LLOYDS BANKING GROUP

HELPING BRITAIN RECOVER

Lloyds Banking Group
Annual Review 2020

Our Group

We are the largest UK retail and commercial financial services provider with over 25 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 the largest branch network and digital bank in the UK, with 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, while retaining separate sections for our environmental and social performance for ease of reference. As well as reporting our financial results, we also report on our strategy and approach to operating responsibly while taking into account relevant economic, political, social, regulatory and environmental factors.

This Annual Review 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 68.

This Annual Review incorporates the Strategic Report which forms part of the 2020 Annual Report and Accounts along with some information about the Board of Directors, detail on remuneration as well as some general shareholder information.

Robin Budenberg

On behalf of the Board
Robin Budenberg
Chair
Lloyds Banking Group
23 February 2021

Group performance

Continued strategic progress with financial performance impacted by the coronavirus pandemic, deterioration of the economic outlook and lower interest rates

£1.4bn
(54)%
Statutory profit after tax reduced significantly; largely due to increased impairments given the deterioration in the economic outlook

0.57p
Ordinary dividend per share, given the Group's strong capital position dividends have resumed at the maximum allowed

55.3%
6.8pp
Cost:income ratio deteriorated due to lower income

3.7%
(4.1)pp
Return on tangible equity of 3.7 per cent given lower statutory profit

17.4m
+6.1%
Digitally active customers continued to increase and we remain the largest digital bank in the UK

81%
+7pp
Colleague engagement remains at its highest ever level with our employee engagement index seven points higher than 2019

Inside this year's Annual Review

Our COVID response

During an extraordinarily challenging time we are **Helping Britain Recover**, as part of our Group purpose of **Helping Britain Prosper.**

We have lent over £12 billion to help businesses bounce back and granted around 1.3 million payment holidays to support customers, while increasing customer satisfaction, strengthening our franchise with growth in deposits and further enhancing our leading digital proposition, which now serves 17.4 million customers.

Over the following pages and throughout this report we highlight what Helping Britain Recover means and how we are supporting people, businesses and communities to **emerge stronger than before.**

Our Group

We have and will continue to support our customers and colleagues to get through these extraordinary times.

We have an important role to play in Britain's recovery, working with others to help build an inclusive, greener and more resilient economy for the whole of the UK.

Read more on how we're supporting the UK through these extraordinary times on the pages that follow.

Our COVID response continued

Supporting our stakeholders during the COVID crisis

The public health crisis caused by coronavirus has affected all of us and the society in which we live. Our priority is to help the UK recover in an effective, inclusive and sustainable way.

We're giving **our customers** the flexibility they need to manage their finances, while helping protect them from fraud.

We're working with the Government to provide loans and working capital support for the **businesses of Britain**, at the same time as providing the sector-by-sector expertise needed to help them adapt for success.

We're keeping **our colleagues** as safe as we can while they provide essential services to people across the UK. And we're working with **the Government** to get practical help to those who need it most, in **communities** across all the regions of the UK.

For over 320 years, with our unique family of brands, we have supported Britain through the good times and the bad and this time is no different. In 2021, we will continue to do all we can to Help Britain Recover, as this is in the best interests of all our stakeholders. More information on our next chapter on **pages 36 to 45.**

Supporting businesses

As a result of the lockdowns, businesses are facing challenges like never before. Many have been forced to close and furlough their staff, while others have had to adapt to external changes. Whatever situation our business customers have faced, we've stood by their side.

We have supported them to obtain more than **£12 billion** in finance through the Government-backed lending schemes, helped them to manage their cash flow by granting around **34,000 capital repayment holidays** and helped their working capital by agreeing around **22,000 fee-free overdrafts** to businesses.

We are doing our best to help and advise British businesses of all sizes so that as lockdown eases they can adapt their business models to re-open safely and profitably.

Supporting customers

Many people continue to feel the impact of the past year on their personal finances. We have approved around **1.3 million payment holidays** for customers who have mortgages, personal loans, credit cards and car finance with us since the start of the outbreak, and are helping our customers to replan their finances.

Our dedicated telephone services, with extended opening hours for the over 70s and NHS workers, have taken around **880,000 calls** since the end of March, allowing us to prioritise support for these customers and their urgent needs. We've also proactively made over **750,000 calls** to check on the wellbeing of our vulnerable customers. These services will continue.

Supporting communities

The effects of coronavirus will remain for some time to come; that's why we're providing extra practical and emotional support for the most vulnerable in society.

Through a range of new and existing partnerships we are providing extra capacity in friendship services, mental health programmes and digital skills training. We have also provided **£25.5 million to our charitable Foundations** in 2020 and have guaranteed the same funding for 2021, to keep those who are most isolated connected and give people support when they need it most.

Supporting our colleagues

We're taking every precaution to protect our colleagues. More than **50,000 colleagues worked from home** for most of 2020, up from 15,000 before the pandemic, and this will continue, until at least Summer 2021.

Where our colleagues are providing an essential service for the UK, such as in our call centres and branches, we are following social distancing rules, to keep both our colleagues and customers safe.

Board oversight of the pandemic in 2020 can be found on **pages 90 and 91 of our Annual Report and Accounts.**

Chair's statement

Our unique position allows us to Help Britain Recover and play our part in returning the UK to prosperity

The Group has been playing a leading role in the immediate national response, supporting customers, colleagues and our communities through the crisis and beyond.

Robin Budenberg
Chair

Overview

My first annual statement to you as Chair comes at the end of what has been a tumultuous and extraordinary year for both the UK and Lloyds Banking Group. It has been a year of unprecedented challenge in which many people have suffered but also one in which the Group has proved it can make a difference and truly support its customers and the UK economy.

Having joined the Board in October and taken over the role of Chair from 1 January 2021, I have been hugely impressed with the response of the Group to the COVID-19 crisis and the achievements during the last year. I am particularly proud of our workforce and the continued commitment and dedication in supporting our customers and each other. We provided over £12 billion of lending to businesses through Government-backed schemes and granted around 1.3 million payment holidays to retail customers, providing vital support at a time of crisis.

Helping Britain Recover and Strategic Review 2021

The role of Chair is to help ensure that the Board and the executive team are focusing on the right issues and developing the right purpose and strategy, executing it effectively and with the right values and cultures as an organisation.

We recognise that the focus of the Group's purpose must evolve in response to the current environment and changing customer needs and expectations. Many individual and business customers have been impacted by the crisis and we have a responsibility, as the UK's largest bank, to help these customers and Help Britain Recover. This is completely aligned with our ongoing purpose of Helping Britain Prosper, and is in the best interests of all stakeholders.

In September 2020, the Group launched The Big Conversation and since then we have brought together more than 900 people, including industry leaders, local politicians and expert voices in virtual sessions around the country to discuss what the pandemic has meant for them and what support they need to survive and thrive.

We have subsequently published the findings which can provide insight and direction to different stakeholder groups as we explore together how we can help to rebuild the economy. We are privileged to be able to use our comprehensive regional and national network and our sector expertise to bring together people with a diverse range of perspectives.

Although the next couple of years will be challenging, the pandemic provides a unique opportunity for banks to evidence their importance to customers and the economy and we will continue to play the important role expected of us as the UK's leading financial services provider. We will help Britain rebuild sustainably by playing our part in the country's economic recovery.

Helping Britain Recover is at the heart of Strategic Review 2021, which launched the same day as our full year results, in February 2021 and will further enhance our capabilities to create the UK's preferred financial partner for personal customers and the best bank for business. Having been heavily involved in the development of the evolution of strategy, the Board is excited about the opportunities for the Group.

Given the Group's unique position in the UK economy, as part of Strategic Review 2021, we have identified five areas where we can make a transformational societal impact and which are also deeply integrated into the strategic development of our business: Help rebuild households' financial health and wellbeing, Support businesses to recover, adapt and grow, Expand availability of affordable and quality homes, Accelerate the transition to a low carbon economy and Build an inclusive society and organisation.

These five priorities for 2021 consist of a number of commitments in areas where we can make the biggest difference, create value for our customers and, given they will enable us to build a sustainable and inclusive business, will also benefit shareholders. Further detail on our purpose and the areas of focus are provided on pages 38 and 39.

Continued transformation of the Group

The Group's significant investment in transformation and digital in recent years has clearly positioned us well. It is also clear that we will need to continue to evolve and invest to build on this advantage. The COVID-19 crisis, which is having an unprecedented impact on the overall economy, on businesses across sectors, and on how we all live our lives, has accelerated the pace of change in the banking industry. It has also highlighted new emerging trends that will shape the industry in the future.

To compete effectively against new competitors we will need to continue to modernise our technology architecture, transform how we work and enhance our use of data across the business. As an efficient, scale operator with strong multi-brand, multi-channel capabilities and a fantastic customer franchise we have significant advantages, but sustainable success will only be possible through further embracing technology and enhancing our customer propositions.

To do this, we need to continue our journey to become a much more flexible organisation with a more agile culture and faster decision-making. We will need to reinvent the way we do business and are increasingly likely to partner with specialist technology and fintech providers. The first stages of this approach are laid out in our evolution of strategy, Strategic Review 2021. I believe it is a solid foundation for our continued transformation and delivering strong and superior returns.

STRATEGIC REVIEW 2021: BUILDING THE UK'S PREFERRED FINANCIAL PARTNER

Lloyds Banking Group is a customer focused, sustainable, efficient and low risk UK financial services leader with a clear purpose of **Helping Britain Prosper**.

Given the pandemic and our unique position at the heart of the UK economy, our priority for the next phase of our strategy is to focus on **Helping Britain Recover**.

Strategic Review 2021 is focused on delivering co-ordinated growth opportunities across our core business areas to create the UK's preferred financial partner for personal customers and the best bank for business. The strategy is supported by further investment in four specific capabilities: a modernised technology architecture, integrated payments, creating a data-driven organisation and reimagined ways of working

Helping Britain Recover: We have identified five priority areas, based on where we feel we can make the most difference

Help rebuild households' financial health and wellbeing

- We will have over 6,500 colleagues trained to support customers to build their financial resilience
- We will expand our existing 'Mental Health Accessible' accreditation for Lloyds Bank across Halifax and Bank of Scotland
- We will partner with independent debt advice organisations to ensure customers have access to practical support

Support businesses to recover, adapt and grow

- We will develop appropriate recovery plans for our customers, supported by 1,100 business specialists
- We will support at least 75,000 UK businesses to start up in 2021
- We will help at least 185,000 small businesses boost their digital capability

Expand availability of affordable and quality homes

- We will provide £10 billion of lending to first-time-buyers and lead a national conversation on access to the housing market
- We will provide £1.5 billion of new funding support, incl. £500 million in ESG-linked funding, in support of the social housing sector
- We will assess the energy retrofit requirements of over 200,000 homes in the social housing sector

Accelerate the transition to a low carbon economy

- We will expand the funding available under our green finance initiatives from £3 billion to £5 billion
- We will ensure our own operations are net zero by 2030
- We will become the first major pensions and insurance provider to target halving the carbon footprint of all our investments by 2030
- We will introduce a flagship fossil fuel-free fund to support green growth

Build an inclusive society and organisation

- We will set new aspirations for 50 per cent women, 3 per cent Black and 13 per cent Black, Asian and Minority Ethnic colleagues in senior roles by 2025
- We will maintain our £25.5 million contribution to foundations in 2021
- We will support regional regeneration, including launching the 'Regional Housing Growth Initiative'
- We will support financial inclusion by providing banking to potentially excluded groups of people

Strategic Review 2021: Building the UK's preferred financial partner
pages 36 to 45

Chair's statement continued

Our colleagues and culture

The sheer amount of change that people have coped with during 2020 is phenomenal and the role of our colleagues cannot be understated. I have heard of so many wonderful examples of colleagues supporting each other and our customers, and the empathy and dedication our colleagues have shown is a testament to the Group.

COVID-19 is likely to change ways of working beyond what we ever thought was possible with more virtually-connected, remote working teams and fewer offices. Also, employees' expectations are evolving with over 77 per cent of our colleagues, who are currently working from home, indicating in recent colleague surveys that they would like to work from home three or more days per week. All this requires companies to rethink the way they manage their business and, given that we want to be an employer of choice, attracting the best staff, this hybrid approach is likely to be increasingly prevalent.

The Board and senior management have a vital role to play in shaping and embedding a healthy corporate culture. With this in mind, creating structures which put customers at the heart of decision-making has been a major focus for the Board's attention over the last few years. During the pandemic, there has been increased focus on ensuring customers are supported appropriately and the Board is determined that this will continue. More information on the Board oversight of our culture journey can be found on page 92 of our Annual Report and Accounts.

The values and standards of behaviour we set are an important guiding influence and we are determined to address and learn from historic failures, including those at HBOS Reading which occurred before Lloyds acquired HBOS in 2009. An independent re-review of compensation for those impacted is currently being progressed and we await the outcome of the Dame Linda Dobbs' review on the Group's handling of the issue. We are already implementing lessons learnt so far and are committed to ensuring all those impacted are treated fairly and compensated appropriately.

There are strong links between governance and establishing a culture that supports long-term sustainable success and I am keen to ensure the Group continues to build a strong reputation in this area.

While the Group was the first FTSE 100 company to set targets to increase both gender and ethnic diversity at senior levels, the Board recognises that there is always more that can be done to ensure a diverse workforce. The Board was therefore pleased to endorse a Race Action plan in support of Black colleagues to drive cultural change, recruitment and progression across the Group. Further information about the Race Action plan can be found on page 25.

The Big Conversation – Helping Britain Recover

Lloyds Banking Group has brought together more than 900 businesses, community members, policy makers and subject-matter experts across the UK's nations and regions to explore how we can help the UK recover from the impact of coronavirus.

Conversations have covered a range of topics, from accessing the finance and skills to support the recovery journey, to the opportunities brought about by an increasingly digital economy. Conversations also revealed a shared view of what the critical priorities should be for policy-makers to emerge with an economy that is both more resilient and more sustainable.

We've partnered with the Confederation of British Industry (CBI), bringing the voices and experience of its 190,000 members to the conversation.

Scan the QR code to read the report

Remuneration

Protecting our colleagues and recognising their efforts to support our customers during this unprecedented year has been important to the Group. We were able to confirm to all full-time and part-time permanent colleagues that they would continue to be paid their contracted hours as normal, no matter what their role, how the outbreak affected what they did for the Group or what their personal circumstances were, and did not take any Government funding to pay colleagues.

We have a duty to support our customers, colleagues and communities during this uncertain time and we believe the changes we made to our pay and absence policies during the course of 2020 have ensured that our colleagues received the support they needed during such a challenging year.

Given the financial performance of the business, we were not able to pay any bonuses for 2020, but to ensure that the support shown to customers was appropriately recognised, we made a one-off recognition award to 40,000 colleagues, predominantly those in customer-facing roles and are awarding all colleagues a £400 share award to motivate delivery of the next phase of our strategy. In addition, the vast majority of colleagues will receive an above inflation pay increase this year with larger relative increases for lower grade colleagues. As a result, the total package for the vast majority of customer-facing colleagues was largely unchanged in the year.

We also gained shareholder approval for the 2020 Directors' Remuneration Policy at the AGM in May last year. We do however recognise that a substantial proportion of our shareholders voted against the Policy and against the Long Term Share Plan and are sensitive to concerns on remuneration in the sector. Following further engagement with our shareholders, we have therefore committed to a series of changes in how the new Policy is to be implemented and disclosed in 2021. Our new Chief Executive Officer, Charlie Nunn, has also agreed to a significantly reduced reward package. For further details, please refer to pages 115 to 142 of our Annual Report and Accounts in our Directors' Remuneration Report.

Shareholder returns

The Group's financial performance in 2020 was clearly impacted by the pandemic and the consequent challenging economic environment. Despite this we delivered a resilient financial performance and continued to make good strategic progress. Our performance continues to demonstrate the stability of our customer franchise and business model, the appropriateness of our strategy and the strength of our balance sheet.

I am also pleased to announce that the Board has recommended a final ordinary dividend of 0.57 pence per share. This is the maximum dividend we were able to recommend given current regulatory constraints. Going forward our capital position remains strong and we remain committed to future capital returns.

Group Chief Executive

One of my first actions when I joined the Group was to recruit a new Group Chief Executive and I was delighted to be able to announce in November the appointment of Charlie Nunn. Charlie will, subject to regulatory approval, join the Group in August 2021 from HSBC and brings with him significant operational, technology and strategic expertise. I am personally excited about Charlie's vision for the Group, as well as his passion for our commitment to Helping Britain Recover. The Board and I look forward to working with him to ensure the success of the next stage of development of the Group.

On 30 April 2021, António Horta-Osório will retire as Group Chief Executive and Director of Lloyds Banking Group plc having led the Group for the last ten years. I would like to take this opportunity to pay tribute to the outstanding contribution that António has made to first turning round and then leading the strategic development of the Group over the last decade. His personal commitment and strong vision have driven a period of substantial and successful change in the Group, restoring Lloyds to its pre-eminent position as the UK's leading financial services provider. During his tenure, he has overseen a comprehensive transformation of the Group's balance sheet, operations, and customer propositions, including the repayment of the UK Government's £21 billion investment and evolution of the Group into the UK's largest digital bank.

As previously indicated, the Board has agreed that during any interim period between António Horta-Osório stepping down and Charlie Nunn joining the Group, William Chalmers, Chief Financial Officer will, subject to regulatory approval, take on the role of acting Group Chief Executive in addition to his ongoing responsibilities as Chief Financial Officer, with the support of Alan Dickinson and myself. It will be critically important to maintain momentum during this period and arrangements will be made to support William in this role and manage his wider responsibilities appropriately.

Board changes

We have a strong, diverse and experienced Board, which proved its effectiveness throughout the year. A number of Board changes have been seen during the year, as outlined below.

As disclosed in last year's annual report, Catherine Woods joined the Board as a Non-Executive Director in March. In May, Anita Frew retired as Deputy Chair and Non-Executive Director, having served 9 years on the Board. Alan Dickinson succeeded Anita as Senior Independent Director and also took on the role of Deputy Chair, bringing his significant Board, financial and regulatory experience to these roles. In addition, Nick Prettejohn took on the role of Chair of the Board Risk Committee on an interim basis in May, with Catherine Woods taking over from Nick from 1 January 2021.

In addition, during September 2020 both Simon Henry and Juan Colombás retired from the Board. Sarah Legg assumed the role of Chair of the Audit Committee in October.

Introducing our new Group Chief Executive Charlie Nunn

Charlie Nunn will, subject to regulatory approval, join the Group in August 2021, as our new Group Chief Executive. He was previously the Global Chief Executive of Wealth and Personal Banking at HSBC. Charlie has had a long and successful career in financial services. He began as a management consultant at Accenture where he worked for 13 years in the US, France, Switzerland and the UK. He then moved to McKinsey & Co. as a Senior Partner for five years, joining HSBC in 2011.

At HSBC, he has held a series of leadership positions including Global Chief Operating Officer of Retail Banking and Wealth Management, Group Head of Wealth Management and Digital, and Chief Executive of Retail Banking and Wealth Management before taking on his most recent role.

In addition Lord Blackwell retired from the Board on 1 January 2021 having been a member of the Board for nearly nine years and Chairman since April 2014. He has been instrumental in helping turn the business around since the financial crisis and refocus the business on Helping Britain Prosper. I must thank him for his strong stewardship during this period and sage advice since I joined the Board.

Also, as recently announced, Sara Weller will have served 9 years as a Non-Executive Director in February 2021 and accordingly plans to retire as Chair of the Responsible Business Committee and a Non-Executive Director at the AGM in May 2021. Amanda Mackenzie will take on the role of Chair of the Responsible Business Committee following Sara's retirement from the Board and Sarah Legg has been appointed as a member of the Responsible Business Committee with effect from 1 February 2021.

Full details of the changes are provided in the Nomination and Governance Committee Report on pages 98 to 100 of our Annual Report and Accounts.

Summary

In summary, what is very clear, is that we are operating in an increasingly dynamic and competitive market. Only by truly focusing on the needs of the customer and embracing technology will banks be successful.

Given significant investment and transformation in recent years we are well positioned with strong foundations to support our response to the evolving banking landscape. We intend to further build and adapt our compelling offering for customers, while at the same time delivering a positive societal impact and long-term superior and sustainable returns for shareholders.

I would like to end by reiterating my thanks to our colleagues for their significant contribution in 2020. It is the commitment, innovation and dedication from all of them that enables us to deliver for our customers and shareholders. There are difficult times and more change ahead, both this year and beyond, however we will do our best to fulfil our role in the country's recovery.

Lloyds Banking Group will Help Britain Recover and Help Britain Prosper again.

Robin Budenberg

Robin Budenberg
Chair

Group Chief Executive's review

Continued strategic progress while supporting customers and colleagues in difficult times

Coronavirus has had a profound impact on our lives and the economy but the Group has delivered a resilient performance with continued strategic progress.

António Horta-Osório
Group Chief Executive

The impact of the coronavirus pandemic on the people, businesses and communities in the UK and around the world in 2020 has been profound. Many countries, including the UK, have seen unprecedented levels of economic contraction as a result of lockdown measures, as well as comprehensive and co-ordinated Government support measures. In this environment, we remain absolutely focused on working with all our stakeholders to support our customers and ensure a sustainable recovery.

The Group's successful ongoing transformation, continued investment and growing franchise strength positioned us well to face the pandemic. In response to the challenging economic environment, we provided around 1.3 million payment holidays on mortgages, loans, credit cards and motor finance products while we also set up dedicated phone lines for customers over 70 years old and for customers who are working on the frontline in the NHS. We are also providing significant support for our business clients, providing more than £31 billion of gross lending to small and medium sized businesses, including Government-backed lending. Within Insurance and Wealth, we have supported the NHS by providing free additional insurance cover to its workers and by alleviating pressure on GPs with a reduction in medical evidence required for insurance claims.

The Group has benefited from its multi-brand, multi-channel distribution model during the pandemic, as we have been able to continue serving customers through the UK's leading digital bank, the largest branch network in the UK and our telephony centres. I am particularly pleased with how quickly the Group adapted to the initial lockdown and how well our digital banking proposition has performed in a period of significantly heightened usage.

Our infrastructure has been highly resilient, with around 90 per cent of our branches remaining open while our digital channels have performed well, attaining record levels of customer satisfaction despite significantly increased usage.

Once again I would like to express my gratitude to all of our colleagues for their resilience, dedication and hard work throughout 2020. Our people have retained their clear focus on supporting their customers and Helping Britain Prosper in very challenging circumstances. I am proud of everything the Group has done to support the UK economy in 2020. This would not have been possible without the exemplary dedication of our colleagues.

Given our clear UK focus, the Group's financial performance is inextricably linked to the health of the UK economy and thereby the impact of the coronavirus pandemic. Significant uncertainties remain relating to the pandemic, the third national lockdown and the speed and efficacy of the vaccination programme. Nonetheless, the Group's purpose, unique business model, competitive advantages and ambitious strategic evolution will ensure that it will be able to Help Britain Recover from the crisis whilst delivering long-term sustainable returns for our shareholders.

Financial performance

In the context of the pandemic, statutory profit after tax was £1.4 billion. This was 54 per cent lower than 2019 and earnings per share of 1.2 pence were down 66 per cent. Lower profits were significantly due to the impairment charge of £4.2 billion in 2020 (2019: £1.3 billion), primarily reflecting the deterioration in the economic outlook. Trading surplus of £6.4 billion was down 27 per cent on 2019, reflecting continued revenue pressures partly offset by lower total costs. Our relentless focus on cost efficiencies has led to a 4 per cent reduction in operating costs despite absorbing additional coronavirus-related expenses during 2020.

Loans and advances were broadly in line with prior year at £440.2 billion. Growth in the open mortgage book of £7.2 billion, including £10.2 billion in the second half of the year, and £11.1 billion (£12.4 billion approved at 12 February 2021) of Government-backed lending more than offset lower unsecured Retail balances and other Corporate and Institutional lending, as well as the continued reduction in the closed mortgage book.

The Group's capital position remains strong with a CET1 ratio of 16.4 per cent before allowing for ordinary dividends and 16.2 per cent after dividends, both ahead of the Board's ongoing target of c.12.5 per cent, plus a management buffer of c.1 per cent. Given our strong capital position at the year end and the regulator's clarification that banks may resume capital distributions, the Board has recommended a final ordinary dividend of 0.57 pence per share, the maximum allowed under the Prudential Regulation Authority's temporary framework on 2020 distributions.

2018 TO 2020 STRATEGIC HIGHLIGHTS

Leading customer experience

>17 million
digitally active customers

>12 million
mobile app users

67
digital net promoter score, a year end record high

Digitising the Group

78 per cent
of cost base covered by digitisation

>£4 billion
cumulative technology spend 2018-2020

Maximising Group capabilities

>£6 billion
of net lending to start-ups, SMEs and Mid Market customers

1.5 million
additional pension customers

>6 million
customers able to see their banking, insurance and pension products in one place through Single Customer View functionality

Transforming ways of working

5.3 million
cumulative additional future skills training hours delivered

65 per cent
of change delivered by agile methodologies

Read more on pages 18 and 19

Strategic progress

The Group's previous three-year strategic plan was launched in February 2018 and we have now achieved our ambitious target of transforming the Group for success in a digital world by investing £2.8 billion across our four strategic pillars.

Leading customer experience

In 2020, we successfully built on our track record of improving customer propositions, even in the context of our focus on supporting our customers and ensuring operational resilience during the coronavirus crisis. The pandemic has accelerated the shift towards digital for everyday banking needs. We are the largest digital bank in the UK and have seen our digitally active customer base increase to 17.4 million customers, while our active mobile app users have increased by nearly two million in 2020 to 12.5 million customers. At the same time, we have continued to enhance our digital propositions, with a focus on convenience and control. As a consequence, we have seen our digital customer satisfaction scores improve to a year end record high of 67.

Alongside creating the UK's leading digital bank, we have maintained the UK's largest branch network. We have managed to keep around 90 per cent of our branches open during the coronavirus pandemic, using appropriate safeguarding measures. In addition, we have maintained our ATM network at over 95 per cent capacity and have set up dedicated telephone lines our customers over 70 years old and those working on the frontline in the NHS.

Digitising the Group

We have accelerated the digitisation of the Group by progressively modernising and simplifying the IT architecture, continuing to digitise customer journeys and migrating applications to private cloud. We have now digitised 78 per cent of the Group's cost base, ahead of our GSR3 target of 70 per cent. With cumulative technology spend of more than £4 billion over GSR3, our ongoing focus on transforming the business and investing in digital enabled us to respond effectively to the accelerated shift to digital channels brought about by the coronavirus pandemic. The proportion of products originated via digital channels increased significantly in 2020, up 10 percentage points to 85 per cent, our highest level to date.

Despite this significant progress, we are only just starting to see the transformation that technology is enabling. Customers will increasingly expect to interact with us in a more effective, agile and personalised way. To compete effectively against new entrants and respond to these evolving customer expectations, we need to continue to transform how we work, replace some of our legacy systems and enhance our use of data across the business. Some of this development will be internal but we will also increasingly use partnerships with specialist technology and fintech providers.

Maximising Group capabilities

We have actively supported our Commercial Banking clients through the pandemic, exceeding our £6 billion target for increasing net lending to start-ups, SME and Mid Market clients over the last three years. Outside of our support for the Government lending schemes, in 2020 we also achieved our £18 billion commitment for gross lending to UK businesses.

In 2020 we increased the number of customers with access to our unique Single Customer View capability by c.1.5 million to c.6.5 million. We also expanded the scope of Single Customer View to include Halifax Share Dealing so that customers with this functionality are now able to view their pensions and investment portfolios alongside their banking products. We have seen cumulative growth in open book assets under administration of £46 billion, or 69 per cent, over the GSR3 period to £113 billion, only narrowly missing the £50 billion growth target despite challenging market conditions.

Transforming ways of working

The coronavirus pandemic is having significant implications for our colleagues, in both their personal and professional lives. These include accelerating the transition to new ways of working for the majority of the Group and accentuating the skills that we have sought to develop over the course of GSR3. Since March 2020, more than 50,000 colleagues (over 70 per cent of our workforce) have worked remotely and we have increased our adoption of remote working tools to greatly increase collaboration and support more agile working practices.

In 2020 we delivered an additional 2.1 million training hours to develop the skills for the future, taking the total to 5.3 million hours over the course of GSR3, ahead of our target. In addition, the proportion of change programmes delivered using agile methodologies has increased to 65 per cent over the course of GSR3, ahead of our target of 50 per cent.

Our 2020 Colleague Survey received almost 50,000 responses and showed positive increases in all main areas, including overall engagement up 7 percentage points to 81 per cent. This reflects the highest level since measurement started in 2011 and is above the UK high-performing norm.

Group Chief Executive's review continued

Strategic Review 2021

Today's environment continues to evolve and provide new challenges. The macroeconomic environment remains uncertain, whilst we are witnessing increasing societal expectations, an accelerated shift to digital and new technology capabilities in the context of the pandemic driving a step change in ways of working.

Throughout 2020 the management team, in conjunction with the Board, have worked on developing an evolution of our strategy to address these issues. We have made significant progress in recent years, leveraging the unique strengths and assets of the Group, including our purpose driven and customer focused business model, our low risk approach to business, our market leading efficiency and our leading multi-channel propositions, including the largest digital bank and branch network in the UK. This has created the platform for Strategic Review 2021, the next stage of our journey.

The Group has a clear purpose of Helping Britain Prosper, which drives our strategy. Given the pandemic and the challenging macroeconomic environment, our focus for 2021 is Helping Britain Recover. This is in the context of delivering co-ordinated growth opportunities by building the UK's preferred financial partner for personal customers and the best bank for business. Delivery of the Group's customer focused ambitions in our two main segments, will be underpinned by the enhancement of four core capabilities within our business. These capabilities focus on delivering a modernised technology architecture, building an integrated payments platform, creating a data-driven organisation and implementing reimagined ways of working. Strategic execution in 2021, supported by increased investment, is underpinned by long-term strategic vision in these customer segments and capabilities.

Helping Britain Prosper

We recognise that the focus of the Group's purpose must evolve in response to the current environment with changing societal and customer needs and expectations. Given our focus on the UK, we are dedicated to helping our customers, clients, colleagues and communities get through the coronavirus pandemic and rebuild livelihoods, whilst delivering long-term sustainable success for shareholders. Our core values underpin our purpose to Help Britain Prosper. With this in mind, our focus for the near-term will be to Help Britain Recover.

We are committed to supporting a sustainable recovery which supports all of the people and regions in our society. In 2021, we will Help Britain Recover by concentrating on five key areas where we can make the most difference, all of which are embedded in our business strategy. This is discussed further in the Strategic Review 2021 section.

- Help rebuild households' financial health and wellbeing
- Support businesses across the UK to recover, adapt and grow
- Expand availability of affordable and quality homes
- Accelerate the transition to a low carbon economy
- Build an inclusive society and organisation

The Group is committed to helping the UK transition to a sustainable low carbon economy. We continue to make progress in implementing our financed emissions reduction ambition on the path to net zero by 2050 or sooner, working with customers, Government and the market to help reduce the emissions we finance. In so doing, we are also focusing on enhancing our green finance products and services. This includes supporting renewable energy projects since the start of 2018 that could power the equivalent of 10.1 million homes, more than doubling the number of electric vehicles we finance, raising around £2.9 billion funding in green and sustainable bonds for our clients since 2016 and offering pensions to our customers and colleagues with sustainable investment choices.

We are working hard to tackle social disadvantage across Britain. In 2020, the Group's four independent charitable Foundations received £25.5 million of funding, enabling them to continue their work in supporting nearly 2,800 charities. These charities tackle vital issues such as domestic abuse, mental health, modern slavery and human trafficking, and employability. The Group has committed to maintain its £25.5 million funding to the Foundations in 2021, ensuring that these charities can secure a more certain future during these difficult times and safeguard their important work.

Our ongoing commitment to helping people save for the future is key to developing social mobility and we have increased the open book assets that we hold on behalf of customers in retirement and investment products by £46 billion since the start of 2018.

As the UK's largest mortgage lender, we recognise the vital importance of helping Britain get a home. We have provided close to £9 billion of finance for the social housing sector and lent c.£40 billion to first-time buyers over 2018 to 2020.

Building capability and digital skills was more important in 2020 than ever, given the need for customers to access services during periods of lockdown. We have now facilitated digital training for 1.8 million individuals, SMEs and charities since the start of 2018 and delivered over 12,500 devices to customers, enabling them to safely book medical appointments, connect with family and access internet banking facilities.

Supporting businesses to start up and to grow is fundamental to Helping Britain Recover. We have now helped over 265,000 businesses start up since the beginning of 2018 and trained over 1,200 apprentices through our investment in the Lloyds Bank Advanced Manufacturing Training Centre since the beginning of 2018.

The Group launched The Big Conversation: Helping Britain Recover in September 2020, a national programme of events which brought together more than 900 businesses, community members, policy makers and subject-matter experts across the UK's nations and regions to explore how we can together help the UK recover from the impact of coronavirus and build a more resilient and sustainable economy.

We are championing Britain's diversity and in 2020 launched our Race Action plan. This makes the Group the first FTSE 100 company to make such public commitments, including a new goal to specifically increase Black representation in senior roles to align with the overall UK labour market. We also published our first Ethnicity Pay Gap Report, made progress on gender diversity and published our annual Gender Pay Gap Report.

Further information on our approach to environmental, social and governance issues can be found in our 2020 Environmental, Social and Governance Report, available on the Group's website.

Management change

It is with mixed emotions that I will step down as Group Chief Executive at the end of April. It has been a great honour to work alongside all of my colleagues and achieve the remarkable transformation of the past ten years, but now is the right time to move on, following my announcement last July.

Charlie Nunn will be the next Group Chief Executive. He was previously the Global Chief Executive of Wealth and Personal Banking at HSBC and has had a long and successful career in financial services. Charlie will find a warm welcome at Lloyds Banking Group and a deep commitment from all of our people to deliver on our purpose and to Help Britain Recover. I am sure that he will find his time here as fulfilling and fascinating as I have done and I wish him the very best.

Outlook

The impact of the coronavirus pandemic on the people, businesses and communities in the UK and around the world continues to be profound. Significant uncertainties remain, specifically relating to the pandemic and the speed and efficacy of the vaccination programme. I remain confident that the Group's clear purpose, unique business model, significant competitive advantages and the customer focused evolution of our strategy we have announced in Strategic Review 2021 will ensure that the Group is able to Help Britain Recover and in so doing, help transition to a sustainable economy.

The Group faces the future with confidence. This is reflected in our guidance for 2021, based on our current macroeconomic assumptions:

- Net interest margin to be in excess of 240 basis points
- Operating costs to reduce further to c.£7.5 billion
- Net asset quality ratio to be below 40 basis points
- Improving profitability with statutory return on tangible equity of between 5 and 7 per cent (on the new basis)
- Risk-weighted assets in 2021 to be broadly stable on 2020
- Intention to accrue dividends and resume progressive and sustainable ordinary dividend policy

I would like to again express my thanks to all of my colleagues, without whom the Group's customer focus, resilient financial performance and significant strategic transformation, achieved in very challenging circumstances, would not have been possible.

António Horta-Osório
Group Chief Executive

KEY MILESTONES FOR THE GROUP IN THE PAST DECADE

2011

António joined the Board and launched the first Group Strategic Review
First Group Strategic Review with the clear aim to become the best bank for customers.

Developed a clear strategic focus
António set out a clear focus on becoming a simple, low risk, customer focused UK bank with significantly reduced risk-weighted assets, lower reliance on short-term funding, strong asset quality and capital levels, and a new executive team.

The strategy focused on supporting the real economy of the UK, in the retail, commercial and insurance areas.

2014

Launch of Helping Britain Prosper Plan, and Group Strategic Review 2
Alongside the next phase of the strategy, the Group launched the Helping Britain Prosper Plan to address some of the social, economic and environmental challenges facing the UK. The Plan took us beyond business as usual, uniting the Group behind an inspiring set of objectives.

Recognising the importance of digital
We became the first UK bank to have a digital division, reporting directly to the Chief Executive.

First dividend in six years announced
Returning the Group to profitability with over £12 billion to date returned to shareholders since dividends were resumed in 2014.

2017

Mental Health UK

Completion of the Group Strategic Review 2
GSR2 enabled the Group to become the largest digital bank in the UK while delivering a simple, low risk, customer focused, UK retail and commercial bank.

Partnership with Mental Health UK
Drawing on his own personal experiences, António shone a spotlight on the importance of good mental health, both within the Group and across the UK corporate world, helping to break down stigmas.

The Group has raised over £13 million for Mental Health UK to date.

Lloyds Banking Group returns to private ownership
In May 2017, the Government completed the sale of their shares and the Group returned to private ownership.

Launch of Group Strategic Review 3

2020

Completion of the Group Strategic Review 3
An ambitious plan, with significant additional investment, successfully delivered a leading customer experience; further digitised the Group; maximised the Group's capabilities; and transformed ways of working.

Largest digital bank in the UK
17.4 million digitally active customers and 12.5 million mobile app users, alongside the largest branch network in the UK.

Launch of Strategic Review 2021

Overview: Transformed the business from 2011 to 2020

- Built the largest digital bank in the UK while maintaining the largest branch network
- Simplified, UK-focused business model with presence in 6 countries, down from 30 countries in 2011
- Committed to Helping Britain Prosper and deepening our support for communities across the UK
- Significant improvement in customer satisfaction levels
- Integrated multi-brand, multi-channel model
- Significant dividends for shareholders and full repayment to the taxpayer
- Delivered a financially strong business with lower costs as a competitive advantage and superior levels of investment
- Targeted and strategic growth
- Led the conversation on mental health in the workplace
- Increasingly engaged workforce
- First FTSE 100 company to set a public goal on gender diversity in 2014 and 2018, the first FTSE 100 company to target an increase in the proportion of Black, Asian and Minority Ethnic colleagues

Our business model

How we create value, and what sets us apart

OUR PURPOSE

Helping Britain Prosper

The Group has a clear ongoing purpose of Helping Britain Prosper, and given the considerable impact of the pandemic, the current focus is on Helping Britain Recover.

We aim to help our customers, clients, colleagues and communities get through the crisis and back on their feet, while delivering long-term sustainable success for shareholders.

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 GROUP

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
blackhorse
SCOTTISH WIDOWS
LEX AUTOLEASE
Schroders personalwealth
mbna
BM BIRMINGHAM MIDSHIRES
LDC
AMC
IWEB

OUR BUSINESS MODEL

We are a customer focused, sustainable, efficient and low risk UK financial services leader with distinctive capabilities

As we enter the next phase of our strategy we will build on these capabilities and accelerate the Group's transformation to become the UK's preferred financial partner

Multi-brand, multi-channel proposition with the UK's largest digital bank and branch network

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.

Differentiated and sustainable customer franchise with leading integrated propositions

Our scale and reach across the UK means that our franchise extends to over 25 million customers, with 17.4 million digitally active. We are uniquely positioned to serve our customers' banking, insurance and wealth management needs in one place through a comprehensive product range informed by customer analysis and insight.

Market leading efficiency through tech-enabled productivity improvements

Our simpler operating model and continued focus on efficiency provide a cost advantage, enabling us to invest more to the benefit of both customers and shareholders.

Prudent, low risk business 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

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

Purpose-driven and customer focused culture

Our clear purpose of Helping Britain Prosper is driving the business and our current focus on Helping Britain Recover is at the heart of our evolution of strategy.

Inclusive and diverse organisation

Being one of the largest employers in the country, we will further focus on developing an inclusive, diverse, skilled and future-ready workforce.

Creating competitive advantages

We believe that these capabilities provide significant competitive advantage. The Group's significant investment in transformation and digital in recent years, enabled by our efficiency, has positioned us well. Continued investment will remain important to further build this advantage and enable us to continue to deliver for customers while also delivering sustainable and superior returns over the longer-term, as outlined on the accompanying diagram.

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 discussed on pages 32 to 35

- Unprecedented societal demands
- Macro economic environment to remain challenging and uncertain
- Accelerated shift to digital and new capabilities
- Step change in ways of working

We also face a number of internal challenges:

- Repositioning and growing the business to deliver revenue generation and diversification
- Meeting demand for more personalised value added solutions
- Using technology to deliver step change in efficiency and agility
- Attracting, developing and retaining the best talent to respond to new ways of working

We recognise these challenges to our business model and strategy and regularly review the associated risk implications, to enhance our sustainability over the longer-term. For further details on the risks associated to our strategy, please refer to pages 56 to 59.

Key performance indicators

Resilient business model in a challenged economic environment

Our performance

2020 was a difficult year, with the effects of the coronavirus pandemic and lower interest rates impacting our financial performance, in line with the banking industry as a whole.

Although the economic outlook remains uncertain, our financial strength and business model will ensure that the Group can continue to support its customers and Help Britain Recover.

Pay for performance across the Group

Key performance indicators are regularly reviewed by the Board and the Group Executive Committee, to evidence performance against the Group's most important priorities. These include measures for assessing financial and non-financial performance, balancing the interests of various stakeholders including customers, shareholders and colleagues.

To ensure colleagues act in the best interests of customers and shareholders, variable remuneration at all levels across the Group is aligned to these priorities and takes into account the Group's financial performance and specific conduct and risk management controls.

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

In 2021

Further to stakeholder feedback we are looking to further simplify and enhance the single balanced scorecard used for performance assessment, the bonus (Group Performance Share) and the Long Term share plan in 2021. The new balanced scorecard has been aligned to our strategic priorities and has been structured to incentivise the right behaviours and results. The weighting for financial performance has been increased to 50 per cent while the number of measures in the balanced scorecard has been reduced from 15 to 7 to ensure greater focus and simplicity.

Our 2021 balanced scorecard

Financial (50%)
- Statutory Profit After Tax (20%)
- Statutory ROTE (20%)
- Operating Costs (excl. remediation) (10%)

Strategic (50%)
- Reducing operational carbon emissions (7.5%)
- Increasing our gender and ethnic representation in senior roles (7.5%)
- Group Customer Dashboard – our assessment of how effectively we are serving customers across all brands, products and services (25%)
- Colleague engagement – our performance relative to external benchmark scores (10%)

FINANCIAL

Underlying profit before tax

£m

2,193

2020	2,193
2019	7,531
2018	8,066
2017[1]	7,628
2016[1]	6,782

Underlying profit before tax was lower in 2020, 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

1,387

2020	1,387
2019	3,006
2018[1]	4,506
2017[1]	3,649
2016[1]	2,605

Statutory profit after tax was lower in 2020, largely due to increased impairment charges and lower income.

1 Restated to reflect amendments to IAS12.

Ordinary dividend

p per share

0.57

2020	0.57
2019	1.12
2018	3.21
2017	3.05
2016	2.55

Ordinary dividend per share, given the Group's strong capital position dividends have resumed at the maximum allowed under the Prudential Regulation Authority's temporary framework on 2020 distributions.

Statutory return on tangible equity

%

3.7

2020	3.7
2019	7.8
2018	11.7
2017	8.9
2016	6.6

The statutory return on tangible equity was lower in 2020 given the lower statutory profit, largely due to increased impairment charges and lower income.

In 2021, to aid comparability with peers, we will report return on tangible equity without adding back the post-tax amortisation of intangible assets.(2020 return on tangible equity would have been 2.3 per cent on the new basis).

Cost:income ratio

%

55.3

2020	55.3
2019	48.5
2018	49.3
2017	51.8
2016	55.3

The Group's cost:income ratio deteriorated in the year, driven by lower income, but remains market leading.

In 2021, this key performance indicator will be replaced by operating costs (excl. remediation). This will align to our 2021 balanced scorecard.

Common equity tier 1 ratio (CET1)

%

16.2

2020	16.2
2019[1]	13.8
2018[1]	13.9
2017[1]	13.9
2016[1]	13.0

Ongoing target: c.12.5 per cent plus a management buffer of c.1 per cent

Our common equity tier 1 ratio remains strong and is significantly in excess of our current target and regulatory requirement.

1 Reported on a pro forma basis, reflecting the dividend paid up by the Insurance business and declared share buybacks in 2017 and 2018.

Economic profit
£m

688

2020		688
2019		3,138
2018		3,291
2017		3,987
2016		3,377

Economic profit, a measure of profit taking into account expected losses, tax and a charge for equity utilisation. Economic profit in 2020 was impacted by lower net income received in the year.

2020 basis has been amended in line with changes to reward scheme performance measures, on equivalent basis to prior years 2020 economic profit would be £1,197 million

Total shareholder return
%

(42)

2020		(42)
2019		27
2018		(20)
2017		14
2016		(10)

Total shareholder return reflects share price performance and dividends paid. Our share price decreased significantly in 2020, in line with other UK banks, with no dividend payable in the year given the regulatory restrictions.

NON-FINANCIAL

Customer satisfaction
(all channel net promoter score)

68.0

2020		68.0
2019		66.0
2018		63.4
2017		65.0
2016		62.7

Our all channel net promoter score measures the customer perception of day-to-day services across our channels. In 2020, we have seen record satisfaction with an uplift of 2 year-on-year. This encompasses positive contributions from Branch and Digital, with customers appreciating the service provided.

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

Historical scores restated to reflect changes in measurement approach

Digitally active customers
£m

17.4

2020		17.4
2019		16.4
2018		15.7
2017		13.4
2016		12.5

Reflecting the pace of digital adoption, the number of active digital customers increased in the year to 17.4 million, with 12.5 million mobile banking app customers and average customer logons at 26 times per month.

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

2.6

H1 2020		2.6
H2 2019		3.0
H1 2019		2.9
H2 2018		3.4
H1 2018		3.9

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**.

H2 2020 data not available at time of publishing.

Employee engagement index
% favourable

81

2020		81
2019		74
2018		73
2017		76
2016		71

Employee engagement is at an all time high and was six points above the norm for top performing UK companies with increases in scores for advocacy, pride and satisfaction. Colleagues were also positive about their wellbeing, process improvements and performance management. Preferences on working arrangements were also captured in our Autumn survey and will inform future working styles.

This indicates how much progress we are making in **transforming ways of working**.

Helping Britain Prosper Plan targets achieved

17/22

2020		17/22
2019		20/22
2018		20/22
2017		21/22
2016		20/24

We have made strong progress since we launched the Plan in 2014. In 2020, we have seen the impact of the pandemic reflected in our Helping Britain Prosper plan performance with selected areas unable to reach their targets. This has resulted in the Group achieving 17 out of 22 targets for 2020. Find out more on pages 20 to 31.

Green finance
£bn (cumulative)

>7.3

2020		>£7.3
2019		>£4.9

In 2020, we provided over £2.3 billion of green finance in Commercial Banking, through our Clean Growth Finance Initiative, Commercial Real Estate Green Lending Initiative, Renewable Energy Financing and Green Bond facilitation. This increased our total green finance to over £7.3 billion since 2016. In addition, we have supported clients with over £1.8 billion of Sustainability Linked Loans since 2017.

Our progress in building a sustainable and responsible business

2018 – 2020: What we have achieved over the last three years

2018 – 2020

Group Strategic Review 3 priorities

We have invested around £2.8 billion in our strategic priorities across four pillars over the past three years, with this investment helping us deliver significant progress in our ongoing transformation of the Group for success in a digital world.

Leading customer experience

- The largest digital bank in the UK, with our digitally-active customer base of 17.4 million up over 30 per cent since 2017
- Maintained the UK's No.1 branch network
- Improved customer satisfaction, with digital net promoter score increasing by 2 per cent vs. 2017 to an all-time high of 67

Read more on page 18

Maximising Group capabilities

- Over £6 billion of net lending to start-ups, SMEs and Mid Market customers since 2018, comfortably exceeding our cumulative 3 year target
- 1.5 million new pension customers
- £46 billion cumulative growth in open book assets under administration since the end of 2017, despite challenging market conditions during 2020

Read more on page 19

Digitising the Group

- 78 per cent of cost base covered by digitisation, while progressively modernising and simplifying our IT architecture
- >£4 billion cumulative technology spend 2018 - 2020

Read more on page 18

Transforming ways of working

- 5.3 million cumulative additional future skills training hours delivered
- 65 per cent of change delivered by agile methodologies

Read more on page 19

2018 – 2020

Our Helping Britain Prosper priorities

Addressing some of the social, economic and environmental challenges facing the UK was the foundation of our Helping Britain Prosper Plan. Below are the impacts achieved since 2018 against our seven priority performance areas. Further information on progress in each of the priorities can be found on **pages 20 to 31** and in our 2020 Lloyds Banking Group ESG Report.

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

10.1 million

Read more on **pages 20 to 23**

Tackling social disadvantage across Britain

Number of charities we supported in 2020 as a result of our £100 million commitment to the Group's independent charitable Foundations

2,787

Read more on **page 29**

Helping people save for the future

Growth in open book assets that we hold on behalf of customers in retirement and investment products[3]

£45.6 billion

Read more on **page 28**

Helping Britain get a home

Amount of lending committed to help people buy their first home

£39.7 billion

Read more on **page 27**

Building capability and digital skills

Number of individuals, SMEs and charities trained in digital skills, including internet banking

1.8 million

Read more on **page 28**

Supporting businesses to start up and grow

Increased amount of net lending to start up, SME and Mid Market businesses

>£6 billion

Read more on **page 27**

Championing Britain's diversity

Percentage of senior roles held by women in 2020

37 per cent[1]

Read more on **pages 25 to 26**

Percentage of roles held by Black, Asian and Minority Ethnic colleagues in 2020

10.6 per cent[1]

Percentage of senior roles held by Black, Asian and Minority Ethnic colleagues in 2020

7.7 per cent[1]

1 2020 Indicator is subject to Limited ISAE3000 (revised) assurance by Deloitte LLP for the 2020 Annual Responsible Business Reporting

Our progress in building a sustainable and responsible business continued

2020: Progress against our strategic priorities

Progress in 2020

Leading customer experience

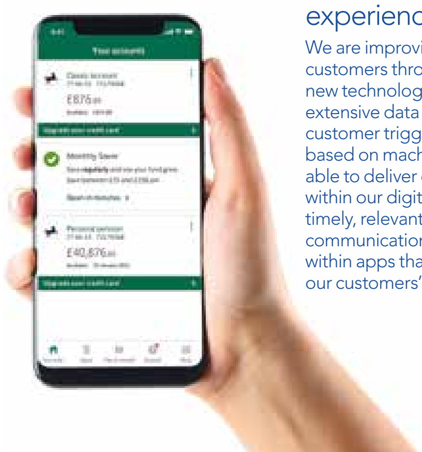
Key Objectives 2018 to 2020

- 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

In line with our purpose of Helping Britain Prosper, our primary focus during the current pandemic has been to support and do what is right for our customers. Despite this challenging backdrop, we have successfully built on our track record of strengthening our propositions and improving the experience of both our personal and business customers during the course of 2020.

Improving the experience of our personal customers
COVID-19 has accelerated the shift towards digital for everyday banking needs. We are the largest digital bank in the UK and have seen our digitally-active customer base increase by 6 per cent to 17.4 million customers, while our active mobile app users have also increased by nearly 2 million to 12.5 million customers. We have continued to enhance our digital propositions, with a focus on speed, convenience, personalisation and control. These include the broadening of our unique Single Customer View functionality to include stockbroking portfolios, biometric functionality to authorise payments through the mobile banking app, more personalised customer communication and navigation within digital apps, and enhanced control features, such as upcoming payment notifications and 'confirmation of payee' functionality, to protect against fraud. As a consequence, we have seen our digital and all channel customer satisfaction scores continue to improve and reach respective all-time highs of 67 and 68.

Improving the experience of our business customers
Business customers are also turning to digital channels for everyday needs, while continuing to value human interaction for more complex needs. We have proactively supported approximately 60,000 business customers via our Client Outreach Programme, while also improving the digital propositions available to them. Amongst other developments, we were the first bank globally to implement 'SWIFT GPI Instant' to increase the speed and transparency of cross-border payments. In addition, we launched a Green Building Tool to help customers make their properties more energy-efficient, as well as a pilot Business Finance Assistant tool designed to help clients save time on financial admin and manage their finances more effectively.



Personalising our customer experience

We are improving the experience of our customers through the combination of new technological capabilities and our extensive data insights. Using real time customer triggers and predicted needs, based on machine learning, we are now able to deliver enhanced navigation within our digital apps as well as more timely, relevant and co-ordinated communications across email, SMS and within apps that are specifically tailored our customers' individual needs

Digitising the Group

Key Objectives 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

Our ongoing focus on transforming the business and investing in digital have enabled us to respond effectively to the accelerating shift to digital channels brought about by the COVID-19 pandemic, with the benefits of this investment evidenced throughout the crisis.

Delivering for customers
The proportion of products originated via digital channels increased significantly in 2020, up 10 percentage points to 85 per cent, the highest level to date. Despite increased usage, this was not at the expense of customer satisfaction where net promoter scores reached an all-time high, as ongoing investment in systems and functionality meant that we were able to meet the increased customer demand, while also adapting our offering to make it easier for our customers to perform activities online. For example, we doubled the size of cheque scanning limits for our customers, resulting in a more than 80 per cent increase in the number of cheques deposited by our retail customers.

Continued adoption of new technologies
In addition, we have continued to increase our adoption of new technologies and these have allowed us to support our customers at pace. As an example, we have used robotics to process over 90 per cent of Bounce Back Loan applications and, through this, have created significant colleague capacity during a period of increased demand. The use of technology has also created opportunities to further improve operational efficiencies as we modernise our IT and data architecture and improve processes at the same time as prioritising our technology based investment. By the end of 2020, 78 per cent of our cost base was covered by digitisation. This compares to our original GSR3 target of 70 per cent and represents nearly a five and a half fold increase versus the equivalent figure of 12 per cent at the end of 2017. In addition, we have continued to make progress on migrating applications to cloud solutions.

Supporting our customers

Through the use of robotics over 300,000 Bounce Back Loans have been approved with a total value of over £9 billion and an approval rate of around 97 per cent

Without our robotics capability, we wouldn't have been able to provide such timely support to our customers at a time when they needed it the most.

Lloyds Banking Group colleague

Progress in 2020

Maximising Group capabilities

Key Objectives 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

We have continued to make strong progress in meeting our personal customers' growing financial planning and retirement needs, while continuing to support our Commercial Banking clients through increased lending and further customer proposition improvements.

Meeting our customers' growing financial planning and retirement needs

In 2020 we increased the number of customers with access to our unique Single Customer View capability by approximately 1.5 million to c.6.5 million, but did not achieve our original target of extending this to 9 million customers, due to our revised focus on more immediate customer priorities in light of COVID-19. We also expanded the scope of Single Customer View to include Halifax Share Dealing so that customers with this functionality are now able to view their pensions and investment portfolios alongside their banking products. Separately, we also launched an equity release product via our Scottish Widows brand, through which customers can access equity in their homes to help family members get onto the housing ladder or supplement their own retirement income. While the pandemic has caused some delays, our ambition for Schroders Personal Wealth to become a top three UK financial planning business remains unchanged, although we now expect to achieve this by 2025.

Improving the experience of our Commercial Banking clients

We have actively supported our Commercial Banking clients throughout the COVID-19 crisis. In 2020 we achieved our gross lending commitment to businesses of £18 billion and comfortably exceeded our cumulative three year target of increasing net lending to start-ups, SME and Mid Market clients by £6 billion. In addition, we extended our support for business clients who trade overseas by successfully completing the Bank's first UK Export Finance backed Export Development Guarantee transaction, participating in the completion of transactions with a total syndicated value of £4.4 billion to support clients with their trading ambitions. We have also launched a number of new client propositions. These include our Payables API proposition, 'PayTo', which has seen rapid client uptake, having processed around 500,000 transactions totalling over £2 billion over the course of the year, as well as a 25-fold increase in the value of transactions processed between the first and fourth quarters.

Improving customer experience

Our PayTo payments proposition enables our Commercial Banking clients to make single Faster Payments directly from their own systems in less than a second, via a secure, direct connection with the Bank, and without human intervention. Since launch, PayTo has processed around 500,000 transactions totalling over £2 billion, with its real-time response also enabling our clients to significantly improve their own working capital management as well as the experience of their customers.

Transforming ways of working

Key Objectives 2018 to 2020

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

The COVID-19 pandemic is having significant implications for our colleagues. These include accelerating the transition to new ways of working for the majority of the Group while also challenging the skills that we have sought to develop over the course of this strategic plan. This significant change has also increased our focus on our broader workforce proposition, ensuring our colleagues feel valued and engaged in an uncertain environment.

New ways of working

Since March, more than 50,000 colleagues have worked remotely as a result of the pandemic. In order to facilitate this and to improve colleague experiences of working from home, we have enabled the distribution of over 100,000 office items to our colleagues' homes. In addition, we increased our adoption of remote working tools to increase collaboration and support more agile working practices. At the height of the crisis, we also demonstrated significant operational agility by rapidly redeploying over 2,500 colleagues to customer support functions to respond to elevated customer demand.

In addition to physical and technological support, we have also prioritised the mental health of our colleagues in a period of significant uncertainty and change with regular check-ins throughout the year and increasing access to a number of wellbeing tools. For example, over 14,000 colleagues have made use of the mindfulness app, Headspace, for which the Group provides a free annual subscription.

Delivering the skills for the future

Despite significant levels of change during the year, we remain focused on ensuring our colleagues have the skills to deliver our longer-term transformation aims and, as such, have continued to invest in their development. We delivered an additional 2.1 million training hours to develop the skills for the future in 2020, taking the total to a cumulative 5.3 million over GSR3, surpassing our target for this strategic plan.

Delivering for each other and our customers

Throughout the year our colleagues have done a brilliant job of making the best of this situation by adapting at speed and continuing to deliver for our customers and each other. As we consider how our business can thrive in whatever the new world may look like, we're also seizing the opportunity to pause, learn from our experiences and reimagine how we all might work in the future.

I have worked for the Group for over 20 years and I have never been prouder to say that I work for Lloyds Banking Group; the support for staff (and in turn our customers) throughout the pandemic has been simply exceptional

Lloyds Banking Group colleague

Our progress in building a sustainable and responsible business continued

2020: Progress in environmental and social performance

Progress in 2020

Our Helping Britain Prosper Plan has served to unite the Group behind an inspiring set of environmental and social impact ambitions which have enabled us to provide significant support for key areas where we believed we could make the biggest difference as a Group. The Helping Britain Prosper plan is underpinned and supported by various additional Environmental, Social and Governance (ESG) performance areas which form a firm foundation for the Group to be a responsible, inclusive, ethical and sustainable company.

For the 2020 reporting period, we have included updates on our Helping Britain Prosper plan objectives as well as disclosing additional ESG aspects of our performance to reflect the evolving information needs of our stakeholders.

Our 2020 performance on our 7 priority Helping Britain Prosper areas can be identified in the following text by this indicator

Selected disclosures related to good governance practices that support conducting our business in a responsible manner are included in this report. Further disclosures related to the governance of the Group can be found on page 86 of our Annual Report and Accounts.

We have produced a supplementary ESG Report on our performance in 2020 which contains further details on all disclosures included in this section which is available on our webpage.

E S G

We have provided indicators next to each area of performance to provide the reader with clear guidance as to which aspect of our ESG performance the section supports as well as an indication of the United Nations Sustainable Development Goals (SDGs) that we support through our activities. Through both our Helping Britain Prosper Plan (HBP) and wider responsible business activities, we're actively supporting the UN's sustainable development agenda, working towards the SDGs.

- E **Environmental** Our environmental indicator relates to areas of our performance which have an environmental impact.
- S **Social** Our social indicator relates to areas of our performance indicating our management of relationships with employees, suppliers, customers, and the communities within which we operate.
- G **Governance** Our governance indicator relates to areas of performance that support good governance practices and facilitate Lloyds Banking Group being considered a responsible business.

Helping Britain transition to a sustainable low carbon economy

E S G

Highlights

- We continue to make progress in implementing our financed emissions reduction ambition on the path to net zero by 2050 or sooner, working with customers, Government and the market to help reduce the emissions we finance.
- We calculated our initial estimated view of 2018 financed emissions baseline and developed our first emissions intensity reduction ambition for the power sector.
- We continue to make progress in the implementation of the recommendations of the Taskforce on Climate-related Financial Disclosures (TCFD).
- We have developed three new operational climate pledges which will accelerate our plan to tackle climate change and apply across our operations.
- We have launched several new green finance products, tools and services in the year.

This section contains certain disclosures in alignment with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD). Additional TCFD related disclosures can be found in the Lloyds Banking Group ESG Report.

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, the UK Government's Net Zero target and Ten Point Plan for a Green Industrial Revolution; and the recommendations of the TCFD.

The economic recovery required post-COVID-19 provides a critical opportunity to drive Clean Growth and ensure that the UK's decarbonisation requirements sit at the heart of the UK's policy framework. In 2020, we joined over 200 businesses, investors and business organisations in calling on the Government to deliver a clean, inclusive and resilient recovery plan. The Group produced a separate document outlining why we believe prioritising a green recovery is critical and the priority areas we thought should feature within any economic stimulus plan.

Our strategy

Our goal and approach

As a signal of our commitment we set an ambitious goal in 2020, working with customers, Government and the market to help reduce the emissions we finance by more than 50 per cent by 2030, on the path to net zero by 2050 or sooner, which will support the UK Government's ambition and the 2015 Paris Agreement. During the course of 2020, we have calculated an initial estimate of our 2018 financed emissions baseline and we developed our first emission intensity reduction ambition for the power sector, the decarbonisation of which is critical to the UK achieving its climate targets. We will continue to develop additional sector specific ambitions throughout 2021.

In addition, the Insurance and Wealth division (excluding Wealth Private Banking) have published a target to reach net zero across our full portfolio of investments by 2050, halving their investments' carbon footprint by 2030.

More detail is provided in the metrics and targets section (see page 22).

In order to meet our overall 2030 and 2050 goals, we will continue to:

- Identify new ways to support our customers and clients with the management of opportunities and risks associated with climate change, and the transition to a low carbon economy.
- Identify, manage and disclose material sustainability and climate-related risks across the Group and their impacts on the Group and its financial planning processes, in line with the TCFD framework. This includes working with industry bodies, specialist consultancies and leading academics to develop a robust climate risk measurement capability.
- 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. To support this we have updated our operational climate pledges, setting a new net zero goal for 2030 (see page 22).

We participate in several industry initiatives and have signed up to key principles that drive action on climate change and sustainability, which are detailed in our Lloyds Banking Group ESG Report.

Recognition of activity

To address the increasing needs of our stakeholders, and to enhance our ESG disclosures we have included a full table of the Group's performance against various ESG indices, which includes our 2020 CDP (formerly Carbon Disclosure Project) rating, in the Lloyds Banking Group ESG Report.

Risk management

The Group has adopted a comprehensive approach to embedding climate-related risks into our Enterprise Risk Management Framework through:

- Creation of a new principal risk for climate risk, in order to drive dedicated focus and a consistent approach, whilst enhancing Board-level insight

Progress in 2020

OUR AMBITION

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

How we are delivering against our ambitions
In 2020, we have focused on enhancing our green finance products and services to achieve our ambitions. Examples of this include the following.

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

- Since 2018 the Group has supported renewable energy projects that could power the equivalent of 10.1 million homes, significantly exceeding our Helping Britain Prosper Plan 2020 target
- We launched several new green finance products, tools and services: a Lloyds Bank and Bank of Scotland Green Buildings Tool; a Sustainability Fixed Term Deposit and 95 Day Notice Account; and we also structured and co-ordinated the first Sterling Overnight Index Average (SONIA) Sustainability Linked Loan for Affinity Water

Homes
Be a leading UK provider of customer support for energy efficient, sustainable homes

- We launched our Green Living and Eco Home Hub for Halifax and Lloyds customers
- To support Halifax customers with the cost of green home improvements, we have also introduced a Green Living Reward under the UK Department for Business, Energy and Industrial Strategy (BEIS) Green Home Finance Innovation Fund

Vehicles
Be a leading UK provider of low emission/green vehicle fleets

- In 2020, we more than doubled the number of electric vehicles financed through our Motor Finance and Leasing subsidiaries, Lex Autolease and Black Horse

Pensions and investments
Be a leading UK pension provider that offers our customers and colleagues sustainable investment choices, and challenges the companies we invest in to behave more sustainably and responsibly

- We have launched our Responsible Investment Framework in March 2020 and our supporting Stewardship Policy
- Our Exclusions Policy focuses on companies that have failed to meet our environmental, social and governance standards, namely manufacturers of controversial weapons, UN Global Compact violators and those deriving more than 10 per cent of their revenue from thermal coal and tar sands extraction. We are currently divesting an initial £440 million from these companies, starting with those investments where we have direct control and are working to expand the application of this policy into external pooled funds that underpin our multi-asset funds as well. Early success of our engagement with one of our partner asset managers has led the investment manager to introduce an exclusions policy for all their Europe-domiciled passive funds totalling over £20 billion, leading to an additional divestment of approximately £280 million within our customer pension portfolios
- Through our shareholder investments we provide direct loans for renewable energy, including for offshore wind and solar energy
- We are also investing £2 billion of our Pension and Retirement Portfolio Pension Funds into a new fund, the ACS Climate Transition World Equity Fund, co-created with BlackRock that looks to increase investment in companies that are well prepared for the low carbon transition and to reduce exposure to those that are less so

Insurance
Be a leading UK insurer in improving the resilience of customers' lives against extreme weather exacerbated by climate change

- We continue to partner with RedArc to operate a trauma helpline that aids customers needing extra help after a traumatic claim such as a fire or flood
- We are also investing in ways to minimise the impact of flooding on our customers. For example, we continue to provide a Rapid Response Vehicle to quickly assess claims and release funds to customers in the worst affected areas

Green bonds
Be a leading UK bank in the green/sustainable bonds market

- Since the launch of this ambition in 2016, we have maintained our role as a leader for our UK corporate clients between 2016 and 2020, raising around £2.9 billion.

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

- We continue to improve the sustainability of our own operations and have recently updated our operational climate pledges (see page 22)
- This year we have calculated and disclosed the emissions associated with increased homeworking as a result of COVID-19, and sponsored a white paper in this area
- We have continued to reduce the energy and carbon intensity of our properties and have supported low carbon travel
- Our overall location-based carbon emissions were 159,487 tonnes CO_2e; a 24 per cent decrease since 2019 and 72 per cent since our 2009 baseline (legacy scope)

- Integration of climate risk into our existing principal risks, to ensure comprehensive consideration across all aspects of our business activity.

Climate Risk is included as both a principal and emerging risk this year given it is such a new and fast moving area. We continue to ensure our approach for climate risk management has suitable Board-level visibility. The Board has approved a Risk Appetite Statement for climate risk, as well as an interim metric to ensure the Group continues to progress activities at pace, supported by Board-level risk reporting.

As the understanding and importance of climate risk progresses, climate scenario analysis is becoming an essential capability and risk management tool. Scenario analysis assists the identification, measurement and ongoing assessment of climate risks over the longer-term, and the potential threats to the Group's strategic objectives. In 2020, the Group has developed its climate scenario analysis framework and will see outputs from this in 2021.

To further accelerate progress, we have engaged with third-party consultants to support the development of our climate risk management framework and high priority sector analysis, thereby extending our modelling and assessment capabilities for quantifying climate risk.

Climate risk and sustainability has been a key consideration in the credit assessment process in recent years, and in 2020 we have deepened the integration of sustainability into our credit risk processes and appetite statements. We

Our progress in building a sustainable and responsible business continued

OUR ENVIRONMENTAL AND SOCIAL PERFORMANCE | **Progress in 2020**

Helping Britain transition to a sustainable low carbon economy continued

continue to refine the Group's external sector statements, which help articulate appropriate areas of climate-related risk appetite and our approach to the risk assessment of our customers. For more information on the Group's external sector statements see page 24.

As part of the Group's credit risk policy, we have mandatory requirements to consider environmental risks in key risk management activities. In Commercial Banking, Relationship Managers must continue to ensure that sustainability risk is considered for all new and renewal facilities, and specifically commented on where credit limits exceed £500,000. We have also developed and are piloting a tool in Commercial Banking to help qualitatively assess our clients' physical and transition risks.

In Retail, we consider exposure to physical risks, such as flooding, in our mortgages origination criteria and we have also introduced sustainability related criteria into our motor finance businesses. Within Insurance, an assessment of climate-related risks to General Insurance (GI) liabilities is integrated into the internal model governance process. We further developed our weather modelling capabilities in 2020 through completion of a research partnership between the Group's GI Weather Modelling Team and the University of Reading on extreme wind and flood risk in the UK.

Sectors with increased climate risk

The Group has identified those sectors where we have lending to customers that may likely contribute a higher share of Lloyds Banking Group's financed emissions (see Table 1). Not all customers in these sectors have high emissions or are exposed to significant transition risks. As discussed within our disclosure, we continue to enhance and refine this work at both counterparty and sector level, considering both risks and opportunities as we look to support our customers' responses to climate change.

Metrics and targets

Financed emissions

Lloyds Banking Group believes it is appropriate to provide more financial information on our financed emissions, although we also recognise this is a rapidly developing area, with evolving and sometimes limiting data availability, data completeness and calculation methodologies. We expect these to continue to improve in 2021 and beyond, helping us to refine our approaches, estimates and understanding of the climate risk within Lloyds Banking Group's portfolios. However, in order to enhance disclosure, whilst recognising these limitations, we detail in Table 2 an initial estimated view of the 2018 financed emissions baseline across the Group's own lending activity (excluding Insurance and Wealth).

This will serve as an initial basis for our goal of helping to reduce the emissions we finance by more than 50 per cent by 2030 and to help us better support customers in their transition plans to a low-carbon economy (see Table 2). We selected 2018 as there is more comprehensive company emissions reporting and UK Government Office of National Statistics (ONS) emissions data available at that time.

We have used the emerging industry standard for calculating financed emissions developed by the Partnership for Carbon Accounting Financials (PCAF). The baseline is an estimate, as client or asset level emissions data is currently not available in all cases and where appropriate, we have used internal and external data and proxies to fill these data gaps. Given this is a new discipline that will continue to develop and evolve, it is expected that our baseline will change in the future (perhaps materially), which may require restatement. We expect methodologies for calculating financed emissions to mature, with data availability and quality also improving from clients and Government sources.

Our initial estimated view of the 2018 financed emissions baseline covers approximately 70 per cent of the Group's balance sheet (excluding Insurance and Wealth)[1] comprised of:

- Motor vehicle loans (Lex and Black Horse) – at individual vehicle level, vehicle emission intensity and contracted (or estimated) miles driven per annum
- Mortgages (Retail UK Mortgages) – from Energy Performance Certificates (EPCs) where available with estimates used for properties without EPC ratings
- Business loans (Commercial Banking only) – on client-level emissions data and asset-based estimates using ONS UK sector emissions
- Cash balances – with no associated emissions

For the remaining balance sheet, 26 per cent currently have no method for calculating emissions and 4 per cent do not have data readily available to enable emissions to be calculated.[2]

As currently recommended by PCAF, the baseline only includes Scope 1 and 2 emissions of clients and does not include undrawn lending commitments, off balance sheet contingents or areas where there is no methodology.

Insurance and Wealth financed emissions

The financed emissions for the Insurance and Wealth division are not included in the Group's total financed emissions or the Group's target to reduce financed emissions by 50 per cent by 2030. Due to the different nature of banking and investment activity, the Insurance and Wealth division will be further developing its approach to reporting appropriate climate metrics and targets during 2021.

Power sector ambition

In Commercial Banking, we have been working to develop a power sector ambition as power sector decarbonisation is critical for the UK to achieve its Net Zero goal.

We have determined that our power generation portfolio, comprising Commercial Banking large corporate and project finance portfolio facilities, generated financed emissions of 0.7MtCO_2e in 2018, with an emission intensity of 141gCO_2e/kWh on a drawn basis, covering both UK and EU exposures. This is lower than the UK average grid emissions intensity of 283 gCO_2e/kWh in 2018, due to our market leading support for UK offshore and renewable energy.

Having assessed our Commercial Banking large corporate and project finance power generation portfolio against decarbonisation plans and our commitment to Help Britain Prosper, we are now setting an ambition to reduce the portfolio's emission intensity to less than 75gCO_2e/kWh by 2030* This is in line with the UK's net zero ambition, but takes into account the combination of UK and European clients in our portfolio.

*We have followed the PCAF recommendation to only account for drawn lending exposure in our financed emission disclosure. It is important to highlight that the undrawn portion of the power generation portfolio could result in fluctuations to the emission and power intensity baseline.

Achieving our ambition will be dependent on the UK and European countries putting in place the policy frameworks to meet decarbonisation goals and major utilities achieving their decarbonisation objectives. We will work with the Government and our clients to help support this transition.

Green finance

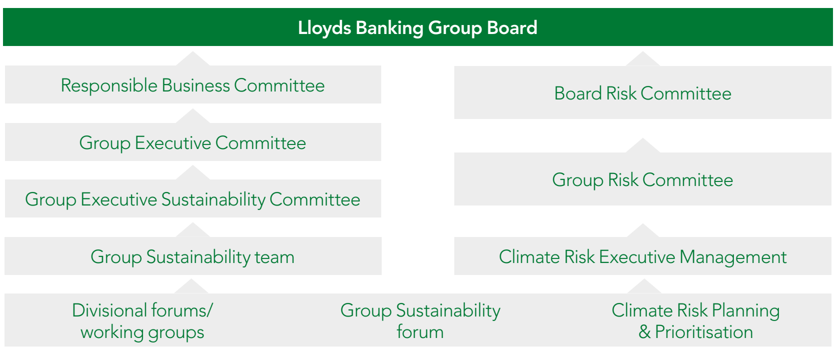
In 2020, we provided over £2.3 billion of green finance in Commercial Banking, through our Clean Growth Finance Initiative, Commercial Real Estate Green Lending Initiative, Renewable Energy Financing and Green Bond facilitation. This increased our total green finance to over £7.3 billion since 2016. In addition, we have supported clients with over £1.8 billion of Sustainability Linked Loans since 2017.

New climate pledges for our own operations

In 2019 we announced achievement of our 2030 carbon emission reduction goal for our own operations, 11 years early, having reduced carbon emissions by 63 per cent between 2009 and 2019, and exceeding our 60 per cent reduction target. We are now able to announce three new operational climate pledges which

Governance

Our governance structure provides clear oversight and ownership of the Group's sustainability strategy and management of climate-related risks. Governance for climate-related risks is embedded into the Group's existing governance structure and is complementary to governance of the Group's sustainability strategy.



Progress in 2020

accelerate our plan to tackle climate change and apply across our operations.

- We will achieve net zero carbon operations by 2030. We plan to reduce our direct emissions (known as Scope 1 and 2 emissions) by at least 75 per cent (compared to 2018/9 levels)
- We will reduce our total energy consumption by 50 per cent by 2030 (compared to 2018/9). Whilst we already procure zero carbon electricity, it remains crucial that we reduce the amount of power we consume to support the UK in meeting an increasing demand for renewable energy
- We will maintain travel carbon emissions below 50 per cent of pre COVID-19 (2018/9) levels, embedding for the long-term the reduced levels of commuting and business travel seen during the pandemic and supporting colleagues to switch to low carbon transport.

Achieving these goals will not be easy, and we will need to invest in our buildings over the next decade, supporting the UK to make a green recovery. We will continue to deploy energy efficient technology including LED lighting and improved building controls. We will remove all use of natural gas from our estate, replacing our gas boilers with zero carbon heating technologies and create more sustainable branches in communities across the UK. Many of the technologies we will need to use are still new and we will need to work closely with our partners and supply chain to innovate.

Looking forward

In 2021, we will continue to develop additional sector-based ambitions to support our goal to help reduce the emissions we finance by more than 50 per cent by 2030. We will continue to enhance our methodologies and framework for reporting climate risks and opportunities, taking into account relevant industry guidelines and regulatory reporting requirements. This will further advance our disclosures and respond to the evolving needs of both our shareholders and other stakeholders.

Read more on **climate change related performance**
lloydsbankinggroup.com/who-we-are responsible-business/downloads.html

Table 1. Lending[1] to customers in sectors at increased risk from the impacts of climate change

Commercial Banking sector[4]		Lending to Commercial Banking customers (£m)[2] Dec 2020	Dec 2019	% of total Group loans & advances to customers[3] Dec 2020	Dec 2019
Energy use in buildings	Real estate (inc housing associations)	**25,426**	27,124	**5.04%**	5.44%
Agriculture	Agriculture, forestry & fishing[5]	**7,464**	7,219	**1.48%**	1.45%
Transport	Passenger transport	**1,135**	1,120	**0.22%**	0.22%
	Industrial transport	**1,374**	1,674	**0.27%**	0.34%
	Automotives[6]	**1,485**	1,272	**0.29%**	0.26%
Energy use in industry	Housebuilders	**870**	1,168	**0.17%**	0.23%
	Construction[7]	**1,210**	1,179	**0.24%**	0.24%
	Cement, construction materials, chemicals & steel manufacture	**317**	391	**0.06%**	0.08%
	General manufacturing	**1,301**	1,285	**0.26%**	0.26%
	Food manufacturing and wholesalers	**1,312**	1,844	**0.26%**	0.37%
Energy supply	Oil & Gas[8]	**1,099**	1,393	**0.22%**	0.28%
	Utilities	**1,638**	1,779	**0.32%**	0.36%
	Coal mining	**8**	21	**0.002%**	0.004%
	Total	**44,639**	**47,469**	**8.85%**	**9.53%**

Retail division areas[9]		Loans & advances to customers (£m) Dec 2020	Dec 2019	% of total Group loans & advances to customers[3] Dec 2020	Dec 2019
	UK Mortgages	**294,806**	289,198	**58.42%**	58.04%
	UK Motor Finance	**15,201**	15,976	**3.01%**	3.21%
	Total	**310,007**	**305,174**	**61.44%**	**61.25%**

1. Commercial Banking and Retail divisions only. Excludes Insurance and Wealth division.
2. Commercial Banking division only, excludes Commercial Finance. Drawn lending is gross of significant risk transfers. Excludes Business Banking lending, which sits within Retail division. 2019 restated on a consistent basis with 2020.
3. Percentages calculated using total Group loans and advances to customers on a statutory basis, before allowance for impairment losses (£504,603 million at 31 December 2020 and £498,247 million at 31 December 2019 - see page 316 of our Annual Report and Accounts).
4. Commercial lending classified using ONS SIC codes at legal entity level.
5. Agriculture lending includes Agricultural Mortgage Corporation (AMC) based on loans and advances to customers £4,186 million (2019: £3,998 million).
6. Includes Automotive manufacture, retail & wholesale trade, rentals and parts but excludes finance captives and securitisations.
7. Construction excludes 41100 Development of building projects (included within Real Estate) and 41202 Construction of domestic buildings (reported separately as Housebuilders).
8. Excludes Commodity Traders.
9. Based on loans and advances to customers within Retail Division.

Table 2. Initial estimated view of the 2018 financed emissions baseline for the Group's own lending

(excluding the Insurance and Wealth division)

Asset class	Estimated $MtCO_2e$ (Scope 1 & 2 emissions)	Equivalent share of UK total emissions by sector / asset class[6]
Motor vehicle loans[3]	3.2	c.4%
Mortgages[4]	6.3	c.6%
Business loans[5]	15.9	c.6%
Total	25.4[1,2]	c.5.6%

1 Includes Nil emissions for cash balances, which accounted for 8% of the Group's balance sheet
2 Examples of areas where there is no current method for calculating emissions include: Government securities, derivatives, personal loans, credit cards and reverse repos. Areas where data was not readily available, but coverage may be expanded in the future include: business banking, non-UK mortgages, loans and advances to banks and some assets at fair value through profit and loss.
3 Covers 95 per cent of motor vehicle loans and operating lease assets. Excludes assets that do not have a motor, specialist vehicles and vehicles where mileage is difficult to estimate. Currently does not apply a loan-to-value ratio for emissions.
4 Covers 97 per cent of mortgages. Excludes non-UK mortgages. Uses EPC emissions estimates for 45% of properties and average emission intensity profiles of EPC C to G properties to calculate emissions for the balance of properties where EPCs are not available. Property index value as at end 2018 is used for current property value in PCAF emission attribution calculations.
5 Includes 99% of Commercial Banking business loans, based on drawn lending. The PCAF sector-based approach has been used for the majority of the business loans baseline, using Office of National Statistics (ONS) UK emissions. The business loans method has been applied to project finance (excluding Power project finance) and commercial real estate assets, which will be refined in the future as better data becomes available.
6 Total UK emissions in 2018 were: 88 $MtCO_2e$ from cars and vans; c.100 $MtCO_2e$ from homes, including emissions from both electricity and heating; and 263 $MtCO_2e$ from business (excluding emissions from electricity used in residential property). Source: Department for Business, Energy and Industrial Strategy - 2018 UK Greenhouse Gas Emissions, Final Figures.

Our progress in building a sustainable and responsible business continued

OUR ENVIRONMENTAL AND SOCIAL PERFORMANCE

Progress in 2020

ESG lending and investment

E S G

Highlights

- We have tightened our lending appetite for the coal sector.
- We have further enhanced our environmental and social risk lending due diligence processes. In 2020, we have developed and piloted a tool in Commercial Banking to help assess our clients' physical and transitions risks.
- We have established a dedicated Responsible Investment team in our Insurance and Wealth division and have launched our Responsible Investment Framework and Stewardship policy through Scottish Widows.

The Group expects all of our customers to comply with applicable international conventions, sanctions and embargoes, legislation, and licensing requirements whilst showing a clear commitment to robust ESG performance and risk management.

Lloyds Banking Group sector statements

The Group has identified selected sectors and defined specific risk appetites related to our financing activities.

Our 2020 review of our sector statements has tightened our lending appetite for exposure to the coal sector even further. The Group will not:

- Engage new Commercial Banking customers where any revenue is derived from operating thermal or metallurgical coal mines,
- Directly finance new or existing UK coal-fired power stations by the end of 2022,
- Support new project finance or direct investment in coal power operations of diversified utility companies elsewhere in the world, unless the finance is used to decommission the coal power generation or convert to renewable power generation, or
- Provide general purpose banking or lending to any new customers where any revenue is derived from operating coal-fired power stations in the UK.

We will continue to support existing customers in the coal industry to diversify their strategy to eliminate coal mining or coal power operations from their UK operations in line with the Government's 2024 phase-out target. We will also continue to encourage clients with international coal-related operations to reduce their exposure in line with the Paris Agreement.

The Climate Transition World Equity fund

Scottish Widows partnered with BlackRock to create a new fund aligned to the goals of the Paris Agreement, helping mitigate climate change risks and benefiting from the opportunities relating to the low carbon transition. We have now initially committed £2 billion from our default pension offering to be invested into this fund – the Climate Transition World Equity fund, which was launched in August. This will enable over 2.6 million pension savers to invest more sustainably.

We are also expanding its use within our wider multi-asset fund range. Compared to benchmark, this fund could be expected to achieve a 50 per cent reduction in carbon emissions intensity and to achieve 60 per cent more revenue from 'green' technologies. We continue to integrate ESG factors into the rest of the default pension investment offering, with the underlying funds moving to introduce exclusions on companies which fail to meet our standards on United Nations Global Compact, Controversial Weapons, Thermal Coal and Tar Sands over the next year, as publicised in the Scottish Widows Exclusions Policy.

During 2020 we have placed additional emphasis on the importance of engagement with clients in the oil and gas sector to determine whether they have Paris-aligned transition plans in place.

We will continue to develop sector specific guidance to help relationship managers identify climate risks.

Our full sector statements are available on our website, and further detail related to the sector statements can be found in the 2020 Lloyds Banking Group ESG report.

Sustainability risks and lending

As part of the Group's credit risk policy, we have mandatory requirements to consider environmental risks in key risk management activities. In Commercial Banking, Relationship Managers must continue to ensure that sustainability risk is considered for all new and renewal facilities, and specifically commented on where credit limits exceed £500,000.

In 2020, we have developed and piloted a tool in Commercial Banking to help assess our clients' physical and transition risks.

The Group is a signatory to The Equator Principles, a risk management framework for managing environmental and social risks in Project Finance transactions, such as large scale energy, industrial, or infrastructure projects.

Our 2020 performance table related to The Equator Principles can be found in the 2020 Lloyds Banking Group ESG Report.

Responsible investment and stewardship

Over the course of 2020 we have focused on building robust foundations for future responsible investment activity, launching our responsible investment framework in March and developing Stewardship and exclusions policies. We have also established a Responsible Investment (RI) team which is made up of professionals with diverse backgrounds in RI, policy, research, advocacy, data, and climate science.

Executive oversight is provided by a Responsible Investment Committee. This Committee, with strong Board support, plays a pivotal role in setting Scottish Widows' sustainability agenda and provides strategic direction to our responsible investment activity.

As an asset owner, we work with the largest of our investee companies to engender positive change and enhance their approach to climate and Board diversity issues. We ask all of our fund managers to comply with the UK Stewardship Code or an equivalent for their jurisdiction.

Read more on **ESG in Lending and Investment practices**
lloydsbankinggroup.com/who-we-are responsible-business/downloads.html

Progress in 2020

Championing inclusion and diversity

E S G

Highlights

- During 2020, we launched our Race Action plan. The Group was the first FTSE 100 company to launch a new public goal to specifically increase Black representation in senior roles to align with the overall UK labour market.
- We have published our first Ethnicity Pay Gap Report.
- We have published our annual Gender Pay Gap Report.
- We achieved the external Hampton-Alexander goal of 33 per cent women in the combined Executive Committee and Direct Report population.

Lloyds Banking Group aims to create a fully inclusive environment that is representative of modern-day Britain and where everyone can reach their potential. We continue to invest in making the Group a leading inclusive employer, where the unique differences our colleagues bring to work every day are valued.

Building a truly inclusive organisation also requires us to be an anti-racist organisation – one where all colleagues speak up, challenge, and act to take an active stance against racism and discrimination of any kind.

Getting this right is at the heart of our purpose to Help Britain Prosper – a more inclusive society is a more prosperous society, and a diverse business is a better business.

Ethnic diversity

In 2018 we made a public commitment to increase the ethnic diversity of both our overall and senior workforce, which has led to positive changes. Feedback from our Black colleagues however, demonstrated that there was still more to do.

In July 2020, our Group Chief Executive, António Horta-Osório launched our Race Action plan. The Group was the first FTSE 100 company to make such a public commitment, which includes a new public goal to specifically increase Black representation in senior roles from 0.6 per cent at senior grades to at least 3 per cent by 2025, to align with the overall UK labour market. We have already delivered a number of activities, including establishing a

Our inclusion and diversity data

		2020	2019
Gender			
Board members	Male	8	9
	Female	4	4
GEC and GEC direct reports	Male	86	111
	Female	41	50
Senior managers	Male	4,540	4,539
	Female	2,670	2,647
Colleagues	Male	28,948	29,522
	Female	39,817	41,033
Ethnicity			
% of Board members from an ethnic minority background		8.3%	NR
% of Senior managers from an ethnic minority background*		7.7%	6.7%
% of Colleagues from an ethnic minority background*		10.6%	10.2%
Disability			
% of colleagues who disclose that they have a disability		3.2%	2.8%
Gender identity and sexual orientation			
% of colleagues who disclose that they are lesbian, gay, bisexual or transgender		2.3%	2.2%

All data as at 31/12/2020. 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.
Ethnic background: 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, EX and ED (F being the lowest).
NR: Data not reported during period.
* 2020 Indicator is subject to Limited ISAE 3000 (revised) assurance by Deloitte LLP for the 2020 Annual Responsible Business Reporting

The Lloyds Banking Group Race Action plan

Our Race Action plan aims to drive cultural change, recruitment and progression across the Group.

The plan includes a new public goal, complementing our broader 2018 ethnic diversity target, to specifically increase Black representation in senior roles from 0.6 per cent at senior roles to at least 3 per cent by 2025, aligning the Group with the overall UK labour market.

To ensure we make robust progress in delivering our plan, we have appointed a dedicated senior leader to lead a Race Action plan team, who will work together with our Race Action plan working group to drive action. We have also appointed 23 Black, Asian and Minority Ethnic colleagues to form a Race advisory panel, who are already providing invaluable input into our plan.

In December 2020, we broadened our plan to go further and work beyond our own internal boundaries by actively supporting Black communities through our partnerships with Foundervine and the Black Business Network.

Further information and progress in relation to our implementation of our Race Action plan can be found in the 2020 Lloyds Banking Group ESG Report.

Our progress in building a sustainable and responsible business continued

OUR ENVIRONMENTAL AND SOCIAL PERFORMANCE

Progress in 2020

Championing inclusion and diversity continued

new Race Advisory Panel made up of Black, Asian and Minority Ethnic colleagues to influence and inform our diversity strategy, delivering a series of race education sessions for our senior leaders, and publishing our first Ethnicity Pay Gap report. The Board currently meets, and will aim to continue to meet, the objectives of the Parker review for at least one Black, Asian or Minority Ethnic Board member.

Gender diversity

We champion gender equality through promoting a strong pipeline of executive female talent for the future. Our ambitious target to have 40 per cent of senior management roles filled by women by the end of 2020 has seen us advance from 28 per cent in 2014 to 37 per cent at the end of 2020. Our progress has been recognised externally for the second year in the 2020 Bloomberg Gender Equality Index, and for the 9th consecutive year in the Times Top 50 Employers for Women. We have also been recognised by Working Families as a Top 10 Employer for working families. We achieved both the external Hampton-Alexander goals of 33 per cent women in the combined Executive Committee and Direct Report population and 33 per cent female Board representation, and will aim to continue to do so.

Gender identity and sexual orientation

We are proud to have created an inclusive and open working environment for our LGBT+ colleagues. Our LGBT+ colleague network, Rainbow, plays a pivotal role in our approach, and with over 5,000 members and supporters, is one of the largest networks of its kind in the UK. In 2020, our Rainbow network celebrated their 10 year anniversary and held a series of virtual Pride events for colleagues spanning ten weeks, reaching over 1,600 colleagues and raising £10,000 for LGBT+ charities.

Supporting disability

The Group is committed to creating an inclusive and diverse organisation where colleagues with disabilities or long-term health conditions feel valued and supported to reach their full potential. This has been recognised through the Group holding the Business Disability Forum Gold Standard accreditation and retaining Disability Confident Leader status from the Department for Work and Pensions, which recognise the inclusive culture of the Group and the support we provide our colleagues who identified as having a disability. The Group offers bespoke training, career development and adjustments for colleagues and applicants with disabilities, including those who became disabled while employed.

Read more on **our progress and actions on supporting Inclusion and Diversity**
lloydsbankinggroup.com/who-we-are responsible-business/downloads.html

Assisting our customers

E S G

Highlights

- To assist our customers during the pandemic, we launched a number of financial, digital and mental health support initiatives.
- We made it easier for our customers less able to see us in branch, to contact us by launching priority phone lines with increased telephony resource, allowing them to reach us quickly and to avoid the need for unnecessary journeys.
- We made over 750,000 outbound wellbeing calls to customers to offer support in 2020 through our branch networks, and partnered with Mental Health UK to create a mental health support section to our customer-facing webpages.

The Group is committed to providing meaningful support to meet the needs of our customers, aiming to provide positive outcomes and working to mitigate or reduce the risk of financial harm. The COVID-19 pandemic has magnified existing challenges faced by customers, and brought new challenges affecting health, income, and relationships.

We have supported over a million customers with payment holidays across Mortgages, Credit Cards, Loans and Motor Finance. This has given customers the flexibility they need to help get them back on track and the comfort that their credit file will not be impacted.

Across Mortgages and Motor Finance, we remain committed to giving customers time to recover from the impact of the pandemic without losing their home or vehicle. Additionally, further support was provided to our current account customers, with all customers benefiting from an initial three month interest free buffer on their overdraft.

We made it easier for our customers less able to see us in branch, to contact us by launching a priority phone number. Priority lines have been set up for NHS workers and over 70's along with increased telephony resource, to support our customers, allowing them to reach us quickly and to avoid the need for unnecessary journeys. Our branch colleagues made over 750,000 outbound wellbeing calls to customers throughout the year not only to support customers with their banking needs but to check on their wellbeing, and in some cases connect customers to local support.

We recognise that many customers have chosen to interact with us digitally through this period, and have developed a number of new online journeys which give customers access to set up and service forbearance plans with us. This also helps us to keep our phone lines available for those who need or want to speak to us. Further information on our digital support to customers is on page 28.

Read more on **how we are supporting our customers**
lloydsbankinggroup.com/who-we-are responsible-business/downloads.html

Customer mental health

It has never been more important to continue to work to support our customers' mental health and wellbeing, given the extra pressures the current pandemic has placed upon us all. During the pandemic, we have provided mental health support including funding for The Silverline, who support the over 55s who may be feeling lonely and isolated. In addition to this, we worked in partnership with our Charity Partner Mental Health UK to create bespoke mental health support for our website. Signposting for customers was introduced to mental health support available through our websites, mobile apps and direct mail.

Progress in 2020

Supporting businesses and SMEs

E S G

Highlights

- We have provided over £12 billion of lending through Government-backed lending schemes.
- We have helped over 265,000 businesses start up since 2018.
- We have trained 1,211 apprentices, graduates and engineers through our investment in the Lloyds Bank Advanced Manufacturing Training Centre since 2018.
- We have invested over £5 million in supporting over 230 businesses and 450 apprentices to develop STEM skills that will support the UK's recovery.
- We have supported over 368,000 organisations in gaining digital skills and to adapt their businesses with technology since 2018 through strategic partnerships.
- To support businesses in their transition to a low carbon future, we launched several new green finance products, tools and services (page 21).

Supporting businesses of all types and sizes is fundamental to helping Britain to both prosper and recover. The pandemic has had a profound impact on the way we live our lives and on the global economy. We remain fully focused on helping our customers and the UK economy recover, in collaboration with Government and our regulators.

This year we have actively supported our clients with over £12 billion of Government backed lending in addition to a range of propositions including approximately 34,000 capital repayment holidays and around 22,000 fee-free overdrafts as part of the Group's £2 billion COVID-19 fund. As the impact of the pandemic has been felt across the UK, we have also looked to address wider concerns related to the impact on businesses in a number of ways through providing online guides and a webcast series. Content has covered topics such as managing fraud risks, mental health, the road to a low carbon economy, optimising working capital and risk management.

Since 2018, we have now helped over 265,000 businesses start up and re-affirmed our commitment to the UK's manufacturing sector providing £3.7 billion of dedicated investment, whilst continuing to build on our financial commitments with our broader support for a range of issues that impact business skills and productivity every day.

Our Apprenticeship strategy

The Group has continued with its long-term investment of £10 million over ten years in the Lloyds Bank Advanced Manufacturing Training Centre at the Manufacturing Technology Centre (AMTC) in Coventry, which is on track to support the training and upskilling of around 3,500 apprentices, graduates and engineers by the end of 2024. Through our annual investment in the AMTC, we have trained and upskilled 1,211 manufacturing apprentices, graduates and engineers in manufacturing since 2018.

In addition, by utilising our apprenticeship levy we have now committed in excess of £5.4 million supporting over 230 businesses and 450 apprentices to invest in critical science, technology, engineering, maths (STEM) and digital skills that will support the UK's recovery across London, West Midlands and Greater Manchester. This is part of a £9 million commitment by the Group over three years to help small and medium enterprises to develop apprenticeships through our Levy Transfer initiative.

Supporting businesses with digital skills

For over five years, Lloyds Banking Group has evidenced how crucial technology is for small businesses and the digital economy through the Business Digital Index reports. We partner with Be the Business, Google, Microsoft, Small Business Britain and others to support small businesses to gain skills and confidence to both recover and thrive, by adapting their businesses with technology. We have held free workshops, peer to peer networking sessions across all regions of the UK and have a range of free on-demand learning available, helping over 368,000 organisations since 2018, with more in plan for 2021.

Further information on how we are supporting businesses and SMEs as well as our strategic partnerships can be found in the 2020 Lloyds Banking Group ESG Report.

Helping Britain get a home

E S G

Highlights

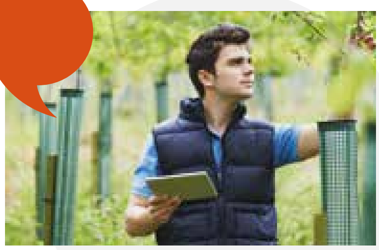
- We have delivered close to £9bn of finance for the Social Housing sector since 2018.
- 1,900 new homes were built through The Housing Growth Partnership by SME's through our support.
- We provided £39.7 billion to first time home buyers since 2018.

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 delivered more than £2.5 billion of finance for the social housing sector in 2020 and close to £9 billion since 2018. We also continue to support The Housing Growth Partnership, who provide help and mentoring to small and mid-sized house builders and have built 1,900 new homes across the UK during 2020.

This year we provided £13 billion to first-time buyers, and across the last three years have provided £39.7 billion of lending, this outcome is significantly above our £30 billion commitment. We have also increased the ways in which we support first time buyers in accessing the property market by welcoming applications from the new Scottish First Homes Fund, making it easier for those with little or no savings to buy their first home.

Further information on how we are helping Britain to get a home can be found in the 2020 Lloyds Banking Group ESG Report.

Read more on **how we are helping Britain to get a home**
lloydsbankinggroup.com/who-we-are responsible-business/downloads.html



Partnering with the Woodland Trust

In January 2020 we announced a new partnership with the Woodland Trust to plant ten million trees over the next ten years expanding the UK's carbon sink and helping to reforest the UK. Our partnership has three parts.

Supporting Farmers: We are helping farmers and landowners transition to a low carbon future by offering preferential funding when planting more than 0.5ha of new woodland.

Working with Communities: We are supporting the Woodland Trust with their Community Tree Pack scheme.

Funding New Woods: We will be creating 10 brand new 'woods within woods' at existing Woodland Trust sites across the UK.

Our progress in building a sustainable and responsible business continued

OUR ENVIRONMENTAL AND SOCIAL PERFORMANCE

Progress in 2020

Building financial resilience

E S G

Highlights

- We have facilitated digital training for 1.8 million people since 2018 to assist in narrowing the digital skills gap.
- We have facilitated the delivery of over 12,500 devices through the DevicesDotNow campaign and We Are Digital Helpline. Through the latter, we have assisted over 8,000 people to learn digital skills to be able to access online services and connect virtually with family and friends.
- We established a Domestic and Economic Abuse Team, conducted training for our colleagues on how to support customers facing these circumstances through strategic partnerships, and supported charities assisting victims.

The digital skills gap

Lloyds Bank Academy
To facilitate the shift to a more digital economy, the Group has developed the Lloyds Bank Academy. The Academy teaches basic digital and workplace skills through online and face-to face courses, aiming to provide support where, when and how people need it. During 2020 these courses shifted to online webinars due to lockdown restrictions.

The Group has facilitated digital training for 1.8 million people since 2018 through the Academy and the Academy curriculum continues to expand having a breadth of content and partners, including large corporates, charities, credit unions and job seekers. Our insight is used by both Government and other organisations in the UK. Our Consumer Digital Index was viewed in over 85 countries with over 37,000 views online.

FutureDotNow
Lloyds Banking Group is a founding organisation of FutureDotNow, a coalition of leading companies in the UK dedicated to accelerating the UK's digital skills at scale, with a focus on the employees and customers of large organisations. As the pandemic started to impact communities in the UK, the Group was heavily involved with the DevicesDotNow emergency campaign, helping with the call to industry for devices, data and support for people who were shielding. The campaign raised over £1.5 million and funding secured to deliver over 11,500 devices, data and support to customers.

Domestic and economic abuse

Through the year the UK has seen an increase in reports of economic and domestic abuse. We are proud of the support we have made available to victims and survivors. The introduction of the Domestic and Economic Abuse Team to help victims of financial and economic abuse was an important next step in both raising awareness and supporting our customers.

Our engagement with the charity Surviving Economic Abuse has been critical to achieving this and working with them, we have developed an ability to support victims in separating financial affairs quickly and, where appropriate, to offer forbearance from debt incurred as a result of coercion.

During 2020, to support our initiatives, we have partnered with the charities Surviving Economic Abuse and Tender to train our colleagues to support customers experiencing domestic and financial abuse, and have engaged with a number of charities to refer victims and survivors of abuse to our Domestic and Economic Abuse Team for support with their finances. We work very closely with the charity Safe Lives. Safe Lives have participated in our live broadcasts and colleague webinars which we run all year round to provide expert advice and guidance to colleagues.

Financial capability

The Group has a suite of financial capability resources available online. These interactive tools are designed to be an engaging and informative way of helping children and young people understand money and financial management.

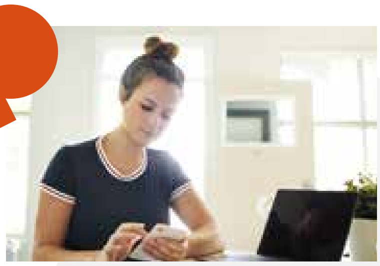
In support of our communities and in the spirit of Helping Britain Recover from the ongoing pandemic, content has been made available to all via the Lloyds Bank Academy. This provides the opportunity for the lesson plans to be delivered by individuals, parents, teachers, employers or charities, encouraging positive conversations about money at home, at work and in our communities.

Read more on **Financial resilience initiatives, Lloyds Bank Consumer Digital Index, 2020 Transformation with Tech**
lloydsbankinggroup.com/who-we-are responsible-business/downloads.html

Helping people save for the future

We recognise the importance of savings to build financial resilience and to help tackle disadvantage. We want to make saving for the future as easy as possible and we continue to improve choice, flexibility and control for customers who are investing, saving or planning for retirement. The Group has had a £45.6 billion growth in open book assets[1] that we hold on behalf of customers in retirement and investment products since 2018.

1 Growth in assets under administration on our front books



We Are Digital Helpline

The Group delivered a new dedicated phone line which provides guidance and remote training to customers less able to see us in branch, to help them stay connected with everyday digital activities, including online banking. Customers were contacted and able to access free and practical support to help them stay connected online. With guidance from We Are Digital's agents, users learn skills to help with everyday tasks such as online shopping, booking a doctor's appointment using the NHS website, connecting virtually with family and friends, as well as internet banking. The service provides not just remote help via a telephone, but has also allowed for customers and charities in need to be able to be provided with a basic tablet device. We provided over 1,000 devices and data, and helped 12,500 callers to the helpline.

Supporting our communities

E S G

Highlights

- £51.2 million in total was provided for community investment in 2020.
- £25.5 million was donated to our 4 independent charitable foundations in 2020.
- 2,787 charities were supported in 2020.

As one of the UK's largest corporate donors, we use our scale to reach millions of people and help tackle social disadvantage in communities across the UK.

Spanning across the past 35 years, our four regional Foundations have been providing essential funding and support to charities across the UK and Channel Islands, helping communities overcome complex social issues and rebuild lives.

In 2020, the Foundations received £25.5 million enabling them to support 2,787 charities. These charities are tackling issues such as domestic abuse, mental health, modern slavery and human trafficking, and employability. The Group's commitment to maintain its £25.5 million in the Foundations funding in 2021 helps secure a more certain future for charities during these difficult times and safeguard the important work that they do.

In addition to adapting many of our community engagement initiatives to virtual delivery, we have responded directly to community needs through new investments. These investments included the expansion of our Mental Health and Money Advice lines, CLIC online chat services run by our Charity of the Year partner Mental Health UK (MHUK), and the provision of mobile devices through a partnership with We Are Digital (See page 28)

Our total community investment in 2020 was £51.2 million and includes our colleagues' time, direct donations, and a share of the Group's profits given annually to the Foundations.

Further information related to how we are supporting our community initiatives can be found in the 2020 Lloyds Banking Group ESG Report.

Read more on **how we are supporting our community initiatives**
lloydsbankinggroup.com/who-we-are responsible-business/downloads.html

Supporting our colleagues

E S G

Highlights

- Health and safety of our colleagues and customers was a key COVID-19 response focus, ensuring our offices and branches were compliant with regulations, safe and able to remain open.
- Over 50,000 colleagues were supported in converting to a working from home arrangement with technology, equipment and IT assistance.
- Free access was provided for all colleagues to the Headspace app, and we have continued to train colleagues to become mental health advocates.
- Our colleague engagement surveys indicated overall that colleagues felt supported, that the company culture was more positive and caring, and that there is an interest by colleagues to explore changing ways of working in the future.
- 4.1 million hours of training were delivered to colleagues primarily via virtual training delivery.

Providing a safe work environment

During 2020, a key challenge posed by the pandemic was for the Group to continue to provide essential financial services through its physical infrastructure and remain open to customers. The Group has been implementing business changes to manage the pandemic since early 2020, and has reviewed every iteration of the UK Government's advice. By the end of 2020, the Group had co-ordinated over 3,000 risk assessments across our operations to ensure all offices and branches are compliant with legislation and safe for our colleagues and customers.

Agile working

We have seen changing customer demands, changing colleague needs and expectations, a fluctuating and less stable business environment, and significant economic issues which have led the Group to consider how to reimagine the way we work.

Prior to the pandemic, the Group had approximately 35 per cent of colleagues with an existing agile working arrangement however, due to national lockdown in early 2020, this extended to over 50,000 colleagues working from a home environment. During 2021 we will continue to reimagine ways of working and use behavioural experiments to test our thinking and identify the practicalities of various options.

Colleague mental health

Highlights in 2020 related to our colleague mental health initiatives included the continued expansion of our 'Optimal Leadership Resilience Programme' to more of our leaders in order to help them build personal resilience. In addition, we continue to promote the 'Your Resilience' portal to all colleagues, including new content to support our colleagues with the additional challenges they may face as a result of the pandemic.

We have extended our partnership with Headspace, offering all colleagues a free subscription to the market leading meditation app, providing access to mindfulness modules covering a range of topics from stress to self-esteem.

Emergency support

The pandemic has brought the issue of domestic and economic abuse to the fore. In 2020, we launched an Emergency Assistance Programme covering the cost of emergency accommodation and one-to-one support. This is available to all Lloyds Banking Group colleagues and their children, at no cost to them. During this emergency stay, the colleague can receive additional support from our Employee Assistance Programme which will help them through their next steps and provide support.

Colleague engagement

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 (BSB) Culture Assessment. Our Spring Pulse colleague survey had a 66 per cent response rate and indicated positive reflections related to colleagues feeling supported, the company culture being more positive and caring and indicated an interest by colleagues to explore changing ways of working in the future. Our Autumn survey was completed by 72 per cent of the organisation and showed further increases in pride, satisfaction and overall engagement.

Colleague remuneration

A number of key decisions were taken to support colleagues in relation to pay and financial and non-financial recognition. All Group employees receive a competitive and fair reward package. To encourage ownership colleagues are eligible to participate in HMRC-approved share plans. Further information is provided on page 115 of our Annual Report and Accounts.

Read more on **how we support our colleagues**
lloydsbankinggroup.com/who-we-are responsible-business/downloads.html

Our progress in building a sustainable and responsible business continued

OUR ENVIRONMENTAL AND SOCIAL PERFORMANCE

Progress in 2020

Conducting our Business Responsibly

E S G

Highlights

- 482 concerns were raised through our Speak Up line of which 178 were formally investigated with 41 per cent of those investigations substantiated.
- We became members of the United for Wildlife Financial Taskforce.
- We co-sponsored the National Economic Crime Centre (NECC) initiative to tackle criminals seeking to exploit COVID-19.
- Supplier expenditure was £5.1 billion with over 95 per cent of our third-party supplier spend incorporated in the UK.
- £4 billion of taxes paid over to the UK Government.

Supporting colleagues to do the right thing

Our Values and Behaviours alongside the Financial Conduct Authority's Conduct rules set out the expectations of colleagues and colleagues are encouraged to make decisions aligned to these. The Group's Code of Ethics and Responsibility is available on our website.

Speak Up

Colleagues are encouraged to speak up, challenge and act if they witness anything inappropriate and we provide colleagues with a variety of channels to do this. They can report the matter directly to Group Conduct Investigations, or make use of our independent and confidential Speak Up service, that is operated by a third party. All concerns are taken seriously and if an investigation is required, it will be conducted sensitively by an independent party. In 2020 colleagues reported 482 concerns, of which 178 were formally investigated following triage, with 41 per cent of those investigations substantiated, resulting in remedial action. Other Group services also exist to support colleagues in trying to informally resolve grievances. In addition, a new informal resolution channel 'Let's Talk' was launched to support colleagues to reflect on their concerns and understand their rights and options so that grievances can be effectively and appropriately resolved through formal and informal channels.

Human rights and modern slavery

The Group believes in the importance of doing business in ways that value and respect the human rights of our colleagues, customers, business partners and communities affected by our business. We are guided by the International Bill of Human Rights as well as the International Labour Organisation's (ILO) Core Labour Standards and its Tripartite Declaration of Principles.

As signatories to the United Nations (UN) Global Compact, we are aligned with its human rights and labour standards and report on our progress annually. We also recognise the Organisation for Economic Co-Operation and Development (OECD) Guidelines for Multinational Enterprises and the UN's Guiding Principles on Business and Human Rights.

Pursuant to the UK Modern Slavery Act, we produce a Modern Slavery Statement on an annual basis. The Statement outlines the steps we take to combat modern slavery and human trafficking in our business and supply chains and the steps we take to respond and support survivors and is available on our website.

Conduct risk

The Group takes a range of mitigating actions with respect to conduct risk and remains focused on delivering a leading customer experience. The Group's ongoing commitment to fair customer outcomes sets the tone from the top and supports the development of our Values led culture which puts customers at the heart, strengthening links between actions to support conduct, culture and customers and enabling more effective control management.

More information related to our approach and management of Conduct Risk can be located on page 197 of our Annual Report and Accounts.

Customer complaints

Our goal, in line with our purpose of Helping Britain Prosper, is to support customers whenever they have cause to complain.

To ensure that we supported our customers, we introduced prioritisation principles to ensure customers in challenging financial situations were prioritised. We reviewed approximately 35,000 complaints and prioritised over 2,300 to our highest category, aiming to make contact with the customer within 24 hours. Where we noted a concentration of complaints, we reviewed our working patterns to ensure those customers were supported.

We evolved our method of customer communication by contacting our customers via SMS to reduce the time they would need to wait for an update, and to minimise our colleagues' need to visit an office. We will review on an ongoing basis how we can continue to help our customers.

Protecting customer data and finances

Cyber security

Customers trust us to keep their money and data safe, and the Group deploys sophisticated technology to protect both. We recognise the importance of secure behaviours and continue to educate our customers and colleagues on cyber threats.

We continue as a founding member of the Financial Services Cyber Collaboration Centre, working with the Government's National Cyber Security Centre, and the Cross-Market Operational Resilience Group. We work closely with other banks recognising the importance of collaboration when it comes to security, including as part of the Cyber Defence Alliance (CDA). Recognising cyber security as a non-competitive issue, we continue to collaborate externally to protect the Group and the wider industry.

Fraud and financial crime

The financial crime landscape is undergoing unprecedented change in terms of both regulatory reform and evolving crime threats. The Group's adoption of a risk-based approach to managing and mitigating fraud and financial crime risk ensures compliance with applicable regulations via a control framework which focuses on those customers, products, channels, and jurisdictions that carry heightened risk.

There are core Group wide policies within the Group's risk management framework relating to fraud, anti-money laundering, counter terrorist financing, sanctions and prohibitions, and anti-bribery. A combined fraud and financial crime mandatory training course reflecting key policy requirements is undertaken by all colleagues annually.

Further information related to how we are conducting our business responsibly can be found in the 2020 Lloyds Banking Group ESG Report.

Read more on **information related to our progress in Fraud and Financial Crime initiatives**
lloydsbankinggroup.com/who-we-are responsible-business/downloads.html

Responsible sourcing

We work closely with our suppliers of goods and services to manage risks and drive continuous improvements in the standards of performance and quality. We work with approximately 3,000 active suppliers of varying sizes, with the majority in the professional services sectors such as management consultancy, legal, HR, IT, operations, marketing and communication. In 2020 our supplier expenditure was £5.1 billion with over 95 per cent of our third-party supplier spend incorporated in the UK.

The Group requires suppliers to adhere to relevant Group policies, and suppliers are additionally required to comply with our Code of Supplier Responsibility which outlines our expectations for responsible business, sustainability practice and behaviour. Our suppliers are asked in addition to this, to comply with specific third-party supplier policies as applicable to the services they provide to the Group.

Any supplier related grievances or concerns can be raised using our confidential SpeakUp whistleblowing service. Further information related to key Board decisions on supplier management are located on page 51.

Tax

Appropriate, prudent and transparent tax behaviour is a key component of corporate responsibility. Tax is one of the ways in which businesses contribute to the societies in which they operate, and we are proud to be among the UK's highest payers of corporate taxes.

In 2020 we paid £2.1 billion of cash taxes. This was primarily on business profits, VAT on goods and services needed to run our business, bank levy and employer social security on staff salaries. In addition, we collected £1.9 billion of cash taxes primarily from payroll taxes and customer product taxes. We comply with the HMRC Code of Practice on Taxation for Banks.

For further information about the taxes we pay, and the economic value we generate for the UK, please refer to our annual Tax Strategy document on the Lloyds Banking Group website.

Additional information on how we are conducting our business responsibly can be found in the 2020 Lloyds Banking Group ESG Report.

Read more on **how we are conducting our business responsibly**
lloydsbankinggroup.com/who-we-are-responsible-business/downloads.html

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	– Reflecting the needs of our stakeholders, page 51 – Code of Supplier Responsibility https://www.lloydsbankinggroup.com/who-we-are/working-with-suppliers/responsible-sourcing-supplier-management.html
Environmental matters	Environmental (TCFD) statement	– Reflecting the needs of our stakeholders, pages 49 and 50 – Helping the transition to a sustainable low carbon economy, page 20
Employees	Colleague Policy[1] Code of Responsibility Health and Safety Policy[1]	– Reflecting the needs of our stakeholders, pages 48 – Supporting our Colleagues page 29 – Championing inclusion & diversity, page 25
Respect for human rights	Human Rights Policy statement Colleague Policy[1] Pre-Employment vetting standards1 Data Privacy Policy[1] Modern Slavery and Human Trafficking Statement Information and Cyber Security Policy[1]	– Reflecting the needs of our stakeholders, page 51 – Suppliers, page 51 – Championing inclusion & diversity, page 25 – Conducting our business responsibly, page 30 – Modern Slavery and Human Trafficking Statement https://www.lloydsbankinggroup.com/who-we-are/responsible-business/downloads.html
Social matters	Volunteering standards[1] Matched giving guidelines[1]	– Reflecting the needs of our stakeholders: Communities and Environment, page 49 – Helping Britain Prosper Plan, page 17 – Championing inclusion and diversity, Assisting our customers, Supporting businesses and SMEs, Helping Britain get a home, Building financial resilience, Supporting our communities, Supporting our colleagues, Conducting our business responsibly, page 25 to 31
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]	– Conducting our business responsibly, page 30 – Reflecting the needs of our stakeholders: Colleagues, page 48
Description of principal risks and impact of business activity		– Helping the transition to a sustainable low carbon economy: Risk management, page 20 – Risk overview 2020 themes, page 56 – Our principal risks, page 57
Description of the business model **Non-financial key performance indicators**		– Our Business Model, page 13 – Key performance indicators, page 14 – Our strategic priorities, page 18 – Helping Britain Prosper Plan, page 17 – Global Reporting Initiative (GRI) standards https://www.lloydsbankinggroup.com/who-we-are/responsible-business/downloads.html – Reporting Criteria https://www.lloydsbankinggroup.com/who-we-are/responsible-business/downloads.html – ESG 2020 Report https://www.lloydsbankinggroup.com/who-we-are/responsible-business/downloads.html

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 2020.

Our external environment

The Group continues to adapt to evolving market trends

ECONOMY

Highlights

- Given our focus on UK customers, the Group's prospects are closely linked to the fortunes of the UK economy.
- The economic outlook is highly uncertain, dependent on how fast the UK can deliver vaccines and how effective they are against potential variants of COVID-19.
- We expect the UK economy to grow by 3 per cent in 2021 after a weak start this quarter, followed by brisker growth of 6 per cent in 2022. There are uncertainties in both directions.
- Our low risk business model and focus on efficiency serves us well in an uncertain environment. Nevertheless, improving Group financial performance is heavily dependent on economic recovery.

Overview

2020 was an extraordinarily difficult year for the UK economy with GDP falling by almost 10 per cent due to the restrictions on activity necessary to contain the COVID-19 pandemic. Emergency action from the Government and banks was key in limiting long-term damage, but the pace and extent of recovery are uncertain, dependent crucially on how quickly and how completely vaccine programmes in the UK and abroad can be delivered and suppress mutating variants of COVID-19. Significant restrictions on activity are expected to ease only gradually through 2021, and unemployment and business closures will drag on the economy's ability to return to the pre-COVID level of output, which we expect to take until during 2024.

The economy could perform better than this central expectation, if there is a quicker impact of vaccines on the ability to ease activity restrictions or a sudden release of unexpected savings that some households have accrued. On the other hand, difficulties in deploying effective vaccines and consequences on spending plans of the sharp rise in Government and companies' debt could lead to an even weaker economic recovery than expected. Uncertainty for the longer-term outlook has also increased, around the ability of productivity growth to improve, the impact of increased indebtedness on future interest rates and Government policy reaction to the deep and unequal societal impacts of the COVID-19 recession.

Market dynamics

The 2020 recession has been unlike any previous recession, driven by mandated restrictions on activity focused on sectors where social contact is highest, but accompanied by unprecedented policy support. The younger and lower-paid have been at greatest risk of lost employment or reduced income, while some others have had their financial position improved by a period of continued income but reduced spending.

This recession has impacted our markets very differently to previous recessions. Consumer credit fell sharply as spending was constrained, but growth in households' deposits was buoyed to over 10 per cent from 4 per cent in 2019. Mortgage balance growth slowed only slightly to 3.0 per cent from 3.4 per cent in 2019, companies lending rose strongly by over 9 per cent driven by the Government's guaranteed lending schemes, and companies deposits growth was also boosted to a very strong 28 per cent. The rise in unemployment, of 1.2 per cent by November has been much less than would normally be expected for such a deep fall in GDP, due to Government support via the Coronavirus Job Retention Scheme and the Jobs Support Scheme. The housing market has also been more buoyant through the second half of 2020 than expected, with prices rising by almost 6 per cent in 2020, benefiting from employment support, from the temporary cut in stamp duty, and from unexpected households' savings.

2021 is expected to see the start of unwinding of many of these impacts as consumer spending recovers further and businesses begin to pay down some of the debt recently accrued. Unemployment is expected to rise further to a peak around 8 per cent during the second half of 2021 as furlough support is withdrawn. We expect average house prices to fall 4 per cent in 2021, as the stamp duty reduction expires and as first time buyer demand is constrained by a lower employment rate amongst the young and very limited pay growth. Mortgages growth is expected to weaken to its slowest in seven years. Consumer credit growth is expected to remain subdued, and growth in households' deposits to slow sharply from its high rate of 2020. Balances of companies' lending and deposits are both expected to fall in 2021 after their large increases of 2020. Interest rates are likely to stay very low near-term, to help the economy recover at a time when Government and companies' debt has increased significantly.

Uncertainty for the longer-term growth outlook has increased. Productivity growth averaged just 0.4 per cent per annum over the five years to 2019, compared with nearly 2 per cent per annum before the 2008 financial crisis, and it is unclear how it will evolve in future. The post-financial-crisis recovery in business investment was weak, and investment fell very sharply again during the pandemic. Additionally, the change in our trading relationship with the EU has introduced additional processes and costs for some businesses. The pandemic may have provided an opportunity to boost productivity through more rapid changes to working practices, preferences for living locations, and accelerated adoption of online purchasing than would have happened otherwise. More positively, the Government's plans to 'level-up' the UK across its regions via a step-change in infrastructure investment could help to spur improved productivity growth.

Uncertainty for the longer-term outlook for interest rates has also increased. If high indebtedness drags on growth it may keep interest rates very low for a long time. However, it could also spur a change in policymakers' frameworks for managing economies, towards higher inflation targets and higher nominal interest rates, although this is unlikely for the UK over the coming year at least in our view. An early return to austerity or significant fiscal tightening represents a risk to the outlook.

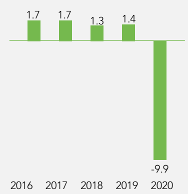
Our response

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

(9.9)%

GDP growth

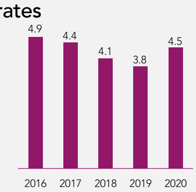


Source: ONS

UK unemployment rates

4.5%

Unemployment rate

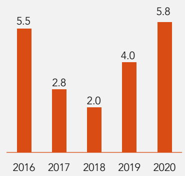


Source: ONS

UK housing market

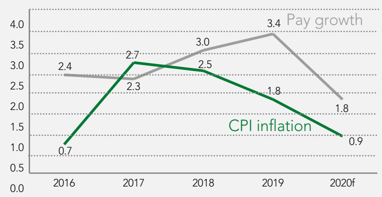
5.8%

House price growth (Dec vs. Dec basis)



Source: Halifax house price index

Pay growth vs inflation



Source: ONS

Link to principal risks

Credit
Capital
Funding and liquidity
Market

CUSTOMER

Highlights

- COVID-19 has profoundly impacted our customers' financial and non-financial circumstances, while also accelerating some underlying behavioural shifts
- Customers are increasingly turning to digital channels for their simpler banking needs
- Against the challenging backdrop caused by COVID-19, we have provided significant financial and non-financial support to our customers, while also ensuring continued good access to banking services and maintaining investment in enhancing our customer propositions
- We will continue to respond to increasing expectations for speed, convenience, control and personalisation and deepen relationships with our customers and clients across our unique integrated banking, insurance and wealth offering

Market dynamics

The unprecedented social and economic challenges posed by COVID-19 have significantly impacted the lives of our personal and business customers, while also having the potential to adversely affect financial resilience and vulnerability, as well as inequality more generally, in the longer-term.

Against this backdrop, a number of customer trends that existed prior to the pandemic have accelerated, most notably the shift to digital channels. Customers are increasingly shopping online and turning to digital channels to meet everyday banking needs, while continuing to value human interaction and more direct support for more complex and immediate needs, such as addressing financial difficulties.

Customer expectations continue to be shaped by experiences outside financial services, with speed, convenience and greater levels of personalisation, based on more sophisticated data insight, becoming ever more important in an increasingly competitive market.

Our response

During the COVID crisis, we have been fully focused on providing the necessary financial and practical support in an empathic way to our personal and business customers.

We have introduced a range of measures to alleviate the most immediate financial pressures and provided support through dedicated Government backed schemes.

We have ensured that our customers could continue to benefit from our multi-channel model and have maintained good access to our banking services. We have also set up dedicated phone lines to give priority access to NHS staff and our more elderly customers.

Looking beyond our customers' financial needs, we have provided digital skills training to help more of our personal and business customers get online, mentoring support to our business customers, and increased support for our customers' mental health needs.

In addition to these more immediate priorities, we have continued to invest in our capabilities, improve our service and support, develop new propositions and deliver a number of significant enhancements, especially to the digital propositions available to our personal and business customers.

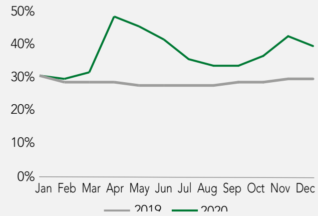
The COVID-19 crisis has impacted our customers in different ways and we need to ensure we are able to respond to everyone's circumstances and needs. From helping customers in financial difficulties to get back on track, to building their financial resilience and supporting the achievement of their life-goals across generations, we will continue to leverage our unique data and insights, capabilities and multi-channel business model, to deliver personalised and fit-for purpose propositions.

Now more than ever it is vital that we address our customers' needs holistically and leverage our unique reach, strength of our franchise as well as capabilities, such as Single Customer View. An end-to-end focus on customers' life-time needs will create additional value for our customers and strengthen our competitive advantages.

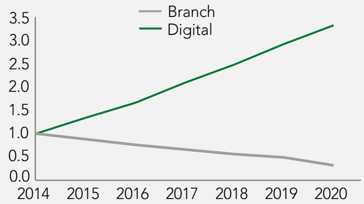
In order to meet all our customers' evolving payment needs in their channel of choice, we will need to continue modernising our payments infrastructure to deliver a seamless customer experience. Our unparalleled market position and strong participation across the payments ecosystem mean we can support our clients in improving their payments systems for their customers, while simplifying the retail experience.

Our commercial clients have also seen their businesses being impacted in different ways and we will continue to support them through the crisis and get back on their feet, whatever their circumstances might be. We are also looking to help our business customers adapt and grow back stronger and more sustainably, introducing new value adding services and improving our capabilities. As businesses are increasingly looking to self-serve their simple banking needs, we are enhancing our digital offering and improving our product portfolio to deepen our client relationships through the cycle.

Online spending
Share of online transactions by month, %



Channel change
Shift to digital channels over time



Link to principal risks
Conduct
Operational resilience
Credit

Our external environment continued

REGULATION

Highlights

- The UK financial services sector is expected to remain highly regulated
- Increased volume of 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, in particular the extent of friction created by changing arrangement and potential for the UK to deviate from the EU's regulatory system

Market dynamics

The regulatory response to the COVID-19 pandemic has seen increased regulatory intervention and prioritisation of regulatory requirements relating to the fair treatment of customers. Key areas of focus for 2021 are below:

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

Capital regulation
The Group continues its implementation of regulatory capital developments including the final Basel III reforms.

IBOR transition
Progress continues, with alternative products delivered and transfer of clients to updated products underway.

Other
A number of other regulatory initiatives are underway which seek to address, amongst other things; operational resilience, climate change, general insurance pricing, onshoring EU regulations, strong customer authentication, culture and fraud. The Group also continues to respond to regulatory initiatives in respect of the COVID-19 pandemic.

Our response

As a Group we always seek to comply with all applicable regulation. Given the Group's customer focused, sustainable and low risk business model, it is well placed to meet these requirements and welcomes the positive effect that they have on the industry, its customers and other stakeholders.

Link to principal risks
Regulatory and legal
Conduct
Credit
Capital
Market
Operational resilience
Climate

COMPETITION

Highlights

- Our competitive landscape continues to broaden with an increasing number of digital-only providers, although the current environment has increased scrutiny on the profitability and sustainability of these business models
- Established competitors continue to re-focus on core business areas, with some restructuring exercises accelerated to offset increasing revenue headwinds in the low-rate environment. More diversified peers have benefited through the COVID-19 crisis to date due to a reduced reliance on interest income and increased market volatility
- Threat from big-tech and large international peers remains

Market dynamics

The Group continues to operate in competitive markets, with competition supported by regulatory change, ongoing shifts in customer behaviours and increasing levels of innovation. Against this backdrop the COVID-19 pandemic has significantly accelerated the pace of change in numerous areas.

Digital-only providers have continued to gain traction with customers. Neo-banks, in particular, have replicated a more traditional customer offering alongside strong digital functionality, while marketplace models enable collaboration and provide customers access to a broader suite of products and services.

However, the COVID-19 crisis has had a meaningful impact on a number of these businesses, slowing growth and limiting revenue streams. This has created a heightened focus on the profitability and sustainability of these models, with greater levels of uncertainty reflected in lower valuations in a number of recent funding rounds. While these pressures have the potential to limit disruptive threats over the near to medium-term, the threat from more differentiated businesses, often those who pursue a more traditional banking model, are likely to persist.

Beyond this, more traditional competitors have continued to re-focus on core business areas while also improving their own digital offerings. During the COVID-19 crisis, peers with more diversified revenue streams that are less dependent on interest income have tended to perform more resiliently, although the sustainability of these trends is uncertain given market volatility levels. In addition, some peers have accelerated existing restructuring exercises as a means to offset future revenue headwinds.

Finally, we continue to see a threat from leading technology companies and international incumbents, with these well positioned to potentially capture opportunities in the UK market with digital only offerings, and we have seen some emerging signs of this.

Our response

We continue to respond effectively to the threats posed by increasing levels of competition and a more challenging operating environment by offering products and services that our customers value.

Our strong franchise, combined with an ongoing focus on innovation, provide us with the ability to not only be relevant but also deepen relationships with our customers as we effectively respond to the changing environment.

Across our core markets we have remained open for business across all channels at a time when our customers have needed support, in line with our purpose of Helping Britain Prosper. Our multi-channel offering, including our leading branch network, allows us to reach a broad variety of customers and enables them to interact with us in whichever manner they prefer. This model, combined with the breadth of our offering as the UK's only integrated financial services provider, drives customer value, engagement and trust. This remains an important competitive advantage, which we will continue to strengthen and enhance, as we are looking to further deepen relationships with our customers through delivering holistic propositions across Retail, Insurance and Wealth.

Looking specifically at our non-physical channels, we remain committed to investing in our digital offering. We continue to respond to functionality developments from neo-bank and big-tech peers that our customers expect to be replicated, and have a strong pipeline of developments for 2021, with faster time-to-market thanks to ongoing investment in technology. Our market leading, simple, low risk business model, and integrated financial services offering position us strongly to compete with a variety of other players in the market. It is therefore crucial that we further strengthen our competitive advantages and develop new ones by diversifying our business, expand our value-adding offering to our customers and capture new growth opportunities.

Link to principal risks
Regulatory and legal
Conduct
Operational
People

TECHNOLOGY

Highlights

- Digital adoption continues to increase at pace, with a significant acceleration in 2020 as a result of COVID-19
- Investment in new technologies is of increasing importance in order to deliver continued improvements to the customer experience and to improve operational efficiencies
- Cyber security and the protection and appropriate use of customer data remain important factors in retaining customer trust

Overview

The pace of digital adoption has continued to accelerate in recent years. This has been underpinned by increasing similarities in customer behaviours and preferences across multiple geographies, heightened expectations of service based on experiences outside of financial services and continued improvements in functionality and capabilities within digital channels. Moreover, the pace of change has accelerated significantly in 2020 as lockdown measures reduced interactions through physical channels, despite these remaining available to customers should they be needed. This trend appears to have continued throughout the year, suggesting a more profound shift rather than a temporary one.

This continued change in channel preference has created an ongoing need for investment in technology across the sector. This investment often includes but is not limited to enabling the delivery of innovative new features for the benefit of customers, the upgrading and modernising of legacy systems, and the adoption of new technologies such as machine learning, artificial intelligence and cloud based solutions in order to increase the effectiveness and efficiency of an organisation.

Banks have also continued to invest significantly in their data capabilities in order to harness insights and utilise these in order to further improve customer experience. By having a better understanding of customer trends and expectations, banks are able to increase their relevance and offer greater levels of personalisation, replicating experiences that are commonplace in other digitally focused industries. The increased focus on the sharing and utilisation of data has created a growing onus on the safeguarding of this, with this of particular importance given that trust remains a key differentiator between established banks and newer, digital-only financial service providers.

Our response

To support our position as the largest digital bank in the UK, we have continued to invest heavily in technology and digital initiatives to ensure that we can continue to deliver a leading customer experience across our differentiated multi-brand, multi-channel model. While the COVID-19 pandemic has led to some slowdown in overall investment spend, we have continued to prioritise digital initiatives, with our technology spend remaining weighted towards creating new capabilities and enhancing existing ones to improve the overall customer experience. During the course of the year we have continued to improve our digital functionality and have simplified digital journeys for our customers, and we expect to further develop these areas in 2021 with a customer-centric pipeline of updates.

During the course of 2020, we have also continued to embrace the use of new technologies to improve processes and deliver productivity enhancements, which in turn deliver improved experiences for both customers and colleagues.

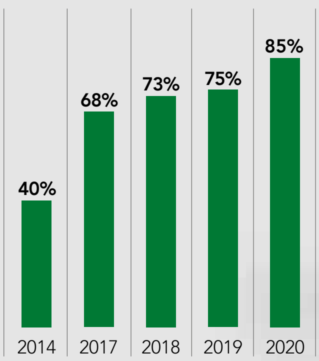
This includes using robotics to process over 90 per cent of Bounce Back Loan applications, having built this process from scratch, using technology to accurately and at scale provide credit decisions at a time when customers required urgent support. The use of robotics has significantly improved colleague capacity to focus on providing additional customer support. Across the Group, we have saved more than 1.8 million hours through the use of robotics over the last three years, including over 700,000 in 2020 alone.

In addition to improving outcomes for customers, significant investment in new technologies and the modernisation of our existing IT architecture have supported our ongoing focus on efficiency, with business as usual costs down 4 per cent in 2020. This relentless focus on efficiency continues to create capacity for future investment, helping us to future-proof our business.

Given the ongoing shift to digital, ensuring that customer data remains safe is becoming increasingly important. We are therefore continuing to invest in the resilience and security of our systems.

Link to principal risks
Data
Change/execution
Operational resilience

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



Strategic review 2021: Building the UK's preferred financial partner

Our next chapter

Our strategic planning process

We regularly review our strategy in light of our changing operating environment to ensure that our focus remains the right one for our customers, colleagues, shareholders and broader society. Over the past two years we have considered how we can build on the Group's successful transformation, with a defining purpose further embedded in a refreshed strategy that can be at the heart of Britain's recovery while delivering enduring value to all our stakeholders.

Why the change?

Since 2011, we have significantly transformed our business for the benefit of our customers and other key stakeholders, while also positioning us well to succeed in a digital world. We are not complacent, however, and recognise that we need to continually evolve in response to increasing customer and societal expectations, new technologies and a rapidly changing competitive environment. Most importantly, we also recognise that we have a critical role to play in Helping Britain Recover from the COVID pandemic.

Up to June 2019

Review of strategic progress and look ahead to the next strategic plan

As part of our strategic cycle, the Board and Executive Management team attend an annual two-day strategy meeting.

In June 2019, the Board discussed how recent and expected trends across customer behaviours, technology and competition pointed to a narrowing of scenarios for the banking sector's longer-term evolution. In addition, the Board considered the key societal and environmental challenges facing the UK and the Group's role in addressing them.

These assessments led to the identification of the key emerging priorities for the next strategic plan.

Up to June 2020

Development of high-level strategic options with Helping Britain Recover at their heart

While these priorities remain relevant for the Group's long-term strategic focus, the significant impacts of COVID-19 on the UK and our stakeholders, have become the most important drivers of our shorter-term response and strategic priorities.

In light of this, the Board and Executive Management team agreed in June 2020 that the Group's purpose should be firmly embedded at the heart of our strategy, with our immediate focus on Helping Britain Recover framing our strategic plan for 2021 as well as the associated priorities regarding our customer propositions, colleagues and Group capabilities.

Up to February 2021

Finalisation of strategy and communication

Teams across the Group then helped translate these priorities into more detailed initiatives, ensuring that Helping Britain Recover remains the key focus.

At an extended Board session in November, attended by both the then incumbent and incoming Chair, these initiatives were subsequently discussed in the context of the investment required in 2021 and the Group's longer-term financial plan.

Since then, the Board have supported the development of detailed plans, with measurable outcomes designed to support successful delivery and mitigate execution risks, as well as the communication approach for our evolution of strategy.

2021 focus

Building the UK's preferred financial partner

Over the following pages, we outline our strategic priorities for 2021 and beyond, and how they have both been shaped by and will be instrumental in Helping Britain Recover.

Building the UK's preferred financial partner

Strategic Review 2021
Lloyds Banking Group is a customer focused, sustainable, efficient and low risk UK financial services leader with the clear purpose of Helping Britain Prosper. The next phase of our strategy, Strategic Review 2021, is focused on Helping Britain Recover and further enhancing our core capabilities.

Through this approach, which is focused on near term execution and underpinned by our longer term strategic vision, we are aiming to capture the co-ordinated growth opportunities available to us in our two core business areas by creating the UK's preferred financial partner for personal customers and the best bank for business.

Strategic Review 2021 builds on our core capabilities and the strong foundations from previous strategic reviews, reinforcing our customer focus. We have made significant progress in recent years, leveraging the unique strengths and assets of the Group, including our purpose driven and customer focused business model, our low risk approach to business, our market leading efficiency and our leading multi-channel propositions including the largest digital bank and branch network in the UK. This has created the platform for Strategic Review 2021.

The UK's preferred financial partner
Through delivery of the strategy we intend to create the preferred financial partner for personal customers and the best bank for business. Delivery of our customer-centric ambitions will be supported by accelerating the Group's transformation, with particular focus on four capabilities:

- **Delivering a modernised technology architecture**
- **Building an integrated payments platform**
- **Creating a data-driven organisation**
- **Implementing reimagined ways of working**

Our superior cost structure has enabled us to maintain high levels of strategic investment. We will invest around £0.9 billion this year to support the Strategic Review 2021 initiatives and the long-term strength of the business.

Strategic review 2021: Building the UK's preferred financial partner continued

Helping Britain Recover

Helping Britain Recover

Helping Britain Recover

We recognise that the focus of the Group's purpose must evolve in response to the current environment and changing customer needs and expectations.

With the evolution of our strategy, we will further embed our purpose across all of our activities. This will ensure we contribute to creating an environmentally sustainable and inclusive future for the UK and by doing so build a successful and sustainable business.

The global pandemic will have lasting social and economic effects on the United Kingdom. Its impact has been felt by everyone, whether through financial hardship, reduced choices, mental distress or personal loss.

Our focus will therefore be to Help Britain Recover, and we are committed to working with others in five areas where we can make the most difference.

Help rebuild households' financial health and wellbeing

We will help rebuild households' financial health and wellbeing

We remain committed to supporting our customers to become financially resilient and to plan and save for the future. We will provide practical support, and flexibility where possible, to help our customers facing financial difficulty to get back on track and help as many customers as we can to stay in their own home.

In 2021, we will:

- Have over **6,500 colleagues** trained to support customers to build their financial resilience
- Maintain our commitment to supporting mental health and become accredited as '**Mental Health Accessible**' for Halifax and Bank of Scotland, in addition to the existing Lloyds Bank accreditation
- Partner with **independent debt advice organisations** to ensure customers have access to practical support

Support businesses to recover, adapt and grow

We will support businesses to recover, adapt and grow

We will be by the side of businesses as they recover, supporting UK business to adapt and grow, and create quality jobs across the regions of the UK.

In 2021, we will:

- **Develop appropriate recovery plans** for our customers, supported by **1,100 business specialists** in communities across Britain
- **Support at least 75,000 UK businesses to start up** in 2021
- Help at least **185,000 small businesses boost their digital capability** through our Regional Academies, partnerships and digital mentoring

Expand availability of affordable and quality homes

We will expand the availability of affordable and quality homes

As the UK recovers from the pandemic, we aspire to a UK in which all households have access to stable, affordable and safe homes in places they want to live. We are committed to broadening access to home ownership and exploring opportunities to increase our support to the UK rental sector.

In 2021, we will:

- Provide **£10 billion of lending to help people to buy their first home in 2021**, and **lead a national conversation** on how more households can access the housing market
- Provide **£1.5 billion of new funding support, including £500 million in ESG-linked funding,** in support of the social housing sector
- Support the creation of **national sustainability standards** for house-building finance and assess the **energy retrofit requirements of over 200,000 homes** in the social housing sector

Accelerate the transition to a low carbon economy

We will help accelerate the transition to a low carbon economy

With recovery comes an opportunity to build a greener future, creating new businesses and jobs for the future. We want to play our part in supporting the transition to net zero and are committed to working with customers, Government and the market to help reduce the carbon emissions we finance by more than 50 per cent by 2030 on the path to net zero by 2050 or sooner.

In 2021, we will:

- Expand the funding available under our **green finance initiatives from £3 billion to £5 billion**, to support businesses to transition
- Launch a new goal to ensure **our own operations are net zero by 2030**
- Become the **first major pensions and insurance provider** to target halving the carbon footprint of all our c.£170bn investments by 2030 on our path to net zero by 2050
- **Introduce a flagship fossil fuel-free fund** to support green growth, allowing pension savers to choose to invest in UK companies pursuing a positive environmental impact

Build an inclusive society and organisation

We will help build an inclusive society through our financial services offering and by creating an organisation that reflects the society we serve

We believe that the economic and social recovery should be one that's truly inclusive and involves communities across the UK's nations and regions.

In 2021, we will:

- **Set new aspirations for a leadership team that reflects the society we serve,** of 50 per cent women, 3 per cent Black and 13 per cent Black, Asian and Minority Ethnic colleagues in senior roles by 2025
- Maintain our **£25.5 million** contribution to our independent charitable foundations, with the Lloyds Bank Foundation for England and Wales focusing **25 per cent of its support** on Black, Asian and Minority Ethnic led charities
- Support regional regeneration, including launching the '**Regional Housing Growth Initiative**', helping small- and medium-sized housebuilders create more homes in the North of England, the Midlands and the regions of Scotland
- **Support financial inclusion by providing banking** for groups of people experiencing homelessness, financial abuse or victims of modern slavery and supporting the prisoner banking programme

Strategic review 2021: Building the UK's preferred financial partner continued

Britain's preferred financial partner

Britain's Preferred Financial Partner

Preferred financial partner for personal customers

Why this is important

The COVID-19 pandemic has accelerated a number of pre-existing shifts in customer behaviours and preferences, while also starkly demonstrating financial vulnerabilities affecting customers of all ages across the UK. As the UK's largest financial services provider, we have a unique opportunity to meet more of our customers' broader financial needs and improve their overall resilience throughout their lifetime, with personalised and value-adding products and services that are relevant to them.

Long-term vision

Leveraging our unique capabilities to meet more of our customers' needs

2021 investment focus

To achieve our vision and become the preferred financial partner for personal customers, we are focusing on three key areas of investment in 2021:

- Enable financial resilience and wellbeing through dedicated customer assessment and support
- Significantly deepen relationships with priority segments through enhanced journeys and new capabilities
- Digitise to reduce cost to serve

Measures of success:

- Net open book mortgage growth in 2021
- Maintain record all channel net promoter score in 2021
- Increase priority segment customers with needs met by both Retail and Insurance and Wealth
- Positive annual net new money in Insurance and Wealth open book assets; to deliver a £25 billion increase by 2023

Enable financial resilience and wellbeing through dedicated customer assessment and support

Consistent with our broader societal and strategic focus on Helping Britain Recover, we will use our unique position as the UK's only integrated financial services provider to address both the short-term financial challenges facing our customers and build longer-term resilience, with products and services relevant to their changing needs.

Over the course of 2021, we will support our customers, with a dual focus on building short-term resilience through savings and borrowings, and on strengthening long-term resilience by broadening access to protection and other insurance coverage against unforeseen life events. As part of our overall approach, in 2021 we will launch a range of tools that enable a better assessment of financial wellbeing, while also building on our strong track record in supporting our most vulnerable customers by simplifying our customer treatment approaches and deploying specialist vulnerable customer support where needed.

Significantly deepen relationships with priority segments through enhanced journeys and new capabilities

We have the largest personal customer franchise for financial needs in the UK, with approximately 50 per cent of UK adults having a relationship with the Group and 17.4 million digitally-active customers. We have a considerable opportunity to build on these strong foundations and significantly deepen our customer relationships, especially within our priority segments.

We will meet more of our customers' broader banking, insurance and wealth needs throughout their lifetime, making better use of our unique scale and data insights to develop a more personalised approach and offering products and services that meet their specific needs at a time and via channels that are relevant to them. Consistent with this focus, we will make a number of further enhancements to our customer journeys, building on the significant improvements already delivered during our most recent strategic plan.

We will also broaden customer access to long-term financial planning and long-term saving with priorities including the better integration of our Schroders Personal Wealth offering across our Retail branch network. Through these and other initiatives, we expect to achieve net growth in open book mortgage balances in 2021. Looking beyond this, we are aiming to increase priority segment customers with needs met by both Retail and Insurance and Wealth propositions and expect to generate positive annual net new money into our open book Insurance and Wealth propositions, delivering a £25 billion increase by 2023.

Digitise to reduce cost to serve

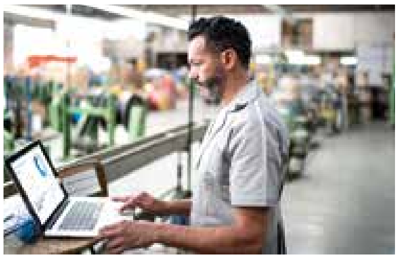
We have a strong track record in simplifying customer processes to improve their overall experience and satisfaction, while also capturing operational efficiencies and cost savings. Looking ahead, we remain focused on improving the experience of all our customers, with increasing levels of data-driven personalisation being accompanied by other improvements that provide them with richer insights and put them more in control of their finances.

To achieve this and drive further improvements in operational efficiency, in 2021 we will continue to utilise the latest technologies to digitise key customer journeys and support greater levels of self-service, while also migrating high volume telephony users to digital services to reduce failure demand and improve the customer experience. In doing this, we recognise that our multi-channel approach remains important for a large number of our customers.

We will therefore continue to offer our customers a seamless experience across channels, with our branch network increasingly optimised to meet more complex needs. Taking all these elements together, in 2021 we are aiming to maintain our record all channel net promoter scores, following the all-time highs that were achieved in 2020.

Britain's Preferred Financial Partner

Best bank for business



Why this is important

We are committed to remaining by the side of British businesses of all sizes, with market-leading propositions that are relevant to their very specific and evolving needs. As we emerge from the COVID pandemic, we will need to continue supporting our clients, not only with their immediate financial needs, but with a focus on helping them adapt, grow and thrive as we transition to a low carbon economy.

Long-term vision
Leading digital SME bank; disciplined and strengthened large client proposition

2021 investment focus
To achieve our vision and become the best bank for all UK businesses, while also supporting a more sustainable UK economic recovery, we have identified three key areas of strategic focus and investment for 2021:

- Enhance SME channel and service with increased digitisation
- Automate recovery support and finance the green transition
- Strengthen Corporate and Institutional product capabilities

Measures of success:

- More than 50 per cent growth in SME products originated via a digital source in 2021
- 5 point increase in SME and Retail Business Banking digital net promoter score by 2023
- Profitably improve share in markets products for core clients in 2021

Enhance SME channel and service with increased digitisation
SMEs play a vital role in the UK economy and we have remained steadfast in our support to them, having achieved significant market share growth in recent years. We will build on this track record by ensuring that our products and services continue to respond effectively to their evolving needs.

As SMEs increasingly turn to digital channels for speed, convenience and control, we will expand our end-to-end digital origination for simple products, while also enhancing self-service capabilities for day-to-day banking, with priorities in 2021 including the delivery of a self-serve platform with automated decisioning for Asset Finance products. Looking beyond banking, we will extend the capabilities of our accountancy solution for SMEs, while also making this available to more clients. Through these initiatives, in 2021 we expect to achieve at least 50 per cent growth in SME products originated via a digital source and to increase our SME and Retail Business Banking digital net promoter score by 5 points by 2023.

SMEs continue to value human interaction for their more complex needs. Through our strong network of relationship managers and leading branch network for smaller business clients we have a significant competitive advantage in responding to these needs, and will continue to upskill our colleagues to provide an enhanced service, while also delivering a more seamless experience across channels.

Automate recovery support and finance the green transition
In 2020, we stood firmly by the side of UK business, providing support to clients impacted by the pandemic. We will continue to work closely with these clients and the Government to ensure that businesses approaching the end of COVID capital support have the best chance to build resilience, adapt and return to growth. As part of this, we will roll out a digital-led BBLs engagement model enabling clients to access support and self-serve, while also working individually with clients requiring specialist help.

We strongly believe that there is a unique opportunity to rebuild the UK economy on a more sustainable and low-carbon basis and that, through our focus on Helping Britain Recover, we can be at the forefront of this. We have already started working with our clients, the Government and the market to help reduce the carbon emissions we finance by more than 50 per cent by 2030 on the path to net zero and, as part of this, in 2021 will expand our funding for green finance initiatives from £3 billion to £5 billion.

We will also continue to help fund sustainable housing development, with other priorities including supporting the creation of national sustainability standards for new-build housing and working with housing associations to improve the energy efficiency of social housing accommodation.

Strengthen Corporate and Institutional product capabilities
We also have a significant presence at the larger end of the market, with over 60 per cent of FTSE 100 companies having an active relationship with the Group. We will build on the progress made in our previous strategic plan by continuing to deepen our relationships with these larger clients and strengthening our simple and low risk commercial banking offering. At the same time we will enhance our fee based client propositions, with the aim of diversifying our revenue generation.

We already provide our Corporate and Institutional clients with a personalised service proposition and tailored support: an approach which was incredibly effective as the impacts of the pandemic were felt very differently across the portfolio. We will build on these foundations by improving the alignment of our coverage model and creating an ecosystem for Corporate and Institutional clients. In addition we will modernise our markets capabilities, with areas of focus including the upgrading of our FX platform and digitisation of our rates capability. Through these initiatives, we are looking to profitably improve our share in markets products for core clients in 2021.

Strategic review 2021: Building the UK's preferred financial partner continued

Enhancing our capabilities

MODERN TECHNOLOGY

Modernised technology architecture

Why this is important

In order to remain relevant to our customers and retain our cost leadership position in an increasingly competitive operating environment, we will need to continue modernising our technology architecture. Through this, we aim to deliver a further step change in agility and responsiveness to customer trends, while also supporting our broader strategic priorities around enhanced data insights, improved customer experience and operational resilience and efficiency.

Long-term vision
Efficient, scalable and resilient cloud-based architecture, supporting business transformation

2021 investment focus
We have identified three key areas for strategic investment in 2021 to support our vision of delivering a modernised technology architecture:

- Further broaden self-service capabilities through digitisation
- Prove and leverage public cloud to create foundations for future technology architecture
- Simplify legacy estate through technology optimisation

Measures of success

- Mobile app releases to double year-on-year in 2021
- Further mobile app enhancement to maintain record mobile-app net promoter score
- c.30 per cent of technology applications and services migrated and c.20 per cent decommissioned by 2023
- Deliver new technology architecture pilot

Further broaden self-service capabilities through digitisation
In recent years we have made significant progress in the development of our technology platform and capabilities, having invested over £4 billion cumulatively in these strategic priorities by the end of 2020. This investment has, in turn, played a fundamental role in helping us to deliver a leading customer experience and in improving our operational agility, resilience and efficiency.

Our successes in these areas are reflected, amongst other things, in our digital net promoter scores, which reached a record high in 2020, our year-on-year reductions in net costs, and our ability to now make simple changes to our digital propositions intraday, as opposed to our previous 30 day release cycles.

Looking ahead, we will build on this strong track record and respond to the growing customer demand for convenience and control by broadening the self-service capabilities available to our digital customers. Consistent with this focus and our objective of maintaining our record mobile app net promoter score, we will double the number of enhancements we make to our mobile app in 2021.

Prove and leverage public cloud to create foundations for future technology architecture
To support our long-term strategic vision of building and operating an efficient, scalable and resilient cloud-based architecture, we will increase our investment in R&D to assess the customer and business benefits that next-generation technologies could have on the organisation. In 2021 we will initially focus on proving the appropriateness of public cloud for our specific customer and operational needs, with a view to assessing how this can be leveraged to create the foundations for our future technology architecture and drive the next phase of our operational transformation.

In doing this, we will build on the next generation capabilities and insights that we are already developing through strategic partnerships with specialist partners such as Google Cloud, Thought Machine, Microsoft Azure and Form3, as well as the new insights and capabilities that we are developing ourselves.

While our adoption of a cloud-based technology architecture is likely to be an ongoing area of focus into the long-term, we are confident that this will drive a step change in our customer propositions and efficiency.

Simplify legacy estate through technology optimisation
Through our investment in technology, we have a significant opportunity to simplify our estate, and by the end of 2023 expect to have migrated around 30 per cent and decommissioned about 20 per cent of our technology applications and services.

To achieve our longer-term ambitions, we will ultimately need to migrate our customers and relevant applications to this new environment.

In doing this, it is vitally important that our core systems and customer data remain protected and that operational continuity is maintained. To gain comfort in this regard, we will initially conduct a focused, pilot migration of our own back-book customers to the new cloud-based architecture in 2021. This will help us identify potential issues that can be effectively addressed before we replicate this migration on a much larger scale.

By the end of the year, we are aiming to have achieved a c.40 per cent reduction in applications from our legacy architecture through this pilot exercise and to have safely migrated approximately 400,000 customer accounts to the new bank architecture.

Our success in delivering these targeted milestones in 2021 will, in turn, help determine the pace and scale of our approach as we simplify our legacy estate, with a view to capturing the significant medium-term opportunities available to us, including transformed customer experiences and improved operational agility.

Integrated payments

Why this is important

In recent years digital payments have grown significantly, fuelled by the rapid rise in online shopping and e-commerce, as well as increased demand for speed, convenience, security and choice. Looking ahead, these trends are expected to continue, with the ability to offer a leading payments proposition vital in capturing this significant growth opportunity in the face of increased competitive disruption.

Long-term vision
Seizing the payments growth opportunity in our customers' channel of choice

2021 investment focus
For 2021 we have identified three key areas of focus:

- Enhance card e-commerce and international payments experience to drive increased customer usage
- Build capability and integration of new cash management and payments platform
- Enhance merchant services proposition with improved distribution capabilities

Measures of success

- Maintain leading card spend market share in 2021, with growth in credit card spend market share from 2022
- 3x increase in corporate clients on new cash management and payments platform in 2021
- 15 per cent to 20 per cent new client growth per annum in merchant services

Enhance card e-commerce and international payments experience to drive increased customer usage
As a Group, we are well-positioned to capture the significant growth opportunity associated with the accelerated shift to digital payments. We are the largest card issuer in the UK and have over a 20 per cent share in card-based payments.

In addition, we have strong participation across the payments ecosystem, ranging from more traditional debit and credit card methods across our High Street banking brands to more emerging and innovative methods across APIs and Open Banking. To capture this opportunity, we will enhance the consumer payments experience, with a focus on speed, convenience, choice and security.

Amongst other developments, in 2021 we will continue to expand real-time push notifications and will look to translate improvements in customer experience into improved loyalty, with a range of customer rewards and offers that are targeted, based on our rich data insights. Through these initiatives, our objective for 2021 is to maintain our leading share of card spend, with a longer-term objective of achieving market share growth in credit card spend from 2022.

Build capability and integration of new cash management and payments platform
During the course of our most recent strategic plan, we significantly invested in the development of a new cash management and payments platform with leading API functionality for our corporate clients. To capitalise on this past investment, meet additional client needs across cash management and payments, and address the growing demand for payment solutions that are increasingly integrated into our clients' clients' business flows, we will continue to enhance our platform capabilities.

As part of this overall approach, we will continue to build out our international and complex liquidity capabilities, while also improving the integration between our payments platform and other digital channels used by our corporate clients. Through these initiatives, we have set an objective of achieving a threefold increase in the number of corporate clients using our new cash management and payments platform in 2021.

Enhance merchant services proposition with improved distribution capabilities
Against a backdrop of ongoing and significant growth in e-commerce and digital payment volumes, our merchant customers are increasingly demanding the ability to accept multiple payment methods, with a view to improving checkout conversion rates and lower payment costs.

To address these needs, in 2021 we will modernise our payments gateway to offer integrated journeys across different payment types as well as a range of value-added services. In addition, this will form part of a strong merchant services proposition with key features including real-time data insights and customer analytics.

To ensure that we are able to meet more of our merchant customers' needs through these proposition enhancements, we are also focused on improving our distribution capabilities. In light of these developments, we are targeting new client growth of between 15 and 20 per cent per year in this fast-growing and evolving market.

Strategic review 2021: Building the UK's preferred financial partner continued

Enhancing our capabilities

DATA DRIVEN

Data-driven organisation

Why this is important

As the UK's largest financial services provider, processing approximately 14 billion customer transactions and interactions in 2020 alone, we have access to a wealth of customer data. In an increasingly competitive market, it is vital that we are able to appropriately use this data to create insights that deliver better customer outcomes and strengthen our own risk management processes.

Long-term vision
Leveraging our data proposition to create value for all stakeholders

2021 investment focus
We have identified three key areas of strategic investment focus in 2021 to support our medium-term vision and become a data-driven organisation

- Expand use of data to enable better customer and business propositions
- Extend machine learning capabilities to drive faster and more accurate pricing and risk decisions
- Deliver organisational reform of data strategy and management, supporting collaboration

Measures of success:

- Increase in meeting personal customer needs using advanced analytics (e.g. 20 per cent increase in home insurance needs met)
- >10 per cent increase in fraud detection rates from expansion of machine learning
- 50 per cent return on investment from year 1 investment in advanced analytics

Expand use of data to enable better customer and business propositions
As customers' expectations of financial services are increasingly being shaped by their experiences outside of the sector, personalisation has become an increasingly important differentiator. In our most recent strategic plan, we were able to successfully develop our data and advanced analytics capabilities to deliver more personalised propositions and improve the customer experience.

We will continue to enhance our data and advanced analytics capabilities to deliver better customer and business propositions. Through data-driven marketing we are already able to meet 20 per cent of customer needs, with the use of appropriate data insights helping to ensure that our propositions are more targeted to genuine needs and, through this, lead to better customer outcomes and response rates.

Through the further development of our capabilities in this area we are targeting a significant increase in personal customers' needs we can meet using advanced analytics, including for example, a 20 per cent increase in Home Insurance needs met.

Extend machine learning capabilities to drive faster and more accurate pricing and risk decisions
The potential benefits from improved data and analytics capabilities extend beyond customer outcomes and an improvement in the overall customer experience, with significant efficiency and risk opportunities also available through the further development and deployment of our machine learning across key business processes.

In 2021, we will increase the use of machine learning to drive faster and more accurate pricing and risk decisions, while also expanding its usage to cover at least 50 per cent of customer transactions. We expect this approach to achieve at least a 10 per cent increase in fraud detection rates and therefore play an important role in our ongoing efforts to protect our customers and the Group from this growing threat.

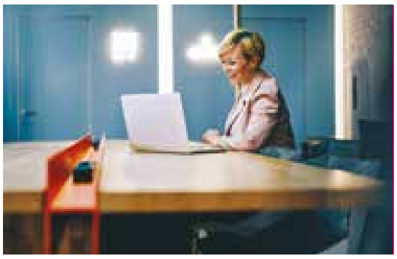
In addition, advanced analytics will be used to deliver early insights into financial vulnerabilities, which is particularly important as our personal customers and business clients recover from the effects of pandemic.

Deliver organisational reform of data strategy and management, supporting collaboration
In order to realise these significant customer and organisational benefits, we will need to access our data more efficiently and flexibly, while also ensuring that we adhere to the highest standards of data management and protection. To achieve this, we will implement organisational changes in respect of our data strategy and management and will establish centralised centres of excellence to help drive innovation and develop best data practice that can be consistently deployed across the Group.

In addition, we will further embed data and analytics capabilities within our business functions, with the aim of achieving a more effective alignment between our technical and business expertise. Through this approach, we also expect to be able to direct our strategic investment in a more effective and immediate way, in turn helping us to deliver greater financial and operational benefits. Through this and our broader approach to data, we expect to be able to deliver a 50 per cent return on our investment in advanced analytics in the first year.

NEW WAYS OF WORKING

Reimagined ways of working



Why this is important

Our people are crucial to the success of the Group and our purpose. To retain this source of competitive advantage, we must evolve our colleague proposition to reflect new working patterns and colleague expectations post COVID, while also delivering a sustainable workspace that supports increased collaboration and innovation. We must also invest in developing future skills, ensuring that everything we do is underpinned by a purpose-driven and inclusive culture.

Long-term vision
Purpose-led future ready and inclusive workforce in a transformed workspace

2021 investment focus
In order to evolve to a future-ready workplace, ways of working and workforce, our activity and investment will centre around three areas in 2021:

- Further build our purpose-led culture through refreshed values and behaviours
- Build career pathways to attract and retain a more diverse, skilled and future ready workforce
- Deliver sustainable workplace solutions, including reduced office footprint

Measures of success:

- Maintain leading Employee Engagement Index
- Aspiration of 50 per cent of senior roles held by women and 13 per cent senior roles held by Black, Asian and Minority Ethnic colleagues by 2025
- 8 per cent reduction in office space in 2021, with c.20 per cent cumulative reductions by 2023.

Further build our purpose-led culture through refreshed values and behaviours
Helping Britain Prosper is at the heart of everything we do. We want all of our colleagues to be able to identify with this purpose, while also recognising how they are contributing to Britain's recovery.

To achieve this and ensure that our culture continues to accurately reflect our purpose, we will rollout a new behaviours framework and aligned purpose driven values. Our colleagues continue to demonstrate great determination, flexibility and mutual support during the pandemic as they adapt to new circumstances and new ways of working. We recognise the importance of retaining the positive learnings and behaviours from this challenging period as we continue to explore new ways of working.

During the pandemic, we increased the support available to our colleagues for their physical and mental health, with the wellbeing of our people remaining a key priority going forward. Through all of these initiatives, we are aiming to maintain our leading employee engagement scores in 2021 and beyond.

Build career pathways to attract and retain a more diverse, skilled and future ready workforce
We were the first FTSE100 company to introduce targets for senior roles held by female and Black, Asian and Minority Ethnic colleagues and have made significant progress towards these ambitious goals. We will build on this, with the goal of ensuring our workforce is more diverse and mirrors the society we serve. Consistent with this, we will increase female and Black, Asian and Minority Ethnic representation at the most senior levels, with the aspiration of increasing this to 50 per cent and 13 per cent respectively by 2025.

As our business becomes increasingly technology-driven, we will need to continue attracting and developing future skills. We have already exceeded our recent colleague training targets and reduced our dependency on external contractors.

We will build on this, with a range of initiatives designed to help us attract targeted skills. We will also continue to encourage our colleagues to develop future-ready skills, while providing them with tailored and easily-accessible content to achieve this. In addition, we recognise that new ways of working, hybrid workplaces and more agile working patterns will also require softer skills and leadership capabilities, and we will work with all our colleagues to ensure they have the right foundations to succeed in this new normal.

Deliver sustainable workplace solutions, including reduced office footprint
The pandemic has led to unprecedented change in the way companies operate, while also accelerating the shift to more agile working patterns. While recent internal surveys show that the vast majority of our colleagues would like to retain some form of home working, offices will undoubtedly remain important for colleague interaction, collaboration and innovation.

In response, we will deliver a reduced, sustainable and future ready office footprint, with activity expected to commence in several of our collaboration hubs as we emerge from the COVID crisis. These programmes, which are expected to deliver an 8 per cent reduction in our office space in 2021 as well as cumulative reductions of c.20 per cent by 2023, will be informed by behavioural experiments and pilots that will help us determine the future look of our offices and ways of working.

We will also reduce our own carbon footprint, with key initiatives including improved energy efficiency across our office and branch real estate, new ways of working and reduced travel requirements. Consistent with this focus, we have set a target of achieving net zero carbon operations by 2030.

Our key stakeholders and Board engagement

Reflecting the needs of our stakeholders in Board decisions

The Board is responsible for the long-term success of the Company, setting and overseeing the culture, purpose, values and strategy of the Group. The Board's understanding of stakeholders' interests is central to these responsibilities, crucial to the Company's success, and informs key aspects of Board decision-making as set out in this statement.

Stakeholder engagement is embedded in all aspects of the Board's decision-making and can be seen in the range of tailored activities across the stakeholder groups. It is also embedded in the Board's delegation of the management of the business to the Executive, with examples of related action taken included across the report, in particular the sections referenced under 'More Detail'.

The Executive, including the Group Chief Executive and Chief Financial Officer, provide the Board with details of material stakeholder interaction and feedback, through regular business updates. Stakeholder interests are also identified by the Executive in the wider proposals put to the Board.

This year interaction with stakeholders was adapted to comply with the Government's measures in relation to COVID-19, and has been undertaken virtually as necessary.

This section (pages 46 to 51) acts as our Section 172(1) statement; but, given the importance of stakeholder interests, our reputation for high standards of business conduct and a long-term perspective, these matters are discussed where relevant throughout the report.

Section 172(1) Statement
In accordance with the Companies Act 2006 (the 'Act'), 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 81 to 110 and the Directors' Report on pages 111 to 114 of our Annual Report and Accounts.

This statement also provides details of how the Directors have engaged with and had regard to the interests of our key stakeholders.

CUSTOMERS

The Board's deep understanding of customers' needs is vital in setting and achieving the Company's goals. Customer needs and a customer-centric approach remain therefore a key consideration in Board decisions.

COVID-19 response
The Group's response to the COVID pandemic has been a central focus for the Board since the start of the outbreak. The Board has sought to take all possible steps to support customers through these challenging times.

Regular Board updates from across the Group identified key areas of customer concern. In addition, the Group Chief Executive attended virtual customer engagement events, which provided an important opportunity for customers to raise directly any concerns on the matters of most significance to them. Areas of worry included customers' ability to meet their ongoing financial commitments, and to continue to operate their businesses as the extent of the economic impacts emerged.

The Board considered and approved the Group's vital role in the Government's COVID related business loan schemes, which provided funding to a range of client businesses across a number of economic sectors. Customer payment holidays were also introduced, complementing other means of Group support, including removing fees for missed payments and access to fixed term accounts without charge.

The Board supported further key actions, including the launch of two initiatives with digital inclusion training provider, We Are Digital. These included providing tablet devices free of charge to over-70s isolated by COVID, and a dedicated phone line giving vulnerable customers support in staying connected with digital activities, including managing online banking. The Board was also keen that the Group play a part in tackling the isolation many feel as a result of the crisis. The Group was therefore pleased to partner with Age UK in providing The Silver Line, a 24/7 helpline for those aged 55 and over who may be feeling lonely or isolated.

The essential nature of a deep understanding of challenges faced by customers in financial difficulty was also highlighted by the pandemic. The Board was updated regularly on the needs of these customers, which resulted in the provision of additional support. This included increasing our capacity to serve customers who needed the help of a colleague, and delivering related self-serve functionality where preferred by customers.

Customer feedback
Customer feedback is always a priority for the Board. Regular updates are provided which give valuable insight into the Group's performance in delivering on our customer-related objectives, and on improving customer outcomes.

With Board oversight, new means of sharing customer views were developed for use over the coming year. These will provide greater insight not only on customer experience, but also on the progress being made to improve customer satisfaction in the areas of most importance. This will in turn help in ensuring the Board can continue to focus on the things that matter most to our customers and our clients.

The Board recognises the importance of understanding our performance in supporting customers, including how the Group performs relative to our peers. Related updates covered a range of internal and external measures, including customer indices and market share updates. Such updates provided important insight, and enabled the Board to recommend suitable customer related actions.

Helping Britain Recover
The needs of customers once the pandemic abates has also been a focus for the Board. This has included providing direction for the development of our Helping Britain Recover ambitions, building on the Group's purpose of Helping Britain Prosper.

These ambitions seek to address the changes in priorities for our stakeholders, including our customers, as the country emerges from the pandemic.

The Board oversaw the development of these ambitions, which aim to make sure the Group's purpose remains aligned to a changing society, fully integrating our societal objectives with our business objectives. Read more on the Board's role in this process on page 49.

Technology transformation
The Board has taken steps to make sure the Group continues to build on its response to customer demand for technology. Digital transformation has therefore remained a key focus, including supporting the development of the Group's Cloud strategy, and the ongoing roll-out of technological developments for customers, discussed further on page 51.

More detail
COVID-19 response
Read more on pages 1 to 3
Helping Britain Recover
Read more on pages 38 to 39
Technology transformation
Read more on page 18

KEY BOARD DECISION DIVIDENDS

Despite the challenging economic environment, the Group has delivered a robust financial performance, and demonstrated resilience and ability to continue to generate capital. This has been supported by our customer-centric strategy and the strength of our balance sheet.

At the end of March, in response to a request from the PRA the Board took the decision not to make quarterly or interim dividend payments, accrual of dividends, or share buybacks on ordinary shares. While the Board understood this was a difficult decision from the perspective of the Group's stakeholders, it was nonetheless important in helping the Group serve the needs of businesses and households through the extraordinary challenges of COVID-19.

In addition, to preserve additional capital for use in serving our customers, the Board agreed to cancel the final 2019 dividend on ordinary shares.

These were hard decisions for the Board. They involved balancing the interests of our shareholders, for whom regular distributions are important, and those of our customers, many of whom needed additional support during the pandemic.

The Board has recommended a final ordinary dividend of 0.57 pence per share, the maximum allowed under the Prudential Regulation Authority's temporary framework on 2020 distributions.

The decision is supported by the regulator, and follows extensive shareholder feedback and discussion with other stakeholders. Read more about our approach to dividends on page 68 of our Annual Report and Accounts.

Link to strategic priorities

Leading customer experience

The Board is pleased that despite the challenges which the year has presented, the Group's strong performance has enabled us to recommence dividend payments, and recommend to shareholders a final ordinary dividend of 0.57 pence per share.

Robin Budenberg
Chair

SHAREHOLDERS

The Group has the largest shareholder base in the UK, with around 2.3 million shareholders including most employees.

The Board recognises the importance of understanding the priorities of different shareholder groups when developing and implementing strategy, with ongoing engagement with both institutional and retail shareholders.

The Group places great importance on making sure shareholders are effectively briefed on strategic and financial progress, in addition to considering their valued feedback. Comprehensive disclosure is provided with results and, given the increasing focus of investors on ESG matters, we now issue a specific ESG-focused presentation for investors 'Our approach to ESG'.

The Group undertook more than 340 institutional investor meetings in 2020, many of which were with management, and also hosted a retail investor event. In addition, various Non-Executive Directors engaged directly with shareholders through the year, including the Chair and the Remuneration Committee Chair. Meetings held by the Chair largely focused on corporate strategy, governance and sustainability, while the Remuneration Committee Chair consulted extensively on the new remuneration policy, both pre and post the 2020 AGM.

To ensure investors were fully briefed on Group governance initiatives a Governance event was also held in November, hosted by the Chair and the Chairs of all the Board Committees. Key topics discussed included governance, sustainability and remuneration, and it provided an excellent forum for Board members to hear directly investor views on key topics.

Board members are also kept up to date on market views and shareholder sentiment by Investor Relations, including an annual presentation with the Group's corporate brokers on market dynamics and corporate perception. The Board's Nomination and Governance Committee considers correspondence received from institutional shareholders, with feedback provided to the Board on material retail shareholder correspondence.

The Annual General Meeting

The Board recognises that the Annual General Meeting ('AGM') is an important opportunity for shareholders, institutional and retail alike, to hear from and engage with the Board.

The Board was keen that 2020's AGM adapt to the challenges of the pandemic, and provision was made so shareholders could access as many of the benefits of an AGM as possible.

The opportunity was provided for shareholders to hear from and put questions to the Board, on a virtual basis in line with safety guidance. Answers to questions, and remarks from the Chair and Group Chief Executive were also made available online.

Given the importance of the AGM in shareholder engagement, the Board continues to consider what will be possible for the 2021 meeting. The Board is especially keen to make sure the best possible engagement is safely available for shareholders.

Succession planning

The Board recognises the key role played by the Chair and the Group Chief Executive in the Group's future success, and the relevance of these important appointments to all of the Group's stakeholders, including to our many shareholders.

Considerable time was therefore given to the processes relating to succession and recruitment to these positions, which concluded in the appointment of Robin Budenberg as Chair, and confirmation that Charlie Nunn would be appointed as Group Chief Executive. These processes are discussed in greater detail in the report of the Board's Nomination and Governance Committee on page 98 of our Annual Report and Accounts.

Future strategy

The Board considered the development of the next phase of the Group's strategy, to be implemented during 2021. To help in this, dedicated sessions were held with the Executive in both June and November, to shape strategic priorities and agree how these would be implemented.

Consideration was given to feedback from key stakeholders, including understanding the priorities of the Group's shareholders in respect of our strategic direction. The Group's approach to the environment and climate change was of particular importance in shaping strategy, and is discussed further on page 50.

More detail

Annual General Meeting
Read more on page 344
of our Annual Report and Accounts

Appointment of new Chair
Read more on page 99
of our Annual Report and Accounts

Appointment of new Chief Executive
Read more on page 99
of our Annual Report and Accounts

Future strategy
Read more on pages 36 to 45

Our key stakeholders and Board engagement continued

COLLEAGUES

Colleagues are vital to the delivery of the Group's strategy and ambitions. This is recognised by the Board in its engagement with colleagues throughout the year.

The Board considers that maintaining open dialogue is crucial in informing its thinking, allowing Directors to hear first-hand the varied colleague views on the matters most important to them, and to the Group.

The Board agreed in 2019 its approach to workforce engagement, which has remained unchanged during the year. The definition of workforce agreed by the Board is 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.

The Board continues to receive Workforce Engagement reports which comprises two component parts, a summary of the Board's engagement activity with colleagues, and key themes raised by colleagues and trends on people matters. These covered all matters of colleague engagement, in particular key and emerging issues for colleagues, including Group culture and our response to the COVID pandemic.

During the year the Board communicated with colleagues through a number of means. These included informal colleague lunch and breakfast meetings, held by the Group Chief Executive and the Chair, and attended by Non-Executive Directors.

Virtual Town Hall sessions were hosted by both the Chair and the Group Chief Executive. These were complemented by engagement sessions led by other senior leaders, with feedback from all sessions shared with the Board. Town Hall sessions were particularly helpful in allowing colleagues the opportunity to ask questions, share their views, and receive a direct answer in real time.

During the year the Board gained further understanding of colleague views through a number of surveys completed by colleagues across the Group. These included the annual colleague survey, ad hoc 'Pulse' surveys, and participation by colleagues in the survey of the Banking Standards Board.

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

During the year the Group also communicated directly with colleagues detailing Group performance, changes in the economic and regulatory environment and updates on key strategic initiatives.

Meetings were also held throughout the year between Group representatives and our recognised unions.

The Group offers a competitive and fair reward package. Colleagues are eligible to participate in HMRC-approved share plans which promote share ownership by giving employees an opportunity to invest in Group shares. Further information can be found on page 136 of our Annual Report and Accounts in the Directors' Remuneration Report.

Culture acceleration

Following engagement, cultural acceleration initiatives have been a focus for the Board as the Group looks to accelerate the cultural change started in 2019.

The Board reviewed plans to further improve ways of working, encourage greater collaboration, and continue the reduction in bureaucracy. Opportunities were encouraged to promote simplicity in process and practice wherever possible.

A number of related initiatives were successfully completed during the year. These included a project to simplify the Group's Committee structure, and retain a more agile approach to decision-making which had been necessary during the pandemic.

Diversity

The Board believes a diverse workforce is vital to the Group's success, and values the differences each colleague brings to their role, making the Group stronger and better able to meet the needs of our customers.

In support of this the Board approved in July 2020 the introduction of our Race Action plan, designed to drive race related cultural change, recruitment and progression across the Group. The plan will be taken forward by a dedicated team, who will work with a newly formed Race Advisory Panel to further develop and implement the plan over the coming year.

The Board also approved a target to increase Black representation in senior roles to at least 3 per cent by 2025. This complemented the Group's broader 2018 Black, Asian and Minority Ethnic representation targets of 10 per cent overall, and 8 per cent at senior management levels.

More detail

Colleague engagement
Read more on page 29

Diversity
Read more on page 25

Speak Up
Read more on page 30

KEY BOARD DECISION
COVID RESPONSE

While the COVID pandemic has been challenging for our customers, it has also posed challenges for our colleagues. The Board was therefore keen to ensure colleagues received all the support the Group could give.

Regular and open engagement with colleagues was crucial, with the Group Chief Executive undertaking a series of related video broadcasts, keeping colleagues informed of developments.

This was supported by other members of the Executive, including colleague Q&A sessions held by the Group's People Director, where colleagues posed the questions which mattered to them most.

The Board agreed various measures of support for colleagues in response to the crisis. These included the temporary suspension of staff reductions, enhancements to working environment safety, flexible holiday entitlement and a commitment to pay colleagues in full, regardless of how their work had been impacted.

The Board took steps to ensure along with the Executive that colleague wellbeing was prioritised. Resources were made available to help colleagues in adjusting to the changing circumstances, including support in areas such as work life balance, health and financial management.

The Board considered it important that priority continue to be given to supporting colleague mental health. A number of related steps were taken, including support via the Group's 'Your Resilience' portal, with new content to address the challenges colleagues faced as a result of the pandemic. The Group's partnership with Headspace was also extended, offering all colleagues a free subscription to an app providing access to modules covering a range of mental health related topics.

The Board was also keen the Group's response should include faster roll-out of our Digital Workplace programme, which on completion allowed the majority of colleagues to work from home. The Board in addition approved a recognition payment to frontline colleagues, in thanks for their efforts in supporting our customers during the pandemic.

The Board has considered how colleague working practices will develop beyond the COVID crisis, in particular how more flexible and efficient ways of working seen during 2020 could be retained.

This included the agreement of steps to be taken by the Executive to ensure the Group's workplace continues to evolve with both the needs of the business, and the changing ways in which colleagues wish to work.

COMMUNITIES AND ENVIRONMENT

As one of the largest financial services providers in the UK, the Group has a presence in almost every community. As such, the Group places great importance on engagement and action to help these communities prosper, and build a more sustainable future. This has been a core consideration for the Board in the development of the Group's next strategic phase.

The Board is supported in environmental and community matters by its Responsible Business Committee. This Committee supports the Board with consideration of stakeholder views on all matters relating to the Group's goals to be a trusted, sustainable and responsible business.

Helping Britain Recover
The Board has given much focus to overseeing the development of the Group's Helping Britain Recover ambitions. This continues our strategy of Helping Britain Prosper, designed to play a part in the UK's recovery from the COVID pandemic, and is discussed in more detail below.

The views of stakeholders have informed the development of these ambitions, which aim to integrate fully the Group's societal objectives with its business objectives, and will be key in the next phase of our strategy.

Environmental ambitions
During the year the Board approved an ambitious goal, working with customers, Government and the market to help reduce the carbon emissions the Group finances by at least 50 per cent by 2030. With the Group's 2030 carbon emission reduction goal for our own operations met, the Board also considered the development of new internal carbon, energy and travel targets. Consideration was also given to the development of several new green finance products, tools and services.

A commitment was approved to invest £2 billion in BlackRock's ACS Climate Transition World Equity Fund, via Scottish Widows' default fund offering. The Group's investment will make up 10 per cent of the equities portion of our default pension investment approach within Scottish Widows, focused on investing in the companies already at the forefront of decarbonisation and responsible use of natural resources. The Board's consideration of environmental ambitions is discussed further on page 50.

Regional Ambassadors
The Board continues to value the support provided by the Group's ten regional ambassadors, who between them help in establishing strong relationships with local politicians, councils and other community institutions across the UK.

The feedback of these ambassadors informs not only the Board's view of stakeholder priorities, but allows the Group to offer locally its insight on the major economic and social debates the country faces.

Charitable Foundations
The Board continued to support the work of the Group's charitable Foundations. Together during the year they have funded local charities in tackling issues ranging from financial disadvantage and social exclusion, to domestic abuse and modern slavery.

As well as grant funding, the Foundations offer charities additional support, with mentoring, learning, training and networking support also provided.

The Board was particularly pleased at the positive impact of the Foundations in helping charities respond locally to the COVID crisis. During the year the Board agreed the Group would continue to fund the important work of the Foundations in 2021, at levels of funding in line with those of 2020.

The Chair undertook virtual visits to several charities supported by the Foundations, including the Tom Harrison House in Liverpool, providing important insight into the role of the Group in supporting communities across the UK.

More detail
Environmental ambitions
Read more on pages 20 to 24
Helping Britain Recover
Read more on pages 38 to 39
Charitable Foundations
Read more on page 29

KEY BOARD DECISION
HELPING BRITAIN RECOVER

The Board considered it vital that the Group as one of the UK's main financial services providers plays a key role in the country's plan to rebuild the economy.

In September 2020 the Group launched The Big Conversation: Helping Britain Recover. A three-month series of roundtable discussions were held across all nations and regions of the UK, which encouraged open debate of the challenges facing the country during the pandemic, and how the UK could emerge with an economy that is more resilient and more sustainable.

The Big Conversation brought together many of the Board's key stakeholders, including businesses, community members, policy makers and subject-matter experts across the UK's nations and regions. Focus was given to discussing the support and policy interventions that these stakeholders considered necessary for a strong recovery from the pandemic.

A final report, published in December 2020, was shared with all participants as well as with key politicians and policy makers, and is available on the Group's website. The Board was pleased the Group was in this way able to amplify its stakeholders' voices to those who can make a difference. We anticipate extending this initiative in 2021 to encompass more topics of importance to our stakeholders.

In addition, the Board agreed in June that it was important to build a long-term framework which would help the Group more fully integrate its business ambitions with its societal objectives, acting wherever possible as a positive driver for change.

After considering recommendations from the Executive, built around feedback from stakeholders, the Board concluded the plan would focus on five key areas of stakeholder priority. These included Help rebuild households' financial health and wellbeing, Support businesses to recover, adapt and grow, Expand availability of affordable and quality homes, Accelerate the transition to a low carbon economy and Build an inclusive society and organisation.

In 2021, we'll continue to listen to our key stakeholders from across the UK to understand what local communities and economies need to emerge from the pandemic stronger and more resilient.

Link to strategic priorities
Leading customer experience

Our key stakeholders and Board engagement continued

REGULATORS AND GOVERNMENT

The Board and the Group continue to maintain strong, open and transparent relationships with our regulators and Government authorities, including key stakeholders such as HMRC and HM Treasury.

Liaison with regulators and Government is an ongoing priority, at all levels of the organisation, allowing the Board to ensure the Group's strategic aims align with the requirements of these important stakeholders.

COVID response
Extensive engagement was needed with regulators and Government in the initial response to the COVID crisis. This helped ensure the Group's response could both best support our customers, but also remain in step with Government priorities for supporting the stability of the wider UK economy.

Senior leaders worked closely with the FCA, PRA and representatives of HM Treasury to agree the Group's participation in the COVID related support schemes, keeping the Board apprised of all developments.

Following these interactions, the Board approved the Group's participation in the Government's economic response, successfully providing our customers with access to the Government's support measures and loan schemes.

The Board continued to review the provision of this support as the year progressed, remaining close to the developing priorities of Government and of our regulators, as well as the impact on our customers and business.

Regulatory agenda
The Chair and individual Directors, in particular the Chairs of the Board's Committees, have in the ordinary course of business had continuing discussions with the FCA and PRA on a number of aspects of the regulatory agenda.

The Board in turn reviewed regular updates on this and wider Group regulatory interaction. This provided a view of key areas of regulatory focus, alongside progress being made in addressing key regulatory priorities.

Key areas of regulatory interest for the Board have included ensuring robust prudential standards, the fair treatment of customers, and the Group's ongoing response to market changes. During the year such changes have included not only the response to COVID, but the UK's exit from the EU, in addition to climate change responsibilities, and ensuring the Group's ongoing financial and operational resilience.

Board members proactively engage with the regulators across all these areas, in addition to a standing programme of monthly updates, including to the Board's Risk Committee.

These updates cover all aspects of the regulatory agenda, with emerging regulatory and legal risks, in addition to an overview of the Group's wider regulatory interaction. This provides a focused view of areas of priority, alongside detail of regulatory actions, and enforcement activity.

The Board continues to closely monitor the status of the Group's regulatory relationship, seeking to enhance engagement particularly in key areas of regulatory change. During the coming year this is expected to include the ongoing impacts of COVID, including customer relief, in addition to EU exit transition, climate risk management, dividend distribution and remuneration policy.

More detail
COVID-19 response
Read more on pages 1 to 3
Environmental ambitions
Read more on pages 20 to 24

As the amount of new regulation continues to increase, and uncertainty remains about the impact of the UK's exit from the EU on regulatory frameworks, the Board recognises the importance of continuing to strengthen the Group's relationships with our key regulators.

Sara Weller
Independent Director

KEY BOARD DECISION
ENVIRONMENTAL AMBITIONS

As a signal of the Group's commitment to sustainability, the Board approved an ambitious goal to reduce the emissions we finance by 2030, on the path to net zero by 2050 or sooner.

Achieving these goals will not be easy, and the Board recognises the Group will need to take a number of actions.

These will over the coming years include investing in our buildings, removing the use of natural gas from our estate, and progressing our plans for zero carbon branches in communities across the UK. Many of the technologies needed are still new. The Board therefore recognises that close work will be needed with our partners and suppliers in developing innovative new solutions.

Some initiatives were however approved for 2020, including the launch of a number of green finance products, tools and services. These included the Green Buildings Tool, a free to use insight tool, launched specifically for Commercial Banking clients. The tool helps clients identify energy efficiency improvements relating to both commercial and residential buildings, along with the associated costs and benefits of those improvements.

The tool also complements the existing Green Lending Initiative in the real estate and housing sectors, and our Clean Growth Finance Initiatives across all of Commercial Banking's sectors.

The Board was also pleased that the Group was able to launch its Green Living and Eco Home Hub for Halifax and Lloyds Bank customers. This online tool is first in the market amongst lenders, providing mortgage customers with a tailored action plan on home improvements which can help improve sustainability.

Further initiatives included the introduction of the Sustainability Fixed Term Deposit and 95 Day Notice Accounts, where deposited funds are used to support sustainability ambitions.

The Board will continue to oversee initiatives to help the Group achieve its sustainability goals, which will form a core part of the Group's strategy in the coming years.

Link to strategic priorities
Leading customer experience

SUPPLIERS

We rely on a number of partners for important aspects of our operations and customer service provision.

The Board recognises the importance of its role in overseeing these relationships, which are integral to the Group's future success.

Supplier experience
Recognising the role of suppliers in the Group's day-to-day operations, and its future ambitions, the Board was keen that supplier experience be continually reviewed in order that it may be improved wherever it was possible to do so.

As such the Board regularly considered supplier feedback on the Group's processes, ensuring areas of potential improvement were acted upon.

Supplier framework
A Board-approved framework ensures the most significant supplier contracts receive the approval of the Board.

This has during the year included those supporting the Group's digital ambitions, as discussed in more detail below, with the Board approving certain supplier contracts which were key in progressing this strategic priority.

The framework also ensures appropriate Executive oversight of supplier spending not considered by the Board, allowing challenge to be made where appropriate, and minimising risks and unnecessary cost. The Board reviewed updates on material related actions.

Supplier payment
The Board recognises that late payment of suppliers can represent a significant financial impact for them.

As such the Board seeks to ensure the Group's supplier payment practices continue to meet wider industry standards.

To that end, the Board's Audit Committee considered reports from the Group's Sourcing and Finance teams on the efficiency of supplier payment practices, including those relating to the Group's key supplier relationships.

Supply Chain Resilience
The impacts of the COVID crisis have been no less material within the Group's supply chain, with the Board keen to ensure these important relationships were not unduly impacted. The Board has also been mindful of the effects of the EU Exit on the Group's supply chain, as the UK approached the deadline of the related transition period.

Related updates were considered on the work of the Group's Supply Chain Resilience programme. This along with the Supplier Framework provided valuable assurance on the Group's most critical supplier relationships, including those located in the EU. In particular the Board considered the work of the Group's Incident Management process and the contribution from sourcing and supply chain SME's from across the Group, an important means of support to key suppliers in managing the impacts of COVID on their relationships with the Group.

The Board recognised the challenge of preparations by suppliers for finalisation of the EU Exit, in particular when combined with the pressures of the COVID crisis. This included regular related updates for suppliers provided using the Group's website.

Modern slavery
The Board continues to have a zero tolerance attitude towards modern slavery in the Group's supply chain, receiving updates on progress made in the ongoing enhancements to our supplier practices.

These included measures which address the risk of human trafficking and modern slavery in our wider supply chain.

More detail
Responsible sourcing
Read more on page 31

The Board recognises that the Group's supply chain, and ensuring strong and mutually beneficial relationships with our suppliers, are key to the Group's ongoing success.
Catherine Woods
Independent Director

KEY BOARD DECISION
DIGITAL TRANSFORMATION

As part of how the Group can continue to Help Britain Recover, the Board agreed that digital investment played a key role, enabling the Group to best adapt to and support our stakeholders' developing priorities.

The Board agreed that as we prepare for the next phase of our strategy, acceleration of our approach to the public cloud was central in further digitising our business, enabling us to greatly improve the experience of both our customers and of our colleagues.

While the Group has already taken some big steps in digital transformation, modernising how we serve customers, and changing how we work, the Board agreed that cloud technology was key to building on this progress.

This will include continuing to simplify our IT systems, and enhancing our IT architecture. Combining future-proofed cloud technology with smart customer data and insight, we want to deliver an even better and more personalised experience, regardless of the channel a customer chooses to do business with us.

Progress overseen by the Board has included the mobilising of the Group's new Cloud Centre of Excellence, an important step in harnessing the opportunities cloud technology presents.

The Board held two deep dive sessions in June and October to review the Group's cloud strategy in detail. This allowed debate and challenge of the risks and further development of plans. The Board also participated in an insights programme on cloud technology to augment their current knowledge and understanding.

The Board has also overseen progress in the Group's use of external platforms, key in establishing our cloud services. The Board's IT and Cyber Advisory Forum has assisted in this by reviewing detailed aspects of the cloud strategy.

The Board was pleased that, despite the challenges of the pandemic, progress was also made in delivering technological developments which have helped to further improve our customer experience. These included industry leading capability for customers to view and cancel subscription services for items such as their monthly TV streaming and broadband service providers, paid for via their current account. Functionality was also introduced allowing more of our general insurance customers to submit their claims digitally, improving the speed and efficiency our claims process.

Link to strategic priorities

- Leading customer experience
- Maximising Group capabilities

Financial performance overview

Group

Financial performance reflects the challenging economic environment

The Group's statutory profit before tax for the year was £1,226 million with statutory profit after tax of £1,387 million. Both measures were impacted by the significant impairment charge taken during the year, the majority of which was recognised during the first half and reflected the Group's revised economic outlook for the UK, following the outbreak of the coronavirus pandemic. In the fourth quarter, statutory profit before tax was £792 million and statutory profit after tax was £680 million, both benefiting from improved business conditions and a reduced impairment charge.

Trading surplus for the year was £6,440 million, a reduction of 27 per cent on 2019, reflecting the challenging external environment. Net income was down 16 per cent to £14,404 million, driven by both lower net interest income and lower other income. The Group has maintained its focus on delivering cost savings, with total costs down 4 per cent, while continuing to invest in the Group's digital propositions.

The Group's underlying profit was £2,193 million for the year, compared to an underlying profit of £7,531 million in 2019, reflecting lower net income and the significant impairment charge of £4,247 million taken in 2020.

The Group's balance sheet remains very strong. Loans and advances to customers were flat on prior year at £440 billion. This includes an increase in open mortgage book net lending of £7.2 billion in the year, with £6.7 billion growth in the fourth quarter, reflecting the strength of the UK housing market. Total customer deposits increased by £38.9 billion in the year, to £450.7 billion. Retail current account growth was £20.5 billion in 2020 and ahead of the market, driven by lower levels of customer spending during the pandemic and inflows to the Group's trusted brands. Commercial Banking current account growth also illustrates the Group's strong customer relationships and a proportion of the Government-backed lending being retained on deposit by SME customers.

The Group's CET1 capital ratio post dividend increased 242 basis points over the year, from 13.8 per cent on a pro forma basis to 16.2 per cent, or 16.4 per cent pre dividend accrual.

Income statement – underlying basis

	2020 £m	2019 £m	Change %
Net interest income	**10,773**	12,377	(13)
Other income	**4,515**	5,732	(21)
Operating lease depreciation	**(884)**	(967)	9
Net income	**14,404**	17,142	(16)
Operating costs	**(7,585)**	(7,875)	4
Remediation	**(379)**	(445)	15
Total costs	**(7,964)**	(8,320)	4
Trading surplus	**6,440**	8,822	(27)
Impairment	**(4,247)**	(1,291)	
Underlying profit	**2,193**	7,531	(71)
Restructuring	**(521)**	(471)	(11)
Volatility and other items	**(361)**	(217)	(66)
Payment protection insurance provision	**(85)**	(2,450)	
Statutory profit before tax	**1,226**	4,393	(72)
Tax credit (expense)	**161**	(1,387)	
Statutory profit after tax	**1,387**	3,006	(54)
Earnings per share	**1.2p**	3.5p	(66)
Dividends per share – ordinary	**0.57p**	1.12p	
Banking net interest margin	**2.52%**	2.88%	(36)bp
Average interest-earning banking assets	**£435bn**	£435bn	–
Cost:income ratio	**55.3%**	48.5%	6.8pp
Asset quality ratio	**0.96%**	0.29%	67bp
Return on tangible equity - existing basis	**3.7%**	7.8%	(4.1)pp
Return on tangible equity - new basis	**2.3%**	6.6%	(4.3)pp

Key balance sheet metrics

	At 31 Dec 2020	At 31 Dec 2019	Change %
Loans and advances to customers[1]	**£440bn**	£440bn	–
Customer deposits[2]	**£451bn**	£412bn	9
Loan to deposit ratio	**98%**	107%	(9)pp
CET1 ratio[3,4]	**16.2%**	13.8%	2.4pp
CET1 ratio pre IFRS 9 transitional relief[3,4]	**15.0%**	13.4%	1.6pp
Transitional MREL ratio[3,4]	**36.4%**	32.6%	3.8pp
UK leverage ratio[3,4]	**5.8%**	5.2%	0.6pp
Risk-weighted assets[3]	**£203bn**	£203bn	–
Tangible net assets per share	**52.3p**	50.8p	1.5p

1 Excludes reverse repos of £58.6 billion (31 December 2019: £54.6 billion).

2 Excludes repos of £9.4 billion (31 December 2019: £9.5 billion).

3 The CET1, MREL and leverage ratios and risk-weighted assets at 31 December 2019 are reported on a pro forma basis, reflecting the dividend paid up by the Insurance business in the subsequent first quarter period. The CET1 ratio pre IFRS 9 transitional relief reflects the full impact of IFRS 9, prior to the application of transitional arrangement for capital that provide relief for the impact. Excluding dividend accrual, the CET 1 ratio at 31 December 2020 was 16.4 per cent.

4. CET1 ratios at 31 December 2020 include an increase of 51 basis points following the implementation of the revised capital treatment of intangible software assets. The benefit through CET1 capital is reflected through the MREL and leverage ratios.

Report of the Auditor

The auditor's report on the full accounts for the year ended 31 December 2020 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 preferred financial partner for personal customers, by building deep and enduring relationships that meet more of our customers' financial needs and improve their financial resilience throughout their lifetime, with personalised products and services that are increasingly relevant to them. 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 risk, whilst working within a prudent risk appetite.

£1,991 million
Underlying profit decreased by 53 per cent

c.£40 billion
Exceeded target of mortgage lending to first time buyers by over 30 per cent across 2018 to 2020

#1
Maintained largest branch network with around 90 per cent of branches remaining open during pandemic

76/ 67
Record highs of net promoter scores across branch and digital

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

17.4

Year	Active online users (m)
2020	17.4
2019	16.4
2018	15.7
2017	13.4
2016	12.5

Progress against strategic priorities

Leading customer experience

- UK's leading digital bank with digitally active customers up 6 per cent to 17.4 million and mobile users up 16 per cent to 12.5 million. Over 4 billion internet banking logins in 2020, with average monthly logins up 12 per cent
- Maintained the UK's largest branch network with around 90 per cent of branches remaining open throughout the pandemic, whilst implementing coronavirus safeguarding measures to protect customers and colleagues
- Supported customers through the pandemic with c.1.3 million payment holidays, c.880,000 calls answered on dedicated lines for NHS workers and over 70s, along with over 750,000 wellbeing calls made by branch colleagues
- Continued to support first time buyers with c.£40 billion of mortgage lending in 2018 to 2020, exceeding the Group's target by over 30 per cent.
- Improved customer experience reflected in increased branch and digital net promoter scores reaching record highs

Digitising the Group

- Supporting customers in financial difficulty with more accessible support through digital channels for the first time
- 5 million customers now receiving push notification alerts helping them manage their finances (up 80 per cent)
- Launched Business Finance Assistant, to support small businesses managing their finance needs

Maximising Group capabilities

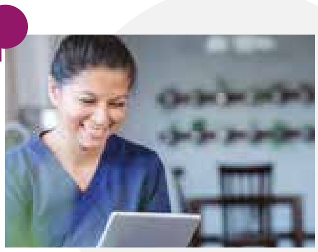
- £7.6 billion of Bounce Back Loans provided to Business Banking customers (out of Group total £12.4 billion)
- £37 billion increase in deposits, reflecting the strength of the Group's trusted brands in an uncertain environment

Transforming ways of working

- Over 2,500 branch colleagues redeployed to support customers through the pandemic, whilst over 21,000 colleagues were able to work from home and over 13,000 laptops distributed to colleagues across the Retail Bank
- 1,000 strong Branch Financial Assistance team created to support customers in financial difficulty
- Launched new green propositions including an Energy Saving Tool, helping customers improve energy efficiency of their homes and an electric vehicle salary sacrifice proposition

Financial performance

- Net interest income 9 per cent lower, reflecting the low rate environment, actions to support customers and lower unsecured balances with reduced levels of activity and demand during the pandemic
- Other income 14 per cent lower with reduced levels of customer activity and customer spending and the continued impact of a smaller Lex fleet size in line with the market, in part offset by lower operating lease depreciation
- Operating costs flat, with efficiency savings offsetting an increase in costs related to supporting customers during the coronavirus pandemic. Remediation costs decreased 47 per cent on prior year to £125 million
- Impairment increased significantly to £2,384 million, primarily driven by the charge in the first half of the year reflecting a material deterioration in the economic outlook as a result of the coronavirus pandemic
- Customer lending increased 2 per cent with increased mortgage activity, including open book growth of £6.7 billion in the fourth quarter and support for Business Banking customers, partly offset by lower unsecured balances
- Customer deposits increased 15 per cent with strong inflows to the Group's trusted brands and lower spend activity, along with increased Bounce Back Loan driven deposits
- Risk-weighted assets up 1 per cent, with credit migration and model changes offset by lower unsecured balances



Key worker very thankful for payment holiday support

A nurse contacted the dedicated payment holiday line to explain how she had been impacted by COVID. She normally made up her income working additional shifts, however because of COVID had only been able to work on one ward, to prevent the spread of the virus across wards, which had reduced her income by half. Her husband who worked in a restaurant had also been furloughed.

With a mortgage, credit card and a loan, it was a worrying time for the customer. We were able to give the customer a payment holiday across all products saving the customer c.£2,000 per month. The customer was emotional, overwhelmed and very grateful for the support the bank had been able to give her and her family when they most needed it.

Financial performance overview continued

Commercial Banking

Commercial Banking has a client-led, low risk, capital efficient strategy and is committed to becoming the best bank for business. 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 will enable the business to build a leading digital SME proposition and a disciplined and strengthened Corporate and Institutional client franchise.

£96 million
Underlying profit decreased by 95 per cent

19 per cent
market share of SME lending

>£6.0 billion
net SME and Mid Market lending target exceeded

Funding for UK manufacturers

£bn cumulative total (2018 - 2020)

3.7

2020	3.7
2019	2.6
2018	1.5

Progress against strategic priorities

Leading customer experience

- Implemented an extensive client outreach programme across SME and Mid Corporates in response to the coronavirus crisis, reaching c.60,000 businesses impacted by the pandemic to date
- SME mentoring service launched in partnership with Be The Business to help clients recover from the pandemic

Digitising the Group

- First globally to implement SWIFT GPI Instant, increasing the speed and transparency of cross-border payments
- Over £2 billion processed through the Payables API, allowing clients to send Faster Payments directly from their systems without human intervention
- Launched the Trade Tracker API, giving clients greater transparency through real-time transaction status updates
- Rapid deployment of robotics to automate the opening of Bounce Back Loans, enabling over 300,000 loans with a value of over £9 billion to be opened since May and supported over £1 billion on the first day following the launch

Maximising Group capabilities

- Exceeded the Group's three year target to provide £6 billion of additional net lending to start-up, SME and Mid Market clients by end-2020 and surpassed the 2020 target of £18 billion gross new lending target to these businesses
- Actively supported clients with over £12 billion of Government-backed lending, in addition to c.34,000 capital repayment holidays and c.22,000 fee-free overdrafts as part of the Group's £2 billion COVID-19 fund
- Supported £3.7 billion of investment in the UK manufacturing sector and participated in the completion of a number of UK Export Finance backed Export Development Guarantee transactions to the syndicated value of £4.4 billion to support clients' trading ambitions, whilst helping c.15,000 SMEs export for the first time over the past three years
- In 2020, provided over £2.3 billion of green finance, taking the total green finance provided to over £7.3 billion since 2016. In addition, we have supported clients with over £1.8 billion of Sustainability Linked Loans since 2017

Transforming ways of working

- Upgraded the Business Banking Online Lending Tool to accommodate the Government's coronavirus lending schemes, enabling faster decision making and freeing up Relationship Manager time to help clients

Financial performance

- Net interest income of £2,357 million, down 18 per cent on prior year, reflecting competitive asset markets, lower deposit income due to bank rate reductions partly offset by ongoing business optimisation across assets and liabilities
- Other income decreased by 9 per cent to £1,292 million, primarily driven by lower transaction banking income as a consequence of coronavirus-related impacts on customer trading volumes, with markets income remaining resilient
- Operating costs were 11 per cent lower reflecting the result of continued investment in efficiency initiatives
- Impairments increased to £1,464 million, reflecting a significant deterioration in the Group's economic outlook, as well as a small number of single name charges
- Customer lending was lower at £86.2 billion, with higher lending in SME driven by Government-backed lending, more than offset by lower Corporate and Institutional lending due to the continued optimisation of the asset portfolio
- Customer deposits grew by 1 per cent to £145.6 billion, as optimisation within the term deposit book was more than offset by growth in SME deposits, given the partial retention of Government-backed lending on deposit and growth in SME deposits generally
- Risk-weighted assets decreased 3 per cent to £75.0 billion, driven by ongoing optimisation in the Corporate book, partly offset by regulatory headwinds and credit migrations

Supporting green ambitions

French oil major Total has advanced its diversification into renewable energy by taking a majority stake in the UK's Seagreen 1 offshore wind project.

Cost of more than £3.0 billion, Seagreen is one of the largest investments in Scottish infrastructure. Upon completion it will provide sustainable energy to 1 million homes.

The Seagreen transaction is the first partially-subsidised offshore wind project to be financed in the UK, as the sector moves away from its dependency on Government subsidies. Approximately 40 per cent of the turbines benefit from a fixed power price guarantee from the UK Government

As part of Lloyds Bank's Clean Growth Financing Initiative (CGFI), the Group provided £198 million to the project in a total debt package of £1.4 billion.

Insurance and Wealth

Insurance and Wealth offers insurance, investment and wealth management products and services. It supports over 10 million customers with assets under administration of £172 billion and annualised annuity payments of over £1.1 billion. The Group continues to invest significantly in the development of the business, with the aims of capturing the considerable opportunities in pensions and financial planning, whilst meeting more of our customers' financial needs and improving their financial resilience throughout their lifetime.

£338 million
Underlying profit decreased by 68 per cent

69 per cent
Growth in open book AuA over the GSR3 period

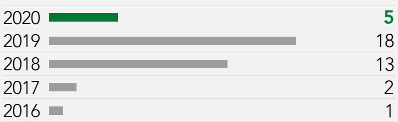
15 per cent
Achieved GSR3 target market share in workplace pensions

1.5 million
new pension customers in GSR3 period

Strong open book AUA (customer net inflows)

£bn

5



Progress against strategic priorities

Leading customer experience

- Achieved 5 stars for the fifth consecutive year in the Financial Adviser Service Awards in Investments, Pensions and Protection, and Mortgages, together with the Editor's Achievement Award for 30 years' Consistent Service
- Being the first major pensions and insurance provider to target halving the carbon footprint of its investments by 2030 on its path to net zero by 2050
- Commenced £2 billion investment in BlackRock's Climate Transition fund expected to deliver c.50 per cent carbon reduction compared to benchmark; helping customers save for retirement, whilst investing in sustainable businesses
- Achieved GSR3 target of 15 per cent market share of workplace business, up from 10 per cent at start of 2018
- Supported customers throughout the pandemic, including free additional insurance cover to NHS workers and reducing medical evidence requirements to help alleviate pressures on GPs

Digitising the Group

- Launched Scottish Widows app in the fourth quarter to c.500,000 customers. Customers are able to engage with their retirement planning, representing a key strengthening of the Group's proposition
- Single Customer View expanded to include stockbroking portfolios with c.6.5 million customers able to access their insurance and wealth products alongside their bank account, up from over 5 million at the end of 2019

Maximising Group capabilities

- Grew open book assets under administration by £46 billion, or 69 per cent, over the GSR3 period to £113 billion, narrowly missing the £50 billion growth target despite challenging market conditions
- Further exceeded GSR3 target of 1 million new pension customers, with 1.5 million now added
- Completed migration to Schroders Personal Wealth. Continue to target becoming a top 3 financial planning business

Financial performance

- Underlying profit fell to £338 million, driven by impact of reduced market activity, lower non-recurring items and adverse assumption changes in 2020 (versus net positive in 2019)
- Sales in individual annuities, non-branch protection, and workplace, planning and retirement, excluding auto-enrolment step-ups, have increased despite pandemic headwinds
- Life and pensions experience and other items includes adverse impacts from assumption changes (further details of which are included in Other Financial Information) and the response to the Asset Management Market Review
- General insurance combined operating ratio remains strong at 85 per cent in the context of absorbing £36 million claims due to storms in 2020. Total gross written premiums remain resilient despite the reduction in branch footfall
- Reduction in Wealth income reflects the transfer of business to Schroders Personal Wealth in 2019, and lower net interest income as a result of the lower rate environment. Stockbroking other income more than double prior year
- Costs reduced by £80 million, c.£60 million of which reflects the transfer of business to Schroders Personal Wealth

Insurance capital

- Estimated Solvency II ratio of 151 per cent, reflects the dividend paid in February 2020, continued investment in new business, and the impact of lower interest rates
- Credit asset portfolio is average 'A' rated, well diversified and non-cyclical, with less than 1 per cent sub investment grade or unrated. No Insurance ordinary dividend will be paid for 2020

Saving for the future

For 16 years, Scottish Widows has been researching the savings habits of women in the UK. Tracking retirement planning over the years means we can see patterns of behaviour evolve over a long period of time.

The good news is that the gender pensions gap is now the narrowest on record, with just a 1 per cent difference between the proportion of men and women putting enough money aside for a comfortable retirement. Almost three in five (59 per cent) women – the highest since we began this research – are saving adequately, compared to 60 per cent of men.

Scottish Widows is continuing its call for a series of pension reforms to remove the persistent barriers to more women saving more money for retirement. This includes enhanced pensions for those on maternity leave, the mandatory inclusion of pensions in divorce proceedings and scrapping the minimum earnings threshold for of auto-enrollment to make pensions more inclusive for part-time workers.

Risk overview

Effective risk management and control

Our approach to risk

Risk management is at the heart of Helping Britain Recover and building the UK's preferred financial partner.

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

A prudent approach to risk is fundamental to our business model and drives our participation choices.

The risk management section from pages 143 to 204 of our Annual Report and Accounts provides an in-depth picture of how risk is managed within the Group, including the approach to stress testing, risk governance, Committee structure, risk appetite and detailed analysis of the principal risk categories, the framework by which risks are identified, managed, mitigated and monitored.

Our enterprise risk management framework

Risks are identified, managed, mitigated and monitored using our comprehensive enterprise risk management framework. This is the foundation for the delivery of effective risk control.

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

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. 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.

Governance is maintained through delegation of authority from the Board down to individuals. Senior executives are supported by a Committee based structure which is designed to ensure open challenge and enable effective decision-making. More information on our Risk Committees can be found on pages 150 to 152 of our Annual Report and Accounts.

Simplified approach to managing risks

Over the course of the year, there has been a strong focus on simplifying and enhancing the enterprise risk management framework. A One Risk and Control Self Assessment (One RCSA) approach to managing risks across the Group has been adopted, which supports the proactive identification of risks to customers and the Group's business objectives, as well as enabling a strong control framework. More information on One RCSA is available on page 145 of our Annual Report and Accounts.

Risk culture and the customer

A transparent risk culture resonates across the organisation and is supported by the Board and its tone from the top.

Risk management requires all colleagues to play their part with individuals taking responsibility for their actions.

Within our approach there is a strong focus on building and sustaining long-term relationships with customers through the economic cycle.

Senior Management articulate the core risk values to which the Group aspires, based on the Group's conservative business model, prudent approach to risk management and the Board's guidance.

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

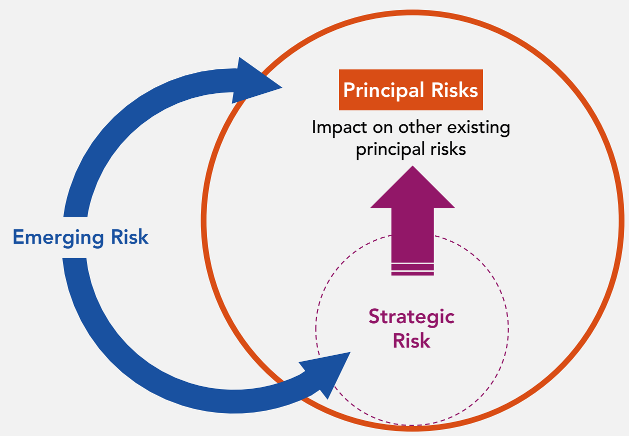
- support effective risk management and provide constructive challenge
- share lessons learned and understand root causes when things go wrong
- consider horizon risks and opportunities

Connectivity of risks and our strategic risk management framework

The unprecedented events of this year have demonstrated how individual risks in aggregate can place significant pressure on the Group's strategy, business model and performance. It is essential that we not only manage our individual risks, but understand how emerging and strategic risks are connected, and how they impact either existing principal risks or create new risks. By doing so we can ensure we continue to respond dynamically and protect our customers and support our colleagues and stakeholders.

Connectivity of risks is very much at the forefront of the Group's thinking and additional work is being launched in 2021 to further embed this into our risk management framework.

Connectivity of risks: The impact of emerging and strategic risks on the Group's principal risks



Principal Risks
The Board-approved enterprise-wide risk categories used to monitor and report the risk exposures posing the greatest impact to the Group.

Emerging Risk
A future internal or external event or trend, which could have a material positive or adverse impact on the Group and our customers, but where the probability, timescale and/ or materiality may be difficult to accurately assess.

Strategic Risk
A principal risk arising from:

- A failure to understand the potential impact of strategic responses on existing risk types
- Incorrect assumptions about internal or external operating environments
- Inappropriate strategic responses and business plans

Principal risks

2020 has been a year of significant uncertainty, including the spread of COVID-19 and its impact on global and domestic economies and the UK's exit from the European Union.

COVID-19 has had a significant impact on all risk types in 2020. Understanding and managing its impacts dynamically has been a major area of focus. The Group has responded quickly to the challenges faced, putting in place risk mitigation strategies and refining its investment and strategic plans.

All of the Group's principal risks, which are outlined on this page, are reported regularly to the Board.

The risk management section from pages 143 to 204 of our Annual Report and Accounts provides a more in-depth picture of how risk is managed within the Group.

Key focus areas during 2020

Climate – new

The Group recognises the evolving pace of climate risk and has adopted a comprehensive approach to embedding this risk within its enterprise risk management framework. This includes the creation of a new principal risk as well as its integration into our existing principal risks. Work has also continued to develop scenario modelling and other analytical tools and to increase the level of external disclosure to further align to the Task Force on Climate-related Financial Disclosures (TCFD) recommendations.

Market

The Group's structural hedge, nominal balance £186 billion (2019: £179 billion), provides protection against margin compression caused by falling interest rates. In addition, customer deposits have seen significant growth in 2020 which creates near-term interest rate exposure. Customer behaviour and hedging of these balances are reviewed regularly.

The Group's defined benefit pension schemes have seen an improvement in IAS19 accounting surplus to £1.6 billion (2019: £0.5 billion), as a result of deficit reduction contributions and greater than expected asset returns partially offset by the impact of the Retail Price Index (RPI) reform announced by the Chancellor of the Exchequer in November 2020.

Credit

A range of measures have been deployed to help support customers, including around 1.3 million of payment holidays, over £12 billion of additional Government support scheme lending through the Bounce Back Loan (BBLS) and Coronavirus Business Interruption Loan (CBILS) schemes, together with liquidity facilities for larger clients.

This support together with the wide array of public policy interventions, such as the job retention scheme, has limited the increase in unemployment, and helped to suppress credit defaults and business failures.

The Group has responded dynamically to mitigate and address credit risk, with specific focus on higher risk segments, sectors and counterparties, as well as undertaking extensive preparation to support the expected increase in customers who may experience financial difficulty.

The 2020 full year impairment charge of £4,247 million (2019: £1,291 million) reflects the weaker economic outlook, with reserves built in anticipation of an increase in losses during 2021 as unemployment increases and more business failures are seen.

Funding and liquidity

The Group maintained its strong funding and liquidity position in 2020, with the loan to deposit ratio decreasing to 98 per cent (2019: 107 per cent). Customer deposits increased significantly as spending reduced and customers deposited Government lending scheme balances. During the year, the Group repaid all outstanding amounts of its Term Funding Scheme (TFS) and Funding for Lending Scheme (FLS) drawings and drew £13.7 billion from the Term Funding Scheme with additional incentives for SMEs (TFSME).

Total wholesale funding reduced by £14.8 billion principally as a result of the growth in customer deposits.

Capital

Capital build was adversely impacted by impairment provisions in 2020, however the year end capital position is significantly strengthened due to the earlier reversal of the 2019 full year ordinary dividend accrual and enhanced IFRS 9 transitional relief, which partially offset the increase in impairment provisions. Closing CET1 ratio of 16.2[1] per cent (15.0[1] per cent excluding transitional relief).

The Group's capital requirements have reduced in 2020 due to lower Pillar 2A requirements and the reduction in the UK countercyclical capital buffer rate in response to the impact of COVID-19. The Group therefore has significant headroom to absorb further potential losses and to continue to support households and businesses as they recover from the COVID-19 pandemic.

Insurance underwriting

Lower market activity as a result of the pandemic and noting the one-off 2019 benefit from workplace auto-enrolment step-ups, saw Life and Pensions present value of new business premium fall to £14.5 billion in 2020 (2019: £17.5 billion). Near-term underwriting risk increased, reflecting policyholder behaviour on workplace savings products. Significant amounts of life and morbidity risk continued to be re-insured. No material change to General Insurance underwriting risk in 2020, with total gross written premium falling slightly to £662 million (2019: £671 million) due to the reduction in branch footfall.

Change/execution

The Change/execution risk profile has remained stable in the year. The Group's change portfolio was reprioritised at pace to support critical and COVID-19 related activities. Enhanced, targeted control monitoring was implemented to ensure safe delivery of change during the year.

Conduct

The Group has adapted quickly to the impacts of the pandemic, providing significant support to impacted customers. Comprehensive preparations have been undertaken to help identify and further support those customers in financial difficulty.

Data

The Group continues to improve its capabilities in the management of data risk, with an improvement seen in the regular half yearly capability assessment.

Areas of improvement include delivery of a new data risk and control library, embedding data by design and ethics principles into the data science lifecycle, increasing capabilities and broader awareness.

Governance

Governance risk has remained stable, despite the need for accelerated decision-making and a significant increase in the amount of remote working, together with a number changes to GEC and Board members throughout the year. Ensuring appropriate and efficient governance remains a key priority.

People

2020 has seen increased colleague workloads and significant changes to ways of working, with more than 50,000 colleagues working from home. Improved colleague sentiment demonstrates that the extensive support measures deployed by the Group, with a continued focus on colleague wellbeing and resilience, are helping to mitigate these risks.

Operational resilience

Business continuity plans have proved resilient, with particular attention applied to heightened risks in the supply chain.

Operational

Despite anticipated heightened operational risks in the areas of cyber, fraud and technology, the volume of operational loss events has remained broadly consistent in 2020 compared to 2019.

Model

Model risk has increased due to the nature and uncertainty of the economic outlook. The effect of Government-led customer support initiatives have weakened established relationships between model inputs and outputs, reducing the ability to forecast using models alone. While underlying model drivers are expected to remain valid in the longer-term, year end impairment reporting contains a greater element of governed judgement to reflect current conditions.

Regulatory and legal

Regulatory risk has been impacted by a small number of instances of non-compliance, requiring forbearance from regulators. Forbearance requirements have been due to the reprioritisation of resource to support the provision of essential services to customers and to respond to new regulatory requirements, such as payment holidays. Legal risk has been impacted by the UK's exit from the EU, in particular continued uncertainty of the future UK legal and regulatory financial services framework.

Strategic

Strategic risk is a significant source of risk for the Group, influencing the Group's strategy, business model, performance and risk profile. The development of our strategic risk framework is a key priority for the Group.

Significant work has been undertaken during 2020 to understand the risk implications of the Group's strategy and the key drivers of strategic risk. These are outlined in more detail on the following pages and will be further developed and embedded across the Group during 2021.

1 Includes a 0.5 per cent benefit following the implementation of the revised capital treatment of intangible software assets which the PRA is proposing to reverse.

Risk overview continued

Emerging risks

In addition to the principal risks, the Group takes a proactive approach to horizon scanning and assessing the potential impact of an existing or future trend which could have a material impact on the Group, where the probability, timescale and/or materiality may be difficult to accurately assess.

The Board Risk Committee approved the Group's enhanced definition for emerging risks in October 2020.

Internal working groups have been established to regularly scan the horizon and identify emerging risks. In addition the working groups have sought to analyse the impact of material events, such as COVID-19, on those trends and assess whether those have accelerated the impact of existing risks on our customers, colleagues and wider stakeholders.

The key areas of focus in 2020 are broadly unchanged from 2019. In addition, three themes have been magnified and exacerbated as a result of the pandemic:

Technology: Which considers the long-term technology changes disrupting the industry, the emergence of new technology-driven business models, and the likely impact of technology change on our customers.

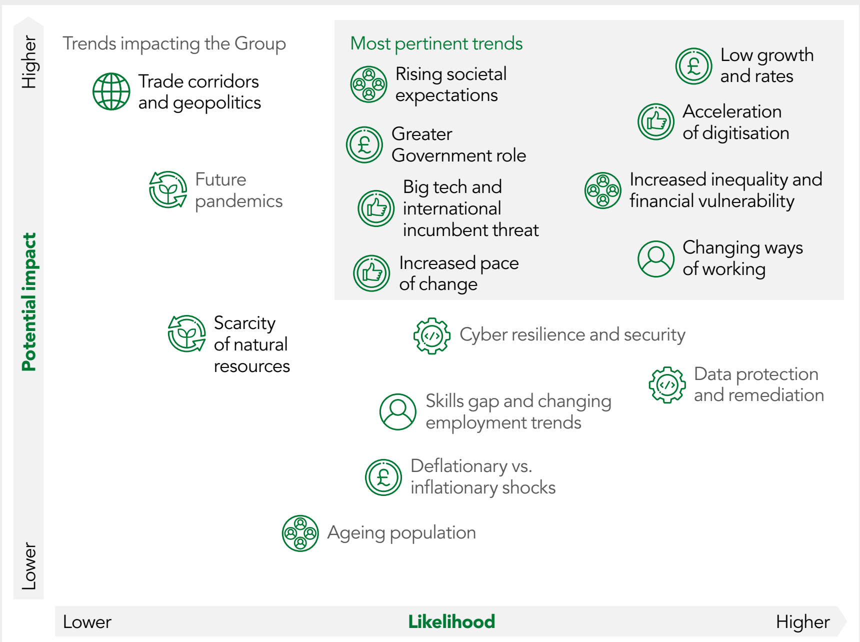
Societal expectations: Which reflects the expectations of the role the Group can play in supporting society across a range of issues such as housing, environmental sustainability and helping customers in financial difficulty.

People, ways of working and skills: Trends include the significant acceleration in remote working due to COVID-19 and higher demand for workers with digital and analytical skills.

Some emerging risks, such as data, have materialised and are recognised by the Group as principal risks. However, with risks continuing to evolve there will be important aspects of these risks that will need to continue to be captured through our emerging risks framework.

The emerging risks that the Group have monitored during 2020 are outlined in more detail in pages 147 to 149 of our Annual Report and Accounts of the risk management section.

ILLUSTRATIVE MAP OF EMERGING RISKS – NON EXHAUSTIVE



Emerging risks are assessed through an impact/likelihood matrix whereby the most pertinent trends are considered when shaping and refreshing our major strategic priorities and responses.

Key emerging risks are outlined in more detail in pages 147 to 149 of the risk management section of our Annual Report and Accounts.

Internal
- People/Ways of Working and Skills
- IT and Data/Cyber

External
- Geopolitical
- Financial and macroeconomic
- Competition and customer trends
- Natural environment/climate
- Societal expectations

Strategic risk

Risk view of key Strategic Review 2021 themes

The Group's strategy plays an important role in managing our strategic risks, responding to the priorities identified by the Board, and transforming our capabilities to deliver on these priorities. Some of the key themes from our strategy, as outlined on pages 36 to 45, represent new opportunities, while also posing corresponding risks that need to be understood.

In 2020 the Group undertook an initiative to enhance our framework and approach for identifying and understanding our strategic risks, with particular focus on the connectivity of risks.

Our understanding of the relationship and impact amongst emerging risks, strategic responses and principal risks played a key role in the development of our strategy. This was supplemented with engagement across the Group's businesses and functions, to establish a strong understanding of the Group's strategic challenges.

In line with the Group's strategy to gain greater organisational value from data and advanced analytics, we are also developing a quantitative approach to further strengthen our strategic risk management framework.

The health of the UK economy and the financial health and wellbeing of our customers are core influences on the Group's principal and strategic risks. We are therefore committed to Helping Britain Prosper and placing this purpose at the heart of our strategy.

We are well-positioned to respond to potential challenges posed by increased customer financial vulnerability and societal disparity, ensuring our proposition resonates with evolving customer needs.

Significant investment is planned to reimagine our customer offerings. Transforming our technology architecture, appropriately and securely using data science and upskilling our colleagues, we aim to deliver a holistic proposition, together with an excellent customer experience.

The Group's strategy aims to support a more sustainable future, while diversifying our income streams. The Group is working hard to ensure that our purpose, commitment to Helping Britain Prosper and delivery are harmonious with the expectations of our colleagues, customers and other key stakeholders, all the while adapting to changing societal expectations and customer and colleague preferences.

Strategic risk

Understanding the potential risk implications of Strategic Review 2021 is an important area of focus. The key strategic risk drivers outlined below have been assessed as part of the development of our strategic themes and objectives.

Strategic risk drivers	Potential risk implications	Strategy and Mitigation	Strategic risk impacts
Implications of COVID-19 and our responses • Acceleration of underlying growth in economic and societal disparity • Customer and colleague resilience heading into longer-term uncertain future • Impact of prolonged remote working	– Misalignment of customer proposition, product and service offerings – Potential failure to address customers' personal and financial resilience needs – Adverse impacts on productivity, creativity, customer treatment, colleague wellbeing and data security	HBR	
Sustainability initiatives responding to societal and Government expectations • Desire to establish and build market share in sustainable sectors • Impact of evolving regulatory requirements • Shifting consumer and colleague expectations	– Calibration of risk appetite, pricing and model approach to achieve external commitments – Risk arising from participation choices in respect of green economy and sustainability – Recruitment and retention of customers and colleagues dependent on the Group's response to evolving societal expectations	HBR	
Implications of low long-term economic growth • Structural challenge for Group's business model and revenue streams due to low growth and low or negative interest rates	– Risk of disrupting traditional banking models, creating unfavourable customer responses – Inability to sufficiently diversify income streams to mitigate the challenges of a low growth environment		
Legacy systems and ageing technology • Managing through ageing platforms • Complex and inefficient technology architecture and systems	– Increased risk of outages and system failure impacting operational resilience risk, and inability to respond in an agile, efficient manner to growing threats from modern competitors – Greater costs and operational risks due to duplication or complexity of infrastructure and processes and the need to retain legacy skills		
Evolving challenges amid backdrop of digitisation and pace of change • Changing consumer behaviour, with customer expectations increasingly shaped by their experiences elsewhere • Larger and more diverse threat landscape • Skills requirements in response to changing environment	– Failure to keep pace with peers and competitors poses potential for loss of income – Greater volumes of data at risk, with more challenging control environment – Evolution of colleague skills to deliver and maintain new systems, processes and transitioning to the cloud		

Strategy and mitigation key

- Preferred financial partner for personal customers
- Best bank for business
- Integrated payments
- Data-driven organisation
- Modernised technology architecture
- Reimagined ways of working
- HBR Helping Britain Recover

Strategic risk impacts key

- Financial risks
- Conduct, compliance, operational and data risks
- People risk
- Change/execution risk
- Climate risk
- Other risks

Our Board

Responsible for overseeing delivery of the Group's strategy

Robin Budenberg CBE
Chair

Appointed: October 2020 (Board), January 2021 (Chair)

Skills, experience, and contribution:

Extensive financial services and investment banking experience

Strong governance and strategic advisory skills to companies and government

Regulatory, public policy and stakeholder management experience

Robin spent 25 years advising UK companies and the UK Government while working for S.G. Warburg/UBS Investment Bank, and was formerly Chief Executive and Chairman of UK Financial Investments (UKFI), managing the Government's investments in UK banks following the 2008 financial crisis. He was awarded a CBE in 2015 for services to the taxpayer and the economy, and is a qualified Chartered Accountant.

External appointments: Chairman of The Crown Estate.

Alan Dickinson
Deputy Chair and Senior Independent Director

Appointed: September 2014 (Board), December 2019 (Senior Independent Director), May 2020 (Deputy Chair)

Skills, experience, and contribution:

Highly regarded retail and commercial banker

Strong strategic, risk management 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 formerly Chairman of Urban&Civic plc and of Brown, Shipley & Co. Limited, a Non-Executive Director and Chairman of the Risk Committee of the Nationwide Building Society and of Willis Limited, and a Governor of Motability. Alan is a Fellow of the Chartered Institute of Bankers and the Royal Statistical Society.

External appointments: Non-Executive Director of the England and Wales Cricket Board.

Sarah Legg
Independent Director

Appointed: December 2019

Skills, experience, and contribution:

Strong financial leadership and regulatory reporting skills

Significant audit and risk experience in financial leadership

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, a Group General Manager, and also 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: Chair of the Campaign Advisory Board, King's College, Cambridge University and Honorary Vice President of the Hong Kong Society for Rehabilitation.

Lord Lupton CBE
Independent Director and Chair 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 is a former Treasurer of the Conservative Party and became a Life Peer in October 2015, serving on the House of Lords Select Committee on Charities.

External appointments: Senior Advisor to Greenhill Europe, a Trustee of The Lovington Foundation and Chairman of the Board of Visitors of the Ashmolean Museum.

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 7 years as Chief Marketing and Communications Officer and was seconded to help launch the United Nation's Sustainable Development Goals. She is also a former Director of British Airways AirMiles, BT, Hewlett Packard Inc and British Gas.

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

Nick Prettejohn
Independent Director and Chair of Scottish Widows Group

Appointed: June 2014

Skills, experience, and contribution:

Deep financial services and 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 was 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.

External appointments: Chairman of the board of Reach plc, Chairman of the charity Prisoners Abroad and a member of the board of Opera Ventures.

Key to Committees

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

Full biographical details of each director are available on **lloydsbankinggroup.com/who-we-are/group-overview/directors-and-governance.html**

Stuart Sinclair
Independent Director

Appointed: January 2016

Skills, experience, and contribution:

Extensive experience in retail banking, insurance and consumer finance

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, LV Group and Virgin Direct. He was previously the Interim Chairman of Provident Financial plc, Senior Independent Director of Swinton Group and of QBE and a Council Member, Chatham House. In his executive career, he was President and Chief Operating Officer of Aspen Insurance, President of GE Capital China, Chief Executive Officer of Tesco Personal Finance and Director of UK Retail Banking at the Royal Bank of Scotland.

External appointments: Chairman of International Personal Finance plc and of Willis Limited.

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

Drive 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 Chief Executive of Santander UK.

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.

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

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

Passionate advocate of customers, the community and financial inclusion

Sara's previous appointments include Managing Director of Argos, various senior positions at J Sainsbury plc, Lead Non-Executive Director at the Department for Work and Pensions, a Non-Executive Director of United Utilities Group as well as a number of senior management roles for Abbey National and Mars Confectionery.

External appointments: Non-Executive Director of BT Group plc, Chair of the Remuneration Committee, New College, Oxford and a Trustee of Lloyds Bank Foundation for England & Wales.

William Chalmers
Executive Director and Chief Financial Officer

Appointed: August 2019

Skills, experience, and contribution:

Significant board level strategic and financial leadership experience

Strategic planning and development, mergers and acquisitions, equity and debt capital structuring and risk management

William has worked in financial services for over 25 years, and previously held a number of senior roles at Morgan Stanley, including Co-Head of the Global Financial Institutions Group and Head of EMEA Financial Institutions Group. Before joining Morgan Stanley, William worked for JP Morgan, again in the Financial Institutions Group.

External appointments: None.

Catherine Woods
Independent Director

Appointed: March 2020

Skills, experience, and contribution:

Extensive executive experience of international financial institutions

Deep experience of risk and transformation oversight

Strong focus on culture and corporate governance

Catherine is a former Deputy Chair and Senior Independent Director of AIB Group plc where she also chaired the Board Audit Committee. In her executive career with J P Morgan Securities, she was Vice President, European Financial Institutions, Mergers and Acquisitions, and Vice President Equity Research Department, forming the European Banks Team.

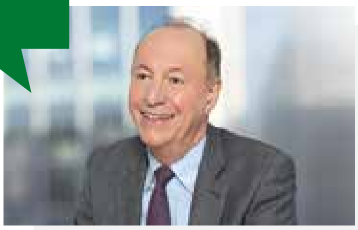
External appointments: Non-Executive Director of Beazley plc and Chair of the re-insurance and European insurance subsidiary, Beazley Insurance. Non-Executive Director and Deputy Chair of BlackRock Asset Management Ireland Limited.

Other Board members during 2020

- Anita Frew – retired from the Board on 21 May 2020.
- Juan Colombás – retired from the Board on 18 September 2020.
- Simon Henry – retired from the Board on 30 September 2020.
- Lord Blackwell – retired from the Board on 1 January 2021.

Directors' remuneration report

Remuneration Committee Chair's statement



In this unprecedented year, we continue to strive for a simple reward package with clear alignment to our purpose that rewards and drives the right behaviours and outcomes.

Stuart Sinclair
Chair, Remuneration Committee

Q. How has the Remuneration Committee and the Group supported colleagues through COVID-19?

We committed to colleagues that we would support them during this unprecedented time. Our priority was to take away as much uncertainty as possible when it came to work, their families and remuneration. This at times meant making some difficult but important decisions, but ones we feel were in the interest of shareholders, colleagues and the communities we serve.

The Group is continuing to provide support on mental and physical wellbeing as well as continuing to pay colleagues their full salary, no matter how the outbreak affects what they do for the Group or what their personal circumstances are.

In July, 40,000 predominantly customer-facing colleagues, received a £250 award to say thank you for the support and to recognise the incredible commitment shown to our customers and communities throughout the pandemic.

Q. How have we responded to shareholder concerns following the 2020 AGM?

During 2020 in total we engaged with shareholders representing more than 60 per cent of our register, as well as the proxy agencies, including both those who voted 'for' and 'against' our remuneration resolutions at the 2020 AGM.

I am very grateful to shareholders for their engagement on a broad range of remuneration issues including our new Policy. Following extensive and productive discussions additional clarity has been provided regarding the discount applied to the Long Term Share Plan (LTSP), as well as detail regarding our simplified balanced scorecard for 2021.

Remuneration Content

- Chair's statement pages 115 - 116 of our Annual Report and Accounts
- Remuneration at a glance page 117 of our Annual Report and Accounts
- Engaging with our shareholders and responding to feedback pages 118 - 119 of our Annual Report and Accounts
- Other Remuneration disclosures (Pillar III reporting) pages 138 - 142 of our Annual Report and Accounts

Dear Shareholder

On behalf of the Board we are pleased to present the Directors' Remuneration Report for the year ended 31 December 2020.

The unprecedented events of 2020 and the impact of the coronavirus pandemic have led the Remuneration Committee to make decisions on remuneration outcomes that reflect the experiences of our customers, colleagues and shareholders. We recognise the need for restraint in the remuneration outcomes for Executive Directors and other senior colleagues, while ensuring additional support was targeted toward our customer-facing colleagues in recognition of their tremendous efforts in continuing to support our customers.

As we move into the next phase of the Group's strategy, we recognise more than ever the need to incentivise and retain critical talent while maintaining a direct alignment to the experience of our shareholders and responding to the broader societal challenges we face.

2020 – an unprecedented year

We knew as the pandemic developed that in order to support our customers in the best possible way, we would first need to support our colleagues through the uncertainty that they were facing. We therefore confirmed in March 2020 that all colleagues would continue to be paid in full, no matter how the pandemic affected them. This meant that colleagues who were sick or shielding and unable to work at all, or had to change their working arrangements for caring responsibilities or their personal wellbeing, were able to do so whilst continuing to be paid and receiving the support they needed.

Members of our Group Executive Committee confirmed in April 2020 that, regardless of Group and individual performance through the remainder of 2020, they would waive their right to be considered for a bonus award; an early decision that the Committee welcomed.

Consistent with the framework set by the Remuneration Committee at the start of the year, the impact of the pandemic on our financial results means that there will be no annual bonus pool (Group Performance Share) for 2020 as the profit threshold has not been met. Full details are provided on page 121 of our Annual Report and Accounts, In keeping with our approach to timely, open and honest communication with colleagues, we communicated this outcome in December 2020. This outcome is in no way reflective of the hard work, commitment and sacrifice our colleagues have made throughout the year to keep our business running and help our customers.

The Remuneration Committee acknowledges that colleague reward was considerably affected by external factors in 2020 and intends that for fairness, just as colleague awards absorbed the impact of the fall in profitability, they should participate in any recovery in profitability in 2021.

2020 IN SUMMARY

- There are no annual bonus (Group Performance Share) awards for 2020
- Group Chief Executive total remuneration is down 22 per cent year-on-year
- We have protected the total remuneration for our lowest paid colleagues and are awarding above-inflation pay increases in April 2021
- All eligible colleagues will receive a £400 recognition share award
- 2018 Executive Group Ownership Share vesting at 33.75 per cent reflecting strong strategic progress

Our wider workforce

Measured against our core principle of ensuring there is fairness in our remuneration structure, the Remuneration Committee has paid particular regard to the impact its decisions have had for all colleagues. We made an above inflation pay award to our lowest paid colleagues in April 2020, and paid a one-off £250 cash recognition award to nearly 40,000 predominantly customer-facing colleagues in July 2020. This means for almost half of our colleagues, their total remuneration has stayed flat from 2019 to 2020 despite the absence of any bonus pool.

For the April 2021 pay review, the average pay award for our lowest-paid colleagues will be 1.7 per cent and up to 2.2 per cent again, above inflation. There are no increases for Executive Directors.

To recognise further the considerable role that all colleagues have played in supporting customers in 2020, and the part they will play in delivering the next phase of the Group's strategy, every permanent eligible colleague across the Group will receive a £400 share award. These free shares that vest after three years ensure that each and every colleague has a personal interest in the longer-term success of the Group.

Executive Director remuneration decisions and outcomes

The Remuneration Committee considers the need for significant restraint in respect of remuneration outcomes. There are no pay increases proposed for Executive Directors and only limited awards made to other senior colleagues where they are paid below market rate, creating a retention risk.

In order to ensure the continued long-term motivation and retention of key staff the Remuneration Committee supported making awards under the new Long Term Share Plan (LTSP) introduced at the AGM in May 2020. The LTSP is subject to underpins for three years, with vesting spread between the third and seventh anniversary of award for Executive Directors.

Awards will be granted to a small number of senior colleagues, to ensure there is alignment to shareholder experience and retain critical talent through the next phase of the Group's strategic delivery. In deciding to make the LTSP awards, the Remuneration Committee has taken into account the Group's performance during 2020 (as set out in full on pages 121 to 122 of our Annual Report and Accounts) and the current share price.

The Remuneration Committee carefully considered the impact of a lower share price on award sizes in assessing the 'pre-grant test' as outlined and explained in more detail on page 118 of our Annual Report and Accounts. The decision has been taken that adjusting awards upfront for a potential increase in the share price over time would not be appropriate, but instead took the decision that the level of LTSP awards should be reduced by 40 per cent to reflect the Group's performance in 2020, the current share price and the wider experience of shareholders.

This in-year adjustment applies in addition to the 50 per cent discount applied from the previous long term incentive plan as explained on page 118 of our Annual Report and Accounts. In making this assessment, the Committee reviewed the scorecard outcome (see pages 121 to 122 of our Annual Report and Accounts_ and took into account the fact that while there has been weak performance against financial metrics set before the true impact of the pandemic was known, the overall performance against customer and other non-financial metrics is strong. In particular, the Committee considered that risk and conduct have been adequately reflected in the scorecard outcome and the Group has lived up to its ambition to be the Best Bank for Customers, as evidenced by performance against the Customer and Conduct dimension of the scorecard, and materially lower conduct-related costs for 2020. The purpose of the LTSP is to reward long-term performance rather than short-term financial outcomes.

There is no LTSP award for the Group Chief Executive as he will leave the Group in April 2021. In setting the award size for the Chief Financial Officer, the Remuneration Committee considered the award range for normal performance of 125 per cent to 150 per cent (see page 132 of our Annual Report and Accounts) and considered an award of 125 per cent was appropriate to reflect Group and individual contribution in 2020 (see page 122 of our Annual Report and Accounts) alongside the need to incentivise delivery of the next phase of strategy aligned to long-term shareholder returns. A further adjustment of 40 per cent was applied to scale the award in line with the overall budget for LTSP awards, resulting in a final award of 75 per cent of salary for the Chief Financial Officer. This adjustment ensures there is a consistent approach applied for all recipients of LTSP awards and supports a 'one team' ethos across the Group's senior management team.

Full details of the 2021 LTSP award, including the factors supporting the pre-grant assessment and the underpins that apply, are included on page 132 of our Annual Report and Accounts.

The Remuneration Committee has been mindful that in-flight awards made under the Group Ownership Share plan for performance in 2019 to 2020 remain in place (and will run until the end of 2022) and the Committee has confirmed that there has not been, nor will be, any softening of the performance measures for these awards despite the unprecedented impact of external events and economic volatility. Under these circumstances, we believe that re-alignment of these targets would compromise the alignment of these awards with the interests of our shareholders.

Strong delivery of the non-financial measures in the Executive Group Ownership Share awards made in 2018 resulted in vesting at 33.75 per cent as shown in the table on page 123 of our Annual Report and Accounts.

Board changes

With the departure of the Chief Operating Officer in September 2020 and the announcement of the Group Chief Executive's retirement in 2021, supporting the Board in the search for a new Chief Executive has been a significant focus for the Remuneration Committee.

The Committee was mindful of the need to keep narrowing the gap in total remuneration between Executive Directors and the wider workforce, while not compromising on the quality of the candidate pool. The total maximum reward package for the new Group Chief Executive has therefore been reduced by approximately 20 per cent from the current Directors' Remuneration Policy maximum that was approved at the 2020 AGM and is a total reduction of over 40 per cent from the Policy in force until as recently as 2019.

Each component of the package for the new Group Chief Executive, Charlie Nunn, has been set in accordance with the approved Policy.

Responding to shareholder feedback and the challenges ahead

In addition to our deliberate efforts to support and reward our colleagues during this unprecedented time, 2020 has also marked the first year of implementation of our updated Directors' Remuneration Policy. We welcomed receiving majority votes in support of both the Policy and Long Term Share Plan, though recognise that there were a significant number of votes opposing both these resolutions. As a result, we have consulted widely on the changes we are making to the implementation of the approved Policy in 2021 and thank those shareholders and proxy agencies that we have met for their feedback.

When designing the new Policy, we thought carefully about how we could achieve our core aim of creating a simple reward package with clear alignment to our Group's purpose and shareholders' interests. On page 118 of our Annual Report and Accounts under 'Engaging with our shareholders and responding to feedback', we explain the main feedback received and our response.

In particular, I would like to draw your attention to the new approach to the Group balanced scorecard on page 119 of our Annual Report and Accounts where I hope you will agree we have taken on board specific feedback that we should have fewer and simpler quantitative metrics that have clear alignment to the purpose of the Group and shareholders' interests. We have also responded to feedback that there should be specific and identifiable measures of performance against our inclusion and diversity objectives (in support of our ethnic and gender diversity goals) and our long-term sustainability agenda.

We know that 2021 will not be a normal year as we start delivering on our revised strategy and Help Britain Recover, while adapting to the changing needs of our customers, colleagues and societal expectations resulting from the pandemic. We believe that our balanced scorecard for 2021, which will drive the reward outcomes for our whole Group Executive Committee, not just the Group Chief Executive, ensures that management is focused as 'one team' on the right behaviours and delivering sustainable results.

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

On behalf of the Board

Stuart Sinclair

Stuart Sinclair
Chair, Remuneration Committee

2020 Remuneration at a glance

Our remuneration package

The below summarises the different remuneration elements for Executive Directors.

Base Salary

Base Salary

To support the recruitment and retention of Executive Directors of the calibre required to develop and deliver the Group's strategic priorities.

Base salary reflects the role of the individual, taking account of market competitiveness, responsibilities and experience, and pay in the Group as a whole.

Fixed Share Award

Fixed Share Award

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

Pension

Pension

To provide cost effective and market competitive retirement benefits, supporting Executive Directors in building long-term retirement savings.

Benefits

Benefits

To provide flexible benefits as part of a competitive remuneration package.

Short Term Variable

Group Performance Share (Bonus)

To incentivise and reward the achievement of the Group's annual financial and strategic targets whilst supporting the delivery of long term superior and sustainable returns.

Long Term Variable

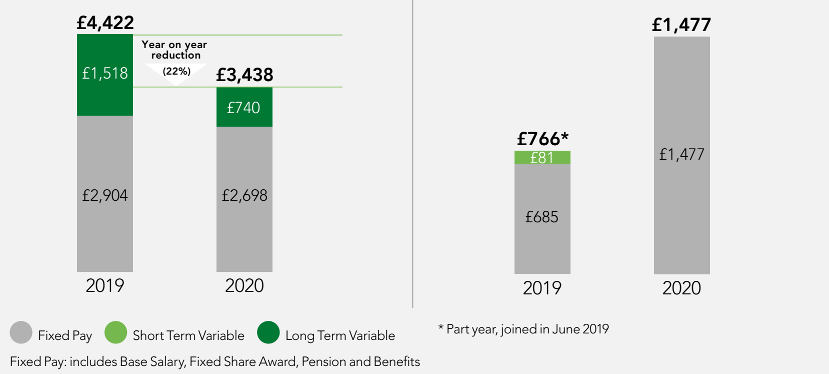
Long Term Share Plan

Long term variable reward opportunity to align executive management incentives and behaviours to the Group's objectives of delivering long-term superior and sustainable returns. The Long Term Share Plan will incentivise stewardship over a long time horizon and promote good governance through a simple alignment with the interest of shareholders. This replaces Group Ownership Share Plan/LTIP.

Single total figure for 2020 remuneration (£000)

António Horta-Osório
Group Chief Executive

William Chalmers
Chief Financial Officer



2018 Executive Group Ownership Share performance and vesting

Total vesting
33.75%

Customer satisfaction (10% weighting) — 10%

Digital net promoter score (7.5% weighting) — 7.5%

FCA reportable complaints (5% weighting) — 5%

FOS uphold rate (5% weighting) — 3.75%

Statutory economic profit (25% weighting) — 0%

Absolute TSR (30% weighting) — 0%

Cost:income ratio (10% weighting) — 0%

Employee engagement (7.5% weighting) — 7.5%

2020 Group Performance Share (GPS) Pool

£0m

Underlying profit of £2.2bn was below the threshold required under our GPS plan rules and so has resulted in no GPS (bonus) pool being payable in respect of 2020 full year performance.

2020 Group balanced scorecard performance

3.13

Group balanced scorecard performance: Despite the challenging economic conditions and the resulting impact on our financial measures, our Group balanced scorecard reflects an otherwise resilient performance with the score being marginally down on the prior year score of 3.20. Further details can be found on page 121 of our Annual Report and Accounts.

2021 Long Term Share Plan

The Remuneration Committee decided to make an award under the 2021 Long Term Share Plan to the Chief Financial Officer. In setting the award size the Remuneration Committee considered an award of 125 per cent was appropriate to reflect Group and individual contribution in 2020 (see page 122 of our Annual Report and Accounts). A further adjustment of 40 per cent was applied, resulting in a final award of 75 per cent of salary for the Chief Financial Officer.

For additional information see page 132 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 health and wellbeing of the Group's shareholders, customers and employees are of paramount importance and the Board is constantly reviewing the impacts of the COVID-19 pandemic. The Board is considering the format of this year's AGM to ensure that shareholders have the opportunity to suitably engage with the Board. Details will be made available in the Notice of AGM, which will be published towards the end of March and will be available on our website at www.lloydsbankinggroup.com

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

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.

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.

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 on the next page.

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.

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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)

Registrar

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

Shareholder helpline

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

Register today to manage your shareholding online

Get online in just three easy steps:

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

step 2
Receive your activation code in post

step 3
Log on

Scan me
to register

*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.

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', 'achieves', 'anticipates', 'estimates', 'expects', 'targets', 'should', 'intends', 'aims', 'projects', 'plans', 'potential', 'will', 'would', 'could', 'considered', 'likely', 'may', 'seek', '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, statements or guidance relating 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; the Group's ESG targets and/or commitments; changing customer behaviour including consumer spending, saving and borrowing habits; changes to borrower or counterparty credit quality impacting the recoverability and value of balance sheet assets; concentration of financial exposure; management and monitoring of conduct risk; exposure to counterparty risk (including but not limited to third parties conducting illegal activities without the Group's knowledge); 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), the EU-UK Trade and Cooperation Agreement, 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 and any further possible referendum on Scottish independence; 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 (including but not limited to the COVID-19 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, or other such events; geopolitical unpredictability; risks relating to climate change; changes in laws, regulations, practices and accounting standards or taxation, including as a result of the UK's exit from the EU; changes to regulatory capital or liquidity requirements (including regulatory measures to restrict distributions to address potential capital and liquidity stress) 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 laws, legislation and regulation together with any resulting impact on the future structure of the Group; the ability to attract and retain senior management and other employees and meet its diversity objectives; actions or omissions by the Group's directors, management or employees including industrial action; changes to the Group's post-retirement defined benefit scheme obligations; the extent of any future impairment charges or write-downs caused by, but not limited to, depressed asset valuations, market disruptions and illiquid markets; the value and effectiveness of any credit protection purchased by the Group; the inability to hedge certain risks economically; the adequacy of loss reserves; the actions of competitors, including non-bank financial services, lending companies and digital innovators and disruptive technologies; and exposure to regulatory or competition scrutiny, legal, regulatory or competition proceedings, investigations or complaints. Please refer to the latest Annual Report on Form 20-F filed by Lloyds Banking Group plc with the US Securities and Exchange Commission for a discussion of certain factors and risks.

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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