportable complaints per 1,000 accounts[1,2])

H1		H2	
2015	2.0	2015	1.9
2014	1.6	2014	1.5
2013	1.2	2013	1.2

Although customer complaints have increased in the year, levels remain significantly below most of our key competitors.

1 Excluding PPI.
2 The metric has changed from banking complaints to reportable complaints to reflect performance management measures.

BEST BANK FOR CUSTOMERS INDEX % favourable

2015	78
2014	72

Our score increased by 6 points in 2015. The index is the outcome of a survey of more than 68,000 of our employees which shows how strongly they believe we are committed to becoming the best bank for customers.

DIGITAL ACTIVE CUSTOMER BASE m

2015	11.5
2014	10.4
2013	9.4

Reflecting the pace of digital adoption, our number of active digital customers increased in the year, from 10.4 million to 11.5 million.

Helping Britain Prosper Plan 2015

This is the second year we have tracked and reported performance against all our Prosper Plan metrics and targets.

		NUMBER OF METRICS	ACHIEVED	NOT ACHIEVED
1	We'll help more customers get on the housing ladder – and more customers climb up it	3	●	
2	We'll help our customers plan and save for later life	1		●
3	We'll take a lead in financial inclusion to enable all individuals to access and benefit from the products and services they need to make the most of their money	4	●	
4	We'll help UK business to start up, scale up, and trade internationally to support the long term strength of the UK economy	6	●	
5	We'll help businesses and individuals to succeed with expert mentoring and training	5	●	
6	We'll be the banking Group that brings communities closer together to help them thrive	4	●	
7	We'll better represent the diversity of our customer base and our communities at all levels of the Group	5	●	

Our performance in 2015

Overall, in 2015 the Group performed well against the 28 metrics in the Plan and achieved 96 per cent of the targets we set for the year.

Particular highlights include providing 1 in 4 first-time buyer mortgages, supporting 1 in 5 start-up businesses, delivering 320,000 hours of colleague volunteering and achieving 31 per cent ✓ of senior roles held by women. Full details of our performance are available online.

We missed our target to help 100,000 customers plan and save for later life through company pension schemes. During 2015, 145,000 new customers started contributing to a corporate pension scheme managed by Scottish Widows. However, 139,000 customers stopped contributions with their existing employer, mainly because they started a new job with a new employer. Consequently, net growth in customer numbers was only 6,000.

We've therefore developed a new metric for 2016 to help consumers plan for later life through our retirement planning website. This reflects rapidly changing market conditions and our goal of helping more customers save for the long-term.

✓ Indicator is subject to limited ISAE 3000 (Revised) assurance by Deloitte LLP for the 2015 Annual Responsible Business Reporting. Deloitte LLP's 2015 assurance statement and the 2015 Reporting Criteria are available online at www.lloydsbankinggroup.com/RBdownloads

Read more about our 2015 performance and our new 2016 Prosper Plan targets at www.lloydsbankinggroup.com/ProsperPlan

Our strategic approach

By becoming the best bank for customers we believe we can help Britain prosper and deliver superior and sustainable returns for our shareholders

Our strategy

We are a leading financial services group focused on becoming the best bank for customers whilst delivering superior and sustainable returns for shareholders through a simple, low risk, UK focused, retail and commercial banking business model.

In 2011, we outlined our strategy to be the best bank for customers and over the following three years the business was transformed with a reshaped, low risk portfolio, a strengthened balance sheet and a more efficient cost base. This firm foundation enabled us to launch the next phase of our strategy in 2014 which was focused on delivering value and high quality experiences for customers alongside superior and sustainable financial performance within a prudent risk and control framework.

We need to adapt to the changes in financial services brought about by technology, changing customer behaviour and increasing regulatory requirements at a time when traditional competitors' strategies converge and new entrants compete for customers. This change is being achieved through three strategic priorities which run to 2017. These priorities are:

- Creating the best customer experience
- Becoming simpler and more efficient
- Delivering sustainable growth

The achievement of our strategy could not happen without the support of our colleagues. We are therefore committed to 'building the best team' to create a high performance organisation.

You can read more about each of these priorities and the progress we made during 2015 on pages 20-21.

Operating responsibly

A sustainable and responsible approach to doing business is integral to everything we do. It underpins our aim to become the best bank for customers and our purpose to help Britain prosper. It is central to our strategy and business model. Our Helping Britain Prosper Plan sets out our public targets to help Britain's people, businesses and communities today, over and above our core business activities.

Doing business responsibly starts with our colleagues. We must continue to build a culture in which they are empowered, inspired and rewarded to do the right thing for customers. Our three Group Values: putting customers first, keeping it simple and making a difference together, provide inspiration and guidance. To help us live up to these values, as individuals, as a business or as suppliers, we operate in line with our Codes of Responsibility.

We have an effective top-to-bottom governance structure, providing an environment in which colleagues are encouraged and supported to do the right thing and to work responsibly. This governance structure includes our Group Board and Board-level Responsible Business Committee and cascades to every part of our business, through our Group Executive Committee and Group Customer First Committee.

Our focus on doing business responsibly is recognised by our continued presence in the FTSE4Good index, our position in the CDP (Carbon Disclosure Project) and Euronext Vigeo UK 20 Index, as well as our ranking in the Business in the Community CR Index.

OUR PURPOSE

HELPING BRITAIN PROSPER 15

OUR AIM

TO BECOME THE BEST BANK FOR CUSTOMERS WHILST DELIVERING SUPERIOR AND SUSTAINABLE RETURNS FOR SHAREHOLDERS

OUR BUSINESS MODEL

SIMPLE, LOW RISK, UK FOCUSED, RETAIL AND COMMERCIAL BANK 18

OUR RESPONSIBLE APPROACH TO BUSINESS 22

OUR STRATEGIC PRIORITIES

Creating the best customer experience

Becoming simpler and more efficient

Delivering sustainable growth

SUPPORTED BY OUR COLLEAGUES

Building the best team

Read more about our strategic priorities on page 20. 20

Our purpose

Helping Britain prosper

People, businesses and communities are facing some challenging issues. We are using our scale, reach and influence to help address these, through our Helping Britain Prosper Plan

We have always understood that when people, businesses and communities across Britain prosper, so do we. We help Britain prosper through our core products and services, but over and above these, through our Helping Britain Prosper Plan, which we launched in March 2014 and refreshed in 2015. The Plan was created in consultation with our stakeholders and external experts to ensure it is relevant and focused. It sets out clear targets to address social and economic issues prioritised by stakeholders which, as a bank, we are well placed to help address. These include: the shortage of affordable homes; supporting small businesses and the UK's manufacturing base; helping people and organisations acquire the digital skills and capability they need; and tackling disadvantage in local communities in order that more people can share in the UK's economic growth.

Evolving the Prosper Plan

We're continually evolving the Plan to reflect changing social and economic needs. A wide range of different stakeholders – including customers, colleagues, community partners, our charitable Foundations and opinion formers – have directly or indirectly contributed to this evolution. As a result, the Plan is simpler, more focused, more ambitious and increasingly measured in terms of the positive outcomes it achieves, not on its reach. Our ambition is to measure and audit the whole Plan on this basis, by 2017.

2016 Prosper Plan

The 2016 Plan is focused on helping people, businesses and communities to prosper, and has 24 metrics. It includes four new targets:

- Number of high value manufacturing apprenticeships as a result of our £1 million per year funding
- Number of customers helped to plan for later life through our retirement planning website
- Amount raised by colleagues and communities for our Charity of the Year
- Arrange and provide new funding support for social housing

We recognise that a major challenge for the UK economy is the relatively low level of productivity. Accordingly, in 2016 we are reviewing how we can help Britain become more productive and more globally competitive.

Britain doesn't stand still and our Plan needs to evolve to stay relevant. Consequently, we are refocusing our goals, targeting where we can make the biggest positive difference and setting even more stretching and measurable targets.

Sara Weller
Chairman, Responsible Business Committee

Building digital skills

Part of our vision is to help Britain prosper by giving everyone the chance to develop and improve their digital skills. In 2015 we supported the UK's digital skills charity Go ON UK's launch of the Digital Inclusion Heatmap. This was developed in conjunction with a number of partners to help ensure everyone in the UK has the basic digital skills they need. The Heatmap displays a measure of digital exclusion at a local level, providing policymakers and those working in the digital skills and inclusion sector with the insight to help drive engagement, action and funding where it is most needed.

>11,000 colleagues helping people and businesses improve their digital skills in 2015. We are on track to achieve our target of 20,000 by the end of 2017

Supporting small building firms

Lloyds Banking Group and the UK government launched the Housing Growth Partnership in 2015 to diversify house building. As a result, small house building firms are benefiting from a £100 million cash boost, recognising and supporting their key role in keeping the UK building. We have pledged £50 million of the fund to provide smaller building firms with capital to allow them to recruit and train skilled workers and become more competitive. We have also pledged £1 million over four years to support the development of construction skills in London.

Market overview

Given our UK focus, our financial performance is inextricably linked to the performance of the UK economy and its regulatory and competitive environment

UK economic trends

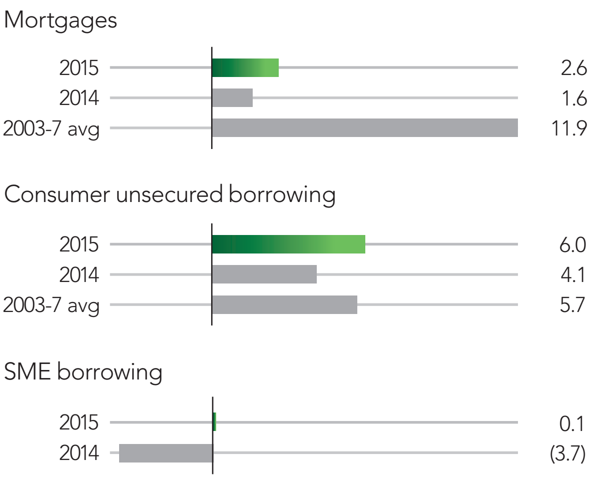
Resilience in the face of a fragile global economy

Initial estimates indicate that the UK economy grew by 2.2 per cent in 2015, close to its 25-year average, at a time when global growth slowed. UK economic growth was the second strongest of the G7 countries, only marginally behind the US. Eurozone growth improved during 2015, back to its 25-year average, but at 1.5 per cent it remains significantly slower than the UK.

Leadership of global growth is shifting back to developed economies as they emerge from a period of private sector debt reduction, government cuts and tax increases. The slowdown in emerging markets as their credit cycle turns is pushing inflation down across the world as their currencies and commodity prices fall. UK inflation has hovered close to zero throughout 2015, and as a result, consumers' inflation-adjusted incomes have increased, ending a seven year period in which they had been broadly flat. That has boosted consumer spending growth to an eight year high in 2015, and helped push unemployment down to pre-crisis levels.

Low inflation and risks from the slowdown in emerging markets are complicating central banks' setting of interest rates. The US increased rates in December 2015 for the first time since 2006, much later than had been expected at the start of the year. And the UK hasn't yet raised rates, contrary to consensus expectations at the start of 2015 of two increases during that year. Low interest rates, along with limited supply, have boosted property prices with UK house prices up 10 per cent during 2015, surpassing their 2007 peak, and commercial property prices up 7.8 per cent.

GROWTH IN OUR MARKETS
(yearly % change in UK market balances)



Market growth

Growth in the markets in which we operate has improved but in aggregate remains much weaker than pre-crisis. Mortgage volumes for house purchases rose 4.7 per cent to a post-crisis high, and their value rose by 10.7 per cent, pushing growth in balances up from 1.6 per cent in 2014 to 2.6 per cent in 2015, its strongest since 2008. Growth in consumer unsecured borrowing balances rose from 4.1 per cent in 2014 to 6.0 per cent in 2015, the strongest since 2005. Small and medium-sized companies (SMEs) have started to increase borrowing from banks again in 2015 for the first time since 2008, while companies' deposits continued to grow rapidly, up 11.5 per cent in 2015 after an average of 9.3 per cent across 2013-14. Consumer deposit growth fell back slightly from 4.3 per cent in 2014 to 3.8 per cent in 2015, but this was mainly due to the government's launch of pensioner bonds.

Margin pressure

Competition and the delay in Bank Rate increases are keeping banks' margins under pressure. The spread between average lending and deposit rates has held fairly flat in 2015 close to its pre-crisis level, having improved from the very low level of 2011-12 when wholesale funding costs were exceptionally high. Lending rates have fallen to a record low in 2015, and whilst deposit rates have fallen during the year they are still higher than short term financial-market rates, opposite to pre-crisis. Mortgage pricing has been particularly aggressive in 2015, with spreads on new loans over market funding costs falling around 50 basis points through the year.

Low level impairment

Improving indebtedness, along with the continued low interest rate environment, is continuing to reduce impairments which are below expected through-the-cycle levels. The share of highly indebted consumers has fallen further in 2015, and consumers' concerns over their level of debt and mortgage payments are back to pre-crisis lows. Personal and corporate insolvency rates are low, both around half their 2009-10 peaks. Rising property prices have also sharply reduced potential losses from defaults on property lending.

Outlook for 2016

Despite challenges from slowing emerging markets and rising US interest rates, the most likely outlook for the UK in 2016 is another year similar to 2015. Consensus expectations are for gdp growth of 2.2 per cent, CPI inflation rising to 1.1 per cent by the end of the year, house prices up 5 per cent, and another year without a rise in Bank Rate. As the recovery matures, borrowing is rising and domestic consumption will be the primary driver of economic growth. Lending has been subdued for five years and corporate and household balance sheets have strengthened, so that credit has room to grow without threatening macroeconomic stability. Low inflation will keep real household incomes growing, sustaining economic growth despite headwinds from the elevated level of sterling, weak manufacturing activity, tightening benefit payments and uncertainty over the future of the UK's membership of the EU.

There are, however, risks to those expectations, stemming from the deflationary impact of the slowdown in emerging markets, the associated recent volatility in financial markets that might weaken consumer and business confidence; and the referendum on UK membership of the EU which, if the vote is to leave, may create a period of uncertainty and impact companies' investment plans. Crystallisation of any of these risks could impact the UK economy, which in turn would have a negative impact on the Group's income, funding costs and impairment charges.

Regulation

The regulatory landscape in which we operate continues to evolve with the key areas of focus now protecting consumers and small business customers, ensuring competitive markets and strengthening the prudential framework.

Competition and conduct remain core elements of regulatory reform and regulators continue to undertake reviews into certain products and markets. For small business and personal current account customers, the Competition and Markets Authority (CMA) initiated a review in 2014 and has released a notice of possible remedies to improve transparency and the ease of switching having provisionally rejected structural remedies. Other competition reviews progressing include the FCA's review into the credit card market, whilst in the Insurance business we have seen the introduction of a cap on corporate pensions. The Payment Systems Regulator is separately reviewing indirect access and infrastructure provision. From a conduct perspective, the most significant development for us was the FCA decision to consult on a deadline for PPI complaints, with the results expected in the first half of 2016. We continue to work to ensure we provide appropriate and fair products with clear, simple and relevant terms.

Alongside its December 2015 Financial Stability Report, the Bank of England issued its new capital framework, finalising its view on capital requirements for UK banks. This framework sets out the minimum requirements as well as the approach for setting capital buffers and the levels of debt required for resolution purposes. The framework will be implemented on a transitional basis, reaching an end-state by 2019. Also in December 2015, the Bank of England approved Scottish Widows Group's internal model for calculating its capital requirements under the Solvency II regime. We remain comfortably in excess of minimum requirements on our key capital ratios and are well positioned for implementation. The resilience of our capital position was demonstrated again in 2015 when we comfortably exceeded the threshold for the latest PRA stress test. In addition, from October 2015 the Liquidity Coverage Ratio (LCR) became the key ratio for the amount of cash and liquid assets a bank must hold, with the bank comfortably meeting its requirements.

Ring-fencing and resolution regulation continues to be relevant for all European banks under the EU Bank Recovery and Resolution Directive and additionally for UK banks under the Financial Services (Banking Reform) Act. Final legislation and near-final rules have now been issued, enabling us to better plan for implementation. Given our UK retail and commercial focused business model, we continue to expect ring-fencing to be less onerous for us to implement than many of our UK peers as we anticipate the vast majority of our business will sit within the ring-fence.

There are a number of other regulatory changes that have been implemented or developed through 2015, several of which are relevant to our business, including the Fair and Effective Markets Review, the Senior Managers and Certification Regime (SM&CR) and changes to the individual and corporate pensions market.

Overall however, we believe our simple, low risk, UK focused strategy puts us in a strong position to adapt to the evolving regulatory landscape.

Customer drivers and competition

In the competitive open markets in which we operate, customers are benefiting from an increasing range of products and services from a growing choice of providers and via a range of channels. The proportion of the UK population with access to the internet has increased significantly over the past few years, as has the proportion of people accessing the internet via their mobile phone. This has changed customer behaviours and expectations in terms of how they shop for goods and undertake banking and these trends are expected to accelerate.

Our customers require different products and services at different stages of their lives, with younger people requiring help with planning and providing for retirement, while the older generation is becoming increasingly interested in accessing their equity to support their retirement.

Many customers are motivated by their desire to achieve better value for money, not least in the current low interest rate environment, but security and reputation remain important factors. Customers want clear and transparent products delivered with good service and access to relevant, expert advice when they need it.

We have seen an influx of new entrants to the market, with a variety of business models. Many of these new entrants have expertise and experience in digital product offerings, with strong funding positions, credible brands, and in some cases pre existing customer bases and branch networks. In addition, non banks such as technology firms and supermarkets are disrupting the banking industry.

As outlined above, there are some clear customer trends emerging, but we recognise that every customer, whether an individual or an organisation, has particular needs and we must engage with them accordingly. Fundamentally, every customer has a choice and will select the provider that can most effectively fulfil their personal needs.

Our strategy, which focuses on our multi-brand, multi-channel distribution model, simpler processes, customer-driven product range and expertise across insurance and banking, puts us in a unique position to respond to these market conditions and meet the needs of individual and corporate customers.

Above all it recognises that we operate in a competitive market where additional challengers continue to emerge and the only way of ensuring success is by focusing on the ever-changing needs of our customers. Read more about our strategic priorities on pages 20-21.

Key opportunities

- Economic environment: significant progress in reducing the Group's risk profile and strengthening the balance sheet along with strategic actions taken in the last few years means we are better positioned to benefit from the UK economic recovery.
- Customer needs: our differentiated customer focused strategy along with our comprehensive multi-channel distribution network, and in particular our evolving digital capability, mean we are well positioned to address changing customer needs.
- Regulatory environment: greater clarity emerging on regulatory requirements and our simple, low risk, UK focused strategy places us in a strong position.
- Low cost position: this enables us to provide competitive differentiation for the benefit of customers and shareholders.

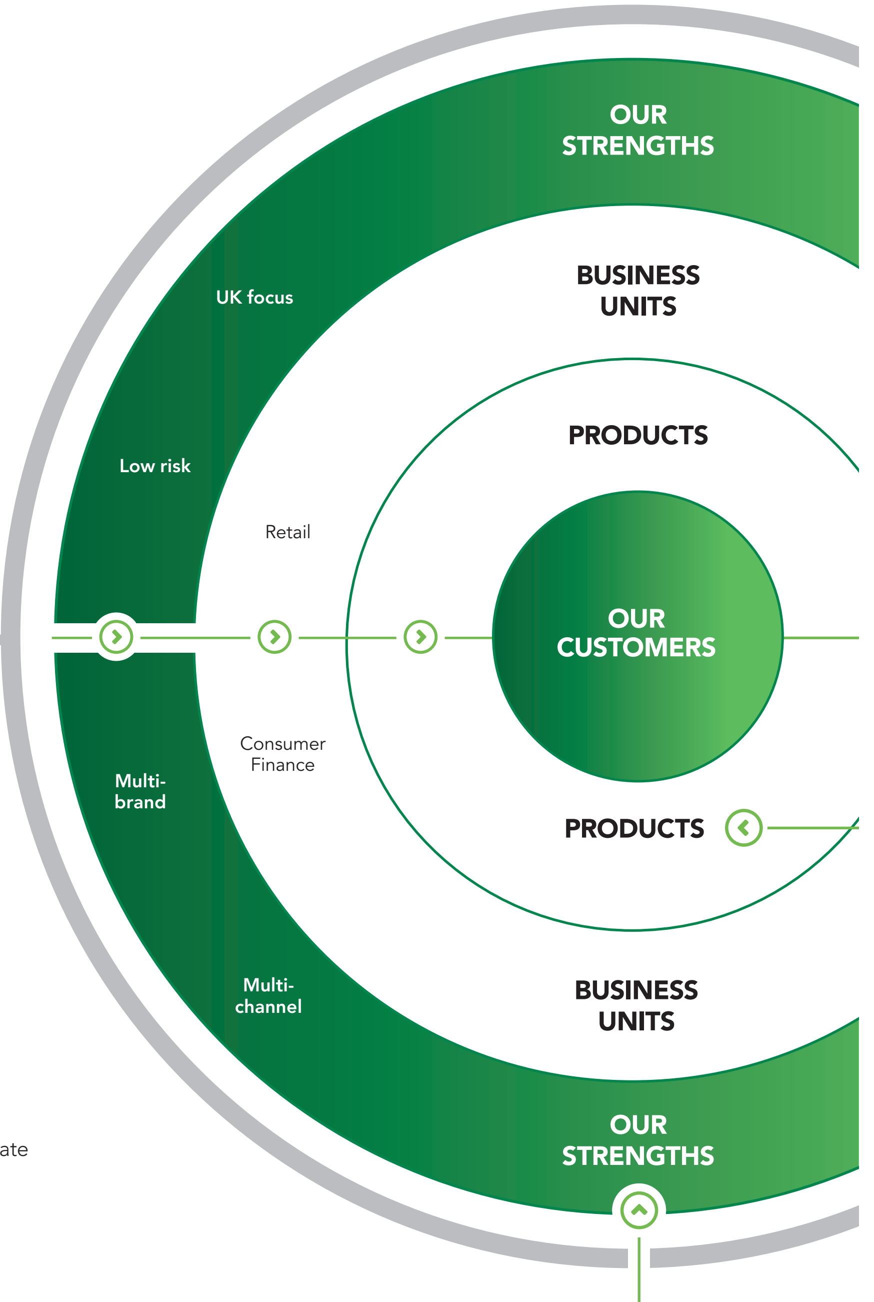
Key challenges

- Economic environment: increased concerns on the global growth outlook, the impact of continued low interest rates and the impact of the EU referendum.
- Regulatory environment: the level of regulatory change remains high with continued focus on ring-fencing, resolution and conduct. The SM&CR could potentially have significant impact on the business.
- Competition: an increasingly competitive market for lending and deposits could further impact margins and require us to innovate and evolve more quickly.
- Digital transformation: the pace of change is significant and we will need to continue to invest to meet evolving customer needs.

Our business model

We have a differentiated, UK focused, retail and commercial banking business model

By putting customers at the heart of everything we do, operating sustainably and responsibly and continuing to invest in our business strengths, we believe we will help Britain prosper and create value for our shareholders



EXTERNAL ENVIRONMENT

Our business model is influenced by external factors which continue to evolve, in particular:

Customer needs
We are adapting to changing customer behaviour such as the increased adoption of digital product offerings.

Economic and political environment
Our focus on the UK means our future is inextricably linked to the health of the UK economy, which has continued to perform resiliently.

Regulatory environment
Although we are now seeing more clarity, the level of regulation – whether it be focused on consumer protection, conduct, competition, capital or ring-fencing and resolution – remains high.

Competitive environment
The UK financial services market is one of the most competitive worldwide and in such a dynamic market, we continue to differentiate ourselves accordingly.

COMPETITIVE STRENGTHS THAT DIFFERENTIATE LLOYDS BANKING GROUP

We have a number of strengths and capabilities that provide significant advantage and differentiation, driving value creation. Maintaining this through continued investment is key to future success.

UK focus: Operating primarily in the UK means we are focused on a single developed market that we truly understand. It also means we avoid the complexities and costs of multi-jurisdictional operations.

Simple, low cost operating model: Our simpler operating model and focus on operational efficiency already provides a cost advantage which benefits both customers and shareholders and will continue to be a key focus for the Group.

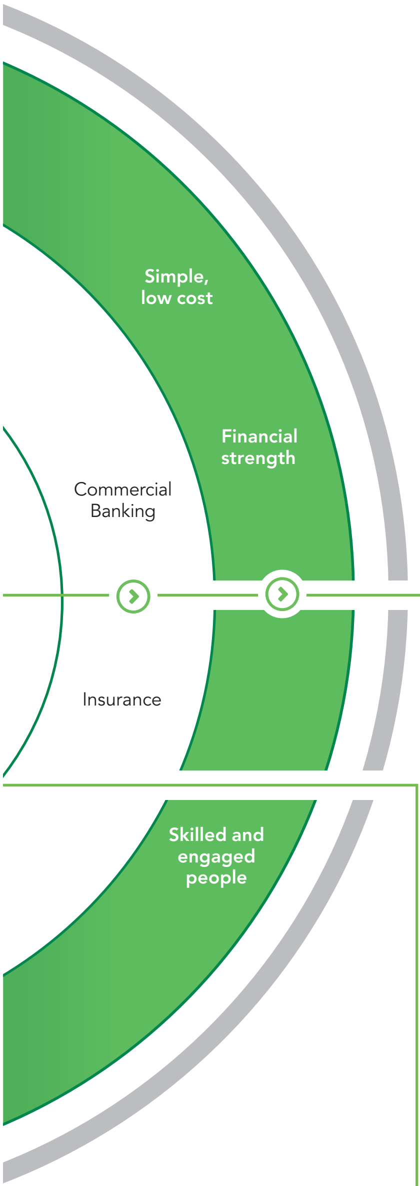
Low risk business: Being a low risk bank is central to our business model and to reducing earnings volatility. Our low risk appetite is reflected through the low level of non-performing loans and non-core assets and our credit default swap spread, which is amongst the best in the banking sector worldwide.

Financial strength: Our balance sheet and funding position have both been transformed in recent years and they are amongst the strongest within the banking sector worldwide.

Multi-brand proposition: Offering our services through a number of recognised brands enables us to address the needs of different customer segments more effectively.

Multi-channel approach: Operating in an integrated way through a range of distribution channels, including the largest branch network in the UK and a comprehensive digital proposition, ensures our customers can interact with us when they want and how they want.

Skilled and engaged people: Our colleagues provide real advantage. We continue to build a responsible culture where it is clear what is expected of them. Our Group Values of putting customers first, keeping it simple and making a difference together provide this clarity. We invest in skills and training while ensuring alignment to our customer focused strategy and commitment to build the best team.



PRODUCTS

Our product range is driven by the needs of our retail and commercial customers and informed through comprehensive customer analysis and insight.

Lending
mortgages, credit cards, personal and business loans

Deposit taking
current accounts, savings accounts

Insurance
home insurance, motor insurance, protection

Investment
pensions and investment products

Commercial financing
term lending, debt capital markets, private equity

Risk management
interest rate hedging, currency, liquidity

CREATING VALUE

Outcomes for our stakeholders

Customers:
Best bank for customers

Doing the right thing for our customers by meeting their financial needs, helping them succeed, improving our service proposition and creating value for them, is fundamental to our business model and the long-term sustainability of the business.

Shareholders:
Superior and sustainable returns

The successful delivery of our business model and strategy should enable delivery of superior and sustainable returns for our shareholders.

Society:
Helping Britain prosper

As the largest retail and commercial bank in the UK, helping Britain prosper is our central purpose. We have a number of public targets in areas where we can make the biggest difference for people, businesses and communities which are outlined in our Helping Britain Prosper Plan.

STRATEGIC PRIORITIES

We are adapting to the changes brought about by technology, changing customer behaviour and increasing regulatory requirements in a competitive market environment. To achieve this, we are focusing on three strategic priorities whilst building the best team.

Creating the best customer experience

Becoming simpler and more efficient

Delivering sustainable growth

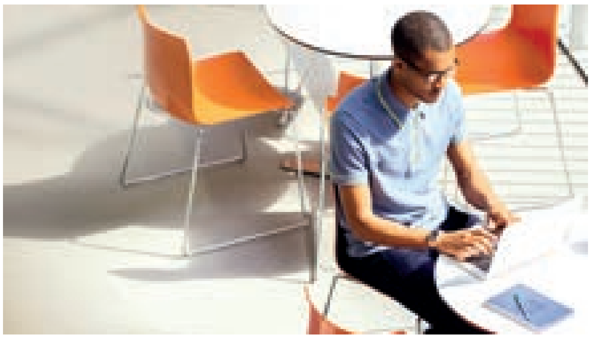
SUPPORTED BY OUR COLLEAGUES

Building the best team

Read more on page 20 or visit www.lloydsbankinggroup.com
20

Our strategic priorities

Creating the best customer experience



We are improving customer experience with our multi-brand, multi-channel approach, combining digital capabilities with face-to-face services. We are transforming our digital presence, providing simpler, seamless interactions across online and mobile while sustaining extensive customer reach through our leading branch network.

Initiatives

- Seamless multi-channel distribution across branch, online, mobile and telephony
- Tailor product propositions to meet customer needs more effectively
- Commitment to conduct and investment in service

Expected outcomes

- Improved customer experience through enhanced digital offering
- Retain convenience and reach of the leading branch network
- Improvement in customer satisfaction and lower complaints

Progress in 2015

21%

digital market share[1]

- Largest digital bank:
  - 11.5 million online users/6.6 million mobile users
  - Increasing market share
- Enhanced digital offering:
  - UK's no 1 rated banking app
  - Direct to consumer car financing proposition
- Further investment in market leading branch network, rolling out Wi-fi and automated solutions to the majority of branches
- Net promoter score >50 per cent higher than at the end of 2011
- Customer complaints (excluding PPI) remain lower than our peers

1 Retail and Home Insurance H2 digital market share of new business flows.

Becoming simpler and more efficient

We are creating operational capability which is simpler and more efficient than today through further system enhancement and integration. We are becoming more responsive to changing customer expectations while maintaining our cost leadership amongst UK high street banks. This cost leadership enables us to provide increased value to our customers and competitive differentiation.

Initiatives

- Re-engineer and simplify processes to deliver efficiency in a digital world
- Reduce third party spend
- Increase investment in IT efficiency and resilience

Expected outcomes

- Increased automation of end-to-end customer journeys
- More efficient change capability
- Resilient systems and processes
- Continuation of Simplification programme
- Maintain cost leadership position

Progress in 2015

49.3%

cost:income ratio

- Cost leadership with continued reductions in cost:income ratio to 49.3 per cent
- Actively responding to lower rates through accelerated cost delivery and targeting further efficiency savings
- Ahead of target in delivery of £1 billion Simplification savings: £0.4 billion achieved to date
- Increased automation of key end-to-end customer journeys

Delivering sustainable growth

As the UK economy continues to recover, we are further developing Groupwide growth opportunities within our prudent risk appetite. We are maintaining market leadership in our main retail businesses, making the most of our multi-brand, multi-channel strategy whilst also focusing on areas where we can grow.

Initiatives

- Maintain market leading position in key retail business lines
- Leverage Group strengths to capture growth in underrepresented areas

Expected outcomes

- Net lending growth of >£1 billion annually in both SME and Mid Markets
- Consumer Finance to increase UK customer assets by over £6 billion from 2015 to 2017
- Support our customers in retirement planning, increasing customer assets by over £10 billion

Progress in 2015

5%

SME lending growth

- Growth in targeted areas:
  - SME lending growth of 5 per cent in a flat market
  - Consumer Finance customer asset growth of £3.2 billion
  - Execution of first external bulk annuity transaction
- Maintain market leadership in key retail business lines:
  - Market leadership retained in current accounts and deposits
  - Mortgage growth below market due to focus on protecting margins

Building the best team

Our colleagues are fundamental to the achievement of our strategy. We are committed to building a business our colleagues are proud to work for by creating the best environment for them to succeed, providing them with the right skills and tools and giving them the opportunity to share their views.

Initiatives

- Create a great place to work that is focused on the customer
- Build a high performance organisation
- Build an inclusive workplace with a diverse workforce
- Ensure reward structures are fair, transparent and understandable for colleagues

Expected outcomes

- Engaged colleagues who actively share their views
- Collaborative working environment that enables colleagues to work together better for the benefit of customers
- Line managers have the talent and capabilities to lead their teams and deliver our strategy
- An environment which supports agile working, a customer-centric mind-set and a culture of coaching and development
- Enhanced benefits package with simplified pay ranges

Progress in 2015

↑11 points

employee engagement index

- Best bank for customers index up 6 points highlighting increased customer focus in the business
- Employee engagement up 11 points
- 31 per cent of senior roles now held by women
- Top private sector company for lesbian, gay, bisexual and transgender people in the Stonewall Top 100
- Agile working programme launched
- Over 9,800 managers enrolled on new Line Manager Academy
- Enhanced reward proposition including simplified pay ranges

Operating responsibly

HOW WE RUN A RESPONSIBLE BUSINESS

Operating responsibly requires running our business in ways that meet all relevant legal and regulatory requirements. In addition, we have a number of internal policies and procedures related to doing business responsibly. These include our Ethics, Speak Up and Anti-Bribery policies.

As recent signatories to the UN Global Compact, we operate in line with its ten principles and support the UN's wider development agenda, including the Guiding Principles and Sustainable Development Goals. We welcome the Modern Slavery Act and will issue our first statement in 2017.

We assess and manage social, ethical and environmental risk in our lending activity and the Group is a signatory to the Equator Principles which provide a framework for determining, assessing and managing environmental and social risk in project finance transactions. We recognise the need to address climate change, protect biodiversity, support local communities and ensure human rights are protected.

Our Code of Business Responsibility affirms that we do not finance any activities prohibited by international conventions supported by the UK government, such as the Oslo Convention on Cluster Munitions and the Ottawa Treaty on Anti-Personnel Landmines. Consequently, we will not enter into credit or investment relationships with businesses believed to be in breach of these conventions.

Read more about our approach to managing risk and the Equator principles online at www.lloydsbankinggroup.com/RB

Focusing on what matters most

To guide our corporate reporting, we conducted a comprehensive materiality survey to identify and prioritise the issues that matter most to our stakeholders, including colleagues and opinion formers. This process was informed by a survey of more than 2,000 adults in the UK[1].

The five issues that most concerned our stakeholders in 2015:

- **Building trust in our business**
- **Running our business even more responsibly**
- **Improving customer experience**
- **Making our products and services clearer**
- **Explaining our wider economic contribution**

> Doing business responsibly, sustainably and ethically, is the way to rebuild trust with people, businesses and communities across Britain, whilst also strengthening colleagues' pride in our Group.

Sara Weller
Chairman, Responsible Business Committee

1 Total sample size was 2,030 adults, of which 1,950 have a bank account. Fieldwork was undertaken by YouGov Plc between 8-9 October 2015. The survey was carried out online. The figures were weighted to be representative of all GB adults (aged 18+).

Read more about our Codes, Policies and our full Materiality Report at www.lloydsbankinggroup.com/RBDownloads

Building trust in our business

We can only achieve sustainable growth if we earn and retain the trust of our customers and other stakeholders. Trust is not a nice to have, it is a must have.

Greater transparency

We are committed to conducting our business responsibly and dealing transparently and fairly with any queries or concerns our stakeholders may have about our business or our strategy. We know that in order to become the best bank for customers we must be clear, open and visible about these key issues.

A clear purpose and strong values

We have set out our corporate purpose, to help Britain prosper and our ambition to do so as the best bank for customers. In 2012, we launched our three Group Values: putting customers first, keeping it simple, and making a difference together. These values and our Codes of Responsibility are embedded across the business, from recruitment through to performance management and training and development. The results of our colleague engagement surveys suggest that colleagues are increasingly guided and inspired by our Values.

97% of colleagues have completed training on our Codes of Responsibility and culture

Building a responsible culture

To become the best bank for customers we must continue to put the customer at the heart of everything we do. This year we created a new Group Customer First Committee, attended by senior leaders from across the business including the Chief Executive's Chief of Staff. The Committee is driving the development of a new Culture Framework. We will use this Framework to create a culture dashboard, to enable us to monitor our progress.

In building a culture in which colleagues are empowered, inspired and incentivised to do the right thing for customers, we assess our progress, along with colleagues' pride in our Group through our 'Best Bank for Customers' and 'Building the Best Team' surveys. In 2015, 85 per cent of colleagues responded to the latter. A new statement was included in 2015 – 'I understand how my team is supporting the Group's purpose to Helping Britain Prosper' where 81 per cent of colleagues agreed. This regular dialogue with colleagues provides rich data and a clear picture of how they're feeling. Further information on engaging colleagues, which is incorporated by reference into the strategic report, is on page 109 of the Directors' Report in the 2015 Annual Report and Accounts.

Read more information about building a responsible culture at www.lloydsbankinggroup.com/RB

Running our business even more responsibly

Stakeholders require reassurance that we run our business responsibly, complying with laws and regulations, managing risk effectively, and targeting growth in a sustainable and ethical manner.

A clearly defined business model and strategy

We are a simple, low risk, UK focused retail and commercial bank. A responsible approach is integral to our business model and our approach to value creation. You can read about this on page 18.

Strong risk management and governance

We need to manage risk effectively and make the right decisions for our customers, shareholders and the Group. We have a Board approved Group Risk Management Framework in place which you can read about on page 29.

Tackling bribery and corruption

We have established policies and procedures to ensure the Group complies with all applicable laws and regulations wherever it operates. Our Anti-Bribery Policy and principles apply to all Directors, colleagues, and anyone else acting on our behalf. The Policy prohibits the payment, offer, acceptance or request of any benefit (including cash) which could be construed as a bribe. All colleagues, including contractors, complete annual anti-bribery training and are encouraged to confidentially report any instances of suspected bribery via the Speak Up service or their line manager. Our suppliers are required to ensure that their employees are provided with appropriate training and awareness on a regular basis. Since 2014, the Group has been a member of Transparency International UK's Business Integrity Forum, a network of major international companies committed to anti-corruption and high ethical standards in business practices.

Paying and collecting UK tax

We continue to be one of the highest payers of UK tax; rated as second highest in the latest 100 Group PwC Total Tax Contribution Survey. We do not interpret tax laws in ways that we believe are contrary to their intention and we do not promote tax avoidance to our customers. We comply with the HMRC Code of Practice on Taxation for Banks and the Confederation of British Industry's Statement of Tax Principles. We are also a major tax collector, gathering £2.2 billion on behalf of HMRC in 2015.

£1.8bn of tax paid in 2015 (2014: £1.7bn)

Read more about stakeholder engagement at www.lloydsbankinggroup.com/RB

Improving customer experience

We want to be the best bank for customers, doing the right thing for them by providing products and services that they can afford, understand and trust to achieve the outcomes they want.

Improving customer experience

Over the past two years we have made significant improvements, designed to enhance outcomes for customers. They include improvements to our product governance processes, making our motor finance customer credit checks more rigorous, simplifying the terms and conditions information we publish and redesigning the way we support customers who have suffered recent bereavement. We aim to lead our industry in the way we treat these and other customers in vulnerable circumstances.

Measuring customer satisfaction

We measure customer satisfaction using the industry standard Net Promoter Score. We also use internal customer dashboards, which provide monthly information about customers' experience and views relating to our products and services. These data are discussed at the Group Executive Committee and the Board.

Dealing with customer complaints

We continue to take all complaints seriously. Improvements to our products and services and understanding the root causes of customer dissatisfaction underpins our efforts to reduce complaints. Where things do go wrong, we aim to put them right as quickly as possible, operating a 24-hour, 7-days a week service. To help ensure customers are dealt with as efficiently as possible, front line colleagues can use a 'phone-a-friend' escalation service to talk to specialists about a complaint whilst with a customer. In our drive to continuously improve of our complaints handling service, we encourage and support colleagues to study for an externally accredited complaint handling qualification. This type of commitment and investment has helped us to resolve in excess of four out of five of our general complaints either on the day they are received or by the end of the following day.

Read more about customer experience at www.lloydsbankinggroup.com/RB

Operating responsibly continued

Responsible marketing and communications

As a responsible business we must ensure that the way that we market our brands, products and services is fair, accurate, not misleading and ultimately easy for consumers to understand. The Group complies with voluntary and mandatory advertising and marketing standards. We are working to better understand customer behaviour and have used behavioural economic techniques to assess their preferences and improve our marketing materials as a result. This has made them more concise and clear. For example, we've simplified a savings maturity letter by introducing summary boxes and bullet points to highlight key information. This simple change has contributed to a reduction in complaints about the product maturity process by 80 per cent.

Protecting customers' privacy and data

Our customers, including 11.5 million who actively bank digitally, of which 6.6 million who use their mobile to bank with us, trust us with their money and personal details. To protect these assets, we consistently invest in security technologies, processes and training for colleagues. Since 2011 we have invested £157 million to improve security and provide protection for our customers. We also provide our customers with useful information about how they can improve their own money and data security behaviour.

We closed down more than 2,353 fraudulent websites in 2015 and we are a strategic partner of Get Safe Online, a joint initiative between the government, the National Crime Agency, and public and private sector supporters from the technology, communication, retail and finance sectors. We monitor unusual activity on customer accounts and use state-of-the-art technology to detect potential criminal activity. If we spot anything suspicious we take immediate and appropriate action.

26m credit and debit card transactions monitored for potential fraud every month

Tackling money laundering and terrorist financing

We take steps to make sure our products are not used for criminal purposes, such as money laundering and terrorist financing, working closely with legislators and regulators to combat this. We complete appropriate and proportionate customer due diligence throughout the duration of the customer relationship, and we monitor unusual activity on all customer accounts and use advanced technology to detect potential criminal activity. If we spot anything suspicious we take immediate and appropriate action. In 2015 we made further revisions to our Anti-Money Laundering and Counter Terrorist Policy and launched specialist training across the Group to help colleagues understand what is required from them.

Reporting concerns

Our whistleblowing policy, known as 'Speak Up', explains how colleagues can raise concerns confidentially without fear of reprisal. During 2015, 153 allegations received through our Speak Up line were investigated. Of the investigations concluded at year end, 63 per cent were upheld with appropriate remedial action taken where necessary. The majority of Speak Up allegations come from our Retail and Group Operations divisions, which given the scale of these business areas remains proportionate. We continue to educate and empower colleagues to do the right thing for our customers by challenging wrong behaviours if they witness them.

Download more information about our Codes and Policies at www.lloydsbankinggroup.com/RBDownloads

Making our products and services clearer

We serve an increasingly diverse customer base of individuals and businesses. To deliver sustainable growth we need to serve them all equally well.

Responsible lending

We understand the need to lend responsibly, in line with our own low-risk business model and customers' ability to meet their repayments. The support we offer all customers and the credit worthiness processes we use, reflect our responsible approach.

Serving vulnerable customers

Ensuring our products and services are accessible and suitable to the individual needs of all our customers is at the heart of everything we do; consistently offering the best experience for all of our customers, providing products and services when our customers need our support. This includes improving our processes when customers are bereaved and reviewing our websites and mobile banking services to ensure they are accessible to all our disabled customers.

Help for homebuyers

Buying a property is the biggest financial commitment many people ever make. We want to help more people get onto and move up the housing ladder. We made a public target to provide 1 in 4 of all new first-time buyers' mortgage loans completed in the UK in 2015, and we have fulfilled that commitment. Across all our customer brands, our gross new mortgage lending totalled £39 billion in 2015, and our support for home-buyers represented over 60 per cent of this lending.

We are a leading supporter of the UK government's Help to Buy scheme. We have advanced £3.5 billion of new lending to customers under the mortgage guarantee element of the scheme, since it was launched in the second half of 2013 up to the end of 2015.

>£11bn of new mortgage lending to more than 79,000 first-time buyers in 2015

Help for businesses

Our year-on-year net growth in lending to SMEs increased by 5 per cent in 2015. Our lending to SMEs has grown 25 per cent net since 2011, while it declined 13 per cent across the industry as a whole during the same period.

As part of our Helping Britain Prosper Plan we have a target to increase the amount of net lending to SMEs and Mid Market companies by £53 billion by 2017. We met our 2015 Prosper Plan target to increase net lending to these segments by at least £2 billion.

We support our business customers through our extensive network of customer facing staff. More than half a million business and commercial clients now bank digitally with us. We work with the Tinder Foundation and other partners such as the Government to improve digital skills for individuals, small businesses and charities.

Widening financial inclusion

We want to do more to help customers who are financially excluded or at risk of becoming so. Our financial inclusion strategy, launched in 2014, focuses on four strategic themes: providing accessible products and services that meet customers' needs; improving awareness and understanding of the impacts of financial exclusion across the bank; working in partnership with and signposting to other organisations that might be better suited to meet customer needs; and continuing to invest in financial education.

Opening a basic bank account can be the first step towards financial inclusion for many customers. In 2015, we provided over 300,000 new basic bank accounts and also helped 55,000 customers upgrade from basic to more mainstream products.

Digital technology offers an important opportunity to make financial services more accessible. Today, almost 6 million adults in the UK have never used the internet and over 50 per cent of charities and more than 1 million small and medium-sized businesses lack basic digital skills. Increasing digital capability is one of the most important factors that will drive financial inclusion over the coming years, so we aim to use our expertise and reach to promote wider understanding and access, as shown in our Lloyds Bank Consumer Digital Index.

Financial support and education

The credit union sector provides an essential service to many people across Britain. We believe that it can become an even more powerful choice for consumers to turn to, which is why we've been working in partnership with the Association of British Credit Unions Limited and the Credit Union Foundation, to provide a £4 million fund over four years which is invested in the core funding of credit unions to help them become more sustainable. In 2015, 69 credit unions applied for awards and 21 secured a large grant or seed funding.

We can help our current and future customers to avoid financial difficulties by providing them with a better understanding of money matters. We have invested £10 million in our Money for Life programme for young people since it launched in 2009. We are reviewing this programme in 2016 following the launch of the UK Financial Capability Strategy published by the Money Advice Service and our own experience of delivering community based financial education. We are considering additional ways to support customers and colleagues with money management.

£1m additional funding provided to support credit unions in 2015

Read more about our Helping Britain Prosper Plan at www.lloydsbankinggroup.com/ProsperPlan

Explaining our wider economic contribution

We contribute to the UK economy through our products and services, and through our commitments in our Helping Britain Prosper Plan. We also make a positive economic impact as a major employer and purchaser.

Creating new jobs

We employ more than 75,000 colleagues. We offer them all competitive rewards and benefits, including incentivisation schemes based on customer outcomes. We are helping to create additional jobs and bring talented people into our business through our Apprenticeship Scheme. This year we created over 1,000 new apprenticeship roles, bringing the total to over 3,200 since we launched the scheme in October 2012. We have committed, as part of our Helping Britain Prosper Plan, to create 8,000 new apprenticeships by 2020.

Supporting UK trade and manufacturing

Providing support to UK businesses so that they can export and attract international investment is essential to long term economic growth. In 2015, Lloyds Bank Commercial Banking became the first UK bank to enter into a strategic partnership with UK Trade and Investment to support UK businesses to export and to attract inward investment into the UK.

We are committed to supporting the manufacturing sector in the UK. In 2015, we announced a £5 million investment over five years to support over 500 skilled apprentices at the Lloyds Bank Advanced Manufacturing Training Centre in Coventry. This will help address the skills gap in the sector and help improve productivity and innovation in the sector.

£1.4bn of new funding support provided to UK manufacturing companies in 2015

Purchasing goods and services

We are working together with our suppliers and others in our supply chain to ensure we source goods and services in ways that are responsible, sustainable and mutually beneficial. They must also provide best value for our customers and shareholders. In 2015, we spent around £5.8 billion on a diverse range of goods and services, with over 4,000 different suppliers. We continue to honour our commitment to pay our suppliers on time and are signatories to the Prompt Payment Code. In our Helping Britain Prosper Plan, we set a 2015 target to pay 96 per cent of our supplier invoices within 30 days and we exceeded this target.

Read more about our business model and wider value creation on page 18.

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Operating responsibly continued

RESPONSIBLE BUSINESS PERFORMANCE

In addition to the issues highlighted as most material by our stakeholders, we also report annually on other aspects of responsible business, which we regard as integral to our operations.

Colleagues

We want to ensure that every colleague feels valued and empowered to thrive in a truly inclusive business. We maintain regular dialogue with colleagues to assess their views and keep them informed about our performance and the issues we face. We have recognition agreements with two trade unions, Accord and Unite, which collectively negotiate and consult on behalf of around 95 per cent of our colleagues. You can read more about initiatives and progress on building the best team on page 21.

Learning and development

Investing in learning and development is critical in supporting colleagues to carry out their roles to the best of their ability. In 2015 we launched our Line Manager Academy, a brand new programme aimed at increasing the capability of our line manager population, reinforcing how they apply our values and Codes of Responsibility in their day-to-day roles. Overall, Colleagues logged onto our online learning system, Discover Learning, more than 10 million times and more than 96 per cent of our colleagues undertook formal learning.

Colleague well-being

We aim to make Lloyds Banking Group a great place to work for all colleagues, with their health and well-being as top priorities. We provide comprehensive online tools to support common health topics, such as fitness, smoking, diet and mental health. We issue monthly colleague newsletters on relevant issues. Working in partnership with external, market leading specialists, we provide colleagues with access to an Occupational Health Service, an Employee Assistance Programme, and to private medical cover. In 2015, we extended the company paid private medical provision to include all permanent colleagues.

Agile working

In 2015 we launched our Agile Working programme initiative, evolving our working approach to meet the ever-changing needs of our colleagues and customers. All colleagues can apply to work flexibly to support their preferred work-life balance, whether they're parents, carers, or have other priorities. In addition, they can buy extra holiday time and purchase other family benefits through our Flexible Benefits scheme. The Group was named a Top Ten Employer for Working Families in 2015.

Inclusion and diversity

We recognise that everyone is different. We value the unique differences that each of our colleagues bring to work every day. Together, they make Lloyds Banking Group stronger, and the best bank for customers. We're working hard to build an inclusive bank that reflects the diversity of modern Britain. All line managers completed inclusion and diversity capability training in 2015 and an additional 200 colleagues were trained to deliver disability awareness sessions with customers. Our 2015 'Words Count' campaign encouraged all colleagues to challenge non-inclusive language and behaviours, and over 20,000 colleagues are members our four diversity networks, which are open to everyone. The Group retained its leading position as the top private sector company for LGBT people in the Stonewall Top 100 and was named in The Times Top 50 Employers for Women. In addition we retained our Gold Standard in the Business Disability Forum Benchmark in recognition of the work done through the Group Disability Programme. More information on support for disabled colleagues, which is incorporated by reference into the strategic report, in the Directors' report of our 2015 Annual Report and Accounts.

		2015	2014
GENDER			
Board members	Male	**10**	10
	Female	**3**	3
Senior managers[1]	Male	**5,561**	5,644
	Female	**2,405**	2,204
Colleagues[1]	Male	**34,602**	35,255
	Female	**46,920**	47,728

	2015	2014[2]
ETHNICITY		
Percentages of colleagues from an ethnic minority	**6.8%**	6.6%
Ethnic minority managers	**6.4%**	6.0%
Ethnic minority senior managers	**3.7%**	3.3%

GENDER DIVERSITY[2,3] %

Colleagues (female)

Managers (female)

Senior managers (female)

DISABILITY %

Colleagues who disclose a disability

SEXUAL ORIENTATION %

Colleagues who disclose they are lesbian, gay, bisexual or transgender

1 Colleague scope of reporting: UK payroll headcount includes established and fixed term contract colleagues. Excludes parental leavers, Non-Executive Directors, contractors, temp, agency and internationals.

2 2014 figures restated due to a change in HR system, and also to include International colleagues within the gender information, to be on a comparable basis with 2015 figures.

3 Diversity scope of reporting: UK & International payroll headcount includes parental leavers and excludes contractors. Gender information includes International colleagues. All other diversity information is UK payroll only.

Seniors Managers: Grades F+
Managers: Grade D-E
Data source: HR system (HR Online). Apart from gender data, all diversity information is based on colleagues' voluntary self-declaration. As a result this data is not 100 percent representative; our systems do not record diversity data for the proportion of colleagues who have not declared this information.

✓ Indicator is subject to limited ISAE 3000 (Revised) assurance by Deloitte LLP for the 2015 Annual Responsible Business Reporting. Deloitte LLP's 2015 assurance statement and the 2015 Reporting Criteria are available online at www.lloydsbankinggroup.com/RBdownloads

Environment

Our ability to help Britain prosper is inextricably linked to wider environmental issues. Man-made climate change and global trends such as resource scarcity, extreme weather and rising energy and commodity prices have an impact on our stakeholders and our own operations.

We are committed to managing our direct environmental impact and reducing our greenhouse gas emissions. We do this through our Environmental Action Plan, which focuses on reducing risk and creating value through improved efficiency. More detail is included in our Environmental Statement, available online.

Greenhouse gas emissions

This year our overall carbon emissions, measured in CO_2 equivalent tonnes (CO_2e), have decreased by 9.85 per cent year-on-year and by 29.6 per cent against our 2009 baseline. The majority of this reduction is attributable to the reduction in consumption of gas and electricity, which make up the largest proportion of our emissions. This reduction was mainly due to energy management activity, for example continued optimisation of building management systems to ensure that heating and ventilation plant and lighting run times are matched to actual building operations and occupancy.

For more on emissions reporting and methodology, see the Directors' report of our 2015 Annual Report and Accounts.

CO_2e emissions (tonnes)

	Oct 2014 – Sept 2015	Oct 2013 – Sept 2014
Total CO_2e	**398,191** ✓	441,703
Total scope 1	**57,761** ✓	60,019
Total scope 2	**241,008** ✓	264,252
Total scope 3	**99,422** ✓	117,432

Restated 2013/2014 emissions data to improve the accuracy of reporting, using actual data to replace estimations and our re-categorisation of the emissions from our owned vehicles.

Emissions in tonnes CO_2e in line with the GHG Protocol Corporate Standard revised issue (2004).

Criteria used to measure and report Scope 1, 2, 3 emissions is provided in the Lloyds Banking Group criteria statement available online at www.lloydsbankinggroup.com/ResponsibleBusiness

✓ Indicator is subject to limited ISAE 3000 (Revised) assurance by Deloitte LLP for the 2015 Annual Responsible Business Reporting. Deloitte LLP's 2015 assurance statement and the 2015 Reporting Criteria are available online at www.lloydsbankinggroup.com/RBdownloads

32% reduction in energy use compared to our 2009 target baseline

Support for the low carbon economy

We provide finance to green industries and support for SMEs seeking to become more carbon and resource efficient.

In 2015, our UK based team was responsible for financing renewable projects with a combined capacity of more than 2.35GW. Globally, our investments in renewable energy are in excess of 9GW in capacity and cover solar, offshore and onshore wind, waste to energy and biomass.

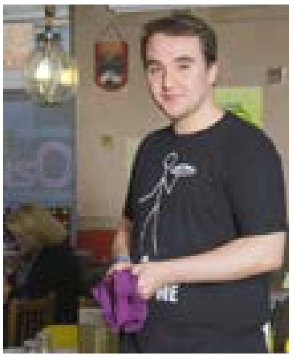
Following the success of the Group's first Environmental, Social and Governance (ESG) bond in 2014, and in response to increased investor demand, it launched another £250 million bond in 2015. Lloyds Bank became the first UK bank to develop an ESG deposit scheme in response to client demand to invest in products that create positive impacts.

Read more on emissions reporting and methodology in the Directors' report of our 2015 Annual Report and Accounts

Communities

We are an integral part of communities across Britain, and we believe we can use our unique position to help them prosper. This year we raised £5 million (including matched giving) for our Charity of the Year, BBC Children in Need through various fundraising activity. In 2015, colleagues gave 320,000 paid volunteering hours to support community-based organisations. We are doing more to encourage skills-based volunteering.

The Foundations



We want to do more to help even more people through our four independent charitable Foundations. Our England and Wales Foundation is the UK's largest corporate foundation.

Since 1985, we have given almost £600 million to tackle disadvantage in communities across the UK.

£17m donated to our charitable Foundations in 2015

Stakeholders

We identify and engage with many different groups and individuals to understand their needs and views, to ensure our approach remains relevant.

Investors and ratings agencies

We held more than 1,000 meetings with investors in 2015. We regularly engage SRI/ESG investors as well as mainstream investors and investment analysts to provide them with information on our performance, strategic plans and how we do business responsibly. In 2015 we held a number of responsible business webinars and roadshows with investors and analysts. We also briefed ratings agencies about our performance against our Conduct Risk Appetite Metrics.

Independent Stakeholder Advisory Panel

Our Independent Panel is in place to provide an external viewpoint on elements of our Responsible Business strategy. In 2015, they discussed broad topics including our Helping Britain Prosper Plan and Financial Inclusion Strategy and fed back their recommendations to the Responsible Business Committee. You can read more about the Panel online at www.lloydsbankinggroup.com/RB

Read more about our community programmes at www.lloydsbankinggroup.com/RBCommunities

Risk overview

Effective risk management, governance and control

How we manage risk is a fundamental part of our strategy. We operate as a simple, low risk, UK focused, retail and commercial bank with a culture founded on a prudent through the cycle appetite for risk.

Our approach to risk is founded on an effective control framework and a strong risk management culture which guides how our employees approach their work, the way they behave and the decisions they make. Risk appetite, defined as the amount and type of risk that we are prepared to seek, accept or tolerate, works in tandem with our strategy and is approved by the Board. Our risk appetite is then embedded within policies, authorities and limits across the Group.

Risk as a strategic differentiator

Group strategy and risk appetite are developed together to ensure one informs the other and creates a strategy that delivers on becoming the best bank for our customers whilst helping Britain prosper and creating sustainable growth over time.

Risks are identified, managed and mitigated using our Risk Management Framework (see page 29). The principal risks we face, which could significantly impact the delivery of our strategy, are discussed on pages 30 to 33.

We believe effective risk management can be a strategic differentiator, in particular:

Sustainable growth

Embedding a risk culture that ensures proactive support and constructive challenge takes place across the business in order to deliver sustainable growth.

Prudent approach to risk

Implementing a prudent approach to risk appetite across the Group, aligned to the embedding of a strong risk culture, driven both from the top and across the wider business, ensures we operate within risk appetite.

Strong control framework

The Group's Risk Management Framework (RMF) acts as the foundation for the delivery of effective risk control and ensures that the Group risk appetite is adhered to.

Effective risk analysis, management and reporting

Close monitoring and stringent reporting to all levels of management and the Board ensures appetite limits are maintained and are subject to stressed analysis at a risk type and portfolio level.

Business focus and accountability

Effective risk management is a key focus and is included in key performance measures against which individual business units are assessed. The business areas in the first line are accountable for risk but with oversight from a strong and importantly, independent, Second Line Risk Division.

Achievements in 2015

We have continued our strategic journey and created a foundation to deliver our objectives, through reacting to changing customer behaviour, maintaining our strong capital position and increasing dividend payments, whilst continuing to adapt to the ever changing regulatory environment. Close and collaborative working across the Group within risk culture and appetite has supported key risk-related deliverables in the year. These included:

Conduct

Deploying a consistent and relentless approach under the Group conduct strategy to ensure we deliver customer needs with an open and transparent culture.

Credit rating

In recognition of the delivery of the Group's strategy, the three main credit rating agencies have either reaffirmed or upgraded our credit rating in the year.

State aid commitments

We have satisfied all material structural and behavioural commitments following the successful carve-out and disposal of TSB with respect to the State Aid commitments agreed with the European Commission under the State Aid regime in 2009. We are therefore no longer subject to restrictive behavioural commitments including the constraint on acquisitions, but continue to be bound by two remaining limited ancillary commitments which means that we remain subject to supervision by the European Commission with respect to these commitments until they cease to have effect on or before June 2017. Our strong risk management has assisted in the government's continued sell-down of shares to a holding which is approximately 9 per cent.

Capital strength

We have maintained our strong capital position through a combination of increased underlying profit and lower risk-weighted assets, partially offset by PPI and other conduct charges, which enabled the Group to pay both an interim dividend at half year and to recommend the payment of both a full year ordinary dividend and a special dividend whilst maintaining strong capital ratios. In 2015 the Group participated in the UK-wide concurrent stress testing run by the Bank of England, comfortably exceeding both the capital and leverage minimum thresholds set.

Impairments

Through effective risk management our impairment charge has fallen to £568 million, while the impairment ratio fell to 0.14 per cent. Reduction in run-off assets and the sustained improvement in asset quality across the Group reflects our robust risk management framework which is ingrained across the entire business, as detailed on page 29.

Risk governance

The Board approves the Group's overall RMF and sets risk appetite, both of which are designed to ensure that we manage our risks in the right way to achieve our agreed strategic objectives. It has a dedicated risk committee of non-executive directors who keep the design and performance of the Group's RMF under close and regular scrutiny, and interact closely with the executive risk management committee operating at Group Executive Committee level. The Board and senior management encourage a culture of transparency and openness to ensure that issues are escalated promptly to them where required.

The Board approved RMF and risk appetite are put into effect using an enterprise-wide framework which applies to every area of the business and covers all types of risk. The framework is designed to ensure we follow a consistent approach to risk management and reporting throughout the Group, so that all risks are fully understood and managed in relation to our agreed risk appetite. It includes our policies, procedures, controls and reporting.

A high level structure is shown in the diagram below.

The framework is periodically reviewed, updated and approved by the Board to reflect any changes in the nature of our business and external regulations, law, corporate governance and industry best practice. This helps us to ensure we continue to meet our responsibilities to our customers, shareholders and regulators. Our risk appetite and the policy framework define clear parameters within which our business units must operate in order to deliver the best outcome for customers and stakeholders.

The Board delegates authorities for risk management through the Group Chief Executive and the management hierarchy to individuals, an approach which is consistent with the focus of the Senior Managers and Certification Regime (SM&CR) on the principle of individual accountability. At a senior level, executives are supported in their decision-making by a committee-based governance structure. The concept of individual accountability for risk management is embedded in the RMF and culture at every level, and guides the way all employees approach their work, behave and make decisions. An important element of the framework is the maintenance of strong internal controls which are owned and operated by individual business areas. The Group's risk governance arrangements will support the effective implementation of the requirements of the SM&CR which comes into force in 2016.

Accountability for ensuring risk is managed consistently with the Risk Framework approved by the Board ↓			↑ Confirmation of the effectiveness of the Risk Framework and underlying risk and control
Setting risk appetite and strategy. Approval of the risk management framework and Groupwide risk principles	Board Role		Board Authorities
Review risk appetite, frameworks and principles to be recommended to the Board. Be exemplars of risk management	Senior Management Role		Through Board-delegated Executive Authorities there is effective oversight of risk management consistent with risk appetite
Determined by the Board and Senior Management. Business units formulate their strategy in line with the Group's risk appetite	Risk appetite		The Risk Appetite Framework ensures our risks are managed in line with our risk appetite
Supporting a consistent approach to Groupwide behaviour and risk decision making. Consistency is delivered through the policy framework and risk committee structures	Governance frameworks		Supports a consistent approach to enterprise-wide behaviour and decision making
Monitoring, oversight and assurance ensures effective risk management across the Group	Three Lines of defence model	Mandate of the Risk Division	Maintains a robust control framework, identifying and escalating emerging risks and supporting sustainable growth
Defined processes exist to identify, measure and control our current and emerging risks	Risk identification, measurement and control	Risk monitoring, aggregation and reporting	Carried out by all three lines of defence and is an integral part of our control effectiveness assessment
In line with our Codes of Responsibility. Culture ensures performance, risk and reward are aligned	Culture	Resources and capabilities	Processes and infrastructure are being invested in to further improve our risk management capabilities
Risk-specific needs defined in detail for implementation by each business	Primary risk drivers		Risk-type specific sub-frameworks e.g. credit risk

Risk overview continued

The most significant risks we face which could impact the delivery of our strategy, together with key mitigating actions, are outlined below.

This year we have added two new principal risks:
– Insurance risk, reflecting that we are increasing our exposure to longevity risk, following our entry into the bulk annuity market in 2015; and
– Governance risk, given increasing societal and regulatory focus on governance arrangements.

All risks have the potential to impact our strategic priorities and the summary below illustrates the most predominant strategic priority impacted by the principal risks and uncertainties detailed.

PRINCIPAL RISKS	KEY MITIGATING ACTIONS
Credit risk The risk that customers to whom we have lent money or other counterparties with whom we have contracted, fail to meet their financial obligations, resulting in loss to the Group. Adverse changes in the economic and market environment we operate in or the credit quality and/or behaviour of our customers and counterparties could reduce the value of our assets and potentially increase our write downs and allowances for impairment losses, adversely impacting profitability. **Example:** – Whilst we have a deep understanding of credit risks across our commercial, mortgage and other portfolios; a changing economic environment, e.g. interest rate rises, can impact on customer affordability and therefore our performance.	– Credit policy, incorporating prudent lending criteria, aligned with Board approved risk appetite, to effectively manage risk. – Robust risk assessment and credit sanctioning, with clearly defined levels of authority to ensure we lend appropriately and responsibly. – Extensive and thorough credit processes and controls to ensure effective risk identification, management and oversight. – Effective, well-established governance process supported by independent credit risk assurance. – Early identification of signs of stress leading to prompt action in engaging the customer.
Regulatory and legal risk The risks of changing legislation, regulation, policies, voluntary codes of practice and their interpretation in the markets in which we operate can have a significant impact on the Group's operations, business prospects, structure, costs and/or capital requirements and ability to enforce contractual obligations. **Examples:** – Increased regulatory oversight and Prudential regulatory requirements. – Increased legislative requirements, such as ring-fencing legislation.	– The Legal, Regulatory and Mandatory Change Committee ensures we develop plans for delivery of all legal and regulatory changes and tracks their progress. Groupwide projects implemented to address significant impacts. – Continued investment in people, processes, training and IT to assess impact and help meet our legal and regulatory commitments. – Engage with regulatory authorities and relevant industry bodies on forthcoming regulatory changes, market reviews and Competition and Markets Authority investigations.
Conduct risk Conduct risk can arise from a number of areas including selling products to customers which do not meet their needs; failing to deal with customers' complaints effectively; not meeting customers' expectations; and exhibiting behaviours which do not meet market or regulatory standards. **Example:** – The most significant conduct cost in recent years has been PPI mis-selling.	– Customer focused conduct strategy implemented to ensure customers are at the heart of everything we do. – Product approval, review processes and outcome testing supported by conduct management information. – Clear customer accountabilities for colleagues, with rewards driven by customer-centric metrics. – Learning from past mistakes through root cause analysis of crystallised issues.
Operational risk We face significant operational risks which may result in financial loss, disruption or damage to our reputation. These include the availability, resilience and security of our core IT systems and the potential for failings in our customer processes. **Examples:** – A resilient IT environment is critical to providing reliable services to customers and enabling sustainable growth. – The dynamic threat posed by cyber risk and the potential for external attacks on the integrity of electronic data or the availability of systems.	– Continual review of our IT environment to ensure that systems and processes can effectively support the delivery of services to customers. – Addressing the observations and associated resilience risks raised in the Independent IT Resilience Review (2013), with independent verification of progress on an annual basis. – Investing in enhanced cyber controls to protect against external threats to the confidentiality or integrity of electronic data, or the availability of systems. Responding to findings from third party industry testing.
People risk Key people risks include the risk that we fail to lead responsibly in an increasing competitive marketplace, particularly with the introduction of the SM&CR in 2016. This may dissuade capable individuals from taking up senior positions within the industry. **Example:** – Lack of colleague capacity and capability could impact the achievement of business objectives. Additional colleague stretch (including increased dependency on key staff) could result in a loss of expertise.	– Focused action on strategy to attract, retain and develop high calibre people. – Maintain compliance with legal and regulatory requirements relating to the SM&CR, embedding compliant and appropriate colleague behaviours. – Continued focus on our culture, delivering initiatives which reinforce behaviours to generate the best long-term outcomes for customers and colleagues. – Maintain organisational people capability and capacity levels in response to increasing volumes of organisational and external market changes.

KEY RISK INDICATORS / ALIGNMENT TO STRATEGIC PRIORITIES AND FUTURE FOCUS

Impairment charge

2015	£568m
2014	£1,102m

Impaired assets

2015	£9,590m
2014	£14,308m

● Delivering sustainable growth

We have a UK customer focused, low risk, conservative and well balanced credit portfolio, managed through the economic cycle and supported by strong credit portfolio management.

Credit risk decisions are consistent, fair and responsible, taking account of customers' circumstances.

We support sustainable growth and meet our targets in the Helping Britain Prosper Plan while staying within prudent risk appetite.

Impairments remain below long term levels and are expected to normalise over time. Emerging credit risks that have the potential to increase impairment include the global and UK economic environment as it can impact customer and counterparties' affordability.

Legal, regulatory and mandatory investment spend

2015	£454m
2014	£406m

● Delivering sustainable growth

We are committed to operating sustainably and responsibly, and commit significant resource and expense to ensure we meet our legal and regulatory obligations.

We respond as appropriate to impending legislation and regulation and associated consultations and participate in industry bodies. We continue to be subject to significant ongoing and new legislation, regulation and court proceedings, with numerous developments in each of these areas.

FCA reportable complaints per 1,000 accounts (excl. PPI)[1]

2015	1.9
2014	1.5

1 This key risk indicator is also a key performance indicator (KPI).

● Creating the best customer experience

As we transform and simplify our business, minimising conduct risk is critical to achieving our strategic goals and meeting market and regulatory standards. Our customer focused conduct strategy forms the foundation of our vision to be the best bank for customers, allowing us to create the best customer experience through learning from past mistakes.

Availability of core systems

2015	99.97%
2014	99.96%

● Creating the best customer experience

We recognise the role that resilient technology plays in enabling us to create the best customer experience, and in maintaining banking services and trust across the wider industry. As such, the availability, resilience and security of our IT systems remains a key focus.

Our Cyber Programme continues to focus on improving the Groupwide cyber security controls and we regularly assess our cyber control environment, through both internal and third party testing.

Best bank for customers index

2015	78%
2014	72%

● Creating the best customer experience

We continue to focus on developing colleagues, their capabilities and skills in order to create the best customer experience and to respond quickly to the rapidly evolving change in customers' decision making.

The current regulatory regime presents some far reaching people implications in terms of personal accountability and remuneration arrangements. This coincides with the ongoing challenge of maintaining colleague capacity and capability to deliver our change agenda.

More information on each of these principal risks can be found in our 2015 Annual Report and Accounts.

Risk overview continued

PRINCIPAL RISKS

KEY MITIGATING ACTIONS

Insurance risk

Key insurance risks within the Insurance business are longevity, persistency and property insurance. Longevity risk is expected to increase with the 2015 entry into the bulk annuity market. Longevity is also the key insurance risk in the Group's Defined Benefit Pension Schemes.

Examples:

- Increases in life expectancy (longevity) beyond current assumptions will increase the cost of annuities and pension scheme benefits.
- Uncertain property insurance claims impact Insurance earnings and capital, e.g. extreme weather conditions, such as flooding, can result in high property damage claims.

Key mitigating actions:

- Insurance processes on underwriting, claims management, pricing and product design seek to control exposure to these risks. A team of longevity and bulk pricing experts has been built to support the new bulk annuity proposition.
- The merits of longevity risk transfer and hedging solutions are regularly reviewed for both the Insurance business and the Group's Defined Benefit Pension Schemes.
- Property insurance exposure to accumulations of risk and possible catastrophes is mitigated by a broad reinsurance programme.

Capital risk

The risk that we have a sub-optimal amount or quality of capital or that capital is inefficiently deployed across the Group.

Example:

- A worsening macroeconomic environment could lead to adverse financial performance, which could deplete capital resources and/or increase capital requirements due to a deterioration in customers' creditworthiness.

Key mitigating actions:

- A comprehensive capital management framework that sets and monitors capital risk appetite using a number of key metrics.
- Close monitoring of capital and leverage ratios to ensure we meet current and future regulatory requirements.
- Comprehensive stress testing analysis to evidence sufficient levels of capital adequacy under various adverse scenarios.
- Accumulation of retained profits and managing dividend policy appropriately.

Funding and liquidity risk

The risk that we have insufficient financial resources to meet our commitments as they fall due, or can only secure them at excessive cost.

Example:

- Our funding and liquidity position is supported by a significant and stable customer deposit base. A deterioration in either the Group's or the UK's credit rating, or a sudden and significant withdrawal of customer deposits, would adversely impact our funding and liquidity position.

Key mitigating actions:

- Holding a large portfolio of unencumbered LCR eligible liquid assets to meet cash and collateral outflows and regulatory requirements and maintaining a further large pool of secondary assets that can be used to access central bank liquidity facilities.
- Undertaking daily monitoring against a number of market and Group-specific early warning indicators and regular stress tests.
- Maintaining a contingency funding plan detailing management actions and strategies available in stressed conditions.

Governance risk

Against a background of increased regulatory focus on governance and risk management, the most significant challenges arise from the SM&CR in force from March 2016 and the requirement to improve the resolvability of the Group and to ring-fence core UK financial services and activities from January 2019.

Example:

- Non-compliance with or breaches of ring-fencing, resolution and SM&CR requirements will result in legal and regulatory consequences.

Key mitigating actions:

- Our response to the SM&CR is managed through a programme with work streams addressing each of the major components.
- A programme is in place to address the requirements of ring-fencing and resolution and we are in close and regular contact with regulators to develop plans for our anticipated operating and legal structures.
- Our aim is to ensure that evolving risk and governance arrangements continue to be appropriate across the range of business in the Group in order to comply with regulatory objectives.

Market risk

The risk that our capital or earnings profile is affected by adverse market rates, in particular interest rates and credit spreads in the Banking business and equity and credit spreads in the Insurance business and the Group's Defined Benefit Pension Schemes.

Examples:

- Earnings are impacted by our ability to forecast and model customer behaviour accurately and establish appropriate hedging strategies.
- The Insurance business is exposed indirectly to equity and credit markets through the value of future management charges on policyholder funds. Credit spread risk within the Insurance business primarily arises from bonds and loans used to back annuities. Credit spreads affect the value of the Group's Defined Benefit Pension Schemes' liabilities.

Key mitigating actions:

- Structural hedge programmes have been implemented to manage liability margins and margin compression, and the Group's exposure to Bank Base Rate.
- Equity and credit spread risks are inherent within Insurance products and are closely monitored to ensure they remain within risk appetite. Where appropriate, asset liability matching is undertaken to mitigate risk.
- The allocation to credit assets has been increased and equity holdings reduced within the Group's Defined Benefit Pension Schemes. A hedging programme is also in place to minimise exposure to nominal rates/inflation.
- Stress and scenario testing of Group risk exposures.

KEY RISK INDICATORS / ALIGNMENT TO STRATEGIC PRIORITIES AND FUTURE FOCUS

Insurance (Life and Pensions) present value of new business premiums

Insurance (General Insurance) gross written premiums

Creating the best customer experience

We are committed to meeting the changing needs of customers by working to provide a range of insurance products via multiple channels. The focus is on creating the best customer experience by helping customers protect themselves today whilst preparing for a secure financial future.

Strategic growth initiatives within Insurance are developed and managed in line with a defined risk appetite, aligned to the Group risk appetite and strategy.

Common equity tier 1 ratio[1]

Leverage ratio

1 This key risk indicator is also a key performance indicator (KPI).

Delivering sustainable growth

Ensuring we hold an appropriate level of capital to maintain financial resilience and market confidence, underpins our strategic objectives of supporting the UK economy and delivering sustainable growth.

Looking ahead, the Basel Committee is continuing to review aspects of the regulatory capital framework, and the Bank of England has consulted on its approach for setting minimum requirements for own funds and eligible liabilities. There is a risk that these could lead to higher capital requirements than we have anticipated in our strategic plans.

2 Ratios are post interim and recommended full year dividends and pro forma, reflecting dividend paid by Insurance in February 2016 in respect of 2015 earnings.

Regulatory liquidity

Loan to deposit ratio

3 Individual liquidity adequacy standards eligible primary liquid assets.

Delivering sustainable growth

We maintain a strong funding position in line with our low risk strategy. Our funding position has been significantly strengthened in recent years and our loan to deposit ratio remains within the target range.

Liquid assets are broadly equivalent to our total wholesale funding and thus provide a substantial buffer in the event of continued market dislocation.

There is a risk that our options to fund our balance sheet are reduced in future, or that the cost of funding may increase which could impact our performance versus our strategic plans.

N/A

Becoming simpler and more efficient

Ring-fencing requirements ensure we become simpler and continue to create the best customer experience, through providing further protection to core Retail and SME deposits, provide transparency on our operations and facilitate the options available in resolution.

Resolution requirements are aimed at reducing the probability of failure and its impact on customers should we fail through continuity of critical banking services, helping rebuild trust in the financial services sector.

We already have a strong culture of ownership and accountability, and compliance with the SM&CR will enable us to further strengthen our ability to clearly demonstrate the responsibilities of Senior Managers and how these are discharged.

Pension surplus

Delivering sustainable growth

We manage our exposure to movements in market rates throughout the year, leading us to promote low volatility earnings and offer a comprehensive customer proposition with market risk hedging strategies to support strategic aims, including delivering sustainable growth.

Mitigating actions are implemented to reduce the impact of market movements, resulting in a stable capital position. This allows us to more efficiently utilise available capital resources to deliver sustainable growth.

By reducing the volatility in the Group's Defined Benefit Pension Schemes through hedging in 2014, we have taken a conservative approach to risk in line with our strategy.

Summary of Group results

Summary consolidated income statement

	2015 £ million	2014 £ million	Change %
Net interest income	**11,482**	10,975	5
Other income	**6,155**	6,467	(5)
Total income	**17,637**	17,442	1
Operating costs	**(8,311)**	(8,322)	–
Operating lease depreciation	**(764)**	(720)	(6)
Total costs	**(9,075)**	(9,042)	–
Impairment	**(568)**	(1,102)	48
Underlying profit excluding TSB	**7,994**	7,298	10
TSB	**118**	458	
Underlying profit	**8,112**	7,756	5
Asset sales and other items	**(716)**	(1,345)	
Simplification costs	**(170)**	(966)	
TSB costs	**(745)**	(558)	
Payment protection insurance provision	**(4,000)**	(2,200)	
Other conduct provisions	**(837)**	(925)	
Profit before tax – statutory	**1,644**	1,762	(7)
Taxation	**(688)**	(263)	
Profit for the year	**956**	1,499	(36)
Underlying earnings per share	**8.5p**	8.1p	0.4p
Earnings per share	**0.8p**	1.7p	(0.9)p
Dividends per share – ordinary	**2.25p**	0.75p	
– special	**0.5p**	–	
Total	**2.75p**	0.75p	

Summary consolidated balance sheet

Assets	At 31 Dec 2015 £ million	At 31 Dec 2014 £ million
Cash and balances at central banks	**58,417**	50,492
Trading and other financial assets at fair value through profit or loss	**140,536**	151,931
Derivative financial instruments	**29,467**	36,128
Loans and receivables:		
Loans and advances to customers	**455,175**	482,704
Loans and advances to banks	**25,117**	26,155
Debt securities	**4,191**	1,213
	484,483	510,072
Available-for-sale financial assets	**33,032**	56,493
Held-to-maturity investments	**19,808**	–
Other assets	**40,945**	49,780
Total assets	**806,688**	854,896
Liabilities		
Deposits from banks	**16,925**	10,887
Customer deposits	**418,326**	447,067
Trading and other financial liabilities at fair value through profit or loss	**51,863**	62,102
Derivative financial instruments	**26,301**	33,187
Debt securities in issue	**82,056**	76,233
Liabilities arising from insurance and investment contracts	**103,071**	114,166
Subordinated liabilities	**23,312**	26,042
Other liabilities	**37,854**	35,309
Total liabilities	**759,708**	804,993
Shareholders' equity	**41,234**	43,335
Other equity instruments	**5,355**	5,355
Non-controlling interests	**391**	1,213
Total equity	**46,980**	49,903
Total liabilities and equity	**806,688**	854,896

Underlying basis – segmental analysis

2015	Retail £m	Commercial Banking £m	Consumer Finance £m	Insurance £m	Run-off and Central items £m	Group £m
Net interest income	7,397	2,510	1,287	(163)	451	11,482
Other income	1,122	2,066	1,358	1,827	(218)	6,155
Total income	8,519	4,576	2,645	1,664	233	17,637
Operating costs	(4,573)	(2,137)	(768)	(702)	(131)	(8,311)
Operating lease depreciation	–	(30)	(720)	–	(14)	(764)
Total costs	(4,573)	(2,167)	(1,488)	(702)	(145)	(9,075)
Impairment	(432)	22	(152)	–	(6)	(568)
Underlying profit excl. TSB	3,514	2,431	1,005	962	82	7,994
TSB						118
Underlying profit						8,112

Banking net interest margin	2.40%	2.93%	5.94%			2.63%
Average interest-earning banking assets	£315.8bn	£89.3bn	£22.4bn		£14.4bn	£441.9bn
Asset quality ratio	0.14%	0.01%	0.68%			0.14%
Return on risk-weighted assets	5.30%	2.33%	4.81%			3.53%
Return on assets	1.11%	1.16%	3.73%			0.98%

2014	Retail £m	Commercial Banking £m	Consumer Finance £m	Insurance £m	Run-off and Central items £m	Group £m
Net interest income	7,079	2,480	1,290	(131)	257	10,975
Other income	1,212	1,956	1,364	1,725	210	6,467
Total income	8,291	4,436	2,654	1,594	467	17,442
Operating costs	(4,464)	(2,123)	(762)	(672)	(301)	(8,322)
Operating lease depreciation	–	(24)	(667)	–	(29)	(720)
Total costs	(4,464)	(2,147)	(1,429)	(672)	(330)	(9,042)
Impairment	(599)	(83)	(215)	–	(205)	(1,102)
Underlying profit (loss) excl. TSB	3,228	2,206	1,010	922	(68)	7,298
TSB						458
Underlying profit						7,756

Banking net interest margin	2.29%	2.67%	6.49%			2.40%
Average interest-earning banking assets	£317.6bn	£93.2bn	£20.5bn		£29.8bn	£461.1bn
Asset quality ratio	0.19%	0.08%	1.05%			0.23%
Return on risk-weighted assets	4.60%	1.92%	4.87%			3.02%
Return on assets	1.02%	0.94%	4.02%			0.92%

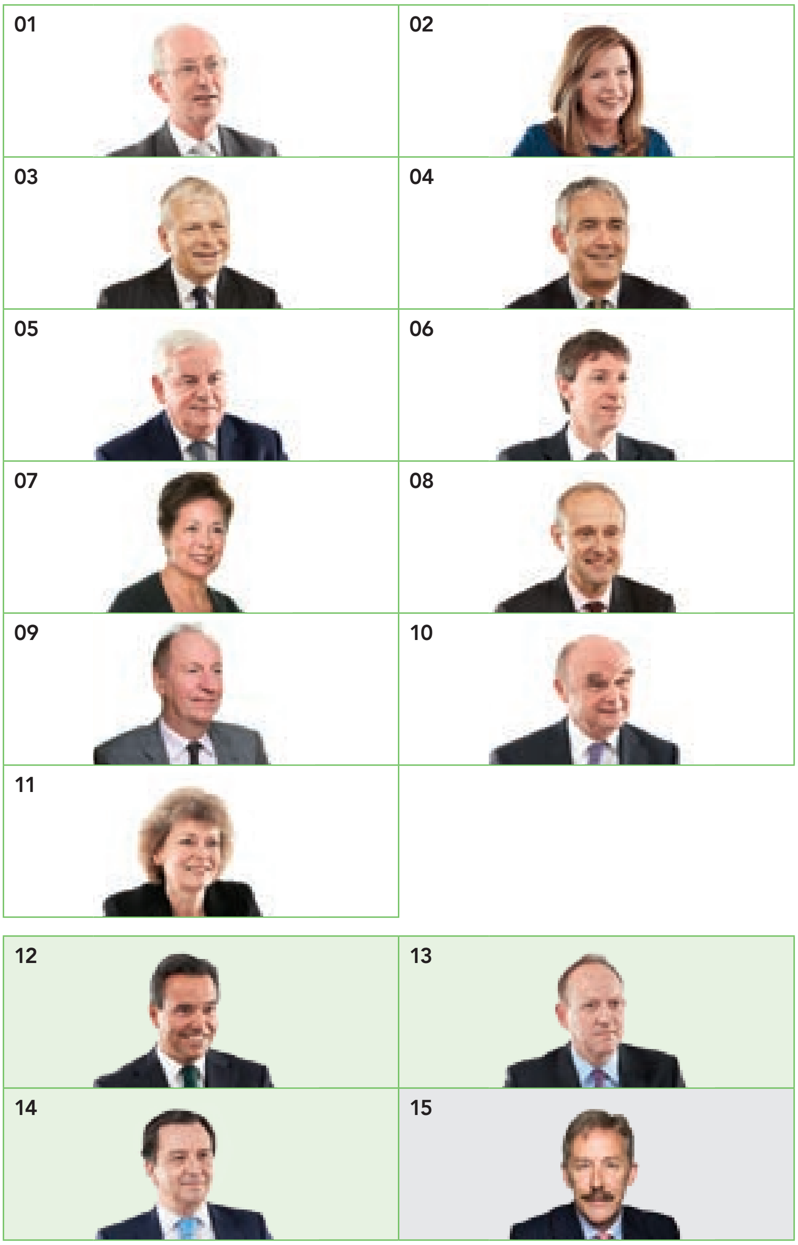
Underlying basis

In order to present a more meaningful view of business performance, the results are presented on an underlying basis excluding items that in management's view would distort the comparison of performance between periods. Based on this principle the following items are excluded from underlying profit asset sales and other items, which includes the effects of certain asset sales, the impact of liability management actions, the volatility relating to the Group's own debt and hedging arrangements as well as that arising in the insurance businesses, insurance gross up, the amortisation of purchased intangible assets and the unwind of acquisition-related fair value adjustments, and certain past service pensions credits or charges in respect of the Group's defined benefit pension arrangements; Simplification costs, which for 2015 are limited to redundancy costs relating to the programme announced in October 2014. Costs in 2014 include severance, IT and business costs relating to the programme started in 2011; TSB build and dual running costs and the loss relating to the TSB sale; and payment protection insurance and other conduct provisions.

Report of the Auditor

The auditor's report on the full accounts for the year ended 31 December 2015 was unqualified, and their statement under section 496 (whether the Strategic Report and the Directors' Report are consistent with the accounts) of the Companies Act 2006 was unqualified.

Board of Directors



NON-EXECUTIVE DIRECTORS

01 Lord Blackwell
Chairman
NG Ri Re RB
Appointed: June 2012 (Board), April 2014 (Chairman)

Skills and experience: Lord Blackwell has deep financial services knowledge as well as extensive insurance, banking, regulatory and public policy experience gained from senior positions in a wide range of industries. His breadth of experience, credibility with key stakeholders and strong leadership qualities make him an effective Chairman. He was previously the Chairman of Scottish Widows Group, a former Senior Independent Director of Standard Life and also chaired their UK Life and Pensions Board. His other former Non-Executive Directorships have included Halma plc, Dixons Group and SEGRO. He was also a member of the Board of the Centre for Policy Studies, a Non-Executive Board Member of Ofcom and of the Office of Fair Trading, a Partner of McKinsey & Co. and a Director of Group Development at NatWest Group. He was Head of the Prime Minister's Policy Unit from 1995 to 1997 and was appointed a Life Peer in 1997.
External appointments: Chairman of Interserve plc (until 29 February 2016).

02 Anita Frew
Deputy Chairman and Independent Director
NG A Ri Re RB
Appointed: December 2010 (Board), May 2014 (Deputy Chairman)

Skills and experience: Anita has significant board, financial and general management experience across a range of sectors, including banking, asset management, manufacturing and utilities. Her extensive board level experience makes her an effective Deputy Chairman. Anita was Chairman of Victrex plc, having previously been its Senior Independent Director. She was also the Senior Independent Director of Aberdeen Asset Management and IMI plc, an Executive Director of Abbott Mead Vickers, Director of Corporate Development at WPP Group and a Non-Executive Director of Northumbrian Water. She has held various investment and marketing roles at Scottish Provident and the Royal Bank of Scotland.
External appointments: Chairman of Croda International Plc and a Non-Executive Director of BHP Billiton.

03 Alan Dickinson
Independent Director
NG A Ri Re
Appointed: September 2014

Skills and experience: Alan is a highly regarded retail and commercial banker having spent 37 years with the Royal Bank of Scotland, most notably as Chief Executive of RBS UK. Alan's strategic focus and core banking experience complements the balance of skills on our Board. More recently, he was Chairman of Brown, Shipley & Co. Limited, a Non-Executive Director of Nationwide Building Society and Chairman of its Risk Committee and a Non-Executive Director of Carpetright plc.
External appointments: Non-Executive Director of Willis Limited and Chairman of its Risk Committee, Senior Independent Director of Urban & Civic plc and a Governor of Motability.

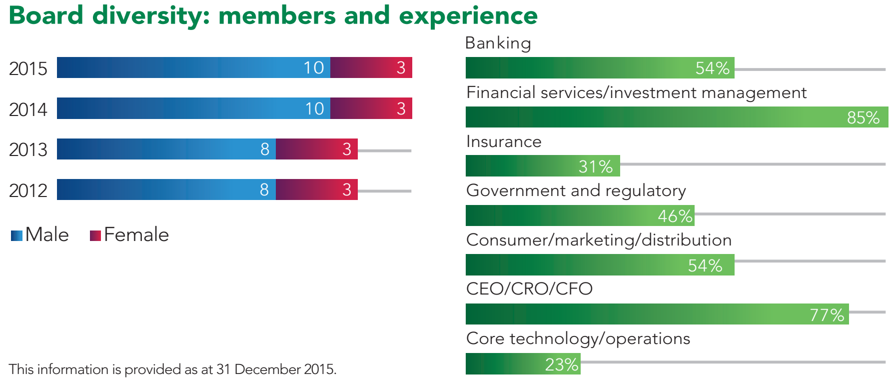
04 Simon Henry
Independent Director
A Ri
Appointed: June 2014

Skills and experience: Simon has deep international experience in board level strategy and execution. His extensive knowledge of financial markets, treasury and risk management and his qualification as an Audit Committee Financial Expert is of particular value in our Board Risk and Audit Committees.
He was previously Shell's Chief Financial Officer for Exploration & Production and prior to that Head

KEY

Member of Nomination & Governance Committee	NG	Member of Remuneration Committee	Re
Member of Audit Committee	A	Member of Responsible Business Committee	RB
Member of Risk Committee	Ri	Committee Chairman	●

Board diversity: members and experience



This information is provided as at 31 December 2015.

of Group Investor Relations.
External appointments: Chief Financial Officer and an Executive Director of Royal Dutch Shell plc with responsibility for Shell's Finance, IT, Strategy and Planning functions. Chair of the European Round Table CFO Taskforce, Member of the Main Committee of the 100 Group of UK FTSE CFOs, the Advisory Panel of CIMA and of the Advisory Board of the Centre for European Reform.

05 Dyfrig John CBE
Independent Director
Appointed: January 2014
Ri Re

Skills and experience: Dyfrig has spent his career in banking, principally at HSBC where he worked for 37 years. During that time he held a number of senior management and Board positions in the UK and overseas including Chief Executive Officer of HSBC Bank PLC. He has the knowledge and experience to provide valuable insight and contribute effectively as a Non-Executive Director and Member of the Remuneration Committee and Risk Committee. He was formerly Chairman of Principality Building Society and a Board member of the Wales Millennium Centre.
External appointments: Member of the Welsh Rugby Union's Audit Committee.

06 Nick Luff
Independent Director
Appointed: March 2013
NG A Ri

Skills and experience: Nick has significant financial experience in the UK listed environment having served in a number of senior finance positions within a range of sectors. His background and experience enables him to fulfil the role of Audit Committee Chair and, for SEC purposes, the role of Audit Committee Financial Expert. Nick was previously the Group Finance Director of Centrica plc, Finance Director of The Peninsular & Oriental Steam Navigation Company and Chief Financial Officer of P&O Princess Cruises plc. He previously served as a Non-Executive Director and was the Audit Committee Chair of QinetiQ Group plc.
External appointments: Executive Director and Chief Financial Officer of RELX Group.

07 Deborah McWhinney
Independent Director
Appointed: December 2015
A Ri

Skills and experience: Deborah has an extensive executive background in managing technology, operations and new digital innovations across banking, payments and institutional investment. She broadens the Board's diversity from a global market perspective. Deborah is a former Chief Executive Officer, Global Enterprise Payments and President, Personal Banking and Wealth Management at Citibank. She was previously President of Institutional Services at Charles Schwab Corporation and held executive roles at Engage Media Services Group, Visa International and Bank of America, where she held senior roles in Consumer Banking.
External appointments: Independent Director of Fluor Corporation and IHS Corporation, a Trustee of the California Institute of Technology and of the Institute for Defense Analyses.

08 Nick Prettejohn
Independent Director and Chairman of Scottish Widows Group
Appointed: June 2014
A Ri

Skills and experience: Nick has significant financial services experience, particularly in insurance where he has served as Chief Executive of Lloyd's of London and Prudential UK and Europe as well as Chairman of Brit Insurance. He has the knowledge and experience to provide valuable insight and contribute effectively as a Non-Executive Director and Member of the Audit Committee and Risk Committee. He is a former Non-Executive Director of the Prudential Regulation Authority and of Legal and General Plc as well as Chairman of the Financial Services Practitioner Panel.
External appointments: Member of the BBC Trust, Chairman of the Britten-Pears Foundation and of the Royal Northern College of Music.

09 Stuart Sinclair
Independent Director
Appointed: January 2016
Ri Re

Skills and experience: Stuart has extensive experience in retail banking and insurance and also brings to the Board wider experience in consumer finance and asset finance. He is a former Non-Executive Director of TSB Banking Group plc and TSB Bank plc. Stuart was previously a Non-Executive Director of LV Group, President and Chief Operating Officer of Aspen Insurance, held Chief Executive Officer roles at GE Capital's Consumer Finance division both in the UK and China, and Director of UK Retail Banking then Chief Executive Officer of Tesco Personal Finance at Royal Bank of Scotland. He was also a Council Member of The Royal Institute for International Affairs. His early career included Managing Consultant at Braxton Associates and Partner at Mercer Managing Consultant (now Oliver Wyman).
External appointments: Non-Executive Director and Chair of the Risk Committees at Provident Financial Plc, Vitality Life and Vitality Health. Senior Independent Director at QBE Insurance (Europe) Limited and Swinton Group Limited.

10 Anthony Watson CBE
Senior Independent Director
Appointed: April 2009 (Board), May 2012 (Senior Independent Director)
NG A Ri Re

Skills and experience: Tony is our Senior Independent Director and with over 40 years of experience in the investment management industry and related sectors, he is well placed to carry out this role. His former positions include Chief Executive of Hermes Pensions Management and Chairman of the Asian Infrastructure Fund, MEPC, the Marks & Spencer Pension Trustees and of the Strategic Investment Board (Northern Ireland). He is also a former Member of the Financial Reporting Council, a Senior Independent Director of Hammerson and a Non-Executive Director of the Shareholder Executive and Vodafone Group.
External appointments: Senior Independent Director of Witan Investment Trust, Chairman of the Lincoln's Inn Investment Committee and a member of the Norges Bank Investment Management Corporate Governance Advisory Board.

11 Sara Weller CBE
Independent Director
Appointed: February 2012
Ri Re RB

Skills and experience: With a background in retail and associated sectors, including financial services, Sara brings a broad perspective to the Board. She is a strong advocate of customers and of the application of new technology, both of which directly support Lloyds Banking Group's strategy. Sara has considerable experience of boards at both executive and non-executive level. Her previous appointments include Managing Director of Argos, various senior positions at J Sainsbury including Deputy Managing Director, Lead Non-Executive Director at the Department of Communities and Local Government, a Non-Executive Director of Mitchells & Butler as well as a number of senior management roles for Abbey National and Mars Confectionery.
External appointments: Non-Executive Director of United Utilities Group and Chair of their Remuneration Committee, a Governing Council Member of Cambridge University, Chairman of the Planning Inspectorate and Board member at the Higher Education Funding Council.

EXECUTIVE DIRECTORS

12 António Horta-Osório
Executive Director and Group Chief Executive
Appointed: January 2011 (Board), March 2011 (Group Chief Executive)

Skills and experience: António brings extensive experience in, and understanding of, both retail and commercial banking. This has been built over a period of more than 25 years, working both internationally as well as in the UK. António's drive, enthusiasm and commitment to customers, along with his proven ability to build and lead strong management teams, brings significant value to all stakeholders of Lloyds Banking Group. Previously he worked for Goldman Sachs, Citibank and held various senior management positions at Grupo Santander before becoming its Executive Vice President. He was a Non-Executive Director of Santander UK and subsequently Chief Executive. He is also former Non-Executive Director of the Court of the Bank of England and Governor of the London Business School.
External appointments: Non-Executive Director of EXOR S.p.A., Fundação Champalimaud and Sociedade Francisco Manuel dos Santos in Portugal, a member of the Board of Stichting INPAR and Chairman of the Wallace Collection.

13 George Culmer
Executive Director and Chief Financial Officer
Appointed: May 2012 (Board)

Skills and experience: George is a chartered accountant with extensive operational and financial expertise including strategic and financial planning and control. He has worked in financial services in the UK and overseas for over 20 years. George was an Executive Director and Chief Financial Officer of RSA Insurance Group, the former Head of Capital Management of Zurich Financial Services and Chief Financial Officer of its UK operations as well as holding various senior management positions at Prudential. He is a Non-Executive Director of Scottish Widows.
External appointments: None.

14 Juan Colombás
Executive Director and Chief Risk Officer
Appointed: January 2011 (Chief Risk Officer), November 2013 (Board)

Skills and experience: Juan has significant banking and risk management experience, having spent 30 years working in these fields both internationally and in the UK. Juan is responsible for developing the Group's risk framework, recommending its risk appetite and ensuring that all risks generated by the business are measured, reviewed and monitored on an ongoing basis. He was previously the Chief Risk Officer and Executive Director of Santander's UK business. Prior to this position, he held a number of senior risk, control and business management roles across the Corporate, Investment, Retail and Risk Divisions of the Santander Group. He has served as the Group's Chief Risk Officer and as a member of the Group Executive Committee since January 2011.
External appointments: Vice Chairman of the International Financial Risk Institute.

15 Malcolm Wood
Company Secretary
Appointed: November 2014

Skills and experience: Previously General Counsel and Company Secretary of Standard Life after a career as a corporate lawyer in private practice in London and Edinburgh. He has a wealth of experience in governance, policy and regulation. He is a Fellow of the Institute of Chartered Secretaries and Administrators and a Member of the Chartered Institute for Securities and Investment and the GC100.

Remuneration

REMUNERATION AT A GLANCE

How Lloyds Banking Group performed

The Group has had a successful 2015 with a number of strategic milestones achieved, notably improved dividend returns, increase in underlying profit and completion of the sale of TSB at a premium to market value.

The Group's approach to reward is to provide a clear link between remuneration and delivery of the Group's strategy and the aim of becoming the best bank for customers. The Group believes in offering fair reward. It is embedding a performance-driven and meritocratic culture where colleagues are rewarded for behaviours aligned to the long-term sustainable success of the business, the commitment to rebuilding trust and changing the culture of the Group.

Key performance measures

The table below illustrates outcomes against the Group's key performance measures relevant to remuneration. The annual bonus outcome is driven by a combination of Group underlying profit and Balanced Scorecard performance. The LTIP measures Group performance over a three year period, using a range of financial and strategic measures.

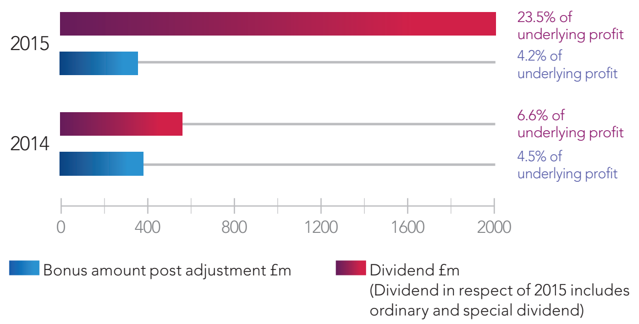
Measure	2015	2014
Underlying profit before tax	**£8,112m**[1]	£7,756m
Group Balanced Scorecard	**Strong**	Strong
Economic profit	**£2,233m**	£2,094m
Total Shareholder Return (TSR) *Per annum for the three years ended 31 December*	**16.6%**	30.2%
Cost:income ratio	**49.3%**	49.8%
Net promoter score	**59.3%**	59.2%
Digital active customer base	**11.5m**	10.4m
Colleague engagement score	**71%**	60%

[1] The underlying profit result used for remuneration purposes is £7,994 million (excluding TSB).

Annual bonus plan outcome

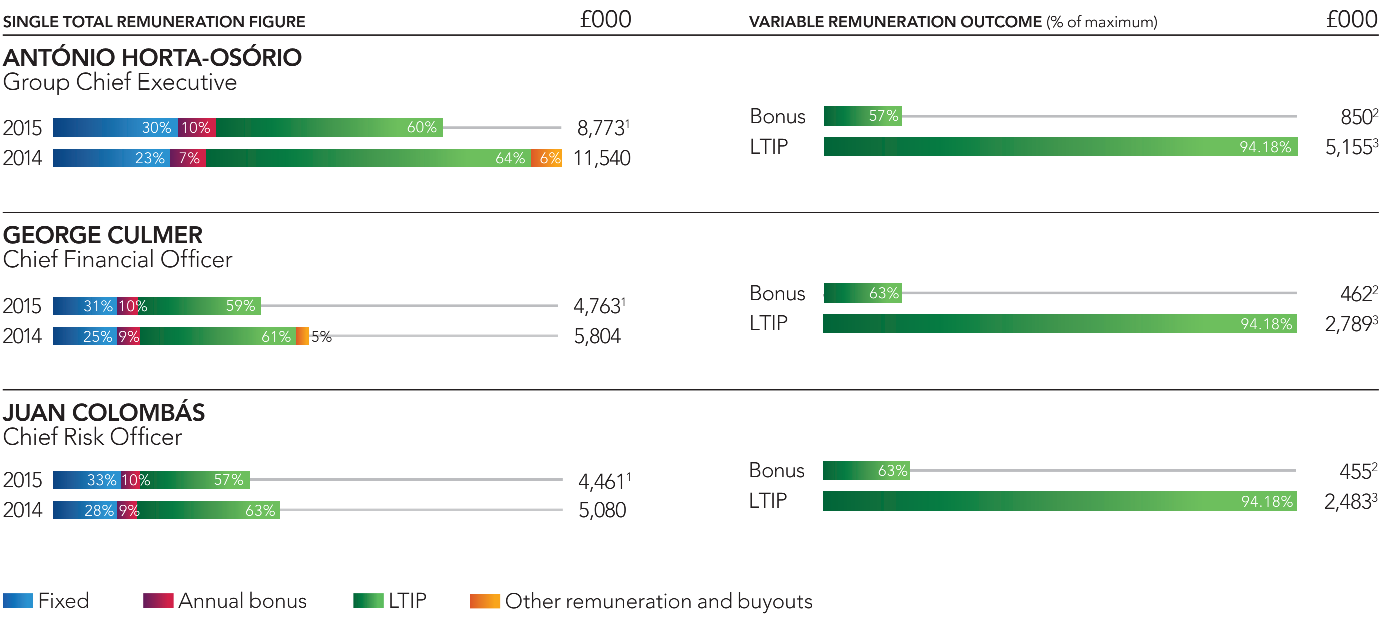
Despite the better results in 2015, the decision has been taken to reduce the Group's total bonus outcome by approximately 26 per cent. Material adjustments have been made to the outcome in 2015 (as in 2014) to reflect the impacts of legacy items.

Discretionary annual bonus awards of £353.7 million will be made for 2015 (4 per cent down from £369.5 million in 2014). The total bonus awards as a percentage of pre-bonus underlying profit before tax declined from 4.5 per cent in 2014 to 4.2 per cent in 2015. This compares favourably to shareholder return from dividend payments over the same period.



Executive Director remuneration outcomes

The charts below summarise the Executive Directors' remuneration for the years ended 31 December 2014 and 2015.



1 In June 2015, the Group reached a settlement with the Financial Conduct Authority (FCA) with regard to aspects of its Payment Protection Insurance (PPI) complaint handling process during the period March 2012 to May 2013. As a result, the Committee decided to make adjustments in respect of bonuses awarded in 2012 and 2013 to the Group Executive Committee and some other senior executives given their ultimate oversight of the PPI operations. The number of shares adjusted was 409,039 for the GCE, 109,464 for the CFO and 376,055 for the CRO.

2 2015 bonus, awarded in March 2016.

3 2013 LTIP vesting and dividend equivalents awarded in shares were confirmed by the Remuneration Committee at its meeting on 16 February 2016. The average share price between 1 October 2015 and 31 December 2015 (73.72 pence) has been used to calculate the value. The shares were awarded in 2013 based on a share price of 49.29 pence.

Directors' remuneration: policy implementation overview for 2016

The detailed policy implementation table containing all elements of remuneration can be found in our 2015 Annual Report and Accounts.

Base salary

Base salary reflects the role of the individual taking account of responsibilities and experience, and pay in the Group as a whole. It helps to recruit and retain Executive Directors and forms the basis of a competitive remuneration package.

Salaries will be as follows, effective date shown below:
Group Chief Executive (GCE): £1,125,000 (1 January 2016)
Chief Financial Officer (CFO): £749,088 (1 April 2016)
Chief Risk Officer (CRO): £738,684 (1 January 2016)

Fixed share award

To ensure that total fixed remuneration is commensurate with role and to provide a competitive reward package for Executive Directors with an appropriate balance of fixed and variable remuneration, in line with regulatory requirements.

The levels of award set for 2016 remain unchanged and are as follows:
GCE: £900,000
CFO: £504,000
CRO: £497,000
Shares will be released in equal tranches over a five year period.

Annual bonus

Incentivise and reward the achievement of the Group's annual financial and strategic targets.

The maximum annual bonus opportunity is 140 per cent of base salary for the GCE and 100 per cent of base salary for other Executive Directors.

Long-term incentive plan

Incentivise and reward the achievement of the Group's longer-term objectives, to align executive interests with those of shareholders and to retain key individuals.

The maximum annual long-term incentive award for Executive Directors is 300 per cent of salary.
Awards in 2016, based on individual performance in 2015, are being made as follows:
GCE: 300 per cent of reference salary
CFO: 275 per cent of base salary
CRO: 275 per cent of base salary

Shareholder information

Annual report and accounts

This Annual Review summarises information from the Lloyds Banking Group Annual Report and Accounts. As such, there is insufficient information to provide a full understanding of the results and state of affairs of Lloyds Banking Group. A copy of our Annual Report and Accounts can be obtained from our registrar, Equiniti Limited (see below) and is available on our website at www.lloydsbankinggroup.com

Annual general meeting (AGM)

The AGM will be held at the Edinburgh International Conference Centre, The Exchange, Edinburgh EH3 8EE on Thursday 12 May 2016 at 11.00 am. Further details about the meeting, including the proposed resolutions, can be found in our Notice of AGM which will be available shortly on our website at www.lloydsbankinggroup.com

Share dealing facilities

We offer a choice of three share dealing services for our UK shareholders and customers. To see the full range of services available for each, please use the contact details below:

Bank of Scotland Share Dealing www.bankofscotlandsharedealing.co.uk	0345 606 1188
Halifax Share Dealing www.halifaxsharedealing.co.uk	03457 22 55 25
Lloyds Bank Direct Investments www.lloydsbank.com/shares	0345 60 60 560

Note:
All internet services are available 24/7. Telephone dealing services are available between 8.00 am and 9.15 pm, Monday to Friday and 9.00 am to 1.00 pm on Saturday. To open a share dealing account with any of these services, you must be 18 years of age or over and be resident in the UK, Jersey, Guernsey or the Isle of Man.

Share dealing for the Lloyds Banking Group Shareholder Account

Share dealing services for the Lloyds Banking Group Shareholder Account are provided by Equiniti Shareview Dealing, operated by Equiniti Financial Services Limited. Details of the services provided can be found either on the Shareholder Information page of our website at www.lloydsbankinggroup.com, or by contacting Equiniti using the contact details provided below.

Individual Savings Accounts (ISAs)

There are a number of options for investing in Lloyds Banking Group shares through an ISA. For details of services and products provided by the Group please contact: Bank of Scotland Share Dealing, Halifax Share Dealing or Lloyds Bank Direct Investments using the contact details opposite.

American Depositary Receipts (ADRs)

Our shares are traded in the USA through a New York Stock Exchange-listed sponsored ADR facility with The Bank of New York Mellon as the depositary. The ADRs are traded on the New York Stock Exchange under the symbol LYG. The CUSIP number is 539439109 and the ratio of ADRs to ordinary shares is 1:4.

For details contact:
BNY Mellon Depositary Receipts, PO Box 30170
College Station, TX 77842-3170.
Telephone: 1-866-259-0336 (US toll free),
international callers: +1 201-680-6825.
Alternatively visit www.adrbnymellon.com or
email shrrelations@cpushareownerservices.com

Share sale fraud and scams

Shareholders should exercise caution when unsolicited callers offer the chance to buy or sell shares with promises of huge returns. If it sounds too good to be true, it usually is and we would ask that shareholders take steps to protect themselves. We strongly recommend seeking advice from an independent financial adviser authorised by the Financial Conduct Authority (FCA). Shareholders can verify if a firm is authorised via the Financial Services Register which is available at www.fca.org.uk

If a shareholder is concerned that they may have been targeted by such a scheme, please contact the FCA Consumer Helpline on 0800 111 6768 or use the online 'Share Fraud Reporting Form' available from their website (see above). We would also recommend contacting the Police through Action Fraud on 0300 123 2040 or see www.actionfraud.org.uk for further information.

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Registered in Scotland No. SC95000

IMPORTANT SHAREHOLDER AND REGISTRAR INFORMATION

Company website

www.lloydsbankinggroup.com

Shareholder information

help.shareview.co.uk
(from here you will be able to email queries securely to Equiniti, our registrar)

Registrar

Equiniti Limited
Aspect House, Spencer Road, Lancing
West Sussex BN99 6DA

Shareholder helpline

0371 384 2990* from within the UK
+44 121 415 7066 from outside the UK

Register today to manage your shareholding online

Get online in just three easy steps:

step 1
Register at www.shareview.co.uk/info/register

step 2
Receive activation code in post

step 3
Log on

Scan me
to register

Forward looking statements

This Annual Review contains certain forward looking statements with respect to the business, strategy and plans of Lloyds Banking Group and its current goals and expectations relating to its future financial condition and performance. Statements that are not historical facts, including statements about Lloyds Banking 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 to differ materially from the plans, objectives, expectations, estimates and intentions expressed in such 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 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; 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, the potential for one or more countries to exit the Eurozone or European Union (EU) (including the UK as a result of a referendum on its EU membership) and the impact of any sovereign credit rating downgrade or other sovereign financial issues; technological changes and risks to cyber security; 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, accounting standards or taxation, including as a result of further Scottish devolution; 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; the ability to attract and retain senior management and other employees; requirements or limitations imposed on the Group as a result of HM Treasury's investment in the Group; 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 provision of banking operations services to TSB Banking Group plc; 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 and lending companies; 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 together with examples of forward looking statements. Except as required by any applicable law or regulation, the forward looking statements contained in this Annual Review are made as of today's date, and Lloyds Banking Group expressly disclaims any obligation or undertaking to release publicly any updates or revisions to any forward looking statements.

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