LLOYDS BANKING GROUP

HELPING BRITAIN PROSPER

Lloyds Banking Group
Annual Review 2018

About us

We are the largest UK retail financial services provider with around 26 million customers and a presence in nearly every community.

The Group's 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 page 45.

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

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

This Annual Review incorporates the Strategic Report which forms part of the 2018 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
19 February 2019

Our purpose is to Help Britain Prosper.

We are transforming the business into a digitised, simple, low risk, financial services provider whilst creating a responsible business that focuses on customers' needs. This is key to our long-term success and to fulfilling our aim to become the best bank for customers, colleagues and shareholders.

Business model on **pages 10 to 11**

Inside this year's Annual Review

Group highlights
Strong financial and strategic performance

2018 has been a successful year for the Group in which we have continued to Help Britain Prosper, economically, socially and environmentally. In February 2018, we launched the next phase of our strategic plan and have made strong strategic progress with significantly improved financial performance.

£6.0bn
+13%
Statutory profit before tax increased significantly, further closing the gap between statutory and underlying profit

£8.1bn
+6%
Underlying profit increased, driven by higher income, and lower costs

5.5p
+27%
Earnings per share increased in the year, largely due to the significant increase in statutory profit

>£3bn
Strategic investment spend over the three year plan period (2018 to 2020), significant increase on prior plan

3.21p
+5%
Ordinary dividend per share including interim and final dividend. In addition the Group intends to implement a share buyback of up to £1.75bn

11.7%
+2.8pp
Group delivering a market leading return on tangible equity

49.3%
(2.5)pp
Cost:income ratio including remediation further improved

15.7m
Digitally active customers, the largest digital bank in the UK

Key performance indicators on **pages 06 to 07**

Strategic priorities on **pages 12 to 15**


HOW WE'VE HELPED BRITAIN PROSPER IN 2018



Helping Britain get a home
£12.4bn
in lending to first time buyers

Tackling social disadvantage across Britain
>3,000
charities supported, one of the largest corporate donors in the UK

Building capability and digital skills
>700,000
of individuals, SMEs and charities trained in digital skills

Championing Britain's diversity
35.3%
of senior roles held by women

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

visit **lloydsbankinggroup.com/prosperplan**

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

At the heart of our success is our purpose to Help Britain Prosper and we are playing a vital role in supporting people, businesses and communities across the UK.

Lord Blackwell
Chairman

Overview and strategy

The Group once again delivered strong financial performance in 2018 while making major strides in executing our strategic transformation. Nevertheless I am conscious it was a frustrating year for shareholders, with a disappointing share price performance despite this progress. While external factors affecting UK investments are outside of our control, the Board are determined to continue building value for shareholders by maintaining our focus on delivering continued improvement in our results whilst simultaneously investing in the transformation required to serve our customers and operate effectively in a digital world. We are committed to building a successful and sustainable Group we can all be proud of.

The Board has been actively involved in the development and ongoing review of the strategy and last year we announced the next phase of our strategic plan. We outlined our four transformation 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. This programme of change and renewal is all embracing, and our strong capital build is enabling us to invest more than £3 billion in these strategic initiatives over the current three year plan period (2018 to 2020), a significant increase over the prior period.

During 2018, the Board were excited to see the excellent progress that had been made within the first year of this plan. We are now operating in an industry which is experiencing more change through digitisation than in its entire history. Our aim is not just to maintain our position as Britain's biggest digital bank by competing more effectively, but also to seize opportunities to create more value from the wider and deeper relationships we can build with our customers through digital channels and service capabilities.

One important component of this opportunity is the potential to provide a deeper range of financial planning, wealth management and retirement solutions to our bank customers, drawing on the capabilities and expertise within Scottish Widows. During 2018, as well as completing the acquisition of the UK workplace pensions and savings business from Zurich Financial Services, we were delighted to announce a strategic partnership with Schroders in October with the aim of creating a market leading wealth management proposition.

Capital return

At each year end the Board makes an assessment of the strength of the Group's balance sheet and future prospects relative to uncertainties in the external environment. In addition to the increased investment of more than £3 billion over the plan period, I am pleased to announce that, as a result of the financial progress in the year, the Board has recommended an increased final ordinary dividend of 2.14 pence per share, bringing the total ordinary dividend for 2018 to 3.21 pence per share, an increase of 5 per cent on last year. In line with the Group's policy to deliver a progressive and sustainable ordinary dividend, whilst distributing surplus capital, the Board also intends to implement a share buyback of up to £1.75 billion. More information on the intended share buyback is provided on page 40 of our 2018 Annual Report and Accounts.

Our purpose

At the heart of our success is our continued focus on Helping Britain Prosper. The Group plays a vital role in supporting the prosperity of people, businesses and communities across the UK, and in doing so builds deep, long-term customer relationships. It is also important to the Board that our strategy is fully consistent with our commitments as a responsible business and during the year we have committed to becoming a leader in supporting the UK to transition successfully to a more sustainable low carbon economy. We recognise that the success of the Group is inextricably linked to the health of the UK and in this uncertain economic environment we are working hard to support the whole economy; and to help businesses take advantages of the continuing opportunities we have to build a prosperous future for the nation. Given the UK's ongoing competitive advantages as an open, innovative economy we remain optimistic about the long-term prospects.

In line with these objectives I am delighted that we have been named as a Top Ten Employer for Working Families, Responsible Business of the Year, and also The Times' Top 50 Employer for Women – showing that we're leading the way on gender equality too.

Customers and communities

Over the course of the year I have travelled across Britain to meet with colleagues, customers and communities. These visits enable me to see first-hand the work we do to support our customers and respond to their changing needs. Being truly customer focused is a prerequisite for success and I am always impressed by the fact it is an aspiration and commitment shared by everyone I meet in the Group.

Our focus on customers also continues to be recognised through various awards which this year included being awarded Bank of the Year for the sixth year running at The Banker awards; and for the third year in a row Scottish Widows won five stars at the Financial Adviser Service Awards, a reflection on how financial advisers rate our products and services.

During the year our colleagues raised close to £4 million for Mental Health UK, our charity partner, bringing our total to over £8 million since the partnership began in 2017. Seeing first-hand how our Foundations and colleague fund raising is helping charities all over the UK really brings perspective to the positive impact we are having in keeping with our purpose to Helping Britain Prosper.

HELPING BRITAIN PROSPER
OUR CONTRIBUTION TO THE UK

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

Colleagues
- One of the largest employers in the UK

Communities
- £56 million to help communities in 2018
- More than 200,000 hours volunteered

Payments
- £15 trillion of payments processed in 2018 = 7 x UK GDP

Tax
- £2.6 billion paid in 2018
- The UK's largest corporate tax payer

Lending
- £64 billion SME and Mid Markets lending portfolio
- Biggest mortgage lender in UK with c.£290 billion portfolio

Investment
- More than £3 billion strategic investment spend over the plan period

Dividends
- £2.3 billion paid in dividends to 2.4 million shareholders

There is of course much more to do, but I know we will do even greater good in the year ahead.

Directors
We review the Board composition and diversity regularly and are committed to ensuring we have the right balance of skills and experience within the Board. During the year we have announced a number of Board changes, as outlined below.

In October, Amanda Mackenzie joined the Board as a Non-Executive Director, and will serve as a member of the Board Risk Committee, Remuneration Committee and Responsible Business Committee. Further biography details can be found on page 39. At the end of December 2018, Deborah McWhinney stepped down as a Non-Executive Director of the Group for personal reasons and Stuart Sinclair succeeded Anita Frew as Chairman of the Board Remuneration Committee. Anita will continue to be a member of the Committee, alongside her roles as the Group's Deputy Chairman and Senior Independent Director.

In addition, we're also pleased to announce that Nigel Hinshelwood, Sarah Bentley and Brendan Gilligan joined as independent Non-Executive Directors of the Group's Ring-Fenced Banks on 1 January 2019 where they serve alongside the Group Board Directors. More information on the ring-fencing restructure is provided on page 58 of our 2018 Annual Report and Accounts.

In October George Culmer announced that he would be retiring in the third quarter of 2019, having served the Group so well since joining in 2012. I want to pay tribute to George's tremendous contribution and to thank him on behalf of the Board, our colleagues and our shareholders.

In February 2019, the Group was pleased to announce that William Chalmers will succeed George Culmer as Executive Director and Chief Financial Officer. I look forward to welcoming him to the executive team and the Board.

Remuneration
During the year we were disappointed to receive a 20.78 per cent advisory vote against our remuneration report, having previously had 98 per cent of votes support the Directors' remuneration policy in 2017. We have listened carefully to our shareholders and other key stakeholders and have made a number of changes to simplify our process for determining bonus awards for Executive Directors and to enhance our disclosures.

We continue to align our remuneration principles to the Group's strategic objectives to ensure we reward performance and ensure our approach to remuneration is aligned to the interests of our shareholders.

Despite the Group's strong financial performance, the annual Group Performance Share (GPS) award for Executive Directors has decreased relative to last year. As set out in the Remuneration Report, this reflects the assessed performance against other stretching operational and strategic goals, which, while strong in 2018, was a step down from the higher rating achieved in 2017.

Total GPS outcome remains a small proportion of underlying profit at 5.1 per cent and an even smaller proportion of overall revenues. Cash GPS awards are capped at £2,000 with additional amounts paid in shares and subject to deferral and performance adjustment to ensure their ultimate value reflects sustained performance. More information on how we ensure our approach to remuneration supports our strategy can be found in the Directors' remuneration report on pages 84 to 104 of our 2018 Annual Report and Accounts.

> We believe that our customer focus and simple business model will continue to provide the best opportunities for competitive advantage and future success.

Outlook
As we look ahead to 2019, the UK continues to face uncertainty around the near-term outlook for the economy reflecting both EU exit negotiations and wider global economic risks. However we have a strong and resilient business and, as we accelerate into the second year of our strategic transformation, we believe that our customer focus and simple business model with its multi-brand, multi-channel proposition will continue to provide the best opportunities for competitive advantage and future success.

I would like to thank all of our colleagues for their contribution to making 2018 such a successful year. It is the commitment, support and dedication from all of them that enables us to succeed.

Lord Blackwell
Chairman

Group Chief Executive's review

Another year of strong strategic and financial performance

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

António Horta-Osório
Group Chief Executive

In 2018 the Group has again delivered significant benefits for our customers and a strong financial performance, with increased profits and returns. As a result of this performance, we have been able to recommend an increased dividend and share buyback. Our differentiated, customer focused, UK business model continues to position us well for sustainable success and continuing to deliver our purpose of Helping Britain Prosper.

I am clearly proud of our customer focus and financial performance. To deliver this sustainable success in the long-term we need to ensure we remain focused on enhancing customer experience. With this in mind, in February 2018 we announced our ambitious strategy to transform the Group for success in a digital world, with a significant increase in strategic investment. We have already made a great start in implementing the strategic initiatives which will further digitise the Group, enhance customer experience, maximise our capabilities as an integrated financial services provider and transform the way we work. In addition, towards the end of the year we also announced a strategic partnership with Schroders to create a market leading wealth proposition. Continued delivery against our strategic priorities positions us well for future success and our confidence is reflected in our guidance.

Given our UK focus, our performance is inextricably linked to the health of the UK economy. Over 2018, economic performance has remained resilient with record employment and continued GDP growth and, whilst the near-term outlook remains unclear, particularly given the ongoing EU withdrawal negotiations, our strategy will continue to deliver for our customers. Our strategy is framed by our purpose of Helping Britain Prosper, being the bank with the largest retail and commercial presence throughout the country. Our unique business model and market leading efficiency will ensure we can continue to invest in customer propositions and grow our leading digital bank whilst delivering strong financial performance and market leading returns.

Financial performance

Statutory profit after tax of £4.4 billion was 24 per cent higher than 2017 and earnings per share at 5.5 pence per share was 27 per cent higher. This was driven by improved underlying profit including lower remediation charges and we continue to narrow the gap between underlying and statutory profit, a trend we expect to continue as statutory profits increase further. As a result of this performance the Group has delivered a further increase to our return on tangible equity, which is now a market leading 11.7 per cent. Underlying profit of £8.1 billion increased 6 per cent, reflecting growth in income and lower costs, partly offset by the expected increase in the impairment charge. Our relentless focus on cost efficiency led to a reduction in operating costs despite increased strategic investment, and our cost:income ratio improved further to 49.3 per cent. Asset quality remains strong with the Group's gross asset quality ratio remaining flat at 28 basis points, while the net asset quality ratio increased to 21 basis points, from 18 basis points, driven by expected lower releases and write-backs.

The Group's loans and advances were stable at £444 billion with growth in targeted segments including SME, Mid Markets and consumer lending offset by the sale of the £4 billion Irish mortgage portfolio in the first half of 2018. The Group's capital position remains strong with a pro forma CET1 ratio of 13.9 after allowing for ordinary dividends and the share buyback.

Given the Group's capital build of 210 basis points in the year, the Board has recommended a final ordinary dividend of 2.14 pence per share, bringing the total ordinary dividend for the year to 3.21 pence per share. This represents an increase of 5 per cent on 2017 and is in line with our progressive and sustainable ordinary dividend policy. In addition, the Board has announced its intention to implement a share buyback programme of up to £1.75 billion, equivalent to 2.46 pence per share, up 76 per cent from last year.

Strategic progress

In February 2018, we launched the third stage of our strategic plan with an increased strategic investment of more than £3 billion over the three year plan period, building on our unique competitive advantages, to transform the Group to succeed in a digital world.

Over the first year of the plan we have delivered significant progress against our strategic priorities of Leading customer experience, Digitising the Group, Maximising the Group's capabilities and Transforming ways of working as outlined on the next page.

Helping Britain Prosper Plan

The Group's success is intertwined with the UK's prosperity and we acknowledge we have a responsibility to help address the economic, social and environmental challenges the country faces. We do this through our Helping Britain Prosper Plan, which was simplified and updated in 2018 to support our three year strategy and focus on metrics that have the most impact on people, businesses and communities.

During 2018 we lent over £12 billion to first time buyers and increased lending to SME and Mid Market businesses by £3 billion to Help Britain Prosper and have committed to lending up to £18 billion in 2019 to businesses as part of our continued support for the UK economy. We have also provided digital skills training for more than 700,000 individuals, SMEs and charities, and supported over 3,000 charities through our independent charitable Foundations.

STRATEGIC PROGRESS

Significant progress has been made against our strategic priorities since the launch of our strategic plan in February 2018

15.7m
Digitally active customers

Leading customer experience

We are building a market leading digital experience, and in 2018 launched API-enabled Open Banking aggregation functionality as well as enhanced security and anti-fraud features. As part of our multi-channel model we also remain committed to maintaining the UK's largest branch network, with one out of five branches in the country, whilst tailoring it to meet customers' complex needs more effectively. In the year we opened our flagship Halifax branch, increased our mobile branch fleet to 44 and extended our remote advice coverage to 270 branches. We are also delivering increasingly targeted customer propositions.

The success of our multi-channel, multi-brand approach is reflected in our net promoter score which increased to 62 in the year and is up c.50 per cent from 2011.

Strategic priorities and focus for 2019 on **pages 12 to 15**

24%
Year-on-year increase in technology spend

Digitising the Group

We have increased investment in technology which now represents 16 per cent of operating costs, with over two-thirds relating to enhancing existing capabilities and creating new ones. This has driven operational efficiencies and improved the experience of customers and colleagues.

We are adopting new technologies, introducing machine learning and creating approximately 780,000 hours of additional colleague capacity through the use of robotics for simple repetitive tasks. We have also made targeted investments in public and private cloud solutions, which will deliver more efficient and scalable infrastructure going forward, whilst collaborating with fintechs to accelerate the digital transformation of the business, as part of our broader innovation strategy.

>3m
customers with access to Single Customer View

Maximising the Group's capabilities

In 2018 we launched Single Customer View; a unique capability already enabling over 3 million customers to view in one place the pension and insurance products they hold with the Group alongside their banking products. We have expanded our workplace pensions and savings offering to over 2 million customers and have seen net inflows of £13 billion into our financial planning and retirement propositions.

We have also strengthened our client relationship model and improved online functionality for Commercial Banking clients. Our Schroders partnership announced in October is a key part of our strategy to accelerate growth in Wealth by leveraging our multi-channel customer reach and Schroders' investment expertise, with the aim of becoming a top three UK financial planning business within five years.

>1m
of future skills training hours delivered

Transforming ways of working

We recognise that our colleagues are critical to the success of our transformation and are therefore making our biggest ever investment in our people.

In 2018 we have increased training hours by over 50 per cent, including more than 1 million hours dedicated to developing skills of the future. We have also introduced more modern collaborative working environments, simplified people processes by replacing several HR systems with a single platform and developed a new performance management system 'Your Best' which launched in January 2019. We are also transforming the way in which change is delivered with 15 per cent of teams now using Agile methodologies.

In 2018, the Group became the first FTSE 100 company to set a public target to increase representation of Black, Asian and Minority Ethnic (BAME) colleagues, committing to 8 per cent of senior management and to 10 per cent of the total workforce by 2020. At the end of the year 6.4 per cent of senior management and 9.5 per cent of all colleagues were from BAME backgrounds.

In recognition of the importance the Group places on helping the UK transition to a low carbon economy, in 2019 we have included a specific sustainability metric in our Plan. This signals our commitment and is supported by a detailed sustainability strategy. More information on the sustainability strategy is provided on pages 24 and 25.

Outlook

Over 2018 the UK economy has proven itself to be resilient with record employment and continued GDP growth. Whilst the near term outlook for the UK economy remains unclear, we continue to believe that our simple, low risk business model will deliver strong financial performance and market leading returns with a resilient net interest margin, lower operating costs enabling increased investment, strong asset quality and lower remediation costs. Our guidance demonstrates our confidence in the business model and the future prospects of the Group:

- We are already delivering a market leading return on tangible equity and expect further improvement in 2019 to 14 to 15 per cent
- Capital build is expected to remain strong at 170 to 200 basis points per year with the Board's view of our CET1 capital requirement remaining at around 13 per cent plus a management buffer of around 1 per cent. As a result we continue to expect to deliver progressive and sustainable ordinary dividends whilst maintaining the flexibility to return surplus capital to shareholders
- Our net interest margin is expected to be c.2.90 per cent in 2019 and, as previously guided, remain resilient through the plan period
- Our market leading efficiency continues to be a competitive advantage and we now expect operating costs to be less than £8 billion in 2019, a year ahead of the original target. We also continue to expect a cost:income ratio, including remediation costs, in the low 40s as we exit 2020, with improvements in this ratio every year
- Credit quality remains strong and, given our low risk business model and the significant portfolio improvements in recent years, we expect an asset quality ratio of less than 30 basis points in 2019 and the rest of the plan period

Summary

Framed by our purpose to Help Britain Prosper, the Group has again delivered a strong customer experience and financial performance in 2018 whilst making significant progress in building new capabilities to transform the Group to succeed in a digital world. While the year ahead will bring its own challenges, given the ongoing economic and political uncertainty, I continue to believe that our simple, low risk business model is the right one. Our current strategic plan for 2018 to 2020, with continued strong investment, will further improve customer propositions and grow our leading digital bank as part of our multi-channel strategy, while continuing to provide leading and sustainable returns to our shareholders.

António Horta-Osório
Group Chief Executive

Key performance indicators
Our strategy has delivered strong performance

Delivering for all our stakeholders

The Board has been actively involved in the development and ongoing review of strategy with regular reviews of progress and priorities. Following the launch of the next phase of our strategic plan in early 2018, and in addition to the regular management progress updates, a comprehensive Board review process has been implemented which includes formal quarterly updates and selective deep dives on topical issues. In addition strategy days were held in June and November to consider market dynamics and the strategic challenges and opportunities the Group is likely to face going forward. Board members have also made a number of site visits to understand how the strategy is being implemented and perceived at a local level. Key performance indicators are regularly reviewed by the Board with the measures outlined on this page identifying the most effective output measures for assessing financial performance and progress towards becoming the best bank for customers, colleagues and shareholders.

As a result of significant strategic progress in 2018, 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

Key performance indicators that are directly linked to remuneration are marked with this symbol.

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.

The remuneration awarded to Executive Directors is heavily weighted towards the delivery of long-term, sustainable performance that aligns with shareholder experience. For the variable awards made under the Group Performance Share and Group Ownership Share plans in respect of performance in 2018, over 95 per cent is awarded in shares, and 70 per cent is subject to performance conditions applying over three years.

Financial

Underlying profit before tax
£m

2018	**8,066**
2017[1]	7,628
2016[1]	6,782
2015[1]	7,275
2014[1]	6,831

Underlying profit increased in 2018, largely due to higher income, and lower costs whilst asset quality remains strong.

1 Restated to include remediation.

Statutory profit before tax
£m

2018	**5,960**
2017	5,275
2016	4,238
2015	1,644
2014	1,762

Statutory profit before tax increased significantly, largely driven by strong underlying performance and lower charges below the line.

Ordinary dividend
p per share

2018	**3.21**
2017	3.05
2016	2.55
2015	2.25
2014	0.75

An increased ordinary dividend of 3.21 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 £1.75 billion.

Statutory return on tangible equity
%

2018	**11.7**
2017	8.9
2016	6.6
2015	2.6
2014	4.4

The statutory return on tangible equity increased reflecting the increase in statutory profit after tax, and slightly lower average tangible equity.

2019 TARGET
Statutory return on tangible equity
14-15%

Cost:income ratio %

	Including remediation	Excluding remediation
2018	**49.3**	**46.0**
2017	51.8	46.8
2016	55.3	48.7
2015[1]	54.2	49.3
2014[1]	55.3	49.8

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

2020 TARGET
Cost income ratio including remediation
Low 40s

2019 TARGET (NEW)
Operating costs
<£8bn

1 Excluding TSB.

Performance at a divisional level on pages 27 to 29

Common equity tier 1 ratio (CET1)
%

2018[1]	**13.9**
2017[1]	13.9
2016[1]	13.0
2015[1]	13.0
2014	12.8

Our common equity tier 1 ratio remains strong. The Board's view of the level of capital required to grow the business, meet regulatory requirements and cover uncertainties remains around 13 per cent plus a management buffer of around 1 per cent. In the last two years we have reduced this to 13.9 per cent through dividend payments and buybacks.

CURRENT TARGET
Capital build
170-200bps per annum
with a regulatory capital requirement of around 13% and a management buffer of around 1%

1 Pro forma, reflecting Insurance dividend. Also includes ordinary dividend and share buyback. 2016 reflects MBNA.

Earnings per share

p

2018	**5.5**
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.

Economic profit

£m

2018	**3,291**
2017	3,987
2016	3,377
2015	2,233
2014	2,094

Economic profit, a measure of profit taking into account expected losses, tax and a charge for equity utilisation. In 2018, the equity charge and tax charge increased.

Total shareholder return

%

2018	**(20)**
2017	14
2016	(10)
2015	(2)
2014	(4)

Despite the strong financial performance our share price fell by 24 per cent in 2018 in line with many other financial services companies. After including dividends paid in the year, total shareholder return was (20) per cent.

Non-Financial

Customer satisfaction

(net promoter score)

2018	**61.8**
2017[1]	61.2
2016[1]	61.8
2015[1]	58.5
2014[1]	58.3

Our net promoter score is the measure of customer service at key touch points and the likelihood of customers recommending us. Customer satisfaction slightly increased in 2018.

Link to strategic priorities

Leading customer experience

1 Restated to reflect changes in measurement approach.

Our values and behaviours

% favourable

2018	**79**
2017	80
2016[1]	78
2015	78
2014	72

Our values and behaviours index comprises metrics related to continuous improvement, collaboration, innovation, inclusiveness with a strong focus on customers. We continue to see high numbers of colleagues believing we are demonstrating these values. The survey in 2018 was completed by more than 57,000 colleagues (83 per cent of the Group headcount).

Link to strategic priorities

Leading customer experience

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

Colleague engagement index

% favourable

2018	**73**
2017	76
2016	71
2015	71
2014	60

Colleague engagement remains strong despite a slight decline since 2017 (our highest ever score). Both the engagement and performance excellence indices are above UK high performing norms with colleagues scoring pride, advocacy and teamwork favourably.

Link to strategic priorities

Transforming ways of working

Digitally active customers

m

2018	**15.7**
2017[1]	13.4
2016[1]	12.5
2015[1]	11.5
2014[1]	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 11.4 million, many of whom use our award winning Lloyds Bank app.

Link to strategic priorities

Digitising the Group

1 Excludes MBNA.

Customer complaints[1]

FCA reportable complaints per 1,000 accounts

H1 2018	**3.9**
H2 2017	4.2
H1 2017	4.1
H2 2016	4.3

Overall FCA reportable complaints excluding PPI and claims management companies have continued to reduce in 2018.

The FCA changed the approach to complaint reporting in June 2016 and historic data is presented since this date.

Link to strategic priorities

Leading customer experience

1 Excluding PPI.

Helping Britain Prosper Plan targets achieved

2018	**20/22**
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 2018, we achieved 20 out of 22 targets, helping to address some of the social, economic and environmental challenges the UK faces. Find out more on page 20.

Link to strategic priorities

Maximising the Group's capabilities

Leading customer experience

Our external environment
We operate in an increasingly dynamic market

Economy

Highlights

- Given our UK focus, the Group's prospects are closely linked to the fortunes of the UK economy
- The economy faces significant uncertainty around the UK's departure from the EU. With the expectation that the UK leaves in an orderly fashion, the economy should be able to grow in 2019 at a similar pace to 2018
- Our low risk business model and focus on efficiency positions us well irrespective of macro conditions, but if the UK economy sees significant sustained deterioration this is likely to impact Group performance

Overview

As the largest provider of UK banking services, our prospects are closely aligned to the outlook for the UK economy. In the period following the decision to leave the EU, the economy has been resilient. Growth has slowed only slightly below its trend rate, the unemployment rate has continued to fall to a 43 year low, and property prices have continued to rise slowly. This resilience is expected to continue in 2019 and the next few years, barring any sudden shocks to business or consumer confidence particularly in connection with the UK's exit from the EU during 2019.

Market dynamics

Households' spending power has been improving in recent months as pay growth has begun to pick up and outpace inflation, which is falling back towards the medium term target of 2 per cent. Inflation adjusted pay is now slightly above its previous peak in early 2016. This improvement is expected to continue through 2019, supported by a reduction in planned fiscal tightening announced in the 2018 Budget in November and the end of the cap to public sector pay growth. The improvement in spending power should help support growth in consumer spending and borrowing, whilst also increasing growth in households' savings.

The UK housing market has been broadly flat in 2018 in aggregate, although weakness has been centred around London and the South East where high prices are constraining affordability. Improved households' spending power should support the housing market in 2019, as would resolution of uncertainty about the immediate political and economic concerns.

Operational impacts of the UK's exit from the EU present risks for some of our customers' businesses. With the future trading arrangements between the UK and EU unlikely to become finalised for a few years, businesses' investment decisions are more difficult and postponement of investment may weigh on future growth capacity of the economy. Uncertainty is also challenging the UK's attractiveness to foreign investors, although many qualities that have attracted investors in the past remain.

More widely, the global economy is transitioning away from the exceptionally low interest rates in place in most advanced economies since the financial crisis. This process will not always be constant, with different countries at different stages of their economic cycle, and unwinding of 'quantitative easing' may increase volatility in financial markets. The widespread trend to increasingly populist politics, of which the US-China trade war is a prime example, poses a challenge to appropriate economic policy.

Barring sudden shocks stemming from these challenges, the UK economy is expected to grow through 2019 to 2021 at a pace similar to that of the past three years, around 1.5 per cent. The unemployment rate is expected to rise only a little from its current 43 year low, and further mild increases in house prices are expected. The Bank Rate is expected to rise only slowly, as the uncertainty drag on the economy fades. Growth in many of our markets is expected to pick up, although the consumer credit market should continue to slow after its strong growth through 2014 to 2017. Impairments are expected to increase in 2019 as we continue to see lower write-backs and recoveries but remain at relatively low levels.

Our response

Given our UK focus, the Group's prospects are closely linked to the performance of the UK economy. Our low risk, stable business model and focus on efficiency positions us well to continue to support customers irrespective of macro conditions.

Link to principal risks
Credit
Capital
Funding and liquidity
Market

Link to strategic priorities
Maximising the Group's capabilities

Regulation

Highlights

- The UK financial services sector is expected to remain highly regulated
- There is increasing clarity on impending regulation although new regulation and market reviews continue to be issued

Market dynamics

A number of key regulatory changes have been implemented in the last 12 months including ring-fencing and GDPR. The key areas of focus for 2019 are as below:

Open banking
Open Banking regulation was implemented in January 2018 with the aim of increasing competition by enabling customers to view personal financial data from different providers in one place. Although currently just relating to current accounts it will be extended to other products in 2019 and beyond. Customer data protection is integral to this with new EU wide technical standards (PSD2) due to be implemented by September 2019.

Customer treatment
A number of specific product reviews are currently being undertaken by the regulators to ensure product clarity and pricing transparency. These include reviews of the mortgage market, overdraft charging and savings accounts.

Capital regulation
The Group continues to prepare for a number of regulatory capital developments with uncertainty remaining around the implementation and impact of the final Basel III reforms.

Other
A number of other regulatory initiatives are currently in the pipeline, which seek to address, among other things, vulnerability, access to services, customer treatment and choice, and competition.

Our response

As a Group we always seek to comply with all related regulation.

Given the Group's simple, low risk business model, it is well placed to meet these requirements and welcomes the positive effect that they will have on the industry, its customers and other stakeholders.

Link to principal risks
Conduct
Governance
Operational
Regulatory and Legal
Capital

Link to strategic priorities
Delivering a leading customer experience

Customer

Key messages

- Customer behaviours continue to change, with an increasing focus on personalised customer experiences and convenient, instantly accessible services, with these developments enabling customers to exert greater control over their finances than ever before
- Evolving demographics and life patterns are changing the financial needs of our customers, in particular increasing focus on financial planning for retirement

Market dynamics

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 provided more brand choice for the customer across a number of sectors, with technology developments also raising customer expectations for control of their finances, both in terms of seeing their accounts in one place and monitoring transactions.

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

Our response

We have a proven track record of providing 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 we are now using to facilitate greater personalisation, while ensuring we meet all of our customers evolving banking and insurance needs.

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.

Link to principal risks
Regulatory and legal
Conduct
Operational

Link to strategic priorities
Delivering a leading customer experience

Technology

Key messages

- The pace of digital adoption continues to surpass expectations and is likely to increase further in the coming years
- Harnessing new technology is enabling us to respond to customers' needs more rapidly and efficiently
- Cyber security and the protection of customer data are increasingly important factors in retaining customer trust

Market dynamics

The pace of digital adoption continues to surpass expectations and this trend is likely to accelerate further, transforming the way 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. These new entrants have also been increasingly collaborating with incumbent banks, while established peers have more recently launched their own standalone propositions designed to increase disruption.

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, particularly given the introduction of Open Banking and API-enabled propositions which are changing the manner in which customers are able to share their data.

Our response

As the UK's largest digital bank, we are embracing technological developments to enhance customer experience. The increasing use of intelligent systems provides an opportunity to respond to customers growing expectations for personalisation, relevance and control, 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 quickly to an evolving operating environment, as well as aiding risk taking decisions and mitigating fraud.

We remain focused on further enhancing the customer experience and building on our market leading efficiency position through the use of technology, supported by a significant increase in investment over this strategic plan. 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.

Link to principal risks
Conduct
Operational
Regulation and legal

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

Competition

Key messages

- Competition within UK financial services remains high
- The competitive landscape is changing with new entrants such as fintechs and tech giants continuing to increase disruption through innovation, while incumbent banks continue to re-focus

Market dynamics

Our competitive landscape continues to evolve. A number of domestic incumbents are intensifying their focus on the UK market, as a result of restructuring post-financial crisis and ongoing regulatory changes. In addition we are seeing increasing competition from smaller non traditional and technology focused companies, some of whom are partnering with large, traditional banks to build scale and drive efficiency. Tech giants also remain a future threat to the financial services sector, given strong brand loyalty, access to significant customer data and a focus on delivering great customer experiences.

Looking ahead, competition is likely to remain high, increasing focus on innovation and placing pressure on earnings across the sector.

Our response

With customers becoming more empowered as a result of greater choice than ever before, we must continue to 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 raise the bar for innovation.

Our leading cost position, combined with our simple business model, provides us with the operational flexibility to compete effectively. However, we are going further to respond to these threats and our current strategic plan should equip us well to combat these challenges.

While greater competition increases choice for consumers and reinforces the need to further improve the customer experience, the breadth of our multi-brand and multi-channel offering along with our market leading efficiency and customer focused business model means we continue to compete from a position of strength.

Link to principal risks
Regulatory and legal
Conduct
Operational
People

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

Our business model
How we create value, and what sets us apart

We are a simple, low-risk, customer focused UK financial services provider...

OUR PURPOSE

Helping Britain Prosper

Our success is interwoven with the UK's prosperity and we aim to Help Britain Prosper through creating a responsible business that focuses on customers' needs, and delivering long-term sustainable success.

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.

OUR PRODUCTS

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

Lending Mortgages, credit cards, motor finance, 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

OUR BUSINESS AREAS

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

Retail

Commercial Banking

Insurance and Wealth

pages 27 to 29

...with several evolving, distinctive competitive strengths...

UK's largest digital bank, branch reach and customer franchise **with leading integrated propositions**

Our scale and reach across the UK means that our customer franchise extends to around 26 million customers, with 15.7 million digitally active customers. We are uniquely positioned to deal with customers' banking and investment needs.

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 relative credit default swap spread. Our financial strength has been transformed in recent years with our capital position amongst the strongest in the sector worldwide.

Market leading efficiency through **tech-enabled productivity improvements**

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

Rigorous execution and management discipline **focusing on key skills of the future**

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

Multi-brand, multi-channel customer proposition with **data driven customer experience**

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

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

As a large, UK focused financial services provider we face several external and internal challenges

EXTERNAL

As previously discussed on pages 08 to 09, the main external challenges we face are:

- Evolving and uncertain economic environment, including EU exit uncertainty
- High levels of regulation
- Evolving customer needs
- Responding to technology innovations
- Managing pressure from increased competition

...that underpin our clear strategy to transform the Group for success in a digital world...

In February 2018, we launched our new three year strategy to transform the Group for success in a digital world. We identified four strategic priorities focused on the financial needs and behaviours of the customer of the future and are investing more than £3 billion in these strategic initiatives over the plan period.

OUR STRATEGIC PRIORITIES

pages 12 to 15

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 UK's sole integrated financial services 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.

...enabling us to Help Britain Prosper and deliver for all our stakeholders.

Successful implementation of our strategy will ensure we Help Britain Prosper and deliver sustainable success for all stakeholders including customers, colleagues and shareholders.

KEY STAKEHOLDER OUTCOMES

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

pages 16 to 18

Shareholders

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

Colleagues

- Enhanced customer focus culture
- Transformed ways of working
- Enhanced colleague skills and capabilities
- Compelling colleague proposition

INTERNAL

We also face a number of internal challenges:

- 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

Our strategic priorities
Leading customer experience

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 2018 TO 2020

- 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

MEASURING PERFORMANCE

15.7 million
Digitally active customers

>£4 billion
Balance growth in underrepresented segments

Progress in 2018

In 2018 we have made significant progress in enhancing our digital propositions and branch network to reflect changing customer preferences, while also increasing personalisation.

Building a market leading digital experience
In a year in which we met more of our customers' simple needs via mobile than any other channel for the first time, we have made a number of functionality enhancements designed to put customers more in control of their finances digitally.

We were the first large UK bank to meet the regulatory deadline for Open Banking. We have built on this success, launching our API-enabled aggregation functionality in the fourth quarter. Through this customers are now able to view their current accounts with us alongside those held outside of the Group.

We have also launched enhanced security and anti-fraud features including location based transaction searches and the ability to freeze and unfreeze cards via mobile, with other functionality enhancements including improved statement searches, smart alerts and upcoming payment notifications.

#1 branch network, serving complex needs
Customers continue to prefer face-to-face contact for more complex needs. We therefore remain committed to maintaining the UK's largest branch network as part of our multi-channel proposition, while tailoring it to continue meeting these complex needs effectively. Highlights include the opening of our flagship Halifax branch in London's Oxford Street, 16 additional routes for our mobile branch fleet, which now serves over 210 locations, the roll-out of remote advice functionality, with 270 branches now linking directly to dedicated mortgage advisers, and enhancements that have enabled branch colleagues to spend more time meeting customers' complex needs.

Personalising our customer proposition
Given our extensive insight, we are well positioned to meet the growing demand for personalised customer propositions. As part of our overall response to this significant opportunity, we recently launched our Lend a Hand mortgage proposition that meets the needs of borrowers without a deposit to get onto the housing ladder, while also offering market leading savings rates to family members or other supporters who are willing to provide this deposit on their behalf. In addition, the strength of our Club Lloyds proposition has enabled strong deposit growth. These and other initiatives have enabled us to increase personalisation and to achieve growth of over £4 billion in underrepresented segments.

Focus for 2019

We will build on these strong foundations by continuing to enhance our digital functionality to meet customers' simple needs, while also ensuring that our branch network continues to meet complex needs effectively. In 2019, we have already made our Open Banking capability available to all our Lloyds, Halifax and Bank of Scotland mobile app customers, with the significant broadening of the range of products they are able to aggregate later in the year putting them more in control of their finances . In addition we will retain our focus on using our significant data insight to develop products that are more tailored to our customers' specific needs.

Our Remote Advice Video Interviewing service is an important element of how we are improving the customer experience, providing our customers with greater flexibility and convenience in how they can discuss and meet their complex needs. In 2018, this service has gone from strength to strength, with an initial focus on our customers' mortgage needs. Approximately 38,000 customers have already taken the opportunity to discuss their mortgage needs in one of our 270 branch locations that currently offer this service or from the comfort of their own home through our home to hub offering.

270
branches now live with Remote Advice

Our strategic priorities
Digitising the Group

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 2018 TO 2020

- 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

MEASURING PERFORMANCE

24%
Year-on-year increase in technology spend

c.100
Applications migrated to private cloud

Progress in 2018

We have made a strong start against our strategic objectives of driving additional operational efficiencies that will make banking simpler and easier for customers. We have embraced technology developments, with increasing levels of investment underpinning the progress made in modernising our IT and data architecture and improving processes for the benefit of both customers and colleagues.

Increasing investment in technology
To position the Group for success in a digital world, we have embarked on one of the largest transformation programmes in financial services. Consistent with this, we have increased our investment in technology by 24 per cent, placing us in the top quartile amongst peers. Over two-thirds of this spend related to enhancing existing capabilities and creating new ones, in line with our chosen approach of simplifying and modernising our IT and data architecture in a progressive manner.

Adopting new technologies
In order to improve processes and deliver better outcomes for customers, we are increasingly adopting new technologies. Key highlights in the year include the introduction of robotics for simple, repetitive tasks such as performing customer rectifications, with the resultant release of approximately 780,000 colleague hours creating additional capacity to improve processes and propositions for customers. In addition, we have introduced machine learning capabilities in a number of areas, which has also led to significant improvements to back office processes and further operational efficiencies.

In 2018, the Group also made targeted investments in both public and private cloud solutions, with around 100 applications migrated to private cloud. These investments will deliver a more efficient, scalable and flexible infrastructure going forward and act as enablers for further investment in 2019 and beyond. This leaves us well positioned to deliver further enhancements for the benefit of customers, colleagues and shareholders.

Delivering for our customers
The launch of our Open Banking aggregation capability and multiple functionality developments throughout the year were made possible by the replatforming of our mobile app during 2018. This replatforming placed our Lloyds, Halifax and Bank of Scotland banking brands on the same platform and has enabled us to react faster to change, doubling the frequency of new releases to the market. This supported the roll out of a number of new features for customers including push notifications and virtual assistants, both of which have been positively received by customers to date, with strong satisfaction and adoption rates.

Focus for 2019

We will further embrace technology while continuing to build our innovation pipeline and collaborate with fintechs to accelerate our transformation. We will also make better use of our extensive customer data, creating a single record for each of our customers that allow us to deliver better insight driven propositions. As a result, we will make ongoing improvements to our customer offering, leveraging our mobile app to deliver new functionality to customers in a timely manner and providing greater control and insight to customers than ever before.

Digital Champions are colleagues who pledge to improve the digital skills and financial capability of at least two individuals or organisations each year. Thousands of colleagues have already signed up. Digital Champions are one way we are committed to Help Britain Prosper.

Numman Miah volunteered at his local community centre at a session supporting those with limited IT skills. Many of the attendees were unemployed – improving their digital capabilities helps them in their job searches.

Working as a Group Digital Champion is a source of joy for Numman, providing him with the opportunity to give something valuable back to his own community.

When you first hear of being a Digital Champion, you assume that you have to be a computer whizz but, in reality, it's just doing the things we all do every day, without realising.

Numman Miah
Digital champion

>23,000
Digital Champions

Our strategic priorities
Maximising the Group's capabilities

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 strengths and unique business model.

KEY OBJECTIVES FOR 2018 TO 2020

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

MEASURING PERFORMANCE

£3 billion
Net lending to starts ups, SME and Mid Market customers

>3 million
Customers with access to Single Customer View

>£13 billion
Open book assets under administration net customer inflows

Progress in 2018

In 2018 we have continued to enhance and leverage the Group's capabilities to meet our customers' banking and insurance needs more effectively.

Meeting our customers' growing financial planning and retirement needs
As the UK's sole integrated financial services provider we are unique in being able to show and serve all of our customers' financial needs in one place. In the year we have begun the roll out of a Single Customer View capability, with over 3 million customers now able to view in one place the insurance and pension products they hold with the Group alongside their more traditional banking products. This single home for banking and insurance needs builds on our Open Banking aggregation capability and is supported by levels of digital engagement that significantly surpass those of standalone insurers.

We have also made a number of improvements to our customer propositions, including the expansion of our workplace pensions and savings offering following the Zurich acquisition in 2017. These and other developments have enabled us to achieve net inflows of £13 billion open book assets under administration in the year.

We embrace innovation and are working with external parties to develop potential solutions that will enable customers to consolidate their pension pots from multiple providers digitally, making it quicker and easier for them to review their retirement savings in one place.

Leveraging our partnership with Schroders to accelerate our Wealth strategy
In October, we announced a strategic partnership with Schroders to create a market leading wealth proposition that will better serve customer needs and accelerate the development of our financial planning and retirement business.

We are excited by the potential that the combination of our significant customer base, multi-channel distribution and digital capabilities with Schroders' investment and wealth management expertise and technology brings and have consequently set an ambitious target of becoming a top three UK financial planning business within five years.

Improving the experience of our Commercial Banking clients
In Commercial Banking we have increased net lending by £3 billion and have exceeded start-ups, SMEs and Mid Market clients our sustainability target through support for renewable energy projects capable of powering over 2.6 million homes. We have also delivered improvements to the client experience by simplifying our client relationship model and enhancing our online functionality, with SME clients now able to check instantly whether they will be approved for loans or overdrafts of up to £25,000 before they apply.

Focus for 2019

In 2019 we will extend the roll out of Single Customer View, with the expectation of reaching over 9 million customers by the end of the plan period, with other areas of focus including the further development and formal launch of our wealth partnership, Schroders Personal Wealth. We will also improve the digital banking experience of our Commercial Banking clients, including significantly reducing the time to cash for unsecured lending to less than two hours.

The Group is uniquely placed in the UK to help customers throughout their whole life. Single Customer View helps our customers see everything that is important to them, including their bank account, pension and other insurance products, in one place, whether that is online, in branch or over the phone. 2018 saw us help over 3 million customers engage with their insurance and pension products more simply, alongside their banking. In 2019 we want to reach many more customers and help them to do more with us, like make a top up to their pension or start a home insurance claim.

I had to stop making contributions to my pension, so seeing this online alongside my bank account now has reminded me I need to take some action and start saving again.

Lloyds Banking Group customer

Our strategic priorities
Transforming ways of working

Our colleagues are crucial to the success of our business. In order to deliver our transformation during the current strategic plan 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 are making our biggest ever investment in colleagues to ensure that we 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 2018 TO 2020

50 per cent increase in training and development to 4.4 million hours per year

Up to 30 per cent change efficiency improvement

MEASURING PERFORMANCE

>1 million
Future skills training hours delivered

15%
Change delivered using Agile

Progress in 2018

We recognise that our colleagues play a critical role in our transformation and have made significant progress in providing them with the skills they will need in the future as well as an improved working environment and tools to deliver change more effectively. At the same time, we are simplifying and improving our colleague proposition, responding to changing expectations towards employers.

Investing in our people
We are making the biggest ever investment in our people. As part of this, we have increased training hours by over 50 per cent to 4.3 million hours, with over 1 million of these relating to developing key skills for the future. We are on course to deliver our target of cumulative 4.4 million training hours relating to skills for the future by 2020.

In addition, we have brought our teams closer together, improving productivity and bringing further benefits to our colleagues' working experience. Over 32 per cent of colleagues are now located in modern, collaborative working environments, as we continue to move to six strategic hubs across the UK.

We are also reducing complexity to allow our colleagues to spend more time focusing on decisions that really matter. Consistent with this focus, we have started the migration of 60 people processes and systems onto a single HR platform, leveraging cloud based technology, and completely redesigned our performance management process, one of our key colleague journeys, reducing management time, bureaucracy and process, and focusing on meaningful colleague feedback and development.

Embracing new ways of working
We are embracing new ways of working and transforming the way in which change is delivered. In particular, 15 per cent of change is now delivered using Agile, with 6,600 colleagues trained in these methodologies. This allows us to build cross functional teams and increase collaboration, efficiency and expertise in our decisions and, through this, deliver products and services that our customers really want, at a pace that ensures these remain relevant and timely. The ongoing improvement in the capabilities of our people and the methods in which we work will drive a continued cultural shift across the organisation and will help us deliver our significant strategic transformation. In addition, this will improve satisfaction and make it easier to do business, while also delivering a leading customer experience.

Focus for 2019

We will continue to roll out Agile as we move towards our target of more than 50 per cent of change delivered through these methodologies by the end of this strategic plan. This combined with changes that will bring our colleagues closer together, boosting innovation and increasing simplicity, will make it easier for our people to focus on delivering greater value for customers. We will also further up-skill our colleagues alongside targeted recruitment to ensure our colleagues have the required capabilities to deliver our transformation. The attraction, retention and development of talent will be supported by further improvements to our colleague proposition, ensuring that this remains compelling and aligns to our culture.

32%
of colleagues are now in co-located teams, moving from 39 locations to 6 strategic hubs

"I genuinely feel much more valued as a colleague than before the move. It's great to see Lloyds Banking Group making such an investment in colleagues and it's just a much more pleasant experience coming into the office.

Lloyds Banking Group colleague

Reflecting the needs of our stakeholders
Our Board actively engages with our stakeholders

Our aim is to be the best bank for customers, colleagues and shareholders. As the UK's leading financial services provider we operate in, and support, communities across the country and help British people and businesses prosper. We have around 26 million customers, 2.4 million shareholders and around 65,000 colleagues. Engaging and responding to all our stakeholders is fundamental to the way we operate and maintaining the highest standards of business conduct is vital to our corporate culture and the long-term success of the Group. This therefore remains a major focus for senior management and the Board.

One of the primary tasks of the Board is to develop a strategy which can achieve long-term success and generate sustainable returns and this is only possible if we engage, consult and act on the needs of stakeholders.

To enable this and ensure stakeholder considerations are at the heart of all corporate decision making, various papers relating to different stakeholder groups are presented regularly at Board. In addition all Board papers submitted are required to consider the impact of proposals on key stakeholder groups.

On occasion, some decisions may not provide a positive outcome for all stakeholders however we aim to act in the best interests of the Group and all stakeholders and be fair and balanced in our approach.

We engage with stakeholders in many different ways and this section outlines the key stakeholder Groups, how we are interacting with them and how they inform strategic decision making.

In January 2019 we launched Lend a Hand, specifically designed to help address the biggest challenges that first time buyers face whilst getting onto the property ladder. Lend a Hand mortgage removes the need for a first time buyer deposit - with this instead coming from savings from family or other supporters. Owning a home remains the number one life goal for 18 to 35 year olds, but half say saving for a deposit is the biggest barrier.

£30bn
lending to first time buyers by 2020

Customers

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

- The Group is focused on doing the right thing for customers and the Board receives regular updates and reports on progress. In particular the Board reviews the Customer Dashboard results on a quarterly basis, and approves the annual customer plans
- The Group also looks to benchmark performance among customers and uses this insight from a range of internal and external research, including net promoter scores (NPS) and the GFK customer index, to improve services
- Our new strategy launched in February 2018 with the aim of meeting customers' needs more effectively in a digital world. The Board was heavily engaged in its development and ensuring the customer was at the heart of strategic investment
- The real focus on customers is not just evidenced by the regularity of presentations but also by the existence of the Group Customer First Committee. This is a sub-committee of the Group Executive Committee which focuses on Group customer experience, customer targets and plans and best practice externally
- To ensure Board members truly understand the needs of customers, a series of branch visits and customer events were undertaken during 2018 enabling direct feedback
- We aim to treat all customers fairly and have specifically looked to ensure vulnerable customers are not disadvantaged. Our websites and mobile banking apps are being accessibility accredited by AbilityNet and we have provided more than 90,000 hours of vulnerable customer training this year. We are the UK's largest provider of basic bank accounts, opening around 33 per cent of all basic bank accounts in 2018. We also work with many support organisations to remove the barriers to accessing banking services
- We recognise the importance to customers of both their data and their money being safe, and we use advanced technology to protect them, including systems that prevent fraud and detect fraudulent payments in real time. We are continuously improving our cyber defences and also educate customers to improve their own security by championing public awareness campaigns, including Take Five. Colleagues also receive appropriate, ongoing training and support, such as anti-bribery training to help them protect our customers

Shareholders

The Group has the largest shareholder base in the UK and we undertake a comprehensive shareholder engagement programme with regular feedback to management and the Board.

- Investor Relations has primary responsibility for managing and developing the Group's external relationships with existing and potential institutional equity investors and analysts. With support from senior management, they achieved this through more than 400 meetings in 2018, covering approximately 800 institutions in various locations including the UK, North America, Europe and Asia
- The meetings were primarily aligned to results and included discussions on strategic progress and financial and operational performance. Feedback from meetings is passed directly to senior management
- During 2018 senior management increased their investor engagement with over 300 investors seen during the year. In addition to the Group Chief Executive and Chief Financial Officer, an increasing number of other executive committee members undertook investor meetings in the year
- Various members of the Board have engaged with shareholders through the year, including the Chairman, the Senior Independent Director and the Remuneration Committee Chair. The Remuneration Committee Chair, in particular, held numerous meetings with investors to gain feedback following the remuneration resolution outcome at the 2018 Annual General Meeting (AGM)
  – More information on the 2018 AGM advisory vote can be found on page 03
- In October, the Chairman and a number of Non-Executive Directors hosted a governance lunch with various major institutional investors covering key topics such as responsible business, remuneration and risk enabling us to provide an update on progress whilst enabling investors to provide feedback on these subjects
- In addition to these meetings the Group communicates with its shareholders through regular results and strategy announcements and has a comprehensive website on which detailed company information is available. To ensure effective communication with all shareholders, the Group Chief Executive specifically writes to all shareholders, updating them on progress every six months

- Investor Relations also provides regular reports and feedback to the executive team and the Board on key market issues and shareholder concerns. This includes a six monthly update on reputation and an annual presentation by our corporate brokers on market dynamics and corporate perception
- The AGM is an opportunity for shareholders to hear directly from the Board on the Group's performance and strategic direction, and importantly, to ask questions. In 2018
  – over 200 shareholders attended
  – over 70 per cent of total voting rights voted
- All institutional shareholder letters are discussed at the Board Nomination and Governance Committee to ensure Board members are aware of investor sentiment and concerns
- The Group has a significant retail shareholder base and a team dedicated to engaging with retail shareholders who, with support from the Company's registrar Equiniti Limited, deliver the Group's shareholder service strategy, including the AGM. Further work is progressing to enhance engagement with retail shareholders in 2019. Group Secretariat provide feedback to the Board and appropriate Committees to ensure the views of retail shareholders are received and considered

Colleagues

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

- We are committed to making the Group a great place to work and believe that our colleagues are crucial to the long-term success of our business. We believe it is important that the Board engages actively with colleagues and understands the views of the Group's diverse workforce and does this in a variety of ways, as outlined below
- Ensuring all colleagues act in the right way is key to embedding a customer focus culture. Our Code of Responsibility outlines the values and behaviours which colleagues should follow. Colleagues review the code annually during mandatory training, alongside Anti-Bribery training based on our Anti-Bribery Policy. We have a zero tolerance approach to bribery, and expect the same from all colleagues and third parties providing services for, and on behalf of the Group. Any non-compliance with codes, policies or standards will result in colleagues facing disciplinary action
- During the year we communicated directly with colleagues detailing the Group's performance, changes in the economic and regulatory environment and updates on our key strategic initiatives. We also hosted regular Ask Me Anything sessions providing the opportunity for colleagues and contingent workers to ask questions and receive real time responses directly from members of the Board and senior colleagues across all departments
- Members of the Board visited several Group offices, including our new Halifax flagship branch in London, and the MBNA offices in Chester, providing the opportunity to meet key functions in our supply chain supporting our IT and transformation labs and customer call handling

> Helping Britain Prosper LIVE was a fantastic experience, which I felt lucky and grateful to be involved with. I left the day feeling inspired and excited to see how the Group will evolve in the next three years.
>
> **Lloyds Banking Group colleague**

- We hosted regular breakfasts and informal dinners with the Chairman and Group Chief Executive. These took place in various hub locations and invitations were extended to contingent workers and suppliers working within these locations
- The Group held its biggest ever live communication event, Helping Britain Prosper LIVE, which was attended by 4,000 colleagues. This event, hosted by the Group Chief Executive, Chairman and key members of the executive leadership team, provided the opportunity for our colleagues to see first-hand how we are Helping Britain Prosper every day. Speeches were broadcast live on our intranet and sessions were run in five key hub locations to provide opportunities for members of our colleagues in those locations to experience the event
- We held meetings throughout the year with our recognised unions, attended by the Chair of the Remuneration Committee and the Group Chief Executive. Key topics included the Living Wage, which applies to our whole workforce
- The Board participated in the transforming ways of working labs, providing them with the opportunity to see first hand the activity underway in support of changing the way we work and improving the colleague experience
- The Board reviewed the results from annual surveys; Banking Standards Board (BSB) survey and cultural assessment colleague engagement survery, and agreed specific actions as a result
- We are committed to improving the transparency of workforce disclosure and for the first time in 2018 participated in the Workforce Disclosure Initiative
- During 2018, the Board discussed how best to engage with the wider workforce; permanent employees, contingent workers and third party suppliers that work on the Group's premises. From the second quarter of 2019, the Board will receive quarterly insight into workforce related activity and support key decision making
- We offer a competitive and fair reward package. Colleagues are eligible to participate in HMRC approved share plans which promote share ownership by giving employees an opportunity to invest in Group shares. Further information can be found on page 98 in the Directors' Remuneration Report of our 2018 Annual Report and Accounts.

4,000

colleagues attended Helping Britain Prosper LIVE with around 14,000 watching remotely

Reflecting the needs of our stakeholders continued

Communities and environment

As the largest retail and commercial bank in the UK, we have representation across the country. We specifically invest in local communities across Britain to help them prosper economically and build social cohesion by tackling disadvantage.

- Board members are directly involved with our considerable community engagement and environmental focus. Our Responsible Business Committee, a committee of the Board, provides oversight and support for the Group's Helping Britain Prosper Plan, and the plans for delivering the aspirations to be seen as a trusted and responsible business
- The Group's Helping Britain Prosper Plan is reviewed and approved annually by the Board to ensure it focuses on what matters most to people, businesses and communities in the UK
- The Responsible Business Committee is also responsible for overseeing the Group's approach to responding to global issues of environmental sustainability, including measurement and reporting. Following a 2018 Board review of our sustainability approach we have developed a new sustainability strategy, read more on page 24 and 25
- Our four independent charitable Foundations are key to our vision of tackling social disadvantage. Sara Weller, Non-Executive Director and Chair of the Responsible Business Committee joined the Lloyds Bank Foundation for England and Wales as trustee during 2018 for an initial term of three years
- We recognise the importance of supporting communities beyond our own banking services, and over five years we have invested £5 million to support the Credit Unions sector. We signpost to local credit unions when we cannot support customers' borrowing needs
- In partnership with Macmillan, our Cancer Support Team has helped support 3,100 customers and identified £411,000 in benefits from a range of products and services, to help them reduce the financial impact of a cancer diagnosis. We are also raising awareness of financial and domestic abuse through our 'Acknowledge, Respond, Refer' campaign, developed with support from the Lloyds Bank Foundation for England & Wales, and working closely with Business in the Community and UK Finance
- Read more on Responsible Business, our Helping Britain Prosper Plan targets and how we have supported the UK on page 20

Regulators and government

We have a good relationship with our regulators and other government authorities and liaise regularly.

- During 2018 we had regular meetings with our various regulators at different levels of the organisation from Board to senior management
- Individual meetings took place between the PRA and members of the Board during the year to discuss subjects such as the Audit and Risk Committees, IT Resilience and Cyber and ring-fencing
- FCA contact during the year with members of the Board focused on governance, culture and strategy
- The newly appointed ring-fenced bank Directors went through a rigorous approval process including interviews with the PRA ahead of appointment to ensure they met regulatory requirements
- From a tax perspective in 2018, we paid £2.6 billion in tax, one of the largest contributors to UK tax revenues. We are also a major tax collector, gathering £2 billion in 2018. We have a clear Tax Policy which is part of our Board-approved Group Risk Management Framework. We comply with HMRC Code of Practice on Taxation for Banks and the Confederation of British Industry's Statement of Tax Principles. You can read more about our Tax Strategy online www.lloydsbankinggroup.com/our-group/responsible-business/reporting-centre/

In 2019, we will lend up to £18 billion to businesses across the UK. During these uncertain times, it is important that our customers have financial support and expert guidance to navigate the challenges they may face. Whatever the future brings, we will continue to support UK businesses as part of our commitment to Help Britain Prosper.

António Horta-Osório,
Group Chief Executive

Suppliers

Given the size of our organisation we are reliant on external suppliers for a number of key services. Dealing with suppliers in the right way is important for future success.

- Our supply chain is crucial to the way we serve our customers, and through it our reach is considerable. We use a multi brand approach to deliver specific products and services. We work with around 3,500 suppliers of varying sizes, most in professional services sectors such as IT, cyber, operations, management consultancy, legal, HR, marketing and communication. In 2018 our supplier expenditure was £5.8 billion with 95 per cent of our direct suppliers located in the UK
- All material contracts are subject to rigorous cost management governance and updates on key supplier risks are provided to the Board
- We assess how significant each supplier is to our operations across the various components of our extended supply chain and we conduct an annual programme of assurance reviews based on the risk criticality the supplier represents. We require suppliers to adhere to relevant Group policies and comply with our Code of Supplier Responsibility. This defines our expectations of responsible business and behaviour, underpinning our efforts to share and extend best practice
- The Group supports the UN Declaration of Human Rights, and the International Labour Organisation (ILO) Fundamental Conventions, whilst complying with all relevant laws. We also support several voluntary standards, including the UN Guiding Principles on Business and Human Rights
- This year we made further enhancements to address the risk of Modern Slavery in our supply chain and provided training on human trafficking and modern slavery for specialist colleagues

£18bn
lending to UK businesses in 2019

Responsible Business

We have served Britain through our products and services for more than 250 years, across every community, and millions of households. Our success is interwoven with the UK's prosperity and we aim to Help Britain Prosper by operating as a responsible, sustainable and inclusive Group. This underpins our purpose and the way we deliver our strategy.

We recognise that we have a responsibility to help address the economic, social and environmental challenges that the UK faces.

Our approach to responsible business ensures that colleagues are equipped to make the right decisions supported by our values-based culture, and the way we embed responsible business in our policies, processes and training.

Our areas of focus

Each year we gather stakeholder views through a dedicated materiality study. In 2018, they identified demonstrating responsibility at our core as a key priority, including how we keep customers' data safe, support vulnerable customers, lend responsibly, support businesses and work with suppliers. Read more on our stakeholders on pages 16 to 18.

Stakeholders also identified building capability and digital skills as a key issue, alongside tackling social disadvantage, inclusion and diversity and sustainability. We believe that the way we are addressing these issues places us in a unique position to Help Britain Prosper:

- We are using our own capabilities in digital banking to help develop the skills of people, businesses and charities
- We are one of the UK's largest corporate donors and use our scale and reach to tackle some of society's more complex challenges through our independent charitable Foundations
- We have taken a leading role in championing diversity and mental health, setting public goals for increasing Black, Asian & Minority Ethnic (BAME) representation at all levels
- Our ambition is to take a leading role in supporting the UK's transition to a sustainable low carbon economy

Responsible business of the year

Lloyds Banking Group has been voted Responsible Business of the Year 2018 by Business in The Community, which highlighted our Helping Britain Prosper Plan, commitment to delivering social benefits through digital transformation and support for the lower carbon economy. Euromoney magazine has also ranked us Best Bank in Western Europe for Corporate Responsibility 2018.

We can only help with the unprecedented levels of change in Britain today by staying true to our purpose of Helping Britain Prosper. Operating responsibly is fundamental to everything we do, from lending to first time buyers to tackling disadvantage in areas such as mental health. Every colleague has a part to play, and every part of the Group has its own action plan for supporting customers, while involving colleagues in our work in communities.

We believe we can make a substantial contribution to Britain's social and economic prosperity. We're developing a Skills Academy, initially focusing on Digital Skills, in pilot in the North West of England. Through our charitable Foundations we support thousands of charities working with groups on issues such as domestic abuse and homelessness. As sustainability becomes more of a priority for us all, we have a role to play in supporting a lower carbon economy, the UN's Sustainable Development Goals and the UK Government's Clean Growth strategy.

Sara Weller
Non-Executive Director and Chair, Responsible Business Committee

The Lloyds Banking Group Centre for Responsible Business

We are working with thought leaders to build our understanding of operating responsibly, and to help drive change across industry, in how responsible business is considered. The Centre for Responsible Business (CFRB) is a unique joint venture between Lloyds Banking Group and the University of Birmingham's Business School. This initiative combines research with business, exploring how all businesses can work in an ever more responsible and ethical manner. The outputs of this approach will have impacts across a range of industries, benefitting the entire economy.

The CFRB's work aligns with our purpose to Help Britain Prosper, and our support for the UN's Sustainable Development Goals. The Centre was established to help learn lessons from the past and to help us and others work in a different way going forward. It will play a pivotal role in ensuring the worlds of academia, business and policy-making work together more effectively to drive change. One area of focus will be exploring the regulatory, operational and ethical barriers to the implementation of artificial intelligence.

We are in the early stages of this exciting collaboration between Lloyds Banking Group and the University of Birmingham. Moving from an initial idea, to challenge-centred research and engagement, exploring how businesses can be 'rewired responsibly' to inform, shape and energise Responsible Business. It's a unique opportunity to explore best practice, and inform the evolution of responsible business decision making, underpinning Lloyds Banking Group's pioneering initiative, 'Helping Britain Prosper'. It has been some journey so far, laying down the foundations for future success.

Professor Ian Thomson, Director
Lloyds Banking Group Centre for Responsible Business

Responsible Business
Helping Britain Prosper Plan

As part of Helping Britain Prosper, we believe we have a responsibility to help address some of the social, economic and environmental challenges that the UK faces. We manage this through our Helping Britain Prosper Plan.

Launched in 2014 and revised annually, the Plan focuses on the areas in which we can make the biggest difference.

In 2018 we set specific targets aligned to our 3 year strategy. It continues to unite and inspire our colleagues and for 2019, we have included a specific sustainability metric, alongside the six existing priority metrics, highlighted in bold below.

visit lloydsbankinggroup.com/prosperplan

As a UK focused retail and commercial financial services company, we recognise our responsibility to help address the economic, social and environmental challenges that the UK faces. We remain fully committed to Helping Britain Prosper.

António Horta-Osório
Group Chief Executive

HELPING BRITAIN PROSPER PLAN 2019

Area of focus	2018 achieved	2019 targets	2020[1] targets	UN Sustainable Development Goals	
Helping Britain get a home Amount of lending committed to help people buy their first home	£12.4bn	£10bn	£30bn	8 Decent work and economic growth	page 21
Helping people save for the future Growth in assets that we hold on behalf of customers in retirement and investment products	£7.4bn	£32bn[2]	£50bn	8 Decent work and economic growth	page 21
Supporting businesses to start up and grow Increased amount of net lending to start-up, SME and Mid Market businesses	£3bn	£5bn[2]	£6bn	8 Decent work and economic growth; 9 Industry, innovation and infrastructure	page 21
Building capability and digital skills Number of individuals, SMEs and charities trained in digital skills, including internet banking	700,232	600,000	1.8m	4 Quality education	page 21
Tackling social disadvantage across Britain Number of charities we support as a result of our £100m commitment to the Group's independent charitable Foundations	3,113	2,500	2,500	10 Reduced inequalities	page 22
Championing Britain's diversity Percentage of senior roles held by women	35.3%	36.7%	40%	5 Gender equality	pages 22–23
Percentage of roles held by Black, Asian and Minority Ethnic colleagues	9.5%	9.7%	10%		
Percentage of senior roles held by Black, Asian and Minority Ethnic colleagues	6.4%	7.2%	8%		
Helping the transition to a sustainable low carbon economy Average number of homes that could be powered as a result of our support of UK renewable energy projects	2.6m	3.5m[2]	5m	7 Affordable and clean energy; 12 Responsible consumption and production	pages 24–25

1 Figures are all cumulative excluding tackling social disadvantage across Britain and championing Britain's diversity.
2 Figures are cumulative from 2018.

Helping Britain get a home

As the largest lender to the UK housing sector, we are committed to supporting home ownership across the UK and are working to make it an affordable reality for millions of people, lending £12.4 billion to first time buyers in 2018.

Helping people save for the future

We recognise the importance of savings to build financial resilience and help to tackle disadvantage, so we're making saving for the future as easy as possible by improving choice, flexibility and control. In 2018 we grew the assets we hold on behalf of customers in retirement and investment products by £7.4 billion.

Supporting business to start up and grow

Supporting UK businesses of all types is key to Helping Britain Prosper. In 2018, we helped more than 124,000 businesses start up, increased the amount of net lending to start up, SME and Mid Market businesses by £3 billion and doubled our financial investment at the Lloyds Bank Advanced Manufacturing Training Centre (AMTC).

Building capability and digital skills

Our ambition is to enhance capability and digital skills, helping 1.8 million people with skills training by 2020 alongside investing in apprenticeship schemes. Working with over 50 partners, in 2018 we provided digital skills training to over 700,000 individuals and organisations.

Digital skills
Using a blend of transactional and attitudinal data we provide the UK's largest study of the digital capability of individuals, SMEs and charities. The Lloyds Bank Consumer Digital Index 2018 shows that 21 per cent of the UK lack basic digital skills, including 10 per cent of the working population. A further 8 per cent are entirely offline. 42 per cent of SMEs and 48 per cent of charities lack the skills to benefit from the time and costs savings associated with digital capability. The Lloyds Bank Business and Charity Digital Index 2018 revealed that the UK loses £84.5 billion in annual revenue due to a lack of SME digital capability.

To combat these challenges we have several key initiatives:
23,000 colleagues volunteered to become Digital Champions supporting local communities; we delivered Digital Knowhow workshops to over 3,000 organisations covering fraud and digital marketing with an online toolkit signposting key resources; we co-created a digital curriculum and delivered events in schools to inspire over 800 students and teachers with our ReDiscover programme; and colleague volunteers hosted over 1,000 code clubs in schools.

Partnering for progress
In 2018 we led a consultation on the new Essential Digital Skills Framework for the Department for Education as their sole evaluation provider. This work provided the business case for the Government's Digital Skills Entitlement; free digital skills training for all adults from 2020.

We are a leading member of the UK Government's Digital Skills Partnership, advisors to the Secretary of State for Digital, and chair the Department for Digital, Culture, Media and Sport's Digital Enterprise Delivery Group. We have played a central role in implementing a Charity Digital Code of Practice, with local authorities now adopting our Digital Champions model. We have also worked closely with national and local governments like Greater Manchester Combined Authority and Welsh Assembly to drive change.

Lloyds Bank Academy
In November we launched the Lloyds Bank Academy. Initially piloted in Manchester, the Academy provides basic and workplace skills through online and face-to-face courses. Developed with our charitable Foundations, academia, industry and Government, the Academy will scale nationally in 2019 and our existing initiatives will be closely aligned to extend our reach and impact.

Inspiring the next digital generation

We are building digital talent through our #ReDiscover initiative. Launched in July 2018 #ReDiscover brings a new digital edge to learning, helping children aged 11 to 14 to think and explore, meet digital professionals, undertake work placements, and build future digital needs into their studies. By holding school events and co-creating lesson plans we have inspired over 800 students to date.

Having a 5 minute chat with a student today has changed her outlook on the future. That's what makes #ReDiscover so worthwhile.

Rachel
Colleague volunteer

Developing Britain's manufacturing talent

Britain is renowned for its manufacturing expertise. The sector accounts for 10 per cent of UK GDP, for 44 per cent of all UK exports and directly creates 2.7 million jobs. Yet there is a lack of qualified workers. The shortfall could reach 220,000 by 2020 so it is vital to train new talent.

We are helping to address this. In 2018, we doubled our financial investment at the Lloyds Bank Advanced Manufacturing Training Centre in Coventry to £10 million over 10 years and committed to train 3,500 apprentices, graduates and engineers by 2024. We have already created 178 apprenticeships and trained 80 graduates and 295 engineers, including many women and individuals from a Black, Asian and Minority Ethnic background.

More than 250 Lloyds Bank customers have been supported through our partnership with the Manufacturing Technology Centre (MTC), with around 70 of them undertaking a bespoke programme to improve efficiency and productivity or adopt new technology.

A career at the MTC has allowed me to work on high profile and challenging manufacturing projects, applying all the skills I've learnt, and also learn new ones.

Rishi Chohan
MTC Graduate 2018

Taking a joined up approach to tackling domestic abuse

In partnership with our independent charitable Foundations, we're providing more than just traditional funding. Our Foundations are helping us work with charities they support to develop a deeper understanding of the challenges faced by customers affected by complex and sensitive issues.

The charity Behind Closed Doors (BCD) helps people in Leeds exit harmful situations relating to domestic abuse. Lloyds Bank Foundation for England and Wales provides financial support to help them deliver their vital services to vulnerable people. To deepen the support they can provide, the Foundation matched BCD with a senior Group colleague, Dave Moore, who has joined them as a charity mentor and valued Board member, helping them become sustainable, develop their offering and reach more people in need.

> Dave is dynamic and energetic, and he's motivated the Board to become more proactive. He's encouraged a business-like approach, where we can more easily consider the long-term future, setting clear goals and a strategy for achieving them, and he's supported the Board to become more strategic in their governance role. It's been great having his support.

Louise Tyne
Operational Director, BCD

Tackling social disadvantage across Britain

As one of the UK's largest corporate donors, we use our scale to reach millions of people and help tackle social disadvantage in communities across the UK. Our four independent charitable Foundations are fundamental to our vision of tackling social disadvantage. They cover the UK and the Channel Islands, partnering with small and local charities to help people overcome complex social issues and rebuild their lives.

Our total community investment in 2018 was £56 million✓. This includes our colleagues' time, direct donations, and the money we give to our Foundations, which receive a share of the Group's profits annually. The Foundations supported over 3,000 charities in 2018, providing help for some of the most disadvantaged and vulnerable people in Britain.

In addition to funding, we support the Foundations through volunteering, and more than 370 colleagues are also active as mentors to charities supported by each of the Foundations. This year, we ran a pilot with the Lloyds Bank Foundation for England and Wales to recruit some of our senior leaders as charity trustees and launched a Community Forum through which colleagues support charities. Through these initiatives, our Foundations help us better understand some of the social issues people may be facing and we use these insights to help shape effective responses.

Championing Britain's diversity

We champion inclusion and diversity (I&D) to reflect the diverse communities we serve. We were the first FTSE100 company to set a public goal on gender diversity and this year became the first FTSE100 company to set public goals to increase Black, Asian and Minority Ethnic (BAME) representation at all levels. Additionally, this year we enhanced our focus on mental health, as this is key to economic prosperity and social inclusion, and therefore to Helping Britain Prosper.

We know that the most inclusive organisations are the most successful, so we welcome and value the unique difference of every colleague. 2018 has been a year of significant progress against our I&D objectives, which we know is a source of pride for our colleagues; this year 88 per cent of them agreed in our annual survey that the Group is an inclusive place to work. Around 50 per cent of colleagues also belong to or support one of our five diversity networks.

✓ Indicator is subject to Limited ISAE3000 (revised) assurance by Deloitte LLP for the 2018 Annual Responsible Business Reporting. Deloitte's 2018 assurance statement and the 2018 Reporting Criteria are available online at www.lloydsbankinggroup.com/our-group/responsible-business/

Ethnicity

We have a comprehensive Ethnicity Strategy to help us meet our goals, which focus on attracting and retaining talented BAME colleagues; building cultural awareness at all levels; and increasing visibility of authentic role models from a wide range of ethnic backgrounds. By the end of the year 6.4 per cent of senior managers were BAME colleagues, compared with 5.6 per cent in 2017, while BAME colleagues made up 9.5 per cent of our total workforce, compared with 8.3 per cent in 2017.

To achieve this, activities in 2018 included: developing our Authentic Leadership Programme for BAME senior managers and our Career Development Programme for BAME middle managers; actively promoting our Race, Ethnicity and Cultural Heritage Network, which now has around 4,000 members; and promoting our Ethnicity Role Models List. In October, we signed the UK Government's Race at Work Charter and already meet and exceed its principle requirements. In 2018 we won the overall Outstanding Employer Award at the inaugural Investing in Ethnicity Awards.

Gender diversity

We remain committed to having women fill 40 per cent of our senior management roles by 2020 and have been included in The Times 'Top 50 employers for women' in 2018, for the seventh year running. This year we continued sponsoring Women of the Future Ambassadors, connecting successful women with female students, and launched our Sponsoring Leaders programme, enabling women in senior roles to champion the potential of women in more junior roles. The promotion rate for the 100 colleagues who completed the programme in 2018 was around five times that of non-participants. From January 2019, the Group will be included in the Bloomberg Gender-Equality Index for the first time.

For more information about Gender Pay see pages 82 to 104 of our 2018 Annual Report and Accounts

We were a top ten Trans-Inclusive employer and fifth employer overall in the Stonewall Top 100 2018, the highest ranked financial services company in the UK. Through our Rainbow network colleagues raised almost £100,000 to support key charities and we continued our sponsorship for Stonewall Young Campaigners, empowering young people aged 16 to 21 to become campaigners for Lesbian, Gay, Bisexual and Transgender equality.

Supporting people with disabilities

Traditionally, employment of people with disabilities has focused on making changes to physical infrastructure or working practices. We are moving the debate from accommodating disabilities to developing talent and careers. We offer bespoke training, career development programmes and recruitment process adjustments for colleagues and applicants with disabilities, including those who have become disabled while employed. Training includes courses run with external disability consultants, which have been described as life changing by attendees. We give full and fair consideration to applications from all candidates, offering guaranteed interviews for candidates declaring a disability, and meeting minimum role requirements. We are unbiased in our assessment, selection, appointment, training and promotion of people. In 2018 we retained our Business Disability Forum (BDF) Gold Standard, and hold Disability Confident Leader status with the Department for Work and Pensions. The BDF considers our workplace adjustment process for disabled colleagues to be ground breaking, creating a best practice case study that they have shared with around 400 other BDF member organisations. We are set to achieve Autism Friendly Bank and Employer accreditation from the National Autistic Society in mid-2019.

Mental health & wellbeing

As a Group we believe that a shift in mindset is needed amongst UK employers when it comes to mental health. We all have mental health as well as physical health and our approach focuses on removing the stigma attached to mental ill health, addressing it in the same way as we would any physical condition; through a culture of conversation and support.

Our mental health strategy supports colleagues and leaders through a mental health resource centre and this year we stepped up mental health training for colleagues at all levels. To date more than 40,000 colleagues have completed training on mental health and we are training 2,500 colleagues to become mental health advocates by 2020. We enrolled 200 leaders in our new Optimal Resilience Leadership Programme, which covers personal, mental and physical wellbeing and are now working on extending this to the next level of 2,000 senior managers.

Through a targeted communication campaign and personal stories shared at all levels, we have encouraged colleagues to freely discuss mental health, with the number of those who tell us they have mental health issues up by 22 per cent over the past three years.

We also extended the focus on mental health to our colleague wellbeing resources, increasing private medical benefit cover for mental health to match that of physical health. Our employee assistance programme now provides colleagues with access to counselling and cognitive behavioural therapy, and our workplace adjustments programme increasingly offers support for mental as well as physical types of disability.

Recognition that mental health is an issue for our customers and the communities we serve, inspired us to create our 'Get the Inside Out' advertising campaign to challenge mental health stereotypes.

The Mental Health and Money Advice Service

More than £8 million raised since 2017 has helped our charity partner, Mental Health UK, open the Mental Health and Money Advice Service – the UK's first dedicated advice service for people with mental health and money problems. These two issues are often inter-related, so the new service is urgently needed.

It comprises a public website providing information across a number of issues including benefits, debt problems and managing mental health. It also operates a referral only telephone advice service.

Since its launch in November 2017, the website has received around 180,000 views and more than 1,000 people have been referred for confidential advice. More than 2,400 cases have been handled, with each client on average about £1,000 better off as a result. By November 2018 a total annual saving of over £1.3 million had been delivered.

> I know I still have a way to go, but thanks to Mental Health and Money Advice I have improved my confidence and built up some skills to better manage my situation.
>
> **Stephen**
> Mental Health and Money Advice Service user

Our Inclusion and Diversity data

		2018	2017[1]
Gender			
Board Members	Male	**9**	9
	Female[2]	**4**	3
Senior Managers[3]	Male	**4,701**	4,939
	Female	**2,573**	2,544
Colleagues[3]	Male	**30,458**	31,216
	Female	**42,372**	42,956
Ethnic Background			
Percentage of colleagues from a BAME background		**9.5%**	8.3%
BAME managers		**9.0%**	8.3%
BAME senior managers		**6.4%**	5.6%
Disability			
Percentage of colleagues who disclose they have a disability[4]		**1.7%**	2.6%
Sexual Orientation			
Percentage of colleagues who disclose they are lesbian, gay, bisexual or transgender		**2.0%**	1.7%

1 2017 reporting scope excludes MBNA colleagues, who became part of Lloyds Banking Group plc in June 2017, as their separate grading structure could not be aligned to LBG grades at that point.

2. Data as at 31 December 2018. Amanda Mackenzie joined the Board on 1 October 2018, and Deborah McWhinney retired from the Board on 31 December 2018.

3 Reporting scope: payroll headcount includes established and fixed term contract colleagues, parental leavers, MBNA colleagues and Internationals. Excludes Leavers, Group Non-Executive Directors, contractors, temps, and agency staff.

4 Percentage disclosure for disability has reduced due to the implementation of a new HR system in Nov 2018, with differing categories. Not all disability data could be directly mapped across into the new system.

Diversity scope: Payroll headcount including parental leavers. Excludes contractors, temps and agency staff. Gender information includes International colleagues and MBNA. All other diversity information is UK Payroll only. Senior Managers: Grades F+. Managers: Grade D-E. Data source: HR system (Workday). Apart from gender data, all diversity information is based on colleagues' voluntary self-declaration. As a result this data is not 100 percent representative; our systems do not record diversity data for the proportion of colleagues who have not declared this information.

Helping the transition to a sustainable low carbon economy

Following a Board level review of our approach to environmental sustainability, we have developed a new sustainability strategy which focuses on the opportunities and threats related to climate change and the need for the UK to transition to a sustainable low carbon economy.

This strategy supports the Task Force on Climate Related Financial Disclosures (TCFD) recommendations and incorporates an implementation plan to address them and achieve full disclosure within five years. The strategy maps to the key headings used in the TCFD framework.

Strategy

Our commitment

The UK is committed to the vision of a sustainable, low carbon economy, and has placed clean growth at the heart of its industrial strategy. This will require a radical reinvention of the way people, work, live and do business.

We have a unique position within the UK economy with our purpose of Helping Britain Prosper. The successful transition to a sustainable, low carbon economy that is resilient to climate change impacts and sustainably uses resources is of strategic importance to us. We support the aims of the 2015 Paris Agreement on Climate Change, and the UK Government's Clean Growth Strategy.

Our approach

To meet our commitment, we will:

- Take a strategic approach to identifying new opportunities to support our customers and clients and to finance the UK transition to a sustainable low carbon economy, embedding sustainability into Group strategy across all activities
- Identify and manage material sustainability and climate related risks across the Group, disclosing these and their impacts on the Group and its financial planning processes in line with the TCFD recommendations
- Use our scale and reach to help drive progress towards a sustainable and resilient UK economy, environment and society through our engagement with industry, Government, investors, suppliers and customers
- Embed sustainability into the way we do business and manage our own operations in a more sustainable way

Our ambition

Our goal is to be a leader in supporting the UK to successfully transition to a more sustainable, low carbon economy. We have set ourselves seven ambitions anchored to the goals laid out in the UK Government's Clean Growth Strategy, as these align closely to our business priorities:

- **Business:** become a leading UK commercial bank for sustainable growth, supporting our clients to transition to sustainable business models and operations, and to pursue new clean growth opportunities
- **Homes:** be a leading UK provider of customer support on energy efficient, sustainable homes
- **Vehicles:** be a leading UK provider of low emission/green vehicle fleets
- **Pensions & investments:** be a leading UK pension provider that offers our customers and colleagues sustainable investment choices, and challenges companies we invest in to behave more sustainably and responsibly
- **Insurance:** be a leading UK insurer in improving the resilience of customers' lives against extreme weather caused by climate change
- **Green bonds:** be a leading UK bank in the green/sustainable bonds market
- **Our own footprint:** be a leading UK bank in reducing our own carbon footprint and challenging our suppliers to ensure our own consumption of resources, goods and services is sustainable

For each ambition we will consider the Government's targets and current plans. We will use forward looking scenarios to identify risks and opportunities over short, medium and long term time horizons and assess how they impact the resilience of our strategy. We are developing a series of propositions against each ambition and have defined an implementation plan to achieve a leadership position within three years. We will work with Government and other stakeholders on thought leadership to help inform the creation of the policies and market conditions required for large scale investment in the transition to a sustainable, low carbon economy. To support these propositions, we are equipping our business relationship managers and other colleagues with training and tools to have more informed conversations on climate related issues. As part of our TCFD implementation plan, we will also develop a forward looking approach to systematically reporting material financial risk and opportunity aggregated across the Group.

Improving our own environmental footprint is an important foundation for our activity. We've consistently reduced our environmental impacts, thanks to the ambitious Environmental Action Plan we launched in 2010. To ensure this plan supports the UK's climate change priorities and our long term strategy, we have a set of market leading targets to improve the sustainability of our own operations and supply chain. These include reducing our operational waste by 70 per cent by 2020 and 80 per cent by 2025 (compared to 2014/15), and reducing our CO_2e emissions by 60 per cent by 2030 and 80 per cent by 2050 (compared to 2009) www.lloydsbankinggroup.com/our-group/responsible-business/sustainability-in-lloyds-banking-group. We anticipate achievement of the 2050 target well before this date, driven by both our energy efficiency improvements, direct investment in renewable energy on our sites and through purchasing Renewable Energy Guarantees of Origin (REGOs) to cover our UK electricity consumption. We are now able to state that 100 per cent of our UK electricity comes from renewable sources and to show our commitment to supporting the transition to the low carbon economy, we have joined the RE100 campaign, a collaborative, global initiative uniting businesses committed to 100 per cent renewable energy.

Environmental section within Directors' Report see page 81 of our 2018 Annual Report and Accounts

Governance

We have established a dedicated governance process to provide oversight and ownership of the sustainability strategy. This includes the Responsible Business Committee (RBC), a sub-committee of the Board, which meets quarterly and provides Board level oversight. This committee is chaired by Sara Weller, Group Non-Executive Director and includes the Chairman, Lord Blackwell as a member. At Executive level, we have established a Group Executive Sustainability Committee (GESC), which is a sub-committee of our Group Executive Committee (GEC) and provides oversight and recommends decisions to the GEC. The RBC, GEC and GESC have all been informed on key climate related issues by external industry experts.

We have created a Group sustainability team, supported by divisional Governance Forums and working groups led by divisional Managing Directors. This enables us to have a coordinated approach to oversight, delivery and reporting of the Group sustainability strategy to the GESC, along with a mechanism for keeping management and the Board updated on climate related issues impacting the Group.

For the implementation of the TCFD recommendations across the Group, we have established a senior executive group TCFD forum. We aim to expand the consideration of sustainability and climate related issues into relevant Board and governance committees including processes to monitor and oversee progress against goals and targets related to climate issues. We will also consider how sustainability might be incorporated into our remuneration policies.

Risk management
Each division within the Group is responsible for identifying and prioritising relevant climate related risks and opportunities and integrating them into their risk management processes, which determine materiality and classify risks into traditional risk categories. This includes identifying potential risks through horizon scanning of changes in regulation, technology and consumer demand. Risks are classified in terms of whether they impact the Group in the short, medium or long term. Examples include possible changes in the sustainability of homes, how vehicles are powered, changes in UK energy mix, through to changes in the frequency and severity of extreme weather events. The Group sustainability team facilitates collaboration across divisions to increase understanding of consistent issues, as well as our risk, opportunities and financial impact on an aggregated basis.

During 2018, we reviewed our external sector statements to confirm that they align to our sustainability strategy and consider appropriate climate related risk. We introduced a position statement for coal and revised statements for defence, mining, oil and gas, power, and forestry. For more information on our sector statements www.lloydsbankinggroup.com/our-group/responsible-business/sustainability-in-lloyds-banking-group. In 2019, we will review these statements again, and consider developing statements for other sectors and topics. We will review ways to embed sustainability in the Group's key policies.

Forward looking scenario analysis incorporating physical and transition risk will be utilised across the Group to systematically identify risks and opportunities. During 2018, Commercial Banking undertook forward looking scenario analyses including business as usual and low carbon transition scenarios, identifying sectors with a higher level of climate related risk and opportunity. Detailed assessments are now being undertaken on higher risk sectors to understand the potential financial impact to our customers and to the Group. We will be completing further reviews of higher risk sectors in 2019 to inform portfolio analytics, counterparty risk and financial product development, while increasing the scope to also include other divisions.

Metrics and targets
As part of our TCFD implementation plan we are developing our approach to reporting metrics and targets. This will include a long term reporting framework, enabling us to track our performance against our sustainability strategy, and disclose the financial impact of climate change related risks and opportunities. We will define metrics linked to our green finance propositions and the carbon exposure of our activities. Our targets will have specific time horizons against defined baseline years and will consider the level of historical and forward looking projections that can be made available. We aim to develop this new reporting framework in the first half of 2019 and will start to include key quantified metrics in our next annual report.

We have made sustainability a focus area in our Helping Britain Prosper Plan and have defined metrics for it. We disclose our in-house greenhouse gas emissions, as shown below, with supporting commentary detailed in the directors report Environmental section within Directors' Report see page 81 of our 2018 Annual Report and Accounts and our set of in house environmental targets on our website www.lloydsbankinggroup.com/our-group/responsible-business/sustainability-in-lloyds-banking-group.

Environmental section within Directors' Report see page 81 of our 2018 Annual Report and Accounts

Find out more about our set of in-house environmental targets at www.lloydsbanking.com/our-group/responsible-business/sustainabilityinlloyds-banking-group

Clean Growth Finance Initiative

In 2018 we launched a £2 billion Clean Growth Finance Initiative (CGFI) to help British businesses reduce their environmental impacts and benefit from the transition to a low carbon economy. The CGFI aims to be the most inclusive UK green funding proposition available, incentivising all types of businesses to invest in low carbon projects by providing discounted financing for capital expenditure or investment with a green purpose.

CO_2e emissions (tonnes)

	Oct 17-Sept 18	Oct 16-Sept 17	Oct 15-Sept 16[1]
Total CO_2e (market-based)	**115,467**	303,065	340,261[2]
Total CO_2e (location-based)	**244,407**	286,892	340,261
Total Scope 1	**48,461**	51,419	53,023
Total Scope 2 (market-based)	**1,976**	178,771	202,319[2]
Total Scope 2 (location-based)	**130,916**	162,598	202,319
Total Scope 3	**65,030**	72,876	84,918

1 Restated 2017/2016 and 2016/2015 emissions data to improve the accuracy of reporting, using actual data to replace estimates.

2 Note our market based emissions are equal to location based for 2016/15. This is in accordance with GHG protocol guidelines in absence of appropriate residual factors.

Emissions in tonnes CO_2e in line with the GHG Protocol Corporate Standard (2004). We are now reporting to the revised Scope 2 guidance, disclosing a market-based figure in addition to the location-based figure. The measure and reporting criteria for Scope 1, 2, 3 emissions is provided in the Lloyds Banking Group Reporting Criteria statement available online at www.lloydsbankinggroup.com/ResponsibleBusiness

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

Scope 2 emissions have been calculated in accordance with GHG Protocol guidelines, in both location and market based methodologies.

Indicator is subject to Limited ISAE3000 (revised) assurance by Deloitte LLP for the 2018 Annual Responsible Business Reporting. Deloitte's 2018 assurance statement and the 2018 Reporting Criteria are available online at www.lloydsbankinggroup.com/our-group/responsible-business

Responsible business continued

Non-financial information statement

This section of the strategic report constitutes Lloyds Banking Group's Non-Financial Information Statement, produced to comply with sections 414CA and 414CB of the Companies Act. The information listed is incorporated by cross-reference.

Reporting requirement	Policies and standards which govern our approach	Information necessary to understand our business and its impact, policy due diligence and outcomes
Environmental matters	Environmental statement	Reflecting the needs of our stakeholders: Communities and environment, page 18 Helping the transition to a sustainable low carbon economy, pages 24 to 25
Employees	Ethics and Responsible Business Policy[1] Ethical Policy Statement Colleague Policy[1] Code of Responsibility Health and Safety Policy[1]	Reflecting the needs of our stakeholders: Colleagues, page 17 Championing Britain's diversity, pages 22 to 23
Respect for Human rights	Human Rights Policy statement Colleague Policy[1] Pre-Employment vetting standards1 Data Privacy Policy[1] Anti-Slavery and Trafficking Statement Information and Cyber Security Policy	Reflecting the needs of our stakeholders: Suppliers, page 18 Championing Britain's diversity, pages 22 to 23
Social matters	Volunteering standards[1] Matched giving guidelines[1]	Reflecting the needs of our stakeholders: Customers, page 16 Reflecting the needs of our stakeholders: Communities and environment, page 18 Helping Britain Prosper Plan, page 20 Helping Britain get a home, Helping people save for the future, Supporting business to start up and grow, Building capability and digital skills, page 21 Tackling social disadvantage across Britain, page 22
Anti-corruption and anti-bribery	Anti-bribery Policy[1] Anti-bribery policy statement Anti-money laundering and counter terrorist financing Policy[1] Fraud Risk Management Policy[1]	Reflecting the needs of our stakeholders: Customers, page 16 Reflecting the needs of our stakeholders: Colleagues, page 17
Description of principal risks and impact of business activity		Helping the transition to a sustainable low carbon economy: Risk management, page 25 Risk overview 2018 themes, page 31 Our principal risks, pages 32 to 35
Description of the business model		Our Business Model, Page 10
Non-financial key performance indicators		Key performance indicators, pages 6 to 7 Our strategic priorities, pages 12 to 15 Helping Britain Prosper Plan, page 20

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 2018.

Divisional overview
Retail

Retail offers a broad range of financial service products to personal and business banking customers, including current accounts, savings, mortgages, credit cards, unsecured loans, motor finance and leasing solutions. Its aim is to be the best bank for customers in the UK, by building deep and enduring relationships that deliver value, and by providing them with choice and flexibility, with propositions increasingly personalised to their needs. Retail operates a multi-brand and multi-channel strategy and continues to simplify its business and provide more transparent products, helping to improve service levels and reduce conduct risks, whilst working within a prudent risk appetite.

£4,272m
Underlying profit increased by 13%

>£12bn
Lending to first time buyers

1m
Halifax was the first UK bank to reach 1 million switchers since the current account switching service began in 2013

UK's largest digital bank
Active online users (m)

1 Excludes MBNA.

Progress in 2018

Leading customer experience

- Launched API-enabled Open Banking aggregation capability, providing customers with more control and the ability to view in one place the current accounts they hold with us alongside those held outside the Group
- Maintained position as UK's largest digital bank with 15.7 million digitally active customers
- Maintained the UK's largest branch network, while tailoring it to meet customers' complex needs more effectively. Opened a new flagship Halifax branch and 41 micro branches, while also introducing 16 new mobile branches, with the enlarged fleet helping serve customers in more remote and rural communities across more than 210 locations
- Expanded Remote Advice video service, with approximately 38,000 customers having already discussed their mortgage needs with remote advisers in one of the 270 branches that offer this service or from their own homes
- Increased personalisation, with the recent launch of Lend a Hand mortgage expanding support to first time buyers
- Reduced complaints (excluding PPI) by 10 per cent in 2018

Digitising the Group

- Rolled out Voice ID technology to make banking quicker and easier for customers, whilst providing added protection. Since launch, over 770,000 registered customers have used this functionality, completing 4 million verifications
- Continued to improve mobile banking experience, giving customers greater control and choice:
  - First UK bank to use location based payment tracking, enabling customers to identify fraudulent transactions
  - Launched card controls increasing customer security with functionality to cancel or temporarily freeze card use
  - Introduced cheque image clearing, providing customers with the ability to pay in cheques remotely

Maximising the Group's capabilities

- Helping Britain Prosper with over £12 billion of gross mortgage lending to first time buyers and over 120,000 start-up businesses supported
- Halifax was the first UK bank to reach 1 million switchers since the Current Account Switching Service began in 2013

Transforming ways of working

- Delivered around 25,000 training hours to Group Customer Services colleagues, enabling them to better support vulnerable customers

Financial performance

- Underlying profit at £4,272 million increased 13 per cent
- Net interest income increased 4 per cent reflecting an 8 basis point improvement in net interest margin with the benefits of a full year of MBNA and lower funding costs more than offsetting ongoing mortgage pricing pressure
- Other income was 2 per cent lower following implementation of a simpler overdraft fee structure
- Operating lease depreciation reduced 3 per cent reflecting improved used car market prices
- Operating costs of £4,915 million increased 1 per cent, as increased investment in the business was partly offset by efficiency savings. Remediation reduced to £267 million, driven by lower provision charges
- Impairment increased 21 per cent reflecting full year inclusion of MBNA and non-repeat of UK mortgages write-backs
- Loans and advances include the increase in Business Banking balances and growth in Black Horse offset by reductions in the closed mortgage book. Open mortgage book balances were broadly flat at £267 billion reflecting continued focus on the trade-off between volume and margin in a highly competitive market
- Customer deposits included average current account growth of 6 per cent and continued reduction in tactical savings
- Risk-weighted assets increased to £94 billion reflecting changing asset mix, along with model refinements

Creating warm informal spaces to meet, work and learn

Taking a prime position on London's busy Oxford Street, and with 13,500 square feet of floor space, the Halifax Flagship branch is one of the largest in the UK. It offers a relaxed, comfortable space open to everyone. Customers and non-customers alike are encouraged to explore at their leisure.

At the heart of the branch, the Halifax Home Hub will help customers with all aspects of the home buying and moving process, with colleagues available without appointment. In the travel zone, customers will be able to order and exchange over 50 currencies and get advice on saving for their next trip, or how to pay for things while they are away. In the kids' savings zone, children can learn about good savings habits, using the coin counting machine to see how much they have saved up. On the lower ground floor, a state-of-the-art safe deposit facility using biometric fingerprint technology will store customers' possessions securely.

> Banking is often quick and transactional but we know that some financial decisions need more thought and that's why branches remain vitally important.
>
> **Lloyds Banking Group colleague**

Divisional overview continued

Commercial Banking

Commercial Banking has a client-led, low risk, capital efficient strategy, and is committed to supporting UK-based clients and international clients with a link to the UK. Through its segmented client coverage model, it provides clients with a range of products and services such as lending, transaction banking, working capital management, risk management and debt capital markets services. Continued investment in capabilities and digital propositions enables the delivery of a leading customer experience, supported by increasingly productive relationship managers, with more time spent on value-adding activity.

£2,160m
Underlying profit decreased by 3%

£3bn
growth in net lending to start-ups, SMEs and Mid Market clients

2.50%
Return on risk weighted assets, up 6bps

Funding for UK manufacturers
£bn

2018	1.5
2017	1.1
2016	1.2
2015	1.4
2014	1.0

Helping clients improve the energy efficiency of their estates

Progress in 2018

Leading customer experience

- Successful launch of Lloyds Bank Corporate Markets, the Group's non ring-fenced bank, enabling us to continue meeting our clients' broad range of needs while helping to create a safer, more secure financial services industry
- Further simplified the client coverage model to better reflect the changing needs of our clients. Coverage model now based on three segments – SME and Mid Corporates, Large Corporates and Financial Institutions
- Awarded Business Bank of the Year at the FDs' Excellence Awards for the 14th consecutive year, with an overall satisfaction rating of nine out of ten

Digitising the Group

- Launched a digital eligibility and pricing tool, enabling SME clients to understand instantly how likely they are to be approved for a loan or overdraft of up to £25,000 before they apply
- Expanded the online servicing functionality available to SME customers, including the ability for sole traders to digitally add or remove a party onto their business account in less than 24 hours

Maximising the Group's capabilities

- Increased net lending to start-ups, SMEs and Mid Market clients by £3 billion, having provided over £18 billion of gross new lending to businesses in the year and committed to the same level in 2019
- Exceeded the commitment to provide £750 million of funding to support social housing projects in the UK
- Provided £1.5 billion of funding to the UK manufacturing sector, supporting increased production capacity, investment in plant and machinery and research and development, allowing clients to remain innovative and competitive
- Exceeded sustainability targets through support for renewable energy projects capable of powering over 2.6 million homes and the financing of energy efficiency improvements across 1.4 million square feet of real estate

Transforming ways of working

- Restructured our Commercial Banking operations teams to align processing activity with the changing ways that customers consume our services
- Over 94,000 colleague training hours completed, helping us to develop the skills and capabilities of the future

Financial performance

- Return on risk-weighted assets of 2.50 per cent, up 6 basis points with lower risk-weighted assets driven by continued balance sheet optimisation more than offsetting a reduction in underlying profit
- Net interest income was slightly lower at £3,004 million, with the net interest margin slightly lower at 3.27 per cent, and marginally higher average interest earning assets
- Other income of £1,653 million was 8 per cent lower reflecting challenging market conditions leading to lower levels of client markets activity. 2017 included a number of significant one-off refinancing and hedging transactions
- Operating lease depreciation significantly lower given accelerated depreciation of legacy assets in 2017
- Operating costs 3 per cent lower, with efficiency savings more than offsetting increased investment
- Improved asset quality ratio of 9 basis points reflecting good credit quality across the portfolio
- Continued lending growth in SME of 3 per cent including loans and advances now transferred to Business Banking as part of the client re-segmentation
- Increased customer deposits of £149 billion, reflecting continued success in attracting high quality transactional deposits with improved current account mix

Green Loans
In 2016 Commercial Banking announced the first green loans designed to help global corporate commercial real estate clients improve the energy efficiency of their estates. By the end of 2017, more than £500m had been lent under the initiative, improving over five million square feet of real estate. We have committed to a further one million square feet in 2018, and five million square feet by 2020.

>5m
We have committed to a further one million square feet in 2018, and five million square feet by 2020.

Insurance and Wealth

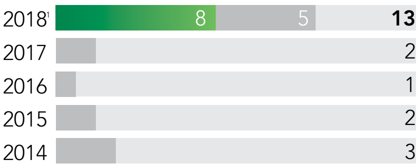
Insurance and Wealth offers insurance, investment and wealth management products and services. It supports around 10 million customers with assets under administration of £141 billion and annualised annuity payments in retirement of over £1 billion. The Group continues to invest significantly in the development of the business, with the aims of capturing considerable opportunities in pensions and financial planning, offering customers a single home for their banking and insurance needs, and driving growth across intermediary and relationship channels through a strong distribution model.

£927m
Underlying profit increased by 3%

>0.6m
new pension customers

87%
increased new business income

Strong open book AUA customer net inflows
£bn



1 Underlying customer net inflows £5 billion and Zurich transfer £8 billion.

Progress in 2018

Leading customer experience

- Successfully completed first stage of Zurich transfer and on track to conclude transfers in the second half of 2019
- Commenced roll out of a new suite of annual benefit statements to over 50 per cent of longstanding customers, making it simpler for them to understand their products, as well as the options available to them
- Simplifying systems and processes through our long-term partnership with Diligenta. Good progress towards initial systems migration in first half of 2019, enabling customers to better manage their policies with Scottish Widows
- Scottish Widows won 5 star service awards at the Financial Adviser Service Awards for the third consecutive year

Digitising the Group

- Successful pilot allowing customers to register and manage home insurance claims online now being followed up with introduction of new technology, enabling customers to upload digital media to accelerate settlement

Maximising the Group's capabilities

- Launched Single Customer View; a unique capability, already enabling over 3 million customers to view in one place the pension and insurance products they hold with the Group alongside their banking products.
- Announced strategic partnership with Schroders to create a market leading wealth management proposition. Target for the partnership, Schroders Personal Wealth, to become a top 3 UK financial planning business within five years
- Good progress towards the target of growing open book assets under administration by £50 billion by the end of 2020, with strong customer net inflows of £13 billion achieved in the year, partly offset by £5.5 billion of negative market movements, mainly in the fourth quarter
- Strong progress towards one million new pension customers by end 2020, with over 630,000 new customers in 2018
- Ongoing collaboration with Commercial Banking to provide long duration loans primarily to finance housing, infrastructure and education while backing the growing annuity portfolio, with £1.1 billion new loans written in 2018

Transforming ways of working

- Involved customers and colleagues in developing and launching a new simple to understand protection product

Financial performance

- Strong growth in life and pensions sales, up 45 per cent, driven by increases in new members in existing workplace schemes, increased auto enrolment workplace contributions and bulk annuities
- New underwritten household premiums increased 27 per cent, reflecting progress of Direct and Corporate Partnership propositions; total underwritten premiums decreased 6 per cent driven by a competitive renewal market
- Significant growth in life and pensions new business income, up 87 per cent to £526 million partly offset by £26 million decrease in total general insurance income net of claims, including around £60 million impact from higher weather related claims. Lower experience and other items primarily due to non recurrence of £170 million income from the addition of death benefits in 2017
- Underlying profit increased by 3 per cent to £927 million. Net income increased by £9 million to £1,988 million whilst operating costs decreased by £19 million, with cost savings more than offsetting higher investment in the business

Helping people plan for their future

The Scottish Widows pensions bus travelled around the country in 2018, helping members of the public with their retirement plans and visiting 25 employers that have their workplace pensions with Scottish Widows.

Starting in Edinburgh, the bus finished the first week on National Pensions Awareness Day at London Kings Cross Station before travelling the length of the country once more helping people understand their Scottish Widows workplace pension. The Group left a trail of happy customers behind them.

Our pensions experts provided free guidance, whether they were just thinking about starting a pension or perhaps coming to the end of their working career and are about to retire, all questions were welcomed, big or small – ensuring people feel happy and confident when thinking about their future.

7,000
people helped across 37 locations

Risk overview
Effective risk management and control

Our approach to risk

As a Group, managing risk effectively is fundamental to our strategy and future success. We are a simple, low risk, UK-focused financial services provider with a culture founded on strong risk management and a prudent through the cycle risk appetite. These are at the heart of everything we do, and ensure constructive challenge takes place across the business and underpins sustainable growth.

Our approach to risk is founded on an effective control framework, which guides how our colleagues work, behave and the decisions they make. As part of this framework, risk appetite – the amount and type of risk that the Group is prepared to seek, accept or tolerate in delivering our Group Strategy – is 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 decision-making and has enabled us to continue to deliver against our strategic priorities in 2018.

Our approach to risk plays a key role in the Group's strategy of becoming the best bank for customers, colleagues and shareholders.

Risk as a strategic differentiator

Risks are identified, managed and mitigated using our comprehensive Risk Management Framework, and our well-articulated risk appetite provides a clear framework for decision-making. The principal risks we face, which could significantly impact the delivery of our strategy, are discussed on pages 32 to 35.

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

Prudent approach to risk

Being low risk is fundamental to our business model and drives our participation choices. Strategy and risk appetite are developed in tandem and together outline the parameters within which the Group operates.

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 controlled.

The Board is responsible for approving the Group's risk appetite statement at least annually. Group Board-level metrics are cascaded into more detailed business appetite metrics and limits.

Business focus and accountability

Risk management is an integral feature of how we measure and manage performance – for individuals, businesses and the Group. In the first line of defence, business units are accountable for managing risk with oversight from a strong and independent second line of defence Risk division.

Effective risk analysis, management and reporting

Regular close monitoring and comprehensive 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, as appropriate.

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 within 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

2018 themes

Our priorities for risk management have continued to evolve, alongside progression of the Group's strategy and development of external factors.

Our principal risks are outlined over the next few pages but a number of themes have been particularly prevalent in 2018.

EU exit

Given the vast majority of our business is in the UK, the direct impact on the Group from leaving the EU is relatively small and we are well prepared to ensure continuity of our limited EU business activities.

Given our UK focus, our performance is inextricably linked to the health of the UK economy. Economic performance has remained resilient in recent years and whilst the near term outlook for the UK economy remains unclear given the ongoing EU withdrawal negotiations, we have contingency plans in place.

We have also taken a prudent approach to our balance sheet, increasing the amount of liquidity held and pre funding some issuance.

Irrespective of the outcome, our customer focused strategy remains the right one. We will continue to support our personal and business customers and have already announced that we will lend up to £18 billion to UK businesses in 2019, reaffirming our support for the UK economy.

Guided by the overriding principle of Helping Britain Prosper, we will seek to minimise the impact on our customers. We have also been working hard to ensure we are well prepared to provide customers with effective and timely support.

Data

Our Group is trusted with large volumes of data, which must be protected, whilst providing customers with ease of access through our multi-channel model. Data is our most valuable asset and so we must ensure that the information we hold is accurate, secure and managed appropriately. We meet the requirements of the General Data Protection Regulation (GDPR) that came into force in May 2018. The Group has taken this opportunity to implement new governance structures and demonstrate increased levels of accountability and transparency, as establishing trust is critical to our vision of being the best bank for customers. We have created a Group Data Protection Office (GDPO) to independently oversee compliance, reporting on this to Group and Board Risk Committees.

The Group drives a culture of compliance through its Data Privacy policy and control framework and has implemented robust governance to oversee compliance with GDPR, as well as enhanced staff training. During 2019 the Group will continue to drive enhancements to the maturity of our data control environment.

Cyber

Cyber threats are increasingly complex and like all financial services providers, attempts are made on a regular basis to attack our systems and services, and to steal customer and bank data. Given the significant threat we continue to strengthen the resilience of our IT systems and invest in our cyber control framework.

We are simplifying and modernising our IT architecture, alongside deploying technologies such as cloud computing which offer greater levels of resilience, capacity management and speed of processing. We are a member of the UK's Cyber Defence Alliance, where a number of UK-based banks and law enforcement agencies collaborate in the fight against cyber-attacks, sharing expertise, intelligence and knowledge. Within Lloyds Banking Group, our Chief Security Office engenders a culture whereby colleagues are considered to be our first line of defence. Vigilance and training are key to preventing cyber-attacks.

Sustainability

The Group has been developing its sustainability strategy, to address more broadly the opportunities and threats related to climate change, and the need for the UK to transition to a sustainable, lower carbon economy. This is in line with our commitment to implement the Task Force for Climate-related Financial Disclosures' recommendations. For risk management, addressing the potential impacts of climate change plays a key role in our approach to sustainability, and this year we have identified climate change as a top emerging risk.

+ Emerging risks page 108 of our 2018 Annual Report and Accounts

+ Operational risk page 136 of our 2018 Annual Report and Accounts

+ Sustainability strategy page 24

+ Environmental risk management page 135 of our 2018 Annual Report and Accounts

Risk management – enhancing the customer experience

We recognise that the primary role of risk management is to protect our customers, colleagues and the Group, whilst enabling sustainable growth. We are able to fulfil this purpose whilst also supporting the Group's strategic priorities and delivering better outcomes for customers. Here are some of the ways we have contributed to the Group's strategic priorities and enhancing the customer experience this year.

Credit risk

Leading customer experience
We are committed to adapting to changing customer expectations. With increasing competition and digital propositions in the market, customers expect great service and a frictionless experience.

This year Risk division increased the use of automated property valuations for the mortgage application process through Halifax, reducing the time it takes for us to offer customers a mortgage to buy a property by an average of one week. By speeding up this part of the process and removing an extra step, our customers have more time to focus on what matters most during life-changing events such as buying a home.

Maximising the Group's capabilities
We remain committed to supporting our customers and their businesses across the country.

Within Commercial Banking we look specifically at how industry risks impact success, and tailor advice and lending based on the dynamics of a segment or sector. One such example is in our SME dairy sector which has experienced significant pressures due to falling milk prices. Our relationship managers and risk teams have been working together to understand each client's farm and its changing needs so we can provide the best support possible. This may be through extending working capital or restructuring facilities, in order to drive better outcomes for the businesses we serve.

+ Strategic priorities pages 12 to 15

Operational risk

Digitising the Group
Deploying new technology to make banking simpler and safer for customers is a key priority for the Group.

We have already implemented a number of significant enhancements across various products and services. For example, from a risk perspective we have changed how we authenticate suspicious transactions across personal debit and credit cards. Rather than decline the payment and request that the customer contact us, we send a text with a unique code which enables our customer to quickly and easily verify that the transaction is genuine. This has helped to protect our customers and made the experience simpler by communicating in a method convenient to them.

Transforming ways of working
Our nationwide Fraud analytics and insight team looks after the systems which detect fraud for the Group.

The team has embraced agile working due to the nature of its role: at short notice they might be called upon to respond to a new fraud attack, which can require working long hours or into the night. The team also supports a large number of the Group's change programmes, often working outside regular hours. To meet the needs of the colleague, the team and the Group, working patterns are agreed on an individual basis.

There has been a strong reduction in fraud losses over the last five years; while some of this is due to investment in systems, we place great reliance on having well trained, engaged and motivated teams.

Risk overview continued

Our 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.

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.

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.

Principal risks and uncertainties are reviewed and reported regularly. As part of a review of the Group's risk categories, the secondary risk categories of Change, Data management and Operational resilience have been elevated to primary risk categories, and Strategic risk has been included as a new primary risk category, in the Group's Risk Management Framework. These changes will be embedded during 2019 and reflected within the Group's principal risks.

Full analysis of risk categories **page 114** of our 2018 Annual Report and Accounts

Credit

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

Example

Observed or anticipated changes in the economic environment could impact profitability due to an increase in delinquency, defaults, write-downs and/or expected credit losses

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
- During the year we strengthened affordability buffers and improved controls to restrict lending to consumers with higher risk of over-indebtedness
- Effective, well-established governance process supported by independent credit risk oversight and assurance
- Early identification of signs of stress leading to prompt engagement with the customer

Key risk indicators

£937m
Impairment charge
2017: £795m

£9,215m
Stage 3 assets[1]
1 Jan 2018: £9,055m

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.

1 Underlying total gross lending.

Read more **pages 115 to 135** of our 2018 Annual Report and Accounts

Regulatory and legal

The risk that the Group is exposed to financial loss, fines, censure, or legal or enforcement action; or to civil or criminal proceedings in the courts (or equivalent) and/or the Group is unable to enforce its rights due to failing to comply with applicable laws (including codes of practice which could have legal implications), regulations, codes of conduct or legal obligations, or a failure to adequately manage actual or threatened litigation, including criminal proceedings.

Example

Failure to deliver key regulatory changes or to comply with ongoing requirements

Key mitigating actions

- Implementation of compliance and legal risk management policies and procedures to ensure appropriate controls and processes are in place to comply with legislation, rules and regulation
- Embedding Group-wide processes to monitor ongoing compliance with new legislation, rules and regulation
- Continued investment in people, processes, training and IT to help meet our legal and regulatory commitments
- Ongoing engagement with regulatory authorities and industry bodies on forthcoming regulatory changes, market reviews and investigations, ensuring programmes are established to deliver new regulation and legislation
- Ongoing horizon scanning to identify changes in regulatory and legal requirements

Key risk indicators

£993m
Mandatory, legal and regulatory investment spend
2017: £886m

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 proactive in responding to significant ongoing and new legislation, regulation and court proceedings.

Read more **page 135** of our 2018 Annual Report and Accounts

Conduct

The risk of customer detriment due to poor design, distribution and execution of products and services or other activities which could undermine the integrity of the market or distort competition leading to unfair customer outcomes, regulatory censure and financial and reputational loss.

Example

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

Key mitigating actions

Conduct policies and procedures are in place to ensure appropriate controls and processes that deliver fair customer outcomes

Conduct risk appetite metrics provide a granular view of how our products and services are performing for customers through the customer lifecycle

Product approval, continuous product review processes and customer outcome testing in place (across products and services)

Learning from past mistakes through root cause analysis

Clear customer accountabilities for colleagues, with rewards driven by customer-centric metrics

Further enhancements and embedding of our framework to support all customers, including those in vulnerable circumstances

Key risk indicators

92.5%

Conduct risk appetite metric performance-Group
2017: 92.3%

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.

We have senior committees that ensure our focus on embedding a customer-centric culture and delivering fair outcomes across the Group. Further enhancements to our conduct risk framework continue to support this through robust and effective management of conduct risk. Together these support 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 **page 136** of our 2018 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 General Data Protection Regulation 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

99.97%

Availability of core systems
2017: 99.98%

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 **pages 136 to 138** of our 2018 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 to reinforce behaviours which 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

During 2018 we enhanced our colleague wellbeing strategies to ensure support is in place to meet colleague needs, and to help achieve the skills and capability growth required to build a workforce for the 'Bank of the Future'

Key risk indicators

79%

Values and behaviours index[1]
2017: 80%

Alignment to strategic priorities and future focus

Transforming ways of working

Regulatory requirements relating to personal accountability and remuneration rules could affect the Group's ability to attract and retain the calibre of colleagues required to meet changing customer needs. We recognise the challenges in delivering the Group's strategic priorities and we will continue to invest in the development of colleague capabilities and agile working practices. This investment will deliver a leading customer experience and allow the Group to respond quickly to customers' rapidly changing decision-making in a digital era.

1 Formerly known as Best bank for customers index.

Read more **page 138** of our 2018 Annual Report and Accounts

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

Strategic decisions made consider the maintenance of the current well-diversified portfolio of insurance risks

Processes for underwriting, claims management, pricing and product design seek to control exposure. Experts in demographic risk (for example longevity) support the propositions

Reinsurance and other risk transfer arrangements are actively reviewed for their efficacy, including monitoring the strength of third-parties with whom the risk is shared

Key risk indicators

£14,384m
Insurance (Life and Pensions present value of new business premiums)
2017: £9,951m

£690m
General Insurance underwritten total gross written premiums
2017: £733m

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 **pages 138 to 139** of our 2018 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

Key risk indicators

13.9%
Common equity tier 1 ratio[1,2]
2017: 13.9%

5.6%
UK leverage ratio[1]
2017: 5.4%

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 through the cycle.

1 Pro forma.

2 CET1 ratio after ordinary dividends and share buyback.

Read more **pages 139 to 147** of our 2018 Annual Report and Accounts

Funding and liquidity

Funding risk is the risk that we do not have sufficiently stable and diverse sources of funding. Liquidity risk is 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

£129bn
LCR eligible assets
2017: £121bn

107%
Loan to deposit ratio
1 Jan 2018: 107%

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 **pages 147 to 152** of our 2018 Annual Report and Accounts

Governance

Against a background of increased regulatory focus on governance and risk management, the most significant challenges arise from ensuring that the Group continues to demonstrate compliance with the requirements to ring-fence core UK financial services and activities, the potential impact of EU exit and further requirements under the Senior Manager & Certification Regime (SM&CR).

Examples

Inadequate or complex governance arrangements to address ring-fencing requirements and the potential impact of EU exit 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

To meet ring-fencing requirements, core UK financial services and activities have been ring-fenced from other activities of the Group and an appropriate control environment and governance structures are in place to ensure compliance

A dedicated change programme is in place and addressing the additional SM&CR requirements which will come into force during 2019

A dedicated programme is in place to assess and address the potential impacts of EU exit on the Group's operations in Europe. The Group is in close and regular contact with regulators to develop and deploy our planned operating and legal structure to mitigate the potential impacts of EU exit

Evolving risk and governance arrangements to ensure they 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 ensures that we are 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 **page 153** of our 2018 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 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 defined benefit pension schemes continue to monitor their credit allocation as well as the hedges in place against nominal rate and inflation movements

Key risk indicators

£1,146m

IAS 19 Pension surplus
2017: £509m

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 defined benefit pension schemes low. This combined with improved market conditions has helped keep the schemes in IAS 19 surplus in 2018. This allows us to more efficiently utilise available capital resources to better enable the Group to maximise its capabilities.

Read more **pages 154 to 159** of our 2018 Annual Report and Accounts

Model

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 models and rating systems.

Example

The consequences of inadequate models could include: inappropriate levels of capital or impairments; inappropriate credit or pricing decisions; and adverse impacts on funding or liquidity, or the Group's earnings and profits

Key mitigating actions

A comprehensive model risk management framework

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 **page 159** of our 2018 Annual Report and Accounts

Summary of Group results

Income statement – underlying basis

	2018 £ million	2017 £ million	Change %
Net interest income	12,714	12,320	3
Other income	6,010	6,205	(3)
Operating lease depreciation	(956)	(1,053)	9
Net income	17,768	17,472	2
Operating costs	(8,165)	(8,184)	–
Remediation	(600)	(865)	31
Impairment	(937)	(795)	(18)
Underlying profit	8,066	7,628	6
Volatility and other items	(1,356)	(703)	(93)
PPI provision	(750)	(1,650)	55
Statutory profit before tax	5,960	5,275	13
Tax expense	(1,560)	(1,728)	10
Profit for the year	4,400	3,547	24
Earnings per share	5.5p	4.4p	27
Dividends per share – ordinary	3.21p	3.05p	5
Share buyback	2.46p	1.40p	76
Share buybackvalue	£1.75bn	£1bn	75

Summary consolidated balance sheet

	At 31 Dec 2018 £ million	At 31 Dec 2017 £ million
Assets		
Cash and balances at central banks	54,663	58,521
Financial assets at fair value through profit or loss	158,529	162,878
Derivative financial instruments	23,595	25,834
Financial assets at amortised cost	496,379	482,752
Financial assets at fair value through other comprehensive income	24,815	
Available-for-sale financial assets		42,098
Other assets	39,617	40,026
Total assets	797,598	812,109
Liabilities		
Deposits from banks	30,320	29,804
Customer deposits	418,066	418,124
Financial liabilities at fair value through profit or loss	30,547	50,877
Derivative financial instruments	21,373	26,124
Debt securities in issue	91,168	72,450
Liabilities arising from insurance and investment contracts	112,727	118,860
Subordinated liabilities	17,656	17,922
Other liabilities	25,542	28,805
Total liabilities	747,399	762,966
Total equity	50,199	49,143
Total equity and liabilities	797,598	812,109

Underlying basis – segmental analysis

2018	Retail £m	Commercial Banking £m	Insurance and Wealth £m	Central items £m	Group £m
Net interest income	9,066	3,004	123	521	12,714
Other income	2,171	1,653	1,865	321	6,010
Operating lease depreciation	(921)	(35)	–	–	(956)
Net income	10,316	4,622	1,988	842	17,768
Operating costs	(4,915)	(2,167)	(1,021)	(62)	(8,165)
Remediation	(267)	(203)	(39)	(91)	(600)
Total costs	(5,182)	(2,370)	(1,060)	(153)	(8,765)
Impairment	(862)	(92)	(1)	18	(937)
Underlying profit	4,272	2,160	927	707	8,066

Banking net interest margin	2.68%	3.27%			2.93%
Average interest-earning banking assets	£342.3bn	£91.2bn	£0.8bn	£1.7bn	£436.0bn
Asset quality ratio	0.25%	0.09%			0.21%
Return on risk-weighted assets	4.59%	2.50%			3.86%
Loans and advances to customers[1]	£340.1bn	£100.4bn	£0.9bn	£3.0bn	£444.4bn
Customer deposits[2]	£252.8bn	£148.6bn	£14.1bn	£0.8bn	£416.3bn
Risk-weighted assets	£94.3bn	£86.0bn	£1.2bn	£24.9bn	£206.4bn

2017	Retail[3] £m	Commercial Banking[3] £m	Insurance and Wealth £m	Central items[3] £m	Group £m
Net interest income	8,706	3,030	133	451	12,320
Other income	2,221	1,798	1,846	194	6,059
Vocalink gain on sale	–	–	–	146	146
Operating lease depreciation	(947)	(105)	–	(1)	(1,053)
Net income	9,980	4,723	1,979	790	17,472
Operating costs	(4,866)	(2,230)	(1,040)	(48)	(8,184)
Remediation	(633)	(173)	(40)	(19)	(865)
Total costs	(5,499)	(2,403)	(1,080)	(67)	(9,049)
Impairment	(711)	(89)	–	5	(795)
Underlying profit[4]	3,770	2,231	899	728	7,628

Banking net interest margin	2.60%	3.28%			2.86%
Average interest-earning banking assets	£338.5bn	£91.1bn	£0.8bn	£4.5bn	£434.9bn
Asset quality ratio	0.21%	0.10%			0.18%
Return on risk-weighted assets[4]	4.18%	2.44%			3.55%
Loans and advances to customers[1]	£340.7bn	£102.8bn	£0.8bn	£11.4bn	£455.7bn
Customer deposits[2]	£253.1bn	£148.3bn	£13.8bn	£0.3bn	£415.5bn
Risk-weighted assets	£91.4bn	£88.1bn	£1.3bn	£30.1bn	£210.9bn

1 Excludes reverse repos of £40.5 billion (31 December 2017: £16.8 billion).

2 Excludes repos of £1.8 billion (31 December 2017: £2.6 billion).

3 Restated to include run-off.

4 Prior period restated to include remediation.

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 288 of our 2018 Annual Report and Accounts.

Underlying basis

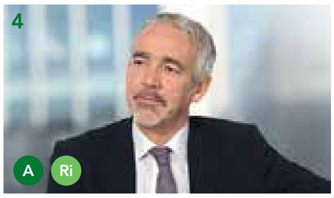
In order to allow a comparison of the Group's underlying performance, the results are adjusted for certain items including restructuring, severance related costs, the costs of implementing regulatory reform including ring-fencing, the rationalisation of the non-branch property portfolio, the integration of MBNA and Zurich's UK workplace pensions and savings business, volatility and other items, 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, insurance gross up, the unwind of acquisition-related fair value adjustments and the amortisation of purchased intangible assets and payment protection insurance (PPI) provisions.

Report of the Auditor

The auditor's report on the full accounts for the year ended 31 December 2018 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[1]

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

1 Deborah McWhinney served as a Director throughout the year and retired from the Board on 31 December 2018.
2 Amanda Mackenzie is to be appointed to the Remuneration Committee with effect from 1 March 2019.
3 Nick Prettejohn is to be appointed to the Nomination and Governance Committee with effect from 1 March 2019.

1. Lord Blackwell Chairman

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

Skills and experience:

- Deep financial services knowledge including 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 is an experienced Chairman and Non-Executive Director within the financial services sector having previously been 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 also 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.

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.

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, a Non-Executive Director of Nationwide Building Society where he was Chairman of its Risk Committee and a Governor of Motability.

External appointments: Chairman of Urban&Civic plc.

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

Simon was formerly Chief Financial Officer and Executive Director of Royal Dutch Shell plc. He was also previously Chair of the European Round Table CFO Taskforce and a Member of the Main Committee of the 100 Group of UK FTSE CFOs.

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. He was previously Chairman of Trustees of Dulwich Picture Gallery, 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.

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

6. Amanda Mackenzie OBE Independent Director

Appointed: October 2018

Skills and experience:

- Extensive experience in responsible business
- Considerable customer engagement experience
- Strong digital technology experience
- Significant marketing and brand background

Amanda was a member of Aviva's Group Executive for seven years and Chief Marketing and Communications Officer. Prior to her current role, Amanda was seconded from Aviva as Executive Adviser to Project Everyone, to help launch the United Nations Sustainable Development Goals. She has over 25 years' of commercial business practice, including director roles at British Airways AirMiles, BT, Hewlett Packard Inc, British Gas and Mothercare plc.

External appointments: Chief Executive of Business in the Community – The Prince's Responsible Business Network, a Life Fellow of the Royal Society of Arts and Fellow of the Marketing Society.

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.

External appointments: Chairman of Reach plc (formerly Trinity Mirror plc) and of their Nomination Committee. He is also 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). Until recently he was the Interim Chairman of Provident Financial plc. He was also a former 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).

External appointments: Senior Independent Director and Chair of the Risk & Capital Committee at QBE UK Limited (formerly 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 Board member at the Higher Education Funding Council, a Non-Executive Director of Mitchells & Butlers as well as a number of senior management roles for Abbey National and Mars Confectionery.

External appointments: Non-Executive Director of United Utilities Group and Chair of their Remuneration Committee 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 and Trustee of Lloyds Bank Foundation for England and Wales.

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.

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 Management/Enable 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.

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 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. 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. He was previously the Vice Chairman of the International Financial Risk Institute.

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.

Directors' remuneration report
Remuneration Committee Chairman's statement

The Committee is particularly mindful of its obligation to ensure that reward for Executive Directors is clear and transparent, is encouraging strong and sustainable performance, and that the variable components of remuneration are truly variable.

KEY MESSAGES

- Underlying profit increased 6 per cent to £8,066 million
- Executive Director single figure remuneration outcomes are approximately 2 per cent lower than prior year
- Gender pay gap reduced 1.3 per cent to 31.5 per cent – better than the average for Financial Services
- Pay budget increase of 2.6 per cent for all colleagues – increases for Executive Directors and other senior colleagues set lower at 2 per cent
- Minimum full time salary for all colleagues now exceeds National Living Wage by 7 per cent
- Financial and strategic performance in 2018 delivered a Group Balanced Scorecard outcome of 83 per cent of maximum
- Group Performance Share outcome is down 3 per cent year-on-year when adjusted for changes to eligible population. The total pool for 2018 is £464.5 million.
- 2016 Long Term Incentive Plan is vesting at 68.7 per cent

Composition of Executive Director Remuneration

30%	70%
Fixed Salary, Fixed Share Award, Pension, Benefits	**Variable** Group Performance Share, Group Ownership Share

Variable Reward Components

c.70%	c.30%
Long-term 3+ years	**Short-term** 1 year

95%	5%
Shares	**Cash**

Dear Shareholder

On behalf of the Board, I am pleased to present our Directors' remuneration report for the year ended 31 December 2018. This is my first report to you, and on behalf of the Board I would like to thank Anita Frew for her chairmanship of the Committee in the period to September 2018, when I took over. I hope to continue the excellent work Anita did in ensuring that remuneration is actively debated and transparent to all relevant stakeholders.

This report covers the information required to meet the Group's regulatory disclosures, but also provides additional context and detail on the Group's broader remuneration framework, its alignment with our strategy and other factors considered relevant by the Committee.

Responding to feedback

We were disappointed that our report for 2017 did not receive the high level of support from shareholders at the 2018 AGM that we had previously experienced. We place great importance on the opinions of our shareholders and other stakeholders when considering our remuneration policy and its implementation.

During 2018, I took the opportunity to meet a broad selection of shareholders and other key stakeholders, to obtain feedback on our approach. This included shareholders who opposed the 2017 remuneration report. It became clear in these discussions that, while disclosure levels were generally considered good, the way we determined bonus awards for Executive Directors was perceived to be too complex, and we could make clearer both how the annual awards were calculated and where judgement or discretion had been applied by the Committee. This report has been designed in part to respond to that feedback and I believe we have listened to, and addressed, the concerns raised. I have summarised the key changes below.

We are not seeking to make any changes to the Directors' Remuneration Policy for 2019, however we will consult widely on policy changes ahead of the Annual General Meeting in 2020.

Our performance and remuneration philosophy

We continue to operate four core reward principles:

- Customer alignment
- Simple, affordable and motivating
- Shareholder alignment
- Competitive, performance-driven and fair

These principles underpin all our decisions and ensure that our remuneration approach and outcomes are aligned to the Group's purpose and priorities.

What we have changed in response to your feedback

To provide greater clarity on the process for determining variable remuneration for Executive Directors, on page 87 of our 2018 Annual Report and Accounts we have provided a step-by-step walk-through of the approach to bonus awards. This shows how we determine the proportion of profit allocated to variable pay for on target performance, which remained at 5.1 per cent for 2018, and the mechanical approach to determining individual awards.

The Committee is also mindful of the changes to corporate governance and reporting regulations which take effect from next year and has begun to prepare for their formal introduction and reporting.

In this report we have published details of our CEO pay ratio, which can be found on page 95 of our 2018 Annual Report and Accounts. We have also provided an overview of activity that the Board will undertake with regard to understanding the views of the wider workforce on page 64 of our 2018 Annual Report and Accounts. We anticipate that the role of the Committee will evolve and develop during 2019 and intend to provide full details in 2020. Other aspects the Committee intends to focus on in 2019 include post employment shareholding and pension contributions of Executive Directors relative to the majority of the workforce.

As in previous years, we believe any remuneration awarded to Executive Directors must be supported by strong performance achieved with the interests of all our stakeholders in mind.

The remuneration awarded to Executive Directors is heavily weighted towards the delivery of long-term, sustainable performance that aligns with shareholder experience. For the variable awards made under the Group Performance Share and Group Ownership Share plans in respect of performance in 2018, over 95 per cent is awarded in shares, and 70 per cent is subject to performance conditions applying over three years.

Delivery through collective success

We believe it is important that all our colleagues share in the collective success of the Group when we deliver at our best. Therefore for 2019, significant changes are being made to the Group's performance management framework. Our new approach, which we are calling Your Best, is a simpler approach to performance management, with a stronger emphasis on teamwork and a greater focus on personal growth, skills and development. This is highly relevant to all colleagues in this fast changing economy.

Our colleagues are the stewards of the Group's future. We are therefore investing significantly in transforming ways of working to enhance our colleagues' skills and capabilities. All eligible colleagues in the Group will receive a Colleague Group Ownership Share award in 2019, continuing our practice of promoting long-term ownership and alignment to shareholder interests. 99 per cent of colleagues hold shares in the Group.

To ensure that the Committee understands the views of a broad range of stakeholders, I have consulted with the Group's recognised unions who represent the interests of around 30,000 colleagues. I am pleased to confirm that the unions have agreed our pay approach for 2019 receiving overwhelming support from their members. The total pay budget of 2.6 per cent for 2018 for all colleagues has been allocated such that higher pay increases are made to colleagues who are positioned lower in the pay range for their role, supporting a policy of real wage growth and pay progression. Increases range from 0.25 per cent to 9.9 per cent. The proposed salary increases for Executive Directors for 2019 have been set at 2 per cent, in line with other senior colleagues but lower than the overall colleague population.

From April 2019, all full-time colleagues in the Group will be paid a minimum salary of £17,510, 7 per cent above the National Living Wage, and where eligible will receive a minimum pay increase of £600 in 2019. This reflects the Group's commitment to offering colleagues a competitive reward package, which aims to reward all colleagues fairly for their contribution. The Group has been recognised as a Living Wage employer since 2015.

The Group has also made progress in reducing the Gender Pay Gap by 1.3 per cent, with the median gap reducing from 32.8 per cent to 31.5 per cent, lower than the average for Financial Services, through a combination of targeting our salary increases and our efforts to increase female representation at senior levels in the Group.

2018 remuneration in the context of business performance and the perspective of our wider stakeholders

We have taken on board feedback received in 2018 that suggests our approach to measurement of Group performance was overly complex. For 2018, we operated a scorecard with 20 measures across five blocks (as set out in full on page 86 of our 2018 Annual Report and Accounts), but have reduced this to 15 measures and four blocks for 2019. We have weighted the scorecard measures to provide a balance of performance expectations across financial, customer and colleague related outcomes. We will disclose details of the 2019 targets in 2020, but the revised balance of measures is summarised as follows:

33% Financial + **33%** Customer + **33%** Colleague and Conduct

The 'Remuneration Overview' section on the following pages provides a summary of the 2018 remuneration outcomes and policy for Executive Directors.

The Committee places great importance on ensuring there are clear links between remuneration and delivery of both financial and strategic objectives aligned to the long-term sustainable success of the Group.

In 2018, the Group made significant business progress, providing a strong platform for the Group's strategic development and delivery of key priorities. The Group delivered strong financial performance in a period of political and economic uncertainty. This uncertainty weighed heavily on the Group's share price during 2018; however, the Group's resilient and low risk business model enabled strong underlying performance. Underlying Profit increased by 6 per cent and the Group's capital position strengthened. The Group's cost:income ratio remains market leading at 49.3 per cent.

Reflecting the Group's performance in 2018, the Committee determined that the total Group Performance Share funding should be 3 per cent down year-on-year (adjusted for changes in eligible population). Individual awards for Executive Directors reduced on average by 12 per cent year-on-year. Awards for Executive Directors were determined at 67.6 per cent of maximum.

The value of the 2016 Long Term Incentive Plan awards has vested at 68.7 per cent in respect of the three-year performance period ending 31 December 2018. This reflects the significant progress made by the Group towards its strategic and financial goals, while reflecting the fall in share price over the performance period.

How we determine remuneration for Executive Directors and our wider colleague population

The Committee seeks to be transparent in its approach to setting and delivering remuneration. Our policy for 2019 and the implementation report for 2019 can be found on pages 97 and 93 of our 2018 Annual Report and Accounts.

As a result of taking on the role of Chief Executive of the Ring-Fenced Bank from 1 January 2019 in addition to his existing responsibility as Group Chief Executive, it has been determined that the Fixed Share Award for António Horta-Osório should be increased to £1.05 million. At the same time, the Group Chief Executive has agreed to reduce his Pension Allowance to bring this closer to that of the majority of the colleagues. His Pension Allowance will reduce from its current contractual level of 46 per cent of base salary to 33 per cent of base salary. This results in a decrease in total remuneration and greater value delivered in shares subject to a longer-term release schedule. Details are provided on page 93 of our 2018 Annual Report and Accounts.

Variable remuneration for Executive Directors and other senior colleagues is weighted heavily toward long-term performance, ensuring our colleagues build an ownership interest in the Group and are motivated by delivering superior and sustainable returns for shareholders.

All colleagues, including Executive Directors, participate in the Group Performance Share plan. This single approach to bonus awards ensures there is a fair and transparent link between individual remuneration outcomes and Group performance.

The approach to determining awards for Executive Directors is as follows:

- **Evaluation of performance:** The Committee reviews financial and non-financial performance against the Balanced Scorecard objectives. Judgement may then be used to ensure that mechanical scorecard outcomes are aligned to individual contribution, including how Executive Directors have performed.

  Full details are provided on page 86 of our 2018 Annual Report and Accounts.

- **Determination of Group Performance Share award:** The performance assessment determines the maximum opportunity and the range that judgement can be applied within.

  Full details are provided on page 87 of our 2018 Annual Report and Accounts.

- **Final awards:** To ensure fairness with all other colleagues, awards are adjusted to reflect the final pool funding.

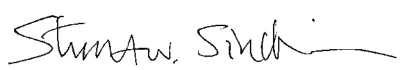
  Full details are provided on page 87 of our 2018 Annual Report and Accounts.

In 2018, the Committee did not exercise any discretion over remuneration outcomes. Further details on how the use of discretion was considered can be found on page 89 of our 2018 Annual Report and Accounts in respect of the 2016 LTIP vesting outcome and page 87 of our 2018 Annual Report and Accounts in respect of the 2018 Group Performance Share awards.

I hope you find the additional explanation in this report helpful in clarifying our approach.

2019 Annual General Meeting

Together with my Committee members, I look forward to hearing your views on the remuneration arrangements outlined in this report, and to welcoming you to the 2019 AGM where I hope you will support the resolution relating to remuneration.



Stuart Sinclair
Chairman, Remuneration Committee

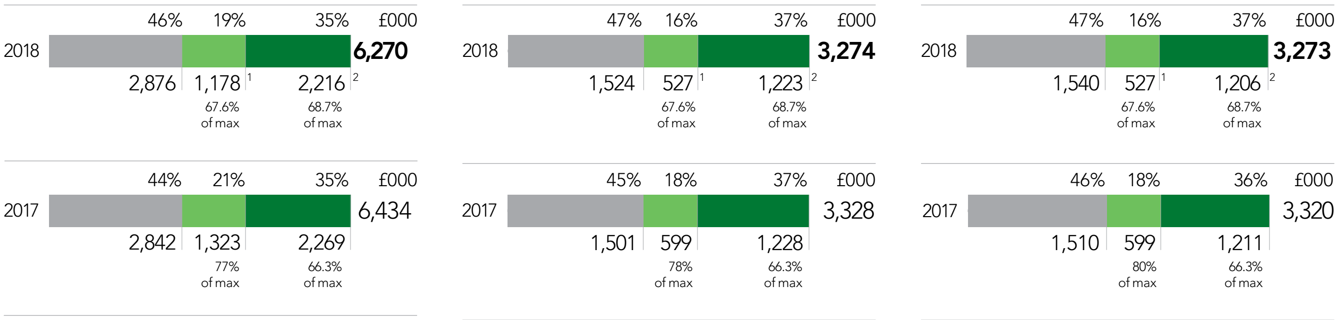
Directors' remuneration report continued

Remuneration overview
How we pay in line with performance and our strategic goals

Total Remuneration for Executive Directors 2017 vs 2018

The charts below summarise the Executive Directors' remuneration for the 2017 and 2018 performance years. Full details are provided on page 88 of our 2018 Annual Report and Accounts.

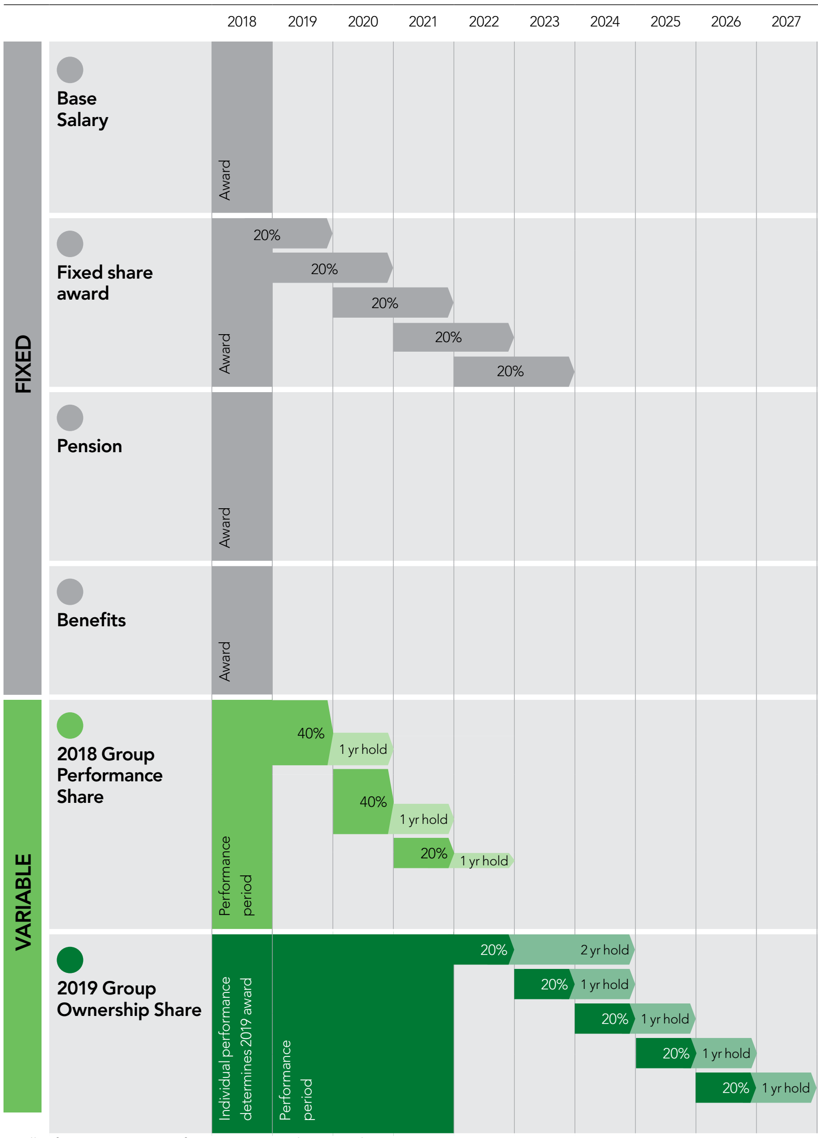
Fixed pay · Group Performance Share · Long term incentive/Group Ownership Share



1 2018 Group Performance Share, awarded in March 2019.

2 The 2016 LTIP vesting and dividend equivalents awarded in shares were confirmed by the Remuneration Committee at its meeting on 14 February 2019. The average share price between 1 October 2018 and 31 December 2018 (56.04 pence) has been used to indicate the value. The shares were awarded in 2016 based on a share price of 72.978 pence.

How Executive Director remuneration is composed[1]



Implementation

Base Salary
For 2019:
The Group has applied a total pay budget of 2.6 per cent for the wider colleague population.
GCE: £1,269,288 (1 January 2019) (2 per cent)
CFO: £779,351
COO: £794,938 (1 January 2019) (2 per cent).

Fixed share award
For 2019:
GCE: £1,050,000
CFO: £504,000
COO: £497,000
Awards are released in shares in equal tranches over a five year period.

Pension
For 2019:
GCE: 33 per cent of base salary
CFO: 25 per cent of base salary
COO: 25 per cent of base salary

Benefits
Benefits remain unchanged from 2018. Executive Directors receive a flexible benefits allowance in line with colleagues, (4 per cent of salary). This can be used to select benefits including life assurance and critical illness cover. Other benefits include car allowance, transportation and private medical cover.

2018 Group Performance Share
For 2018, the following awards were made:
GCE: £1,177,700
CFO: £526,841
COO: £526,841
£2,000 is paid in cash in March 2019, with the balance of the upfront 40 per cent delivered in shares. Half of this is delivered in June 2019 and the remainder subject to holding until March 2020. The remaining 60 per cent is deferred into shares with 40 per cent vesting in 2020 and 20 per cent in 2021. Half of each deferral is also subject to holding for one year.[2] See page 93 of our 2018 Annual Report and Accounts.

2019 Group Ownership Share
For 2019 the following awards are being made:
GCE: 300 per cent of base salary.
CFO: No award
COO: 275 per cent of base salary. Awards will be subject to a three year performance period with vesting between the third and seventh anniversary of award. Any shares released are subject to a further holding period in line with regulatory requirements and market practices.[2]
See page 94 of our 2018 Annual Report and Accounts.

1 All references to CFO refer to George Culmer in role on 1 January 2019.

2 Variable remuneration is subject to malus and clawback. See page 94 of our 2018 Annual Report and Accounts.

How our reward emphasises long term performance and is aligned to our strategic priorities

Financial targets that form the basis of the outcomes for both short term and long term awards are directly linked to the Group's Four Year Operating Plan.

Variable remuneration awards are subject to a balance of financial and strategic measures as summarised below.

			Performance Assessment		
Short Term Variable Remuneration			**Year 1**	**Year 2**	**Year 3**
c. 30%	**Group Performance Share**	Financial Performance measures	Underlying Profit		
		Strategic Performance measures	Group Balanced Scorecard		
Long Term Variable Remuneration					
c. 70%	**Group Ownership Share**	Financial Performance measures	Cost: income ratio / Total Shareholder return / Economic profit		
		Strategic Performance measures	Customer satisfaction / Digital active customer growth / Customer complaints Colleague engagement		

Shareholding requirements are in line with FTSE 100 practice and actual Executive Director shareholdings are significantly above the required levels as can be seen on page 91 of our 2018 Annual Report and Accounts.

How we performed against the key performance indicators which directly impact remuneration outcomes and support the delivery of our reward principles

For details of all Group KPIs, see pages 6 to 7

How we have performed over one year

Financial performance

£8,066m

+6%

Underlying profit

How we have performed over three years (2016 LTIP measures) – see page 89 of our 2018 Annual Report and Accounts.

Cost:income ratio[1]
(10% weighting)

Actual: 44.7%

100%

47.3% or less 25% payout | **46.1% or less** 100% payout

Total shareholder return (2016–2018) (30% weighting)

Actual: (4.8%)

0%

8% p.a. or more 25% payout | **16% p.a. or more** 100% payout

Economic profit
(25% weighting)

Actual: £3,291m

94.8%

£2,507m 25% payout | **£3,308m or more** 100% payout

Customer satisfaction
(10% weighting)

Actual: 1st

100%

3rd place 25% payout | **1st place** 100% payout

Digital active customer growth[2]
(7.5% weighting)

Actual: 14.1m

100%

13.4m 25% payout | **14.0m** 100% payout

Customer complaints per 1,000
(5% weighting)

Actual: 3.04

100%

4.18 25% payout | **3.78** 100% payout

Colleague engagement
(7.5% weighting)

Actual: 73

100%

66 25% payout | **72** 100% payout

Customer complaints FOS change rate
(5% weighting)

Actual: 18%

100%

=<29% 25% payout | **=<25%** 100% payout

1 Adjusted total costs, excluding remediation.
2 Excludes MBNA.

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 16 May 2019 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. Words such as 'believes', 'anticipates', 'estimates', 'expects', 'intends', 'aims', 'potential', 'will', 'would', 'could', 'considered', 'likely', 'estimate' and variations of these words and similar future or conditional expressions are intended to identify forward looking statements but are not the exclusive means of identifying such 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.

Examples of such forward looking statements include, but are not limited to: projections or expectations of the Group's future financial position including profit attributable to shareholders, provisions, economic profit, dividends, capital structure, portfolios, net interest margin, capital ratios, liquidity, risk-weighted assets (RWAs), expenditures or any other financial items or ratios; litigation, regulatory and governmental investigations; the Group's future financial performance; the level and extent of future impairments and write-downs; statements of plans, objectives or goals of Lloyds Banking Group or its management including in respect of statements about the future business and economic environments in the UK and elsewhere including, but not limited to, future trends in interest rates, foreign exchange rates, credit and equity market levels and demographic developments; statements about competition, regulation, disposals and consolidation or technological developments in the financial services industry; and statements of assumptions underlying such statements.

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; the ability to achieve strategic objectives; changing customer behaviour including consumer spending, saving and borrowing habits; changes to borrower or counterparty credit quality; concentration of financial exposure; management and monitoring of conduct risk; instability in the global financial markets, including Eurozone instability, instability as a result of uncertainty surrounding the exit by the UK from the European Union (EU) and as a result of such exit 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; risks related to climate change; changes in laws, regulations, practices and 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 transition from IBORs to alternative reference rates; 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 Review on Form 20-F filed with the US Securities and Exchange Commission for a discussion of certain factors and risks together with examples of forward looking statements.

Lloyds Banking Group may also make or disclose written and/or oral forward looking statements in reports filed with or furnished to the US Securities and Exchange Commission, Lloyds Banking Group annual reviews, half-year announcements, proxy statements, offering circulars, prospectuses, press releases and other written materials and in oral statements made by the directors, officers or employees of Lloyds Banking Group to third parties, including financial analysts. Except as required by any applicable law or regulation, the forward looking statements contained in this Annual Review are made as of the date hereof, and Lloyds Banking Group expressly disclaims any obligation or undertaking to release publicly any updates or revisions to any forward looking statements contained in this Annual Review to reflect any change in Lloyds Banking Group's expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based.

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