LLOYDS
BANKING
GROUP

HELPING BRITAIN PROSPER

Lloyds Banking Group
Annual Review

2016

How we're helping Britain prosper

Helping Britain Prosper is our purpose. It means responding to the social and economic issues we believe we are best placed to address.

We already support people, businesses and communities all over Britain through our iconic brands and extensive range of clear and simple products and services, but we want to do even more to play our part in making Britain a more inclusive and prosperous country. To achieve this we must continue to build a culture where our colleagues put customers first.

We want to take a leading role in helping the UK economy whether through supporting housing, trade, growth, infrastructure or tackling disadvantage. Our Helping Britain Prosper Plan, launched in 2014, helps us achieve this, taking us beyond business as usual by setting measurable targets in the areas where we believe we can make the biggest difference. The Plan is an investment in our long-term sustainable success which underpins our aim to become the best bank for customers whilst delivering superior and sustainable returns for shareholders.

We're helping individuals, families, businesses and communities all across Britain to prosper

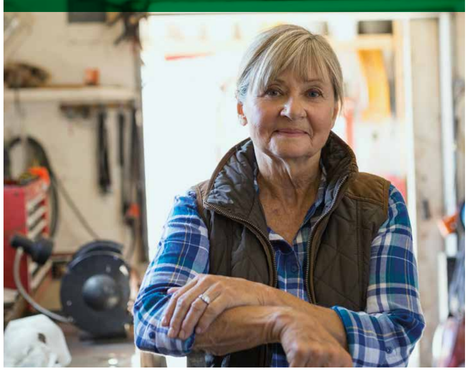
Key brands

LLOYDS BANK
BANK OF SCOTLAND
HALIFAX
SCOTTISH WIDOWS
blackhorse
LEX AUTOLEASE
LDC
AMC

HELPING PLAN FOR RETIREMENT

>280,000

customer visits to our Retirement Planning Website. We want to do more to support and guide more of our customers on their retirement options



HELPING HOMEBUYERS

£39bn

of gross new mortgage lending in 2016 with 60 per cent going to help homebuyers get on and move up the housing ladder

HELPING UK MANUFACTURING

£1.2bn

of new funding support for UK manufacturing companies. We are supporting future talent to make British manufacturing more productive and competitive, today and tomorrow

HELPING START-UPS

121,000

start-ups helped to get going and grow through funding. We also provide advice and mentoring – including vital support for many charities and social enterprises

HELPING COMMUNITIES

£600m

given to support charities through our independent charitable Foundations over the last 30 years. We believe no other bank has the reach or resources to help tackle social disadvantage

HELPING THE ECONOMY

£1.8bn

tax paid in 2015. We are a major contributor to UK tax revenues and were ranked as the highest payer of UK tax in the most recent PwC Total Tax Contribution Survey for the 100 Group. This payment increased to £2.3 billion in 2016

HELPING TO BUILD DIGITAL BRITAIN

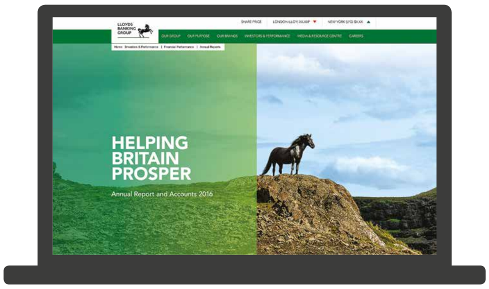
12.5m

customers banking online, making us the UK's largest digital bank. We are also helping Britain's charities and small businesses to build their digital skills and capability

CONTENTS

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.



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

This Annual Review incorporates the Strategic Report from the 2016 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
21 February 2017

Please turn over

ABOUT US

We are the 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 and digital bank in the UK.

We are creating a simpler, more responsive, customer focused business.

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 key to the long-term sustainable success of our business.

Right: Sophie Unwin's 'Remade in Edinburgh' which was awarded a grant from the Lloyds Bank Social Entrepreneurs Scale Up Programme, teaches local people, including those who are homeless, unemployed, or refugees, to repair household goods to save money.

OUR PURPOSE

Helping Britain prosper

Read more on page 18

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

Read more on page 12

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 on page 14

Our competitive strengths

Our strengths and capabilities provide significant advantage and differentiation, driving value creation

UK focus

Operating primarily in the UK means we are focused on a single developed market that we truly understand while avoiding the complexities and costs of multi-jurisdictional operations.

Financial strength

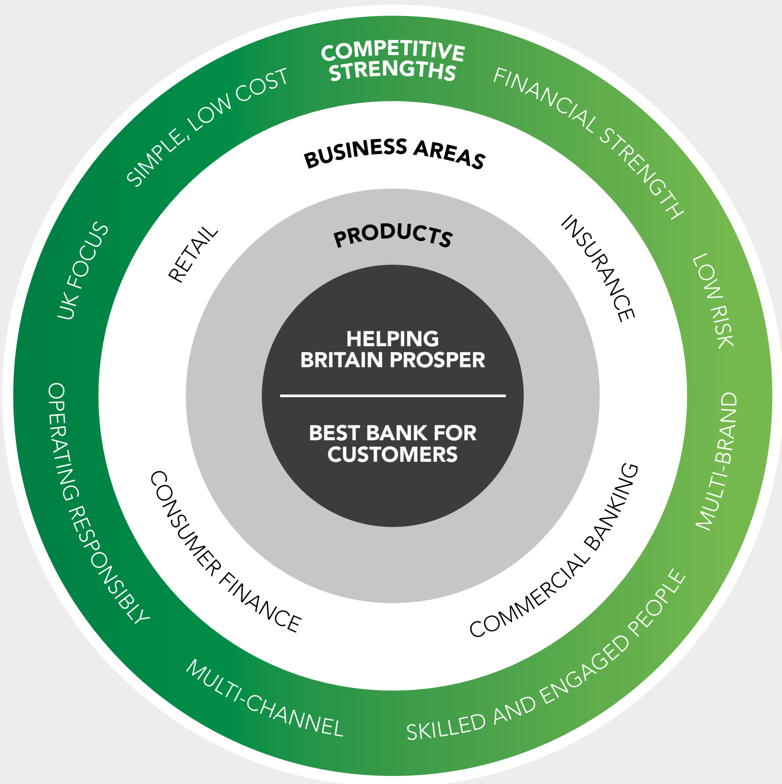
Our balance sheet and funding position have both been transformed in recent years and they are now amongst the strongest in the banking sector worldwide.

Simple, low cost operating model

Our simpler operating model and focus on operational efficiency provides a cost advantage which benefits both customers and shareholders.

Low risk business

Being a low risk bank is fundamental to our business model. 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.



Operating responsibly

A sustainable and responsible approach to doing business is integral to everything we do.

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 and digital bank in the UK, ensures our customers can interact with us when and how they want.

Skilled and engaged people

Our colleagues provide real advantage. We invest in skills and training while ensuring alignment to our customer focused strategy and commitment to build the best team.

Read more on page 12

Group highlights

ANOTHER YEAR OF GOOD PROGRESS

Underlying profit of

£7.9bn

Strong capital generation

c.190bps

pre dividend

Statutory profit before tax more than doubled to

£4.2bn

Acquisition of

MBNA

credit card business, announced in December

Strong balance sheet position with pro forma CET1 ratio (post dividend) of

13.8%

Progressive and sustainable ordinary dividend

2.55p per share

with an additional special dividend of 0.5p per share

Cost:income ratio of

48.7%

Our market leading cost:income ratio reduced further, reflecting our operational efficiency

Asset quality ratio of

15bps

Asset quality remains strong with no deterioration in the underlying portfolio

Read more in our 2016 Annual Report and Accounts or visit www.lloydsbankinggroup.com

Divisional highlights

We operate across four business areas to execute our strategy and drive value for all our stakeholders

Read more in our 2016 Annual Report and Accounts or visit www.lloydsbankinggroup.com

RETAIL

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

UNDERLYING PROFIT

£3,003m

40%[1]

24%
market share of current account switchers

£11.7bn
of lending to first-time buyers

COMMERCIAL BANKING

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

UNDERLYING PROFIT

£2,468m

32%[1]

3%
growth in SME lending

17%
share of mid-market banking relationships

Active online users

	m
2016	12.5
2015	11.5
2014	10.5

Business start-ups supported

	000s
2016	121
2015	103
2014	99

Return on risk-weighted assets

	%
2016	2.4
2015	2.4
2014	2.0

Funding for UK manufacturers

	£bn
2016	1.2
2015	1.4
2014	1.0

1 Proportion of Group underlying profit excluding run-off and central items.

CONSUMER FINANCE

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

UNDERLYING PROFIT

£1,283m

17%[1]

15% share of credit card balances

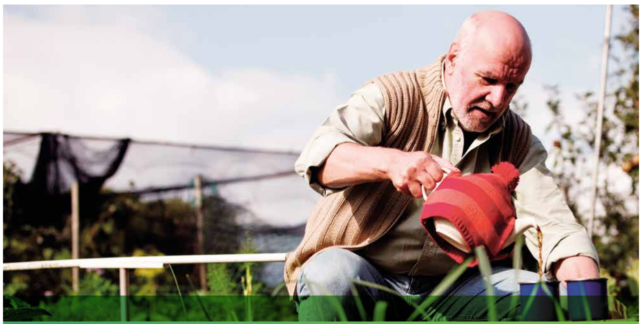
9% growth in UK consumer finance assets

Motor finance UK balances

		£bn
2016		15.6
2015		13.0
2014		10.2

Credit card balance growth

		%
2016		4
2015		4
2014		2



INSURANCE

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

UNDERLYING PROFIT

£837m

11%[1]

6m life, pensions and investments customers

14% share of the home insurance market

Corporate pension, planning and retirement funds

		£bn
2016		42.7
2015		35.4
2014		33.3

Annualised payments to annuity customers in retirement

		£m
2016		932
2015		798
2014		787

1 Proportion of Group underlying profit excluding run-off and central items.

Chairman's statement

Our purpose as a UK focused bank is to help Britain prosper and we are playing a vital role in supporting people, businesses and communities across the UK.

Lord Blackwell
Chairman

Overview and strategy

2016 was another year of good progress for the Group, both financially and strategically. Our strong financial performance, the strength of our capital position and the progressive return of the Group to private ownership are testament to the hard work of our colleagues to transform and simplify our business since the depths of the financial crisis. On the back of that recovery, the agreement to acquire MBNA is a significant strategic step which reinforces our ability to deliver sustainable growth whilst helping Britain prosper. However, we recognise that future success will depend on adapting our business model to provide the cost and quality of service required to meet customer needs effectively in a rapidly evolving digital future, and we are working hard to ensure we have the strategy and plans to achieve that transformation.

Meanwhile, the UK financial services sector continues to face a number of near term challenges. The economic environment remains uncertain, the level of regulatory change remains high, competition continues to be fierce and the pace of technological change requires continuing innovation while posing new threats from data and cyber security. This reinforces our conviction that our differentiated, simple, low risk, UK retail and commercial strategy is the right approach. It has helped us deliver over the last few years and will, I believe continue to do so going forward.

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 1.7 pence per share, bringing the total ordinary dividend for 2016 to 2.55 pence per share, an increase of 13 per cent on last year. In addition the Board has felt able to propose an additional distribution of 0.5 pence per share as a special dividend after prudently holding back sufficient capital to cover the expected cost of the MBNA acquisition. This is in line with the Group's policy to deliver a progressive and sustainable ordinary dividend whilst distributing surplus capital when appropriate to do so.

Our purpose

Our purpose as the UK's largest retail and commercial bank is to help Britain prosper. This means not only providing outstanding service to our customers, but also responding to the UK's social and economic issues we believe we are best placed to address. Our investment programmes and extensive range of clear and simple products and services already support this ambition, helping to meet the needs and grow the prosperity of people, businesses and communities across the UK while building the deep, long-term customer relationships that are vital to our future. However, we want to do even more. Our Helping Britain Prosper Plan sets out our targets to support housing, growth, trade and infrastructure and to tackle social disadvantage. We are not just a British bank – we take pride in being a bank for Britain, at the heart of the UK's economy.

Corporate culture

The Board and senior management have a vital role to play in shaping and embedding a healthy corporate culture, and this continued to be a major focus in 2016. At the heart is our core value of 'doing the right thing for customers' – rebuilding trust that is the foundation for our customer franchise.

Over the last year the Group has made significant strides in removing past practices and organisational barriers that we believed were inconsistent with those values. We have also taken important steps in defining the culture and behaviours we believe we need to support our values and embedding those in the way we operate. While we still have further to go, I know that this approach is aligned with the commitment of our dedicated colleagues across the organisation who come to work every day wanting to deliver great customer service. Getting this culture right will be critical to our success in an increasingly competitive environment.

Communities

As well as their commitment to customers, I am extremely proud of the way our colleagues support communities across the country – another aspect of helping Britain prosper. I am particularly pleased that so many have once again taken the time to volunteer and raise funds for charities and community groups. Over the course of this year 34,000 of our colleagues took part in volunteering activities, contributing 240,000 hours of their time by sharing their skills and experience to help make sustainable differences to local charities, schools, colleges and businesses.

Another way we support millions of people across Britain is through the funding of our independent Foundations. Since the Foundations were set up over 30 years ago, they have donated almost £600 million to charities across the UK. This year, I have once again been delighted to meet with the Foundations and some of the amazing charitable organisations they support, and to see the huge difference our funding makes to so many local communities.

Our charity partnership provides another part of our overall approach to addressing social disadvantage throughout the UK. Over the past two years our colleagues have raised more than £12.5 million for BBC Children in Need, over £4 million more than our original target. There is no doubt that this will make a significant impact across the UK, directly benefiting more than 40,000 disadvantaged children and young people.

Our target is to raise £22 million by 2020 for our chosen charity partners. Starting this year, our new charity partner is Mental Health UK. There is a growing recognition that mental health and financial health are closely linked, and yet there is no single source of support in this area. By bringing our two organisations together we aim to create the perfect partnership to start developing this support for people across the UK.

Directors

We review the Board's composition and diversity regularly and are committed to ensuring we have the right balance of skills and experience within the Board. As announced last year, Stuart Sinclair joined the Board in January 2016 and Dyfrig John retired from the Board at our AGM in 2016. We are very grateful to Dyfrig for his contribution to the Group.

We have agreed a number of changes to our Board composition for 2017. Anthony Watson, our Senior Independent Director, will retire at the 2017 AGM after serving more than eight years on the Board. Anita Frew will succeed Anthony as Senior Independent Director, combining this with the role of Deputy Chairman, which she has held since May 2014. Nick Luff, an independent Non-Executive Director, has notified the Board that in light of his other commitments he does not intend to seek re-election at the 2017 AGM. Nick will be succeeded as Chairman of the Audit Committee by Simon Henry. Both Anthony and Nick leave with our thanks and best wishes for the future.

Remuneration

Our approach to reward aims to provide a clear link between remuneration and delivery of the Group's key strategic objectives, namely, becoming the best bank for customers whilst delivering long-term, superior and sustainable returns to shareholders. We believe in offering fair reward where colleagues are rewarded for performance aligned to the long-term sustainable success of the business, our commitment to rebuilding trust and changing the culture of the Group.

Despite the uncertain environment, the Group continued to perform strongly with good underlying profits, significantly increased statutory profits, strong capital generation and increased ordinary dividends. As a result, the Group's total bonus outcome has increased to £392.9 million. This is after a 19 per cent collective performance adjustment reflecting additional conduct-related provisions which impacted negatively on profitability and shareholder returns.

Total bonus outcome remains a small proportion of underlying profit at 4.8 per cent. Cash bonuses are capped at £2,000 with additional amounts paid in shares and subject to deferral and performance adjustment.

More information on how we ensure our approach to remuneration supports our strategy can be found in the Directors' remuneration report in the 2016 Annual Report and Accounts.

Outlook

I would like to thank all my colleagues across the Group for their continued hard work and commitment. We have made significant progress. There is always more to do and we will have further challenges to face as we transform the bank to reflect the changing environment. However, we remain committed to our strategy and believe that our customer focus and simple business model with its multi-brand, multi-channel proposition continue to provide the best opportunities for competitive advantage and future success. As we rebuild trust, my ambition is for Lloyds to earn its place as one of the great British institutions, in which both colleagues and customers can take shared pride.

Lord Blackwell
Chairman

CONTINUING TO HELP BRITAIN PROSPER IN TIMES OF CHANGE

In 2014 we launched our Helping Britain Prosper Plan, focused on the social and economic issues that we believe we are best placed to help people in Britain address. The Plan contains measurable targets to support people, businesses and communities in the UK.

Despite the uncertainty created by the political and economic events of 2016, we have continued to achieve many of our targets. Highlights include:

- provided £1.2 billion of new funding to UK manufacturing businesses
- helped more than 10,000 clients to start exporting for the first time
- helped more than 75,000 first-time buyers
- supported more than 121,000 start-up businesses
- created more than 1,000 new apprenticeship positions

We operate the UK's largest digital bank and, in response to the rapidly evolving digital environment, we have also met our overall target to create 20,000 digital champions (of which 7,000 were in 2016) to help improve the digital skills and financial capability of individuals and organisations.

Looking ahead we have set a new target to support the low carbon economy by incentivising energy efficient commercial property development through Britain's first Green Loan Initiative.

Read more about our Plan on page 18 and online at www.lloydsbankinggroup.com/ProsperPlan

A STRONG FOCUS ON CORPORATE CULTURE

The Board places great emphasis on shaping and embedding a healthy corporate culture. Our core values of 'putting customers first', 'keeping it simple' and 'making a difference together' are central to our next stage of cultural transformation.

Measurement and monitoring

The Responsible Business Committee (RBC) provides oversight of the work being done to develop measures for reporting on cultural change. The RBC is supported in particular by the work of two executive committees: the Responsible Business Management Committee and the Group Customer First Committee, who drive the development of a culture framework and a culture dashboard to enable us to monitor progress.

Quantitative components we measure include our net promoter score, complaints data, colleague engagement surveys, whistleblowing, regulatory engagement information and assurance from risk on compliance with policies and the Risk Framework. We also host breakfasts, dinners, branch visits and staff engagement events.

The culture of the Board itself is measured in the Board Effectiveness Review which is facilitated externally every three years.

Read more in our 2016 Annual Report and Accounts or visit www.lloydsbankinggroup.com

Group Chief Executive's review

We have delivered strong financial performance in 2016 as we continue to make good progress against our strategic priorities. We are well positioned for future success.

António Horta-Osório
Group Chief Executive

We have delivered strong financial performance in 2016 as we continue to make good progress against our strategic priorities. Underlying profit was £7.9 billion and statutory profit has more than doubled to £4.2 billion. We continue to improve our customers' experience, simplifying the business whilst growing in targeted areas and in December announced the acquisition of MBNA's prime UK credit card business. Strong capital generation, which is a consequence of our business model, has enabled us to fully cover the expected capital impact of the MBNA acquisition, increase our ordinary dividend by 13 per cent and pay a special dividend. As a simple, low risk, UK focused bank we are committed and well positioned to help Britain prosper and become the best bank for customers and shareholders.

Operating environment

Given our UK focus, our performance is inextricably linked to the health of the UK economy which has been more resilient than the market expected post referendum, with GDP growth of 2 per cent in 2016. The UK's decision to leave the European Union means the exact nature of our relationship with Europe going forward remains unclear and the economic outlook is uncertain. However, the recovery in recent years with low unemployment, reduced levels of household and corporate indebtedness and increased house prices means the UK is well positioned.

The regulatory environment also continues to evolve and there are a number of areas on which we await further clarity but, given the strength of our balance sheet and the capital generative nature of our business model, we are well placed to meet these regulatory requirements and the economic uncertainty. Following the de-risking of the balance sheet in recent years our PRA Buffer has been reduced but, in light of expected future regulatory capital developments, the Group will continue to target a CET1 ratio of around 13 per cent.

Financial performance

The Group has delivered strong financial performance in the year. Underlying profit was £7.9 billion with an underlying return on required equity of 13.2 per cent (return on tangible equity of 14.1 per cent). Income was slightly lower which was more than offset by lower operating costs, resulting in an improved cost:income ratio of 48.7 per cent. Impairment increased, primarily due to lower releases and write-backs, but asset quality remains strong with no signs of deterioration in the portfolio. The difference between underlying profit and statutory profit reduced significantly in 2016, as statutory profit before tax more than doubled to £4.2 billion, largely due to lower PPI provisions, and this enabled the Group to generate approximately 190 basis points of CET1 capital during the year.

Our balance sheet remains strong with a pro forma CET1 ratio of 13.8 per cent, a total capital ratio of 21.4 per cent and a pro forma leverage ratio of 5.0 per cent. In line with our progressive and sustainable ordinary dividend policy, the Board has recommended a final ordinary dividend of 1.7 pence per share, taking the total ordinary dividend for the year to 2.55 pence per share, an increase of 13 per cent on 2015. The Group has held back c.80 basis points of CET1 capital to cover the estimated capital impact of the MBNA acquisition; however, given our strong capital generation in the year, the Board has also recommended a special dividend of 0.5 pence per share.

Strategic progress

We have continued to make good progress on our strategic priorities in 2016.

Creating the best customer experience

We are committed to meeting our customers' evolving needs and preferences through our multi-brand and multi-channel approach. We operate the UK's largest branch network and the largest digital bank with over 12.5 million active online users. We have more than 8 million mobile banking users and for the second consecutive year, the Lloyds Bank app has been rated the best banking app of all the UK major banks for functionality.

Customer migration to digital channels continues at pace with more than 60 per cent of our simple customer needs now met online and digital is now the number one channel for new loans and credit cards. We continue to invest in our customer propositions to improve processes and the way our customers interact with us. In Commercial Banking we have continued to improve the online banking platform and in Retail Business Banking we are now able to open new customer accounts in 5-6 days, down from 21 days previously, with a best-in-class automated digital ID and verification process. In Consumer Finance, Black Horse has reduced processing times for new loans, while increasing security and protection for customers. In Insurance we have introduced online tools which will allow customers to consolidate their workplace pension assets and employers to process employee monthly pension contributions on the same day, down from 22 days in 2014.

This progress has been reflected in further reductions in the level of customer complaints and our net promoter score, which continued to improve in 2016 and is now nearly 50 per cent higher than at the end of 2011. Our latest 'Building the Best Team' survey results show that colleague engagement is at an all-time high and in line with top performing UK corporates. Our strong performance in 2016 reflects the hard work undertaken by colleagues across the Group and I would like to thank everyone for their significant efforts and commitment.

Becoming simpler and more efficient

Our cost leadership is a significant source of competitive advantage and cost management remains a strategic priority. In response to the lower rate environment we have accelerated the delivery of our cost initiatives, and announced at the half year an increase to the Simplification run-rate savings target and a reduction in our non-branch property portfolio. We remain on track to deliver both, having already achieved £0.9 billion of the increased £1.4 billion Simplification run-rate target. As a result of the continued focus on costs, our market-leading cost:income ratio has improved and we continue to target further reductions.

Delivering sustainable growth

The Group aims to deliver sustainable growth in line with its low risk business model. We have continued to make good progress in growing market share in areas where we are underrepresented, and have grown lending to SME and Mid Markets clients by around £2 billion in the year. In Consumer Finance we have continued to grow our motor finance and credit card portfolios organically and the agreement to acquire MBNA's prime UK credit card business will give us the opportunity to create a best-in-class credit card operation. In Insurance, we will continue to invest in developing the brand and the business, including our financial planning and retirement capabilities, and have also completed four bulk annuity deals. In addition, we are committed to supporting first-time home buyers and remain the largest lender to this customer group.

Helping Britain prosper

We remain committed to supporting the people, businesses and communities in the UK through our Helping Britain Prosper Plan. Notably, we have provided £1.2 billion of new funding to manufacturing businesses, supported 121,000 start-ups and helped 10,000 clients to start exporting in 2016. Our economic contribution to Britain extends beyond the products and services we offer and the funding we provide to our customers and clients. Since we launched our Apprenticeship Scheme we have created more than 4,000 roles, including 1,000 in 2016 and we have committed to creating 8,000 by 2020. We have also exceeded our target to create 20,000 digital champions, a year earlier than expected. Furthermore, we are the highest payer of UK tax in the most recent PwC Total Tax Contribution Survey for the 100 Group, having paid £1.8 billion in 2015. Our tax payment in 2016 was £2.3 billion.

The combination of the progress we have made towards our strategic priorities and our strong financial performance has enabled the UK government to further reduce its stake in the Group to less than 5 per cent, at a profit, returning over £18.5 billion to the UK taxpayer since 2009.

Outlook

Our financial targets reflect our confidence in the future prospects of the Group. In 2017 we expect the net interest margin to be greater than 2.70 per cent and the asset quality ratio to increase to around 25 basis points (before MBNA). We continue to target a cost:income ratio of around 45 per cent exiting 2019, with reductions every year. We now expect a return on required equity of between 12.0 and 13.5 per cent and a return on tangible equity of between 13.5 and 15.0 per cent in 2019. Going forward, the Group expects to generate between 170 and 200 basis points of CET1 capital per annum, pre dividend.

Summary

Following the simplification and transformation of our business in recent years, the Group is now focused on delivering the best customer experience and on continuing to develop our digital capabilities. Our cost leadership and lower risk positioning provide competitive advantage which enables us to deliver superior returns to shareholders. We continue to believe that our simple, low risk business model is the right one, and our strategic progress and strong financial performance position us well for future success.

António Horta-Osório
Group Chief Executive

KEY EVENTS IN THE YEAR

There have been a number of notable events and achievements for the Group in 2016, both within the Group and more widely across the UK. Read our timeline for some key events of the past 12 months.

JANUARY

Ambassador programme launch
Our senior leaders represent the Group, build strategic relationships and promote our ambition to help Britain prosper across the regions

FEBRUARY

Full year 2015 results
Total ordinary dividend declared for 2015 of 2.25 pence per ordinary share as well as a special dividend of 0.5 pence per share

APRIL

Top 50 employer
The Group was named in The Times 2016 Top 50 Employers for Women for the fifth consecutive year

MAY

Help to Grow scheme
We were the first bank to take part in a scheme designed to boost lending to fast growing businesses, committing £30 million of growth loans

JUNE

EU referendum
The UK voted to leave the European Union

JULY

Euromoney awards
We won Best Bank in the UK for the fourth year running and World's Best Bank for Adapting to the Regulatory Environment

Cost guidance updated in half year results announcement
Run-rate savings target increased from £1 billion to £1.4 billion per annum

AUGUST

Interest rate cut
The Bank of England's Monetary Policy Committee cut UK interest rates to a record low of 0.25 per cent

SEPTEMBER

Commitment to helping Britain prosper
We announced our aim to provide over £60 billion of lending in the next 12 months

OCTOBER

Top 10 employer
The Group was named as one of the UK's Top 10 Employers for Working Families

DECEMBER

MBNA acquisition
The Group announced it is to buy the credit card business, MBNA, from Bank of America, subject to competition and regulatory approval

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

ECONOMIC ENVIRONMENT

Resilient UK economy post referendum

During 2016 the UK economy performed broadly in line with market expectations at the start of the year despite the decision to leave the European Union and significant changes in the political landscape, both in the UK and abroad.

Although post referendum most forecasters were predicting a reduction in growth, in practice growth has been resilient and the UK economy is estimated to have grown by 2 per cent in 2016, just shy of 2.2 per cent in 2015. Business and consumer confidence did fall immediately post referendum, but most of this has now been recovered and consumers' retail spending growth actually accelerated in the months after the referendum.

Manufacturers are expecting exports to benefit from the weaker pound, but confidence in the service sector has weakened. Towards the end of 2016 inflation started to rise and is likely to become a bigger headwind to consumers' spending growth through the coming year.

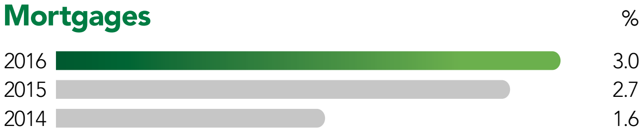
UK house prices increased by around 7 per cent during the year, largely driven by strong growth in the first quarter. Prices have continued to increase, albeit at slower rates, during the rest of the year in almost all geographic areas, although the most expensive parts of London have seen some reductions over the last six months.

Growth in our markets

Household and business deleveraging since 2009 has created capacity for an increased pace of borrowing and the markets in which we operate continued to grow in 2016. Specifically:

- Mortgage market growth increased to 3 per cent, from 2.7 per cent in 2015, the strongest since 2007, and although buy-to-let growth was impacted by the change in stamp duty policy in April, it still grew significantly faster than the market as a whole
- Unsecured consumer credit growth rose to 8 per cent led by motor finance. Although the strongest growth since before the financial crisis, the level of unsecured debt remains close to a 20 year low relative to households' income

Mortgages



Consumer unsecured

SME borrowing

- Business borrowing from banks increased by 2 per cent, the first growth since 2008, and SMEs by 2 per cent also
- Household deposit growth rose to 6 per cent, the strongest since 2008
- Business deposit growth weakened, to 6 per cent, but remains strong after three years of elevated growth and a very high level of liquidity

Interest rates low for longer

Interest rates remain at historical lows with the base rate having been cut to 0.25 per cent in August, and are expected to remain low in the foreseeable future. Market rates currently imply an increase to the base rate to 0.5 per cent during 2018, and to 0.75 per cent a year later. This flattening of the yield curve along with continued competition has meant bank margins remain under pressure. Significant competition has meant lending rates across the market remain low, particularly in mortgages, although deposit rates have fallen further during the year, offsetting the impact of lower lending rates.

Impairment expected to remain benign

Improving indebtedness, along with the continued low interest rate environment, is continuing to keep impairment levels low and they remain below through-the-cycle levels.

The expected mild rise in unemployment is likely to lead to an increase in impairment from the very low level of 2016, but it should remain low over the longer term.

Outlook for 2017

How the economy evolves in 2017 is highly dependent on the type of EU-exit deal that companies expect to be achieved in 2019, how deeply that impacts investment and employment plans, and how much squeezed consumer spending power is offset by improved competitiveness of exports following the fall in sterling. Each of these carries a high degree of uncertainty.

The UK economic environment will also continue to be impacted by global uncertainties including the slowdown in China, European elections and the global trade environment, particularly in light of the recent US presidential election.

The consensus expectation is that UK GDP growth will slow from 2 per cent in 2016 to 1.6 per cent in 2017, and unemployment will remain low, but will rise from 4.9 per cent at the end of 2016 to 5.2 per cent at the end of 2017. House prices are expected to continue to rise, by around 3 per cent, supported by the ongoing shortage of property for sale, low levels of housebuilding and exceptionally low interest rates, while commercial real estate prices are expected to fall by 4 per cent.

If the economy evolves in line with this consensus view, we would expect growth across our markets to remain broadly stable in aggregate, with a mild weakening in the growth of unsecured consumer credit and commercial real estate lending offset by a marginal rise in mortgages and other lending to businesses.

REGULATORY ENVIRONMENT

The regulatory landscape in which we operate continues to evolve, but the key themes of protecting consumers and small business customers, ensuring competitive markets and strengthening the prudential and capital framework remain.

Competition

During 2016 the Competition and Markets Authority (CMA) review of current accounts and SME Banking concluded that it needed to intervene in these markets only to increase levels of transparency and comparability in order to promote greater levels of customer switching. In addition, the FCA and PSR reviewed a series of individual markets ranging from credit cards to payments infrastructure. Ensuring fair competition remains a core element of regulatory reform with the mortgage market a key area of focus for 2017.

Conduct

In 2016 the Senior Manager & Certification Regimes were implemented, introducing greater clarity and accountability into decision making for financial institutions. In addition, the FCA announced in December it would extend the timetable for its announcement on a potential deadline for PPI complaints until the first quarter of 2017. We continue to work to ensure we provide appropriate and fair products with clear, simple and relevant terms.

Capital

Although the Bank of England is comfortable with the capital level for the UK banking sector as a whole, a number of changes to capital requirements, particularly with regard to credit and operational risk, have been proposed by the Basel Committee for Banking Supervision and further discussions are scheduled for March 2017. We performed well in the recent Bank of England stress tests and remain comfortably in excess of minimum requirements on our key capital and leverage ratios. Given this and our strong capital generation, we are well positioned in the event of any changes.

Ring-fencing and resolution

Good progress continues to be made towards implementation of ring-fencing in January 2019 in line with the EU Bank Recovery and Resolution Directive and additionally for UK banks, the Financial Services (Banking Reform) Act. Due to our UK retail and commercial focus the vast majority of our business will sit within the ring-fence, and we therefore expect ring-fencing to be less onerous for us than many of our UK peers.

Summary

There are a number of other regulatory changes that have been implemented or developed through 2016, several of which are relevant to our business, including caps and prohibitions on early-exit charges for pension-scheme members, the implementation of the revised Markets in Financial Instruments Directive, the application of the Interchange Fee Regulation, changes to the regulation of claims-management companies, the final report of the Financial Advice Market Review, the entry into force of the General Data Protection Regulation and the cancellation of plans to create a secondary annuities 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 TRENDS 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. Access through digital platforms, including via mobile devices, has increased significantly in recent years, changing customer behaviours and expectations in terms of how they shop for goods and undertake banking, and these trends are expected to accelerate.

Customers require different products and services at different stages of their lives, with many motivated by their desire to achieve better value for money, not least in the current low interest rate environment. Security and reputation remain important factors, with customers wanting clear and transparent products delivered with good service and access to relevant, expert advice.

We have seen an influx of new entrants to the market, with a variety of business models. Many of these 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.

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 our market is competitive, additional challengers continue to emerge and that to succeed we need to focus on the ever-changing needs of our customers.

Key opportunities

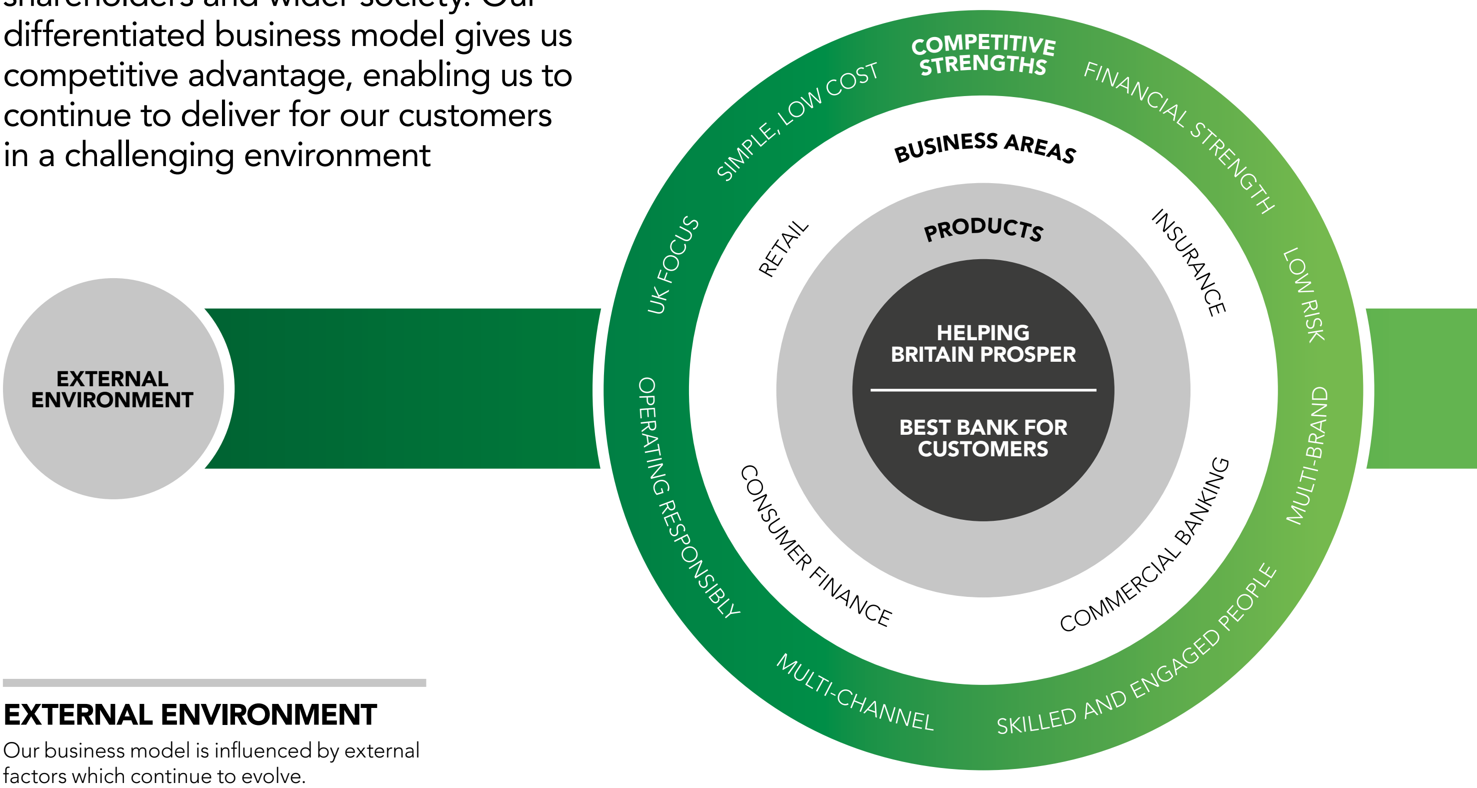
- Customer needs: our differentiated customer focused strategy along with our multi-channel distribution network, in particular our evolving digital capability, position us well to address changing customer needs.
- Regulatory environment: greater clarity is emerging on regulatory requirements and our 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: uncertain impact of EU referendum decision and continued low interest rates.
- Regulatory environment: the level of regulatory change remains high with continued focus on ring-fencing, resolution, competition, capital and conduct.
- Competition: increased competition for lending and deposits could further impact margins.
- Digital transformation: the pace of change is significant and we will need to continue to invest to meet evolving customer needs.

Our business model

As a UK focused bank we are well placed to help Britain prosper, delivering for customers, shareholders and wider society. Our differentiated business model gives us competitive advantage, enabling us to continue to deliver for our customers in a challenging environment



EXTERNAL ENVIRONMENT

Our business model is influenced by external factors which continue to evolve.

We are adapting to **changing customer behaviour** such as the increased adoption of digital products.

Our focus on the UK means our future is inextricably linked to the **UK economic and political environment,** so we need to be agile to adapt to the uncertainty following the vote to leave the European Union.

The level of **regulation** remains high, although we are now seeing more clarity around competition, conduct, capital and ring-fencing and resolution.

In a very **competitive market,** we continue to differentiate ourselves (see panel below for more information).

As a bank that supports millions of people, businesses and communities, we believe we are in a unique position to help tackle some of the biggest **social and economic issues** facing the UK today.

BUSINESS AREAS

Our business areas are structured according to the products and services we provide to best serve our customers' financial needs.

We currently have four business areas:

Retail

Insurance

Consumer Finance

Commercial Banking

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

OUR COMPETITIVE STRENGTHS

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

Simple, low cost operating model
Our simpler operating model and focus on operational efficiency provides a cost advantage which benefits both customers and shareholders.

Low risk business
Being a low risk bank is fundamental to our business model. 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 now amongst the strongest in the banking sector worldwide.

STRATEGIC PRIORITIES

We are adapting to the changes brought about by technology, changing customer behaviour and regulation 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 pages 14 to 15 or visit www.lloydsbankinggroup.com

CREATING VALUE

Outcomes for our stakeholders:

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.

Superior and sustainable returns

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

Helping Britain Prosper Plan

Our response to some of the social and economic issues facing the UK is our Helping Britain Prosper Plan which sets out clear targets to address issues where we can make a measurable and meaningful contribution. 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 capabilities they need; and tackling disadvantage in local communities.

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

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

Skilled and engaged people
Our colleagues provide real advantage. We invest in skills and training while ensuring alignment to our customer focused strategy and commitment to build the best team.

Operating responsibly
A sustainable and responsible approach to doing business is integral to everything we do.

Our strategic priorities

In order to help Britain prosper and to achieve our aim of becoming the best bank for customers, we are focusing on three strategic priorities. These are supported by our commitment to building the best team

AREAS OF FOCUS

CREATING THE BEST CUSTOMER EXPERIENCE

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

Progress in 2016

21%
digital market share

5-6 days
to open a business account, down from 21 days

>60%
of simple customer needs met via online and mobile

62.7 pts
customer satisfaction is increasing, up 3.4 points in the year

– Largest UK digital bank and enhanced digital offering
  - 12.5 million active online users including 8 million mobile users with more than 2 billion logons in 2016
  - Increasing market share
  - Number 1 rated UK banking app for functionality
– Faster and easier banking
  - Introduction of 'selfie' verification for account applications
  - Video meetings and live webchat support for mortgage and remortgage applicants
  - Instant mortgage lending decisions through our online Agreement in Principle
– Further investment in UK's largest branch network
  - Branches reformatted to reflect changing customer needs with the number of mobile banking vans increased
– Net promoter score of 62.7 points, an increase of nearly 50 per cent since the end of 2011
– Total customer complaints have been on a downward trend since 2012

BECOMING SIMPLER AND MORE EFFICIENT

– Creating operational capability which is simpler and more efficient through further system enhancement and integration
– Becoming more responsive to changing customer expectations while maintaining our cost leadership amongst UK high street banks

Progress in 2016

48.7%
continued reduction in cost:income ratio

£0.9bn
Simplification run-rate savings on track

c.50%
reduction in time taken to open a savings account

55%
of approved mortgage applications to offer in less than 14 days

– Cost leadership with continued reductions in cost:income ratio to 48.7 per cent
– Actively responding to lower interest rates through accelerated cost delivery and targeting further efficiency savings
– On track to deliver £1.4 billion of Simplification run-rate savings: £0.9 billion achieved to date
– Transforming our key customer journeys, making it simpler, faster and more convenient to meet our customers' financial needs
  - Time taken to open savings account in branch down from 45 minutes to 15-30 minutes
  - 55 per cent of approved mortgage applications proceed to offer in less than 14 calendar days, up from 37 per cent
  - Introduced a flexible online home insurance offering with new functionality and more choice for customers
  - Launched a new digital service for employers, significantly reducing processing times for monthly corporate pension scheme management
  - Simplification of SME on-boarding process from 15 paper application forms to 1 digital form

DELIVERING SUSTAINABLE GROWTH

- Further developing Group-wide growth opportunities within our prudent risk appetite
- Helping Britain prosper
  - maintaining market leadership in our main retail businesses, making the most of our multi-brand, multi-channel strategy
  - leverage Group strengths to capture growth in underrepresented areas

Progress in 2016

3%
SME lending growth, ahead of the market

£2.8bn
Consumer Finance UK customer asset growth

121,000
new business start-ups supported

75,000
first-time buyers supported

- Growth in targeted areas
  - SME lending growth of 3 per cent, ahead of the market
  - Consumer Finance UK customer asset growth of £2.8 billion
  - Black Horse motor finance growth of 20 per cent
  - Completion of four bulk annuity transactions, taking external deal size to more than £1.85 billion since our entry into the market in 2015
  - Announced the acquisition of MBNA, a prime UK credit card business, in line with strategic goal to grow in consumer finance
- Maintain market leadership in key retail business lines
  - Market leadership retained in current accounts and deposits
  - Focus on protecting margin in current competitive low growth mortgage market. £39 billion of gross new mortgage lending in 2016 and remain largest lender to first-time buyers

SUPPORTED BY

BUILDING THE BEST TEAM

- Committed to building a business our colleagues are proud to work for by creating the best environment for our colleagues to succeed
- Providing colleagues with the right skills and tools; and giving them the opportunity to share their views

Progress in 2016

71pts
employee engagement at an all-time high

32.4%
of senior roles held by women

No.1
private sector employer for LGBT people

6 days
formal training per colleague on average per year

- Employee engagement at 71 points, equalling our highest ever score
- Line Manager Index at 86 points, our highest score ever
- Our Line Manager Academy, launched in 2015, won the 'Most effective cultural transformation initiative' award at the London Institute of Banking & Finance's Financial Innovation Awards 2016
- Average of 6 days formal training per colleague per year
- 32.4 per cent of senior roles now held by women
- Number 1 private sector employer in the Stonewall Top 100
- Launch of Families Matter, a network for parents and carers
- 40,000 colleagues on boarded to HIVE, a new collaboration platform; 59 per cent are active users against industry benchmarks of 20-24 per cent
- Provided new opportunities for colleagues to become shareholders; over 80 per cent now have an ownership interest

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. As a result of strategic progress in 2016, we have reported good underlying profits, significantly increased statutory profit, strong capital generation, increased ordinary dividends and a special dividend.

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 17.

This year an additional key performance indicator has been included to reflect our performance on employee engagement, a key metric for becoming the best bank for customers.

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 priorities and financial performance of the business and also takes into account specific risk management controls. Variable remuneration including bonuses for all colleagues, 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, control environment, building the business, finance) which are reviewed on a regular basis. Executive management are also eligible to participate in a long-term incentive plan, which encourages delivery of superior and sustainable long-term returns for shareholders, whilst supporting the Group's aim of becoming the best bank for customers and helping Britain prosper. KPIs that are directly linked to remuneration are marked with this symbol REM.

Underlying profit before tax REM

	£m
2016	7,867
2015	8,112
2014	7,756

Underlying profit decreased slightly in 2016, largely due to slightly lower income and higher impairments, partly offset by lower costs.

Statutory profit before tax

	£m
2016	4,238
2015	1,644
2014	1,762

Pre-tax statutory profit increased significantly to £4,238 million in 2016 compared to £1,644 million in 2015, with the increase largely driven by lower PPI charges.

Ordinary dividend

	p
2016	2.55
2015	2.25
2014	0.75

An increased ordinary dividend of 2.55 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

	%
2016	13.2
2015	15.0
2014	13.6

The underlying return on required equity reduced in 2016, reflecting lower underlying profit and a higher tax charge.

Earnings per share

	p
2016	2.9
2015	0.8
2014	1.7

Earnings per share increased in the year, largely due to the significant increase in statutory profit.

Common equity tier 1 ratio

	%
2016[1]	13.8
2015[1]	13.0
2014	12.8

Our common equity tier 1 ratio remains strong at 13.8 per cent despite increased dividends. It also remains one of the strongest compared to our major UK banking peers.

1 Pro forma

Cost:income ratio REM

	%
2016	48.7
2015	49.3
2014	49.8

Our cost:income ratio further improved to 48.7 per cent and remains the lowest of our major UK banking peers.

Asset quality ratio

	bp
2016	15
2015	14
2014	23

Our asset quality ratio remains low at 15 basis points, reflecting our effective risk management and continued low interest rates.

Total shareholder return REM

	%
2016	(10)
2015	(2)
2014	(4)

Our share price fell by 13 per cent in 2016, and although dividends increased in the year, our total shareholder return still fell by 10 per cent.

Read more about our financial performance in our 2016 Annual Report and Accounts or online at www.lloydsbankinggroup.com

Customer satisfaction REM

2016	62.7
2015	59.3
2014	59.2

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 and is now nearly 50 per cent higher than at the end of 2011.

Best bank for customers index

% favourable

2016	78
2015	78
2014	72

The index is the outcome of a survey of more than 70,000 colleagues which shows how strongly they believe we are committed to becoming the best bank for customers. Our score remained the same as in 2015.

Employee engagement index REM

% favourable

2016	71
2015	70
2014	71

Colleague engagement remains high with our employee engagement index at 71, equalling our previous highest score. Our performance excellence and line management indices both reached their highest ever scores. These results indicate our colleagues have a sense of pride and are motivated to succeed while believing we are committed to delivering great products and services for customers.

Digital active customer base REM

m

2016	12.5
2015	11.5
2014	10.4

Reflecting the pace of digital adoption, our number of active digital customers increased in the year, from 11.5 million to 12.5 million.

Customer complaints REM

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

H1		H2	
2016	1.9	2016	n/a
2015	2.0	2015	1.9
2014	1.6	2014	1.5

The FCA changed the approach to complaint classification and reporting from 30 June 2016. Updated complaint data is not yet available on the new basis but will be available by the end of the first quarter. Total customer complaints have been on a downward trend since 2012 and have continued to fall in the second half of 2016.

1 Excluding PPI.

Helping Britain Prosper Plan performance 2016

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

	NUMBER OF TARGETS	ACHIEVED	NOT ACHIEVED
People	9	6	3
Businesses	8	7	1
Communities	7	7	0

This year we made good progress and achieved 20 of our 24 targets.

Apprenticeships: we created more than 1,000 new apprenticeship places, with a third of them being offered to candidates from the UK's most disadvantaged areas

Manufacturing: we provided £1.2 billion in new funding to Britain's manufacturing businesses – helping support a crucial sector of the UK economy

Trade: we helped business grow and trade – we supported 121,000 start-up businesses and helped more than 10,000 clients export for the first time

Digital: we reached our target to recruit more digital champions in local communities – we now have 23,000 colleagues helping to build Britain's digital capability

First-time buyers: we helped 75,000 first-time buyers, and remained one of the largest lenders to this market in the UK but fell short of our target to support 1 in 4 of all first-time buyers this year. We want to remain a leading provider in this market

Lending: we increased our net lending to SME and Mid Markets companies by £1.6 billion, despite the challenging market conditions, meaning we missed our £2 billion Plan target[1] this year. We remain open for business and committed to helping businesses prosper in the UK and globally

Disabled colleagues: we maintained the engagement scores of disabled colleagues at 2015 levels but didn't increase them – so we'll do more to help them in 2017 through training, development and our award-winning workplace adjustment programme

Senior women: our 2016 progress was below our 33 per cent target. However we remain committed to our 2020 goal of 40 per cent women in senior roles. Our 2016 focus was on improving our internal female talent pipeline

Read more about our 2016 performance at www.lloydsbankinggroup.com/ProsperPlan

1 The Plan target excludes net lending to the Social Housing and CRE sectors. Social Housing is included under a separate target in the 2016 Plan: we delivered £955 million of new funding support.

Our Helping Britain Prosper Plan

People, businesses and communities across Britain are facing significant challenges. We're helping to address them through our Helping Britain Prosper Plan

A plan to help Britain

We believe no other bank is better placed to help Britain prosper. We serve approximately 25 million customers and 1 million small businesses but we want to be more than just a bank. We want to go beyond business as usual and help address social and economic challenges such as Britain's housing shortage, the skills gap in key industries, social mobility and social disadvantage.

We are part of the fabric of Britain, visible on almost every high street through our iconic brands. The challenges Britain faces affect us directly, our operations and our colleagues.

Through our independent charitable Foundations, which support thousands of charities, we help some of the most disadvantaged people in Britain. In 2016 we invested £18.5 million in our Foundations and our colleagues donated their skills and expertise to help the charities they support become more sustainable.

The Plan is core to our strategy: we know from long experience that when Britain prospers, so do we. So the Plan is an investment in our collective long-term success. It supports our strategy to become the best bank for customers and it's fundamental to rebuilding trust in our brands and the sector.

Evolving the Plan

We launched the Plan in 2014, drawing on advice from our senior leaders and many external stakeholders, including our Independent Stakeholder Panel and Foundations, to help us shape it. These stakeholders play a role in its continuing evolution.

Since the launch of the Plan we have achieved a lot, meeting 20 of our 25 targets in 2014, and 27 of our 28 targets in 2015. In 2016, we adjusted the Plan to make it more focused on what we can do best for Britain, more ambitious and more measurable in terms of the outcomes we want to achieve. In 2016 we achieved 20 out of our 24 targets.

Helping Britain prosper is about creating opportunities for all to share in the economic and social benefits of a successful UK. As a sustainable, low-risk business we can support this success in many ways

Sara Weller
Independent Director and
Chairman, Responsible Business Committee

Read more about our Plan online at
www.lloydsbankinggroup.com/ProsperPlan

OUR FOCUS AREAS

HELPING PEOPLE PROSPER

We are providing more support for individuals and families whether they are buying a home, planning for later life or looking for a rewarding job. We are making our Group more diverse and inclusive to reflect the Britain we serve.

Key actions

We have made good progress against our People targets. Recognising the potential shortfall in many people's pension provisions, we have exceeded our target and had over 280,000 visits to our retirement planning website.

We supported 75,000 first-time homebuyers, but missed our target to support 1 in 4. We want to do more to support the whole housing market by making first-time buyer mortgages easier to access and by being a leading supporter of new build mortgages. Our 2017 Plan reflects this ambition. Our new mortgage lending totalled £38.7 billion in 2016 and we are a leading supporter of the government's Help to Buy scheme, having advanced £5.3 billion under the mortgage guarantee element since 2013.

We continue to make progress against our target that women hold 40 per cent of our senior roles by 2020. In 2016, despite focusing on building a talent pipeline of female managers, we fell slightly short of our 33 per cent senior management goal. We also fell just short of our target to fully engage more of our disabled colleagues but we will continue to support them through our award-winning workplace adjustment programme and our colleague network.

Progress in 2016

1 in 4
new build mortgages provided in 2016

32.4%
of senior roles now held by women

Supporting mental health

We have launched a mental health awareness campaign for colleagues and are introducing training so that line managers can understand and help those affected.

HELPING BUSINESSES PROSPER

We are helping businesses of all types and sizes to prosper by offering them the funding, support and encouragement they need to grow at home or abroad. We are supporting the transition to a low carbon economy.

Key actions

We have provided £1.2 billion of new funding support to manufacturing businesses and, through our £5 million investment in the Lloyds Bank Advanced Manufacturing Training Centre in Coventry, we are helping to train the next generation of highly skilled manufacturing apprentices, graduates and engineers.

We have helped more than 10,000 of our clients to start exporting for the first time, exceeding our Helping Britain Prosper Plan target of 5,000 businesses a year. This puts us on course to exceed our target of helping 25,000 businesses export for the first time, by 2020.

We increased net lending to SME and Mid Markets companies by £1.6 billion, but fell short of our £2 billion Plan target[1]. Since 2011, our net lending to SMEs has increased by 30 per cent whilst the market has contracted 11 per cent, and since 2012 our lending to Mid Markets companies has increased by 15 per cent, compared to a market that has declined 3 per cent. We aim to increase lending to the sector by £2 billion in 2017.

We also want to do more to support green business initiatives, so we've set a new environmental target to provide funding to help 10 million square feet of commercial real estate, equivalent to 10 London Shards, become more energy efficient by 2020.

Progress in 2016

£10bn
of infrastructure projects supported

121,000
start-up businesses helped

Housing Growth Partnership

Mike and Ali Afshar of AMA Homes are one of many smaller house building businesses benefiting from our £30 million Partnership with the government.

HELPING COMMUNITIES PROSPER

We are helping communities by addressing inequality, supporting disadvantaged people and championing Britain's diversity.

Key actions

By working with our independent charitable Foundations we have continued to support communities across the UK. In 2016 we gave £18.5 million to our Foundations and have supported 3,700 charities, which reach some of the most disadvantaged people in Britain today.

Our colleagues completed more than 260,000 hours of volunteering putting us on track to deliver 2.3 million hours by 2020. We are doing more to encourage colleagues to use their skills and expertise, though mentoring and skills-based volunteering, which accounted for 35 per cent of all colleague volunteering hours in 2016.

In 2016 the number of Digital Champions reached 23,000 and we have trained almost 10,000 of these to offer digital support to people and organisations in their local communities. This means we have achieved our Helping Britain Prosper Plan target of 20,000 Digital Champions early. We've set a new target for 2017 to train 700,000 individuals, SMEs and charities in digital skills, including internet banking.

Progress in 2016

£955m
new funding support for social housing

23,000
colleague digital champions

Helping the homeless

Edinburgh charity Fresh Start helps previously homeless people to resettle when they find a home. A Bank of Scotland Foundation grant helped them to pay an Operations Manager's salary and fund project work.

1 The Plan target excludes net lending to the Social Housing and CRE sectors. Social Housing is included under a separate target in the 2016 Plan: we delivered £955 million of new funding support.

Doing business responsibly

A sustainable and responsible approach to doing business is integral to everything we do

Responding to a changing Britain

2016 was a year of significant change in Britain and considerable change worldwide. As Britain faces an uncertain period it is vitally important that we help people, businesses and communities to address the challenges they face: challenges related to housing, employability, savings, business growth, international trade, financial exclusion and disadvantage.

A responsible approach

Doing business responsibly is fundamental to our strategy to become the best bank for customers, our Helping Britain Prosper Plan, our Code of Responsibility and all of our Group policies and standards and the future success of the business.

We are committed to sustainable development and delivering a prosperous Britain for all. This includes working with others to deliver relevant areas of the United Nation's agenda, such as the Sustainable Development Goals. As signatories to the UN Global Compact we have pledged to embed their 10 principles, including human rights, labour, environment and anti-corruption, into the way we operate. Our first annual Communication on Progress will be published online in April 2017.

We aspire to conduct business in a way that values and respects the human rights of our colleagues, suppliers, customers and the communities we operate in.

Our responsible approach is reflected by our continued presence in the FTSE4Good Index and our position in the CDP Climate A list in recognition of our transparent reporting and efforts to reduce our emissions.

Focusing on what matters most

In 2016 we undertook a comprehensive materiality survey to analyse and rank the responsible business issues that our stakeholders deem most important to our business. Using a range of internal and external sources, we identified 30 economic, social, environmental and governance issues across eight key categories and asked stakeholder groups to share their views: colleagues, customers, investors, community groups, government and legislators and special interest groups and opinion formers.

In 2016 many of the same issues as 2015 emerged as the most material, with human rights, colleague diversity and wellbeing, economic impact, and data privacy and security growing in importance. The top material issues are as follows:

1. HOW WE RUN OUR BUSINESS
2. BUILDING TRUST
3. ECONOMIC IMPACT
4. SERVING OUR CUSTOMERS FAIRLY
5. HUMAN RIGHTS, DIVERSITY AND WELLBEING

Visit www.lloydsbankinggroup.com/responsible-business for more information

1. HOW WE RUN OUR BUSINESS

We must run our business in a responsible and sustainable manner, complying with laws and regulations, managing and mitigating risks and delivering sustainable returns for customers and shareholders.

Ensuring good governance

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 the Board-level Responsible Business Committee and cascades to every part of our business. In 2016 we established an Executive level Responsible Business Management Committee which reports to the Chief Executive and is responsible for recommending and implementing the Group's Responsible Business strategy. Read more about the Responsible Business Committee's activity in our 2016 Annual Report and Accounts.

Beyond regulatory compliance

Operating responsibly requires running our business in ways that meet relevant legal and regulatory requirements. In addition, we have a number of internal policies and procedures related to doing business responsibly including our Ethics Policy. We support the UN's wider development agenda, including the Guiding Principles on Business and Human Rights. We welcome the Modern Slavery Act and increased transparency and will publish our first Transparency Statement on or before 30 June 2017.

Engaging with stakeholders

We know that engaging with different stakeholder groups is extremely important. It enables us to understand the issues they face and their expectations of the Group. Their contributions influence our strategic thinking and also help us to shape our corporate reporting.

We held more than 1,100 meetings with investors in 2016. 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. This year we held a number of responsible business webinars and roadshows with investors and analysts and undertook a governance lunch for major investors at which responsible business was actively discussed. We also briefed ratings agencies about our performance against our Conduct Risk Appetite Metrics.

OUR STAKEHOLDER PANEL

We've had a Panel in place since 2012 but in 2016 we established a smaller and more focused Independent Stakeholder Advisory Panel. It will provide informed and constructive external challenge and advice on our Responsible Business strategy and programmes, including the Helping Britain Prosper Plan.

'The Stakeholder Panel will be powerful in helping us to stay focused on our priorities, to advise us and to challenge us to think innovatively about emerging issues.'

Sara Weller, Chairman, Responsible Business Committee

2. BUILDING TRUST

Our Group strategy highlights our intention to build the best team in a responsible culture where colleagues put customers first. To embed this culture, we need to be clear about how we expect colleagues to behave at work.

Building a more responsible culture

We have established a clear and simple view of the culture we want to build, which is based on our Values. Throughout 2016, we continued to reinforce these Values and the behaviours that define them, through our Group Culture plan. We have created a Culture Dashboard, which helps us to monitor progress and a Group Customer First Committee, which ensures that 'Customer, Culture and Conduct' remain key considerations. We also encourage colleagues to share their concerns, without fear of reprisal, if they believe the codes, policies and procedures that support our culture are being contravened. They can do this in a number of ways, including through our Speak Up service which is managed independently of the Group. During 2016, 286 concerns were raised with the Speak Up team and 171 progressed to investigations. Of the investigations completed by year end 57 per cent were upheld and remedial action was taken where appropriate.

We have a comprehensive Anti-Bribery Policy in place which complies with laws and regulations wherever we operate, and which applies to all directors, colleagues, and anyone else acting on our behalf. All colleagues, including contractors, complete annual anti-bribery training and are encouraged to report confidentially any instances of suspected bribery. The Group is 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.

Making our business more transparent

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.

We maintain regular dialogue with colleagues to assess their views. We measure our progress in building our culture along with colleagues' pride in the Group through our colleague surveys. The 'Best Bank for Customers' and the 'Building the Best Team' surveys are conducted by an independent third party and provide a clear view of colleagues' thoughts and feelings. We use the results to inform decisions about the Group's future direction and to support improvement of each team's performance. The 2016 results show that colleagues are engaged and they believe collaboration and working in an agile way are improving. We asked colleagues if they think Lloyds Banking Group is a responsible business. 87 per cent of them agreed that 'The behaviour of the people I work with is consistent with Lloyds Banking Group's Values and Codes of Responsibility'.

We regularly provide colleagues with information on the Group's performance and matters that concern their role, such as changes in the economic and regulatory environment, organisational changes and reward and remuneration. Colleagues are offered share schemes as part of wider incentive arrangements, to encourage shared ownership of the business. Details of how rights relating to the control of the company attaching to such shares are exercised, which are incorporated by reference in the strategic report, are available in our 2016 Annual Report and Accounts.

Responsible lending and investment

We recognise the need to address climate change, protect biodiversity, support local communities and ensure human rights are protected. 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 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.

The management of risk for investment funds offered to customers by Scottish Widows is effected through a robust and comprehensive end to end governance and oversight reporting process, including a Responsible Investment Governance Framework. This covers the ongoing engagement process with fund managers, monitoring of mandate adherence and onward reporting through Investment Committees and Boards. The Group is a signatory of the Stewardship Code and the UN Principles of Responsible Investment.

3. ECONOMIC IMPACT

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

Sustainable business performance and growth

During 2016 we have made good progress against our strategic priorities whilst delivering strong financial performance. Our cost leadership and lower risk positioning provide competitive advantage. Our differentiated, UK focused business model continued to deliver for customers and shareholders.

Operating sustainably and responsibly is critical to the long-term success of the business and creating value for our stakeholders, and benefits the wider UK economy.

Making an economic contribution to Britain

We make a significant direct and indirect contribution to the economy. We employ approximately 75,000 colleagues (full time equivalent). We are helping to create additional jobs and bring talented people into our business through our Graduate and Apprenticeship Schemes. We've created more than 4,000 apprenticeships since we launched our Apprenticeship scheme in October 2012. We run a sector-leading and award-winning programme, offering a broad range of apprenticeships at all levels, including a degree-level apprenticeship in IT and Digital. In 2016, we provided a further 1,000 new roles, a third of which have been offered to external candidates from the UK's most disadvantaged areas. We have committed to create 8,000 new apprenticeships by 2020, as part of our Helping Britain Prosper Plan.

Doing business responsibly continued

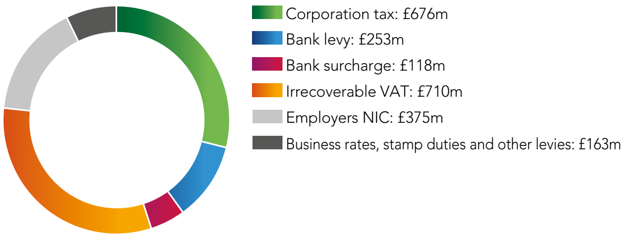
Our approach to tax

The Group continues to be one of the largest contributors to UK tax revenues. We were ranked as the highest payer of UK taxes in the most recent PwC Total Tax Contribution Survey for the 100 Group which is broadly the FTSE100 and some large UK private companies, having paid £1.8 billion in 2015.

In 2016, we paid £2.3 billion in tax. We are also a major tax collector, gathering £2 billion on behalf of HMRC in 2016 (2015: £2.2 billion).

Our approach to tax is governed by a Board-approved Tax Policy which we have discussed with HMRC. We comply with the HMRC Code of Practice on Taxation for Banks and the Confederation of British Industry's Statement of tax principles. We do not interpret tax laws in a way that we believe is contrary to the intention of Parliament, and we do not promote tax avoidance products to our customers.

Tax paid in 2016: £2.3 billion



Helping businesses trade

During 2016, we helped more than 10,000 of our clients to start exporting for the first time, exceeding our Helping Britain Prosper Plan target of 5,000 businesses a year. This puts us on course to exceed our target of helping 25,000 businesses export for the first time, by 2020.

OUR TRADE PORTAL

Businesses who want to trade internationally can use our new International Trade Portal to access a wealth of practical information and advice. We also make it easy for them by linking with 100 partner banks outside the UK and we have launched a marketing campaign promoting the benefits of doing business internationally.

Supporting manufacturing and infrastructure

In 2016 we exceeded our target to support £10 billion of infrastructure projects within the government's National Infrastructure Plan. Projects supported include finance provision for the Port of Dover, with the creation of its new cargo terminal, the Beatrice Offshore Windfarm, one of the largest private investments ever made in Scottish infrastructure, and the creation of a wood pellet power plant in Teesside which will generate enough electricity to power 600,000 homes.

We've provided £1.2 billion of new funding support to UK manufacturing businesses in 2016. We have also committed a £5 million sponsorship over five years to the Lloyds Bank Advanced Manufacturing Training Centre, where over 1,000 apprentices, graduates and engineers will acquire valuable specialist manufacturing skills by 2020, to help secure a pipeline of new talent into UK manufacturing.

4. SERVING OUR CUSTOMERS FAIRLY

We serve a diverse customer base through many different channels. Ensuring our products and services are accessible and suitable to the individual needs of our customers is at the heart of everything we do; consistently offering the best experience, providing products and services when they need our support.

Protecting our customers

We protect our 25 million customers including those who bank digitally, using state of the art security measures, including secure log-on and log-off features as well as systems that detect possible anomalies in calls we receive and highlight fraudulent payments in real time. We help customers keep themselves safe by providing best practice information and championing public information campaigns, such as Take 5.

We are a strategic partner of Get Safe Online, a joint initiative between the government, the National Crime agency and many public and private sector organisations. In 2016, we made a significant contribution to the Joint Fraud Task Force, which brings together government, law enforcement and industry partners to set a strategic direction for fraud prevention measures. In London, the Task Force has spearheaded the Banking Protocol, enabling bank colleagues to request immediate police support when they believe that customers are being targeted by fraudsters. We will champion the Protocol's national rollout in 2017.

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, in liaison with legislators and regulators. We undertake due diligence on customers throughout the duration of their relationship with us, and monitor unusual activity on all accounts using advanced technology to detect potential criminal activity. If we spot anything suspicious we take immediate and appropriate action. All our colleagues are aware of our Anti-Money Laundering and Counter Terrorist Policy and have access to training to help them understand what is required of them.

Widening financial inclusion and supporting vulnerable customers

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 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 2016, we provided almost 350,000 (2015: over 300,000) new basic bank accounts and also helped 70,000 customers upgrade from basic to more mainstream products. We also recognise that not having the right ID can be a major barrier to opening an account, so we aim to treat each customer as an individual, and ensure our colleagues have ways to accept many different forms of ID, in order to help them onto the banking platform. We know we have more to do to achieve this level of personal service.

CREDIT UNIONS

As part of our commitment to help financially disadvantaged people across Britain, we announced a further £1 million to support 21 credit unions in January 2016, the third stage of our £4 million four year commitment. Our support should allow each credit union to lend additional funds, resulting in an increase in sustainable sector lending of around £20 million from 2014 to 2017.

Digital technology also offers an important opportunity to make financial services more accessible. Almost 6 million adults in the UK have never used the internet and just under 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 which surveys 1 million customers.

We have improved our services for customers who are disabled or have suffered bereavement and work with third sector organisations such as Macmillan to support customers affected by cancer. We provide assistance for customers with mental health problems or dementia, and run dementia awareness training for branch and telephony colleagues. This year, we also reviewed our digital services, together with the charity Abilitynet, to ensure we provide the best service for our 4 million vulnerable customers who bank with us online.

Improving customer experience and satisfaction

Improving our customers' experience of and satisfaction with our products and services is central to our Customer Journey Transformation (CJT) initiative. CJT involves rethinking and redesigning customer journeys to meet our customers' evolving needs, particularly as digital becomes more mainstream in the way people and businesses bank.

We have improved the customer experience in branch and online using digital. We opened more than 40,000 savings accounts in our branches using digital technology this year, saving customers as much as 20 minutes of their time. We introduced processes to make banking faster and easier, including 'selfie' verification for account applications and video meetings and live webchat support for mortgage and remortgage applicants. Our in-house customer innovation labs tested more than 30 new technologies and services with our customers in 2016 including 'smart' customer alert services and new ways to upload documents digitally.

Dealing with customer complaints

In 2016 we emphasised the need to identify, understand and eradicate the root causes of customer complaints. We encourage colleagues to share ideas about how to remove the issues that drive complaints and improve customers' experience. When customers do complain, we resolve complaints as quickly as possible, focusing on achieving fair outcomes. Where a complaint is referred to the Financial Ombudsman Service, they tend to agree with our decisions in the majority of cases.

We welcome the changes the Financial Conduct Authority has made to complaint classification and reporting, which came into effect from 30 June 2016. These changes ensure a transparent approach to complaints reporting, ensuring that businesses are clear on the root causes of customer dissatisfaction, and that the volume of complaints that businesses receive are contextualised to the size of the organisation.

The impact we're making

Gold rated

by the Business Disability Forum for our work with customers and colleagues

5. HUMAN RIGHTS, DIVERSITY AND WELLBEING

We believe that everyone should have the opportunity to reach their full potential at Lloyds Banking Group – whatever their role or background. Our aim is to build a bank that represents modern Britain where colleagues' talents are recognised, and their human rights are respected. We aim to align our activity and policies with international best practice and recognised standards, such as the UN Declaration on Human Rights.

Promoting equal opportunities and Inclusion & Diversity

We widen and promote Inclusion & Diversity (I&D) through our Group Executive Committee, executive level I&D sponsors, quarterly I&D forum and I&D Operational committee, which oversees implementation of our strategy. During 2016, we launched a new Group-wide 'everyone' campaign to explain the relevance and importance of inclusion to all colleagues, introduced our new 'Family Matters' network for parents and carers and re-launched our REACH (Race, Ethnicity and Cultural Heritage) network.

We became the first UK company to include gender dysphoria in our Private Medical Benefit provision and were ranked number one private sector employer in the Stonewall Top 100. The Group was also named a Times Top 50 Employer for Women and Top 10 Employer for Working Families.

Occupational health, safety and wellbeing

We provide access to comprehensive online tools to support common health topics, such as fitness, smoking, diet and mental health. We also issue monthly colleague newsletters on relevant issues and support national health and wellbeing campaigns such as National Worklife Balance Week. In November we held a Mental Health and Wellbeing week. We are now working with our new charity partner, Mental Health UK, to create an environment which is fully inclusive and supportive of colleagues living with mental health conditions.

Working in partnership with external, market leading specialists, we support colleagues' health and wellbeing by providing access to an Occupational Health Service, an Employee Assistance Programme (EAP) and company paid private medical cover. Colleagues can obtain independent advice through the EAP and also have access to our award-winning Issue Resolution Scheme.

The impact we're making

86%

of colleagues believe the Group is an inclusive place to work

25,000

members of our five colleague diversity networks

Doing business responsibly continued

Our inclusion and diversity data

		2016	2015
Gender			
Board members	Male	**10**	10
	Female	**3**	3
Senior managers[1]	Male	**5,019**	5,561
	Female	**2,317**	2,405
Colleagues[1]	Male	**32,669**	34,602
	Female	**43,519**	46,920
Ethnicity			
Percentages of colleagues from an ethnic minority		**7.9%**	6.8%
Ethnic minority managers		**6.4%**	6.4%
Ethnic minority senior managers		**4.8%**	3.7%
Disability			
Percentage of colleagues who disclose they have a disability		**2.2%**	1.1%
Sexual orientation			
Percentage of colleagues who disclose they are lesbian, gay, bisexual or transgender		**1.5%**	1.2%

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.

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.

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.

Developing and rewarding our colleagues

We want to ensure that every colleague feels valued and empowered to thrive in a truly inclusive business. We offer a competitive and fair reward package that supports our aims as a responsible business. After a detailed review in 2015 of the variable pay arrangements used to incentivise customer-facing colleagues, variable pay for colleagues in the Retail division is no longer linked to individual or branch level sales or product targets. To build on these changes, a single variable pay arrangement was introduced for these colleagues in 2016. Customer-facing colleagues in Retail are now incentivised by reference to balanced scorecard metrics with clearly identified performance descriptors, in line with the Group annual bonus plan approach. These changes ensure that colleagues are rewarded for action and behaviour which puts customers first. 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.

Learning and development

All colleagues have access to our learning management system, Discover Learning, and with the launch of our Career Development Resource Centre it is now even easier for them to access learning materials to develop in their current roles or for career moves. During 2016, colleagues logged-in more than 11 million times; overall, almost 480,000 days of formal training were undertaken, an average of 6 days per colleague. In addition, 30,000 active learners use e-learning provided by one of our partners, Skillsoft.

We launched the Group's Digital Academy, a suite of learning modules available to all colleagues supporting our aim of creating the most digitally capable workforce in Financial Services. In the first six months this received 15,500 colleague visits. We also launched a Personal Learning Calendar which focuses on a relevant topic each month such as delivering the best customer experience.

An average of 77 per cent of the colleagues who participated in this year's 'Building the Best Team Survey', responded favourably to questions about training confirming that they believe they get the training and development needed to do their job effectively and meet customer demands. This is an increase of 2 per cent from last year, putting us 15 per cent above the UK average.

Throughout 2016, we continued to support colleagues studying for professional qualifications and contributed to the developing work of the Banking Standards Board, including their independent research into, and subsequent Report on, 'Professionalism in Banking'.

Supporting line managers and senior leaders

We have continued to develop our Line Manager Academy to meet the changing needs of our line manager population. During the year colleagues attended Academy training programmes more than 3,200 times. Our Leadership Academy provides senior leaders with relevant development solutions. In 2016 we developed five new Programmes for the Academy which together attracted almost 300 attendees. In March 2016 we launched our Strategic Leaders Programme which supports our senior 175 leaders in the Group with the aim of driving the culture we need to be the best bank for customers.

Support for disabled colleagues

We are committed to being a more disability confident employer. More than 5,000 colleagues disclosed a disability in our most recent colleague survey. We also potentially serve around 6 million customers affected by disability or long-term health issues. We are recognised as a leading employer for disabled people with cutting edge practices for customers and colleagues; in 2016 we won a Business Disability SMART Award for the third year running for our workplace adjustments process and were highly commended for our colleague disability network. We have a range of programmes to support colleagues who become disabled or develop a long-term health condition. Our workplace adjustments process, which includes physical equipment, has supported over 18,000 colleagues to date.

Since 2002 we have been running Personal Development and Career Development Programmes for disabled colleagues. 1,500 of our colleagues have completed this programme to date.

We aim to appoint the best person available into any role and to attract talented people from diverse backgrounds. We encourage and give full and fair consideration to job applications from people with a disability and are unbiased in the way we assess, select, appoint, train and promote people. We offer a guaranteed interview scheme for candidates who declare a disability and meet the minimum requirements of the role. We continue to run a work a Disability Work Experience Programme in partnership with Remploy. This is one of the largest disability-focused work experience initiatives in the financial services sector.

Agile working

As a founder member of a group of leading employers supporting workforce agility in the UK, we've been looking closely at ways to become more agile as an organisation over the past 18 months. To bring agile working to life we launched a 'Getting Smart about Agile Working' campaign, which had a high profile across the whole Group. Our most recent survey indicates that over 26,000 of our colleagues work in an agile way. In 2016 we've also implemented a new job sharing website, a new approach to agile hiring and agile working training for all colleagues.

The impact we're making

26,000
colleagues work in an agile way

4,000
members of our colleague disability network 'Access'

Managing and reducing our environmental impacts

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 manage our impacts through our Environmental Action Plan, which focuses on reducing risk and creating value through improved efficiency.

Our emissions

This year our overall carbon emissions, measured in CO_2 equivalent tonnes (CO_2e), have decreased by 12.95 per cent year-on-year and by 38.83 per cent against our 2009 baseline. This is mainly attributable to the reduction in consumption of gas and electricity (which make up the largest proportion of our emissions) and our energy optimisation programme. Read more about our emissions in the Directors' report of our 2016 Annual Report and Accounts.

CO_2e emissions

	Oct 2015 – Sept 2016	Oct 2014 – Sept 2015[1]	Oct 2013 – Sept 2014[1]
Total CO_2e tonnes	**344,316** ✔	395,554	437,721
Total scope 1	**52,438** ✔	57,255	59,856
Total scope 2	**205,127** ✔	239,721	261,623
Total scope 3	**86,752** ✔	98,579	116,242

1 Restated 2013/2014 and 2014/2015 emissions data to improve the accuracy of reporting, using actual data to replace estimations.

Emissions in tonnes CO_2e in line with the GHG Protocol Corporate Standard (2004). We are in the process of transitioning to the revised Scope 2 guidance.

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

Scope 1 emissions include mobile and stationary combustion of fuel and operation of facilities.

Scope 2 emissions have been calculated using a location based methodology, as set out by the GHG Protocol.

Supporting the low carbon economy

We continue to develop products and services to support customers' transition to a lower carbon, more resource efficient economy. Since 2014 we have launched two Environmental, Social and Governance (ESG) bonds totalling £500 million. 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.

In March 2016 Lloyds Bank launched its innovative £1 billion Green Loan Initiative for commercial real estate lending. The initiative – the first of its kind in the UK – provides clients with loans at discounted margins to help incentivise energy efficiency and finance investment in green buildings. We completed the first tranche of deals in the second half of 2016, totalling £72 million, and have helped borrowers like HPH, a Bath-based property company with a diverse property portfolio, to fund energy efficiency projects. We have now set a target in our Helping Britain Prosper Plan to fund 10 million square feet of commercial real estate to become more energy efficient by 2020, the equivalent of 10 London Shards.

In 2016 our UK-based team was responsible for financing renewable projects with a combined capacity of more than 1.78GW. Globally, our investments in renewable energy are in excess of 7.4GW in capacity and cover solar, offshore and onshore wind, waste to energy and biomass.

In 2016 Lloyds Bank played a key part in financing a major offshore wind farm off the Norfolk coast, with operations in Grimsby. Race Bank will provide enough energy to power 400,000 homes with a potential capacity of 573MW. It is anticipated the project, when in operation, will create more than 100 jobs associated with building and maintaining turbines for the Humber region.

✔ Indicator is subject to limited ISAE3000 (revised) assurance by Deloitte LLP for the 2016 Annual Responsible Business Reporting. Deloitte's 2016 assurance statement and the 2016 Reporting Criteria are available online at www.lloydsbankinggroup.com/rbdownloads

Supporting communities and tackling social disadvantage

We are an integral part of communities across the UK and believe we are in a unique position to help them prosper through our community programmes and investment. These programmes are focused on three themes: education, employability and enterprise. Our total community investment in 2016 was over £63 million ✔ which includes our colleagues' time, direct donations and the money we give to our independent charitable Foundations. The Foundations receive a share of the Group's profits annually.

THE FOUNDATIONS

We want to do more to help tackle disadvantage through our 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.

£18.5m

given to our Foundations in 2016

Our charity of the year

In 2016 we raised £6.1 million ✔ for our charity of the year, BBC Children in Need. This brings the total raised over our two year partnership to more than £12.5 million. The money we have raised will make a significant impact across the UK.

In 2017 we will begin a two year partnership with Mental Health UK, a collaboration of four national mental health charities. Our target is to raise £4 million to help develop and launch the first helpline dedicated to supporting people experiencing mental health and money management issues. We plan to use the partnership to further improve the awareness and management of mental health within the organisation, and to help our frontline colleagues to improve their service to customers.

Engaging with our stakeholders

Working with our suppliers

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. Our supply base comprises around 4,000 companies supplying us mainly with services, ranging from HR and recruitment through to marketing and legal advice. We also buy products to enable us to operate our banking services such as IT hardware and property-related goods. In 2016, we reduced our supplier expenditure to £5.3 billion from £5.8 billion in 2015. 94 per cent of this was spent with suppliers based in the UK.

Supporting regional prosperity

Our Group Ambassador Programme supports our ambition to enable social and economic prosperity in all parts of the UK. Our ten Ambassadors, who are all senior colleagues, have a mandate from the Group Chief Executive to support economic and social development across the whole of the UK. They work with politicians, government officials, regional development agencies and local enterprise partnerships as well as local councils to help achieve this. In 2016 the Ambassadors have worked on three core themes: housing, the rural economy and agriculture, and education and skills with a supporting focus on digital.

The impact we're making

97%

of supplier invoices paid within 30 days

Risk overview

Effective risk management, governance and control

As a Group, managing risk effectively is fundamental to our strategy and to operating successfully. We are a simple, low risk, UK focused, retail and commercial bank with a culture founded on a prudent through-the-economic-cycle appetite for risk.

A strong risk management culture is crucial for sustainable growth and within Lloyds it is at the heart of everything we do.

Our approach to risk is founded on an effective control framework which guides how our colleagues 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 – is approved by the Board and is embedded within policies, authorities and limits across the Group.

Achievements in 2016

As a Group we have continued to deliver against our strategic priorities in 2016, simplifying and strengthening the business whilst growing in targeted areas. Risk has created a strong foundation to enable this progress, ensuring we react appropriately to the ever changing macro-economic and regulatory environment. Our prudent risk culture and appetite, along with close collaboration with the business, has enabled effective decision making and the achievement of a number of risk related deliverables in the year. These included:

Conduct

The Group's conduct strategy programme was fully implemented in 2016, embedding conduct into the everyday management of our business, ensuring that we retain a consistent and relentless focus on delivering improved customer outcomes through an open transparent culture.

Capital strength

The Group continues to maintain a strong capital position, with a pro forma CET1 ratio of 13.8 per cent, through a combination of strong statutory profit driven by good underlying profit and lower PPI, along with lower risk-weighted assets. Risk-weighted assets reduced by 3 per cent to £216 billion, reflecting the continued de-risking of the portfolio, and were primarily driven by active portfolio management including asset sales, an improvement in asset quality and capital efficient securitisation activity.

The Group was also subject to the UK stress testing run by the Bank of England; passing on all levels, with no capital inadequacies identified.

Asset quality

Effective risk management ensured asset quality remained strong with no deterioration in the underlying portfolio. The impairment charge increased to £645 million (2015: £568 million) with the asset quality ratio increasing slightly to 15 basis points, but this was largely due to lower provision releases and write-backs. The gross asset quality ratio remained unchanged at 28 basis points. Our prudent risk appetite and robust risk management framework were also reflected in impaired loans, which reduced by over £1 billion to £8.5 billion, and the impaired loans ratio, which continued to fall and is now below 2 per cent.

RISK AS A STRATEGIC DIFFERENTIATOR

Group strategy and risk appetite are developed together to ensure one informs the other to deliver on our purpose to help Britain prosper whilst becoming the best bank for customers.

Risks are identified, managed and mitigated using our comprehensive Risk Management Framework (RMF), (see page 27) and our clearly defined risk appetite, embedded in policies, authorities and limits provides a clear framework for effective business decision making. The principal risks we face, which could significantly impact the delivery of our strategy, are discussed on pages 28 to 31.

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

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 RMF acts as the foundation for the delivery of effective risk control and ensures that the Group risk appetite is continually developed and adhered to.

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 of defence are accountable for risk but with oversight from a strong and importantly independent, second line of defence Risk Division.

Effective risk analysis, management and reporting
Continuing to deliver close monitoring and stringent reporting to all levels of management and the Board on a regular basis ensures appetite limits are maintained and subject to stressed analysis at a risk type and portfolio level.

Sustainable growth
Embedding a risk culture that ensures proactive support and constructive challenge takes place across the business is important for delivering sustainable growth.

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 reviewed, updated and approved by the Board at least annually 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. An updated risk appetite statement was approved by the Board in 2016.

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 supported the effective implementation of the requirements of the SM&CR which came 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 Group-wide 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 Group-wide 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	Risk culture	Risk 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 which could impact the delivery of our long-term strategic objectives and our response, are detailed below

The Group has considered many of the potential implications following the UK's vote to leave the European Union and the impact to its customers, colleagues and products – as well as legal, regulatory, tax, finance and capital implications.

Continued uncertainty surrounding the political and macroeconomic environment remains but the potential impacts of external factors have been considered in all principal risks and uncertainties to ensure any material uncertainties continue to be monitored and are appropriately mitigated.

Principal risks and uncertainties are reviewed and reported regularly and no new risks have been identified in the year.

PRINCIPAL RISKS	KEY MITIGATING ACTIONS
Credit risk The risk that customers and/or other counterparties whom we have either lent money to or entered into a financial contract with, 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 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.	– Ensure we develop comprehensive plans for delivery of all legal and regulatory changes and track their progress. Group-wide 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 industry bodies on forthcoming regulatory changes, market reviews and 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.	– Conduct risk appetite metrics provide a granular view on how our products and services are performing for customers. – Product approval, review processes and outcome testing supported by conduct management information. – Learning from past mistakes through root cause analysis and clear customer accountabilities for colleagues, with rewards driven by customer-centric metrics. – The development of a refined framework for addressing thematic issues impacting customers in vulnerable circumstances.
Operational risk We face significant operational risks which may result in financial loss, disruption of services to customers, and 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 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 customers' requirements. – Enhancing the resilience of systems that support critical business processes 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 and responding to findings from third party industry testing.
People risk Key people risks include the risk that we fail to maintain organisational skills, capability, resilience and capacity levels in response to increasing volumes of organisational, political and external market change. **Example:** – Inability to attract or retain colleagues with key skills could impact the achievement of business objectives.	– Focused action to attract, retain and develop high calibre people. Delivering initiatives which reinforce behaviours to generate the best outcomes for customers and colleagues. – Managing organisational capability and capacity to ensure there are the right skills and resources to meet our customers' needs. – Effective remuneration arrangements to promote appropriate colleague behaviours and meet regulatory expectations.

KEY RISK INDICATORS	ALIGNMENT TO STRATEGIC PRIORITIES AND FUTURE FOCUS
Impairment charge 2016 £645m 2015 £568m **Impaired assets** 2016 £8,495m 2015 £9,590m	**Delivering sustainable growth** We have a conservative and well balanced UK 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 increase as the level of write-backs and releases normalise. Emerging credit risks that have the potential to increase impairment include the global and UK economic environment, in particular increasing interest rates, as it can impact customer and counterparties' affordability.
Mandatory, legal and regulatory investment spend 2016 £555m 2015 £454m	**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.
Conduct risk appetite metric performance-Group 2016 92.1% 2015 87.4%	**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. The successful transition of our customer-focused Conduct Strategy into Business as Usual, following robust review by the Group Customer First Committee, supports our vision of being the best bank for customers, enabling the creation of the best customer experience through learning from past mistakes.
Availability of core systems 2016 99.97% 2015 99.97%	**Creating the best customer experience** We recognise that resilient and secure technology is critical to creating the best customer experience and maintaining trust across the wider industry. The availability and resilience of IT systems remains a key strategic priority and the Cyber programme continues to focus on enhancing cyber security controls. The control environment is regularly assessed through internal and third party testing.
Best bank for customers index 2016 78% 2015 78%	**Creating the best customer experience** Continued regulatory change relating to personal accountability and remuneration rules could affect the Group's ability to attract and retain the calibre of colleagues required to meet our changing customer needs. 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, in an increasingly digital marketplace.

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

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 as our presence in the bulk annuity market increases. 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.	– Processes for underwriting, claims management, pricing and product design seek to control exposure. Longevity and bulk pricing experts support the 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 exposures are mitigated by a broad reinsurance programme.
Capital risk The risk that we have a sub-optimal quantity 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.	– A comprehensive capital management framework that sets and monitors capital risk appetite, including dividend policy appropriately. – Close monitoring of capital and leverage ratios to ensure we meet current and future regulatory requirements. – Comprehensive stress testing analysis to evidence capital adequacy under various adverse scenarios.
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 underpinned by a significant and stable customer deposit base and is supported by strong relationships with corporate customers and certain wholesale market segments. 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.	– Holding liquid assets to meet potential cash and collateral outflows, regulatory requirements and maintaining a further 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, maintaining a contingency funding plan detailing 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 requirement to improve the resolvability of the Group and to ring-fence core UK financial services and activities from January 2019 and further requirements under the SM&CR which come into force from March 2017. **Example:** – Non-compliance with or breaches of ring-fencing, resolution and SM&CR requirements will result in legal and regulatory consequences.	– Leveraging our considerable change experience to meet ring-fencing and resolution planning requirements and the continuing evolution of SM&CR. – Programme in place to address ring-fencing and resolution planning. In close and regular contact with regulators to develop plans for our anticipated operating and legal structure. – Evolving risk and governance arrangements that continue to be appropriate 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, equity and credit spreads in the Insurance business, and credit spreads in 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 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.	– Structural hedge programmes implemented to manage liability margins and margin compression, and the Group's exposure to Bank Base Rate. – Equity and credit spread risks are closely monitored and, where appropriate, asset liability matching is undertaken to mitigate risk. – The Group's Defined Benefit Pension Schemes have increased their credit allocation and hedged against nominal rate/inflation movements. – 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

2016	£8,919m
2015	£9,460m

Insurance (General Insurance) gross written premiums

2016	£1,108m
2015	£1,148m

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[1,2]

2016	13.8%
2015	13.0%

Leverage ratio[2]

2016	5.0%
2015	4.8%

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, there are a number of regulatory capital framework changes which are yet to be finalised. These changes are being monitored closely as there is a risk that these could lead to higher capital requirements in the longer term.

Regulatory liquidity

2016	£121bn
2015	£123bn

Loan to deposit ratio

2016	109%
2015	109%

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 our target range.

Liquid assets now exceed our total wholesale funding. This provides a substantial buffer in the event of a market-wide stress which could reduce our options to fund our balance sheet in future.

N/A

Delivering sustainable growth

Ring-fencing will ensure we become safer and continue to create the best customer experience by providing further protection to core Retail and SME deposits, increasing transparency of our operations and facilitating the options available in resolution.

Resolution planning is intended to reduce the probability of failure and, through ensuring continuity of critical banking services, the impact on customers should we fail.

Our Governance framework and strong culture of ownership and accountability enabled effective, on time, compliance with the SM&CR requirements which came into force from March 2016 and preparation for the SM&CR Certification requirements effective from March 2017.

Pension surplus/(deficit)

2016	(£244m)
2015	£736m

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 more stable capital position. This allows us to more efficiently utilise available capital resources to deliver sustainable growth.

Consistent with similar pension schemes, the Group's Defined Benefit Pension Schemes were adversely impacted by the credit spread volatility in the third quarter of 2016. The interest rate and inflation hedging programmes remain effective.

1 This key risk indicator is also a key performance indicator (KPI).
2 The CET1 and leverage ratios at 31 December 2016 and 31 December 2015 are reported on a pro forma basis, including dividends paid by the Insurance business in February 2017 and February 2016 respectively, in relation to prior year earnings.

Summary of Group results

Summary consolidated income statement

	2016 £ million	2015 £ million	Change %
Net interest income	**11,435**	11,482	–
Other income	**6,065**	6,155	(1)
Total income	**17,500**	17,637	(1)
Operating lease depreciation	**(895)**	(764)	(17)
Net income	**16,605**	16,873	(2)
Operating costs	**(8,093)**	(8,311)	3
Impairment	**(645)**	(568)	(14)
TSB	**–**	118	
Underlying profit	**7,867**	8,112	(3)
Volatility and other items	**(1,544)**	(1,631)	
Payment protection insurance provision	**(1,000)**	(4,000)	
Other conduct provisions	**(1,085)**	(837)	
Statutory profit before tax	**4,238**	1,644	158
Taxation	**(1,724)**	(688)	
Profit for the year	**2,514**	956	163
Earnings per share	**2.9p**	0.8p	263
Dividends per share – ordinary	**2.55p**	2.25p	13
– special	**0.5p**	0.5p	
Total dividends	**3.05p**	2.75p	11

Summary consolidated balance sheet

Assets	At 31 Dec 2016 £ million	At 31 Dec 2015 £ million
Cash and balances at central banks	**47,452**	58,417
Trading and other financial assets at fair value through profit or loss	**151,174**	140,536
Derivative financial instruments	**36,138**	29,467
Loans and receivables:		
Loans and advances to customers	**457,958**	455,175
Loans and advances to banks	**26,902**	25,117
Debt securities	**3,397**	4,191
	488,257	484,483
Available-for-sale financial assets	**56,524**	33,032
Held-to-maturity investments	**–**	19,808
Other assets	**38,248**	40,945
Total assets	**817,793**	806,688
Liabilities		
Deposits from banks	**16,384**	16,925
Customer deposits	**415,460**	418,326
Trading and other financial liabilities at fair value through profit or loss	**54,504**	51,863
Derivative financial instruments	**34,924**	26,301
Debt securities in issue	**76,314**	82,056
Liabilities arising from insurance and investment contracts	**114,502**	103,071
Subordinated liabilities	**19,831**	23,312
Other liabilities	**37,059**	37,854
Total liabilities	**768,978**	759,708
Shareholders' equity	**43,020**	41,234
Other equity instruments	**5,355**	5,355
Non-controlling interests	**440**	391
Total equity	**48,815**	46,980
Total liabilities and equity	**817,793**	806,688

Underlying basis – segmental analysis

2016	Retail £m	Commercial Banking £m	Consumer Finance £m	Insurance £m	Run-off and Central items £m	Group £m
Net interest income	6,497	2,735	1,941	(146)	408	11,435
Other income	1,053	1,987	1,338	1,755	(68)	6,065
Total income	7,550	4,722	3,279	1,609	340	17,500
Operating lease depreciation	–	(105)	(775)	–	(15)	(895)
Net income	7,550	4,617	2,504	1,609	325	16,605
Operating costs	(4,174)	(2,133)	(939)	(772)	(75)	(8,093)
Impairment	(373)	(16)	(282)	–	26	(645)
Underlying profit	3,003	2,468	1,283	837	276	7,867
Banking net interest margin	2.20%	3.26%	5.88%			2.71%
Average interest-earning banking assets	£302.7bn	£88.6bn	£33.9bn		£10.7bn	£435.9bn
Asset quality ratio	0.12%	0.02%	0.83%			0.15%
Return on risk-weighted assets	5.45%	2.44%	4.09%			3.55%
Loans and advances to customers[1]	£297.7bn	£100.4bn	£35.1bn		£16.5bn	£449.7bn
Customer deposits[2]	£271.0bn	£132.6bn	£7.9bn		£1.5bn	£413.0bn

2015	Retail[3] £m	Commercial Banking[3] £m	Consumer Finance[3] £m	Insurance £m	Run-off and Central items £m	Group £m
Net interest income	6,664	2,576	1,954	(163)	451	11,482
Other income	1,115	2,072	1,359	1,827	(218)	6,155
Total income	7,779	4,648	3,313	1,664	233	17,637
Operating lease depreciation	–	(30)	(720)	–	(14)	(764)
Net income	7,779	4,618	2,593	1,664	219	16,873
Operating costs	(4,339)	(2,162)	(977)	(702)	(131)	(8,311)
Impairment	(349)	22	(235)	–	(6)	(568)
TSB	–	–	–	–	118	118
Underlying profit	3,091	2,478	1,381	962	200	8,112
Banking net interest margin	2.22%	2.98%	6.61%			2.63%
Average interest-earning banking assets	£307.0bn	£90.0bn	£30.5bn		£14.4bn	£441.9bn
Asset quality ratio	0.11%	0.01%	0.77%			0.14%
Return on risk-weighted assets	5.71%	2.36%	4.27%			3.53%
Loans and advances to customers	£305.6bn	£102.0bn	£31.5bn		£16.1bn	£455.2bn
Customer deposits	£273.7bn	£131.9bn	£11.1bn		£1.6bn	£418.3bn

1 Excludes reverse repos of £8.3 billion (31 December 2015: £nil).
2 Excludes repos of £2.5 billion (31 December 2015: £nil).
3 Restated.

Alternative performance measures

The Group uses a number of alternative performance measures, including underlying profit, in the discussion of its business performance and financial position. Further information is provided in the 2016 Annual Report and Accounts.

Underlying basis

In order to allow a comparison of the Group's underlying performance, the results are adjusted for certain items including losses on redemption of the Enhanced Capital Notes and the volatility in the value of the embedded equity conversion feature; market volatility and asset sales, which includes the effects of certain asset sales, the volatility relating to the Group's own debt and hedging arrangements and that arising in the insurance businesses and insurance gross up; the amortisation of purchased intangible assets; restructuring costs, comprising severance related costs relating to the Simplification programme, the costs of implementing regulatory reform and ring-fencing and the rationalisation of the non-branch property portfolio; the unwind of acquisition-related fair value adjustments; TSB build and dual-running costs and the loss relating to the TSB sale in 2015; 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 2016 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.

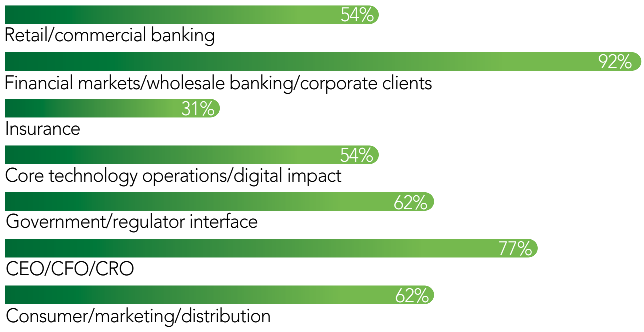
Board of Directors

Comprising Directors with the right mix of skills and experience, the Board is collectively responsible for overseeing delivery of the Group's strategy

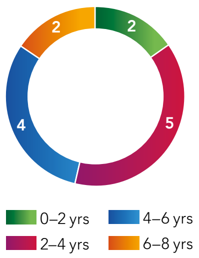
BOARD DIVERSITY

Gender diversity

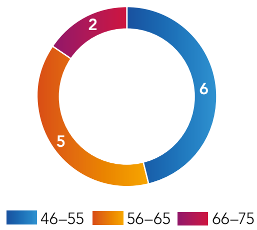
Skills and experience



Board tenure



Age



This information is provided at 31 December 2016

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

Skills and experience: Lord Blackwell has deep financial services knowledge including in insurance and banking, as well as 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. Lord Blackwell was previously the Chairman of Scottish Widows Group, and Interserve plc, Director of Group Development at NatWest Group, a Senior Independent Director of Standard Life and also chaired their UK Life and Pensions Board. His past Non-Executive Directorships have included Halma plc, Dixons Group, SEGRO and Ofcom. He was Head of the Prime Minister's Policy Unit from 1995 to 1997 and was appointed a Life Peer in 1997. He has an MA in Natural Sciences from the University of Cambridge, a Ph.D in Finance and Economics and an MBA from the University of Pennsylvania.

External appointments: Governor of the Yehudi Menuhin School.

02 Anita Frew A NG Re RB Ri
Deputy Chairman and Independent Director
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 and investment management, manufacturing and utilities. She was previously Chairman of Victrex plc, the Senior Independent Director of Aberdeen Asset Management and IMI plc, an Executive Director of Abbott Mead Vickers, a Non-Executive Director of Northumbrian Water and has held various investment and marketing roles at Scottish Provident and the Royal Bank of Scotland. Her extensive board level, asset and investment management experience makes her a strong Deputy Chairman and Chairman of the Remuneration Committee. She has a BA (Hons) in International Business from the University of Strathclyde, a MRes in Humanities and Philosophy from the University of London and an Honorary DSc for contribution to industry and finance from the University of Cranfield.

External appointments: Chairman of Croda International Plc and a Non-Executive Director of BHP Billiton.

03 Alan Dickinson

A NG Re Ri

Independent Director

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. More recently, he was a Non-Executive Director of Willis Limited and Chairman of its Risk Committee. He was formerly Chairman of Brown, Shipley & Co. Limited and a Non-Executive Director of Nationwide Building Society where he was Chairman of its Risk Committee. Alan's strategic focus and core banking experience complements the balance of skills on our Board and makes him ideal for the role of Chairman of the Board Risk Committee. He is a Fellow of the Chartered Institute of Bankers and the Royal Statistical Society and has an MBA from the Manchester Business School and a Bachelor of Science from the University of Birmingham.

External appointments: Chairman of Urban & Civic plc and a Governor of Motability.

04 Simon Henry

A Ri

Independent Director

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. Simon has a BA in Mathematics, an MA from the University of Cambridge and is a fellow of the Chartered Institute of Management Accountants.

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 (until 9 March 2017). Non-Executive Director of Rio Tinto plc and Rio Tinto Limited (from 1 July 2017). 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 Nick Luff

A NG Ri

Independent Director

Appointed: March 2013

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. He is a Mathematics graduate from the University of Oxford and a Chartered Accountant.

External appointments: Executive Director and Chief Financial Officer of RELX Group.

06 Deborah McWhinney

A Ri

Independent Director

Appointed: December 2015

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. She holds a BSc in Communications from the University of Montana.

External appointments: Member of the Supervisory Board of Fresenius Medical Care AG & Co. KGaA, Independent Director of Fluor Corporation and IHS Markit Ltd, a Trustee of the California Institute of Technology and of the Institute for Defense Analyses.

KEY

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

BOARD OF DIRECTORS KEY

Board of Directors continued

07 Nick Prettejohn

A Ri

Independent Director and Chairman of Scottish Widows Group

Appointed: June 2014

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 is a former Non-Executive Director of the Prudential Regulation Authority and of Legal & General Group Plc as well as Chairman of the Financial Services Practitioner Panel. 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 as well as the governance experience and leadership qualities to chair Scottish Widows Group. Nick has a First Class Degree in Philosophy, Politics and Economics from Balliol College, University of Oxford.

External appointments: Member of the BBC Trust (until 31 March 2017), Chairman of the Britten-Pears Foundation, the Royal Northern College of Music and the Financial Conduct Authority's Financial Advice Working Group.

08 Stuart Sinclair

Re Ri

Independent Director

Appointed: January 2016

Skills and experience: Stuart has extensive experience in retail banking, insurance and consumer finance. He is a former Non-Executive Director of TSB Banking Group plc, TSB Bank plc, LV Group and Virgin Direct. In his executive career, he was President and Chief Operating Officer of Aspen Insurance after spending nine years with General Electric, as Chief Executive Officer of the UK Consumer Finance business then President of GE Capital China. Before that he was Chief Executive Officer of Tesco Personal Finance and Director of UK Retail Banking at the Royal Bank of Scotland. He was a Council member of The Royal Institute for International Affairs (Chatham House). He has an MA in Economics from the University of Aberdeen and an MBA from the University of California.

External Appointments: Non-Executive Director and Chair of the Risk Committee at Provident Financial plc; Senior Independent Director and Chair of Risk at QBE Insurance (Europe) Limited and Senior Independent Director and Chair of Risk at Swinton Group Limited.

09 Anthony Watson CBE

A NG Re Ri

Senior Independent Director

Appointed: April 2009 (Board), May 2012 (Senior Independent Director)

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. He has a BSc (Hons) in Economics from Queen's University Belfast, a Diploma in Security Analysis from the New York Institute of Finance and is a Barrister at Law, England and Wales.

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.

10 Sara Weller CBE

Re RB Ri

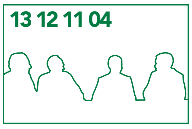
Independent Director

Appointed: February 2012

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 passionate advocate of customers, the community, financial inclusion and the development of digital skills which directly support Lloyds Banking Group's strategy and her role as Chairman of the Responsible Business Committee. 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 & Butlers as well as a number of senior management roles for Abbey National and Mars Confectionery. She has an MA in Chemistry from Oxford University.

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.

BOARD OF DIRECTORS KEY



11 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 30 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 its Chief Executive. He is also a former Non-Executive Director of the Court of the Bank of England and Governor of the London Business School. António has a Degree in Management & Business Administration from the Universidade Católica Portuguesa, an MBA from INSEAD and has completed the Advanced Management Program at Harvard Business School.

External appointments: Non-Executive Director of EXOR N.V., Fundação Champalimaud and Sociedade Francisco Manuel dos Santos in Portugal, a member of the Board of Stichting INPAR and Chairman of the Wallace Collection.

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

Skills and experience: George has 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 25 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. George is a Chartered Accountant and has a history degree from the University of Cambridge.

External appointments: None.

13 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 31 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 an 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. Juan has a BSc in Industrial Chemical Engineering from the Universidad Politécnica de Madrid, a Financial Management degree from ICADE School of Business and Economics and an MBA from the Institute de Empresa Business School.

External appointments: Vice Chairman of the International Financial Risk Institute.

14 Malcolm Wood
Company Secretary
Appointed: November 2014

Skills and experience: Malcolm was 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.

Directors' biographies can be found at www.lloydsbankinggroup.com/our-group/directors

Remuneration

REMUNERATION AT A GLANCE

How Lloyds Banking Group performed

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 long-term incentive plan measures Group performance over a three-year period, using a range of financial and strategic measures.

Measure	2016	2015
Underlying profit before tax	**£7,867m**	£8,112m[1]
Group Balanced Scorecard	**Strong plus**	Strong
Economic profit	**£3,377m**	£2,233m
Total Shareholder Return (TSR) *Per annum for the three years ended 31 December*	**(5%)**	16.6%
Cost:income ratio	**48.7%[2]**	49.3%
Net promoter score	**62.7**	59.3
Digital active customer base	**12.5m**	11.5m
Employee engagement index	**71**	71

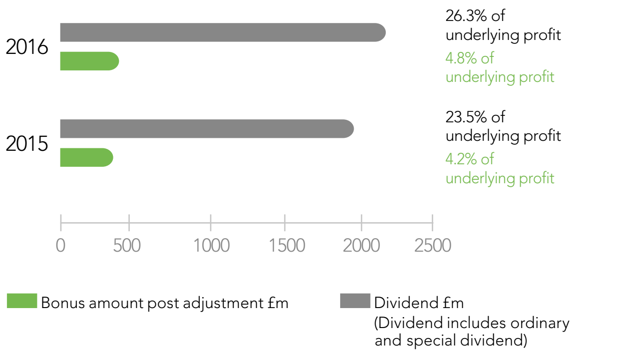
1 The underlying profit result used for remuneration purposes was £7,994 million (excluding TSB).
2 The adjusted cost:income ratio result used for remuneration purposes was 50.5 per cent.

Annual bonus plan outcome

The Group has delivered strong financial performance in 2016 following further strategic progress. In reaching the decision on the 2016 bonus outcome, the Committee considered the conduct-related provisions, including an additional provision for PPI in 2016. This led to a downward adjustment of 19 per cent.

The total bonus award as a percentage of pre-bonus underlying profit before tax increased from 4.2 per cent in 2015 to 4.8 per cent in 2016. This compares favourably to shareholder return from dividend payments over the same period which increased to 26.3 per cent of underlying profit and remains significantly lower than the Group's funding limit of 10 per cent of pre bonus underlying profit.

For Executive Directors, awards of between 77 per cent and 78 per cent of maximum opportunity were determined reflecting Group and individual performance.



Long-term incentive plan outcome

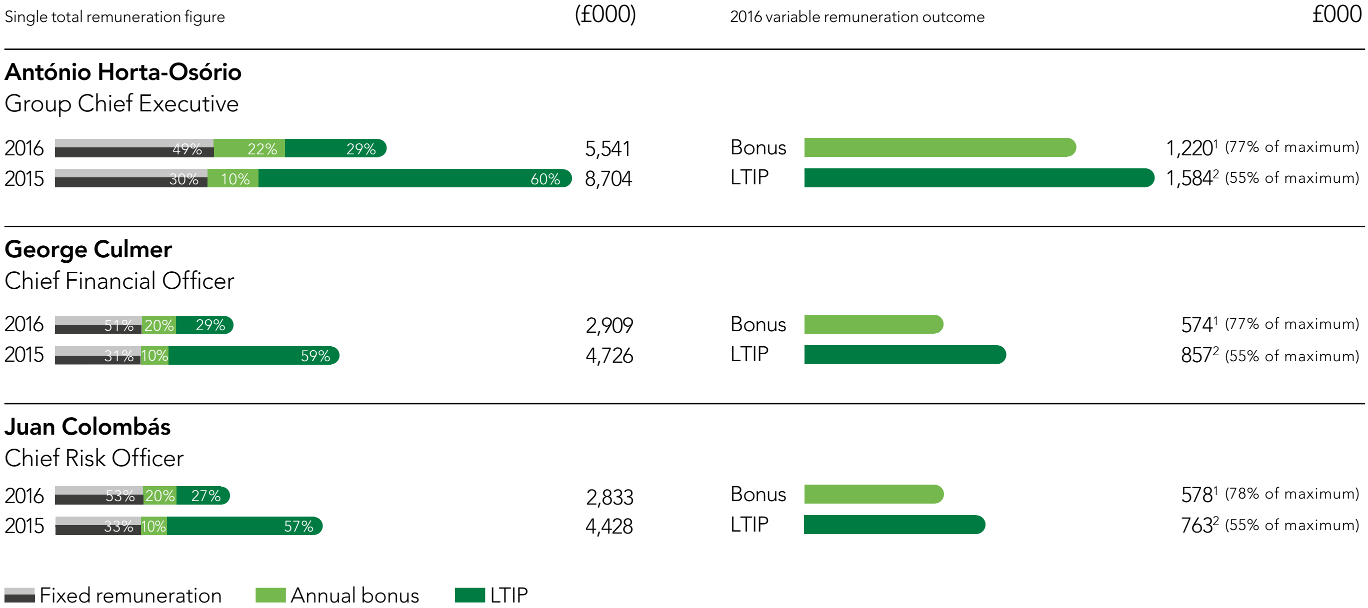
The Group has delivered a good financial performance over the performance period of the 2014 Long-Term Incentive Plan (LTIP) awards, continuing to transform the business for the benefit of its shareholders. Performance was measured over three financial years ended 31 December 2016. The performance conditions attached to these awards and actual performance are set out in the table below. At the end of the performance period, it has been assessed that awards will vest at 55 per cent of maximum. Executive Directors are required to retain any shares vesting for a further two years post vesting.

		Performance achievement versus targets			Vesting as % maximum
Weighting	Measure	Threshold	Maximum		(for that element)
30%	Economic profit	£2,154m	£3,231m	Actual: £3,377m	30%
30%	Absolute TSR	8% p.a	16% p.a.	Actual: (5%)	0%
10%	Cost:income ratio[1]	48.9%	46.5%	Actual: 50.5%	0%
10%	Customer satisfaction[2]	0.54	0.50	Actual: 0.46	10%
10%	Net promotor score	3rd place	1st place	Actual: 1st place	10%
5%	SME lending	14%	18%	Actual: 13.4%	0%
5%	Share of first-time buyer market	20%	25%	Actual: 25.5%	5%
LTIP (% maximum) vesting					55%

1 Adjusted total costs.
2 FCA reportable complaints per 1,000 for the period up to and including H1 2016 and formally closed FCA complaints per 1,000 accounts for the period from H2 2016. Both exclude PPI complaints, any complaints received via Claims Management Companies (CMC) and any complaints relating to TSB activity. With the introduction of the FCA guidance contained in PS15/19 applicable from 1 July 2016, the complaint classification and reporting for the original metric ceased on 30 June 2016. Accordingly, the Remuneration Committee has rebased the original 2014 metrics in line with the new FCA reporting regime. The Remuneration Committee considers the rebased targets equally stretching.

Executive Director remuneration outcomes

The charts below summarise the Executive Directors' remuneration for the years ended 31 December 2015 and 2016.



1 2016 bonus, awarded in March 2017.

2 2014 LTIP vesting and dividend equivalents awarded in shares were confirmed by the Remuneration Committee at its meeting on 15 February 2017. The average share price between 1 October 2016 and 31 December 2016 (58.30 pence) has been used to calculate the value. The shares were awarded in 2014 based on a share price of 78.878 pence.

Directors' fixed remuneration for 2017

Base salary

2017 base salaries will be as follows:

Group Chief Executive: £1,220,000 (1 January 2017)

Chief Financial Officer: £764,070 (1 April 2017)

Chief Risk Officer: £753,458 (1 January 2017)

Fixed share award

The levels of award set for 2017 remain unchanged and are as follows:

Group Chief Executive: £900,000

Chief Financial Officer: £504,000

Chief Risk Officer: £497,000

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 11 May 2017 at 11.00 am. Further details about the meeting, including the proposed resolutions and where shareholders can stream the meeting live, 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.bankofscotland.co.uk/sharedealing	0345 606 1188
Halifax Share Dealing	
www.halifax.co.uk/sharedealing	03457 22 55 25
Lloyds Bank Direct Investments	
www.lloydsbank.com/share-dealing.asp	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

Security – share 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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Telephone +44 (0)20 7626 1500

Registered office

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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 your query 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

*Lines are open from 8.30 am to 5.30 pm Monday to Friday, excluding English and Welsh public holidays.

The company registrar is Equiniti Limited. They provide a shareholder service, including a telephone helpline and shareview which is a free secure portfolio service.

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 (including but not limited to the payment of dividends) 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 interest rates (including low or negative rates), 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 and other benefits including, but without limitation as a result of any acquisitions, disposals and other strategic transactions; 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 exit by the UK from the European Union (EU) and the potential for one or more other countries to exit the EU or the Eurozone 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 the exit by the UK from the EU, or a further possible referendum on Scottish independence; 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 United States 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 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 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, lending companies and digital innovators and disruptive technologies; 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.

The information, statements and opinions contained in this Annual Review do not constitute a public offer under any applicable law or an offer to sell any securities or financial instruments or any advice or recommendation with respect to such securities or financial instruments.

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