LLOYDS
BANKING GROUP

HELPING BRITAIN PROSPER

Annual Review 2019

Our Group

We are the largest UK retail and commercial 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 through 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.

Our reporting

We aim to report in an integrated way to reflect the way we operate. As well as reporting our financial results, we also report on our strategy and approach to operating responsibly and take into account relevant economic, political, social, regulatory and environmental factors.

Within this year's report we have also sought to address the additional reporting requirements arising from Section 172 of the Companies Act 2006 and the 2018 UK Corporate Governance Code.

This Annual Report and Accounts contains forward looking statements with respect to 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 330 of our Annual Report and Accounts.

Picture this

In 2019, we offered colleagues from across the Group an opportunity to submit photographs that they felt represented our purpose of Helping Britain Prosper. The winning photos are marked with this symbol alongside the photographer's name.

This Annual Review incorporates the Strategic Report which forms part of the 2019 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 2020

Group highlights

Solid financial performance in a challenging environment

£3.0bn
(33)%
Statutory profit after tax was lower largely due to the additional PPI charge. Tax expense of £1.4 billion

3.37p
+5%
Progressive and sustainable **ordinary dividend per share** including interim and final dividends

27%
Total shareholder return increased in the year reflecting the increased ordinary dividend and higher share price

7.8%
(3.9)pp
Lower **return on tangible equity** given lower statutory profit

48.5%
(0.8)pp
Cost: income ratio continues to improve

13.8%
(0.1)pp
Common equity tier 1 ratio remains strong

16.4m
+4%
Digitally active customers continued to increase and we remain the largest digital bank in the UK

74%
+1pp
Employee engagement index improved, two points above the norm for top performing UK companies

20 of 22
Helping Britain Prosper Plan targets achieved including the new sustainability KPI

All the above key performance indicators directly impact remuneration outcomes and support the delivery of our reward principles.

Inside this year's Annual Review

During 2019, we've lent £13.8 billion to support people to **buy their first home**, helped over 350,000 more people **save for their future** and supported more than 100,000 **businesses across the UK to start up and grow**.

Given our **customer focused** strategy, **ambitious transformation** programme and **digital strength**, the Group remains well placed to continue to support its customers, **Help Britain Prosper** and **deliver long-term sustainable success.**

Helping Britain Prosper Plan
on **pages 27 to 34**

Chairman's statement

Significant strategic progress positioning us well to respond to the changing environment

Given our unique position at the heart of the UK economy, the successful transition to a more sustainable, lower-carbon economy is of strategic importance to us.

Lord Blackwell
Chairman

Overview and strategy

During 2019, the Group has continued to make significant strategic progress and deliver solid financial performance in a challenging external environment. Much of the year was impacted by economic and political uncertainty, but our customer focus has remained strong and the cornerstone of our business.

The Group is driven by our powerful purpose of Helping Britain Prosper. As I have mentioned in previous years, despite the external challenges, the Board are determined to continue building value for shareholders by maintaining our focus on results delivery whilst simultaneously investing in the major transformation required to serve our customers and operate effectively in a digital world. This transformation not only requires adopting new technologies, but also adapting to the new skills, culture and ways of working that the digital revolution requires. Delivering this effectively while remaining true to our traditional values and focusing on customer service is a tremendous challenge, but we are committed to building a successful and sustainable Group of which we can all be proud.

We remain on track to deliver our commitment of more than £3 billion of strategic investment over the three year plan period, having invested around £2 billion to date. This investment, which in 2019 continued to focus on further enhancing our leading customer experience, digitising the Group, maximising Group capabilities and transforming ways of working, is essential to sustain our long-term competitive advantage.

At the same time we continue to invest in new growth opportunities. In 2019 we successfully launched Schroders Personal Wealth with the ambition of becoming a top three financial planning business by the end of 2023 as a complement to our growing pensions and retirement business in Scottish Widows. We also acquired Tesco Bank's £3.5 billion UK prime residential mortgage portfolio.

Our weak spot continued to be the ongoing legacy from past misconduct, with another significant provision for PPI mis-selling as we approached the deadline for customer compensation claims last August. In addition, despite the organisation's best intentions to provide rapid and generous compensation to victims of the historic HBOS Reading Fraud, we also had to acknowledge that the independent review of this process by Sir Ross Cranston highlighted shortcomings which now require us to ensure customers can opt into a further review if they are not satisfied with their outcome. We have learned a number of lessons from this, on how to improve our handling of small business customers, which we will build into our ongoing operations. The Board and Executive team remain committed to doing whatever is necessary to ensure all victims impacted by past failures receive fair recompense that reflects the importance we attach to earning and retaining the trust of our customers.

Performance and capital return

We delivered a solid financial performance in 2019 despite the challenging external environment. I am naturally disappointed that our statutory result was significantly impacted by the additional PPI charge in the year as noted above. Despite this, our performance continues to demonstrate the resilience of our customer franchise and business model, the appropriateness of our strategy and the strength of our balance sheet.

With this in mind I am pleased to announce that the Board has recommended an increased final ordinary dividend of 2.25 pence per share, bringing the total ordinary dividend for 2019 to 3.37 pence per share, an increase of 5 per cent on last year and in line with the Group's policy to deliver a progressive and sustainable ordinary dividend. While we concluded that we should be prudent in not distributing further capital this year, the Board will continue to assess this in future years.

I am also pleased, that as announced in May 2019, the Group will be moving to quarterly dividend payments this year with the first payment in respect of the first quarter of 2020 due in June.

Supporting the UK economy through uncertain times

We have and will continue to play an active part in supporting the UK economy, to which our success is inextricably linked. As part of our purpose of Helping Britain Prosper, we believe we have a responsibility to help address the social, economic and environmental challenges that the UK faces, whether we're helping people buy a house, supporting businesses to start up and grow, building digital skills, being a leader in diversity or helping the transition to a low carbon economy.

We are supporting businesses by providing funding, once again lending them up to £18 billion in 2020, and the skills and tools they will need to develop and grow. For instance, our Digital Academies provide relevant free training and our International Trade Portal helps them find new customers overseas. Additionally we have helped 2,000 social entrepreneurs start up and scale and we have regional teams working with Be the Business to address productivity issues and provide a boost for local companies.

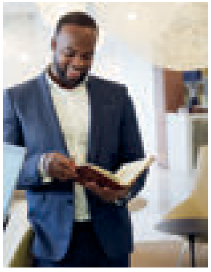
Given our unique position at the heart of the UK economy, the successful transition to a more sustainable, lower-carbon economy is of strategic importance to us. In response to the global issue of climate change, the Group reached a new milestone with the development of a new goal, working with customers, Government and the market to help reduce emissions we finance by more than 50 per cent by 2030. We have made sustainability a focus area in our Helping Britain Prosper Plan and throughout 2019 we have continued to build on this by developing the new reporting framework, which can be found on pages 28 to 31.

OUR CONTRIBUTION TO THE UK

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

Customers

- £15.5 trillion of payments processed in 2019 = 7x UK GDP
- £61.2 billion SME and Mid Markets lending portfolio
- Biggest mortgage lender in UK with c.£289 billion portfolio
- £18 billion lending commitment to UK businesses



Colleagues

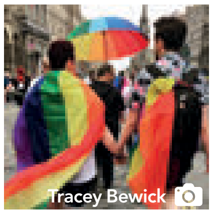
- One of the largest employers in the UK

Shareholders

- £2.4 billion paid in dividends to c.2.4 million shareholders

Communities and Environment

- £50.8 million donated to help communities in 2019
- More than 246,000 hours volunteered



Regulators and Government

- £2.9 billion tax paid in 2019
- The UK's largest corporate tax payer

Suppliers

- £5.9 billion paid in 2019
- >95 per cent of direct suppliers located in the UK

Our stakeholders on **pages 20 to 25**

Equally important is how we engage with our customers on this issue and to support this change we have trained over 800 colleagues, enhancing their awareness of the risks and opportunities the transition to a low carbon economy represents. We will also continue our partnership with the Cambridge Institute for Sustainability Leadership to provide high quality training to executives and colleagues in risk management, product development and client facing roles.

Our partnership with Mental Health UK began in 2017, with the aim of raising £4 million over a two year period, however we quickly exceeded that and have raised over £11 million to date. As a Group we believe that a shift in mindset is needed amongst UK employers when it comes to mental health and our approach focuses on a willingness to acknowledge, support and manage mental health in the workplace. In 2019, we announced that we are continuing our journey with Mental Health UK for another two years and aim to raise a further £4 million by the end of 2021. In addition, we aim to continue to raise awareness and reduce stigma. We have committed to training 2,500 colleagues to become Mental Health Advocates by 2020, and also provided colleagues with training to help support customers.

Our colleagues and culture

Throughout 2019, I have travelled across Britain to see how colleagues are embracing new ways of working and the contribution they are making towards Helping Britain Prosper. These visits enabled me to see first-hand how we support customers and respond to their needs in a challenging environment.

I am delighted that we have been named as a top 10 employer for working families, and also retained our place on both the Stonewall Top 100 Employers list for the fifth year in a row and The Times' Top 50 Employers for Women for the eighth consecutive year. This great news demonstrates our clear commitment to ensuring all colleagues can feel confident in bringing their true selves to work and reach their full potential.

I also want to recognise the great work that is done by all of our Charitable Foundations. This was illustrated by the award recently won by the Lloyds Bank Foundation for England and Wales, recognised as the leading grant maker in the Civil Society Charity Awards for its commitment to helping small and local charities thrive for the long-term.

The Board and senior management have a vital role to play in shaping and embedding a healthy corporate culture, and this has been a major focus of the Board's attention over the last year. The values and standards of behaviour we set are an important influence and there are strong links between governance, strategy and establishing a culture that supports long-term success. Throughout 2019, the Board has continued to evolve the Group's culture plan, focusing on our Group values; putting customers first, keeping it simple and making a difference together. Our aim is a culture where every colleague is encouraged to take responsibility for ensuring we do the right thing for every customer.

The results from the Group's 2019 colleague survey, which can be found on page 9, acknowledge the positive work that has been completed. Transforming our culture with colleagues, empowered to speak out and drive their personal development, is critical to the successful delivery of our current strategy.

Remuneration

There has been a substantial focus on remuneration throughout 2019. The Remuneration Committee has engaged extensively with our shareholders and other key stakeholders to develop the proposed 2020 Directors' Remuneration Policy. The changes proposed within the new policy have been designed in the interests of our stakeholders and take on board feedback for a more simplified remuneration structure with a clear alignment to the purpose and strategy of the Group, whilst appropriately rewarding performance. The changes also support the long-term goal to narrow the gap between executive and wider colleague remuneration.

Full details of the proposed Policy and rationale for the proposed changes can be found within the Directors' Report on Remuneration on pages 98 to 102 of our Annual Report and Accounts. The policy will be subject to shareholder approval at the AGM in May.

Despite facing a challenging external environment, we have delivered a solid financial performance for the year. The additional PPI charge has however significantly impacted our statutory results. As a result of this and other performance factors, the total Group Performance Share (GPS) outcome for the Group decreased 33 per cent to £310.1 million.

The total GPS outcome remains a small proportion of underlying profit at 3.7 per cent and an even smaller proportion of overall revenues. Cash GPS awards are capped at £2,000 per colleague, with additional amounts paid in shares and subject to deferral and performance adjustment to ensure their ultimate value reflects sustained performance. More information on this year's outcomes and on how we ensure our approach to remuneration supports our strategy can be found in the Directors' Remuneration Report on pages 98 to 123 of our Annual Report and Accounts.

Chairman's statement continued

SOCIETY OF THE FUTURE

We recognise that society's expectations of the Group as a major UK corporation are evolving

As a UK, customer-focused business, we recognise that our success and prospects are inextricably linked to the health of the UK economy. Our focus on helping to improve the prosperity of individuals, businesses and communities across the UK therefore not only makes commercial sense, but also represents a social responsibility for an organisation such as ours. In recent years, we have fully embraced this through our purpose of Helping Britain Prosper which continues to make a significant positive impact across the UK, while also giving our colleagues a real sense of pride and meaning.

As we look ahead, we recognise that the external environment is changing at an extraordinary rate and the UK is being confronted by a range of evolving social, economic and environmental challenges that are unprecedented in nature and require a bold response. At the same time, stakeholder expectations of how major UK institutions should respond are changing, raising fundamental questions regarding how companies can retain their implicit licence to operate while also remaining both relevant and attractive to a diverse range of stakeholders, including customers, colleagues, shareholders and the broader society.

In June 2019, the Board and the senior management team took part in an intensive two-day strategy meeting to revisit our expectations of the current strategy and review the key trends that have emerged since. As part of this, the Board debated the transformation required to meet these evolving expectations and obligations to the Society of the Future.

This recognised that, to continue to operate as a successful business, it will be increasingly important that we demonstrate the contribution we make to the communities in which we operate and the value we provide in Helping Britain Prosper, with an emphasis on demonstrating that acting responsibly and ethically and delivering good outcomes for customers, colleagues and shareholders should not come at the detriment of shareholder returns, but rather be an integral part of achieving them. This session provided a solid foundation for us to develop the next phase of our strategy during the course of 2020.

Directors

We review the Board's composition and diversity regularly and have continued to strengthen and further diversify the knowledge and experience on our Board. During 2019, we have announced a number of Board changes, as outlined below.

George Culmer, our Group Financial Officer retired in the third quarter of 2019. George played a vital role in helping the Group navigate its way through the aftermath of the financial crisis to return to full private ownership. I want to pay tribute to George's tremendous contribution and to thank him on behalf of the Board, our colleagues and our shareholders.

I am pleased to welcome William Chalmers, who formally took the reins as the Group's Chief Financial Officer in August 2019. We are pleased to have been able to attract a candidate of William's calibre to the Board. He brings a wealth of experience that will be of significant benefit to the Group.

I am also pleased to welcome two new independent Non-Executive Directors to the Board; Sarah Legg, who became a member of the Audit and Board Risk Committee in December 2019 and Catherine Woods who will join us in March 2020. Catherine will join the Board Risk and Remuneration Committees.

In addition to these changes, after many years as a Senior Executive for the Group, Juan Colombás, Executive Director and Chief Operating Officer, announced his plan to retire in July 2020. The Board is grateful to Juan for the major contribution he has made to the transformation of the Group. Anita Frew stepped down as Senior Independent Director in December and will also retire as Deputy Chairman and Non-Executive Director in May 2020, having served nine years on the Board. Anita has been an extremely valuable Board member and will be much missed. Alan Dickinson succeeded Anita as Senior Independent Director and will also take on the role of Deputy Chairman, bringing his significant Board, financial and regulatory experience to these roles.

Last October I also announced that I plan to retire from my role as Chairman of Lloyds Banking Group once my successor is appointed, at or before the AGM in 2021, which would mark nine years on the Board. I will be sad to leave, but know I will do so with great pride in what has been accomplished to rebuild the Group's strength and shape its development so it can continue to play its important role in supporting the UK's prosperity.

Summary

I would like to thank all of our colleagues for their significant contribution in 2019. It is the commitment, support and dedication from all of them that enables us to succeed and I believe the Group remains well positioned as a result of the transformation underway to continue delivering for customers and shareholders.

Lord Blackwell
Chairman

Group Chief Executive's review

Solid financial performance with market leading efficiency and returns

We have made significant strategic progress and our performance continues to demonstrate the competitive advantage of our business model.

António Horta-Osório
Group Chief Executive

In 2019 the Group has continued to deliver for customers while making significant strategic progress and delivering a solid financial performance in a challenging external market. While it is disappointing that this was impacted by the additional PPI charge in the year, as a result of this performance, the Board has been able to recommend an increased total ordinary dividend of 3.37 pence per share.

In February 2018 we announced an ambitious plan to transform the Group for success in a digital world, supported by over £3 billion of strategic investment. We are now two-thirds of the way through the plan and have made significant progress in further digitising the Group, enhancing customer experience, maximising our capabilities as an integrated financial services provider and transforming the way we work.

We have made significant progress in our customer proposition. For example, our unique Single Customer View capability provides customers with the ability to view their pensions and long-term savings products alongside their banking products. Insurance and Wealth has seen strong growth in life and pensions sales, driven by new members in existing workplace schemes, increased auto enrolment workplace contributions and bulk annuities. In partnership with Schroders, during the third quarter of 2019 we launched Schroders Personal Wealth, with the ambition of becoming a top three financial planning business by the end of 2023. Also in the third quarter, the Group announced the acquisition of Tesco Bank's prime UK residential mortgage portfolio, which complements our organic strategy.

Historic conduct issues remain disappointing but we continue to be focused on doing the right thing for our customers. The Group is fully committed to implementing all of the recommendations contained within Sir Ross Cranston's report relating to HBOS Reading and ensuring that victims of the HBOS Reading fraud have their claims assessed in an open and transparent manner. We have apologised to those impacted and are determined to put things right.

Given our clear UK focus, our performance is inextricably linked to the health of the UK economy. During 2019, UK economic performance has remained resilient in the face of significant political and economic uncertainty, supported by record employment, low interest rates and rising real wages. Although uncertainty remains given the ongoing negotiation of international trade agreements, there is now a clearer sense of direction and we remain well placed to Help Britain Prosper, support our customers and deliver strong and sustainable returns for shareholders.

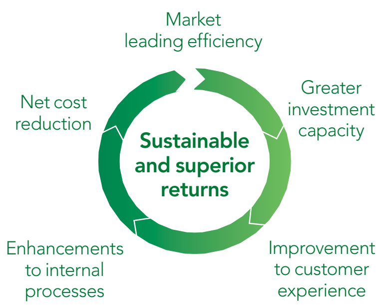
Financial performance

Statutory profit before tax of £4.4 billion was 26 per cent lower than 2018 and earnings per share at 3.5 pence was down 36 per cent, due to the PPI charge of £2.45 billion in 2019 (2018: £0.75 billion). Underlying profit of £7.5 billion was down 7 per cent on 2018, reflecting continued revenue pressure and higher impairments partly offset by lower total costs. Our relentless focus on cost efficiency has led to a reduction in operating costs, where we enhanced our guidance twice during 2019. This was achieved whilst increasing strategic investment and our net promoter scores. Our cost:income ratio improved again to 48.5 per cent. Credit quality remains strong with the Group's net asset quality ratio of 29 basis points in line with the target of less than 30 basis points, despite two material corporate cases.

Loans and advances decreased by £4 billion to £440 billion. The acquisition of Tesco Bank's prime UK residential mortgage portfolio, as well as organic growth in targeted segments including SME and UK Motor Finance, was more than offset by continued reductions in the closed mortgage book and lower balances in Mid Markets and Global Corporates. The reduction in Commercial balances is due to continued optimisation of the portfolio as we actively address low risk-adjusted return relationships.

The Group is strongly capital generative, although this has been impacted by PPI in 2019. Given our strong capital position at the year end, the Board has recommended a final ordinary dividend of 2.25 pence per share, bringing the total ordinary dividend for the year to 3.37 pence per share. This represents an increase of 5 per cent on 2018 and is in line with our progressive and sustainable ordinary dividend policy. The Group's capital position remains strong with a pro forma CET1 ratio of 13.8 per cent after allowing for ordinary dividends.

Creating competitive advantages



Group Chief Executive's review continued

STRATEGIC PROGRESS

The Group's ambitious three year strategic plan was launched in February 2018 and we are on track to achieve our targeted strategic outcomes. We have made significant progress in transforming the Group for success in a digital world and, in line with our commitment to invest more than £3 billion over the period, have invested £2 billion to date across our four strategic pillars.

In addition to completing the third stage of our strategic plan, in 2020 we will also begin to consider the next phase of our journey. Work will begin at pace in the summer on the new strategic plan, which we expect to announce in February 2021, along with updated longer term financial targets. This work will take into account a wide range of factors, including the evolving external environment, emerging changes across society and changing expectations of how companies should respond to such challenges.

Our strategic priorities on **pages 16 to 19**

Leading customer experience

- We are committed to maintaining the UK's number one branch network and customer-facing colleagues in branch now spend around 50 per cent of their time addressing customers' complex needs
- We are trialling new branch formats, including a new flagship Bank of Scotland branch and Home by Halifax
- We have continued to develop our digital proposition and our digitally-active customer base has increased again to 16.4 million, of which 10.7 million are active on their mobile banking app; 75 per cent of products are now originated digitally
- We are using our deep understanding of our diverse customer base to deliver tailored propositions such as Club Lloyds and the Halifax Prize Draw

16.4m
digitally active customers

Digitising the Group

- Investment in technology remains a key strategic priority for the Group and enables us to improve the experience of our customers and colleagues; technology spend now represents 19 per cent of operating costs
- Having introduced automation for repetitive tasks, we have created over 1 million cumulative hours of colleague capacity and our transformation has covered around 55 per cent of the Group's cost base
- Virtual assistants are currently managing up to 5,000 customer conversations daily, with satisfaction increasing by more than 10 points. Around 25 per cent of queries are handled without being passed to a colleague and we expect this to increase
- In enhancing capabilities and accelerating our transformation, we are working in collaboration with a number of fintechs and we continue to monitor opportunities in this space

14%
year-on-year increase in technology spend

Maximising Group capabilities

- Open Banking is now available to all digital customers and our unique Single Customer View capability is available to over 5 million customers
- We have exceeded our goal of attracting over 1 million new pension customers, a year ahead of target and we have continued to make progress towards the target of growing open book assets under administration by £50 billion by the end of 2020, with cumulative net growth of £37 billion since 2017
- We launched Schroders Personal Wealth, with the ambition of becoming a top three financial planning business by end of 2023
- Commercial Banking has supported Insurance and Wealth by sourcing £0.6 billion of new long-term assets to support five new bulk annuity transactions

>5m
customers with access to Single Customer View

Transforming ways of working

- We are making our biggest ever investment in people, with a focus on ensuring that we are able to continue to attract, develop and retain the talent and capabilities we will need in the future
- We have significantly increased the 'skills of the future' training delivered to our colleagues to a cumulative 3.2 million hours since 2018 and around 33 per cent of change is now delivered using Agile methodologies
- The Group has hired over 1,200 colleagues in 2019 across critical areas such as engineering, data science and cyber security, in line with our plan to treble strategic hiring compared to 2018 and enabling the Group to reduce the use of external resource

3.2m
hours of future skills training delivered

Helping Britain Prosper Plan

We are committed to the long-term success of the UK with our purpose of Helping Britain Prosper. This is why we launched our Helping Britain Prosper Plan in 2014 which also underpins our environmental, social and governance efforts. For 2019 we met 20 out of 22 objectives of the Plan, and some key achievements are outlined below.

The Group is committed to helping customers to buy a home. In 2019 we lent £13.8 billion to first time buyers across the UK including through innovative products like our Lloyds Bank Lend a Hand and Halifax Family Boost mortgages. We have also increased net lending to start-ups, SMEs and Mid Market customers to £3.4 billion since 2018 together with achieving our target of lending £18 billion to UK businesses in 2019.

We are working hard to help people save for the future and in 2019 in partnership with Schroders, we launched Schroders Personal Wealth. Our open book assets under administration have increased by £37 billion since the start of the current strategic plan. More generally, our banking savings range operates transparent pricing for all, with customers able to upgrade their accounts online with one click when better products become available.

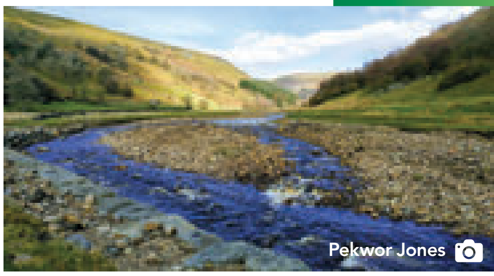
The Group is committed to helping the UK transition to a sustainable, low carbon economy. Over the last five years we have raised over £2.8 billion in green bonds for UK corporate issuers, more than any other UK financial services company. We have also supported renewable energy projects that power the equivalent of 5.1 million homes.

As we look forward, we want to play our part in tackling climate change and we have targeted working with our customers, government and the market to help reduce the emissions we finance by more than 50 per cent by 2030, in line with the UK's Net Zero Goal and the Paris Agreement. We are one of the first organisations in the world to commit to all three of The Climate Group's ambitious sustainability initiatives, which aim to speed up the transition to a low carbon economy by committing to source 100 per cent of our electricity from renewable sources, improve energy productivity and transition to electric vehicles.

The Group was the first FTSE100 company to establish targets for championing diversity within its business and we now have 36.8 per cent of senior roles held by women, up almost 8 percentage points since 2014 and we continue to aim to meet our target of 40 per cent by the end of 2020. With 10.2 per cent of roles across the Group held by Black, Asian and Minority Ethnic (BAME) colleagues, we have exceeded our 2020 target of 10 per cent.

We have also helped over 700,000 individuals, small businesses and charities to develop digital skills in 2019, and we are on track for our target of 1.8 million by 2020. Our Digital Knowhow workshops have also helped thousands of organisations learn how to avoid fraud and take advantage of digital marketing techniques.

Protecting the planet for future generations



In January 2020, the Group announced its new ambitious goal to work with customers, government and the market to help reduce the carbon emissions we finance by more than 50 per cent by 2030.

>50% by 2030

We aim to help reduce the emissions we finance by more than 50 per cent by 2030

This goal recognises the urgent need to tackle climate change, grow the green economy and promote green finance for the future prosperity of the UK. Read more on pages 28 to 31.

The next decade will be crucial for protecting the planet for future generations, and financial services has a critical role to play. We are fully committed to supporting our customers, clients and colleagues to transition to a low carbon economy, working closely with other organisations and government to create the solutions that will accelerate progress and ultimately Help Britain Prosper.

António Horta-Osório,
Group Chief Executive

Our colleagues have also taken an active role in supporting good causes, including raising over £11 million for Mental Health UK over a two year period, as well as volunteering 246,000 hours of their time through our Day to Make a Difference initiative.

In addition, the Group has paid £2.9 billion tax in 2019 and we are proud to be the largest corporate tax payer in the UK.

We have issued a separate presentation on our approach to environmental, social and governance issues, which can be found on the Group's external website.

Outlook

Over 2019, UK economic performance has remained resilient in the face of significant political and economic uncertainty, supported by record employment, low interest rates and rising real wages. Although uncertainty remains given the ongoing negotiation of international trade agreements and the rate outlook remains challenging, there is now a clearer sense of direction and we remain well placed to Help Britain Prosper, support our customers and deliver strong and sustainable returns for shareholders. The Group's confidence in the business model and future performance is reflected in our guidance for 2020:

- Net interest margin of 2.75 to 2.80 per cent
- Operating costs to be less than £7.7 billion with the cost:income ratio lower than in 2019
- Net asset quality ratio expected to be less than 30 basis points
- Capital build expected to be within the Group's ongoing guidance range of 170 to 200 basis points per year and risk-weighted assets to be broadly in line with 2019
- Expect increased statutory return on tangible equity of 12 to 13 per cent, driven by resilient underlying profit and lower below the line charges

The Group faces the future with confidence. As a result, we will continue to target a progressive and sustainable ordinary dividend. In 2020, the Group will also commence paying dividends quarterly, accelerating payments to shareholders, with the first dividend being paid in June 2020.

António Horta-Osório

António Horta-Osório
Group Chief Executive

Key performance indicators

Our strategy has delivered solid performance

Financial

Pay for performance across the Group

Key performance indicators are regularly reviewed by the Board, with an aim to provide a fair, balanced and comprehensive view of the Group's performance. The measures outlined on these pages identify the most effective output measures for assessing financial and non-financial performance including progress towards becoming the best bank for customers, colleagues and shareholders.

To ensure our colleagues act in the best interests of all our stakeholders, 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.

Within this year's report we have updated our key performance indicators to reflect these priorities. All the key performance indicators directly impact remuneration outcomes and support the delivery of our reward principles.

The remuneration awarded to Executive Directors is heavily weighted towards the delivery of long-term, sustainable performance. As part of our 2020 Remuneration Policy, our proposed move to long-term share awards continues to support the Group's strategic aims and the long-term sustainable success of the business, page 117 of our Annual Report and Accounts.

As per pages 101 and 110 of our Annual Report and Accounts our 2020 balanced scorecard measures will remain broadly unchanged from 2019 and will be used in both short term and long-term reward decision making. KPIs have been proposed to underpin the long term share awards focusing on capital strength, relative returns and a progressive and sustainable ordinary dividend.

Underlying profit before tax

£m

7,531

2019	**7,531**
2018	8,066
2017[1]	7,628
2016[1]	6,782
2015[1]	7,275

Underlying profit before tax was lower in 2019, reflecting lower net income and higher impairment charges, partly offset by the Group's continued progress in cost reductions.

1 Restated to include remediation.

Statutory profit after tax

£m

3,006

2019	**3,006**
2018[1]	4,506
2017[1]	3,649
2016[1]	2,605
2015[1]	1,036

Statutory profit after tax was lower in 2019, largely due to the additional PPI charge. The tax expense was £1.4 billion.

We previously reported statutory profit before tax but changed to statutory profit after tax at full year 2019 to further align our key performance indicators to remuneration.

1 Restated to reflect amendments to IAS12.

Ordinary dividend

p per share

3.37

2019	**3.37**
2018	3.21
2017	3.05
2016	2.55
2015	2.25

An increased ordinary dividend of 3.37 pence per share, in line with our progressive and sustainable ordinary dividend policy.

Statutory return on tangible equity

%

7.8

2019	**7.8**
2018	11.7
2017	8.9
2016	6.6
2015	2.6

The statutory return on tangible equity was lower in 2019 given the lower statutory profit, largely due to additional PPI charges.

2020 TARGET
Statutory return on tangible equity 12 to 13%

Cost:income ratio

%

48.5

2019	**48.5**
2018	49.3
2017	51.8
2016	55.3
2015[1]	54.2

The Group's market-leading cost:income ratio including remediation continued to provide a competitive advantage and further strengthened to 48.5 per cent in 2019.

CURRENT TARGET
Cost income ratio including remediation to be lower in 2020

1 Excluding TSB.

Common equity tier 1 ratio (CET1)

%

13.8

2019[1]	**13.8**
2018[1]	13.9
2017[1]	13.9
2016[1]	13.0
2015[1]	13.0

Our common equity tier 1 ratio remains strong.

CURRENT TARGET
Ongoing CET1 capital ratio target of c.12.5 per cent plus a management buffer of c.1 per cent

1 Pro forma, reflecting insurance dividends paid in the subsequent reporting period. 2018 also includes share buyback and 2016 reflects MBNA.

Financial performance overview on **pages 36 to 39**

Economic profit
£m

3,138

2019	3,138
2018	3,291
2017	3,987
2016	3,377
2015	2,233

Economic profit, a measure of profit taking into account expected losses, tax and a charge for equity utilisation. Economic profit in 2019 was impacted by lower net income received in the year.

Total shareholder return
%

27

2019	27
2018	(20)
2017	14
2016	(10)
2015	(2)

Total shareholder return reflects share price performance and dividends received. Our share price increased by 21 per cent in 2019.

Non-Financial

Customer satisfaction
(net promoter score)

62.8

2019	62.8
2018	61.8
2017	61.2
2016	61.8
2015	58.5

Our net promoter score is the measure of customer service at key touch points and reflects the likelihood of customers recommending us. Customer satisfaction increased in 2019.

From a strategic perspective this measures how well we are delivering a **leading customer experience**. It tells us how effective we are in building strong customer relationships.

Digitally active customers
m

16.4

2019	16.4
2018	15.7
2017	13.4
2016	12.5
2015	11.5

Reflecting the pace of digital adoption, the number of active digital customers increased in the year to 16.4 million, with 10.7 million mobile banking app customers and average customer logons at 23 times per month.

From a strategic perspective this indicates the progress we are making in **digitising the Group** from the customer usage standpoint.

Customer complaints
FCA reportable complaints per 1,000 accounts

2.9

H1 2019	2.9
H2 2018	3.4
H1 2018	3.9
H2 2017	4.2
H1 2017	4.1

FCA reportable complaints excluding PPI and claims management companies have significantly reduced over the last five years.

We do make mistakes, but when this happens, we work hard to fix the issue quickly for the customers involved and learn from any mistakes.

From a strategic perspective, reduction in customer complaints confirms our achievements in delivering a **leading customer experience.**

Employee engagement index
% favourable

74

2019	74
2018	73
2017	76
2016	71
2015	71

Colleague engagement was two points above the norm for top performing UK companies with colleagues continuing to score pride and advocacy favourably. High scores were also achieved for customer focus, wellbeing, recognition and speaking out.

From a strategic perspective this indicates how much progress we are making in **transforming ways of working**.

Helping Britain Prosper Plan targets achieved

20/22

2019	20/22
2018	20/22
2017	21/22
2016	20/24
2015	27/28

We have made strong progress since we launched the Plan in 2014. In 2019, 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 27.

From a strategic perspective achievement of these targets helps us to learn what progress we are making in across all areas of our strategy.

NEW KPI

Green finance
£bn

>4.9

This year an additional key performance indicator has been included to reflect the work we're doing to support the transition to a low carbon economy.

We have quantified the finance we provide through existing green finance products (Clean Growth Finance Initiative; Commercial Real Estate Green Loans Initiative; Renewable Energy Financing) and green bonds facilitation. Since 2016, this totalled more than £4.9 billion and we will continue to add to this activity in 2020.

Our external environment

The UK market, to which our performance is inextricably linked, continues to evolve

ECONOMY

Highlights

- Given our focus on UK customers, the Group's prospects are closely linked to the fortunes of the UK economy
- On the assumption that the global economy remains broadly stable, we would expect the UK economy to grow in 2020 to 2022 at a pace slightly above that achieved in the past two years
- Our low risk business model and focus on efficiency positions us well irrespective of macro conditions. Nevertheless, if the economy was to be impacted significantly by crystallisation of either domestic or international risks, Group financial performance would be impacted

Overview

As a leading UK bank, our prospects are closely aligned to the outlook for the UK economy. Through 2019, the economy continued to show resilience to twin challenges from a slowing global economy and increasing domestic political uncertainty. Although growth of the UK economy has slowed to its weakest since the financial crisis a decade ago, and interest rates remain very low, unemployment has fallen further to a 44 year low and house prices have continued to grow. Barring any sudden shocks to business or consumer confidence, growth is expected to rise mildly in 2020, but international trade-protectionism, the current coronavirus outbreak in China, geo-political instability and the nature of the UK's exit from the EU, all present risks to that outlook.

Market dynamics

During 2019, there have been divergent trends between UK businesses and households. For businesses, uncertainty for the domestic political and economic outlook translated into a second consecutive year of reduced investment spending and commercial real estate prices fell slightly. Low productivity growth remains a key challenge for the UK economy, however, the flip-side has been buoyant employment. Households continued to increase spending in 2019 as low unemployment boosted pay growth whilst softening global growth reduced inflation.

The UK housing market remained subdued through much of 2019, although falling mortgage rates and the election of a government with a strong Parliamentary majority appeared to be beginning to stimulate the market towards the end of the year. The level of housing transactions was broadly flat at around 20 per cent lower than the norm prior to 2008, with muted price growth.

The economic outlook appears to be improving. Nevertheless, in a long-term context growth is expected to remain subdued and interest rates low - core to that is the low rate of productivity growth, with the recent weakness of businesses' investment spending suggesting a significant improvement is unlikely near-term. Uncertainty for some UK companies may persist in 2020 and drag on investment as the UK attempts to negotiate a comprehensive trade deal with the EU to a tight timescale. However, improved pay growth is likely to support households' spending, and the likely fiscal stimulus is expected to provide some boost to the economy.

The fundamental drivers behind the subdued trends in the housing market are expected to remain in place - the high level of prices relative to incomes that constrains first-time-buyer demand, and expectations that interest rates could rise from their current low level.

There are, or course, significant risks to this outlook. The growth-cycle in both of the world's largest economies - US and China - is in its mature stage, and the coronavirus outbreak and ongoing trade war could complicate the task of policymakers in guiding growth towards a stable and sustainable level. Conversely, high asset prices and corporate debt levels in some countries could be vulnerabilities if an improvement in global economic growth and a resulting rise in interest rates causes unexpected shifts in currencies or herd behaviour in financial markets as shareholders change their appetite between different types of investments. Domestically, the future trading relationship with the EU remains uncertain, as does businesses' response to that uncertainty.

Barring sudden shocks stemming from these challenges, the UK economy is expected to grow through 2020 to 2022 at around 1.5 per cent, slightly above the 1.4 per cent average across the past two years. The unemployment rate is expected to rise only a little from its current 44 year low. The outlook for the bank rate is uncertain, but capacity constraints and a fiscal boost may support a moderate increase in interest rates. House prices are expected to continue to grow mildly.

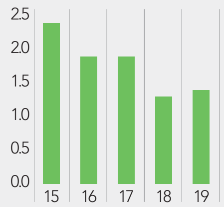
This picture of subdued but broadly stable growth is likely to be reflected across our markets. Consumer credit growth has slowed significantly over the past couple of years after a prior period of strong growth, but we expect that the slowdown has now run its course.

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.

UK economic growth

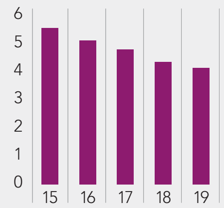
1.4%
GDP growth



Source: ONS

UK unemployment rates

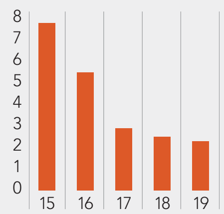
3.8%
Unemployment rate



Source: ONS

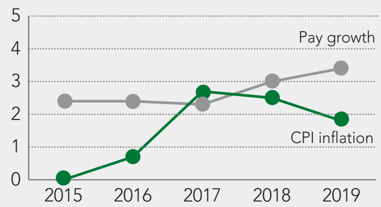
UK housing market

2.3%
House price growth (Q4 vs. Q4 Basis)



Source: Halifax house price index

Pay growth vs inflation



Source: ONS

Link to principal risks
- Credit
- Capital
- Funding and liquidity
- Market

Link to strategic priorities
- Maximising Group capabilities

CUSTOMER

Highlights

- Customer expectations are being shaped by experiences outside of financial services, with convenience, choice and greater levels of personalisation becoming increasingly important
- While customers want to be in control of their finances through digital channels, human interaction is still valued for more complex financial needs
- Expectations on how companies engage with environment and societal issues are rising

Market dynamics

Consistent with recent trends, customer expectations continue to be shaped by their experience outside of financial services, with speed and convenience and greater levels of choice and personalisation, based on richer data insight, becoming more important in an increasingly competitive market.

As technological capabilities across the banking sector continue to become more sophisticated, customers also increasingly want and expect to be in control of their finances, with the ability both to see their accounts and monitor transactions across multiple providers. Against this, human interaction for more complex or emotive needs continues to be valued as part of a multi-channel servicing approach.

Similar to personal customers, business client expectations spanning speed, convenience and insight-driven personalisation are being shaped by experiences outside of financial services. Alongside this, smaller business customers are starting to look for support beyond their banking needs.

While not yet a major driver of behaviour and preferences, customers are becoming increasingly aware of societal and environmental issues, with rising expectations of how the companies they engage with are responding to these challenges.

Our response

We have a strong track record in providing our customers with the products and services they value, while also offering convenience and choice in the channel they choose to interact with us.

We remain committed to our multi-channel model, comprising the UK's largest digital bank and branch network, and are focused on ensuring that this remains relevant to evolving customer preferences. As part of this, we are continuing to strengthen our digital capabilities, with a number of recent enhancements putting our customers more in control of their finances and resulting in strong digital customer satisfaction scores.

We are also investing in our branch and telephony channels to ensure that these are able to address our customers' more complex needs more effectively, and continue to provide access to banking services for our more vulnerable customers.

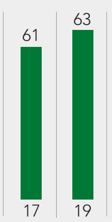
Given our history and scale, we have a wealth of customer data and remain focused on using this valuable insight ethically and responsibly to develop products and services that are more personalised to our different customers' needs.

Against the broader backdrop of increasing expectations and an evolving competitive environment, we cannot become complacent and need to continue to improve the customer experience to remain relevant and attractive to customers.

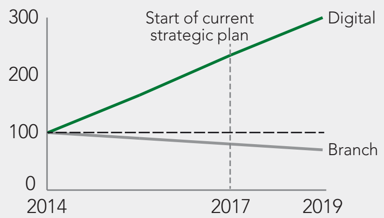
Customer satisfaction
(net promoter score)

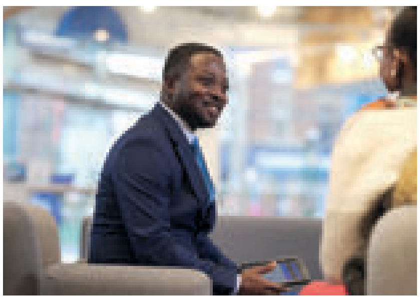
+3%

Improvement in customer satisfaction during our current strategic plan



Adapting to changing behaviours
Customer channel interactions
(indexed to 2014)





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

Link to strategic priorities
- Delivering a leading customer experience

REGULATION

Highlights

- The UK financial services sector is expected to remain highly regulated
- New regulation and market reviews continue to be issued, with further regulatory changes anticipated
- Uncertainty remains around the impact of the UK's exit from the EU on the existing regulatory and legal framework

Market dynamics

A number of regulatory changes have been implemented in the last 12 months including Open Banking, overdraft charging and the embedding of ring-fencing requirements with key areas of focus for 2020 as below:

Customer treatment
Fair treatment of customers remains a priority for the FCA, with particular focus on those in vulnerable circumstances as well as long standing customers.

Capital regulation
The Group continues to prepare for further regulatory capital developments in particular implementation of the final Basel III reforms.

LIBOR transition
The transition from LIBOR to alternative reference rates will mean changes to products and funding structures.

Other
A number of other regulatory initiatives are in the pipeline which seek to address, amongst other things; operational resilience, climate change, General Insurance, revised Payment Services Directive (PSD2) requirements, MIFIDII and fraud.

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
- Credit
- Capital
- Funding and liquidity
- Market

Link to strategic priorities
- Maximising Group capabilities

Our external environment continued

TECHNOLOGY

Highlights

- The pace of digital adoption and disruption continues to surpass expectations and is likely to increase further in the coming years
- The use of new technologies is increasing efficiency within the financial services sector and delivering meaningful improvements to the customer experience
- Cyber security and the protection and appropriate use of customer data remain important factors in retaining customer trust

Market dynamics

Digital adoption trends continue to surpass expectations, with the significant uptake driven by changes in demographics and an increasing similarity in customer behaviour across multiple geographies. As a result, we are seeing a significant change in how customers interact with financial services providers, while expectations of service are often being influenced by technology-led experiences outside of financial services.

The combination of heightened expectations and increasing levels of competition has resulted in greater levels of investment in technology across the sector, with banks placing increasing importance on delivering innovative new features for customers as well as continually upgrading and modernising back-office infrastructure. Banks are also regularly adopting new technologies such as machine learning and artificial intelligence to increase the effectiveness and efficiency with which more routine tasks are performed, while also using greater data driven insight to deliver an improved customer experience.

In addition, as the sharing of data becomes increasingly important to both banks and customers, there is a growing onus on how this is safeguarded. For example, the shift towards cloud technologies from in-house data storage can deliver a number of benefits for customers. These include increasing levels of insight and faster rates of product innovation, but open up the financial services sector to new cyber-related risks which must be carefully managed. In a period in which competition from digital-only providers has grown significantly, trust remains a key differentiator for established banks and therefore security and resilience remain areas of great importance.

Our response

In line with our position as the largest digital bank in the UK, we are investing heavily in technology to ensure that we can continue to deliver meaningful enhancements to the customer experience while also delivering organisational improvements in terms of responsiveness, insight and efficiency. Our technology spend is among the top quartile of global peers, with the amount spent in 2019 equivalent to 19 per cent of our operating cost base. Importantly, in excess of 75 per cent of this spend is focused on creating new capabilities and enhancing existing ones, with this investment critical to successfully delivering our modular approach to transformation.

We view our market leading efficiency position as a unique competitive advantage in this respect, as it creates capacity for further significant investment. This investment, such as in the increased use of intelligent systems and machine learning, is delivering improved processes and further productivity enhancements, and through this, is helping to future proof our business.

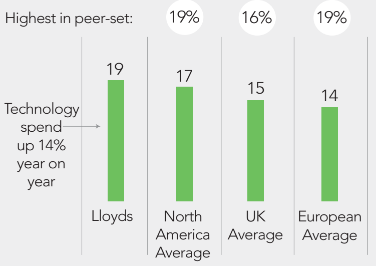
In 2019, we surpassed more than 1 million hours saved through the use of robotics since the launch of our latest strategic plan in 2018, creating significant capacity for our colleagues to focus their time on delivering tangible improvements to our customer experience. These improvements are being delivered in the form of new features, such as the roll out of location based searches to improve the identification of fraudulent payments, as well as by making better use of data for the benefit of our customers, such as harnessing the insights from robotics to improve credit decisioning.

We also continue to invest in the resilience and security of our systems, ensuring that customer data remains safe despite the significant pace of change in technological trends.

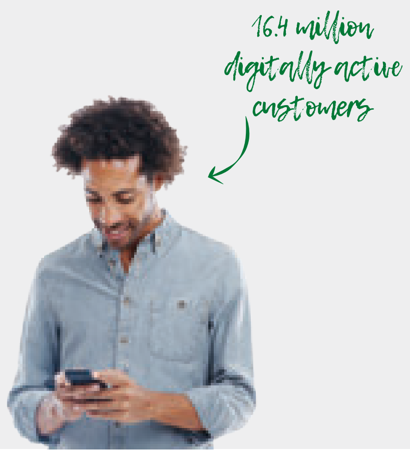
Link to principal risks
- Credit
- Capital
- Funding and liquidity
- Market

Link to strategic priorities
- Maximising Group capabilities

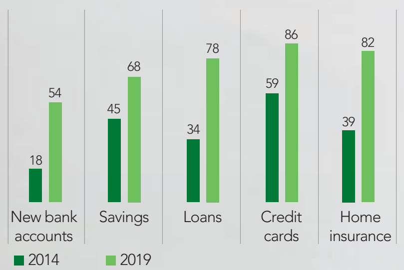
Technology spend[1]
as a % of operating costs



1 Estimated. Regional averages based on a selection of peers where disclosure exists. Proxy for technology spend calculated based on available disclosure in prior annual reports or shareholder presentations and may not be like for like.



Customers are using the digital channel more than ever for simpler needs
% volume of products originated digitally



COMPETITION

Highlights

- Regulatory changes have resulted in increased competition across more traditional product lines, as excess liquidity is deployed within ring-fenced bank entities
- The competitive landscape also continues to evolve with growth across a number of digital-only providers, while we are also seeing emerging signs of participation from large technology companies

Market dynamics

We continue to operate in an highly competitive environment, driven by regulatory changes, shifting customer behaviours and increasing levels of innovation across the sector.

Across our traditional business lines, ring-fencing regulation has seen a number of our competitors deploy excess liquidity to support asset growth within the UK, specifically within mortgages where customer rates have in the last few years hit record lows. While this is beneficial for our customers, this has depressed margins across the UK banking sector and more recently has resulted in some smaller participants stepping back from the market.

Beyond this, digital-only providers have grown their share of the UK market within the past year. This growth has predominantly been driven by neo-banks that provide a more traditional customer offering alongside leading digital functionality and are able to target selected customer segments. This is supported by the emergence of marketplace models which enable these providers to collaborate with more specialist fintechs to provide a broader suite of products and financial services, both for personal and business banking customers.

In response, a number of traditional competitors have attempted to replicate the success of neo-banks by developing their own digital-only offerings, often under separate and newly created brand names. A number of international peers have also entered the UK market through digital only challengers, taking advantage of the supportive regulatory environment and increasing similarity in customer behaviours across multiple geographies.

Elsewhere, we have also started to see the first signs of large technology companies participating in financial services, often partnering with local incumbent banks across different geographies. While the scale of their future ambitions is uncertain at this stage, the power of their brand and large customer bases pose future disruption threats.

Our response

We continue to respond effectively to the increasingly competitive environment, supported by our significant reach and proven track record of providing products and services that our customers value with this underpinned by significant investment capacity.

Across our core markets such as mortgages, we have looked to prioritise value while maintaining share and supporting our purpose of Helping Britain Prosper. As marginal players have withdrawn from the market, we have more recently strengthened our position, including through the acquisition of Tesco Bank's mortgage portfolio in September. Alongside this, we have also continued to invest in areas where we are under-represented, such as Insurance and Commercial Banking, in line with the commitments outlined at the start of this strategic plan.

In response to changes to the competitive environment from the ongoing shift in digital usage and new entrants, our multi-channel and multi-brand offering enables us to continue to effectively meet the varying needs of our diverse customer base. Our digital channel is now our most prominent, with 75 per cent of products now originated digitally and we operate the largest digital bank in the UK with 16.4 million customers and 10.7 million mobile app customers, while our customer satisfaction scores remain strong.

In addition, we remain committed to retaining the largest branch network in the UK. This allows our customers to interact with us in whichever way they prefer, while also providing a human touch point for more complex financial needs. Our network is also key to building and deepening our business banking relationships. We see these as unique competitive advantages, and combined with our ongoing commitment to innovation, provide us with a strong platform to maintain relevance and deepen relationships with our customer base.

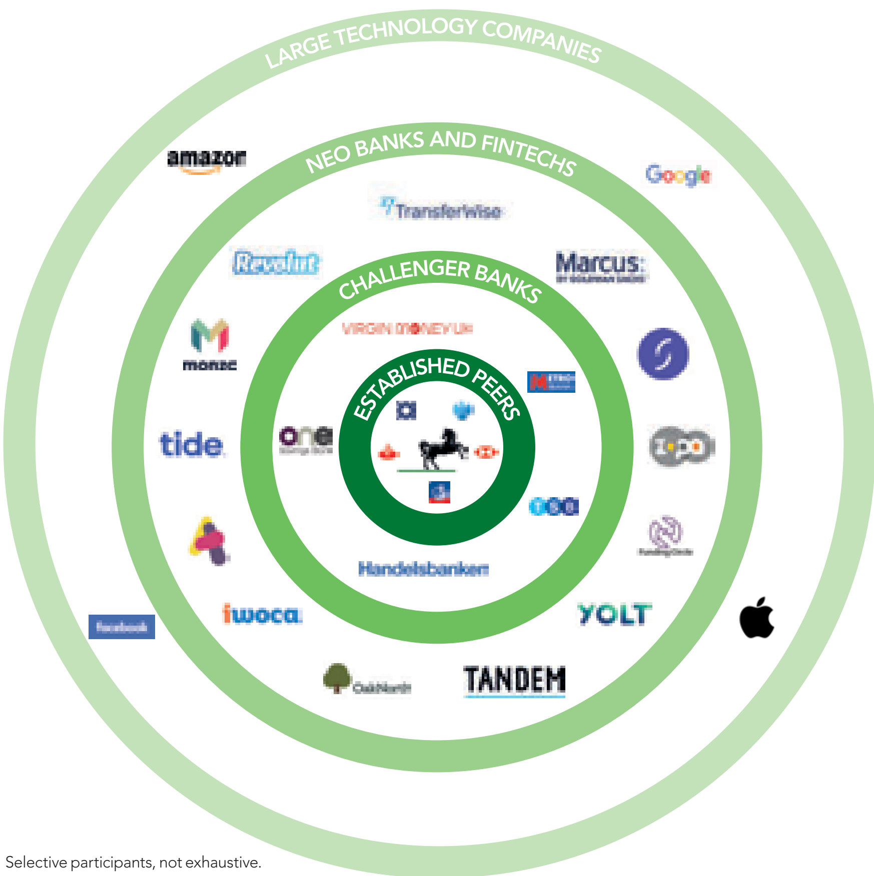
Link to principal risks

- Regulatory and legal
- Conduct
- Operational
- People

Link to strategic priorities

- Delivering a leading customer experience
- Maximising Group capabilities

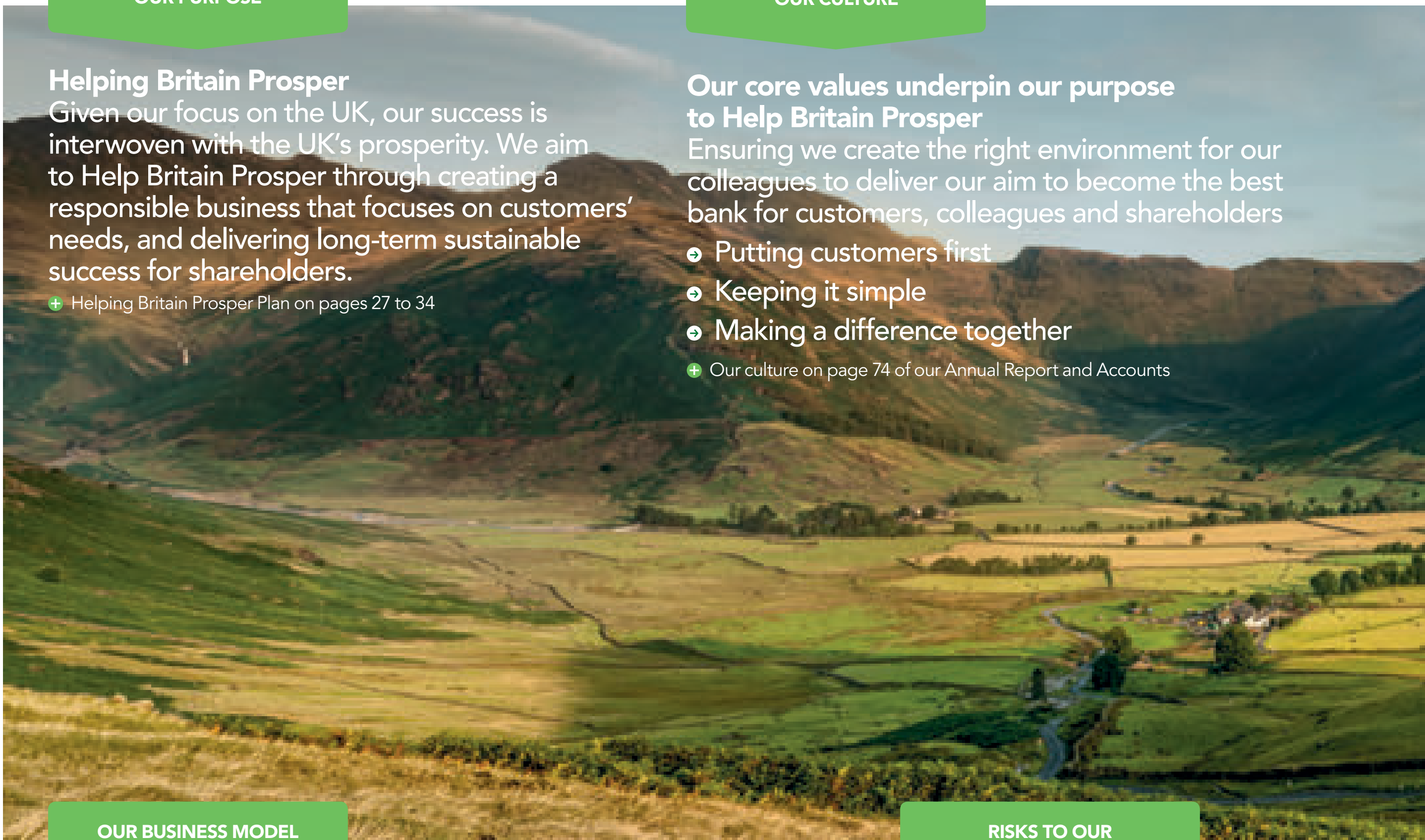
The evolving competitive environment[1]



1 Selective participants, not exhaustive.

Our business

How we create value, and what sets us apart



OUR PURPOSE

Helping Britain Prosper

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

Helping Britain Prosper Plan on pages 27 to 34

OUR CULTURE

Our core values underpin our purpose to Help Britain Prosper

Ensuring we create the right environment for our colleagues to deliver our aim to become the best bank for customers, colleagues and shareholders

- Putting customers first
- Keeping it simple
- Making a difference together

Our culture on page 74 of our Annual Report and Accounts

OUR BUSINESS MODEL

We are a simple, low-risk, customer focused UK financial services provider with distinctive and sustainable competitive strengths:

Multi-brand, multi-channel proposition with data driven customer experience
Operating in an integrated way through a range of distribution channels and brands ensures our customers can interact with us when and how they want and enables us to address the needs of different customer segments more effectively.

Comprehensive product range with all financial needs served in one place
Our product range is driven by customer needs and is informed through comprehensive customer analysis and insight.

UK's largest digital bank, branch network and customer franchise with leading integrated propositions
Our scale and reach across the UK means that our franchise extends to around 26 million customers, with 16.4 million digitally active. We are uniquely positioned to deal with customers' banking and investment needs.

Market leading efficiency through tech-enabled productivity improvements
Our simpler operating model and focus on efficiency provide a cost advantage, enabling us to invest more to the benefit of both customers and shareholders.

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 quality of our loan portfolio and underwriting criteria. Our financial strength has been transformed in recent years and our capital position is strong.

Rigorous execution and management discipline focusing on key skills of the future
Experience of delivering change in recent years provides benefit as we further transform the business.

Creating competitive advantages

We believe that these capabilities provide competitive advantage and enable us to continue to deliver for customers whilst also delivering sustainable and superior returns over the longer term, as outlined below.

RISKS TO OUR BUSINESS MODEL

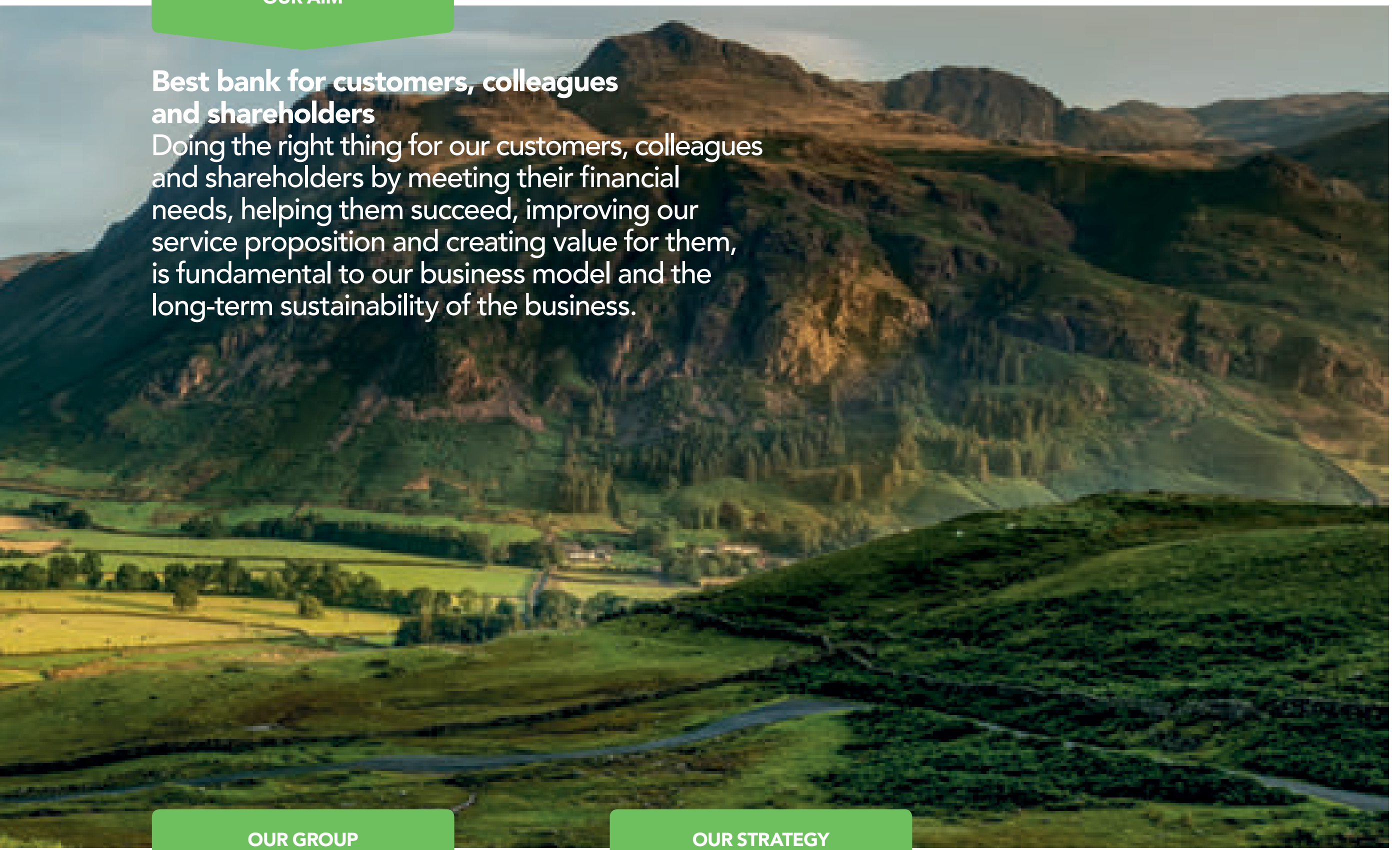
As a large, UK focused financial services provider we face several external and internal challenges:
The main external challenges we face are as previously discussed on pages 10 to 13

- Uncertain outlook for the UK economy
- Evolving customer needs and behaviours
- High levels of regulation
- Radically changing competitive and regulatory landscape
- Technologies and societal attitudes rapidly reshaping business models

We also face a number of internal challenges:

- Operating as efficiently as possible, while remaining the best bank for customers
- Attracting, developing and retaining the best talent to respond to new ways of working
- Ensuring IT systems are effective and resilient and that we are prepared for the threat of cyber risk

We recognise these challenges and continue to evolve our business model and strategy, to enhance their sustainability over the longer term.



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 GROUP

The Group has a unique customer proposition enabling us to serve the financial needs of customers in one place. We operate multiple-brands through three core divisions; Retail, Commercial Banking and Insurance and Wealth.

LLOYDS BANK
BANK OF SCOTLAND
HALIFAX
LEX AUTOLEASE
SCOTTISH WIDOWS
blackhorse
LDC
AMC
mbna
Schroders personalwealth
BM BIRMINGHAM MIDSHIRES
IWEB

OUR STRATEGY

Transforming the Group for success in a digital world

In February 2018, we launched our three year strategy to transform the Group for success in a digital world.

Our simple, low risk customer focused strategy builds on our purpose of Helping Britain Prosper and our distinctive strengths.

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.

Board oversight of our strategy on **page 75** of our Annual Report and Accounts

Strategic priorities on **pages 16 to 19**

Strategic priorities

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

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

Maximising Group 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.

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

16.4 million
digitally active customers

#1
Maintained the largest branch network in the UK

Progress in 2019

In 2019, we have built on the strong progress delivered in 2018, with further improvements in our customer propositions supporting the continued growth of our franchise and improved measures of customer satisfaction.

Building a market leading digital experience
We are the largest digital bank in the UK, with 16.4 million digitally active and 10.7 million mobile app customers. During the year, we have seen increased customer engagement with the enhanced digital features introduced in 2018 and have launched a range of new features that enable our customers to be more in control of their finances. These include the ability to change address via the mobile app and app statement searches, the latter of which is being used c.1.2 million times per month on average and is helping us to reduce our use of paper.

Consistent with this focus, we have also built on our progress in allowing our customers to see all their bank accounts, across different providers, in one place. In 2019, we were the first UK bank to expand this Open Banking aggregation capability to include both savings accounts and credit cards. We're unique amongst our banking peers in enabling our customers to also view these products together with their Group insurance and pensions products, with our Single Customer View demonstrating strong engagement levels.

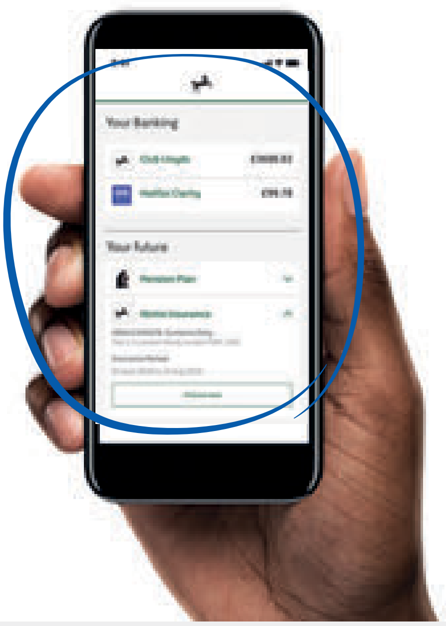
#1 branch network, serving complex needs
As a core element of our multi-channel model, we remain committed to maintaining the largest branch network in the UK and our market share of around 21 per cent by 2020. In the year we have continued to make a number of changes to ensure that our network reflects our customers' evolving needs. As part of this, we have expanded the reach of our remote advice service to around 580 branches, which alongside the ability to access the service from the comfort of their own homes, is providing our customers with increased choice and convenience in how they can discuss their financial needs with us. In addition, our branch colleagues have also been able to increase their focus on addressing customers more complex financial needs, with this now accounting for around 50 per cent of their time.

Personalising our customer propositions
We recognise that our diverse customer base want and expect different things and have continued to develop products and services that are more personalised to their specific needs. Among these, we have launched a range of smart tools that our customers can access digitally, including upcoming payment alerts and a 'Save the Change' feature, through which they can aim to achieve a range of financial goals through small behavioural changes.

Focus for 2020

In 2020, we will continue to focus on improving our customers' digital banking experience, with new features providing them with greater insights into their transactional activity and ability to achieve their financial goals. We will also continue to deepen our customer insights to develop more personalised products and services, while also ensuring our branch network remains relevant to our customers' needs.

helping me see the full picture



Our unique Single Customer View

Our Single Customer View capability allows our customers to see all their financial needs in one place, from bank accounts to pension and insurance products. At the end of 2019, more than 5 million customers had access to this, with priorities for 2020 including extending this to around 9 million customers, while also increasing functionality.

> **I can see my pension alongside my banking now which is great, really useful**
> **Lloyds Banking Group customer**

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

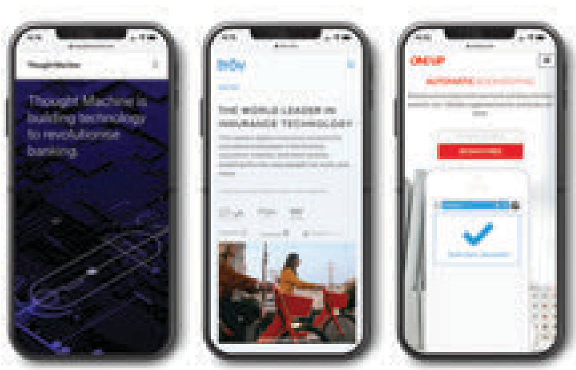
Technology enabled productivity improvements across the business

MEASURING PERFORMANCE

19%
Top quartile technology spend, equivalent to 19% of operating costs

55%
of the cost base covered by transformation

Accelerating our transformation



Increased fintech engagement

As well as investing in technology capabilities, we recognise that we also need to embrace external innovation and work collaboratively to transform the Group for success in a digital world. Our Corporate Ventures Panel encourages colleagues from across the Group to propose opportunities to a panel of experts. This has already resulted in a number of exciting partnerships, such as with Thought Machine, Trov and OneUp, our most recent partnership which provides online financial management services for smaller businesses.

Progress in 2019

We have continued to progress our technology enabled transformation during the course of the year, delivering better products and services that customers value and reducing time to market. We are also driving additional operational efficiencies across the organisation as we progressively modernise our IT and data architecture and improve processes. This has been underpinned by a continued commitment to invest significantly in technology.

Top quartile technology spend
Consistent with the scale of our transformation, we continue to invest significantly in technology. In 2019, our technology spend, which increased by 14 per cent year on year, equated to 19 per cent of operating costs and remains among the top quartile of global peers. Importantly this was achieved while reducing operating costs, with our modular approach to transformation and IT modernisation delivering business efficiencies and creating capacity for greater levels of investment. The mix of our technology spend also continues to evolve, with greater emphasis on the development of new capabilities, with the combination of this and enhancing existing capabilities accounting for over 75 per cent of spend in 2019.

Embracing the power of technology
As our transformation progresses, we have significantly increased our adoption of new technologies and are seeing a number of tangible customer and colleague benefits as a result. For example, having introduced the use of robotics for simple, repetitive tasks in 2018, we have now created in excess of 1 million cumulative hours of colleague capacity, allowing them to focus on more value adding activities for our customers. In addition, around 55 per cent of our cost base has now been covered by transformation. This is up from just from 12 per cent at the end of 2017 and we expect this to surpass 70 per cent by the end of 2020.

The scaling of our use of machine learning is also delivering improved customer outcomes. For example, virtual assistants managed up to 5,000 customer conversations daily in 2019, with customer satisfaction increasing by more than 10 points. In addition, around 25 per cent of queries are handled without being passed to a colleague, a trend that is expected to increase further.

The Group has also significantly increased its adoption of private cloud, with more than 650 applications now migrated. These investments deliver a more efficient, scalable and flexible infrastructure and underpin the continuous improvement of our products and services for our customers' benefit.

The largest digital bank in the UK
With 16.4 million digitally active users and 10.7 mobile app users, we are the largest digital bank in the UK, with 75 per cent of products now originated digitally. In line with this continued shift to digital channels, we are continuing to roll out new features for our customers, resulting in increased engagement as adoption increases.

Focus for 2020

Our technology investment will continue to focus on areas that deliver meaningful benefits for our customers and colleagues. We will further embrace new technologies and increase data capabilities to develop insight-driven propositions, while ensuring that these reflect customer expectations. This will be delivered alongside a rigorous focus on ensuring the safety and security of our customers' data.

Our strategic priorities continued

Maximising Group 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

£37 billion
cumulative open book assets under administration growth

>5m
customers on Single Customer View

>1m
new pension customers, achieving target a year ahead of schedule

£3.4bn
net lending to start-ups, SMEs and Mid Market customers

Progress in 2019

In 2019 we have continued to enhance and leverage the Group's capabilities and unique business model 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 2019, we extended our Single Customer View capability to over 5 million customers, who are now able to view their insurance and pension products alongside the banking products they hold with us and other providers. Importantly, this is enabling our customers to engage with their longer-term savings needs more proactively, with engagement levels surpassing those of stand alone insurers.

Building on our progress in 2018, we have also rolled out a number of improvements to our long-term savings and pensions customer propositions, with our workplace pensions offering also benefiting from the close coordination of our Commercial Banking and Insurance & Wealth businesses. Taken together with further transfers from the acquired Zurich book, we have successfully grown our open book retirement and investment assets under administration by around £30 billion in the year, or £37 billion since 2017.

Leveraging our partnership with Schroders to accelerate our Wealth strategy
In 2019 we formally launched Schroders Personal Wealth, a market-leading wealth proposition, which combines the investment capabilities and innovative product offering of Schroders with our distribution footprint and digital reach. This allows us to better serve our customers' financial planning and retirement needs, and underpins this joint-venture's target of becoming a top three UK financial planning business by the end of 2023. In addition, as part of our broader strategic partnership, we are developing a full service offering for our customers, including access to a leading wealth and investment management business and a mass market direct offering that is due to launch in 2020.

Improving the experience of our Commercial Banking clients
We have delivered material improvements to our client experience, while also meeting our £18 billion gross lending commitment to UK businesses, remaining a leader in green financing and maintaining our strong support for exporters and manufactures. We have significantly reduced the time taken to fulfil various client needs through the digitisation of key banking processes. In business banking, the average time to cash for new unsecured loans has been reduced from 6 days in 2018 to a few hours. Similarly, the launch of API connectivity has resulted in a response time of 1.5 seconds for payables transactions, while also driving significantly quicker and more accurate asset finance credit decisions. Through the enhancement of our cash management and payments capabilities, we have also successfully deepened our client relationships.

Focus for 2020

In 2020, we will extend the reach and functionality of Single Customer View to around 9 million customers, introducing new features that will enable customers to engage with their long-term savings and investments more proactively. In addition, we will continue to support the development of Schroders Personal Wealth in line with its ambitious targets, while also making further improvements to our business clients' digital banking experience.

helping me save for the future

Strong start for Schroders Personal Wealth

Our joint venture with Schroders has harnessed the unique strengths of two of the UK's strongest financial services businesses to create a market-leading wealth proposition with the expertise and broad spectrum of investment and retirement products to optimise customers' entire financial lives. Schroders Personal Wealth has got off to a strong start since its launch, with Retail wealth referrals from the Group up 33 per cent in 2019.

Scan the QR code to watch the advert

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, colleagues' 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

Up to 30 per cent change efficiency improvement

MEASURING PERFORMANCE

3.2 million
cumulative future skills training hours delivered

33%
of change delivered by Agile methodologies

Colleague training and development

As part of our largest ever investment in our people, we are rolling out 4.4 million cumulative additional training hours to develop key skills of the future. These skills are split across 10 categories ranging from leadership to data analytics and customer excellence and will ensure that we are well positioned to transform the Group for success in a digital world, while also providing growth opportunities for our colleagues.

> **I think it's great that the bank is investing so heavily in my development. It has allowed me to develop new skills and gives me the confidence to put them into practice**
>
> **Lloyds Banking Group colleague**

Progress in 2019

With our competitive environment increasingly influenced by technological change and innovation, it is critical that we continue to equip our colleagues with the skills needed to deliver our ongoing transformation. We have made significant progress in 2019 and are seeing tangible benefits as these changes take effect. These achievements also continue to be supported by improvements to our working environment, with benefits including greater collaboration and efficiency.

Building skills for the future

To deliver our significant transformation, we are continuing to make our biggest ever investment in our people during the course of the current strategic plan. In 2019, we delivered 5.5 million of total training hours, an increase of 28 per cent compared to 2018. We have also now delivered more than 3.2 million of cumulative training hours to develop the skills for the future since the end of 2017, and are well positioned to deliver our target of 4.4 million cumulative training hours by the end of 2020.

In addition to up-skilling our colleagues, we are also using targeted recruitment to introduce new skills into the organisation across areas that will support the new strategic competencies of the Group going forward. We have also hired over 1,200 colleagues across critical areas such as engineering, data science and cyber security. The integration of skills such as these into our colleague base positions us well to continue transforming the Group for success in a digital world, with other benefits including a reduced reliance on third-party providers.

Changing the way we work

Consistent with our aim to embrace new ways of working, we have continued to make things easier than ever before for our colleagues to work in a more collaborative manner. 96 per cent of our colleagues are now based in one of our six strategic hub locations. We continue to invest in improving the working environment with 34,000 colleagues benefiting from refreshed workplaces in 2019. Our ongoing changes to working environments are helping create a hub of agile working, focusing on collaborative activity-based spaces which foster innovation and make it easier for our colleagues to focus on delivering better experiences for our customers. Moreover, by creating an environment where colleagues can collaborate more easily regardless of location, this will help us as an organisation significantly reduce our carbon footprint. The combination of these factors is resulting in a cultural shift across the Group, with over 33 per cent of change now delivered using Agile methodologies and we continue to expect this number to surpass 50 per cent by the end of 2020.

Focus for 2020

We will continue to provide our colleagues with the required skills to support our ongoing transformation, with more specialist skills gaps being addressed by targeted recruitment. This, combined with our shift towards a more collaborative culture will enable us to reduce bureaucracy, harness innovation and deliver change more efficiently than ever before, while also making the Group a more attractive place for people to work.

Our key stakeholders and Board engagement

Reflecting the needs of our stakeholders in Board decisions

Engaging, consulting and acting on the needs of different stakeholders is critical for the development of a culture and strategy that achieves long-term sustainable success.

The Board has a comprehensive stakeholder engagement programme and always aims to act in the best interest of the Group and to be fair and balanced in its approach. The needs of different stakeholders are always considered as well as the consequences of any decision in the long-term and the importance of our reputation for high standards of business conduct. It may not always be possible to provide a positive outcome for all stakeholders and the Board frequently has to make difficult decisions based on competing priorities. However, comprehensive engagement enables informed decision making taking into account the consequences for different stakeholders.

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

We engage in many different ways and this section outlines our key stakeholder groups, how we are interacting with them and how they inform strategic decision making. It also provides examples of key strategic decisions made during the year and the Board engagement involved.

This section (pages 20 to 27) acts as our Section 172(1) statement; however, given the importance of stakeholder focus, long-term strategy and reputation, these are integrated throughout the report.

Section 172(1) Statement and Statement of Engagement with Employees and Other Stakeholders

In accordance with the Companies Act 2006 (the 'Act') (as amended by the Companies (Miscellaneous Reporting) Regulations 2018), the Directors provide this statement describing how they have had regard to the matters set out in section 172(1) of the Act, when performing their duty to promote the success of the Company, under section 172. Further details on key actions in this regard are also contained within the Corporate Governance Report on pages 65 to 94 and the Directors' Report on pages 94 to 97 of our Annual Report and Accounts.

In accordance with the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (as amended by the Companies (Miscellaneous Reporting) Regulations 2018), this statement also provides details of how the Directors have engaged with and had regard to the interest of our key stakeholders.

CUSTOMERS

As a retail and commercial financial services provider we understand that long-term success is only possible with a customer-centric business model and therefore customer impact is critical to all Board decisions.

With around 26 million customers, we strive to treat them fairly, making it easy for them to find, understand and access products that are right for them, whatever their circumstances.

To ensure the Board truly understands the changing needs of customers and their views on the bank, various initiatives, direct and indirect have been implemented.

Customer priorities

- Market leading digital proposition with branch access
- Single home for customers' banking and insurance needs
- Personalised customer propositions
- Better experience across all channels

Direct engagement

The Board takes advantage of all available opportunities to engage with customers. In 2019, these included a series of branch/office visits and customer events for retail, commercial and insurance customers. Client contact enables direct feedback and informs strategic decision making.

In July 2019, we launched the reconnecting with customers pilot programme, specifically designed to bring senior leaders across the Group closer to our customers and customer-facing teams.

The Chairman and a number of Non-Executive Directors also attended customer insights sessions monthly across the UK to hear directly from customers about their lives and what is important to them.

Earning and retaining the trust of customers is a priority for the Board with regular updates received. The Group remains committed to doing whatever is necessary to ensure all customers impacted by past conduct failures receive fair recompense. During 2019, an independent review highlighted shortcomings in our approach to victims of the historic HBOS Reading fraud and as a result the Board is now taking swift action to contact the impacted victims and ensure they receive fair recompense.

Having identified the need to upgrade the skills of small businesses in technology, productivity and export opportunities, we have been engaging with government and other organisations to provide additional support.

Indirect engagement

The Board reviews the customer dashboard, which provides a detailed insight into the Group's performance in respect of delivering on our customer related ambitions and agreed improvements in the dashboard's construct during the course of the year. The Board also approves the annual customer plans, which set out the customer related priorities for the Group's divisions for the coming year.

The Chairman, Chief Executive and other Board members regularly review customer complaints to understand areas where we can improve and review how we respond to complaints.

The Board also looks to benchmark performance among customers and uses insight from a range of internal and external research, including net promoter scores and other customer indices, to improve services.

The Board receives regular updates and reports on progress of the Group strategy, including the development of the next strategic phase, ensuring the customer remains at the heart of our strategic investment.

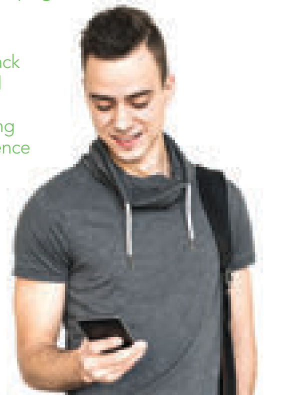
The Board receives insight and guidance in relation to the competitive environment and market shares, providing strategic insight and generating good discussion among the Board, resulting in either actions or key learnings taken in the Group.

The focus on customers is not just evidenced by the regularity of presentations to Board, but also by the existence of the Group Customer First Committee. This Committee is composed of members of senior management and regularly reports to the Board. The Committee acts as the custodian of Group wide customer experience and has responsibility for monitoring, reviewing and challenging the divisions to make changes to support the delivery of the Group's aim and customer-centric culture.

Our response to customer priorities

- Leading customer experience Read more on page 16
- Digitising the Group Read more on page 17
- Maximising Group capabilities Read more on page 18
- Helping Britain Prosper Read more on pages 27 to 34

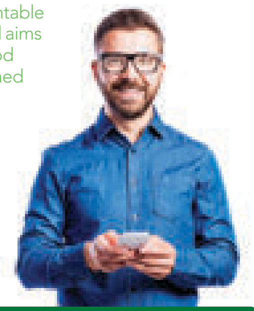
Customer feedback is crucial to Board discussions and achieving a leading customer experience



We have a large footprint, with an important role in society and many different stakeholders to consider as we run the Group

Lord Blackwell
Chairman

The Board is accountable to shareholders and aims to ensure that a good dialogue is maintained



SHAREHOLDERS

The Group has the largest shareholder base in the UK with around 2.4 million shareholders and we undertake a comprehensive shareholder engagement programme including both institutional and retail shareholders with regular feedback to management and the Board. We strive to consider all shareholder groups evenly when making key decisions for the Group.

Shareholder priorities

- Superior returns and lower cost of equity
- Strong capital generation and attractive distribution policy
- Sustainable and low risk growth
- Responsible, sustainable business model

Direct engagement

The Group understands the need to effectively communicate with existing and potential shareholders, briefing them on strategic and financial progress and attaining feedback. The Group therefore undertakes c.500 shareholder meetings a year, with the Group Chief Executive and Chief Financial Officer undertaking more than 80 meetings in 2019.

In addition, various Non-Executive Directors have engaged with shareholders through the year, including the Chairman and the Remuneration Committee Chair. The Chairman's meetings were largely focused on corporate strategy, governance and sustainability, whilst the Remuneration Committee Chair has been consulting widely on the new remuneration policy. In total, Non-Executive Board members have engaged directly with shareholders representing around 30 per cent of our issued share capital during the year.

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 2019:
– around 200 shareholders attended
– over 67 per cent of total voting rights voted

During 2019, we hosted two retail shareholder briefings, one in London and one in Edinburgh, in which we updated shareholders on strategy and performance and obtained feedback. These briefings were hosted by Investor Relations and senior management.

KEY BOARD DECISION
ADOPTING A QUARTERLY DIVIDEND

In May 2019 the Group announced that it will move to the payment of quarterly dividends, from the first quarter of 2020.

The new approach will be to adopt three equal interim ordinary dividend payments for the first three quarters of the year followed by, subject to performance, a larger final dividend for the fourth quarter of the year.

The first three quarterly payments, payable in June, September and December will each be 20 per cent of the previous year's total ordinary dividend per share with the fourth quarter payment payable in May, following approval at the AGM.

The Group has around 2.4 million shareholders, the vast majority of whom are retail shareholders, and this approach will provide a more regular flow of dividend income to all shareholders whilst accelerating the receipt of payments.

Additional information on the changes, including how shareholders can move to direct credit payments, is available on the Group website www.lloydsbankinggroup.com/investors/shareholder-info/dividends/.

Our decision process

- The decision to introduce quarterly dividends was made following shareholder feedback and extensive discussion at both management and Board level
- The Board considered the benefits and possible drawbacks for different types of shareholders, in particular retail shareholders given the size of their holdings, along with the Group impact
- The management team consulted with external advisors, with payment approaches by other large corporates considered, and engaged with the regulators
- The Board also looked at various options for the phasing of dividend payments, while remaining mindful of the goal to accelerate payments
- This approach both supports our purpose to Help Britain Prosper whilst aligning to the Group's progressive and sustainable ordinary dividend policy

Link to strategic priorities

Leading customer experience

Indirect engagement

Board members are keen to be aware of shareholder sentiment and ensure follow up actions are taken as appropriate. As such all institutional shareholder letters are registered and discussed at the Group Nomination and Governance Committee.

Investor Relations provides regular reports and feedback to the Board on key market issues and shareholder concerns. This includes an annual presentation involving our corporate brokers on market dynamics and corporate perception.

Regular feedback is provided to the Board and appropriate Committees on retail shareholder correspondence.

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, the Group Chief Executive also specifically writes to all shareholders, updating them on progress, every six months.

We regularly engage with our shareholders about the information we provide to them and, where appropriate, incorporate their feedback to enhance our disclosure. In support of this, in February 2020, we published our first ESG focused presentation online: 'Our approach to ESG' www.lloydsbankinggroup.com/investors/financial-performance/

Given the Group's significant retail shareholder base, we have actively looked to increase engagement in the past twelve months and will continue to do so in 2020. We aim to build a sustainable communications infrastructure, including an enhanced corporate website, to ensure improvements deliver better insight for all our shareholders.

Our response to shareholder priorities

- Group financial performance
  Read more on pages 36 to 39
- ESG presentation online
  www.lloydsbankinggroup.com/investors/financial-performance/
- Our 2020 Remuneration policy
  Read more on pages 115 to 126 of our Annual Report and Accounts

Our key stakeholders and Board engagement continued

COLLEAGUES

The Group has around 65,000 colleagues, who take pride in working for an inclusive and diverse Group and, with their support, we are building a culture in which everyone feels included, empowered and inspired to do the right thing for customers. Through our strategy we have made our biggest ever investment in colleagues to ensure that we continue to attract, develop and retain these skills and capabilities.

Colleague priorities

- Customer and value led culture
- Investment in training and IT
- Compelling colleague proposition
- Attractive reward structure

Direct engagement

We work to maintain an open dialogue with our colleagues. During the year the Board communicated directly with colleagues through videos, webcasts, and our Group intranet, 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.

The Board places great importance on opportunities to engage directly with colleagues. The Board visited office locations throughout the UK, taking the opportunity to hear directly from colleagues about their work and their successes, passion, drive and commitment to improve the business for the benefit of the Group's customers.

The Chairman also held a number of Town Hall sessions in locations across the country, meeting with colleagues and answering their questions about the Group and its business, in addition to regular and informal lunches and breakfasts with members of the senior leadership team to discuss business issues.

The Group held its biggest signature annual event, Helping Britain Prosper LIVE, which was attended by over 5,000 colleagues and was broadcast live to all colleagues.

This event, hosted by the Group Chief Executive with support from key members of the executive leadership team, provided the opportunity for our colleagues to hear and see first-hand how we are progressing our strategy and Helping Britain Prosper every day.

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 improving the customer and colleague experience.

Indirect engagement

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.

In 2019, the Board agreed how they would engage with the workforce. The definition of workforce, was agreed by the Board as: Our permanent colleagues, contingent workers and third-party suppliers that work on the Group's premises delivering services to our customers and supporting key business operations.

KEY BOARD DECISION
CHANGING OUR REMUNERATION POLICY

The Group's Remuneration Policy was last approved by shareholders at the AGM in 2017 and has been in operation for the last three years. We have published our proposed revised Remuneration Policy within the Directors' Remuneration Report on pages 98 to 123 of our Annual Report and Accounts.

We have thought carefully about the purpose of remuneration and believe this is an opportune time to propose a simplified reward package that provides greater alignment with the Group's strategy and the experience of customers, colleagues and shareholders.

The proposed policy comprises:

- A significant reduction in executive pension contributions
- The introduction of a new long-term (restricted) share plan
- Continued simplification of the balanced scorecard

Our engagement process

- Proactive engagement took place throughout 2019 with key stakeholders including shareholders, colleagues and the regulator to understand some of the drivers for change
- Our Remuneration Committee Chair consulted with shareholders representing over 30 per cent of our issued share capital on initial proposals and continued the dialogue as the policy evolved
- Consultations with our recognised unions took place to discuss key changes to colleague pension provisions
- Management have been focused on ensuring key proposed changes in variable reward structures are fit for purpose for colleagues across the Group as part of a fair and consistent reward package

Please see page 99 and 101 of our Annual Report and Accounts for further information on key areas of focus discussed with stakeholders.

Our decision process

The engagement that has taken place in 2019 has heavily influenced the decisions made by the Remuneration Committee. Further details of the feedback we received can be found on page 99 of our Annual Report and Accounts.

The Remuneration Committee has been mindful of the trend towards pay simplification across UK organisations. Shareholders have previously voiced that the Group's current construct is overly complex. Our new proposed Remuneration Policy has been designed to deliver a simplified variable reward approach.

In addition to wholesale change of some reward structures, such as the introduction of the Long Term Share Plan, the Committee also decided to maintain some existing components considered important parts of the overall package. We have agreed to maintain the existing Balanced Scorecard structure which is considered a transparent and effective tool to drive and assess performance. To provide further understanding for shareholders, an explanation alongside the Policy as to why the measures included in the scorecard provide good strategic alignment is provided within the Directors' Remuneration Report.

Long-term implications

We believe the revised reward structure will incentivise long-term stewardship and promote good governance through a simple alignment with shareholders. Reductions in fixed pay and potential variable reward payouts will support reducing the gap between colleague and executive remuneration.

We offer a competitive and fair reward package. Colleagues are also eligible to participate in HMRC approved share plans which promote share ownership by giving colleagues an opportunity to invest in Group shares. Further information can be found on page 116 of our Annual Report and Accounts in the Directors' Remuneration Report.

Link to strategic priorities

Maximising Group capabilities

A workplan was discussed and agreed in February 2019 and as a result, the Board now receives a quarterly Workforce Engagement report which comprises two component parts:

- A summary of the Board's engagement activity with colleagues
- Key themes raised by colleagues and trends on people matters, including, for example absence or attrition

The Board considers that the above arrangements are invaluable in giving them an understanding of the views of the workforce and encouraging meaningful dialogue between the Board and the workforce.

The Board are committed to improving the transparency of workforce disclosure, and the Group participates in the Workforce Disclosure Initiative.

In June 2019, the Group People and Productivity Director, presented to the Board on people and transforming ways of working, providing them with an update on the Group's people strategy, see page 19. The Board also receives regular updates on culture, see page 74 of our Annual Report and Accounts.

The Group believes that a diverse workforce is critical to performance and regular progress updates are provided to the Board.

As well as its own engagement survey, the Group also takes part in the Banking Standards Board assessment on a yearly basis, which provides member firms with the evidence, support and challenge to help them achieve and maintain high standards of behaviour and competence both individually and collectively. There are five parts to the assessment; an online employee survey, a set of Board questions, interviews with Executive and Non-Executive Directors and employee focus groups.

Our response to colleague priorities

- Improved employee engagement
- Fair and competitive pay and remuneration structure
- Championing Britain's diversity
  Read more on page 34
- Transforming ways of working
  Read more on page 19
- EU exit preparations

The Board recognises the responsibility the Group has to engage with and respond to some of the economic, social and environment challenges the UK faces

COMMUNITIES AND ENVIRONMENT

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

Community and environmental priorities
- Helping the transition to a sustainable low carbon economy
- Helping Britain get a home
- Helping people save for the future
- Helping businesses start up and grow
- Building capability and digital skills

Direct engagement
The Board continued to support the Group's four charitable Foundations and during Small Charities Week, the Group ran campaigns with each Foundation showcasing the work they do for small but vital charities including those tackling domestic abuse and mental health. This demonstrated the alignment between the Group supporting vulnerable customers and the work done by charities to support these social issues. Sara Weller, Chair of the Group's Responsible Business Committee, is a Bank Trustee of the Lloyds Bank Foundation, England and Wales.

Members of the Board visited several charities in 2019, including the Manchester Digital Academy, Angel Eyes in Northern Ireland and the Cathedral Archer project in Sheffield.

Indirect engagement
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, a sub-committee of the Board, provides oversight and support for the Group's Helping Britain Prosper Plan, and the plans for delivering the aspiration to be seen as a trusted and responsible business.

During 2019, the Board reviewed responses from the Responsible Business materiality study which outlined a wide range of views on the Group. These responses then informed and guided our responsible business strategy and reporting.

The Board undertook various related deep dives throughout 2019, including key areas of strategic focus such as ESG, cyber security and inclusion and diversity within the Group, with specific focus on BAME colleagues. This highlighted a number of strengths but also identified opportunities for the Group to further improve its behaviours and approach.

“We define key Board decisions as those that are significant to any of our stakeholders

Lord Blackwell
Chairman

KEY BOARD DECISION
TACKLING CLIMATE CHANGE

Across the globe, action to combat climate change is needed. We support the Government's Clean Growth Strategy and are supporting our customers with a range of initiatives to help them become more sustainable and think about environmental impacts, including access to green finance.

The transition to a low carbon economy impacts us all and subsequently is a fundamental element of our strategy and core to Helping Britain Prosper.

In 2018 following a detailed review by the Board, we introduced a new sustainability metric to our Helping Britain Prosper Plan, signalling our intent and commitment and in January 2020, we announced an ambitious new goal to help reduce the carbon emissions we finance by more than 50 per cent by 2030. Read more about our ambitious goal and other commitments on pages 28 to 31 or in our approach to ESG presentation online www.lloydsbankinggroup.com/ investors/ financial-performance/

Our engagement process
- In developing our proposals, various stakeholder groups have been engaged including customers, colleagues, shareholders, suppliers, government and regulators
- The annual responsible business materiality study specifically identified environmental sustainability and climate change as a critical issue and as a result further detailed analysis was undertaken by the Group sustainability teams
- The Responsible Business Committee, a sub-committee of the Board, provides direction and oversight, whilst at Executive level, the Group Executive Sustainability Committee (GESC), supported by divisional Governance Forums and working groups, provide oversight
- The Board were briefed on key climate related issues by external industry experts and also engaged on a number of external fronts

Long-term implications
The Board believe we have a responsibility to help drive progress towards a sustainable and resilient UK economy, taking into consideration the needs of different stakeholders and risks to the business, and were comfortable endorsing ambitious plans, given the benefit to the Group and future generations.

>£4.9bn
Green finance
Read more about our approach to green finance on page 29

>50% by 2030
We aim to help reduce the emissions we finance by more than 50 per cent by 2030

Link to strategic priorities
- Leading customer experience
- Maximising Group capabilities

The Board supports the Group's 10 regional ambassadors that cover the home nations of Scotland, Wales and Northern Ireland, and the seven regions of England. Through the programme we have established strong relationships with politicians, the media, local councils and other community institutions to offer our insight on the major economic and social debates the country faces.

Given our unique position within the UK, we are eager to play our part in tackling climate change, by working with our stakeholders to help reduce the carbon emissions we finance. We want to finance a green future together. We are developing longer-term broader social impact goals during 2020, as we develop our thinking around the Society of the Future.

Our response to community and environmental priorities
- Help Britain Prosper
  Read more on pages 27 to 34
- ESG presentation online
  www.lloydsbankinggroup.com/investors/financial-performance/

Our key stakeholders and Board engagement continued

REGULATORS AND GOVERNMENT

We have a strong, open and transparent relationship with our regulators and other government authorities including HMRC. We liaise with them regularly to ensure the business is aligned to the evolving regulatory framework.

Regulators and Government priorities

- Ensuring firms have robust prudential standards and supervision in place
- Fair treatment of customers
- Adapting to market changes and horizon scanning (including climate change and developments in data and technology)
- Culture
- Financial and operational resilience
- Risk management
- Recovery and resolution
- Preparations for EU withdrawal

Direct Engagement

During 2019 we had regular meetings with our various regulators at different levels of the organisation from Board to senior management.

The Board and senior management continue to engage with our regulators through proactive meetings to discuss various key themes, such as: customer-centric culture; transformation and change; operational and financial resilience; and credit risk.

The Chairman has had extensive dialogue with both the FCA and PRA on all aspects of their regulatory agenda.

Indirect Engagement

The Board Risk Committee receives monthly updates on Group regulatory interaction providing a view of key areas of focus, alongside progress made addressing regulatory actions, and current enforcement activity.

Our response to regulator and government priorities

The Board are committed to complying with all relevant legislation, in particular that relating to prudential and conduct regulation. Appropriate regulation is considered in all Board decision making.

The Board continue to closely monitor the status of our regulatory relationships, enhancing proactive engagement across key regulatory changes and areas of focus. Read more on regulatory change on page 11.

In 2020, we will continue to adapt our engagement strategy, ensuring alignment with emerging areas of focus and the regulators' business plans.

KEY BOARD DECISION
EU EXIT PREPARATIONS

Given our UK focus, our performance is inextricably linked to the health of the UK economy and throughout 2019 we continued to prepare for an EU exit.

Given the importance of this topic for the Group and the country, numerous stakeholders were engaged to inform our approach including customers, colleagues, shareholders, suppliers, regulators and government.

Our engagement process

- The Chairman was an active member of CityUK's EU exit Steering Group, working with other major financial institutions to inform government decision making
- The extended EU Exit Executive Forum was established, chaired by the Group Chief Financial Officer, with comprehensive cross-Group representation, to provide an update to the Board on the Group's EU Exit contingency planning
- Additional updates from the EU Exit Forum were also submitted to the Board Risk Committee and Group Risk Committee
- Engagement with politicians, officials, media, trade and other bodies to reassure our commitment to Helping Britain Prosper

Our decision process

The Group's EU exit contingency plans continue to be monitored closely by the Board via specific regular updates, covering both operational status and external developments, a suite of early warning indicators and corresponding risk mitigation plans.

When reviewing the possible impacts of the EU exit, the Board have given particular consideration to the Group's strong UK focus and UK-centric strategy, with specific focus on the trading, financial, operational and reputational impacts for the Group, as well as the cyber, physical security and fraud risks, and the continued support of our customers.

We implemented a programme to assess the legal impacts and risks of an EU exit (including a no deal outcome) and to identify appropriate mitigants, such as establishing EU entities to ensure continuity of certain business activities.

Long-term implications

Like all UK banks impacted by the EU exit, we submitted contingency plans to the regulators both in the UK and elsewhere as to how we would manage potential EU exit scenarios and are well prepared to ensure continuity of our limited EU business activities at the end of transition period; new European entities have been established and are now operational.

Given the vast majority of our business is in the UK, the direct impact on the Group from leaving the EU is relatively modest.

Link to strategic priorities

Maximising Group capabilities

Our approach to tax

Our comprehensive and diligent approach to regulation is typified by our approach to tax, with HMRC being a key stakeholder for the Group.

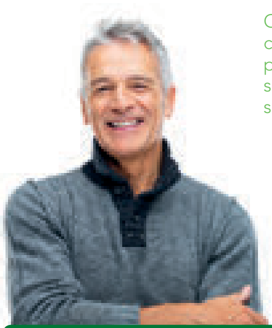
As a Group with the purpose to Help Britain Prosper, and with 98 per cent of our business subject to tax in the UK, we're proud to be one of the largest contributors of UK tax revenues. As well as our tax expense of £1.4 billion as seen in the income statement, in 2019 we also paid £0.8 billion of other business taxes (including the Bank levy and our employer NIC costs) and £0.8 billion of irrecoverable VAT, a total tax contribution for the year of £2.9 billion. In addition, we are also a major tax collector, gathering £1.9 billion on behalf of HMRC.

The Board recognise that tax is one of the ways in which the Group contributes to society, therefore appropriate, prudent and transparent tax behaviour is a key component of Board responsibility.

We have a clear tax policy which is part of our Board-approved Group risk management framework. This policy sets out clear actions for colleagues to manage tax risks. Like any business, our success rests on maintaining a good reputation. We understand that the way we approach our tax obligations has a powerful impact on this reputation, so finding the most responsible balance is vital. We comply with the HMRC Code of Practice on Taxation for Banks and Confederation of British Industry's Statement of tax principles.

Tax is also covered in our Code of Responsibility, a code that applies to every colleague, team and business in our Group – day in, day out. The code makes tax a personal responsibility for every colleague in the Group.

Read more about our tax strategy online www.lloydsbankinggroup.com/globalassets/our-group/responsible-business/reporting-centre/



Our two way communication and partnership with our suppliers is vital to the success of our Group

SUPPLIERS

Given the size of our organisation, we are reliant on external suppliers for a number of key services. As well as being important for future success, we believe that dealing with suppliers in the right way is the right thing to do.

Supplier priorities

- Being treated fairly and professionally during the sourcing process
- Clear guidance about the Group's payment procedures
- Working closely to share expertise in developing innovative, high quality products and services and effectively managing risk
- Engaging in ways that ensure we achieve the best value for customers in terms of price, quality and social impact
- Building strong, collaborative relationships and understanding the environment in which we operate so that they can meet our needs and our customers' needs
- Supporting suppliers in meeting our requirements for cybersecurity in our supply chain

Direct engagement

We want to improve the experience of our suppliers. As such we regularly seek feedback on the Group's on-site assurance process from suppliers in order to continually improve the process.

Suppliers are encouraged to express their satisfaction or dissatisfaction to their points of contact within the Group e.g. the supplier manager, the sourcing manager, the finance contacts. Suppliers also have access to the Speak Up line.

The Group collaborates with its suppliers on key issues. The Group held a supplier breakfast with a roundtable discussion on cyber, resilience and information security.

Indirect engagement

We work with around 3,100 active suppliers of varying sizes, most in professional services sectors such as IT, cyber, operations, management consultancy, legal, HR, marketing and communication.

All material contracts are subject to rigorous cost management governance and updates on key supplier risks are provided to the Board.

The Board Risk Committee oversees our detailed process to assess the cybersecurity of suppliers and help them meet our security requirements.

Board approved governance has been established to ensure that the ordering processes for all expenditure: allow challenge to be made in line with our cost management processes; maximise the use of appropriately sourced third party suppliers; offer appropriate pre-commitment controls to minimise risks and unnecessary costs; give the opportunity to negotiate further savings with third party suppliers; facilitate third party suppliers being paid in a timely manner and avoid risk and costs associated with the use of non-approved channels.

Our response to supplier priorities

In 2019 our supplier expenditure was £5.9 billion with over 95 per cent of our third party suppliers located in the UK.

It is important that we have the right framework to operate responsibly. The Sourcing and Supply Chain Management Policy applies to all businesses, divisions, Group functions and legal entities across the Group, whether based in the UK or overseas, including joint ventures. This Policy has been designed to assist in managing the inherent risk in outsourcing services, and dealing with third party suppliers.

We require suppliers to adhere to relevant Group policies and UK suppliers are additionally required to comply with our Code of Supplier Responsibility. This outlines our expectations for responsible business behaviour, underpinning our efforts to share and extend good practice. This can be found on our Group website www.lloydsbankinggroup.com/our-group/working-with-suppliers/

The Board has a zero tolerance attitude towards modern slavery in our supply chain and continue to make enhancements to address the risk of and provide specific training on human trafficking and modern slavery for specialist colleagues.

KEY BOARD DECISION
ACQUISITION OF TESCO BANK'S UK RESIDENTIAL MORTGAGE PORTFOLIO

The Group announced in September 2019 that we had entered into an agreement with Tesco Bank to acquire its prime UK residential mortgage portfolio.

Our decision process

- The Group has a clear strategy as outlined on pages 16 to 19, and the Board regularly reviews this strategy in light of the changing external environment to ensure that our focus remains the right one
- All potential acquisitions are assessed to ensure alignment with strategy and that they deliver appropriate returns
- The Board agreed the acquisition criteria and discussed the key risks that needed to be assessed
- Detailed analysis of the transaction was undertaken by senior management before attaining Board approval including consultation with regulators
- The acquisition of the Tesco mortgage book was proposed as it is expected to generate good returns to the Group, in excess of current organic market opportunities, while delivering open mortgage book growth within the Group's low risk strategy. It will also provide additional flexibility in participation choices in the mortgage market
- The Board received regular reports and feedback on the progress of the transaction from senior management
- The transaction is consistent with Group strategy and value accretive to shareholders
- As previously indicated, the Group's strong free capital build gives us flexibility to consider inorganic growth opportunities in selected target areas, where we see value for shareholders
- The transaction is in line with this approach and demonstrates the Group's strong commitment to the strategically core prime mortgage market
- Following this transaction, the Group's open mortgage book assets at the year end were ahead of the year end 2018 balance
- As a customer focused business the impact on the acquired customers was considered and we are working closely together with Tesco Bank to ensure a smooth transition for the 23,000 new customers

Link to strategic priorities

- Leading customer experience
- Maximising Group capabilities

Responsible business

Responsible, sustainable and inclusive

With the Group's unique position at the heart of the British economy, we embrace our responsibility to help address some of the economic, social and environmental challenges the UK faces. We have been Helping Britain Prosper for the past 250 years, by delivering for our customers and communities, as a responsible, sustainable and inclusive business.

Engaging with our stakeholders

Engaging and responding to stakeholders is fundamental to being a responsible business. Each year we gather a wide range of views through our formal materiality assessment with our stakeholders, which guides both our strategy and reporting. Our key response to their needs is the Helping Britain Prosper Plan which focuses on critical issues including environmental sustainability on page 28, digital skills on page 33, and support for homeowners, savers, and businesses on page 32. Further topics highlighted by stakeholders, and discussed below, include responsible governance and accountability, support for colleagues, customer privacy and data security, and support for vulnerable customers.

Responsible governance and accountability

Creating and sustaining a values-based culture with good governance is crucial to ensuring our colleagues remain engaged, well informed and can effectively deliver our strategy. Our rigorous internal governance and controls, comprising numerous policies and standards ensure that we treat all stakeholders fairly, while minimising risk.

Our Board level Responsible Business Committee (RBC) oversees the Group's performance as a responsible business, and delivery of our sustainability strategy. Both the Board and RBC are supported by the Group Executive Committee, which is in turn supported by a dedicated Sustainability Committee.

Helping colleagues to do the right thing

All of our colleagues must be equipped to make the right decisions. The Group supports this by consistently promoting and embedding our policies, processes and training. Each year as part of mandatory training, colleagues review our Code of Responsibility, which outlines Group values and behaviours, and our Anti-Bribery Policy.

If our colleagues witness something inappropriate, they can report the matter to the colleague conduct management team, or make use of our independent and confidential whistleblowing service, Speak Up. In 2019 colleagues reported 451 concerns, of which 216 were formally investigated following triage, with 39 per cent of those investigations substantiated, resulting in remedial action.

We are working to empower our colleagues and one example of this is our award winning behavioural experiments initiative, where colleagues test new ways of working that can lead to permanent process and policy changes, including those that improve customer satisfaction.

The Group understands that engagement is a two way process, so each year we ask colleagues to share their views via our independently run colleague survey, and participate in the annual Banking Standards Board Culture Assessment.

All Group colleagues receive a competitive and fair reward package. To encourage ownership, colleagues are eligible to participate in HMRC approved share plans. Further information can be found on page 116 of our Annual Report and Accounts.

Protecting our customers' finances and data

Customers trust us to keep their money and data safe, and the Group deploys sophisticated technology to protect both. In addition, we play a significant role in the Joint Fraud Taskforce, a collaboration between Government and industry, and champion the Banking Protocol, which enables colleagues to request immediate police support for at-risk customers.

The Group also works continuously to bolster defences against cyber-attacks, paying particular attention to reducing the risks that vulnerable people face. We are a founding member of the Financial Services Cyber Collaboration Centre, working with the Government's National Cyber Crime Centre, and the Cross-Market Operational Resilience Group. We also work closely with other banks, recognising the importance of collaboration when it comes to security, including being part of the Cyber Defence Alliance (CDA). We also meet all of the requirements set out in the EU General Data Protection Regulation (GDPR).

While there's much we can do, customers play a significant role in keeping their accounts secure. Public awareness campaigns are therefore crucial, and we support the Take Five campaign, while also training colleagues so that they can help protect our customers.

We embrace our economic, social and environmental responsibilities to Help Britain Prosper by operating as a responsible, sustainable and inclusive Group.

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

Supporting vulnerable customers

Vulnerability for our customers exists in many forms, from a specific life event to something long-term. That's why the Group is committed to raising awareness, fighting stigma and providing meaningful support across a range of challenging issues. Whether supporting our customers' financial worries following a cancer diagnosis, with our partners at Macmillan, or working with Hope for Justice to provide bank accounts for modern slavery survivors, the Group continues to create innovative solutions for our customers.

Another example is the development of a domestic and financial abuse team, our contribution to a very complex issue that can impact a wide range of our customers. The Group has also signed up to the Financial Abuse Code of Practice, and we signpost the free-to-download Bright Sky app, that provides comprehensive support to people affected by domestic abuse.

In 2019, we were the first bank to sign up to the Mental Health Accessibility Standards, supporting customers with mental health problems. For customers at risk of gambling related harm, we have enabled controls on all of our credit and debit cards, and built on our own internal controls to run a pilot in partnership with Gamban, that helps restrict access to gambling websites and applications worldwide to provide further assistance.

Our Helping Britain Prosper Plan

Addressing some of the social, economic and environmental challenges facing the UK is the foundation of our Helping Britain Prosper Plan. The Plan takes us beyond business as usual, uniting the Group behind an inspiring set of objectives.

Launched in 2014 and reviewed annually, the Plan focuses on the areas where we believe we can make the biggest difference. In 2018, as part of its inclusion in the Group Balanced Scorecard, we set specific targets across seven areas of focus aligned to our three year strategy, including environmental sustainability and progress is outlined below.

Helping Britain Prosper Plan targets achieved

20/22

2019	**20/22**
2018	20/22
2017	21/22
2016	20/24
2015	27/28
2014	20/25

Read more online
www.lloydsbankinggroup.com/our-group/responsible-business/prosper-plan/

The Principles for Responsible Banking

In September 2019, the Group became a founding signatory of the United Nations Environment Programme Finance Initiative (UNEP FI) Principles for Responsible Banking. This sets out a framework for a reformed banking system that will better meet the changing expectations of society. Through both our responsible business activities and the Helping Britain Prosper Plan, we are supporting the UN's broader sustainable development agenda, and contributing towards reaching the UN Sustainable Development Goals (SDGs).

Founding Signatory of: UNEP Finance Initiative — Principles for Responsible Banking

HELPING BRITAIN PROSPER PLAN 2020

Area of focus	2019 achieved	2020[1] targets	SDG Supported
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	5.1m[2]	5m	7, 9, 11, 12, 13
Helping Britain get a home Amount of lending committed to help people buy their first home	£13.8bn	£30bn	11
Helping people save for the future Growth in assets that we hold on behalf of customers in retirement and investment products[3]	£37.1bn[2]	£50bn	8
Supporting businesses to start up and grow Increased amount of net lending to start up, SME and Mid Market businesses	£3.4bn[2]	£6bn	8, 9
Tackling social disadvantage across Britain Number of charities we support as a result of our £100 million commitment to the Group's independent charitable Foundations	2,929	2,500	3, 8
Building capability and digital skills Number of individuals, SMEs and charities trained in digital skills, including internet banking	738,504	1.8m	4, 8
Championing Britain's diversity Percentage of senior roles to be held by women	36.8%	40%	5
Percentage of roles held by Black, Asian and Minority Ethnic colleagues	10.2%	10%	
Percentage of senior roles held by Black, Asian and Minority Ethnic colleagues	6.7%	8%	

1 Figures are all cumulative 2018 to 2020 excluding Tackling social disadvantage across Britain and Championing Britain's diversity.
2 Figures are cumulative from 2018.
3 Growth in assets under administration in our open book.

Full year HBP plan www.lloydsbankinggroup.com/our-group/responsible-business/prosper-plan/

Responsible business

Helping the transition to a sustainable low carbon economy

The UK is committed to the vision of a sustainable, low carbon future. Our unique position within the UK economy means that the successful transition to a more sustainable, low carbon economy is of strategic importance to us.

We support the aims of the 2015 Paris Agreement and the UK Government's Clean Growth Strategy, which will require a radical reinvention of ways of working, living and doing business including new Government policies and sustainable finance solutions. In 2018 we set out our Sustainability Strategy and when reporting on our progress, we support the Taskforce on Climate-Related Financial Disclosure (TCFD) framework, and currently plan to achieve full disclosure by 2022 in line with the TCFD recommendations and the UK Government's Green Finance Strategy.

>50% by 2030

We aim to help reduce the emissions we finance by more than 50 per cent by 2030

OUR STRATEGY

Our goal and approach

As a signal of our commitment we have set an ambitious goal, working with customers, Government and the market to help reduce the emissions we finance by more than 50 per cent by 2030, supporting the UK's ambition to be net zero by 2050 and the 2015 Paris Agreement. During the course of 2020, we intend to conduct a review of our portfolio to establish our current financed emissions and set appropriate metrics and targets for material sectors.

In order to meet our goal, we will:

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

Our ambition

We have set ourselves seven leadership ambitions to support the UK's transition to a sustainable future:

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 and investments: be a leading UK pension provider that offers our customers and colleagues sustainable investment choices, and challenge the 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


Steven Pratt

Metrics and targets

In 2018, we committed to develop a reporting framework to track performance against our sustainability strategy. This includes measures for our energy use, emissions, water and waste; Group and portfolio metrics that drive emission reductions related to our financing activity; the amount of green finance we provide; and metrics that track climate change risk (including exposure to high carbon sectors and sectors at high risk from climate change).

The complexity of accessing robust data has prevented us from setting a full suite of targets in 2019. We intend, however, to set appropriate targets during 2020 for material sectors. Our new goal to reduce the emissions we finance by more than 50 per cent by 2030 will frame the level of ambition across our targets and metrics.

Extending our own carbon footprint measurement

We met our 2030 carbon reduction target in 2019, having reduced emissions by 63 per cent since 2009. We also expanded our Scope 3 emissions measurement to include additional categories of emissions from business travel and colleague commuting. We continue to pursue our targets to reduce emissions by 80 per cent by 2050, operational waste by 80 per cent by 2025 (compared to 2014/15) and water consumption by 40 per cent by 2030 (compared to 2009). We will be developing new carbon, energy and travel targets in 2020. See Directors' report, page 97 of our Annual Report and Accounts for Group Emissions data.

Green finance

We have provided more than £4.9 billion in green finance since 2016 through our Clean Growth Finance Initiative, Commercial Real Estate Green Loans Initiative, Renewable Energy Financing, and green bonds facilitation. While green loan standards are evolving, we have teamed up with leading sustainability consultants when developing green finance products to determine a list of qualifying green criteria. These green finance products support a range of eligible product activity including; reducing emissions, improving energy efficiency, reducing waste, improving water efficiency, and funding low carbon transport and renewable energy.

Climate risk sectors

In line with TCFD recommendations, we have identified our loans and advances to customers in high carbon sectors and a selection of other sectors that will be exposed to transition risk (see table). This is our initial view and will be reviewed as our transition risk insight develops. We continue to work with our customers to support transition, taking into account both risks and opportunities.

Our exposure to high carbon sectors is low (less than 0.5 per cent of total loans and advances to customers). In addition, data for these loans and advances is presented at an overall sector level and not all customers in these sectors will have high emissions or be exposed to significant transition risks.

For example:

- Utilities includes financing to entities that have both renewable energy and non-renewable energy generation. We have provided finance for more than 40 renewable energy projects, including supporting projects such as the Neart na Gaoithe offshore wind farm
- Real estate and mortgages will include loans and advances supported by assets which have a full range of Energy Performance Certificate (EPC) ratings including energy efficient properties
- UK motor finance includes loans and advances for low emission vehicles

Loans and advances to customers in high carbon sectors and selected other sectors subject to transition risks

			Loans and advances to customers (£m)[2]		% of total loans and advances to customers[3]	
Sector/area[1]			**Dec 2019**	Dec 2018	**Dec 2019**	Dec 2018
High carbon sectors	Energy	Coal Mining	**21**	28	**<0.01%**	<0.01%
		Oil and Gas	**1,368**	975	**0.27%**	0.20%
	Utilities	(Electric and Gas)	**964**	1,251	**0.19%**	0.26%
	Total		**2,353**	2,254	**0.47%**	0.46%
Selected other sectors subject to transition risks	Agriculture, Forestry and Fishing		**7,558**	7,314	**1.52%**	1.50%
	Construction and Real Estate		**28,228**	29,470	**5.67%**	6.04%
	Transportation (Automotive, Aviation, Shipping and Rail)		**4,353**	5,429	**0.87%**	1.11%
	Cement, Chemicals and Steel Manufacture		**143**	250	**0.03%**	0.05%
	Mortgages		**299,141**	297,497	**60.05%**	60.96%
	UK Motor Finance		**15,976**	14,933	**3.21%**	3.06%

1 Exposures are based on 2007 Standard Industrial Classification codes except for Agriculture, Forestry and Fishing (based on NACE code A00-0) and Mortgages and UK Motor Finance, where the full portfolios have been used. These exposures will include green and other sustainable finance loans, which support the transition to the low carbon economy. As such, these figures and/or trends should not be read as the only measure to gauge transition risk or financed emissions.

2 Disclosures are based on loans and advances to customers on a statutory basis, before allowance for impairment losses. Analysis covers at least 95 per cent of loans and advances and does not include data from the Insurance and Wealth division.

3 Total loan and advances to customers were £488,088 million at 31 December 2018 and £498,247 million at 31 December 2019, see page 293 of our Annual Report and Accounts.

£2.3bn greenfield offshore wind farm in Scotland

In November, Lloyds Banking Group provided funding and risk management services to the £2.3 billion Neart na Gaoithe (Strength of the Wind) offshore wind farm, a joint venture between EDF Energy Renewables and ESB Group. Located 15km off the coast of Fife, with the potential to power c.375,000 Scottish homes and offsetting 400,000 tonnes of CO_2 emissions annually.

Responsible business

Risk management

Climate risk is a key emerging risk for the Group. Our approach to identifying and managing climate risk is founded on embedding it into our existing risk management framework, and integrating it through policies, authorities and risk control mechanisms. During 2019, we updated our TCFD implementation plan to incorporate Prudential Regulatory Authority (PRA) supervisory expectations and refined deliverables, with further resource invested in the programme.

In 2019, we included commentary on climate change risk within our Internal Capital Capacity Adequacy Assessment Process (ICAAP) submission, and in 2020 we are building on this through our analysis of initial scenarios to assess the impact on capital requirements. We are also engaged in the industry response to the Bank of England Discussion Paper to identify the best approach to explore the financial risks posed by climate change within its 2021 Biennial Exploratory Scenario (BES).

We have updated our external sector statements to include positions on six new sectors including manufacturing, automotive, agriculture, animal welfare, fisheries and UNESCO World Heritage Sites. This is in addition to the existing statements on power, coal, mining, oil and gas, forestry and defence. www.lloydsbankinggroup.com/Our-Group/responsible-business/reporting-centre/. Our statement on coal has been updated and made more ambitious. We continue with our policy of not financing new coal fired power stations. We have now tightened our requirements for providing general banking or funding, and now require new clients to have less than 30 per cent of their revenue from the operation of coal fired power stations and/or coal mines (previously less than 50 per cent).

In addition, existing customers whose overall operations include coal mining and coal power generation or who supply equipment or services to the sector will be expected to explain how they plan to reduce their reliance on revenue from coal fired power stations and/or coal mines. This includes reducing such revenue to less than 30 per cent by 2025 and, where relevant, to eliminate UK coal power generation in line with UK Government commitments.

Sustainability is now a mandatory part of credit applications in Commercial Banking for facilities greater than £500,000, and we continue to develop sector specific guidance to help relationship managers identify climate risks. We will review climate risk as part of the 2020 annual refresh of the Group's Risk Appetite.

In line with TCFD, we are also developing forward-looking scenario analysis, incorporating physical and transition risks, to help us identify risks and opportunities over the short, medium and long-term. For example, Commercial Banking are conducting analysis on the real estate sector for business as usual and low carbon transition scenarios and our Insurance business has conducted an initial climate stress test. We are working with external consultants to enhance scenario analysis across our divisions and will use the outputs to support our scenario analysis assessments and inform our credit risk appetite decisions and future disclosures.

Governance

Given the strategic importance of our sustainability ambitions, our governance structure provides clear oversight and ownership of the sustainability strategy. This includes:

Lloyds Banking Group Board

Responsible Business Committee

Group Executive Committee

Group Executive Sustainability Committee

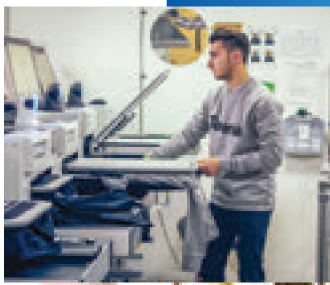
Other committees where issues are discussed as appropriate
> Audit Committee
> Board Risk Committee
> GEC Risk Committee
> Divisional Risk Committees

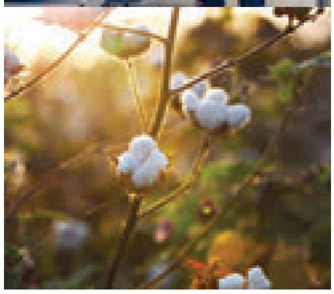
Group sustainability team

Divisional forums/ working groups | Group sustainability forum | TCFD working group

- The Responsible Business Committee (RBC), a sub-committee of the Board, chaired by Sara Weller, Group Non-Executive Director and which includes the Chairman, Lord Blackwell as a member
- The Group Executive Sustainability Committee (GESC) which provides oversight and recommends decisions to the Group Executive Committee (GEC)
- The TCFD working group, co-chaired by senior executives in risk and sustainability, coordinates the implementation of the TCFD recommendations and supports adherence to key regulatory requirements on climate risk
- The Group Chief Risk Officer (CRO) has assumed responsibility for identifying and managing the risks arising from climate change, alongside the CROs for key legal entities

Our Group sustainability team is supported by divisional sustainability governance forums led by Divisional Managing Directors, ensuring a coordinated approach to oversight, delivery and reporting of the Group's sustainability strategy.





Clean growth in the fashion industry

Teemill Tech, a sustainable t-shirt manufacturer, bought a 15,000 square feet site to expand its operations with support from Lloyds Bank's Clean Growth Finance Initiative. Their renewable energy-powered factory on the Isle of Wight uses robotics and Artificial Intelligence, creating efficiencies that make sustainability affordable. Their expansion will increase capacity tenfold, creating 100 new jobs over the next three years.

Teemill Tech is an ambitious firm, which operates with sustainability at its core. The rapid growth of Teemill's customer base speaks for itself, with customers across the UK valuing the quality of its products.

Ben Mackett
Relationship Manager,
Lloyds Bank

How we are delivering against our ambitions

In 2019, we have focused on developing new products, services and processes to achieve our ambitions, and our progress has been recognised.

- Lloyds Banking Group achieved the Leadership level in the 2019 Carbon Disclosure Project (CDP) Climate Change survey, scoring an A minus; the highest placed financial services firm on the Fortune Sustainability All Stars list; and won the Real Estate Capital Sustainable Finance Provider of the Year
- One in 14 electric cars in the UK was supplied by Group subsidiary Lex Autolease in 2019, supported by a £1 million cashback offer on pure electric vehicle (EV) orders, reducing future carbon dioxide emissions by an estimated 28 kilotonnes
- We continue to partner with the Cambridge Institute for Sustainability Leadership to provide high quality training to executives and colleagues in risk management, product development and client facing roles. In 2019, over 800 colleagues were trained, ensuring they are able to support clients on this journey
- Since 2018 the Group has supported renewable energy projects that power the equivalent of 5.1 million homes, achieving our Helping Britain Prosper Plan 2020 target a year early

Our £2 billion Clean Growth Finance Initiative (CGFI) provides discounted lending to low carbon projects. In 2019, we expanded eligibility to include hire purchase and leasing in the agriculture and manufacturing sectors. We have provided more than £950 million since launching in 2018.

Evolving our disclosure

In 2020, we will continue to review and enhance our methodologies and framework for reporting Environmental, Social and Governance risks. This review will take into account a range of industry guidelines including TCFD, Principles for Responsible Banking, Sustainability Accounting Standards Board (SASB), the evolving World Economic Forum (WEF) ESG standards, and regulatory reporting requirements with a view to further enhancing our disclosures and responding to the evolving needs of both our shareholders and other stakeholders.

Initiatives and collaboration

Climate change is a global challenge that requires collaboration across companies and industries to ensure the risks and opportunities can be adequately identified and managed. To support this, we participate in several industry initiatives and have signed up to key principles that drive action on climate change and sustainability, including:

United Nations Environment Programme Finance Initiative (UNEP FI)
We became a member of UNEP FI in 2019 and joined its Phase 2 Banking TCFD Pilot. We also became a signatory to the Principles for Responsible Banking and Principles for Sustainable Insurance.

Coalition for Climate Resilient Investment
In September 2019, we joined the newly formed coalition that aims to transform infrastructure investment by integrating climate risks into decision making.

University of Cambridge Banking Environment Initiative (BEI) – Bank 2030
We have been working with 12 leading banks to develop a roadmap for how the industry can direct capital towards environmentally and socially sustainable economic development.

The Climate Group
In 2019, we were one of the first businesses globally to sign up to all three of The Climate Group's campaigns:

- RE100 – a commitment to source 100 per cent of our electricity from renewable sources by 2030 (which we achieved in 2019)
- EP100 – a commitment to set ambitious energy productivity targets by 2030
- EV100 – a commitment to accelerate the transition to Electric Vehicles by 2030

Climate Financial Risk Forum
In 2019, we joined the PRA and FCA's joint Climate Financial Risk Forum, participating in the Risk Management Working Group that aims to deliver a UK best practice handbook on implementation of the TCFD recommendations.

Responsible business

Helping Britain get a home

As the largest lender to the UK housing sector, we recognise the importance of home ownership, and that a lack of affordable housing can lead to social disadvantage.

Working with more than 200 housing associations across the UK, we have provided more than £6.4 billion of finance for the social housing sector since 2018.

We also continue to support The Housing Growth Partnership, which provides help and mentoring to small and mid-sized house builders, who have built 1,636 new homes across the UK since 2018. In June, Vanessa Murden, Chief Operating Officer, Retail, joined the Board of Homes England, the UK Government's vehicle supporting the delivery of affordable housing.

This year we lent £13.8 billion to first-time buyers, and introduced the Lend a Hand and Family Boost mortgage propositions, which make it easier for those with little or no savings to buy their first home.

Reducing waste, creating growth

Company Shop Group is the largest commercial redistributor of surplus food and household products in the UK, enabling some of the biggest retailers, manufacturers, food service and logistics providers to unlock value from surplus, which may have otherwise gone to waste. Supported by a £4.2 million funding package from the Lloyds Bank Clean Growth Financing Initiative (CGFI), Company Shop Group, whose head office is in South Yorkshire, opened three new stores in 2019, handled over 75 million units, saved over 25,000 tonnes of good food from going to waste and diversified into more non-food categories.

Lloyds Bank plays a key role in helping us to expand and increase our positive commercial, social and environmental impact as we aim to handle more stock, open more stores and attract more members.

John Marren
Founder and Chairman of Company Shop Group

Supporting social housing ambitions

LiveWest own and manage over 36,000 homes from Cornwall to Gloucestershire, and plan to provide 7,000 new homes over the next 5 years and invest £2 billion in the regional economy over the next 10 years. In September they issued a £250 million bond. Lloyds Bank were delighted to support this finance package to deliver much needed new and affordable homes.

LiveWest offer affordable rent and shared ownership, building new homes, and using the profits to build more affordable homes. With sites across the South West and employing over 1,400 people, they have a strong positive social impact. Their investment plans will sustain around 7,000 jobs in the building supply chain, protecting livelihoods and offering fresh opportunities.

Helping people save for the future

We want to make saving as easy as possible for our customers, as it helps to build financial resilience, and can play a meaningful role in tackling disadvantage. Accordingly, we continue to improve choice, flexibility and control for those who are investing, saving or planning for retirement.

We continually look at ways of widening access to savings for everyone. For example, our Next Generation Text service supports customers with hearing difficulties. And we are currently the only UK bank to offer EasyRead statements for savings accounts, where pictures are used to support the meaning of the text. Our Banking savings range operates with transparent pricing for all, and customers can upgrade their accounts online with one click when better products become available.

In 2019, we launched Schroders Personal Wealth. This market leading proposition aims to tackle a growing need for professional advice as the number of people taking responsibility for their financial future increases. In September Scottish Widows launched its standard annuity into the open Market, enabling us to deliver a secure income for life to customers in a market that many providers have left.

As a Group we remain committed to responsible investment, as signatory to both the Equator Principles and the UN Principles for Responsible Investment.

Supporting businesses to start up and grow

Supporting businesses of all types and sizes is fundamental to Helping Britain Prosper. In 2019 small businesses and SMEs represent over 99 per cent of the business population, three fifths of employment and half of all turnover in the private sector. Since 2018 we have helped over 233,000 businesses start up, increased net lending to start up, SME and Mid Market businesses to £3.4 billion, and re-affirmed our commitment to the UK's manufacturing sector providing £2.6 billion of dedicated investment.

Our Clean Growth Finance Initiative (CGFI), which aims to offer the most inclusive UK green funding in the commercial banking market, provides the incentive of discounted borrowing to all types of businesses that invest in reducing their environmental impact. Since 2018, we helped 17.4 million sq. ft. of commercial real estate become more energy efficient, reducing greenhouse gas emissions in core business processes, properties and infrastructure.

This year, we also built on our financial commitments, broadening our support for a range of issues that impact businesses every day. For example, we are giving SMEs access to information and support on mental health so that they can manage it more effectively, and we are proud to be the first financial partner of Be the Business, which offers funding, research and tools to help UK businesses measure and increase their productivity.

Tackling social disadvantage across Britain

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

Our total community investment in 2019 was £50.8 million and includes our colleagues' time, direct donations, and a share of the Group's profits given annually to the Foundations. In 2019, the Foundations received £25.9 million, enabling them to support 2,929 charities. These charities are tackling issues such as domestic abuse, mental health, modern slavery and human trafficking, and employability. In addition to providing funding, colleagues across the UK also volunteered as mentors to charities supported by the Foundations.

Looking to a brighter future

Angel Eyes Northern Ireland is a small charity based in Belfast, which was set up in 2007 by parents of visually impaired children, to improve the support available to other parents in the same situation. The charity offers a range of services to families including an education service, Saturday club and advocacy work. The Halifax Foundation for Northern Ireland was one of the first funders of this charity, helping it to secure five community grants since 2014.

The charity's work is delivered through its 2 full time and 2 part time staff and 44 volunteers. Last year, they were a winner of the Foundation's Pitching 4 Pounds programme, seeing the charity successfully pitch for a grant of £15,000 to develop an innovative virtual reality app, which will help parents and professionals see the world through the eyes of a partially sighted child.

In early 2019 the Chairman paid a personal visit to the charity to meet the staff and experience the developments for himself.

Building capability and digital skills

The UK's skills and productivity gap requires significant enhancements in capability including digital skills. To help make that happen, we are facilitating digital training for 1.8 million people by 2020, at the same time as investing in a range of apprenticeship schemes.

The digital skills gap

The 2019 Lloyds Bank Consumer Digital Index showed that more people than ever are digitally connected. Digital skills help individuals find a job, make progress in work, save money on bills, and reduce social isolation by connecting them to support services, as well as friends and family. The 2019 Lloyds Bank Business Digital Index showed that digital benefits businesses and charities too. Digital marketing skills for businesses can open up growth opportunities, while cyber skills make them more secure.

Nearly one third of charities recognise they can save around a day a week due to increased digital capability. Not everyone, however, is enjoying the benefits that digital can bring. 11.9 million people do not have the essential digital skills for life, increasing to 17.3 million people lacking digital skills in the workplace. While the number of people who are digitally disengaged is dropping, it is forecast that 4.5 million people will remain disengaged by 2030.

Small businesses without essential digital skills are nearly two and a half times more likely to close in the next two years, than those with full digital skills. The Group is part of the Department of Digital Culture Media and Sport's Digital Skills Partnership, working with organisations like Google, Be the Business and Tata Consultancy Services to deliver impactful solutions. The Group also helped found future.now – a coalition led by organisations such as the City of London, Accenture, BT and Nominet, with over 60 partners all seeking to close the digital divide.

Lloyds Bank Academy

The Group has developed the Lloyds Bank Academy to take on these challenges. Initially launched in Manchester in November 2018, the Academy teaches basic digital and workplace skills through online and face-to-face courses. In November 2019 we launched the Bristol Academy, providing additional support for start ups and SMEs.

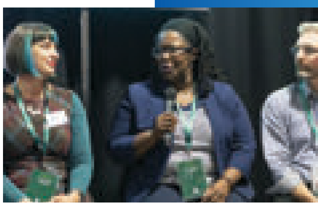
Working with a range of partner organisations, including our charitable Foundations, academia, industry and Government, the Academy has taught around 65,000 learners in Manchester and Bristol.

In addition, over 20,000 colleagues have volunteered to become Digital Champions supporting their local communities. Our Digital Knowhow workshops have helped thousands of organisations learn how to avoid fraud and take advantage of digital marketing techniques, read more online www.lloydsbankacademy.co.uk/

Supporting apprenticeships

Supporting diverse talent development is essential if we are to genuinely become the best bank for customers, colleagues and shareholders. Internally, we are delivering over 25 different apprenticeship programmes, available to all colleagues regardless of location, career stage or working pattern. The Group has partnered with a range of institutions including Manchester Metropolitan University who offered colleagues and new recruits the chance to join the degree-level Digital and Technology Solutions Degree Apprenticeship. This structured programme provided opportunities to benefit from applying the skills and knowledge developed at university.

Externally, we have committed £9 million over three years to help SMEs to develop apprenticeships through our Levy Transfer initiative. And our investment of £10 million over 10 years in the Lloyds Bank Advanced Manufacturing Training Centre in Coventry will support 3,500 apprentices, graduates and engineers to be trained by 2024. We also work with the National Autistic Society to recruit and train young people with autism, with Business in the Community to recruit and train ex-offenders, and with the National Apprenticeship Service as active members of the Apprenticeship Diversity Champions Network.



Working Better Together

Angela Loveridge created Better Together after identifying a gap in parents' understanding of online safety for children. It provides training to help safeguard children online, delivering workshops for schools, childrens centres, businesses and charities, and in 2018 was nominated for the NSPCC Child Protection Trainer award.

Angela signed up to the Lloyds Bank Academy in Bristol to draw on our expert knowledge and experience, and generate ideas to improve her own business. Through the courses, Angela has gained digital confidence and now understands the positive difference that digital marketing can make such as how engaging with online reviewers can make a positive impact to her business.

Responsible business

Championing Britain's diversity

Approaching diversity as a business issue reflects our firm view that diverse teams, working within inclusive environments, are more innovative, engaged, and deliver better outcomes for our customers. As the first FTSE 100 company to set targets to increase both gender and ethnic diversity at senior levels, we continue to invest in being a leading inclusive employer, where the unique differences our colleagues bring to work every day are valued.

Focus on ethnic diversity
Encouraging ethnic diversity starts with talking to colleagues and communities about their experiences. We know that role models and understanding cultural difference are vital, which is why we delivered cultural capability training to all colleagues in 2019, building knowledge of identity, race, faith and background.

This year, we published our Ethnicity Role Models list, featuring 70 Black, Asian and Minority Ethnic (BAME) colleagues, and in June, two colleagues were named in the top 100 ethnic minority executives, and a further two colleagues in the 50 future ethnic minority leaders in the EMpower Ethnic Minority Role Model lists.

As a result of our focus on the issue, we exceeded our 2020 target delivering 10.2 per cent of roles held by BAME colleagues, and increased the senior roles held by BAME colleagues to 6.7 per cent, working towards our stretching target of 8 per cent by 2020.

Gender, gender identity and sexual orientation
In 2019, 36.8 per cent of senior roles were held by women, and we remain focused on our target of 40 per cent by the end of 2020.

We remain on track to meet the voluntary 2020 target, set by the Hampton-Alexander Review, of having 33 per cent representation of women on, or reporting into, our Executive Committee, through a focus on dedicated succession planning and skills development. For the eighth year running the Group featured in the Times 'Top 50 employers for women' and the Bloomberg Gender Equality Index for the first time.

We are also creating an inclusive environment for our LGBT+ colleagues, being named Top Financial Employer, and seventh overall in 2019's Stonewall Top 100 Employers. Our LGBT+ colleague network Rainbow, has over 5,000 members, one of the largest of its kind in the UK.

Supporting disability
We are moving the debate on from accommodating disabilities, to developing talent and careers. In 2019, 2.8 per cent of colleagues disclosed a disability and we support them in a range of ways. We ensure full and fair consideration to applications from people with disabilities. We offer bespoke training, career development, promotions and adjustments for colleagues and applicants with disabilities, including those who became disabled while employed. We hold a Business Disability Forum (BDF) Gold Standard, and Disability Confident Leader status with the Department for Work and Pensions. In July, we received the National Autistic Society's Autism Friendly Award, marking our commitment to become the UK's first autism friendly bank for customers.

Mental health
We are passionate advocates for removing the stigma attached to mental ill-health, actively creating a culture of openness and support, while developing efforts to prevent mental health challenges.

In 2019, the Group featured in Fortune's Change the World list for our work with Mental Health UK and the Group Chief Executive was named a top 50 world leader by Fortune magazine for raising mental health awareness.

We are a founding signatory of the Mental Health at Work Commitment and our colleague wellbeing resources provide a range of support including direct access to counselling services. We also offer colleagues private medical benefits that give parity to mental and physical health conditions.

We recognise prevention is equally as important as support, and in September we launched a personal resilience portal, for colleagues to better understand preventative measures available for both mental and physical health.

In August, our Resilient Leader training course received a Princess Royal Training Award, recognising its lasting impact. Over 40,000 colleagues have completed our Mental Health e-learning and we're training 2,500 colleagues to become Mental Health Advocates by 2020. In July, Lloyds Bank was the first organisation to sign up to the Mental Health Accessibility Standards, which were developed to help companies support customers with mental health problems.

Finding the right solution

Throughout 2019 many colleagues shared their experiences to help reduce stigma around mental illness in the workplace. One colleague accessed telephone counselling through the Employee Assistance Programme. He then saw his GP, which in turn led to treatment through Cognitive Behavioural Therapy and psychotherapy.

I am incredibly grateful for the support I have had from the Group. I recognise that I have been fortunate, and many others may not have access to the support I did. I'm sharing my story, to act as an advocate for the support I received.

Our Inclusion and Diversity data

		2019	2018
Gender			
Board Members	Male	9	9
	Female	4	4
GEC and GEC Direct Reports	Male	111	107
	Female	50	45
Senior Managers	Male	4,539	4,701
	Female	2,647	2,573
Colleagues	Male	29,522	30,458
	Female	41,033	42,372
Ethnic background			
Percentage of colleagues from a BAME background		10.2%	9.5%
BAME managers		9.5%	9.0%
BAME senior managers		6.7%	6.4%
Disability			
Percentage of colleagues who disclose they have a disability		2.8%	1.7%
Sexual orientation			
Percentage of colleagues who disclose they are lesbian, gay, bisexual or transgender		2.2%	2.0%

All data as at 31/12/2019. Group Executive Committee (GEC) assists the Group Chief Exec. in strategic, cross-business or Group-wide matters and inputs to Board. GEC and Direct Reports includes the Group Chief Exec., GEC and colleagues who report to a member or attendee of GEC, excluding administrative or executive support roles (personal assistant, executive assistant).

Reporting: A colleague is an individual who is paid via the Group's payroll and employed on a permanent or fixed term contract (employed for a limited period). Includes parental leavers, and internationals (UK includes Guernsey, IOM, Jersey and Gibraltar). Excludes leavers, Group Non-Executive Directors, contractors, temps, and agency staff

Diversity: Calculation is based on headcount, not FTE (full-time employee value). Data source is HR system (Workday) containing all permanent colleague details. Gender: includes international, those on parental/maternity leave, absent without leave (AWOL) and long-term sick. Excludes contractors, Group Non-Executive Directors, temps and agency staff. All other diversity information is UK Payroll only. All diversity information is based on voluntary self-declaration, apart from gender, so is not 100 per cent representative; our systems do not record diversity data of colleagues who have not declared this information.

BAME: comprising of mixed/multiple, Asia, Black, Middle Eastern, North African and other (non-white) ethnicities.

Colleague grades: from A through to J, Senior Executive (SE), Executive (EX) and Executive Director (ED) A being the lowest. Senior Managers: Grades F, G, H, J, SE, E and ED (F being the lowest). Managers: Grade D-E (D being the lowest).

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 Group and its impact, policies due diligence and outcomes
Stakeholders	Annual materiality assessment[1] Supplier management	– Engaging and responding to our stakeholders www.lloydsbankinggroup.com/our-group/responsible-business/reporting-centre/ – Code of Supplier Responsibility www.lloydsbankinggroup.com/our-group/working-with-suppliers/being-a-supplier-to-lloyds-banking-group/
Environmental matters	Environmental (TCFD) statement	– Reflecting the needs of our stakeholders, pages 20 and 26 – Helping the transition to a sustainable low carbon economy, page 28
Employees	Colleague Policy[1] Code of Responsibility Health and Safety Policy[1]	– Reflecting the needs of our stakeholders, pages 20 and 26 – Championing Britain's diversity, page 34
Respect for Human Rights	Human Rights Policy statement Colleague Policy[1] Pre-Employment vetting standards[1] Data Privacy Policy[1] Modern Slavery and Human Trafficking Statement Information and Cyber Security Policy[1]	– Reflecting the needs of our stakeholders, page 26 – Suppliers, page 25 – Championing Britain's diversity, page 34
Social matters	Volunteering standards[1] Matched giving guidelines[1]	– Reflecting the needs of our stakeholders: Customers, page 20 – Reflecting the needs of our stakeholders: Communities and Environment, page 23 – Helping Britain Prosper Plan, page 27 – Helping Britain get a home, Helping people save for the future, Supporting business to start up and grow, Building capability and digital skills, pages 32 to 33 – Tackling social disadvantage across Britain, page 33
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 20 – Reflecting the needs of our stakeholders: Colleagues, page 22
Description of principal risks and impact of business activity		– Helping the transition to a sustainable low carbon economy: Risk management, page 30 – Risk overview 2019 themes, page 40 – Our principal risks, page 42
Description of the business model		– Our Business Model, page 14
Non-financial key performance indicators		– Key performance indicators, page 08 – Our strategic priorities, page 06 – Helping Britain Prosper Plan, page 27 – Global Reporting Initiative (GRI) standards www.lloydsbankinggroup.com/our-group/responsible-business/reporting-centre/ – Reporting Criteria www.lloydsbankinggroup.com/our-group/responsible-business/reporting-centre/ – Responsible Business Data Sheet www.lloydsbankinggroup.com/our-group/responsible-business/reporting-centre/

1 Certain Group Policies, internal standards and guidelines are not published externally.

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 2019.

Financial performance overview

Group

Solid financial performance

The Group's statutory profit after tax was £3,006 million, 33 per cent lower than in 2018 with resilient underlying profit partly offset by the significant payment protection insurance (PPI) charge of £2,450 million taken in the year. The statutory return on tangible equity was 7.8 per cent.

Trading surplus was resilient at £8,822 million (2018: £9,003 million) with lower net income partly offset by the Group's continued progress in delivering cost reductions. Underlying profit was £7,531 million compared to £8,066 million in 2018, reflecting lower net income and higher impairment charges, partly offset by the Group's strong cost performance. The Group's market-leading underlying return on tangible equity was 14.8 per cent.

The Group's balance sheet remains strong with lending growth in the open mortgage book as well as targeted segments, including SME and UK Motor Finance. This was more than offset by lower balances in Mid Markets and Global Corporates, primarily as a result of the optimisation of the Commercial portfolio, as well as continued reductions in the closed mortgage book. The Group's capital position remains strong with a pro forma CET1 ratio of 15.0 per cent pre dividend accrual and 13.8 per cent post dividend.

The Group is strongly capital generative and although this has been impacted by PPI in 2019, the Board has recommended a final ordinary dividend of 2.25 pence per share, making a total ordinary dividend of 3.37 pence per share, an increase of 5 per cent on 2018 and in line with our progressive and sustainable ordinary dividend policy.

Income statement

	2019 £m	2018 £m	Change %
Net interest income	**12,377**	12,714	(3)
Other income	**5,732**	6,010	(5)
Operating lease depreciation	**(967)**	(956)	(1)
Net income	**17,142**	17,768	(4)
Operating costs	**(7,875)**	(8,165)	4
Remediation	**(445)**	(600)	26
Total costs	**(8,320)**	(8,765)	5
Trading surplus	**8,822**	9,003	(2)
Impairment	**(1,291)**	(937)	(38)
Underlying profit	**7,531**	8,066	(7)
Restructuring	**(471)**	(879)	46
Volatility and other items	**(217)**	(477)	55
Payment protection insurance provision	**(2,450)**	(750)	
Statutory profit before tax	**4,393**	5,960	(26)
Tax expense[1]	**(1,387)**	(1,454)	5
Statutory profit after tax[1]	**3,006**	4,506	(33)
Earnings per share	**3.5p**	5.5p	(36)
Dividends per share – ordinary	**3.37p**	3.21p	5
Share buyback value	**–**	£1.1bn	
Banking net interest margin	**2.88%**	2.93%	(5)bp
Average interest-earning banking assets	**£435bn**	£436bn	–
Cost:income ratio	**48.5%**	49.3%	(0.8)pp
Asset quality ratio	**0.29%**	0.21%	8bp
Underlying return on tangible equity	**14.8%**	15.5%	(0.7)pp
Return on tangible equity	**7.8%**	11.7%	(3.9)pp

Key balance sheet metrics

	At 31 Dec 2019	At 31 Dec 2018	Change %
Loans and advances to customers[2]	**£440bn**	£444bn	(1)
Customer deposits[3]	**£412bn**	£416bn	(1)
Loan to deposit ratio	**107%**	107%	–
Capital build[4]	**86bp**	210bp	(124)bp
Pro forma CET1 ratio[5]	**13.8%**	13.9%	(0.1)pp
Pro forma transitional MREL ratio[5]	**32.6%**	32.6%	–
Pro forma UK leverage ratio[5]	**5.2%**	5.6%	(0.4)pp
Pro forma risk-weighted assets[5]	**£203bn**	£206bn	(1)
Tangible net assets per share	**50.8p**	53.0p	(2.2)p

1 2018 restated to reflect amendments to IAS 12, see basis of presentation on page 206 of our Annual Report and Accounts.

2 Excludes reverse repos of £54.6 billion (31 December 2018: £40.5 billion).

3 Excludes repos of £9.5 billion (31 December 2018: £1.8 billion).

4 Capital build is reported on a pro forma basis, reflecting the dividend paid up by the Insurance business in the subsequent first quarter period and is also reported before accruing for ordinary dividends, the cancellation of the remaining 2019 share buyback and the acquisition of Tesco Bank's UK prime residential mortgage portfolio.

5 The CET1, MREL, leverage ratios and risk-weighted assets at 31 December 2019 and 31 December 2018 are reported on a pro forma basis, reflecting the dividend paid up by the Insurance business in the subsequent first quarter period. The pro forma CET1 ratio at 31 December 2018 incorporates the effects of the share buyback announced in February 2019 and is reported post dividend accrual.

Report of the Auditor

The auditor's report on the full accounts for the year ended 31 December 2019 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.

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 customers with choice and flexibility, with propositions increasingly personalised to their needs.

Retail operates a multi-brand and multi-channel strategy. It 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.

£3,839m
Underlying profit decreased by 9%

£13.8bn
Lending to first time buyers

£3.5bn
Acquired Tesco's Bank UK prime residential mortgage portfolio supporting 23,000 new customers

#1
Maintained the largest branch network in UK

+5pts
Improvement in branch net promoter score at 66pts

UK's largest digital bank

Active online users (m)

16.4

2019	16.4
2018	15.7
2017	13.4
2016	12.5
2015	11.5

Progress in 2019

Leading customer experience

- UK's largest digital bank with 16.4 million active digital customers and 10.7 million mobile banking app customers, with average customer logons at 23 times per month and 75 per cent of new products now originated digitally
- Maintained the largest UK branch network while trialling new branch formats with the latest flagship Bank of Scotland branch in Glasgow, and Home by Halifax, an innovative store dedicated to supporting customers purchase a property
- Branch net promoter score up 5 points with around 50 per cent of customer facing time being spent on complex needs
- Supporting first time buyers with further £13.8 billion of lending, building on success of Lloyds Lend a Hand mortgage, launched Halifax Family Boost mortgage, providing customers' financial supporters with enhanced savings rates
- Encouraging customers to talk more openly about their finances, through the launch of the M Word campaign earlier this year and co-funding a brand new television series with Channel 4 called 'Save Well, Spend Better'
- Reduced complaints (excluding PPI) by 13 per cent in 2019 and mobile app NPS increased 3 per cent since 2017

Digitising the Group

- Recognised for innovations by being first in the Business Insider mobile banking study, with recent updates including
  - Push notification alerts helping to plan ahead with upcoming payment reminders and confirmations
  - Statement search helping customers find transactions quicker and easier, with c.300,000 searches per week
- Remote mortgage applications up 30 per cent, with re-mortgage applications starting digitally up 50 per cent in value

Maximising Group capabilities

- Acquired Tesco Bank's UK prime residential mortgage portfolio supporting 23,000 new customers
- Completed the integration of MBNA, realising a return on investment of 18 per cent, ahead of original target
- Renewed the successful Jaguar Land Rover relationship[1]

Transforming ways of working

- Continued progress in 'skills of the future' training delivered to colleagues with over 750,000 additional hours in 2019

Financial performance

- Net interest income was 3 per cent lower due to a 5 basis point reduction in net interest margin with continued pressure on mortgages margin, partly offset by lower funding costs and a benefit from aligning credit card terms
- Other income reduced 4 per cent reflecting a lower Lex fleet size. Operating lease depreciation includes an associated benefit, more than offset by some weakening in used car prices through the first three quarters of 2019
- Operating costs reduced 3 per cent, as increased investment in the business was more than offset by efficiency savings. Remediation decreased 11 per cent to £238 million
- Impairment increased 21 per cent, with some weakening in used car prices, methodology refinements and lower cash recoveries following prior year debt sales, while underlying drivers remain strong, particularly in the mortgage book
- Customer lending increased by 1 per cent with the acquisition of Tesco Bank's mortgage portfolio and growth in UK Motor Finance, partly offset by closed book mortgages. Organic open mortgage balances remained flat year on year
- Customer deposits include current account growth, stable relationship savings and reduced low margin tactical savings
- Risk-weighted assets increased by 5 per cent mainly driven by mortgage model refinements and the Tesco acquisition

1 Subject to contract.

Providing a family boost

Following the successful launch of the Lloyds Bank campaign, Lend a Hand, Halifax launched the Family Boost mortgage, to help first time buyers without a deposit onto the property ladder by using savings from family members to provide 10 per cent of the loan.

In Peterlee, County Durham, one customer visited his local Halifax branch to enquire about the Family Boost scheme. The customer was very reluctant to rent, as he wanted to make a home for his son and himself.

Within 48 hours of applying, the customer secured a mortgage offer meaning that now with the help of his brother, he has bought a home to put down roots in an area he wanted his son to grow up in. It also enabled the customer's brother to get a better return on his savings whilst supporting a family member.

Financial performance overview continued

Commercial Banking

Commercial Banking has a client-led, low risk, capital efficient strategy, 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.

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.

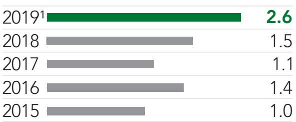
£1,777m
Underlying profit decreased by 19%

2.14%
Return on risk weighted assets, down 36bps

19%
Market share in SME and small business lending balances

Funding for UK manufacturers
£bn

2.6



1 Figures are cumulative from 2018.

Progress in 2019

Leading customer experience

- 95 per cent of SME and Mid Market clients migrated onto Commercial Banking Online platform with customers now having 24/7 access to their accounts, and 5 years of transaction history. The platform sees around 130,000 payments processed every day and around 1.2 million log ons per month
- Awarded 'Business Bank of the Year' at the FDs' Excellence Awards for the 15th consecutive year

Digitising the Group

- Cash management and payments API launched, allowing clients to send faster payments directly from their systems without human intervention and reducing payment times to 1.5 seconds
- Launched Asset Finance Broker API, linking new business proposals directly from broker to Group, reducing manual intervention by 87 per cent, enabling quicker and more accurate credit decisions with real-time updates
- Improved eTrading capability, enabling larger clients to undertake foreign exchange trades electronically 24 hours per day across multiple geographies and supporting clients in automating their businesses

Maximising Group capabilities

- Achieved the committed £18 billion gross new lending to UK businesses; a further £18 billion committed for 2020
- On track to meet the Group's target of £3 billion of investment in the UK manufacturing sector by the end of 2020
- Over 900 manufacturing apprentices, graduates and engineers trained since 2018 as a result of the £1 million annual investment in the Lloyds Bank Advanced Manufacturing Centre
- Beat the sustainability target of supporting energy efficient improvements for a further one million square feet of commercial real estate in 2019 and have supported renewable energy projects capable of powering 5 million homes by the end of 2019

Transforming ways of working

- Completed rollout of the SME Business Lending Tool, freeing up relationship manager time for increased client engagement, and new auto-credit decisioning capability with around 25 per cent of SME annual renewals now automated
- Continued progress in developing colleagues with the skills and capabilities needed for the future, with 210,000 colleague training hours completed in 2019, exceeding the year-end target

Financial performance

- In challenging market conditions, maintained a strong focus on risk-weighted asset (RWA) optimisation and actively addressed low returning client relationships, delivering a significant reduction in RWA of over £9 billion
- Net interest income of £2,918 million reduced 3 per cent, reflecting asset margin pressure
- Other income of £1,422 million was 15 per cent lower than in 2018, driven by lower levels of client activity in challenging market conditions in Global Corporates and Financial Institutions
- Operating costs of £2,081 million reduced 5 per cent, as increased investment in the business was more than offset by continued focus on efficiency savings
- Asset quality ratio of 30 basis points was 24 basis points higher, largely driven by material charges raised against two corporate cases, with stable underlying portfolio trends
- Return on risk-weighted assets of 2.14 per cent was 36 basis points lower, despite the acceleration of risk-weighted asset optimisation in the second half, driven by two material corporate impairment charges
- SME lending balances up c.1 per cent, continuing to grow slightly ahead of the market
- Customer deposits at £145.1 billion, down 2 per cent, reflecting funding optimisation activity including a reduction in short-term financial institutions deposits with growth in current accounts of 3 per cent in the second half of the year

Supporting green ambitions

In a £4 million project supported by Bank of Scotland and the Scottish Government's Low Carbon Infrastructure Programme, ice cream maker, Mackie's of Scotland, is set to have one of the most sophisticated refrigeration systems in Europe. The results will see CO_2 emissions cut by 80 per cent and energy costs by up to 80 per cent, supporting Mackie's ambition of becoming the greenest company in the UK.

With Bank of Scotland's support we are realising our green ambitions and, in the long run, we hope that our new system will set a precedent and make the energy-intensive food and drink sector more sustainable.
Gerry Stephens,
Finance Director, Mackie's of Scotland

Insurance and Wealth

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

Our wealth management joint venture with Schroders harnesses the unique strengths of two of the UK's strongest financial services businesses.

The Group continues to invest significantly in the business, with the aims of capturing considerable opportunities in pensions and financial planning whilst driving growth across intermediary and relationship channels through a strong distribution model, offering customers a single home for their banking and insurance needs.

£1,101m
Underlying profit increased by 19%

>1m
new pension customers

19%
increased new business income

14%
Market share in workplace pensions

Strong open book AUA customer net inflows

£bn

18

2019	18
2018	13
2017	2
2016	1
2015	2

Progress in 2019

Leading customer experience

- Scottish Widows now offers its standard annuities on the open market allowing a wider range of customers to access the product and secure income for retirement. Aiming to achieve a 15 per cent market share by end of 2020
- Successful migration of around 400,000 policies from a number of legacy systems to a single platform managed by the Group's partner Diligenta, enabling customers to better manage their policies with Scottish Widows
- New 'Plan and Protect' life and critical illness cover launched in 2019 helps create financially resilient families by understanding their needs and protecting what matters most, providing a safety net if the worst happens
- Scottish Widows won 5 star service awards at the Financial Adviser Service Awards for the fourth consecutive year

Digitising the Group

- Significant progress on Single Customer View, with home insurance and individual pension customers added in 2019. Over 5 million customers now able to access their insurance products alongside their bank account
- Addressing an underserved customer need for home contents insurance for renters through a partnership with the fintech firm Trov. New online low cost product offers a flexible on-demand monthly subscription policy

Maximising Group capabilities

- Schroders Personal Wealth launched with ambition of becoming a top 3 financial planning business by end of 2023
- Provided new functionality and customer choice in general insurance with full rollout in the last quarter of a flexible, multi-channel home insurance product offering to the branch network
- Continued progress towards target of growing open book assets under administration by £50 billion by the end of 2020, with strong customer net inflows of £18 billion (including Zurich transfer) in 2019. Cumulative net inflows of £30 billion and market movements give overall growth of £37 billion since the start of the current strategic plan in 2018
- Sourced £0.6 billion of new long-term assets in collaboration with Commercial Banking to support five bulk annuity transactions, generating over £2 billion of new business premiums

Financial performance

- Strong growth in life and pensions sales, up 22 per cent, driven by increases in new members in existing workplace schemes, increased auto enrolment workplace contributions and bulk annuities. On track to achieve 15 per cent market share of workplace business by end of 2020 compared to 10 per cent market share at start of 2018
- New underwritten household premiums increased 19 per cent, resulting in number one market share for new business earlier than expected; total underwritten premiums decreased 3 per cent driven by a competitive renewal market
- Life and pensions new business income up 19 per cent to £628 million. Lower existing business income due to equity hedging strategy to reduce capital and earnings volatility. Higher experience and other items includes one-off benefit from the change in investment management provider. General insurance benefitted from benign weather in 2019
- Wealth income and operating costs impacted by the transfer of assets to Schroders Personal Wealth in October 2019
- Underlying profit increased by 19 per cent to £1,101 million. Net income increased by £145 million to £2,133 million, whilst operating costs decreased by £39 million with cost savings offsetting higher investment in the business

Insurance capital

- Estimated pre final dividend Solvency II ratio of 170 per cent. The rise in the ratio over 2019 includes the impact of an equity hedge partly offset by lower long term interest rates. A final dividend of £250 million and a special dividend of £185 million related to the gain on the establishment of the Schroders Personal Wealth joint venture were paid to the Group in February 2020, with total dividends paid in respect of 2019 performance of £535 million

Helping our customers secure an income for life

In September 2019, Scottish Widows launched its standard annuity into the open market enabling a wider range of customers to access the product.

Through significant investment in technology we are able to support customers looking to secure income for life with their pension savings.

Helping people save for the future is just one way in which we support the UK through our Helping Britain Prosper Plan.

Risk overview

Effective risk management and control

Our approach to risk

Risk management is at the heart of our strategy to become the best bank for customers.

Our mission is to protect our customers, colleagues and the Group, whilst enabling sustainable growth in targeted segments. This is achieved through informed risk decision-making and robust risk management, supported by a consistent risk-focused culture.

This risk overview provides a summary of risk management within the Group, with a prudent approach and rigorous controls to support sustainable business growth and minimise losses. Through a strong and independent risk function, a robust control framework is maintained to identify and escalate current and emerging risks, support sustainable growth within Group risk appetite, and to drive and inform good risk reward decisions.

The risk management section from pages 129 to 187 of our Annual Report and Accounts provides a more in-depth picture of how risk is managed within the Group, detailing the Group's emerging risks from pages 133 to 134 of our Annual Report and Accounts, approach to stress testing, risk governance, committee structure, appetite for risk and a full analysis of the principal risk categories, the framework by which risks are identified, managed, mitigated and monitored.

Risk as a strategic differentiator

Risks are identified, managed, mitigated and monitored using our comprehensive enterprise 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 139 to 187 of our Annual Report and Accounts.

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**
  Our enterprise 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 annually. 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 stress analysis at a risk type and portfolio level, as appropriate

Our enterprise risk management framework

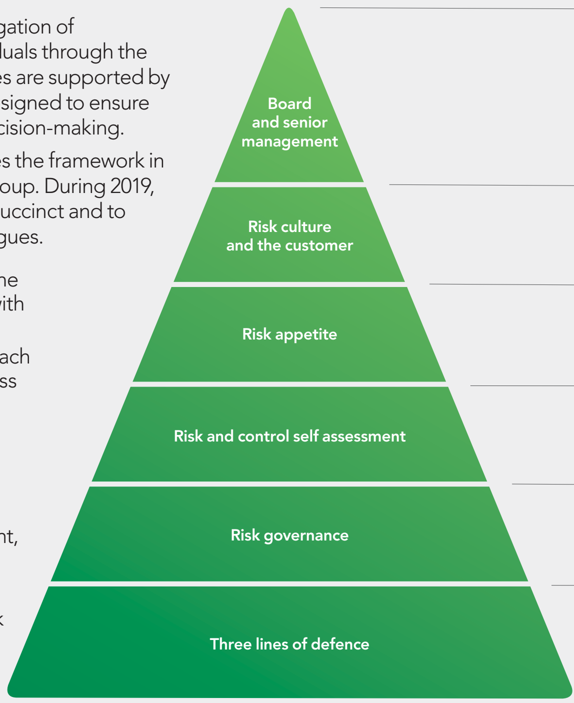
The Group's risk appetite, principles, policies, procedures, controls and reporting are regularly reviewed and updated where needed to ensure they remain fully in line with regulations, law, corporate governance and industry good practice.

Governance is maintained through delegation of authority from the Board down to individuals through the management hierarchy. Senior executives are supported by a committee based structure which is designed to ensure open challenge and enable effective decision-making.

Our risk management framework outlines the framework in place for risk management across the Group. During 2019, we updated this framework to be more succinct and to better ensure it is accessible to all colleagues.

A number of key components support the delivery of effective risk management, with four overarching objectives:

- Define a robust and consistent approach to risk governance to be applied across the Group and its legal entities
- Articulate individual and collective accountabilities for risk appetite, oversight and assurance
- Establish a common approach to categorise risks to support assessment, aggregation and reporting
- Provide colleagues and stakeholders with a single point of reference for risk management understanding, and supporting reference sources



The Board delegate executive authorities to ensure there is effective oversight of risk management.

The appropriate culture ensures performance, risk and reward are aligned.

The framework ensures our risks are managed in line with our risk appetite.

The identification, measurement and control of our risks form an integral part of our Risk and Control Self Assessment.

The governance framework supports a consistent approach to enterprise-wide behaviour and decision-making.

The robust approach to monitoring, oversight and assurance ensures effective risk management across the Group.

Risk culture and the customer

The effectiveness of our risk management approach relies upon a culture of transparency and openness that is encouraged by both the Board and senior management.

Based on the Group's conservative business model, prudent approach to risk management, and guided by the Board, senior management articulate the core risk values to which the Group aspires, and set the tone from the top, with a strong focus on building and sustaining long-term relationships with customers through the economic cycle. The Group's Code of Responsibility reinforces colleague accountability for the risks they take and their responsibility to prioritise their customers' needs.

Tone from the top
Senior leaders set a clear tone from the top and lead by example, reflecting our Group values; putting customers first, keeping it simple, and making a difference together, encouraging a culture of intellectual curiosity and proactive risk management amongst all colleagues.

Accountability
Risk management is a team effort with all colleagues playing their part and taking full individual responsibility for their actions.

Effective communication and challenge
As a Group we are open, honest and transparent with risk colleagues working in collaboration with business areas to:

- Support effective risk management
- Understand root causes when things go wrong
- Share lessons learned
- Provide constructive challenge

Incentives
Remuneration, performance management and succession planning that support our core values and put the customer at the heart of everything we do.

"Managing risk means making the right decisions and doing the right thing for customers. It is at the heart of our Code of Responsibility and supports our aim to be the best bank for customers

António Horta-Osório
Group Chief Executive

2019 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 some themes have been particularly prevalent in 2019.

Climate risk
Climate change is a key global risk, impacting our customers, our investors and our business in making the required transition towards a low carbon economy. We are committed to delivering the Task Force for Climate-Related Financial Disclosures by 2022 and we are taking steps to fully integrate climate risk into our existing Enterprise Risk Management Framework, including our policies, risk appetite, controls and disclosures.

We continue to invest in supporting this activity as part of the wider sustainability strategy (see Responsible business section on pages 26 to 34), and are also active participants in a number of external initiatives to help drive consistency across the industry.

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 have taken the necessary steps to ensure continuity of our limited EU business activities, where permitted.

Our UK focus means 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 UK/EU trade agreement negotiations, we continue to monitor closely. We are also taking a prudent approach to our balance sheet, accelerating issuance where appropriate.

Our customer focused strategy remains the right one. Guided by the overriding principle of Helping Britain Prosper, we continue to focus on customer needs and support our personal and business customers. We have delivered on our commitment to lend £18 billion to UK businesses in 2019, reaffirming our support for the UK economy.

Change / execution risk
Delivering change is a key part of how the Group continues to serve our customers, fulfil our strategic objectives, and deliver our aim of Helping Britain Prosper.

During 2019 key change initiatives included continued digitisation of the Group and transforming ways of working. There has also been significant delivery of regulatory change in order to adapt to the changing regulatory landscape.

The Group continues its drive to deliver a leading customer experience whilst managing a varied change portfolio. Focus on improvements to the control environment and managing within risk appetite has enabled the safe delivery of change.

The need to protect existing processes and minimise adverse impact on colleagues and clients will support the delivery of a leading customer experience.

Risk overview continued

Our principal risks

Principal risks and uncertainties are reported regularly to the Board Risk Committee. Change/execution, data and operational resilience have been elevated from existing risks to principal risks during 2019, and strategic added as a new principal risk

NEW

CHANGE/EXECUTION

The risk that, in delivering our change agenda, we fail to ensure compliance with laws and regulation, maintain effective customer service and availability, and/or operate within our approved risk appetite.

Example
Ineffective change/execution risk management could lead to increased periods of time where we cannot serve our customers, and could lead to impacts associated with other risk types such as regulatory censure.

Risk Appetite
We have limited appetite for negative impacts on customers, colleagues, or the Group as a result of change activity.

Mitigation
- Continued focus on strengthening the control environment, maturation of the change policy and associated policies and procedures, which set out the principles and key controls that apply across the business and are aligned to the Group risk appetite. Senior Management continue to drive improvements to Change and Execution Risk metrics, in particular those affecting customers and colleagues
- Businesses assess the potential impacts of undertaking any change activity on their ability to execute effectively, and the potential consequences for the existing risk profiles

Further detail on principal risk, including mitigation on page 139 of our Annual Report and Accounts

Alignment to strategic priorities and future focus

Delivering a leading customer experience

- We recognise the importance of delivering the Group's strategic priorities and will continue to invest in the transformation of the Group to deliver a leading customer experience

New principal risk
Change/execution risk was elevated from a secondary risk to a principal risk in recognition of the significant volumes of complex change the Group is currently undertaking to deliver its strategy. This includes key change initiatives, digitising the Group and transforming ways of working which will help to future-proof against the heightened risks associated with the use of new technologies and manage regulatory requirements and expectations. The decision aligns with the Group's progress in developing and embedding its change and execution risk management capabilities

NEW

DATA

The risk that we fail to effectively govern, manage, and control our data (including data processed by third party suppliers) leading to unethical decisions, poor customer outcomes, loss of value and mistrust.

Example
The loss of trust from customers, colleagues, business partners or regulators arising from a failure to manage and control our data.

Risk Appetite
We have limited appetite for material events or losses that occur due to the inappropriate use of data.

Mitigation
- Significant investment has been made to enhance the maturity of data risk management in recent years
- In addition to the General Data Protection programme which delivered the necessary infrastructure to achieve compliance with the new regulations in May 2018, a number of other large investments have been made

Further detail on principal risk, including mitigation on page 139 of our Annual Report and Accounts

Alignment to strategic priorities and future focus

Delivering a leading customer experience

- The quality of the data that the Group holds and the choices we make in how it is used is a key strategic enabler to future business growth, delivering a leading customer experience and Helping Britain Prosper
- We recognise that lawful, fair and transparent collection and appropriate use of data, is critical to delivering a leading customer experience and maintaining trust across the wider industry
- Internal programmes ensure that data is used correctly, and the control environment is regularly assessed through both internal and third-party testing

New principal risk
Data was elevated from a secondary risk to a principal risk as one of our most valuable assets. It is critical to our business and is the subject of significant regulatory oversight and media focus. Our Group is trusted with large volumes of data, and we must ensure that the information we hold is accurate, secure and managed appropriately

NEW

OPERATIONAL RESILIENCE

The risk that we fail to design resilience into business operations, underlying infrastructure and controls (people, process, technology) so that it is able to withstand external or internal events which could impact the continuation of operations, and fails to respond in a way which meets customer and stakeholder expectations and needs when the continuity of operations is compromised.

Example
Ineffective risk management could lead to vital services not being available to customers and stakeholders.

Risk Appetite
We have a limited appetite for disruption to services to customers and stakeholders from significant unexpected events.

Mitigation
- The Group has increased its focus on operational resilience and has updated its strategy to reflect changing priorities of both customers and regulators

Further detail on principal risk, including mitigation on page 140 of our Annual Report and Accounts

Alignment to strategic priorities and future focus

Delivering a leading customer experience

- End-to-end resilience of our critical processes is a key strategic priority and the Group operational resilience programmes continue to invest in improving our control environment and resilience. We continue to exercise, test and improve our resilience through scenario testing as well as learning from real events (those impacting ourselves but also those impacting others) through understanding the root cause
- We recognise the importance of the Group's operational resilience to our customers, markets and the wider financial sector

New principal risk
Operational resilience was elevated from a secondary risk to a principal risk as our ability to continue operations when subject to internal or external incidents, safeguarding our most critical processes and assets, protecting our colleagues, continuing to service our customers and minimising any impact on the banking systems is crucial

NEW

STRATEGIC

The risks which result from strategic plans which do not adequately reflect trends in external factors, ineffective business strategy execution, or failure to respond in a timely manner to external environments or changes in stakeholder behaviours and expectations.

Example

- The financial services sector operates in evolving regulatory and competitive environments with an increased pace, scale and complexity of change which creates a risk to the Group's strategic plans
- Shareholder expectations continue to evolve potentially impacting the Group's role in society
- Greater competition for specialist skill sets (such as data science and engineering), alongside demographic challenges in the working population, may result in a skills shortage impacting delivery of key strategic initiatives

Risk Appetite

We have business plans that are responsive to internal and external factors including changes to the regulatory, macroeconomic and competitive environments.

Mitigation

- Continued digitisation of customer journeys, thereby enabling the delivery of market leading customer experiences that are seamless, accessible and personal
- Robust operating and contingency planning to ensure potential impacts of strategic initiatives and external drivers are mitigated

Further detail on principal risk, including mitigation on page 141 of our Annual Report and Accounts

Alignment to strategic priorities and future focus

Delivering a leading customer experience

- The Group's forward looking approach to managing strategic risk will help the Group identify new risks and opportunities, and allow the Group to be better prepared to respond to changes in the regulatory and competitive environments

New principal risk

Strategic risk is a new principal risk in acknowledgment of the increasing rate of change in customer expectations, regulatory and competitive environments along with the demands for specialist skills to meet these evolving needs. This aligns with our strategic priorities to deliver a leading customer experience by digitising the Group, maximising Group capabilities and transforming ways of working

CREDIT

The risk that parties with whom we have contracted fail to meet their financial obligations (both on or 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.

Risk Appetite

We have a conservative and well balanced credit portfolio through the economic cycle, generating an appropriate return on equity, in line with our target return on equity in aggregate.

Mitigation

- Prudent, through the cycle credit principles, risk policies and appetite statements
- Robust models and controls

Further detail on principal risk, including mitigation on page 142 of our Annual Report and Accounts

Alignment to strategic priorities and future focus

Maximising Group 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
- Portfolios have benefited from relatively favourable economic conditions and a prolonged period of low interest rates. Underlying impairments remain below long-term levels, but are expected to increase as impairments normalise

Key risk indicators

£1,291m
Impairment charge
2018: £937m

1.8%
Stage 3 loans and advances as a % of total
2018: 1.9%

REGULATORY AND LEGAL

The risk of financial penalties, regulatory censure, criminal or civil enforcement action or customer detriment as a result of failure to identify, assess, correctly interpret, comply with, or manage regulatory and/or legal requirements.

Example

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

Risk Appetite

We interpret and comply with all relevant regulation and all applicable laws (including codes of conduct which could have legal implications) and/or legal obligations.

Mitigation

- Group policies and procedures set out the principles and key controls that should apply across the business which are aligned to the Group risk appetite
- Business units identify, assess and implement policy and regulatory requirements and establish local controls, processes, procedures and resources to ensure appropriate governance and compliance

Further detail on principal risk, including mitigation on page 162 of our Annual Report and Accounts

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

Risk overview continued

CONDUCT

The risk of customer detriment across the customer lifecycle including: failures in product management, distribution and servicing activities; from other risks materialising, or other activities which could undermine the integrity of the market or distort competition, leading to unfair customer outcomes, regulatory censure, reputational damage or financial loss.

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

Risk Appetite
We deliver fair outcomes for our customers.

Mitigation
- Simplified and enhanced conduct policies and procedures in place to ensure appropriate controls and processes that deliver fair customer outcomes, and support market integrity and competition requirements
- Active engagement with regulatory bodies and other stakeholders to develop understanding of concerns related to customer treatment, effective competition and market integrity, to ensure that the Group's strategic conduct focus continues to meet evolving stakeholder expectations

Further detail on principal risk, including mitigation on page 163 of our Annual Report and Accounts

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. Our conduct risk framework continues to support this through robust and effective management. This supports our vision of being the best bank for customers, enabling the delivery of a leading customer experience through effective root cause analysis and learning from customer feedback

OPERATIONAL

The risk of loss from inadequate or failed internal processes, people and systems, or from external events.

Example
Ineffective risk management could lead to adverse customer impact, reputational damage and financial loss, across all of our principal risks.

Risk Appetite
We have robust controls in place to manage operational losses, reputational events and regulatory breaches. We identify and assess emerging risks and act to mitigate these.

Mitigation
- The Group continues to review and invest in its control environment to ensure it addresses the inherent risks faced
- The Group employs a range of risk management strategies, including: avoidance, mitigation, transfer (including insurance) and acceptance

Further detail on principal risk, including mitigation on page 164 of our Annual Report and Accounts

Alignment to strategic priorities and future focus

Delivering a leading customer experience

- The Group continues to manage operational risk within the appetite articulated by the Board and in compliance with legal and regulatory requirements to insurance a robust control environment and a positive customer experience

PEOPLE

The risk that we fail to provide an appropriate colleague and customer-centric culture, supported by robust reward and wellbeing policies and processes; effective leadership to manage colleague resources; effective talent and succession management; and robust control to ensure all colleague-related requirements are met.

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

Risk Appetite
We lead responsibly and proficiently, manage people resource effectively, support and develop colleague talent, and meet legal and regulatory obligations related to our people.

Mitigation
- Focusing on leadership and colleague engagement, through delivery of strategies to attract, retain and develop high calibre people together with implementation of rigorous succession planning
- Continued focus on the Group's culture by developing and delivering initiatives that reinforce the appropriate behaviours which generate the best possible long-term outcomes for customers and colleagues

Further detail on principal risk, including mitigation on page 165 of our Annual Report and Accounts

Alignment to strategic priorities and future focus

Transforming ways of working

- Regulatory requirements relating to personal accountability and remuneration rules could affect our 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

INSURANCE UNDERWRITING

The risk of adverse developments in the timing, frequency and severity of claims for insured/underwritten events and in customer behaviour, leading to reductions in earnings and/or value.

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.

Risk Appetite

We have robust controls in place to manage the insurance underwriting risk inherent in the products our Insurance business offers to meet customer needs.

Mitigation

- General Insurance exposure to accumulations of risk and possible catastrophes is mitigated by reinsurance arrangements broadly spread over different reinsurers
- Insurance processes on underwriting, claims management, pricing and product design

Further detail on principal risk, including mitigation on page 166 of our Annual Report and Accounts

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

Key risk indicators

£17,515m
Life and pensions present value of new business premiums
2018: £14,384m

£671m
General insurance underwritten total gross premiums
2018: £690m

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
- Alternatively a shortage of capital could arise from an increase in the amount of capital that needs to be held

Risk Appetite

We maintain capital levels commensurate with a prudent level of solvency and aim to deliver consistent and high quality returns to shareholders.

Mitigation

- The Group has a capital management framework that includes the setting of capital risk appetite
- The Group maintains a recovery plan which sets out a range of potential mitigating actions that could be taken in response to a stress

Further detail on principal risk, including mitigation on page 167 of our Annual Report and Accounts

Alignment to strategic priorities and future focus.

Maximising Group 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

Key risk indicators

13.8%[1]
CET1 ratio
2018: 13.9%[1,2]

5.2%[1]
UK leveraged ratio
2018: 5.6%[1]

1 Pro forma basis

2 Incorporates the effects of the share buyback announced in February 2019.

FUNDING AND LIQUIDITY

Funding risk is the risk that we do not have sufficiently stable and diverse sources of funding or the funding structure is inefficient. Liquidity risk is the risk that we do not have sufficient financial resources to meet our commitments when they fall due, or can only secure them at excessive cost.

Example

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

Risk Appetite

We maintain a prudent liquidity profile and a balance sheet structure that limits our reliance on potentially volatile sources of funding.

Mitigation

- The Group manages and monitors liquidity risks and ensures that liquidity risk management systems and arrangements are adequate with regard to the internal risk appetite, Group strategy and regulatory requirements
- The Group's funding and liquidity position is underpinned by its significant customer deposit base, and is supported by strong relationships across customer segments

Further detail on principal risk, including mitigation on page 175 of our Annual Report and Accounts

Alignment to strategic priorities and future focus

Maximising Group 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 us to grow targeted business segments, and better address our customers' needs

Key risk indicators

£118bn
LCR eligible assets
2018: £129bn

107%
Loan to deposit ratio
2018: 107%

Risk overview continued

GOVERNANCE

The risk that our organisational infrastructure fails to provide robust oversight of decision making and the control mechanisms to ensure strategies and management instructions are implemented effectively.

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 SMCR requirements could result in lack of clear accountability, and legal and regulatory consequences

Risk Appetite

We have governance arrangements that support the effective long-term operation of the business, maximise shareholder value and meet regulatory and societal expectations.

Mitigation

- Defining individual and collective accountabilities for risk management, risk oversight and risk assurance through a three lines of defence model which supports the discharge of responsibilities to customers, shareholders and regulators
- Outlining governance arrangements which articulate the enterprise-wide approach to risk management

Further detail on principal risk, including mitigation on page 181 of our Annual Report and Accounts

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 SMCR requirements and enable us to demonstrate clear accountability for decisions

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, credit spreads and interest rates 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 and interest rate 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

Risk Appetite

We have robust controls in place to manage our inherent market risk and do not engage in any proprietary trading, reflecting the customer focused nature of the Group's activities

Mitigation

- 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

Further detail on principal risk, including mitigation on page 183 of our Annual Report and Accounts

Alignment to strategic priorities and future focus

Maximising Group 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 2019. This allows us to more efficiently utilise available capital resources

Key risk indicators

£550m

IAS 19 pension surplus

2018: £1,146m

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.

Risk Appetite

Material models are performing in line with expectations.

Mitigation

- The model risk management framework, established by and with continued oversight from an independent team in the Risk division, provides the foundation for managing and mitigating model risk within the Group

Further detail on principal risk, including mitigation on page 187 of our Annual Report and Accounts

Alignment to strategic priorities and future focus

Digitising the Group

- Our models play a vital role in supporting our Group strategy to ensure profitable growth in targeted segments and the 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 ourselves and customers.

The Group's Viability statement can be found on pages 95 to 96 of our Annual Report and Accounts.

The Group's emerging risks are shown on pages 133 to 134 and a full analysis of the Group's risk categories is on pages 129 to 187 of our Annual Report and Accounts.

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 21 May 2020 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 four 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

IWeb Share Dealing
www.iweb-sharedealing.co.uk/share-dealing-home.asp 03450 707 129

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 above.

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 whether 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 visiting 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

Board of Directors

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

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

1 Lord Blackwell has announced his plan to retire as Group Chairman at or before the AGM in 2021.

2 Alan Dickinson succeeded Anita Frew as Senior Independent Director on 1 December 2019 and will succeed her as Deputy Chairman when she retires from the Board at the AGM in May 2020.

3 Juan Colombás has announced his plan to retire from the Group in July 2020.

1. Lord Blackwell Chairman

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

Skills, experience and contribution:

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

Appointed: December 2010 (Board), May 2014 (Deputy Chairman), May 2017 to December 2019 (Senior Independent Director)

Skills, experience and contribution:

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 Senior Independent Director

Appointed: September 2014 (Board), December 2019 (Senior Independent Director)

Skills, experience and contribution:

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. 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 and Non-Executive Director of England and Wales Cricket Board.

4. Simon Henry Independent Director

Appointed: June 2014

Skills, experience and contribution:

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 and Chair of their Audit Committee, 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. Sarah Legg Independent Director

Appointed: December 2019

Skills, experience and contribution:

Strong financial leadership skills

Significant experience in financial and regulatory reporting

Strong transformation programme experience

Sarah has spent her entire career in financial services with HSBC in finance leadership roles. She was the Group Financial Controller and a Group General Manager of HSBC until early 2019 and previously Chief Financial Officer for HSBC's Asia Pacific region. She also spent 8 years as a Non-Executive Director on the Board of Hang Seng Bank Limited, a Hong Kong listed bank.

External appointments: Honorary Vice President of The Hong Kong Society for Rehabilitation and Chair of the Campaign Advisory Board of King's College, Cambridge University.

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

Appointed: June 2017

Skills, experience and contribution:

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, Trustee of the Lovington Foundation and Chairman of the Board of Visitors of the Ashmolean Museum with effect from 1 January 2020.

7. Amanda Mackenzie OBE Independent Director

Appointed: October 2018

Skills, experience and contribution:

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 as a Non-Executive Director of Mothercare plc. Amanda is a Life Fellow of the Royal Society of Arts and Fellow and past President of the Marketing Society.

External appointments: Chief Executive of Business in the Community – The Prince's Responsible Business Network.

8. Nick Prettejohn Independent Director and Chairman of Scottish Widows Group

Appointed: June 2014

Skills, experience and contribution:

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.

9. Stuart Sinclair Independent Director

Appointed: January 2016

Skills, experience and contribution:

Extensive experience in retail banking, insurance and consumer finance

Governance and regulatory experience

Significant experience in strategic planning and implementation

Experience in consumer analysis, marketing and distribution

Stuart is a former Non-Executive Director of TSB Banking Group plc, TSB Bank plc, LV Group, Virgin Direct and Vitality Health (formerly Prudential Health). He was previously the Interim Chairman of Provident Financial plc and 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).

10. Sara Weller CBE Independent Director

Appointed: February 2012

Skills, experience and contribution:

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 Governing Council Member of Cambridge University, 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, Lead Non-Executive Director at the Department for Work and Pensions, Chair of the Remuneration Committee of New College, Oxford and Trustee of Lloyds Bank Foundation for England and Wales.

11. António Horta-Osório Executive Director and Group Chief Executive

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

Skills, experience and contribution:

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 and 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.

12. William Chalmers Executive Director and Chief Financial Officer

Appointed: August 2019

Skills, experience and contribution:

Significant board level strategic and financial leadership experience including strategic planning and development, mergers and acquisitions, equity and debt capital structuring and risk management

Worked in financial services for over 25 years

William was previously Co-Head of the Global Financial Institutions Group at Morgan Stanley. Prior to that, he held a number of senior roles at Morgan Stanley, including Head of EMEA Financial Institutions Group. Before joining Morgan Stanley, William worked for JP Morgan, again in the Financial Institutions Group.

External appointments: None.

13. Juan Colombás Executive Director and Chief Operating Officer

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

Skills, experience and contribution:

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: Member of the FCA Practitioner Panel.

Directors' remuneration

Remuneration Committee Chairman's statement

Our latest policy provides direct alignment between remuneration and the purpose of the Group, and is designed to be fair and consistent. We have thought carefully about the simplest and clearest way to reward the right behaviours and outcomes.

Stuart Sinclair
Chairman, Remuneration Committee

Remuneration Content
Please find below the Remuneration Committee Chairman's statement from the Annual Report and Accounts. This is an extract of the Directors' remuneration report with the full content available as below:

- Chairman's statement and remuneration policy overview pages 98 to 102 of our Annual Report and Accounts
- Annual report on remuneration pages 103 to 114 of our Annual Report and Accounts
- 2020 Remuneration Policy pages 115 to 123 of our Annual Report and Accounts
- Other remuneration disclosures (Pillar III reporting) pages 124 to 128 of our Annual Report and Accounts

Dear Shareholder

On behalf of the Board I am pleased to present the Directors' Remuneration Report for the year ended 31 December 2019 and the proposed Directors' Remuneration Policy (our Policy) for which we are seeking your support and approval at our Annual General Meeting in May 2020.

Our upcoming AGM marks the beginning of our next remuneration policy cycle, which will run until the end of 2022. This offered the opportunity to take a fresh look at how we incentivise and reward our colleagues, and what values and outcomes we wish to encourage.

The timing coincided with a great deal of public interest in matters of executive pay, fairness, employee engagement and the pay gap between those at the top of organisations compared to other colleagues. We have been active participants in these discussions, through meetings with shareholders, our unions, the Investment Association and some members of Parliament, as well as through an open dialogue with colleagues on a variety of topics related to their pay and benefits. These talks have had a material impact on the priorities and recommendations of the Remuneration Committee throughout the last year. The proposals which have emerged from these discussions are laid out in detail in our Annual Report and Accounts.

While we were pleased to receive over 90 per cent support for our Annual Report on Remuneration at the AGM in 2019, we heard during that process a continued desire for greater simplicity and transparency in our approach. To that end, we started to make changes early in 2019, without waiting for our full redesign to be finalised.

In November 2019, we announced our decision, subject to AGM approval, to reduce pension allowances for Executive Directors to 15 per cent of salary in a single step in 2020 with no offsetting adjustment in salary or other remuneration.

We are also making improvements to pensions for all the 50,000 colleagues who participate in Defined Contribution (DC) arrangements (the majority of our workforce) to make all members eligible for a maximum employer contribution of 15 per cent, and to increase the employer contribution for our lower paid colleagues by one per cent.

This represents a significant investment of approximately £20 million per annum in our colleagues and aligns the employer contributions available to the wider workforce with those of Executive Directors. At the same time, the Group supports the third largest private sector defined benefit (DB) scheme accruing benefits for a further 16,000 current colleagues.

We have listened to feedback and the external sentiment around executive remuneration. Some of the sentiments that resonated with me and my Committee were that executive remuneration should be re-evaluated in the context of colleagues as a whole; be truly variable, and not managed within a 'corridor' without being closely aligned with outcomes. We have tackled these sentiments head on with our proposals in the new Policy by reducing the new maximum opportunity for Executive Directors and by demonstrating with this year's outcomes that performance and conduct do have material consequences, resulting in lower total remuneration.

Our new Policy

In approaching the refresh of the Directors' Remuneration Policy, my committee colleagues and I thought carefully about what behaviours and outcomes we wanted to see and how the remuneration structure could support them. We approached the review with the following core aims:

Purpose	Remuneration should be linked to the Group's purpose of Helping Britain Prosper
Behaviours	Remuneration should reward and drive the right behaviours and outcomes and reflect both strategic (non-financial) and financial achievements
Simplicity	Remuneration should be designed in a manner that is clear for all stakeholders and reflects their expectations
Clarity	Remuneration should be easy to explain and be viewed as fair

It was with these objectives in mind that we designed the new Policy detailed on page 115 and summarised on page 100 of our Annual Report and Accounts. The key headlines are as follows:

- The maximum pension allowance for Executive Directors is reduced to 15 per cent of salary
- We are introducing a new long-term variable reward plan to align pay more closely to our business model of producing sustainable long-term returns
- As a result of the new Policy, the Group Chief Executive's fixed pay will reduce by 8 per cent and his maximum total remuneration opportunity by 29 per cent

Given the feedback we have received, we hope you will support the aims and the methods we outline, and vote accordingly at the AGM in May.

Group performance and variable remuneration

For 2019, the performance of the Group was resilient in a challenging and uncertain economic environment. Despite a softening of margins and income, continued discipline in operating costs enabled the Group to maintain its significant investment in digitising and transforming the way we support customers, as well as to pay an increased dividend to shareholders. Financial results were however heavily impacted by the PPI provision of £2.45 billion; therefore a significant downward adjustment was made to the Group Performance Share pool to reflect this along with other conduct-related costs. The final 2019 Group Performance Share pool is £310.1 million, which is a reduction of 33 per cent compared to 2018. The vesting of the 2017 Executive Group Ownership Share was similarly affected by financial performance and shareholder returns, with a formulaic vesting outcome of 49.7 per cent. No discretion was used to change the vesting outcome.

The performance and strategic progress of the Group was however overshadowed by significant non-financial conduct issues during the latter part of the year, not least the findings of Sir Ross Cranston's review into how the Group has treated customers who were the victims of the HBOS Reading fraud. These issues are reflected in the variable reward outcomes for Executive Directors.

Executive Director variable rewards decisions

As a result of the overall performance of the Group and the issues faced during 2019, the Group Chief Executive and Chief Operating Officer independently requested that they be withdrawn from consideration for Group Performance Share awards for 2019. The Committee exercised its discretion to accept this request and welcomed the judgement shown in volunteering it as a consequence of the non-financial conduct issues mentioned above. No downward adjustment has been made to the overall Group Performance Share pool as a result of these individual decisions, which was therefore distributed to other colleagues outside the executive team.

For the newly appointed Chief Financial Officer, overall performance for 2019 was assessed at 3.12 out of 5 with a corresponding Group Performance Share award of £195,528. An award of 250 per cent of salary will be awarded under the final Executive Group Ownership Share to the Group Chief Executive and 237.5 per cent for Chief Financial Officer. No Group Ownership Share award is being made to the Chief Operating Officer who has announced his retirement. Further details of awards are provided on pages 105 and 111 of our Annual Report and Accounts.

Executive Director total remuneration outcomes

The information below summarises Executive Director remuneration for the 2018 and 2019 performance years. Full details are provided in the Single total figure of remuneration table on page 103 of our Annual Report and Accounts.

Director	2018	2019	
António Horta Osório Group Chief Executive	£6.54m	**£4.73m**	↓ 28%
Juan Colombás Chief Operating Officer	£3.42m	**£2.58m**	↓ 25%
William Chalmers Chief Financial Officer 1 Aug 2019	–	**£5.14m**	–
George Culmer Former Chief Financial Officer 1 Jan-1 Aug 2019	£3.43m	**£1.95m**	–

How we have responded to your feedback

Executive remuneration should be re-evaluated in the context of colleagues as a whole.

- The proposed Policy for 2020 reduces the maximum total compensation opportunity for the Group Chief Executive by 29 per cent
- The Group Chief Executive's pension reduced from 46 per cent to 33 per cent of salary in 2018 and will now be 15 per cent with effect from 2020, a decrease of 67 per cent from 2018 to 2020
- The ratio of CEO pay to the medium employee has reduced by 24 per cent between 2018 and 2019
- We are very focused on addressing the pay gap from the bottom up and not just from the top down, in other words, by taking action to increase pay and pensions for more junior colleagues
- In 2019 we have continued our commitment for pay progression with higher pay awards for lower paid colleagues and colleagues paid lower within their pay range
- The pay budget for colleagues this year is 2.4 per cent, above the budget of 2 per cent for executives and we will once again make an award of free shares worth £200 to every permanent colleague in the Group. All these actions are intended to reduce the gap between executives and the wider workforce

Variable pay should be truly variable and not managed within a corridor without being closely aligned with outcomes.

- The Balanced Scorecard is made up of an appropriate balance of financial and non-financial measures. Targets are determined at the beginning of the year and my Committee and I discuss them thoroughly to ensure they are stretching
- When determining reward outcomes, other factors outside of the scorecard are considered. Scores directly correlate to reward outcomes and, as can be seen with this year's awards, there is clear pay for performance alignment
- GPS award outcomes for 2019 show that award outcomes are truly variable and that the structure of the plan ensures that performance and conduct will have a direct impact on remuneration

Your remuneration structure is overly complex

- We recognise that our process for determining short-term variable (GPS) outcomes has been perceived to be complex and the link between pay and performance is not easily understood
- We have taken steps to reduce complexity through reducing the number of measures in our Group Balanced Scorecard from 20 to 15 grouped under three equally weighted areas for 2019 and 2020. We believe this provides the optimum breadth of measures for a large and complex Group
- We've focused on simplifying the allocation to our overall Group Performance Share pool by agreeing to use a fixed 5 per cent of underlying profit as the starting position. The Committee will retain discretion to ensure that 5 per cent remains appropriate
- To support colleagues understanding of the approach to determine Group Performance Share awards across the Group, including for Executive Directors, we have used internal media channels to explain the process in a clear and transparent way and to emphasise the link between pay and performance

Together with my Committee members, I look forward to hearing your views on the remuneration arrangements outlined in the report and we hope the new Policy alongside the resolutions relating to remuneration will receive your support at the upcoming AGM.

On behalf of the Board

Stuart Sinclair
Chairman, Remuneration Committee

19 February 2020

Lloyds Banking Group plc
Registered in Scotland, No. SC095000

Forward looking statements

This document contains certain forward looking statements within the meaning of Section 21E of the US Securities Exchange Act of 1934, as amended, and section 27A of the US Securities Act of 1933, as amended, with respect to the business, strategy, plans and/or results of Lloyds Banking Group plc together with its subsidiaries (the Group) and its current goals and expectations relating to its future financial condition and performance. Statements that are not historical facts, including statements about the 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.

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 the 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.

By their nature, forward looking statements involve risk and uncertainty because they relate to events and depend upon circumstances that will or may occur in the future.

Factors that could cause actual business, strategy, plans and/or results (including but not limited to the payment of dividends) to differ materially from forward looking statements made by the Group or on its behalf include, but are not limited to: general economic and business conditions in the UK and internationally; market related trends and developments; fluctuations in interest rates, inflation, exchange rates, stock markets and currencies; any impact of the transition from IBORs to alternative reference rates; 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; political instability including as a result of any UK general election; 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 relating 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 ability to attract and retain senior management and other employees and meet its diversity objectives; actions or omissions by the Group's directors, management or employees including industrial action; changes to the Group's post-retirement defined benefit scheme obligations; the extent of any future impairment charges or write-downs caused by, but not limited to, depressed asset valuations, market disruptions and illiquid markets; the value and effectiveness of any credit protection purchased by the Group; the inability to hedge certain risks economically; the adequacy of loss reserves; the actions of competitors, including non-bank financial services, lending companies and digital innovators and disruptive technologies; and exposure to regulatory or competition scrutiny, legal, regulatory or competition proceedings, investigations or complaints. Please refer to the latest Annual Report or Form 20-F filed by Lloyds Banking Group plc 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 document are made as of today's date, and the Group expressly disclaims any obligation or undertaking to release publicly any updates or revisions to any forward looking statements contained in this document to reflect any change in the Group's expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based. The information, statements and opinions contained in this document do not constitute a public offer under any applicable law or an offer to sell any securities or financial instruments or any advice or recommendation with respect to such securities or financial instruments.

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