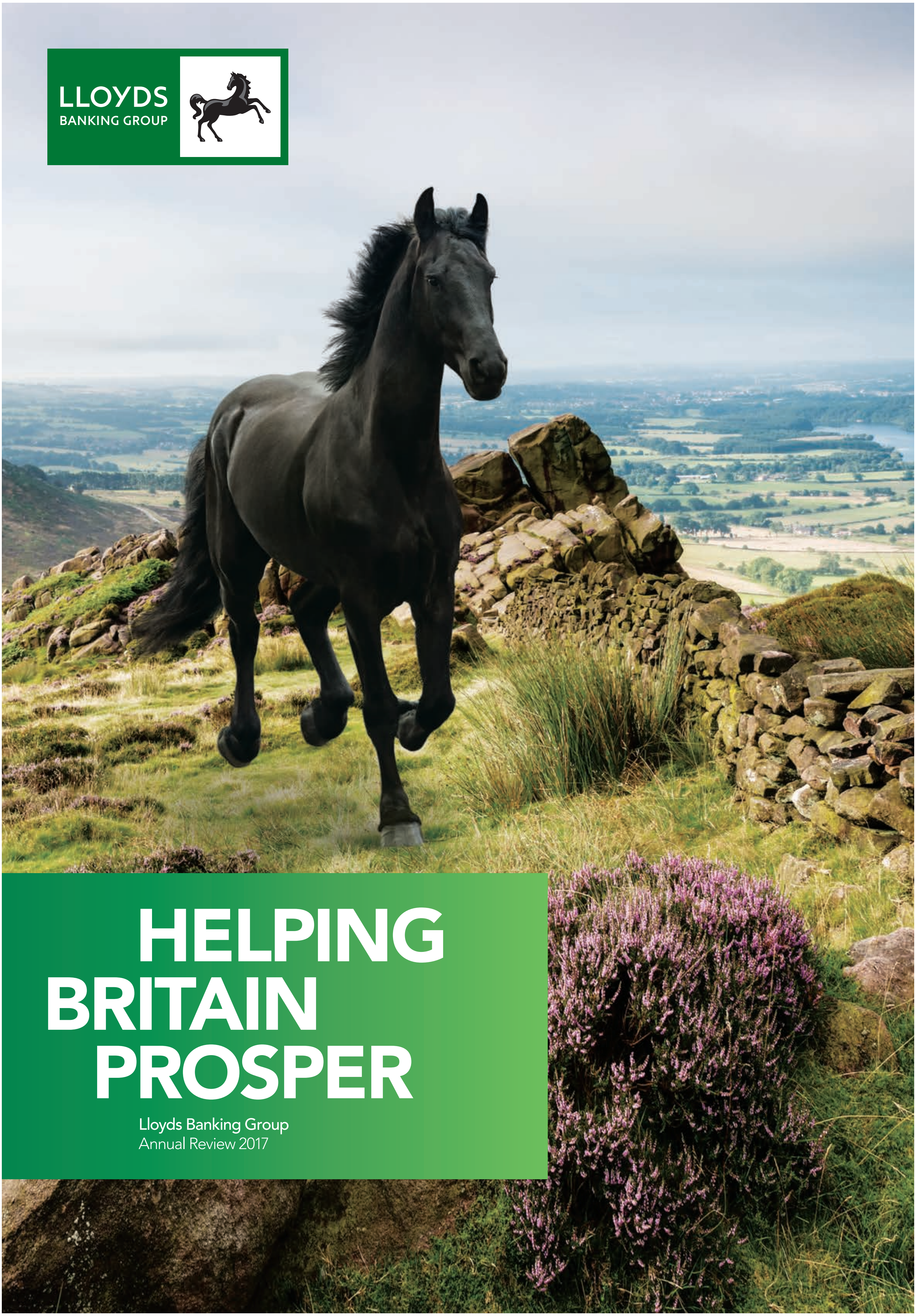
LLOYDS
BANKING GROUP



# HELPING BRITAIN PROSPER

Lloyds Banking Group
Annual Review 2017

## About us

We are a UK financial services provider with around 27 million customers and a presence in nearly every community.

Our main business activities are retail and commercial banking, general insurance and long-term savings, provided under well recognised brands including Lloyds Bank, Halifax, Bank of Scotland and Scottish Widows.

Our shares are quoted on the London and New York stock exchanges and we are one of the largest companies in the FTSE 100 index.

## 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.

This Annual Review contains forward looking statements with respect to certain of the Group's plans and its current goals and expectations relating to its future financial condition, performance, results, strategic initiatives and objectives. For further details, reference should be made to the forward looking statements on the inside back cover.

This icon appears throughout this report highlighting how we are Helping Britain Prosper. Read more online at **www.lloydsbankinggroup.com**

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

This Annual Review incorporates the Strategic Report which forms part of the 2017 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
20 February 2018

**Our purpose** is to help Britain prosper. We are creating a responsible business that better meets our customers' needs and a culture where our colleagues put customers first. This is key to our long-term success and to fulfilling our aim to become the best bank for customers, colleagues and shareholders.

See more about how we create value for all our stakeholders on **pages 18–27**

## Inside this year's Annual Review

# Group highlights

## Significant strategic progress and a strong financial performance

**£5.3bn**
+24%
Statutory profit before tax increased significantly

**£8.5bn**
+8%
Underlying profit increased

**245bps**
+55bps
Strong CET1 capital generation pre ordinary dividend and share buyback

**13.9%**
+0.9pp
Pro forma CET1 ratio after ordinary dividend and share buyback

**3.05p**
+20%
Ordinary dividend per share

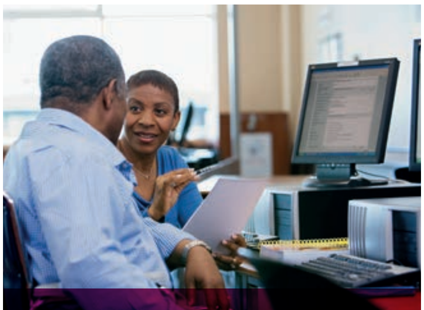
**18bps**
+3bps
Asset quality ratio remains strong, reflecting effective risk management and the continued benign credit environment

**46.8%**
-1.9pp
Our market leading cost:income ratio further improved

**62.0pts**
-0.7pts
Our net promoter score, a respected measure of customer satisfaction, remains strong

See our key performance indicators on **pages 6–7**

# How we've helped Britain prosper in 2017



**>708,000**

individuals, charities and businesses trained in digital skills.

This includes around 300 local people in Wolverhampton who have been helped by our Digital Champions to learn new skills and stay safe online.

**>124,000**

businesses of all kinds and sizes helped to start up.

This includes Karen in Lowestoft who has opened her own hairdressing salon with support from Lloyds Bank.

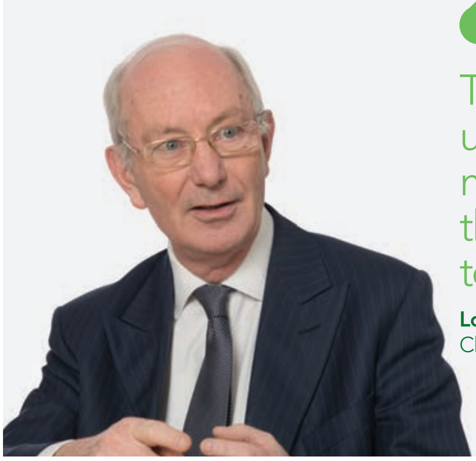
**>£20m**

given to the Group's independent charitable Foundations.

The Foundations have helped more than 2,800 charities across the country, including Newry Muay Thai in Northern Ireland, which received a grant from the Halifax Foundation.

Find out more about our Helping Britain Prosper Plan on **page 20**

# Chairman's statement
## Transforming the Group for success in a digital world



> The transformation now being undertaken will ensure we maintain the core values of the past while equipping us to succeed in the future.
>
> **Lord Blackwell**
> Chairman

### Overview and strategy

**I am pleased to report that 2017 has been another successful year with significant progress both financially and strategically. We have continued to transform the Group to become a safer, more agile and customer focused organisation whilst increasing profitability. As a result of this progress, the UK government was able to conclude its share sale in May, more than recovering its initial investment and allowing the Group to return to full private ownership. This landmark event is a tribute to the hard work of all our colleagues in recent years.**

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, customer focused, simple and low risk business model is the right approach. It has helped us deliver over the last few years and will, I believe continue to do so going forward.

However, the rapid pace of technological change also brings new opportunities to improve our service to customers with faster, more convenient and more extensive propositions tailored to meet their needs. To meet our customer needs effectively in this new world we will need to transform our business operations while building on our traditional strengths. As a Board we have spent considerable time over the past two years discussing the path we need to follow to succeed as a 'Bank of the Future'. This provided a solid base for us to develop the next phase of our strategy with the senior management team. The transformation we have now embarked on will ensure we maintain the core values of the past while equipping us to succeed in the future. It will also ensure we use all our capabilities across the Group to serve our customer needs seamlessly as an integrated financial service provider. The pace and scale of this transformation will be challenging to every bank, but we have a very strong foundation from which to move forward. I am confident that our new strategy will provide the capabilities to continue to deliver for customers, colleagues and shareholders and support the communities in which we operate.

### Capital return

As a result of the financial progress in the year, I am pleased to announce that the Board has recommended a final ordinary dividend of 2.05 pence per share, bringing the total ordinary dividend for 2017 to 3.05 pence per share, an increase of 20 per cent on last year. In addition the Board intends to implement a share buyback of up to £1 billion. 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

The strong motivation for all of us in Lloyds is the central role we play in Britain's economy as the UK's leading financial services provider. We are clear our purpose as a Group 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 which we believe we are best placed to address.

We are enormously proud of this role. Through our products and services, we have been helping the people, businesses and communities of Britain for more than 250 years. But we want to do even more; we want to

# Helping Britain Prosper and our contribution to the UK

As the UK's leading financial services provider we are making a significant impact on the UK economy

**Colleagues**
- One of the largest employers in the UK

**Communities**
- £58m given to help communities in 2017
- 260,000 hours volunteered

**Payments**
- £14 trillion of payments processed in 2017 = 7 x UK GDP

**Tax**
- £2.5bn taxes paid in 2017
- The UK's largest corporate tax payer

**Lending**
- £65bn SME and Mid Markets lending portfolio
- Biggest mortgage lender in UK with c.£290bn portfolio

**Dividends**
- £2.2bn paid in dividends to 2.4 million shareholders

be a bank for Britain. Our Helping Britain Prosper Plan takes us beyond our business as usual activities by using our scale and reach, and unites our Group to meet some bold commitments. When Britain prospers we prosper, so the Plan is an important investment in our long-term success.

## 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 focus in 2017. Trust is the foundation for our customer franchise and I believe that our performance in the year has helped to rebuild trust not just in the Group but in the future stability and sustainability of the banking sector.

Our responsible, inclusive and diverse culture ensures our colleagues consistently do the right thing for customers. Over the last year we have taken steps to become even more transparent in the way we communicate with all our stakeholders. Of course, there is always more to do and getting this culture right is critical to our success in an increasingly competitive environment.

## Customers

We aim to treat all our customers fairly and inclusively, making it easy for them to find, understand and access products that are right for them, whatever their circumstances. During the year I have seen first-hand how the way we serve our customers has continued to improve, with colleagues embracing new technology and ways of working to meet changing customer needs.

## Communities

I am extremely proud of the way we support communities across the country and help British people and businesses prosper and am pleased that so many of our colleagues have once again taken the time to volunteer and raise funds for charities and community groups. Over the course of 2017 our colleagues donated 260,000 hours of their time by sharing their skills and experience to help make sustainable differences to local charities, schools, colleges and businesses.

I have also had the opportunity to travel around the country to see some of this work, speaking with teams who work directly with vulnerable customers and visiting charities who receive support from our independent Foundations.

I am delighted that we have raised more than £4 million for our 2017-2018 charity partner Mental Health UK in the past 12 months. There is a growing recognition that mental health and financial health are closely linked and together we are creating 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 previously, two of our Non-Executive Directors, Anthony Watson and Nick Luff, stepped down following the AGM in May. Anthony was succeeded as Senior Independent Director by Anita Frew and Nick as Audit Committee Chairman by Simon Henry.

In June Lord Lupton joined the Board as an independent Non-Executive Director and Chairman of the non ring-fenced bank. James brings not just his experience of UK banking and capital markets, but also extensive corporate advisory experience which will be of particular value to our overall Commercial Banking activities.

## 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 has reported increased statutory and underlying profits, strong capital generation, has announced an increased ordinary dividend and intends to implement a share buyback.

As a result, the Group's total Group Performance Share (GPS) outcome has increased to £414.7 million (an increase of approximately 5.5 per cent on 2016). This is after a 21 per cent collective performance adjustment, and reflects both strong performance against stretching Group strategic objectives and issues impacting negatively on profitability and shareholder returns, customers, conduct and the Group's reputation.

Total GPS outcome remains a small proportion of underlying profit at 4.7 per cent. Cash GPS awards 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 new strategy can be found in the Directors' remuneration report in the 2017 Annual Report and Accounts.

## Outlook

There is of course much more to do as we face into a rapidly changing and challenging world. However, given our clear strategy and approach to transforming the business, our strong track record of delivery, our customer focused values and the dedication and commitment of our colleagues, we have all the components to succeed - building a great British institution we can all be proud of.

**Lord Blackwell**
Chairman

# Group Chief Executive's review

## A landmark year with strong strategic and financial performance

Our continued strong performance positions us well to succeed in a digital world.

**António Horta-Osório**
Group Chief Executive

**2017 has been a landmark year for the Group. In May the UK government completed the sell-down of its shares and the Group returned to full private ownership. This was enabled by the significant strategic progress and strong financial performance in recent years and was down to the hard work of all our people and I thank them for it.**

During the year we successfully completed the second phase of our strategy with significant improvement in customer service, development of our market leading digital proposition including an open banking platform, targeted growth and delivery of Simplification savings ahead of target. We now have the largest and top rated digital bank in the UK alongside the largest branch network. We also completed the acquisition of MBNA's prime credit card business, the Group's first major acquisition since the financial crisis and announced the acquisition of Zurich's UK workplace pensions and savings business later in the year, giving us a strong platform on which to develop the next stage of our strategy in the financial planning and retirement business.

2017 has also been a pivotal year for the UK. The Bank of England increased the bank rate for the first time in more than 10 years and the government triggered Article 50 and launched EU exit negotiations. Although the precise nature of the UK's future relationship with Europe remains unclear and the economic outlook is therefore uncertain, the economy has been resilient with low unemployment, stable house prices, record employment and GDP growth of 1.8 per cent.

## Financial performance

We have delivered another year of strong financial performance in 2017 with increased profits and returns on both a statutory and underlying basis, strong capital generation and increased capital returns.

Statutory profit before tax increased 24 per cent to £5.3 billion, reflecting higher underlying profit and lower below the line charges. Underlying profit was £8.5 billion, an increase of 8 per cent, with improved income and positive operating jaws resulting in an improved cost:income ratio of 46.8 per cent. Asset quality remains strong and the Group's gross asset quality ratio remains unchanged at 28 basis points, while the net asset quality ratio increased to 18 basis points as a result of expected lower releases and write-backs. Additional PPI provisions of £1.7 billion and conduct costs of £865 million were taken in the year. The increased PPI provision reflects increased complaint levels including the impact of the first FCA advertising campaign for the August 2019 industry deadline.

During the year, loans and advances increased to £456 billion with open mortgage book growth, increased SME balances and continued growth in consumer lending whilst also consolidating the MBNA book. Our balance sheet remains strong with a pro forma CET1 ratio of 13.9 per cent (after ordinary dividends and allowing for the share buyback), a total capital ratio of 21.2 per cent and a pro forma UK leverage ratio of 5.4 per cent.

In line with our progressive and sustainable ordinary dividend policy, the Board has recommended a final ordinary dividend of 2.05 pence per share, taking the total ordinary dividend for 2017 to 3.05 pence per share, up 20 per cent on 2016. Given our strong capital generation the Board has also announced its intention to implement a share buyback of up to £1 billion, equivalent to up to 1.4 pence per share.

## Strategic progress

In 2017 we successfully completed the second phase of our strategic plan, achieving our strategic priorities of creating the best customer experience, becoming simpler and more efficient and delivering sustainable growth.

**Creating the best customer experience**
We have been committed to meeting customers' evolving needs through our multi-brand and multi-channel approach and as a result customer satisfaction, as measured by net promoter score (NPS), has increased to 62.0 from 58.6 in 2014 and from 42.5 in 2011. We operate the UK's largest branch network and the largest digital bank with 13.4 million active online users, of which 9.3 million are on mobile. We have focused on transforming key customer journeys and have made significant improvements, including faster processing of new mortgage applications and simpler processes for account opening. In addition we have developed an open banking platform in line with regulatory timescales.

We remain committed to delivering the best service for our customers and addressing historic conduct issues. We have continued to pay compensation to victims of the legacy fraud at HBOS Reading, and have now made offers to 57 customers, which represents more than 80 per cent of the customers in the review.

**Becoming simpler and more efficient**
Cost management has been a strategic priority and we remain focused on maintaining our competitive advantage in cost leadership. Our Simplification programme has delivered £1.4 billion of run-rate cost savings, ahead of our original £1 billion target, and costs have fallen every year (excluding the impact of MBNA). Our market leading cost:income ratio improved to 46.8 per cent in 2017, with further improvements targeted.

## Our achievements in 2017

- UK government share sale completed, allowing the Group to be returned to full private ownership
- Statutory profit of £5.3 billion, an increase of 24 per cent on 2016
- Underlying profit of £8.5 billion, an increase of 8 per cent on 2016
- Completed the acquisition of prime credit card business MBNA and announced the acquisition of Zurich's UK workplace pensions and savings business
- Increased ordinary dividend of 3.05 pence per share with an additional share buyback of up to £1 billion

### Delivering sustainable growth

When we outlined our strategic vision in October 2014, we targeted sustainable growth in line with our low risk appetite, committing to grow in areas where we were under-represented. We have increased net lending to SME clients by £3 billion since 2014, significantly ahead of the market, while also increasing UK consumer assets by over £6 billion and acquiring the £8 billion MBNA credit card portfolio. In the competitive low growth mortgage market we have focused on protecting margin rather than achieving volume growth over the last couple of years though the open mortgage book returned to growth in 2017. The Group also announced the acquisition of Zurich's workplace pensions and savings business in late 2017.

We remain committed to building the best team, creating an inclusive and diverse workforce that represents a changing Britain. Colleague engagement is at an all-time high, and in line with top performing corporates. In 2017 we were awarded number one employer for lesbian, gay, bisexual and transgender people at the Stonewall Awards and named the world's best bank for diversity and inclusion by Euromoney magazine.

## Helping Britain Prosper Plan

In 2014 we launched our Helping Britain Prosper Plan to support the people, businesses and communities in the UK. The financial success of the Group is inextricably linked to the health of the UK and we are working hard to support the whole economy. Since the launch of the plan four years ago, we have lent more than £47 billion to first-time buyers, supported more than 440,000 start-ups, been the largest UK corporate tax payer and donated £72 million to the Group's independent Foundations. Also, in 2017 we have trained over 700,000 individuals, businesses and charities in digital skills. In 2014 we were the first FTSE 100 company to make a commitment on the number of senior positions held by women. At that time women made up 29 per cent of senior management. In 2017 we met our 34 per cent target and we are on track to achieve 40 per cent by 2020. We also recently became the first FTSE 100 company to set a target to increase the proportion of senior roles held by Black, Asian and Minority Ethnic colleagues. Our target is 8 per cent by 2020 for senior managers and 10 per cent for the overall Group.

## Strategy overview

As we look to the future, we see the external environment evolving rapidly. Changing customer behaviours, the pace of technological evolution and changes in regulation all present opportunities. Given our strong capabilities and the significant progress made in recent years we believe we are in a unique position to compete and win in this environment by developing additional competitive advantages. We will continue to transform ourselves to succeed in this digital world and the next phase of our strategy will ensure we have the capabilities to deliver future success.

## Strategic priorities

We have identified four strategic priorities focused on the financial needs and behaviours of the customer of the future: further enhancing our leading customer experience; further digitising the Group; maximising Group capabilities; and transforming ways of working. We will invest more than £3 billion in these strategic initiatives through the plan period that will drive our transformation into a digitised, simple, low risk, customer focused UK financial services provider.

### Delivering a leading customer experience

We will drive stronger customer relationships through best in class propositions while continuing to provide our customers with brilliant servicing and a seamless experience across all channels. This will include:

- remaining the number 1 digital bank in the UK with open banking functionality;
- unrivalled reach with UK's largest branch network serving complex needs; and
- data-driven and personalised customer propositions.

### Digitising the Group

We will deploy new technology to drive additional operational efficiencies that will make banking simple and easier for customers whilst reducing operating costs, pursuing the following initiatives:

- deeper end-to-end transformation targeting over 70 per cent of cost base;
- simplification and progressive modernisation of our data and IT infrastructure; and
- technology enabled productivity improvements across the business.

### Maximising the Group's capabilities

We will deepen customer relationships, grow in targeted segments and better address our customers' banking and insurance needs as an integrated financial services provider. This will include:

- increasing Financial Planning and Retirement (FP&R) open book assets by more than £50 billion by 2020 with more than 1 million new pension customers;
- implementing an integrated FP&R proposition with single customer view; and
- start-up, SME and Mid Market net lending growth (more than £6 billion in the plan period).

### Transforming ways of working

We are making our biggest ever investment in people, increasing colleague training and development by 50 per cent to 4.4 million hours per annum and embracing new technology to drive better customer outcomes. The hard work, commitment and expertise of our colleagues has enabled us to deliver to date and we will further invest in capabilities and agile working practices. We have already restructured the business and reorganised the leadership team to ensure effective implementation of the new strategy.

## Financial returns

The UK economy has proven resilient and going forward our plans and projections assume this performance continues with a steady increase in base rate to 1.25 per cent by the end of 2020.

The strategy outlined will enable the Group to deliver strong statutory profit growth supported by targeted asset growth in key segments, a resilient net interest margin, lower operating costs, strong asset quality and lower remediation costs, whilst delivering strong capital generation and sustainable and superior shareholder returns.

Costs will continue to be a competitive advantage as we deliver market leading efficiency. We expect operating costs to be less than £8 billion in 2020. We also expect to achieve a cost:income ratio in the low 40s as we exit 2020, including future remediation costs. We continue to expect improvements in the cost:income ratio every year.

Asset quality remains strong and, given our low risk business model and the significant portfolio improvements in recent years, we now expect an asset quality ratio of around 35 basis points through the cycle and less than 30 basis points through the plan period.

We expect to deliver an improved return on tangible equity (RoTE) of 14.0–15.0 per cent from 2019 onwards on a higher CET1 capital base of c.13 per cent plus a management buffer of around 1 per cent.

Capital generation is expected to remain strong with 170-200 basis points of capital generation per year pre dividend and as a result we expect to deliver progressive and sustainable ordinary dividends whilst maintaining the flexibility to return surplus capital to shareholders.

## Summary

Our strong foundations, differentiated business model and strategic capabilities combined with the new strategic plan and a highly engaged team positions us well to succeed in a digital world and continue to help Britain prosper.

**António Horta-Osório**
Group Chief Executive

# Key performance indicators
## Our strategy has delivered strong performance

### Delivering for all our stakeholders

Our key performance indicators have been considered by the Board and identify the most effective output measures for assessing financial and non-financial performance and progress towards becoming the best bank for customers, colleagues and shareholders.

As a result of significant strategic progress in 2017, we have reported increased statutory and underlying profits, strong capital generation and have announced an increased ordinary dividend and our intention to implement a share buyback.

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 20.

### Pay for performance across the Group

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 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 (the Group Ownership Share 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, colleagues and shareholders and helping Britain prosper. KPIs that are directly linked to remuneration are marked with this symbol.

## Financial

### Underlying profit before tax
£m

| | |
|---|---|
| 2017 | **8,493** |
| 2016 | 7,867 |
| 2015 | 8,112 |
| 2014 | 7,756 |

Underlying profit increased in 2017, largely due to higher income, positive operating jaws and strong asset quality.

### Statutory profit before tax
£m

| | |
|---|---|
| 2017 | **5,275** |
| 2016 | 4,238 |
| 2015 | 1,644 |
| 2014 | 1,762 |

Pre-tax statutory profit increased significantly, largely driven by strong underlying performance and lower charges below the line.

### Ordinary dividend
p

| | |
|---|---|
| 2017 | **3.05** |
| 2016 | 2.55 |
| 2015 | 2.25 |
| 2014 | 0.75 |

An increased ordinary dividend of 3.05 pence per share, in line with our progressive and sustainable dividend policy. In addition, the Board intends to implement a share buyback of up to £1 billion.

### Statutory return on tangible equity
%

| | |
|---|---|
| 2017 | **8.9** |
| 2016 | 6.6 |
| 2015 | 2.6 |
| 2014 | 4.4 |

The statutory return on tangible equity increased in 2017 as the gap between underlying and statutory profit continues to reduce.

We previously reported underlying return on required equity but changed to statutory return on tangible equity at full year 2016 to aid comparability with our peers.

### Earnings per share
p

| | |
|---|---|
| 2017 | **4.4** |
| 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
%

| | |
|---|---|
| 2017[1] | **13.9** |
| 2016[1] | 13.0 |
| 2015[1] | 13.0 |
| 2014 | 12.8 |

Our common equity tier 1 ratio remains one of the strongest of the major UK banks.

1 Pro forma, reflecting insurance dividend and ordinary dividend. Also reflecting MBNA in 2016 and intended share buyback in 2017.

Read about performance at a divisional level on **pages 28–31**

## Non-Financial

### Cost:income ratio
%

| | |
|---|---|
| 2017 | **46.8** |
| 2016 | 48.7 |
| 2015 | 49.3 |
| 2014 | 49.8 |

Our cost:income ratio further improved to 46.8 per cent and remains the lowest of our major UK banking peers.

### Customer satisfaction

| | |
|---|---|
| 2017 | **62.0** |
| 2016 | 62.7 |
| 2015 | 58.9 |
| 2014 | 58.6 |

Our net promoter score is the measure of customer service at key touch points and the likelihood of customers recommending us. Despite being slightly down in the year it remains nearly 50 per cent higher than at the end of 2011.

### Digital active customer base
m

| | |
|---|---|
| 2017 | **13.4** |
| 2016 | 12.5 |
| 2015 | 11.5 |
| 2014 | 10.4 |

Reflecting the pace of digital adoption, the number of active digital customers increased in the year. The number of mobile banking users also increased in the year, to 9.3 million, many of whom use our award winning Lloyds Bank app.

### Asset quality ratio
bp

| | |
|---|---|
| 2017 | **18** |
| 2016 | 15 |
| 2015 | 14 |
| 2014 | 23 |

Our asset quality ratio remains strong, reflecting our effective risk management and the continued benign credit environment. The increase reflects lower write-backs and recoveries rather than any deterioration in the underlying portfolio.

### Best bank for customers
% favourable

| | |
|---|---|
| 2017 | **80** |
| 2016[1] | 77 |
| 2015 | 78 |
| 2014 | 72 |

The index is the outcome of a survey of more than 62,000 colleagues which shows an increasing number of colleagues believe we are committed to becoming the best bank for customers.

1 New baseline score introduced to tie in with new Group behaviours.

### Customer complaints*
FCA reportable complaints per 1,000 accounts

| | |
|---|---|
| H1 2017 | **4.1** |
| H2 2016 | 4.3 |

*Excluding PPI

The FCA changed the approach to complaint reporting from 30 June 2016 so our complaint reporting is now presented on this basis. Overall incoming complaints excluding PPI and claims management companies have fallen by nearly 70 per cent since 2011 and by around 18 per cent since 2016.

### Total shareholder return
%

| | |
|---|---|
| 2017 | **14** |
| 2016 | (10) |
| 2015 | (2) |
| 2014 | (4) |

Our share price increased by 9 per cent in 2017, and when dividends are included, our total shareholder return was 14 per cent.

### Employee engagement index
% favourable

| | |
|---|---|
| 2017 | **76** |
| 2016 | 71 |
| 2015 | 71 |
| 2014 | 60 |

Colleague engagement remains at its highest ever level with our employee engagement index 5 points higher than 2016. Our performance excellence index also improved, indicating our colleagues strongly believe we are committed to delivering great products and services for customers.

### Helping Britain Prosper Plan targets achieved

| | |
|---|---|
| 2017 | **21/22** |
| 2016 | 20/24 |
| 2015 | 27/28 |
| 2014 | 20/25 |

Since we launched the Plan in 2014 we have made strong progress. In 2017, we achieved 21 out of 22 targets to help people, businesses and communities. Find out more about our Plan on page 20.

Our strategic journey

1 The external environment

2 Intrinsic strengths and challenges
See page 10

3 Creating value for our stakeholders
See page 11

4 What we have achieved over the last three years
See page 12

5 Our strategic planning process
See page 13

1 2 3 4 5

# The external environment

See how risks associated with these factors impact upon our principal risks and strategy on **page 33**

## Economy

### Key messages

- Given our UK focus, our prospects are closely linked to the strength of the UK economy
- Despite near-term uncertainties about the future relationship with the EU, the UK economy is expected to remain resilient in 2018, growing at a similar pace to 2017. Longer term growth potential is still expected to be faster than the Eurozone and similar to the US
- Interest rates are expected to remain low, with gradual rises beneficial to our savings customers and the Group

### Overview

As a UK focused financial services provider, our prospects are closely aligned to the strength of and outlook for the UK economy. In the period following the decision to leave the EU, the UK economy has remained resilient. Growth has slowed only a little below its trend rate, unemployment has continued to fall to a 40-year low, and property prices have continued to rise slowly. In the absence of any sudden shocks to business or consumer confidence, this recent resilience is expected to continue in 2018 and the next few years. In common with many other countries, the biggest uncertainty for longer term growth is the degree to which productivity growth improves from its weak rate of the past decade.

### Opportunities

The economy's resilience bodes well for us and our customers. While interest rates are expected to increase only gradually, the Bank of England's first increase in Bank Rate in over 10 years has benefited savers, many of whom will have dealt with low rates for a prolonged period, and will support banking margins. In recent years, low interest rates and our low risk approach have been reflected in low and falling levels of impairments against our lending balances.

Looking ahead, impairments are expected to remain at benign levels at an industry level, with contributing factors including the slow pace of expected interest rate increases, unemployment remaining close to its current 40-year low, and the benefit of both continuing to support property prices. Meanwhile, business confidence has to date held up well in the face of global and domestic uncertainties. Manufacturers and exporters have been aided by sterling's depreciation since late 2015, and businesses generally are benefiting from low debt service costs.

### Challenges

Households' spending power has been squeezed over the past year as the rise in inflation to 3 per cent by the end of 2017 has outpaced growth in pay that has remained subdued in a broadly 2-2.5 per cent range over the year, partly reflecting weak productivity growth. While inflation is expected to slow, it is likely to trend towards 2 per cent only gradually through the next three year chapter of our strategy, and whilst we expect wage growth to improve and end the spending power squeeze, it is uncertain how quickly this will happen. Meanwhile, the economy is more reliant than normal on business investment and exports to drive growth.

Business investment is likely to have been impacted by the uncertainty around the UK's future trading relationship with the EU but as negotiations progress and that relationship becomes clearer, investment spending should be supported. Operational impacts of the UK's exit from the EU present risks for some of our customers' businesses, although the UK's continued competitive advantages in innovation and high value services, and the flexible labour market should enable the economy to prosper longer term in growing world markets.

### Outlook

Barring unexpected sudden shocks to consumer or business confidence, the near-term outlook for both the UK economy and the Group remains relatively benign. A tight labour market and gradual productivity improvements should over time underpin quickening wage growth, whilst inflation is expected to start falling through 2018, the combination gradually ending the squeeze on households' spending power. With unemployment remaining close to its current 40-year lows, Bank Rate is expected to continue to rise, but only slowly. House prices are expected to rise marginally, with the affordability impact of slightly higher interest rates offset by improving disposable incomes.

The Group is not immune to the challenges facing the near-term and medium-term economic outlook, but our UK focus means that the current benign conditions and resilience of the UK economy will be supportive to the Group's performance through the delivery of the next chapter our strategy. Direct operational impacts from EU exit are also limited.

## Regulation

### Key messages

- The UK financial services sector is expected to remain highly regulated
- There is increasing clarity on impending regulation with a number of key regulatory programmes now agreed or to be finalised in the near future

### Open banking and customer data

In January 2018 open banking regulation was implemented in the UK, with the aim of enabling customers to view their personal financial data in one place. Customer protection is at the heart of this and other upcoming regulations regarding personal data, with robust data systems and processes having been developed to ensure that customer data can be transferred securely, and only once consent has been given.

### Capital regulation

The Group continues to monitor and prepare for a number of regulatory capital developments taking effect over the next few years. Uncertainty remains around the implementation and impact of some regulatory developments, including the finalisation of Basel III, which will be subject to EU and UK implementation. The highly capital generative nature of the Group means that it remains relatively well-positioned to meet any changes arising.

### Ring-fencing

From January 2019, the Group and its peers will have to comply with the ring-fencing regulations introduced by the Financial Services (Banking Reform) Act 2013. This legislation has been developed in response to the global financial crisis, with the aim of ensuring that ordinary depositors and other stakeholders, such as shareholders, would be protected in the event of a similar crisis occurring in the future. While this will result in some structural and operational changes for the Group, our simple business model and UK focus mean they are likely to be less onerous than for our major peers.

### Other

Over the next three years a number of other regulations will be introduced or take effect including the effectiveness of competition and customer choice and the deadline for customers to claim compensation for mis-sold PPI.

Given our simple, low risk business model, we are well placed to meet these requirements and welcome the positive effect that they will have on the industry, its customers, and other stakeholders.

## Customer

### Key messages

- Customer behaviours are changing, with a greater focus on personalised customer experiences and instantly accessible services
- Evolving demographics and life patterns are changing the financial needs of our customers, in particular increasing focus on the ability to plan for retirement

### Market challenge

The needs and expectations of our customers continue to evolve, driven by changing demographics and life patterns along with increased choice, both in terms of provider and channel. The increasing use of digital has also reduced brand affinity and loyalty across a number of sectors.

As we have seen in a number of other industries, incumbents who do not respond to changing customer preferences and behaviours are at the greatest risk.

### Opportunities

Strong customer satisfaction scores demonstrate our ability to provide products and services that our customers value but it is imperative that we keep pace with market developments in order to maintain relevance with our customer base.

Our multi-channel offering, including the largest branch network and digital bank in the UK, enables customers to interact with us in whichever way they prefer. In addition, our customer data provides the Group with a wealth of information that can be utilised to facilitate greater personalisation, while ensuring we meet all of our customers' evolving banking and insurance needs.

### Outlook

Changes to customer expectations and behaviour, demographics and life patterns mean that we cannot be complacent. While we have a number of competitive advantages in the current environment, including our differentiated multi-channel and multi-brand propositions, securing and enhancing the relationships with our customers will be paramount to our future success.

## Technology

### Key messages

- The pace of digital adoption continues to surpass expectations and is likely to increase further in the coming years. Addressing customer expectations in this area is key to future success
- Cyber security and the protection of customer data are increasingly important factors in retaining customer trust

### Market challenge

The pace of digital adoption has surpassed expectations in recent years and this trend is likely to accelerate further. The increasing role of digital has heightened customer expectations for personalisation while transforming the manner in which customers interact with banks. New entrants to the financial services market are increasing disruption through the innovative use of technology and data, often specifically targeting small, profitable niches.

Security and resilience remain important factors, with the ability to respond to heightened cyber and fraud risks key to retaining customer trust in a digital environment.

### Opportunities

As the UK's largest digital bank, further technological improvements are an important enabler of enhancing the customer experience. The increasing use of intelligent systems provides an opportunity to respond to customers' growing expectations for personalisation and relevance, while the automation of simple transactions increases our capacity to focus on complex, value adding transactions. In addition, the use of technology provides organisational benefits in terms of efficiency, our ability to respond to an evolving operating environment, as well as aiding risk taking decisions and mitigating fraud.

### Outlook

Building upon our strong starting position, we have a unique opportunity to further enhance the customer experience and improve operational efficiency through the use of technology. In doing this, we must ensure that we continue to respond to innovation and meet the needs of our diverse customer base whilst ensuring system resilience and security.

## Competition

### Key messages

- Competition within the UK markets continues to increase
- The competitive landscape is changing with new entrants such as FinTechs and tech giants increasing disruption through innovation, while incumbent banks continue to re-focus on the UK

### Market challenge

Our competitive landscape continues to evolve. A number of domestic incumbents are intensifying their focus on the UK market, with restructuring phases largely complete. In addition, collaboration among non-traditional competitors is increasing in order to build scale and drive efficiency. Tech giants such as Apple and Google are also posing an increasing threat to the financial services sector, underpinned by large customer bases, strong brand loyalty, access to significant customer data and a focus on delivering great customer experiences.

While the extent to which non-traditional lenders and tech giants will attempt to disintermediate our markets is unclear, intensified competition within our markets is likely. This will place pressure on income and margins across the sector and place an increasing focus on innovation.

### Opportunities

With customers becoming more empowered as a result of greater choice than ever before, we must be responsive to their changing expectations and ensure that we continue to offer products and services they value. These expectations are likely to be increasingly influenced by non traditional competitors in other industries as they continue to the raise bar for innovation.

Our leading cost position, combined with our simple business model, provides us with the operational flexibility to compete effectively. However, we must go further to respond to these threats.

### Outlook

While greater competition increases choice for consumers and reinforces the need to further improve the customer experience, the breadth of our multi-brand offering along with our efficiency and customer satisfaction means we start from a position of strength.

1 2 3 4 5

# Our business model
## Intrinsic strengths and challenges

We have several distinctive competitive strengths, which enable us to create sustainable value for our stakeholders.

### UK's largest digital bank, branch reach and customer franchise

Our scale and reach across the UK means that our customer franchise extends to around 27 million customers with more than 13 million active online users.

### Multi-channel approach

Operating in an integrated way through a range of distribution channels ensures our customers can interact with us when and how they want.

### Prudent, low risk participation choices with strong capital position

Being low risk is fundamental to our business model. Our low risk appetite is reflected through the low level of non-performing loans and run-off assets, as well as our credit default swap spread, which is amongst the best in the banking sector worldwide. Our financial strength has been transformed in recent years with our capital position amongst the strongest in the sector worldwide.

### Market leading efficiency position

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

### Rigorous execution and management discipline

Experience of delivering change and transformation in recent years provides benefit as we further transform the business.

We will look to build upon these strong foundations in the next phase of our strategy, thereby creating new competitive strengths. Implementation will ensure we can compete effectively and create value in a digital world.

Further detail is available on page 14.

### Multi-brand proposition

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

Due to the nature of our business as a large, UK focused financial services provider, we face a number of external and internal challenges.

**EXTERNAL**

As previously discussed on pages 8–9, the main external challenges we face are:

- Evolving and uncertain economic environment
- Ever increasing levels of regulation
- Evolving customer needs
- Responding to technology innovations
- Managing pressure from increased competition

**INTERNAL**

We also face a number of internal challenges, which are being addressed as part of the next phase of our strategy:

- Operating as efficiently as possible while remaining the best bank for customers
- Ensuring we have the right people and culture to meet evolving customer needs
- Ensuring IT systems are effective and resilient and that we are prepared for the threat of cyber risk

# Creating value for our stakeholders

Our simple, low risk, customer focused business model is driven by our competitive positioning. As we enter the next phase of our strategy we will enhance our competitive strengths to further transform the business, help Britain prosper and continue delivering for customers, colleagues and shareholders.


## OUR PURPOSE
Helping Britain Prosper

We are a responsible business, focused on succeeding over the longer-term, and we believe that helping to make Britain a more inclusive and prosperous country is fundamental to that aim.

We are proud to take a leading role in helping the UK economy, whether through supporting housing, trade and business growth or by tackling disadvantage.

Our Helping Britain Prosper Plan, launched in 2014, takes us well beyond business as usual by setting measurable targets in the areas where we can make the biggest difference.

For more about our approach to responsible business and the Plan see **pages 18–20**

## OUR AIM
Best bank for customers, colleagues and shareholders

Doing the right thing for our customers, colleagues and shareholders 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.

## PRODUCTS

Our product range is driven by our customers' needs and is informed through comprehensive customer analysis and insight.

**Lending**
Mortgages, credit cards, personal and business loans

**Deposit taking**
Current accounts and savings accounts

**Insurance**
Home insurance, motor insurance and protection

**Investment**
Pensions and investment products

**Commercial financing**
Term lending, debt capital markets and private equity

**Risk management**
Interest rate hedging, currency and liquidity

## 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 three business areas:

**Retail**

**Commercial Banking**

**Insurance and Wealth**

Read more:
Retail see **pages 28–29**
Commercial Banking see **page 30**
Insurance and Wealth see **page 31**

# What we have achieved over the last three years

We have made significant progress against our strategic priorities over the last three years and are well positioned as we head into the next chapter of our strategy.

## STRATEGIC PRIORITIES 2015 – 2017

### Creating the best customer experience

- We are now the UK's largest digital bank, with 13.4 million online customers and a mobile customer base of 9.3 million
- We have continued to invest in the UK's largest branch network, reformatting branches to reflect changing customer needs
- We have improved customer satisfaction with our seamless, multi-brand, multi-channel offering, reflected in increasing Net Promoter Scores (NPS), while customer complaints continued to trend downwards

#### Performance highlights

- 68 per cent of customer needs met via digital (versus forecast range of 50-70 per cent set out in 2014)
- NPS score of 62.0, up from 58.6
- 55 per cent of customers receiving mortgage offer within less than 14 days, up 18pp

### Becoming simpler and more efficient

- We have demonstrated our ability to actively respond to changes in the operating environment, accelerating cost delivery and achieving significant efficiency savings
- The transformation of customer journeys has made it simpler, faster and more convenient for us to meet customers' evolving needs
- We have maintained our cost leadership position amongst UK high street banks

#### Performance highlights

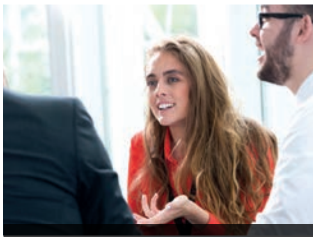
- Cost:income ratio of 46.8 per cent, down from 49.8 per cent
- £1.4 billion of Simplification savings achieved, ahead of our original target
- Operating costs reduced every year during the course of the last six years (excluding the impact of MBNA in 2017)

### Delivering sustainable growth

- Despite the uncertain macroeconomic environment, we have continued to support the UK economy while operating within our prudent risk appetite
- We have maintained market leadership across our key retail business lines, while growing in a number of targeted areas where we were under-represented including SME, Mid Markets, credit cards and motor finance
- We have helped Britain prosper through a number of strategic commitments, including supporting more first-time buyers than anybody else

#### Performance highlights

- Net lending to SMEs up by £3 billion, ahead of market
- £8 billion of MBNA credit card assets acquired in June 2017
- More than £35 billion lent to first-time buyers



### Building the best team

- We have made progress towards building a business our colleagues are proud to work for by creating the best environment for our colleagues to succeed
- We are creating an honest and open environment where colleagues feel valued, reflected in all-time high colleague engagement scores that are also above the norm for high performing organisations
- We continue to encourage diversity, believing that everybody should have the opportunity to reach their full potential

#### Performance highlights

- 76pts – employee engagement at an all-time high
- 34 per cent of senior roles held by women, up 5 per cent
- Named world's best bank for diversity and inclusion by Euromoney magazine

# Our strategic planning process

Over the past two years we have developed a new strategy to further transform the Group and deliver sustainable value to our stakeholders.

**Why the change?**
Since 2011, we have significantly transformed our business for the benefit of our customers and other stakeholders. However we are not complacent and recognise that unprecedented change in customer expectations, technology, the competitive environment and regulation require a bold response for the next chapter of our strategy.

**Stages in the process**

up to June 2016

## Bank of the Future discussion

We regularly review our strategy in the light of the changing external environment to ensure that our focus remains the right one for our customers and other stakeholders. As part of this process, the Board specifically discusses strategic issues at a strategy offsite meeting every year.

In June 2016, the Board and the executive management team took part in an intensive two-day strategy meeting to discuss the strategic challenges and opportunities the Group could face in the future, based on four scenarios for how banking could evolve over the next 10 years.

The Board debated the transformation required to become 'Bank of the Future' and underpin our continued competitiveness in each of these scenarios. This provided a solid foundation for us to develop the next phase of our strategy.

up to June 2017

## Development of high level strategic options

Using this foundation, coupled with the ongoing monitoring of both internal and external stakeholder trends and best practice, our main focus in 2017 was the development of the Group's strategy for the three year period from 2018 to 2020.

At the start of the year we identified four major strategic themes, each of which was developed further by dedicated teams, with support and challenge provided centrally and by executive management.

During the course of the year, the Board discussed and reviewed the proposed change initiatives in a number of deep dive sessions and at mid-year the Board debated at length the preliminary findings and broad strategic options for each of these priority themes over the course of two days. This resulted in a set of clear strategic priorities for further development.

up to February 2018

## Finalisation of strategy and communication

A number of changes to the Group's operating structure and executive management were announced in July to put in place the right team and structure to lead the development and delivery of the strategy.

The priorities identified by the Board were subsequently developed into detailed strategic plans with measurable operating and financial metrics and targets which support our strategic aspirations for the next three years and beyond.

The Board reviewed the more detailed plan and immediate priorities in an extended session in November 2017, placing particular emphasis on the effective management of the programme and the mitigation of potential execution risks.

At the same time, executive management and the Board have been engaged in the development of the communication plan, to ensure that all our stakeholders clearly understand the strategy and what it means for them.

2018–2020

## Our next chapter

Over the page, we outline the strategic priorities for the business to 2020.

# Our next chapter
## Transforming the Group for success in a digital world

Our new strategy will enable us to seize new opportunities by building on our existing competitive advantages. The transformation planned will ensure we become a digitised, simple, low risk, customer focused, UK financial services provider.

**OUR PURPOSE** Helping Britain Prosper
**OUR AIM** Best bank for customers, colleagues and shareholders
**OUR BUSINESS MODEL** Digitised, simple, low risk, customer focused, UK financial services provider

### Our strategic priorities


**Leading customer experience**
Driving stronger customer relationships through best-in-class propositions while continuing to provide our customers with brilliant servicing and a seamless experience across all channels.

**Digitising the Group**
Deploying new technology to improve our efficiency and make banking simpler and easier for customers.

**Maximising the Group's capabilities**
Aligning the Group's capabilities as the sole UK banking and insurance provider to deepen customer relationships and grow in targeted segments.

**Transforming ways of working**
Enhancing colleague skills and processes, investing in agile working practices and embracing new technology to drive better outcomes for customers.

### Enhancing our competitive strengths

- Differentiated multi-brand, multi-channel propositions with **data-driven customer experience**
- Market leading efficiency through **tech-enabled productivity improvements**
- Largest digital bank, branch reach and customer franchise with **leading integrated propositions**
- Prudent, low risk participation choices with strong capital position
- Rigorous execution and management discipline focusing on key **skills of the future**

### Aiming to deliver for our stakeholders

**Customers**
- Market leading digital proposition with UK's largest branch network
- Single home for our customers' banking and insurance needs
- Personalised customer propositions
- Better experience across channels

**Colleagues**
- Evolved culture
- Transformed ways of working
- Enhanced colleague skills and capabilities
- Compelling colleague proposition

**Shareholders**
- Sustainable and low risk growth
- Market leading efficiency
- Superior returns and lower cost of equity
- Strong capital generation and attractive distribution policy

For more about our 2018 – 2020 strategic priorities **see pages 15–17**

For more about our purpose **see pages 20–21**

# Leading customer experience

## Why this is important

**In order to be the best bank for customers, we recognise that we must continue to adapt to changes in customer behaviour, technology-driven competition and regulation. Our propositions must be reflective of heightened customer expectations for ease of access, personalisation and relevance, as well as the needs created by changing life patterns.**

## Key objectives for 2020

To achieve our aim of being best bank for customers, we will deliver best-in-class propositions while continuing to provide our customers with brilliant servicing and a seamless experience across all our channels.

- Remain number 1 UK digital bank with open banking functionality
- Unrivalled reach with UK's largest branch network, serving complex needs
- Data-driven and personalised customer propositions

**Tailoring our multi-channel approach**
We will build on the strength of our multi-channel model by responding to the evolving ways in which our customers are choosing to interact with us, ensuring that they continue to benefit from seamless multi-channel services in a way that best fits their needs.

Our customers are increasingly choosing digital channels to meet their simple banking needs. We will therefore continue to invest in the development of new digital technologies, to enable the delivery of best-in-class self-serve functionality for these simpler needs. We will also provide new customer tools to increase confidence and trust in using our digital channels.

While basic transaction volumes within branches continue to decline, there remains strong demand for face-to-face interaction for more complex needs and advice. We will therefore maintain our leading branch market share.

As part of this approach, we will tailor the format of our branches to the needs of the customers and communities they serve.

**Building a market leading digital experience**
The recent introduction of open banking regulation has provided an opportunity to enhance our propositions and engage our customers in new ways, whilst keeping them safe. We are the largest digital bank in the UK and aim to build on this position by creating a market leading digital financial services experience with open banking functionality. In doing this, we recognise that customers want to be in control of their finances in a secure and trusted way.

**Personalising our customer propositions**
As the UK's largest banking franchise, we will invest in developing our data capabilities, with the aim of delivering more personalised and data-driven propositions and services for our customers.



## Why this is important

**Our market leading cost position and customer franchise are sources of competitive advantage. However, we must not be complacent and must further digitise the Group to drive additional operational efficiencies, improve the experience of our customers and colleagues and allow us to invest more for the future. In addition, we must continue to simplify and progressively transform our IT architecture in order to use data more efficiently, enhance our multi-channel customer engagement and create a scalable and resilient infrastructure.**

## Key objectives for 2020

By digitising the Group, we are expecting to transform our cost base as well as the experience of our customers and colleagues.

- Deeper end-to-end transformation targeting 70 per cent of our cost base
- Simplification and progressive modernisation of our data and IT infrastructure
- Technology enabled productivity improvements across the business

**Broadening the digital transformation of our processes**

Over the past three years we have transformed a number of key customer journeys on an end-to-end basis. This has led to significant improvements in the experience of our customers, as well as delivering significant operational efficiencies. Looking ahead, we will materially scale-up our transformation, going deeper in the transformation of the customer journeys we have already addressed to cover additional brands and segments, as well as more activities along the value chain.

Over the next three years we will also bring a number of new customer journeys into scope for transformation as well as a number of our internal processes, or enterprise journeys, within our central functions.

Overall, we expect this next phase of our digital transformation to lead to a better experience for our customers and colleagues as well as improvements to risk management and the resilience of our business. In addition, we expect to achieve further structural efficiency gains, which will enable us to maintain our competitive advantage and compete with emerging new competitors, including digital disruptors.

**Leveraging new technologies**

To support our transformation and deliver further efficiency savings, we will simplify and modernise our IT architecture while deploying new technologies such as cloud computing to enhance our capabilities and increase resilience.

To generate additional efficiencies and improve customer experiences we will also increase our use of machine learning and cognitive engines, such as chatbots to help both colleagues and customers. To enable us to tailor our propositions to our customers' specific needs, we will need to be able to access customer data more effectively. We will therefore invest to create a single, scalable and modern data platform through which this data can be accessed more easily. This will enable us to provide personalised experiences based on deeper insight and analysis, greater security and resilience as well as enabling further innovation to our platforms.

## Why this is important

**To better address our customers' banking and insurance needs as an integrated financial services provider and improve their overall experience, we will make better use of our competitive Group strengths and unique business model.**

Opportunities exist across the Group with those in financial planning and retirement and Commercial Banking described in further detail below.

**Meeting our customers' growing financial planning and retirement needs**

The ageing population and recent regulatory changes are leading to greater customer demand for long-term savings and investment products as well as for high quality, low cost advice and personalised solutions.

Given our business model, comprising banking and insurance operations and leading digital capabilities, we are uniquely positioned to respond to this demand. We are therefore aiming to capture the significant opportunity arising from the growing financial planning and retirement market. We recognise that customer needs vary and will offer a range of solutions from an execution only level of service to full specialist advice, ensuring that our customers enjoy a seamless experience regardless of the channels they use. Given our wealth of customer data and the investment we are making in technology, we will be able to offer a single customer view capability across our customers' financial holdings, including insurance and banking products. In addition, we will seek to capture the significant opportunities arising from auto-enrolment and the increased demand for digitised service. We will therefore strengthen our corporate pensions proposition, leveraging our existing commercial banking relationships and the enhanced capabilities that we will gain through

## Key objectives for 2020

By maximising the Group's capabilities and sources of competitive advantage more effectively, we expect to deepen customer relationships and grow in targeted segments.

- +£50 billion financial planning and retirement open book assets under administration growth
- >1 million new pensions customers
- +£6 billion of additional net lending to start-ups, SMEs and Mid Markets

the acquisition of Zurich's UK workplace pensions business. To access faster growing segments and improve customer experience, we will enhance our distribution model across both intermediary and direct channels.

### Transforming our Commercial Banking proposition

We will strengthen our simple, low risk and relationship-led Commercial Banking offering to reflect our clients' evolving expectations as a result of the continued innovation in our business.

We will enhance our digital capabilities to enable our clients to self-serve their simpler banking needs while ensuring that they continue to have relationship manager support for their more complex needs.

We will develop these enhancements to our client offering according to the specific needs of our different client segments, with the expectation of achieving growth in our SME and Mid Markets client segments and deepening our relationships with our Global Corporate and Financial Institutions clients. Through this approach, we will improve the customer experience by shortening the time clients have to wait for simple banking decisions and broadening our product range.

At the same time, the role of our relationship managers will evolve, with better access to data, new digital tools and analytics. These will enable them to create more value in strategic conversations with their clients.

# Transforming ways of working

## Why this is important

**Our colleagues are crucial to the success of our business. In order to deliver our transformation over the next three years, and beyond, our colleagues will require new skills and capabilities to reflect the changing needs of the business as it adapts to the evolving operating environment. At the same time, colleague expectations of their employers are changing. As a result, we must devise solutions to continue to attract, develop and retain these skills and capabilities, while fostering a culture that supports a way of working that is agile, trust-based and reinforces the Group's values.**

## Key objectives for 2020

We are making our biggest ever investment in people and by transforming our ways of working, we are aiming to achieve a culture of inclusiveness and collaboration, while also upskilling our colleagues for future needs and new career paths.

- 50 per cent increase in training and development to 4.4 million hours per annum
- Up to 30 per cent change efficiency improvement

### Transforming our approach to people

To develop the new set of skills and capabilities we will need our colleagues to have in the future, we will launch a significant upskilling programme, using new technologies and tailored content to deliver appropriate training in the most efficient way. For certain skills, we will need to recruit externally, with a number of these future requirements relating to very specific technical capabilities that are in short supply in the market, and for which there will be intense competition. We will therefore transform our recruitment and onboarding processes, while also developing a compelling colleague proposition and building on the strength of the Group's brands to attract future employees.

In addition to meeting our future skills requirements, we will seek to achieve a shift in the Group's culture to ensure our values and behaviours around simplicity, collaboration, agility and trust are fully embedded. As part of this, we will change the way that we communicate with our colleagues to increase engagement and will develop our leaders as role models for the required change.

### Adopting new ways of working and an agile approach to change

In order to deliver the digital transformation of the Group more effectively and efficiently, we will embrace new ways of working, including automated software engineering processes and agile change methodologies that will improve our responsiveness to innovation and customer feedback. To foster greater collaboration and innovation, we will also co-locate our change teams where appropriate.

### Developing a compelling colleague proposition

In order to attract, develop and retain the skills we need in the future as well as embed our desired culture, we will also make a number of positive changes to the processes, systems and the physical environment that directly affect our colleagues. This will include the simplification of the organisation to make it less hierarchical, providing our colleagues with clearer career paths, more flexibility and greater mobility across the Group. Other initiatives to support this aim include improvements to our performance management process to create a better balance between past performance evaluation and future development.

# Doing business responsibly

## Supporting our strategic priorities and our purpose to help Britain prosper

A sustainable and responsible approach is integral to what we do and how we operate. Doing business responsibly underpins our purpose and is supported by our Group values and Code of Responsibility.

We can only achieve our strategic priorities and help Britain prosper if we continue to operate responsibly. We know that if Britain prospers we can too, so we must continue to use our scale and reach to make a difference to people, businesses and communities across the UK.

### How the Group is run

Our Group Policies and standards, including our values and Code of Responsibility, guide our behaviour and are embedded and tracked as part of our risk appetite and policy framework.

You can read more about the Group Policy framework and how these Policies are monitored and embedded on page 111 of our 2017 Annual Report and Accounts

We actively support major national and international codes and conventions related to responsible business, including the UN Global Compact.

SUSTAINABLE DEVELOPMENT GOALS FTSE4Good CDP

### Governance

Good governance requires an effective structure and the combined effort of engaged and well-informed colleagues. It is essential that it is embedded into the processes, planning and delivery of the Group's objectives and strategy.

Our governance structure extends from our Group Board and Board level Responsible Business Committee, through the executive level Responsible Business Management Committee, which implements our responsible business strategy. At the end of 2017, this executive level committee became our Sustainability Committee. The Committee will increase its focus on the implementation of our Group-wide sustainability strategy as well as overseeing material responsible business issues. Our responsible approach then extends onwards through the efforts of managers and colleagues at all levels.

### Stakeholder engagement

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

We engage with stakeholders in many different ways: during our business activities; in face-to-face meetings on specific issues, such as regulation; and also through new media such as digital broadcasts.

Read more on pages 62–63 of our 2017 Annual Report and Accounts

### Our Responsible Business Committee

In 2017 our Board-level committee focused on developing the Helping Britain Prosper Plan and how the Group's approach to doing business responsibly should evolve. The Group's sustainability strategy was discussed with colleagues from relevant business areas and external advisors.

Read more on page 80 of our 2017 Annual Report and Accounts

"Our businesses have roots going back 250 years and have stood the test of time. Our purpose, to help Britain prosper, is more important than ever to the UK's successful transformation into a digitally enabled low carbon economy."

**Sara Weller**
Independent Director and Chairman, Responsible Business Committee

### Responsible business highlights

We are doing business responsibly and making a significant impact

- One of Britain's largest corporate tax payers
- Lending £13 billion to first-time homebuyers
- Supporting more than 124,000 start-up businesses
- Transforming our business to meet customers' needs, including the 13.4m banking digitally
- Given 260,000 hours of colleague volunteering to help good causes
- £58 million given to help communities, including more than £20 million given to our independent charitable Foundations
- Our fundraising enabled Mental Health UK to launch the UK's first Mental Health and Money Advice Service
- Building Britain's most inclusive and diverse bank
- More than 5 million sq. ft. of real estate helped to become energy efficient

# Helping Britain Prosper

Through our products and services we have been serving Britain for more than 250 years, but our Helping Britain Prosper Plan takes us beyond business as usual and is an important investment in our long-term success.

We launched the Plan in 2014, drawing on advice from our senior leaders and many external partners, including our independent stakeholder panel and charitable Foundations. Since its launch we have achieved a lot for Britain, meeting 20 of our 25 targets in 2014, 27 of our 28 targets in 2015 and 20 of our of 24 targets in 2016.

## Our performance in 2017

This year we have made good progress in helping people, businesses and communities, meeting 21 of our 22 targets for the year.

## Helping people

**We're helping people with the issues that really matter to them, whether that is buying a home, saving for later life, or finding a rewarding job.**

This year, we delivered £13 billion of lending to help first-time homebuyers, created more than 1,200 new apprenticeship positions in the Group and provided support and guidance to help almost 89,000 customers plan for retirement. Through our support for the School for Social Entrepreneurs we helped a further 260 social entrepreneurs start or grow their businesses. We also made good progress against our target to train 1.8 million individuals, businesses and charities in digital skills by 2020, having trained more than 708,000 in 2017.

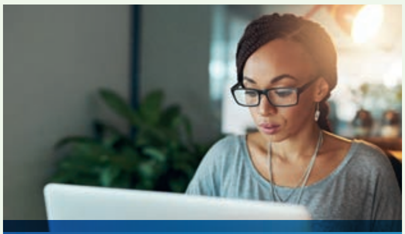
## Helping businesses

**We're helping businesses of all types and sizes to start-up, grow, improve productivity, build their skills base and become successful exporters.**

We provide support to businesses of all types and sizes. In 2017, we delivered £1 billion of financial support to the manufacturing sector, exceeding our target, and extended our support for the Lloyds Bank Advanced Manufacturing Centre, helping to train 500 apprentices, graduates and engineers. We also met our target to support UK infrastructure projects collectively worth more than £31 billion. We have now retired this target from our Plan.

We increased net lending to SME and Mid Markets companies by £0.9 billion, but fell short of our £2 billion target. The shortfall reflects similar challenges across the market. Since the beginning of 2011, our net lending to SMEs has increased by 31 per cent whilst the market has contracted by 11 per cent. Since 2012, our lending to Mid Markets companies has increased by 17 per cent compared to a market that has remained flat. Our 2018 target is to deliver £2 billion of net lending across start-up, SME and Mid Markets businesses.

Read more on **page 23**



## Helping communities

**We're helping communities to become more cohesive by providing vital support for some of the most disadvantaged people living in Britain today. We also champion diversity.**

Through our four independent charitable Foundations we helped more than 2,800 charities and supported colleagues to volunteer their expertise, including their mentoring skills, to help these charities become more effective and financially sustainable. This year, colleagues gave almost 260,000 volunteering hours to support local communities.

Through our partnership with Mental Health UK, we're promoting awareness of the link between mental health and money problems. This year we exceeded our target and raised £4.8 million thanks to the efforts of our colleagues and customers. This fundraising enabled Mental Health UK to launch Mental Health and Money Advice – the UK's first service dedicated to helping people understand, manage and improve their financial and mental health.

We made further progress towards our target of women holding 40 per cent of our senior roles by 2020, with 34 per cent ✓ of these roles now held by women. You can read more about inclusion and diversity on page 21. We also met our 2020 colleague engagement targets, three years ahead of schedule, and reached engagement levels of 70 per cent amongst Black, Asian and Minority Ethnic (BAME) and Lesbian, Gay, Bisexual (LGB) colleagues as well as colleagues with disabilities. We will continue to promote inclusion with our business but have now retired these targets from our Plan.

Read more on **page 25**

✓ Indicator is subject to Limited ISAE3000 (revised) assurance by Deloitte LLP for the 2017 Annual Responsible Business Reporting. Deloitte's 2017 assurance statement and the 2017 Reporting Criteria are available online at lloydsbankinggroup.com/RBdownloads

## Doing business responsibly continued

# 2018 Helping Britain Prosper Plan

We have developed the Plan for 2018 and beyond, to ensure it supports the next phase of our strategy and focuses on the areas where we believe we can make the biggest difference: addressing Britain's housing needs, saving for the future, building digital skills, helping businesses start up and grow, championing Britain's diversity and tackling disadvantage.

### Evolving the Plan

To show our continuing support for the low carbon economy, we have added a new target: to help provide power for 5 million homes in the UK by 2020 through our support for renewable energy projects. We are still focused on supporting business growth and building an inclusive and diverse business. We have set two new targets to increase the percentage of roles held by BAME colleagues to 10 per cent and to increase the percentage of senior roles held by BAME colleagues to 8 per cent by 2020.

You can read more about all of our Helping Britain Prosper Plan targets online

### Our areas of focus

Through our full Plan, we are tracking our performance against 22 stretching targets in total. We have prioritised six of these to focus on in 2018, as shown in the table below. These support the UN Sustainable Development Goals, which aim to tackle the world's most pressing challenges by promoting sustainable development.

As a UK focused retail and commercial bank, we are inextricably linked to the British economy. Our success is the British economy's success and we are fully committed to help people, businesses and communities in Britain prosper.

**António Horta-Osório**
Group Chief Executive

**Our areas of focus**

| Target | 2018 | 2020[1] | How we are supporting the UN Sustainable Development Goals |
|---|---|---|---|
| **Helping Britain get a home**<br>Amount of lending committed to help people buy their first home | £10bn | £30bn | 8 DECENT WORK AND ECONOMIC GROWTH |
| **Helping save for the future**<br>Growth in assets that we hold on behalf of customers in retirement and investment products[2] | £8bn | £50bn | |
| **Building digital skills**<br>Number of individuals, SMEs and charities trained in digital skills including internet banking | 700,000 | 1.8m | 4 QUALITY EDUCATION |
| **Supporting businesses to start up and grow**<br>Increased amount of net lending to start-up, SME and Mid Markets businesses | £2bn | £6bn | 9 INDUSTRY, INNOVATION AND INFRASTRUCTURE<br>8 DECENT WORK AND ECONOMIC GROWTH |
| **Championing Britain's diversity**<br>Percentage of senior roles held by women | 36% | 40% | 5 GENDER EQUALITY |
| Percentage of roles held by Black, Asian and Minority Ethnic colleagues | 8.9% | 10% | |
| **Tackling disadvantage across Britain**<br>Number of charities we will support as a result of our £100 million[3] commitment to the Group's independent charitable Foundations | 2,500 | 7,500 | 10 REDUCED INEQUALITIES |

1 2020 targets are cumulative from 2018–2020 and are in line with the next phase of the Group's strategic plan.
2 Growth in assets under administration in our front books.
3 Between 2014–2020.

# Running a responsible business for all our stakeholders

We seek to run our business responsibly, sustainably and successfully, delivering value for all our stakeholders.

## Addressing the issues that matter most

This year we asked our stakeholders – including colleagues, customers, investors, community groups, special interest groups and opinion formers – to participate in our materiality survey, to help us shape our reporting.

They were particularly interested in issues related to how the Group is run; building trust; supporting communities and society; economic performance and contribution; responsible and accessible products; human rights, diversity and equality; and people management and development.

We have structured our responsible business reporting around our key stakeholder groups. The issues they prioritised are listed at relevant points to help you find those of most interest to you.

# Colleagues

Our colleagues take pride in working for an inclusive and diverse bank and with their support we're building a culture in which everyone feels included, empowered and inspired to do the right thing for customers.

**Key issues for our stakeholders**

- Equality, inclusion and diversity
- Human rights
- Health, safety and wellbeing
- Learning and development

## Equality, inclusion and diversity

We continued to make good progress against our inclusion and diversity (I&D) strategy. The proportion of colleagues who agree that the Group is an inclusive place to work increased to 89 per cent, 3 per cent more than in 2016, and almost half of our colleagues are members or supporters of one of our five diversity networks. We met our target to increase the engagement levels of Black, Asian and Minority Ethnic colleagues, colleagues with disabilities and Lesbian, Gay and Bisexual colleagues above 70 per cent, three years earlier than our target date of 2020.

We continue to promote I&D through our Group Executive Committee. Several of our senior executives are I&D sponsors, and an Operational Committee overseas how our I&D plans are implemented.

We have committed to ensure that women hold 40 per cent of our senior roles by 2020, and to help reach this target we monitor gender diversity on candidate lists for senior appointments. Over 400 women have now completed our Women in Leadership programme, with 100 achieving promotion. We've continued to develop and promote our Authentic Leadership Programme for Black, Asian and Minority Ethnic leaders. We foster cultural awareness through promoting role models and communication campaigns.

Other achievements include being rated number 1 in the Stonewall Top 100 2017 LGBT employers and included in the Stonewall inaugural list of Transgender Inclusive Employers 2018; being named the best bank in the world for diversity and inclusion by Euromoney; and once again, a Top 10 Employer for Working Families and Times Top 50 Employer for Women. We also won awards for our approach to agile hiring. You can read more about agility on page 22.

### Gender pay gap

We recognise that supporting gender equality and diversity more broadly supports the success of the UK as a whole. We regularly review our pay levels to ensure that men and women are paid equally for doing equivalent roles across the Group. We support the government's requirement for all large companies to publish their gender pay gap information. We remain committed to increasing the proportion of women in senior roles and building a diverse senior management team.

### Supporting colleagues with disabilities

This year, the Department for Work and Pensions designated the Group as a Disability Confident Leader for our inclusive recruitment

## Our inclusion and diversity data

| | | 2017 | 2016[1] |
|---|---|---|---|
| **Gender** | | | |
| Board members | Male | **9** | 10 |
| | Female | **3** | 3 |
| Senior managers[2] | Male | **4,939** | 5,138 |
| | Female | **2,544** | 2,457 |
| Colleagues[2] | Male | **31,216** | 33,149 |
| | Female | **42,956** | 45,769 |
| **Ethnic background** | | | |
| Percentage of colleagues from a BAME background | | **8.3%** | 7.9% |
| BAME managers | | **8.3%** | 6.4% |
| BAME senior managers | | **5.6%** | 4.8% |
| **Disability** | | | |
| Percentage of colleagues who disclose they have a disability | | **2.6%** | 2.2% |
| **Sexual orientation** | | | |
| Percentage of colleagues who disclose they are lesbian, gay, bisexual or transgender | | **1.7%** | 1.5% |

1 Restated to include International and parental leave colleagues comparable with other gender reporting. Includes subsidiary Non-Executive Directors.
2 Reporting scope: payroll headcount includes established and fixed term contract colleagues, parental leavers and Internationals. Excludes leavers, Group Non-Executive Directors, contractors, temps and agency staff. Also excludes MBNA colleagues, who became part of Lloyds Banking Group plc in June 2017, as they are currently on a separate grading structure.

Diversity scope: Payroll headcount including parental leavers. Excludes MBNA colleagues, who became part of Lloyds Banking Group plc in June 2017, as they are currently on a separate grading structure. Also excludes contractors. Gender information includes International colleagues. All other diversity information is UK Payroll only.

Senior 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 per cent representative; our systems do not record diversity data for the proportion of colleagues who have not declared this information.

# Running a responsible business for all our stakeholders continued

**28,000**
colleagues received mental health awareness training in 2017.

process and in November, we won a 'Nothing about us without us' Disability Smart Award, recognising the way we gather insights about disability from colleagues, customers and charities, then use them to inform our decisions. As a member of the Business Disability Forum, we are proud to have retained our Gold accreditation in the Disability Standard. Our colleague disability network, Access, ran a successful national event, while more than 2,300 colleagues completed our industry leading workplace adjustment process.

We offer bespoke development programmes and recruitment processes for colleagues and job applicants with disabilities. We aim to appoint the best candidate into any role and give full and fair consideration to job applications from those with disabilities, and we 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 Disability Work Experience Programme in partnership with Remploy. This is one of the largest disability-focused work experience initiatives in the financial services sector; we've increased our number of candidates from 96 in 2016 to 392 in 2017.

## Human rights

We aspire to conduct business in a way that values and respects the human rights of all the stakeholders we work with. We respect and support the United Nations Universal Declaration of Human Rights, together with the International Labour Organisation (ILO) Fundamental Conventions, covering freedom of association, the abolition of forced labour, equality and the elimination of child labour. We comply with all relevant legislation, including the UK Modern Slavery Act. We also support relevant voluntary standards, such as the UN Guiding Principles on Business and Human Rights and take steps to make sure colleagues understand our position on these issues and can help us live up to the standards they demand. You can read our Anti-Slavery and Trafficking statement online.

## Health, safety and wellbeing

We care about the physical and mental health, safety and wellbeing of our colleagues. We provide them with a growing range of health and wellbeing resources, including company paid private medical cover, occupational health services and an employee assistance programme. We publish advice about health topics on our intranet and actively encourage colleagues to support external health and wellbeing campaigns.

We have policies, standards and relevant mandatory training in place to help colleagues work safely at all times. We also work closely with external health and safety agencies through our participation in the Health and Safety Primary Authority Scheme and Fire Primary Authority partnership. In 2017, we achieved a 7 per cent decrease in our total recorded accidents compared to 2016. You can read more about health and safety in our 2017 Responsible Business update.

**Supporting colleagues' mental health**
We worked with Mental Health UK to develop and deliver mental health awareness training to over 28,000 colleagues and we estimate that more than 25 per cent of colleagues discussed mental health this year. This included our Group Chief Executive António Horta-Osório, who shared his story about executive stress. We have improved the mental health support colleagues receive through our third-party healthcare suppliers and are supporting our top 120 leaders to develop their mental resilience.

**Agile working**
To respond to the changing business environment and in recognition of the changing ways colleagues live and work, we encourage our colleagues to embrace agile working. Approximately 41 per cent of them are now working in a flexible way compared to 33 per cent two years ago. In 2017 we launched a workforce agility Line Manager toolkit to help teams implement new ways of working.

## Learning and development

Investing in learning and development equips colleagues to do their best for customers. During 2017, colleagues spent more than 410,000 days on learning, an average of 5.6 days each. We made it easier for them to access learning by creating new business learning catalogues and Group-wide Learning Resource Centres. We also ran 'Values in Action' sessions for all colleagues, supporting the introduction of our new Group and Leadership Behaviours, and unified our learning for line managers and leaders in a new Leadership Academy. This offers a new curriculum for senior colleagues, 'pathways' to guide those preparing for a new line management role, and leadership apprenticeships.

Our Strategic Leaders Programme, which 175 colleagues completed, concluded this year. From 2018, colleagues in our Strategic Leadership Group will undertake a new 'Horizon' development programme that supports our 'Bank of the Future' objectives. 80 per cent of colleagues who completed our 'Building the Best Team' survey confirmed that they get the support they need to improve their skills and meet customer demands, an annual increase of 3 per cent and 18 per cent above the UK norm.

### CREATING MORE APPRENTICESHIPS WITHIN OUR GROUP

During 2017, we created more than 1,200 apprenticeship positions within the Group, bringing the total to more than 5,500 since 2012. Around 44 per cent of the new apprenticeships were taken up by external candidates from some of the UK's most disadvantaged areas. We are proud of the fact that many of our apprentices flourish with us after qualification including Vickie McRae, a mother of two who joined the Group in 2015.

We improved our digital offer, enhancing our Skillsoft resource, which won a Gold International Brandon Hall Excellence Award, and adding a video library, Lynda.com, to resources.

**Engaging colleagues**
We want colleagues to be engaged and enthusiastic about our strategy, responsible approach and culture. We regularly and systematically update them on the Group's performance and changes in the economic and regulatory environment including matters that concern their role. We also want them to share their ideas and views to help us shape our future. One of the most effective ways they do this is through the 'Best Bank for Customers' and 'Building the Best Team' surveys that are run by an independent third-party every year. They give colleagues the opportunity to share their thoughts in order to inform decisions and support improvements in team performance. This year, 86 per cent of colleagues participated in the two surveys – 2 per cent more than in 2016 and 5 per cent above the external best practice response rate.

**89%**

of colleagues believe the Group is committed to being a responsible business (2016: 86%).

We believe the surveys confirm that colleagues are engaged and believe the Group is moving forward in key areas.

**Rewarding colleagues**
We offer a competitive and fair reward package that supports our aims as a responsible business – with customer-facing colleagues in Retail incentivised on the basis of actions and behaviours that put customers first. We offer colleague share schemes to encourage shared ownership of our Group.

Read more on page 84 of our 2017 Annual Report and Accounts

# Customers

We aim to treat our customers fairly and inclusively, making it easy for them to find, understand and access responsible products that are right for them, whatever their circumstances.

| Key issues for our stakeholders |
|---|
| Customer privacy and data security |
| Support for Britain's businesses and entrepreneurs |
| Widening financial inclusion and supporting vulnerable customers |
| Responsible and accessible products |
| Responsible and ethical lending |

## Customer privacy and data security

We use advanced technology to protect customers' money and data, including secure log on and log off features and systems that prevent fraud or that detect fraudulent payments in real time. In 2017, as part of the multi-stakeholder Joint Fraud Task Force, we helped to set the strategic direction for fraud prevention. We also championed the national rollout of the Banking Protocol, which now includes 38 police forces. This enables colleagues to request immediate police support when customers are at risk. An estimated £9 million of fraud was prevented through the Protocol this year and 100 arrests were made.

We help and educate customers to improve their own banking and data security and champion industry-wide public information campaigns, including Take 5, a national education and awareness campaign. We offer support to colleagues to protect our customers and they can access our Anti-Money Laundering and Counter Terrorist Policies and specialist training if required.

Looking ahead, our key priorities are to further strengthen our cyber defences and to meet the requirements of the upcoming EU General Data Protection Regulation which will apply from May 2018.

## Support for Britain's businesses and entrepreneurs

We helped 6,800 clients to export for the first time in 2017, as part of a wider commitment to help 25,000 businesses trade overseas for the first time by 2020. We also supported more than 124,000 start-up businesses. In 2017, we handled over 54 million payments totalling in excess of £1.4 trillion in digital transactions for our commercial clients.

We met our 2017 target to provide £1 billion in funding support for the manufacturing sector and launched a £500 million fund to help manufacturers access asset finance to invest in new capital to improve productivity. We've also supported more than 500 apprentices, graduates and engineers at the Lloyds Bank Advanced Manufacturing Training Centre in Coventry.

Through our partnership with the School for Social Entrepreneurs, we've helped more than 1,500 social entrepreneurs to start-up or grow their businesses since 2012. Our colleagues have worked with more than 250 social entrepreneurs as mentors to help them build sustainable social businesses. In 2017 the Group became the first financial services company to partner the pioneering Match Trading™ initiative; a new funding model which incentivises social entrepreneurs to grow their business through trading.

## Widening financial inclusion and supporting customers in vulnerable circumstances

Through our financial inclusion strategy and financial education programmes we focus on improving access to financial services and building skills. Read more about financial education on page 25. This year we opened almost 271,000 new basic bank accounts and helped 99,700 customers upgrade from basic to mainstream products. We also simplified our unplanned overdraft approach. More than 9 in 10 personal current account customers of Lloyds Bank, Bank of Scotland and Halifax are now better off or unaffected financially by the changes.

We want all customers to have easy access to our products and services. We've worked hard to track vulnerable customers' needs, particularly in our Community Bank, and developed a Group-wide dashboard to identify emerging vulnerability trends. In 2017, our specialist support team helped 1,900 customers with cancer, through financial advice and with medical and emotional support from our partners Macmillan. To help colleagues do more for vulnerable customers, we provided 90,000 hours of vulnerability training.

## MEETING CHANGING CUSTOMER NEEDS

We are investing significantly in a major branch transformation programme to better serve our customers now and for many years to come. We have expanded our mobile branch service this year and we now have 28 mobile branches, which visit 169 different locations to support rural communities across Scotland, England and Wales.

**Supporting customers with disabilities**
Digital access can transform banking for vulnerable customers, particularly for those with health conditions and disabilities that make it difficult to get to a branch. Following a review in 2016, the charity Abilitynet accredited our Halifax and Lloyds Bank digital platforms based on their accessibility for disabled customers.

We are piloting a new 'Easy Read' format, endorsed by the RNIB, to make bank statements accessible and understandable for customers with a range of learning difficulties and disabilities. This year we agreed our Autism Friendly plans for customers and colleagues, which we have developed in partnership with the National Autistic Society.

# Running a responsible business for all our stakeholders continued

## Responsible and accessible products

We have made significant progress over the last three years to improve the customer experience across many of our key products and services as part of our far-reaching Customer Journey Transformation initiative. In 2017, we launched the last two of our 10 journeys, each of which is intended to put customers at the heart of any changes we make. This year, we issued colleagues in branches with more than 4,000 iPad Pros so they can open accounts faster and introduced new digital services to help colleagues advise customers about corporate pensions or loan eligibility and to process mortgage offers and accounts and small loans for SMEs in less time than ever before.

## Responsible and ethical lending

As a lender and pension provider we play an important role in promoting responsible lending and investment decisions that take into account a broad range of environmental, social and governance factors. The Group remains a signatory to the Equator Principles, the Stewardship Code and the UN Principles of Responsible Investment. As an active and responsible asset owner, we consider our obligations during the selection, appointment, monitoring and retention of our fund managers. The management of risk for investment funds offered to customers by Scottish Widows is effected through a robust and comprehensive process, including our Responsible Investment Governance Framework. In 2017 we completed an initial assessment of the responsible investment capabilities of our lead asset managers and the majority of external fund managers, and we launched a social bond fund in addition to the ethical and environmental funds in our range.

# Partners

As a direct and indirect economic contributor to the UK economy, we value our relationships with external stakeholders and partners, including suppliers, government bodies and legislators.

| Key issues for our stakeholders |
| --- |
| Responsible conduct and culture |
| Direct and indirect economic contribution |
| Working with suppliers |

## Responsible conduct and culture

We are building a responsible, inclusive and diverse culture based on our values, which help colleagues consistently do the right thing for customers. The 2017 launch of our Group and leadership behaviours has given colleagues clear guidance about how to live our values at work. Throughout the year we reinforced our values and behaviours through numerous initiatives and embedded the behaviours in our processes and policies.

We equip and encourage colleagues to work in line with our values, our Code of Responsibility and all other standards relevant to their role. We also encourage them to speak up, challenge and act if they witness or suspect wrongdoing by contacting our Colleague Conduct Management Team or using our independent whistleblowing service 'Speak Up', which is accessible by phone, online or mobile app. During 2017, colleagues reported 372 concerns of which 181 were progressed to investigation. 57 per cent of the concerns investigated were upheld and remedial action taken where appropriate.

We aim to comply with all laws and regulations wherever we operate and have a comprehensive anti-bribery policy that applies to all colleagues, including directors, contractors and others acting on our behalf. All colleagues and contractors complete annual anti-bribery training and we encourage them to report 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.

### Building trust

Our performance as a responsible business during the past year has helped to rebuild trust in our Group and in the future stability and sustainability of the banking sector. In May we returned to full private ownership and the sale marked the successful delivery of our strategy to transform into a simple, low risk, UK focused retail and commercial bank. In 2017 we continued to build trust by taking steps to become even more transparent in the way we communicate with our stakeholders, providing them with greater detail about where we stand on environmental, social, governance and ethical issues.

### Customer satisfaction

We measure customer satisfaction using the industry standard Net Promoter Score. In 2017, this was 62.0, down slightly from 62.7 in 2016 but remains nearly 50 per cent higher than at the end of 2011. When customers do complain, we act as quickly as possible, focusing on achieving fair outcomes. We continue to target understanding and eradicating the root causes of customer complaints reducing incoming complaints by 18 per cent from 2016 to 2017 (excluding PPI and claims management companies). Read more on page 7.

## MOBILISING COLLEAGUES TO SUPPORT MENTAL HEALTH

In September, a group of 62 colleagues completed the Fourtitude Challenge and raised over £317,000 for our charity partner Mental Health UK. Our 'Fourtituders' tackled a mental agility challenge, hiked up the highest peak in their home nation, cycled 100 miles through the Peak District and completed a half marathon. An additional 250 colleagues took part as day participants and Mental Health UK's Chief Executive, Brian Dow, also participated, running the half marathon.

## Direct and indirect economic contribution

We make significant direct and indirect contributions to the economy. We employ approximately 68,000 colleagues (full time equivalent) and are helping to create additional jobs and bring talented people into our business through our Graduate and Apprenticeship schemes. We've created more than 5,500 apprenticeships since 2012. In 2017, 38 per cent of our new apprenticeships were offered to external candidates.

**£2.5bn**
of taxes paid in 2017

We are helping the housing sector as a whole. In 2017 we lent more than £42 billion to home buyers and exceeded our target to build 1,500 homes through our Housing Growth Partnership. We also helped the construction sector acquire skills through the London-based Construction Skills Centre, where 166 people obtained an industry recognised qualification. We also provided a further £2 billion of new funding support to the social housing sector.

**Our tax contribution**
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 FTSE 100 and some large UK private companies. In 2017, we paid £2.5 billion in tax (2016: £2.3 billion). We are also a major tax collector, gathering £1.7 billion on behalf of HMRC in 2017 (2016: £2 billion).

Our approach to tax is governed by our Tax Policy which is part of our Board-approved Group Risk Management Framework. We have discussed this Policy with HMRC and we comply with their 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. You can read more about our Tax Strategy online.

**Shareholders**
Engaging with our shareholders helps us understand their issues, shape our strategic thinking and improve our corporate reporting. We held more than 800 meetings with investors in 2017, including a number with SRI investors. We also ran a number of webinars, roadshows and meetings to update shareholders, investment analysts and ratings agencies about our performance.

**Government**
We engage with government bodies, including central and local government and the devolved governments in Scotland, Wales and Northern Ireland. We keep them informed about our activity as a responsible business, which in 2017 included party conference fringe meetings held with Mental Health UK, the launch of a report on the challenges facing the private rental sector, and briefings on economic development. To support the UK's nations and regions, our 10 Ambassadors, who are all senior colleagues, have a mandate from the Group Chief Executive to support economic and social progress in their local area. In 2017, our Ambassadors focused on issues connected to housing, skills development and business growth.

## Working with suppliers

We aim to source responsibly and sustainably, requiring our suppliers to comply with our Code of Supplier Responsibility. We source a range of products and services from an active supply base of around 4,000 suppliers. In 2017, our supplier expenditure was £5.0 billion (£5.3 billion in 2016) with 94 per cent of this spent with UK-based suppliers. Our responsible business objectives are embedded into our sourcing and supplier activities. For example, we further enhanced the questions we ask prospective and existing suppliers in our Financial Supplier Qualification System in relation to issues such as human trafficking and slavery, and have implemented new contractual requirements. We have also worked with key suppliers to build partnerships with social enterprises and embed social responsibility practices.

# Communities

We invest in local communities across Britain to help them prosper economically and build social cohesion by tackling disadvantage.

| Key issues for our stakeholders |
|---|
| Financial education and inclusion |
| Community investment |

## Financial education and inclusion

Our award winning Money for Life programme is specifically designed to help vulnerable 16-25 year olds to improve their financial competencies. Since the programme was relaunched in October 2016 we have engaged more than 450,000 young people and over 11,300 money masterclasses have been delivered face-to-face in youth centres across England, Wales, Scotland and Northern Ireland. In addition to this colleagues have delivered financial literacy sessions in primary and secondary schools in local communities. Thanks to our 'StandingOut' programme we remain one of the largest providers of school and academy governors in Britain, with 577 colleagues currently involved.

## Community investment

Our support for local communities focuses on education, employability and enterprise. Our total community investment in 2017 was around £58 million ✓. This includes our colleagues' time, direct donations, and the money we give to our independent charitable Foundations, which receive a share of the Group's profits annually. Through the Group's Foundations, we reach and help some of the most disadvantaged communities in Britain, giving more than £20 million in 2017.

## TACKLING SOCIAL DISADVANTAGE ACROSS BRITAIN

Through the Lloyds Bank Foundation for the Channel Islands, we are supporting Autism Jersey, a charity that provides much-needed advice and respite for people on the autism spectrum, their families and carers. The charity, which is using a grant of £50,000 over three years to help pay salaries, has grown significantly in the past five years and has helped many individuals obtain care for the first time without travelling to the mainland.

**Our charity partner**
In 2017 we raised £4.8 million for Mental Health UK. This money will have a significant impact across the UK and has funded the first helpline dedicated to supporting people experiencing mental health and money management issues, which was launched in November 2017. We also aim to increase awareness and reduce the stigma associated with mental health so that our colleagues can support themselves, each other and our customers.

Read more on page 22

✓ Indicator is subject to Limited ISAE3000 (revised) assurance by Deloitte LLP for the 2017 Annual Responsible Business Reporting. Deloitte's 2017 assurance statement and the 2017 Reporting Criteria are available online at lloydsbankinggroup.com/RBdownloads

# Environment

## A sustainable and responsible approach is integral to how we operate

We need to use scarce natural resources more sustainably, manage our environmental impacts and support our customers by financing opportunities created by the transition to a low carbon economy.

**Key issues for our stakeholders**

The impact of climate risks

### Managing environmental impacts

Delivering the science-based carbon reduction and climate resilience targets set out in the Paris Agreement will have significant structural implications for the economy and the businesses and communities we serve. That is why we are evolving our Group-wide sustainability strategy.

This year, our overall carbon emissions were 292,848 of $CO_2$e, a decrease of 14 per cent year-on-year and of 48 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, as a result of our extensive energy management programme. In 2017, we also reduced the $CO_2$e related to our business travel by promoting our 'No Travel Week', encouraging travel alternatives and the successful roll out of 'WebEx', Group-wide.

Read more about our emissions in the Directors' report on page 83 of our 2017 Annual Report and Accounts

### Supporting the low carbon economy

We are helping more of our commercial clients to understand and manage their sustainability risks and we complete an environmental risk assessment at the start of every new client relationship. We are currently exploring ways to build sustainability considerations into our policies and risk management processes. We offer customers products and services that help them embrace sustainability. In 2016, we launched an innovative £1 billion Green Loan Initiative to incentivise commercial real estate to become more energy efficient and this year exceeded our target to help 2 million square feet of real estate.

At the end of 2017, our UK team had financed renewable projects with a combined capacity of over 2.75GW (2016: 1.78GW) and internationally our existing investments in renewables exceed 8.9GW (2016: 7.4GW). In 2017 Lloyds Bank played an important part in Macquarie's acquisition of the Green Investment Bank (now Green Investment Group), providing financing for a significant portfolio of operational offshore wind farms including Sheringham Shoal, Gwynt y Mor, Rhyl Flats and projects in construction, including Galloper and Rampion offshore wind farms. Together the projects have a total capacity of approximately 2.4GW, which is enough to power over 1.7 million homes and they will support a significant number of jobs across the UK through the supply chain and maintenance of the wind farms.

## The impact of climate risk

We welcome the recommendations of the Financial Stability Board Taskforce on Climate-related Financial Disclosures (TCFD) and have mapped our approach to them. We are developing a strategy and implementing processes to:

- Assess the materiality of climate risk across our business
- Identify and define a range of scenarios, including relevant physical and transition risk
- Evaluate the business impacts
- Identify potential responses to manage the risks and opportunities

We will address a number of these and will disclose further information on our work in this important area.

## HELPING INCENTIVISE GREEN REAL ESTATE

We're incentivising Unibail-Rodamco, Europe's largest commercial real estate business, to become more environmentally sustainable – by linking the margin on their five year €650 million revolving credit facility to green key performance indicators. The interest margins set through this innovative refinancing deal, will take into account the Unibail-Rodamco's performance against KPIs based on its own 'Sustainability Vision' and 'Better Places 2030' strategies.

### $CO_2$e emissions

| | Oct 16 - Sept 17 | Oct 15 - Sept 16[1,2] | Oct 14 - Sept 15[1,2] |
|---|---|---|---|
| **Total $CO_2$ e** | **292,848** ✓ | 340,382 | 395,543 |
| **Total Scope 1** | **52,160** ✓ | 53,026 | 58,851 |
| **Total Scope 2** | **166,617** ✓ | 202,414 | 239,709 |
| **Total Scope 3** | **74,071** ✓ | 84,943 | 96,983 |

1 Restated 2014/2015 and 2015/2016 emissions data to improve the accuracy of reporting, using actual data to replace estimates.

2 Restated all historic years to reflect improved methodology in assigning road travel between reporting scopes.

Emissions in tonnes $CO_2$ e 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.

✓ Indicator is subject to Limited ISAE3000 (revised) assurance by Deloitte LLP for the 2017 Annual Responsible Business Reporting. Deloitte's 2017 assurance statement and the 2017 Reporting Criteria are available online at www.lloydsbankinggroup.com/rbdownloads

## Our climate related financial disclosures

### Our strategy

In 2017, we reviewed how we integrate environmental sustainability into our strategy and risk management processes, taking advice from external advisors and working with all parts of the business to understand work already in plan and where we need to do more. We are committed to supporting the transition to a low carbon economy through our financial products and services, including renewable energy services.

### Governance of climate change

The Responsible Business Committee, a sub-committee of the Board, will take overall responsibility for the Group's climate-related impacts and risks from 2018. It is chaired by an Independent Director, Sara Weller, and meets regularly throughout the year. We have refocused our executive-level Responsible Business Management Committee to become our Sustainability Committee and will ensure that colleagues with operational responsibilities across the Group's key divisions are actively involved in the development and implementation of a comprehensive environmental sustainability strategy. Discussions involving these Committees and the Commercial Banking leadership team were held in 2017 to start to examine the strategic implications of environmental challenges, including climate change.

### Risk management

The Sustainability Committee will oversee the assessment of our climate-related risks, escalating to the Responsible Business Committee and the Board Risk Committee as appropriate. Our divisions are each exposed to different levels of climate risk. For example, as a large home insurer, we are aware that global warming is projected to increase the risk of flooding and consequently weather-related insurance claims. It is important that we continue to work with our customers, industry peers and government to ensure this risk is minimised and mitigated to keep flood insurance affordable.

You can read more about environmental risk management on page 133 of our 2017 Annual Report and Accounts

### Metrics and targets

We are working to develop strategic commitments and targets in response to climate-related risks and opportunities, with different parts of the business feeding into this target setting process. This builds on our work to reduce the environmental impact of our own operations.

Our target is to reduce our overall $CO_2e$ by 60 per cent by 2030 and 80 per cent by 2050, in line with the UK's emission reduction targets. This follows a science-based target setting methodology. As part of our Green Loan Initiative, our target is to fund 5 million square feet of commercial real estate to become more energy efficient by 2020, the equivalent of five London Shards. We have set a new target to help provide power for 5 million homes through our investment in renewable energy by 2020.

We will also consider the supplementary industry specific recommendations for the financial sector.

## Non-financial information statement

We aim to comply with the new Non-Financial Reporting requirements contained in sections 414CA and 414CB of the Companies Act 2006. The below table, and information it refers to, is intended to help stakeholders understand our position on key non-financial matters. This builds on existing reporting that we already do under the following frameworks: CDP, Global Reporting Initiative, Guidance on the Strategic Report (UK Financial Reporting Council), UN Global Compact, UN Sustainable Development Goals and UN Guiding Principles.

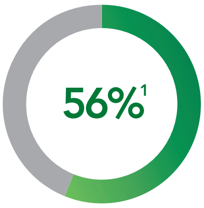
| Reporting requirement | Policies and standards which govern our approach | Risk management and additional information | |
|---|---|---|---|
| **Environmental matters** | Environmental statement | Environment, pages 26–27 | Environmental risk management, page 133 |
| **Employees** | Ethics and Responsible Business Policy[1]<br>Ethical Policy Statement<br>Colleague Policy[1]<br>Code of Responsibility<br>Health and Safety Policy[1] | Equality, inclusion and diversity, page 21<br>Health, safety and wellbeing, page 22<br>Learning and development, page 22<br>Responsible conduct and culture, page 24<br>Diversity, skills and composition, page 58 | Board Diversity Policy, page 72<br>People risk, page 136<br>Governance risk, page 150 |
| **Human rights** | Human Rights Policy statement<br>Colleague Policy[1]<br>Pre-Employment vetting standards[1]<br>Data Privacy Policy[1]<br>Anti-Slavery and Trafficking Statement<br>Information and Cyber Security Policy | Human rights, page 22<br>Responsible and ethical lending, page 24<br>Working with suppliers, page 25 | |
| **Social matters** | Volunteering standards[1]<br>Matched giving guidelines[1] | Helping communities, page 19 | Communities, page 25 |
| **Anti-corruption and anti-bribery** | Anti-bribery Policy[1]<br>Anti-bribery policy statement<br>Anti-money laundering and counter terrorist financing Policy[1]<br>Fraud Risk Management Policy[1] | Customer privacy and data security, page 23<br>Responsible conduct and culture, page 24<br>Operational risk, pages 135–136 | |
| **Policy embedding[2], due diligence and outcomes** | | Risk overview, pages 32–33 | Risk management, pages 107–156 |
| **Description of principal risks and impact of business activity** | | External environment, pages 8–9<br>Creating value for our stakeholders, page 11<br>Addressing the issues that matter most, page 21 | Direct and indirect economic contribution, page 24<br>Risk overview, pages 32–33<br>Principal risks, pages 34–37 |
| **Description of the business model** | | Our business model, pages 10–11 | Our next chapter, page 14 |
| **Non-financial key performance indicators** | | Key performance indicators, page 7<br>What we have achieved over the past three years, page 12<br>Doing business responsibly, page 18<br>Helping Britain Prosper, pages 19–20 | Running a responsible business, pages 21–25<br>Environment, pages 26–27 |

1 Certain Group Policies and internal standards and guidelines are not published externally.
2 The policies mentioned above form part of the Group's Policy Framework which is founded on key risk management principles. The policies which underpin the principles define mandatory requirements for risk management. Robust processes and controls to identify and report policy outcomes are in place and were followed in 2017.
Note: page references from 38 onwards refer to pages in our 2017 Annual Report and Accounts.

# Divisional overview
## Retail

Retail offers a broad range of financial service products, including current accounts, savings, mortgages, credit cards, motor finance and unsecured loans to personal and business banking customers.

**£4,403m**
Underlying profit




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

**£13bn**
Lending to first-time buyers

**£1.0bn**
Open mortgage book growth

**>124,000**
business start-ups supported

**>100,000**
Lex Autolease fleet growth within 5 year ambition

### UK's largest digital bank

| | Active online users (m) | Mobile users (m) |
|---|---|---|
| 2017 | **13.4** | **9.3** |
| 2016 | 12.5 | 8.0 |
| 2015 | 11.5 | 6.6 |
| 2014 | 10.4 | 5.2 |

Its aim is to be the best bank for customers in the UK, by building deep and enduring relationships that deliver value to customers, and by providing them with greater choice and flexibility. Retail operates a multi-brand and multi-channel strategy and continues to simplify the business and provide more transparent products, helping to improve service levels and reduce conduct risks, whilst working within a prudent risk appetite.

## Progress against strategic priorities

**Creating the best customer experience**

- Delivered a new approach to current account overdrafts that is simple, clear and puts customers in control as well as redesigning the account opening journey to reduce account opening times.
- Largest UK digital bank with 13.4 million active online users including 9.3 million mobile users.
- Now able to provide bespoke financial support to customers suffering from cancer, following training from Macmillan.
- Retail complaint volumes (excluding PPI) down 17 per cent compared to 2016.

**Becoming simpler and more efficient**

- Maintained the UK's largest branch network, with 21 per cent market share. Responding to changing customer usage and preferences resulted in an overall net reduction in branches, the introduction of new branch formats in selected locations and an increase in mobile branches to 28, supporting 169 communities.
- Improved digital capability simplifying processes for customers:
  - Rolled out over 4,440 iPad Pros across our branches, integrating the multi-channel customer experience
  - Simplified online processes for mortgage intermediaries to offer a faster service
  - Customers now able to check both loan and credit card eligibility up front

**Delivering sustainable growth**

- Successfully completed the acquisition of MBNA from Bank of America, consolidating the Group's position as Britain's largest prime credit card issuer, with 25 per cent market share of balances.
- Continued to support first-time home buyers, lending £13 billion compared to the £10 billion target.
- Supported over 124,000 start-up businesses, exceeding the commitment to support 100,000.
- Lex Autolease exceeded its five year ambition to grow its fleet by 100,000 vehicles, cementing its position as the UK's leading vehicle leasing company.

## Financial performance

- 2017 results include completion of the acquisition of MBNA on 1 June. MBNA has performed ahead of expectations and generated incremental income of £448 million, operating costs of £135 million and impairments of £118 million.
- Underlying profit increased 9 per cent to £4,403 million.
- Net interest income increased 8 per cent (3 per cent excluding MBNA) reflecting a 14 basis points improvement in net interest margin, driven by deposit repricing offsetting mortgage margin pressures.
- Other income was 3 per cent higher, driven by fleet growth in Lex Autolease. Operating lease depreciation increased reflecting fleet growth and increased conservatism in residual value management.
- Operating costs increased 2 per cent to £4,857 million. Excluding MBNA, costs decreased by 1 per cent driven by efficiency savings partly offset by increased investment spend and pay related growth.
- Impairment charges increased 10 per cent to £717 million. Excluding MBNA, impairments were £55 million lower than in 2016, reflecting the resilient economic environment. Asset quality ratio excluding MBNA was down 2 basis points.
- Loans and advances to customers were up 3 per cent to £339.7 billion (including MBNA £8 billion) driven by the Black Horse business and growth in the open mortgage book, up £1.0 billion to £267.1 billion.
- Customer deposits were down 1 per cent to £253.1 billion, with a continued reduction in tactical balances.
- Risk-weighted assets increased by £6.2 billion to £90.8 billion following the acquisition of MBNA.


## Strengthening our retail offer

In June 2017 we completed our acquisition of MBNA, a specialist credit card provider which serves around 2.5 million UK customers and provides around £8 billion of UK prime credit card lending. MBNA facilitates 480,000 transactions per day and is accepted and used all around the world.

MBNA is a strong, profitable and prime credit card business, with an experienced management team and an advanced data analytics capability, which will benefit the wider Group. This is the largest integration of a credit card business ever undertaken in Europe. The integration is progressing well and will be completed by the end of the first quarter of 2019.

Following the acquisition the combined business is now the largest prime credit card issuer in the UK.

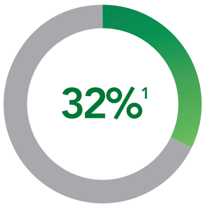
**25%**
market share of credit card balances

**Divisional overview** continued

# Commercial Banking

## Commercial Banking has a client-led, low risk, capital efficient strategy, helping UK-based clients and international clients with a link to the UK.

**£2,489m**
Underlying profit




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

**2%**
growth in SME lending

**2%**
growth in Mid Corporate lending

**37bps**
increase in return on risk-weighted assets to 2.82%

**Funding for UK manufacturers** £bn


Through its four client facing segments – SME, Mid Markets, Global Corporates and Financial Institutions – it provides clients with a range of products and services such as lending, transactional banking, working capital management, risk management and debt capital markets services.

## Progress against strategic priorities

Commercial Banking delivered a return on risk-weighted assets of 2.82 per cent in 2017, exceeding the commitment of a return of 2.40 per cent, while continuing to focus on improving the client experience grow lending in key client segments.

### Creating the best customer experience

- Awarded Business Bank of the Year at the FDs' Excellence Awards for the 13th consecutive year; scoring highest against peers across all three assessment criteria; service, relationship managers and value for money.
- Supported c.6,800 clients in 2017 to export for the first time and helped clients break into new markets through the International Trade Portal.

### Becoming simpler and more efficient

- Over 16,000 SME business accounts opened using the transformed end-to-end process.
- The transformed process includes additional digital functionality, such as the option to review and approve banking agreements online and upload signatures.

### Delivering sustainable growth

- Following the launch of the Green Loan Initiative in 2016, the Group has provided in excess of £0.5 billion of green lending, improving the energy efficiency of over 5 million square feet of real estate.
- Exceeded the £4 billion Helping Britain Prosper funding commitment for manufacturing businesses, for the four years to 2017. In addition, continued to support the Lloyds Bank Advanced Manufacturing Training Centre, investing £1 million a year since 2014; and to date have trained over 500 manufacturing graduates, engineers and apprentices, building towards the target of 1,000 by 2020.
- SME lending up 2 per cent, outperforming the market and providing valuable support to the economy.

## Financial performance

- Underlying profit increased 5 per cent to £2,489 million, driven by income growth and active cost management, delivering improvement in cost:income ratio to 45.8 per cent.
- Return on risk-weighted assets of 2.82 per cent, reflecting proactive portfolio optimisation and increased profit.
- Income increased by 3 per cent to £4,847 million with broad based franchise growth.
- Net interest margin increased 18 basis points to 3.54 per cent as a result of lower funding costs.
- Other income resilient at £1,761 million (2016: £1,756 million), with fewer significant transactions in the second half and reduced client activity compared to 2016.
- Operating lease depreciation reduced due to lower accelerated charges compared with 2016.
- Continued investment in the business offset by efficiencies, leading to flat operating costs.
- The increase in impairment charge to £115 million and asset quality ratio to 12 basis points is due to a lower level of write-backs and provision releases and also includes a single large corporate impairment.
- Loans and advances decreased 2 per cent to £100.0 billion, with year-on-year lending growth of 2 per cent in SME remaining at above market growth levels, offset by reductions in Global Corporates.
- Deposits increased by 4 per cent to £147.6 billion, with continued momentum in attracting high quality transactional banking deposits.
- Continued portfolio optimisation, including capital efficient securitisation activity, to achieve an 8 per cent reduction in risk-weighted assets to £85.6 billion.

# Insurance and Wealth

## Insurance and Wealth offers insurance, investment and wealth management products and services.

**£939m**
Underlying profit

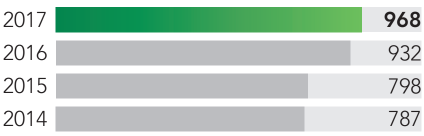

1 Proportion of Group underlying profit excluding run-off and central items.

**>9m**
Life, pensions and investments customers

**£670m**
of long duration loans funded

**Workplace, planning and retirement customer assets under administration** £bn


**Annualised annuity payments to customers in retirement** £m




**It supports over 9 million customers with total customer assets under administration of £145 billion and annualised annuity payments to customers in retirement of c.£1 billion. The division's strategic aim is to be the best insurer and wealth management business in the UK. It is committed to providing trusted, value for money products and services to meet the needs of its customers.**

## Progress against strategic priorities

The Group continues to direct significant investment towards developing Insurance and Wealth, seeking to grow in areas where it has competitive advantage and is under-represented, for the benefit of both customers and shareholders.

**Creating the best customer experience**

- Scottish Widows won 'Company of the Year' and 5 star service awards in individual categories of Life and Pensions and Investments at the Financial Adviser Service Awards 2017.
- Home insurance net promoter scores increased by 10 per cent and life, pensions and investments by 13 per cent.
- Improved the Wealth customer experience through reduction in time taken to provide customer advice by up to 40 per cent, which allows the Group to help more customers.

**Becoming simpler and more efficient**

- Simplifying insurance systems and processes through long-term partnerships with Diligenta and Jardine Lloyd Thomson, enabling customers to better manage their policies with Scottish Widows.
- Following its launch in 2016, the employer digital service now reaches all eligible workplace schemes, significantly reducing processing time for monthly pension scheme management.

**Delivering sustainable growth**

- Announced the acquisition of Zurich's UK workplace pensions and savings business, which has customer funds of £21 billion and c.595,000 customers. The acquisition will enhance Scottish Widows' current offering, giving a strong platform on which to develop the next stage of its strategy in financial planning and retirement.
- Helping Britain prosper by funding £670 million of long duration loans in the year to finance affordable housing, infrastructure and commercial real estate projects whilst supporting a growing annuitant portfolio.
- Since market entry in 2015, we have written £2.5 billion of bulk annuity business (of which £0.6 billion in 2017) and continue to see significant demand from UK defined benefit pension schemes using bulk annuities to manage risk.
- Workplace, planning and retirement customer assets under administration increased by 15 per cent to £43 billion reflecting net inflows and positive market movements.
- Wealth customer assets increased by 7 per cent to £25 billion, reflecting positive market movements.

## Financial performance

- Income in insurance and overall costs remained flat, with higher investment costs offset by lower business as usual costs. Underlying profit has decreased by 3 per cent to £939 million as a result of lower Wealth income.
- Total life and pensions sales increased by 12 per cent, driven by 29 per cent increase across workplace, planning and retirement and protection, partly offset by lower bulk annuity sales where we have maintained a strong pricing discipline whilst actively quoting in a very competitive market.
- The total underwritten household premiums decreased by 12 per cent reflecting the highly competitive marketplace, despite achieving an increase in underwritten new business premiums of 12 per cent supported by the new flexible Direct proposition launched during 2016.

## Insurance capital

- Estimated pre final dividend Solvency II ratio is unchanged at 160 per cent (31 December 2016: 160 per cent) and represents the shareholder view of Solvency II surplus. The ratio reflects in-year earnings, capital management actions and favourable market movements offset by capital invested in new business and dividends paid in the year.
- Capital management actions include successful conclusion of a £1.3 billion annuitant longevity reinsurance transaction with Prudential Insurance Company of America.
- Estimated excess capital of £890 million was generated in 2017 from which dividends totalling £575 million were paid in the year with a further dividend of £600 million paid to the Group in February 2018.

# Risk overview
## Effective risk management 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 bank with a culture founded on a prudent through the cycle risk appetite.

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 work, behave and the decisions they make. Risk appetite – the amount and type of risk we are prepared to seek, accept or tolerate – is approved by the Board and embedded in policies, authorities and limits across the Group.

Our prudent risk culture and appetite, along with close collaboration between Risk division and the business, supports effective decision making and has enabled us to continue to deliver against our strategic priorities in 2017, simplifying and strengthening the business whilst growing in targeted areas. We have created a strong foundation to enable this progress, ensuring we react appropriately to the ever changing macroeconomic and regulatory environment.

## 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, colleagues and shareholders.

Risks are identified, managed and mitigated using our comprehensive Risk Management Framework (see below), and our well articulated risk appetite provides a clear framework for effective decision making. The principal risks we face, which could significantly impact the delivery of our strategy, are discussed on pages 34–37.

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

**Prudent approach to risk**
Implementing a prudent approach to risk across the Group and embedding a strong risk culture ensures alignment to our strategy.

**Strong control framework**
The Group's Risk Management Framework is 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 business units are assessed. Business units in the first line of defence are accountable for risk with oversight from a strong and independent, second line of defence Risk division.

**Effective risk analysis, management and reporting**
Continuing to deliver regular close monitoring and stringent reporting to all levels of management and the Board 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.

## Our risk management framework

The diagram below outlines the framework in place for risk management across the Group.

| Accountability for ensuring risk is managed consistently with the Risk Management Framework approved by the Board | | Confirmation of the effectiveness of the Risk Management 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 framework | Supports a consistent approach to enterprise-wide behaviour and decision making |
| Monitoring, oversight and assurance ensure effective risk management across the Group | Three lines of defence | 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 and control cycle from identification to reporting | Carried out by all three lines of defence and is an integral part of our control effectiveness assessment |
| In line with our code 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 categories | Risk-type specific sub-frameworks e.g. credit risk |

## Risk considerations

The potential risks and impacts arising from the external environment are outlined below. They are grouped using the same classification as on pages 8–9, with links to our principal risks and strategic priorities. For information on how we manage our emerging risks, see page 110 of our 2017 Annual Report and Accounts.

### Economy

**Risk and potential impact**
Economic headwinds such as rising inflation could impact households' disposable income and businesses' profitability, impairing customers' ability to repay their borrowing, and potentially hindering sustainable growth.

The impact of EU exit on our portfolios remains uncertain. Operational changes are likely to be limited given our UK focus but the impact on the UK economy may affect business performance.

We consider an array of scenarios as part of our operating plan and stress testing exercises, to identify and implement appropriate mitigating actions.

**Link to principal risks**
Credit
Operational
Insurance underwriting
Capital
Funding and liquidity
Market

**Link to strategic priorities**
Maximising the Group's capabilities

### Regulation and legal

**Risk and potential impact**
The financial services industry continues to experience significant legislative and regulatory change and interpretation giving rise to uncertainty surrounding the nature, scale and complexity of implementation requirements.

This has the potential to impact, for example, the resource and investment available to allocate to the Group's strategic priorities.

The Group has a proven track record in implementing complex legal and regulatory programmes and will continue to manage any potential impact by remaining actively engaged with governmental bodies, regulatory authorities and industry associations.

**Link to principal risks**
Credit
Regulatory and legal
Capital
Funding and liquidity
Market

**Link to strategic priorities**
Delivering a leading customer experience

### Customer

**Risk and potential impact**
The availability and delivery of services through digital channels is becoming increasingly important for customer satisfaction. Accelerated change in customer behaviour and expectations may require increased agility to accommodate the pace and scale of change and could lead to customer detriment if this change is poorly executed.

The Group will continue to focus on change execution whilst keeping pace with developments to meet new and evolving customer needs.

**Link to principal risks**
Regulatory and legal
Conduct
Operational

**Link to strategic priorities**
Delivering a leading customer experience

### Technology

**Risk and potential impact**
New technologies such as public cloud and artificial intelligence along with growing interconnectivity between the Group, customers, and third parties create new risks.

Increasing capabilities of cyber-attackers and higher volumes of connected devices increases the potential for cyber-enabled fraud and other crime, including attacks that could disrupt service for customers.

We continue to optimise our approach to operational resilience by enhancing systems that support the Group's critical business processes, evolving controls within new technologies and channels, and making significant investment to improve data privacy, including the security of data.

**Link to principal risks**
Conduct
Operational

**Link to strategic priorities**
Delivering a leading customer experience
Digitising the Group

### Competition

**Risk and potential impact**
Technological change is driving an increase in the number, and changing the nature of competitors in the UK financial services industry, opening up opportunities for consumers even as levels of regulatory focus rise.

We must ensure that an unexpectedly fast pace of change, which may accelerate customer disintermediation, does not lead to our involvement in anti-competitive practices, or prevent certain customer groups from having equal access to our products and services.

We will continue to address this through innovation and developing new products that respond to market trends and meet customer changing needs.

**Link to principal risks**
Regulatory and legal
Conduct
Operational
People

**Link to strategic priorities**
Delivering a leading customer experience
Maximising the Group's capabilities

The links shown here between these five factors and our principal risks and strategic priorities are not an exhaustive list.

Find further discussion on the impact of these factors on our business on **pages 8–9**

**Risk overview** continued

# Principal risks

## The most significant risks which could impact the delivery of our long-term strategic objectives and our approach to each risk, are detailed below.

As part of the Group's ongoing assessment of the potential implications of the UK leaving the European Union, the Group continues to consider the impact to its customers, colleagues and products – as well as legal, regulatory, tax, financial and capital implications.

There remains continued uncertainty around both the UK and global political and macroeconomic environment. The potential impacts of external factors have been considered in all principal risks to ensure any material uncertainties continue to be monitored and are appropriately mitigated.

Principal risks and uncertainties are reviewed and reported regularly. This year we have added a new principal risk, model risk, to reflect the Group's increasing use of analytics and models to make decisions.

### Credit

The risk that parties with whom we have contracted, fail to meet their financial obligations (both on and off balance sheet).

Example

- Adverse impact on profitability due to an increase in impairment losses, write downs and/or decrease in asset valuations which can occur for a number of reasons, including adverse changes in the economic, geopolitical and market environment. For example, low interest rates have helped customer affordability, but there is a risk of increased defaults as interest rates rise.

Key mitigating actions

- 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.

Key risk indicators

| Impairment charge | Impaired assets |
|---|---|
| £795m | £7,841m |
| 2016: £645m | 2016: £8,495m |

Alignment to strategic priorities and future focus

Maximising the Group's capabilities

We seek to support sustainable growth in our targeted segments. We have a conservative and well balanced credit portfolio, managed through the economic cycle and supported by strong credit portfolio management.

We are committed to better addressing our customers' banking needs through consistent, fair and responsible credit risk decisions, aligned to customers' circumstances, whilst staying within prudent risk appetite.

Impairments remain below long-term levels and are expected to increase as the level of write-backs and releases reduces and impairments normalise.

Read more on pages 116–133 of our 2017 Annual Report and Accounts

### Regulatory and legal

The risks of changing legislation, regulation, policies, voluntary codes of practice and their interpretation in the markets in which we operate may 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, Payment Services Directive 2 (PSD2), Open Banking and General Data Protection Regulation (GDPR).

Key mitigating actions

- 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.

Key risk indicators

Mandatory, legal and regulatory investment spend

£886m

2016: £555m

Alignment to strategic priorities and future focus

Delivering a leading customer experience

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, regulation and associated consultations and participate in industry bodies. We continue to be subject to significant ongoing and new legislation, regulation and court proceedings.

Read more on page 133 of our 2017 Annual Report and Accounts

## Conduct

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; failing to promote effective competition in the interest of customers; and exhibiting behaviours which could impact on the integrity of the market or undermine wider regulatory standards.

### Example

- The most significant conduct cost in recent years has been PPI mis-selling.

### Key mitigating actions

- Conduct risk appetite metrics provide a granular view of how our products and services are performing for customers.
- Product approval, continuous product review processes and customer outcome testing (across products and services) 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.
- Further enhancements and embedding of our framework to support customers in vulnerable circumstances.

### Key risk indicators

Conduct risk appetite metric performance-Group

**92.3%**

2016: 92.1%

### Alignment to strategic priorities and future focus

Delivering a leading customer experience

As we transform our business, minimising conduct risk is critical to achieving our strategic goals and meeting regulatory standards.

Our focus on embedding a customer-centric culture and delivering good outcomes through good conduct is subject to robust review by the Group Customer First Committee. This supports our vision of being the best bank for customers, enabling the delivery of a leading customer experience through effective root cause analysis and learning from customer feedback.

Read more on page 134 of our 2017 Annual Report and Accounts

## Operational

We face significant operational risks which may disrupt services to customers, cause reputational damage, and result in financial loss. These include the availability, resilience and security of our core IT systems, unlawful or inappropriate use of customer data, theft of sensitive data, fraud and financial crime threats, and the potential for failings in our customer processes.

### Example

- The dynamic threat posed by cyber risk to the confidentiality and integrity of electronic data or the availability of systems.

### Key mitigating actions

- Investing in enhanced cyber controls to protect against external threats to the confidentiality or integrity of electronic data, or the availability of systems, and to ensure effective third party assurance.
- Enhancing the resilience of systems that support critical business processes with independent verification of progress on an annual basis.
- Significant investment in compliance with GDPR and Basel Committee on Banking Supervision standards.
- Working with industry bodies and law enforcement agencies to identify and combat fraud and money laundering.

### Key risk indicators

Availability of core systems

**99.98%**

2016: 99.97%

### Alignment to strategic priorities and future focus

Delivering a leading customer experience

We recognise that resilient and secure technology, and appropriate use of data, is critical to delivering a leading 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. Internal programmes ensure that data is used correctly, and the control environment is regularly assessed through both internal and third party testing.

Read more on pages 135–136 of our 2017 Annual Report and Accounts

## People

Key people risks include the risk that we fail to maintain organisational skills, capability, resilience and capacity levels in response to organisational, political and external market change and evolving business needs.

### Example

- Inability to attract or retain colleagues with key skills could impact the achievement of business objectives.

### Key mitigating actions

- 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

Best bank for customers index

**80%**

2016: 77%

### Alignment to strategic priorities and future focus

Transforming ways of working

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 will continue to invest in the development of colleague capabilities and agile working practices in order to deliver a leading customer experience, and to respond quickly to the rapidly evolving change in customers' decision making in an increasingly digital marketplace.

Read more on page 136 of our 2017 Annual Report and Accounts

# Risk overview continued

## Insurance underwriting

Key insurance underwriting 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.

### Example

- Uncertain property insurance claims impact Insurance earnings and capital, e.g. extreme weather conditions, such as flooding, can result in high property damage claims.

### Key mitigating actions

- 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 the Insurance business.
- Property insurance exposures are mitigated by a broad reinsurance programme.

### Key risk indicators

| Insurance (Life and Pensions) present value of new business premiums | General Insurance underwritten total gross written premiums |
|---|---|
| £9,951m | £733m |
| 2016: £8,919m | 2016: £831m |

### Alignment to strategic priorities and future focus

Delivering a leading 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 delivering a leading 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.

Read more on page 137 of our 2017 Annual Report and Accounts

## Capital

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.

### Key mitigating actions

- A comprehensive capital management framework that includes setting of capital risk appetite and dividend policy.
- Close monitoring of capital and leverage ratios to ensure we meet regulatory requirements and risk appetite.
- Comprehensive stress testing analyses to evidence capital adequacy under various adverse scenarios.

### Key risk indicators

| Common equity tier 1 ratio[1,2] | UK leverage ratio[1,3] |
|---|---|
| 13.9% | 5.4% |
| 2016: 13.0% | 2016: 5.3% |

### Alignment to strategic priorities and future focus

Maximising the Group's capabilities

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 growth in targeted segments.

1 Pro forma.

2 CET1 ratio after ordinary dividends and share buyback. 2016 adjusted for MBNA.

3 Calculated in accordance with the UK Leverage Ratio Framework which requires qualifying central bank claims to be excluded from the leverage exposure measure.

Read more on pages 137–144 of our 2017 Annual Report and Accounts

## Funding and liquidity

The risk that we have insufficient financial resources to meet our commitments as they fall due.

### Example

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

### Key mitigating actions

- Holding liquid assets to cover potential cash and collateral outflows and to meet regulatory requirements. In addition, maintaining a further pool of 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.

### Key risk indicators

| LCR eligible assets | Loan to deposit ratio |
|---|---|
| £121bn | 110% |
| 2016: £121bn | 2016: 109% |

### Alignment to strategic priorities and future focus

Maximising the Group's capabilities

We maintain a strong funding position in line with our low risk strategy and the loan to deposit ratio remains within our target range. Our funding position allows the Group to grow targeted business segments and better address our customers' needs.

Read more on pages 144–149 of our 2017 Annual Report and Accounts

## Governance

Against a background of increased regulatory focus on governance and risk management, the most significant challenges arise from meeting the requirements to ring-fence core UK financial services and activities from January 2019 and further requirements under the Senior Manager & Certification Regime (SM&CR).

### Examples

- Inadequate or complex governance arrangements to address ring-fencing requirements could result in a weaker control environment, delays in decision making and lack of clear accountability.
- Non-compliance with or breaches of SM&CR requirements could result in lack of clear accountability and legal and regulatory consequences.

### Key mitigating actions

- Leveraging our considerable change experience to meet ring-fencing requirements before the regulatory deadlines, and the continuing evolution of SM&CR.
- Programme in place to address ring-fencing. In close and regular contact with regulators to develop and deploy our planned operating and legal structure.
- Evolving risk and governance arrangements to continue to be appropriate to comply with regulatory objectives.

### Key risk indicators

N/A

### Alignment to strategic priorities and future focus

Delivering a leading customer experience

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

Our governance framework and strong culture of ownership and accountability enabled effective, on time, compliance with the SM&CR requirements and enable us to demonstrate clear accountability for decisions.

Read more on page 150
of our 2017 Annual Report and Accounts

## Market

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 (DB) 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 risk 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.
- Narrowing credit spreads will increase the cost of pension scheme benefits.

### Key mitigating actions

- Structural hedge programmes implemented to manage liability margins and margin compression.
- Equity and credit spread risks are closely monitored and, where appropriate, asset and liability matching is undertaken.
- The Group's DB pension schemes have increased their credit allocation and hedged against nominal rate and inflation movements.

### Key risk indicators

IAS19 Pension surplus

**£509m**

2016: £(244)m

### Alignment to strategic priorities and future focus

Maximising the Group's capabilities

We actively manage our exposure to movements in market rates, to drive lower volatility earnings and offer a comprehensive customer proposition with hedging strategies to support strategic aims. Mitigating actions are implemented to reduce the impact of market movements, resulting in a more stable capital position. Effective interest rate and inflation hedging has kept volatility in the Group's DB pension schemes low and helped to return the schemes to IAS19 surplus in 2017. This allows us to more efficiently utilise available capital resources to better enable the Group to maximise its capabilities.

Read more on pages 151–156
of our 2017 Annual Report and Accounts

## Model NEW

The risk of financial loss, regulatory censure, reputational damage or customer detriment, as a result of deficiencies in the development, application and ongoing operation of financial models and rating systems.

### Examples

Examples of the consequences of inadequate models include:

- Inappropriate levels of capital or impairments.
- Inappropriate credit or pricing decisions.
- Adverse impacts on funding or liquidity, or the Group's earnings and profits.

### Key mitigating actions

A comprehensive model risk management framework including:

- Defined roles and responsibilities, with clear ownership and accountability.
- Principles regarding the requirements of data integrity, development, validation, implementation and ongoing maintenance.
- Regular model monitoring.
- Independent review of models.
- Periodic validation and re-approval of models.

### Key risk indicators

N/A

### Alignment to strategic priorities and future focus

Digitising the Group

The Group's models play a vital role in supporting Group strategy to ensure profitable growth in targeted segments and the Group's drive toward automation and digital solutions to enhance customer outcomes. Model risk management helps ensure these models are implemented in a controlled and safe manner for both the Group and customers.

Read more on page 156
of our 2017 Annual Report and Accounts

# Summary of Group results

## Summary consolidated income statement

| | 2017 £ million | 2016 £ million | Change % |
|---|---|---|---|
| Net interest income | **12,320** | 11,435 | 8 |
| Other income | **6,205** | 6,065 | 2 |
| **Total income** | **18,525** | 17,500 | 6 |
| Operating lease depreciation | **(1,053)** | (895) | (18) |
| **Net income** | **17,472** | 16,605 | 5 |
| Operating costs | **(8,184)** | (8,093) | (1) |
| Impairment | **(795)** | (645) | (23) |
| **Underlying profit** | **8,493** | 7,867 | 8 |
| Volatility and other items | **(703)** | (1,544) | |
| PPI provision | **(1,650)** | (1,000) | |
| Other conduct provisions | **(865)** | (1,085) | |
| **Statutory profit before tax** | **5,275** | 4,238 | 24 |
| Tax expense | **(1,728)** | (1,724) | – |
| **Profit for the year** | **3,547** | 2,514 | 41 |
| Earnings per share | **4.4p** | 2.9p | 52 |
| Dividends per share – ordinary | **3.05p** | 2.55p | 20 |
| Dividends per share – special | **–** | 0.50p | |
| Share buyback up to £1 billion | **1.40p** | – | |

## Summary consolidated balance sheet

| | At 31 Dec 2017 £ million | At 31 Dec 2016 £ million |
|---|---|---|
| **Assets** | | |
| Cash and balances at central banks | **58,521** | 47,452 |
| Trading and other financial assets at fair value through profit or loss | **162,878** | 151,174 |
| Derivative financial instruments | **25,834** | 36,138 |
| Loans and receivables | **482,752** | 488,257 |
| Available-for-sale financial assets | **42,098** | 56,524 |
| Other assets | **40,026** | 38,248 |
| **Total assets** | **812,109** | 817,793 |
| **Liabilities** | | |
| Deposits from banks | **29,804** | 16,384 |
| Customer deposits | **418,124** | 415,460 |
| Trading and other financial liabilities at fair value through profit or loss | **50,877** | 54,504 |
| Derivative financial instruments | **26,124** | 34,924 |
| Debt securities in issue | **72,450** | 76,314 |
| Liabilities arising from insurance and investment contracts | **118,860** | 114,502 |
| Subordinated liabilities | **17,922** | 19,831 |
| Other liabilities | **28,805** | 37,059 |
| **Total liabilities** | **762,966** | 768,978 |
| Total equity | **49,143** | 48,815 |
| **Total equity and liabilities** | **812,109** | 817,793 |

## Underlying basis – segmental analysis

| 2017 | Retail £m | Commercial Banking £m | Insurance and Wealth £m | Run-off and Central items £m | Group £m |
|---|---|---|---|---|---|
| Net interest income | 8,706 | 3,086 | 133 | 395 | 12,320 |
| Other income | 2,217 | 1,761 | 1,846 | 381 | 6,205 |
| **Total income** | 10,923 | 4,847 | 1,979 | 776 | 18,525 |
| Operating lease depreciation | (946) | (44) | – | (63) | (1,053) |
| **Net income** | 9,977 | 4,803 | 1,979 | 713 | 17,472 |
| Operating costs | (4,857) | (2,199) | (1,040) | (88) | (8,184) |
| Impairment | (717) | (115) | – | 37 | (795) |
| **Underlying profit** | 4,403 | 2,489 | 939 | 662 | 8,493 |

| | | | | | |
|---|---|---|---|---|---|
| Banking net interest margin | 2.61% | 3.54% | | | 2.86% |
| Average interest-earning banking assets | £337.4bn | £86.0bn | £0.8bn | £10.7bn | £434.9bn |
| Asset quality ratio | 0.21% | 0.12% | | | 0.18% |
| Return on risk-weighted assets | 4.92% | 2.82% | | | 3.95% |
| Loans and advances to customers[1] | £339.7bn | £100.0bn | £0.8bn | £15.2bn | £455.7bn |
| Customer deposits[2] | £253.1bn | £147.6bn | £13.8bn | £1.0bn | £415.5bn |
| Risk-weighted assets | £90.8bn | £85.6bn | £1.3bn | £33.2bn | £210.9bn |

| 2016[3] | Retail £m | Commercial Banking £m | Insurance and Wealth £m | Run-off and Central items £m | Group £m |
|---|---|---|---|---|---|
| Net interest income | 8,073 | 2,934 | 80 | 348 | 11,435 |
| Other income | 2,162 | 1,756 | 1,939 | 208 | 6,065 |
| Total income | 10,235 | 4,690 | 2,019 | 556 | 17,500 |
| Operating lease depreciation | (775) | (105) | – | (15) | (895) |
| Net income | 9,460 | 4,585 | 2,019 | 541 | 16,605 |
| Operating costs | (4,748) | (2,189) | (1,046) | (110) | (8,093) |
| Impairment | (654) | (17) | – | 26 | (645) |
| Underlying profit | 4,058 | 2,379 | 973 | 457 | 7,867 |

| | | | | | |
|---|---|---|---|---|---|
| Banking net interest margin | 2.47% | 3.36% | | | 2.71% |
| Average interest-earning banking assets | £334.5bn | £89.9bn | £0.8bn | £10.7bn | £435.9bn |
| Asset quality ratio | 0.20% | 0.02% | | | 0.15% |
| Return on risk-weighted assets | 4.85% | 2.45% | | | 3.55% |
| Loans and advances to customers[2] | £330.8bn | £101.6bn | £0.8bn | £16.5bn | £449.7bn |
| Customer deposits[2] | £256.5bn | £141.3bn | £13.8bn | £1.4bn | £413.0bn |
| Risk-weighted assets | £84.6bn | £92.6bn | £1.7bn | £36.6bn | £215.5bn |

1 Excludes reverse repos of £16.8 billion (31 December 2016: £8.3 billion).

2 Excludes repos of £2.6 billion (31 December 2016: £2.5 billion).

3 Restated. See page 181 of the 2017 Annual Report and Accounts.

## 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 on page 267 of the 2017 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 unwind of acquisition-related fair value adjustments and 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, the rationalisation of the non-branch property portfolio and the integration of MBNA; and payment protection insurance and other conduct provisions.

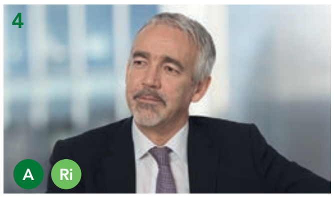
## Report of the Auditor

The auditor's report on the full accounts for the year ended 31 December 2017 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.

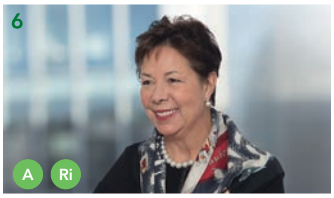
# Board of Directors

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















A Member of Audit Committee

Re Member of Remuneration Committee

RB Member of Responsible Business Committee

Ri Member of Board Risk Committee

NG Member of Nomination and Governance Committee

● Committee Chairman

### 1. Lord Blackwell Chairman

**Appointed:** June 2012 (Board), April 2014 (Chairman)

**Skills and experience:**

- Deep financial services knowledge including in insurance and banking
- Significant experience with strategic planning and implementation
- Regulatory and public policy experience gained from senior positions in Downing Street, Regulators and a wide range of industries
- Credibility with key stakeholders
- Strong leadership qualities

Lord Blackwell initially joined the Board as Chairman of Scottish Widows Group. He was previously Senior Independent Director and Chairman of the UK Board for Standard Life and Director of Group Development at NatWest Group. His past Board roles have included Chairman of Interserve plc, and Non-Executive Director of 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 and a member of the Governing Body of the Royal Academy of Music.

### 2. Anita Frew Deputy Chairman and Senior Independent Director

**Appointed:** December 2010 (Board), May 2014 (Deputy Chairman), May 2017 (Senior Independent Director)

**Skills and experience:**

- Significant board, financial and general management experience
- Experience across a range of sectors, including banking, asset and investment management, manufacturing and utilities
- Extensive experience as chairman in a range of industries
- Strong board governance experience, including investor relations and remuneration

Anita 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. She has a BA (Hons) in International Business from the University of Strathclyde, a MRes in Humanities and Philosophy from the University of London, an Honorary DSc for contribution to industry and finance from the University of Cranfield and an Honorary Doctorate in Management and Finance from the University of Aberdeen.

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

### 3. Alan Dickinson Independent Director

**Appointed:** September 2014

**Skills and experience:**

- Highly regarded retail and commercial banker
- Strong strategic, risk and core banking experience
- Regulatory and public policy experience

Alan has 37 years' experience with the Royal Bank of Scotland, most notably as Chief Executive of RBS UK. More recently, Alan 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. 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 BSc from the University of Birmingham.

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

### 4. Simon Henry Independent Director

**Appointed:** June 2014

**Skills and experience:**

- Deep international experience in board level strategy and execution
- Extensive knowledge of financial markets, treasury and risk management
- Qualification as an Audit Committee Financial Expert
- Strong board governance experience, including investor relations and remuneration

Until recently Simon was Chief Financial Officer and Executive Director of Royal Dutch Shell plc. He was previously Chair of the European Round Table CFO Taskforce and a Member of the Main Committee of the 100 Group of UK FTSE CFOs. He has a BA in Mathematics, an MA from the University of Cambridge and is a fellow of the Chartered Institute of Management Accountants (CIMA).

**External appointments:** Non-Executive Director of Rio Tinto plc and Rio Tinto Limited, Independent Director of PetroChina Company Limited, Member of the Defence Board and Chair of the Defence Audit Committee, UK Government, Member of the Advisory Panel of CIMA and of the Advisory Board of the Centre for European Reform.

### 5. Lord Lupton CBE Independent Director and Chairman of Lloyds Bank Corporate Markets plc

**Appointed:** June 2017

**Skills and experience:**

Extensive international corporate experience, especially in financial markets

Strong board governance experience, including investor relations and remuneration

Regulatory and public policy experience

Significant experience in strategic planning and implementation

Lord Lupton was Deputy Chairman of Baring Brothers, co-founded the London office of Greenhill & Co., and was Chairman of Greenhill Europe until May 2017. He was previously a Trustee of the British Museum, Governor of Downe House School and a member of the International Advisory Board of Global Leadership Foundation. He became a Life Peer in October 2015 and is a former Treasurer of the Conservative Party. He served on the House of Lords Select Committee on Charities. He read Jurisprudence at Lincoln College, Oxford and is a qualified solicitor.

**External appointments:** Senior Advisor to Greenhill Europe and Chairman of the Trustees of the Lovington Foundation.

### 6. Deborah McWhinney Independent Director

**Appointed:** December 2015

**Skills and experience:**

Extensive executive background in managing technology, operations and new digital innovations across banking, payments and institutional investment

International business and management experience

Experience in consumer analysis, marketing and distribution

Deborah is Chair of the Board Risk Committee's IT Resilience and Cyber Sub-Committee. She is a former Chief Executive Officer, Global Enterprise Payments and President, Personal Banking and Wealth Management at Citibank. Deborah 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.

### 7. Nick Prettejohn Independent Director and Chairman of Scottish Widows Group

**Appointed:** June 2014

**Skills and experience:**

Deep financial services experience, particularly in insurance

In-depth regulatory knowledge and experience

Governance experience and strong leadership qualities

Significant experience in strategic planning and implementation

Nick has served as Chief Executive of Lloyd's of London, Prudential UK and Europe and 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 and the Financial Conduct Authority's Financial Advice Working Group. He was previously a Member of the BBC Trust and Chairman of the Britten-Pears Foundation. Nick has a First Class Degree in Philosophy, Politics and Economics from Balliol College, University of Oxford.

**External appointments:** Chairman of the Royal Northern College of Music and a member of the Board of Opera Ventures.

### 8. Stuart Sinclair Independent Director

**Appointed:** January 2016

**Skills and experience:**

Extensive experience in retail banking, insurance and consumer finance

Governance and regulatory experience

Significant experience in strategic planning and implementation

Experience in consumer analysis, marketing and distribution

Stuart is a former Non-Executive Director of TSB Banking Group plc, TSB Bank plc, LV Group, Virgin Direct and Vitality Health (formerly Prudential Health). He was also a Senior Independent Director of Swinton Group Limited. 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:** Interim Chairman of Provident Financial Plc with effect from 2 February 2018 (previously Senior Independent Director) and Chair of their Risk Advisory Committee, Senior Independent Director and Chair of Risk at QBE Insurance (Europe) Limited.

### 9. Sara Weller CBE Independent Director

**Appointed:** February 2012

**Skills and experience:**

Background in retail and associated sectors, including financial services

Strong board governance experience, including investor relations and remuneration

Passionate advocate of customers, the community, financial inclusion and the development of digital skills

Considerable experience of boards at both executive and non-executive level

Sara's previous appointments include Managing Director of Argos, various senior positions at J Sainsbury including Deputy Managing Director, Chairman of the Planning Inspectorate, 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 and a member of their Nomination Committee, Lead Non-Executive Director at the Department for Work and Pensions, a Governing Council Member of Cambridge University, Board member at the Higher Education Funding Council and Trustee of Lloyds Bank Foundation for England and Wales, with effect from 1 February 2018.

### 10. António Horta-Osório Executive Director and Group Chief Executive

**Appointed:** January 2011 (Board), March 2011 (Group Chief Executive)

**Skills and experience:**

Extensive experience in, and understanding of, both retail and commercial banking built over a period of more than 30 years, working both internationally and in the UK

Drive, enthusiasm and commitment to customers

Proven ability to build and lead strong management teams

António previously worked for Citibank, Goldman Sachs and held various senior management positions at Grupo Santander before becoming its Executive Vice President and member of the Group's Management Committee. 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. 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.

### 11. George Culmer Executive Director and Chief Financial Officer

**Appointed:** May 2012 (Board)

**Skills and experience:**

Extensive operational and financial expertise including strategic and financial planning and control

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.

### 12. Juan Colombás Executive Director and Chief Operating Officer

**Appointed:** November 2013 (Board), January 2011-September 2017 (Chief Risk Officer), September 2017 (Chief Operating Officer)

**Skills and experience:**

Significant banking and risk management experience

International business and management experience

Juan was appointed to the role of Chief Operating Officer in September 2017 and is responsible for leading a number of critical Group functions and driving the transformation activities across the Group in order to build the Bank of the Future. Prior to this he served as the Group's Chief Risk Officer and was responsible for developing the Group's risk framework, recommending the Group's risk appetite and ensuring that all risks generated by the business were 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, he held a number of senior risk, control and business management roles across the Corporate, Investment, Retail and Risk Divisions of the Santander Group. Until September 2017 he was the Vice Chairman of the International Financial Risk Institute. 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:** None.

### 13. 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 Corporate Governance Council and the GC100. Malcolm is an attendee of the Group Executive Committee.

# Remuneration at a glance
## How we performed, and our policy

### How Executive Directors' remuneration works

| | | | |
|---|---|---|---|
| **Fixed remuneration** | Base salary | **Variable remuneration** | Short-term plan |
| | Fixed share award | | Long-term plan |
| | Pension | | |
| | Benefits | | |

## Group Performance Share (GPS) plan

The Committee determined that the GPS outcome would be **£414.7 million**, based on the following performance outcomes.

**Underlying profit** £m

| | | £m |
|---|---|---|
| **2017** | Budget[1] | **£7,846** |
| | Actual[2] | **£8,567** |
| 2016 | Budget | £7,572 |
| | Actual[3] | £7,741 |

1 Excludes MBNA.
2 The underlying profit of £8,493 million has been adjusted by the £74 million incremental difference between the Prudential Value Adjustment (PVA) at year-end 2016 to year-end 2017, in line with regulatory requirements.
3 The underlying profit of £7,867 million has been adjusted (reduced) by the £126 million incremental difference between the PVA at year-end 2015 to year-end 2016.

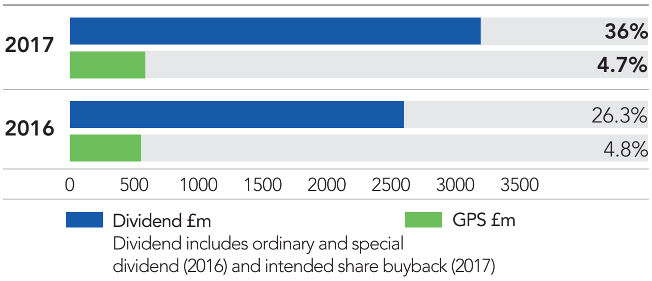
**Group Balanced Scorecard (BSC) performance**

| BSC category | Rating |
|---|---|
| **Customer** | Strong+ |
| **People** | Strong+ |
| **Control environment** | Strong+ |
| **Building the business** | Strong |
| **Finance** | Strong |

**Collective performance adjustment**
The Committee considered the conduct-related provisions, including an additional PPI provision. This led to a downward adjustment of £109.6 million, or 21 per cent.

| £436.9m | x | 1.20 | x | 0.79 (£109.6m) | = | £414.7m |
|---|---|---|---|---|---|---|
| 5.1% of underlying profit | | Group BSC modifier based on Strong Plus performance | | Collective performance adjustment | | 4.7% of underlying profit |

**GPS award versus shareholder returns** (% of underlying profit)




The total GPS award as a percentage of underlying profit before tax and GPS allocation decreased from 4.8 per cent in 2016 to 4.7 per cent in 2017. This compares favourably to shareholder return from dividend payments and share buyback over the same period which increased to 36 per cent of underlying profit. The GPS allocation for 2017 remains significantly lower than the Group's funding limit of 10 per cent of underlying profit.

## Long-term incentive plan

LTIP awards made in 2015 are vesting at 66.3 per cent, as detailed in the table below. This reflects the Group's strong performance over the three financial years ended 31 December 2017, balanced against uncertainty in the economic and political environment. In particular, this has impacted negatively on absolute share price performance, resulting in no vesting for the Total Shareholder Return component. Executive Directors are required to retain any vested shares for a further two years after vesting.

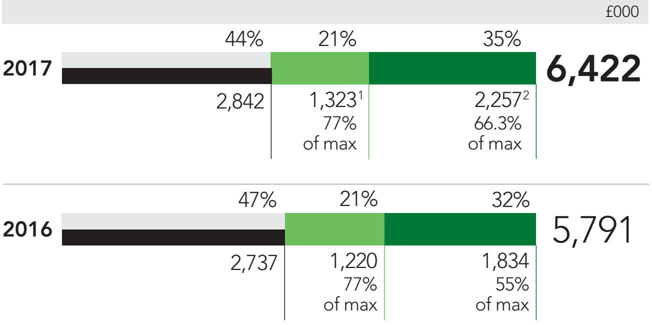
| Weighting | Measure | Threshold | Maximum | Actual | Vesting |
|---|---|---|---|---|---|
| 30% | Absolute total shareholder return (TSR) | 8% p.a. | 16% p.a. | **(1.7%)** | **0%** |
| 25% | Economic profit | £2,870m | £3,587m | **£3,987m** | **25%** |
| 10% | Cost:income ratio[1] | 45.6% | 44.5% | **44.9%** | **6.3%** |
| 10% | Customer complaint handling[2] (FCA reportable complaints / FOS uphold rate) | 0.79 | 0.73 | **0.53** | **10%** |
| | | =<32% | =<28% | **15%** | |
| 10% | Net promoter score | 3rd | 1st | **1st** | **10%** |
| 7.5% | Digital active customer base | 12.7m | 13.3m | **13.4m** | **7.5%** |
| 7.5% | Colleague engagement score | 62 | 70 | **76** | **7.5%** |
| | | | | **LTIP (% maximum) vesting** | **66.3%** |

1 Adjusted total costs.
2 The FCA changed the approach to complaint classification and reporting from 30 June 2016. The Committee determined that the original target should be translated on a like-for-like basis into the new reporting requirement. The Committee was satisfied that the revised targets, set on a mechanical basis, were no less stretching.

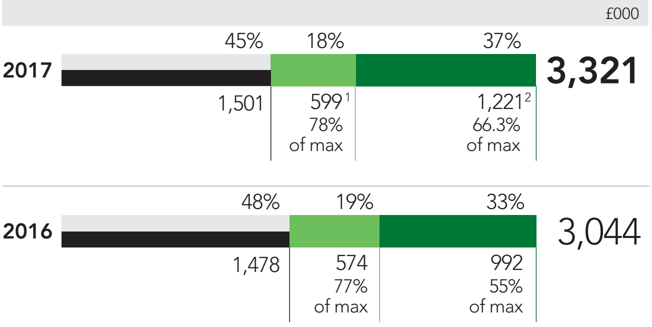
## Single total figure of remuneration

The charts below summarise the Executive Directors' remuneration for the 2016 and 2017 performance years.

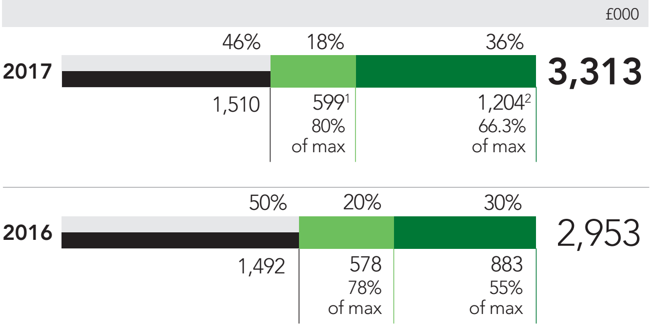
**António Horta-Osório** Group Chief Executive




**George Culmer** Chief Financial Officer




**Juan Colombás** Chief Operating Officer (formerly Chief Risk Officer)[3]




1 2017 Group Performance Share, awarded in March 2018.

2 The LTIP vesting and dividend equivalents awarded in shares were confirmed by the Remuneration Committee at its meeting on 19 February 2018. The average share price between 1 October 2017 and 31 December 2017 (66.75 pence) has been used to indicate the value. The shares were awarded in 2015 based on a share price of 79.93 pence.

3 Juan Colombás took up the role of Chief Operating Officer on 4 September 2017.

## 2018 policy implementation overview

The detailed policy implementation table containing all elements of remuneration can be found on page 96 of the 2017 Annual Report and Accounts.

| | |
|---|---|
| Base salary | The Group has applied a total pay budget of 2.7 per cent for the wider colleague population. Salary increases for the Group Chief Executive (GCE) and the Chief Financial Officer (CFO) are set below this budget, at 2 per cent. Juan Colombás took on a new role of Chief Operating Officer (COO) in September 2017 and accordingly it is proposed he receive a salary increase of 3.4 per cent to reflect the fact that the COO role is larger than his previous role as the Chief Risk Officer. Salaries will be as follows, effective dates shown below: |
| | GCE: £1,244,400 (1 January 2018) |
| | CFO: £779,351 (1 April 2018) |
| | COO: £779,351 (1 January 2018) |
| Fixed share award | The levels of award set for 2018 remain unchanged and are as follows: |
| | GCE: £900,000 |
| | CFO: £504,000 |
| | COO: £497,000 |
| Group Performance Share plan | The maximum Group Performance Share opportunity is 140 per cent of base salary for the GCE and 100 per cent of base salary for other Executive Directors (no change).<br>Malus/clawback provisions and holding period apply in line with regulatory requirements. |
| Group Ownership Share plan | The maximum annual Group Ownership Share award for Executive Directors is 300 per cent of salary (no change).<br>Awards in 2018, based on individual performance in 2017, are made as follows: |
| | GCE: 300 per cent of base salary |
| | CFO: 275 per cent of base salary |
| | COO: 275 per cent of base salary |
| | Malus/clawback provisions and holding period apply in line with regulatory requirements and market practice. |

# 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 24 May 2018 at 11am. 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 Shareowner Services, 462 South 4th Street
Suite 1600, Louisville KY 40202.
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.

## Head office

25 Gresham Street, London EC2V 7HN
Telephone +44 (0)20 7626 1500

## Registered office

The Mound, Edinburgh EH1 1YZ
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, plans and /or results 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 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, inflation, 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, instability as a result of the exit by the UK from the European Union (EU) and the potential for 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 the security of IT and operational infrastructure, systems, data and information resulting from increased threat of cyber and other attacks; 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 US or elsewhere including the implementation and interpretation of key legislation and regulation together with any resulting impact on the future structure of the Group; the ability to attract and retain senior management and other employees and meet its diversity objectives; 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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## Registered office

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Edinburgh EH1 1YZ
Registered in Scotland no. SC95000