Helping Britain Prosper

Lloyds Banking Group
Annual Review 2021

About Lloyds Banking Group

We are the largest UK retail and commercial financial services provider, with 26 million customers and a leading digital presence

Our reporting

Our reporting is designed to facilitate better communication to a range of stakeholders. Our Annual Report provides disclosures relating to our strategic, financial, operational, environmental and social performance and provides detail on our strategy. Supplementary information and disclosures are provided in the following documents, and referenced throughout the Annual Report and Accounts.

See our full reporting network suite at www.lloydsbankinggroup.com/investors

- Annual Report and Accounts
- Performance Summary
- ESG Report
- Climate Report
- Form 20-F
- Pillar 3 disclosures

This Annual Review contains forward-looking statements relating to the Group's future financial condition, performance, results, strategic initiatives and objectives. For further details, please refer to our forward-looking statements on page 51.

Our 2021 performance

Solid financial performance with continued business momentum and strong strategic progress

£5.9bn
Significantly higher statutory profit after tax, benefitting from a net impairment credit

56.7% A
Cost:income ratio remains strong

2.00p
Progressive and sustainable total ordinary dividend per share

£3.4bn
Total capital return including ordinary dividend and share buyback of £2 billion

>£16bn
Lent to first-time homebuyers versus target of £10 billion

+69pts
Maintained record all-channel net promoter score

A more detailed overview of our financial performance is included in the Group Chief Executive's review on **pages 03 and 04**, with key performance indicators on **pages 30 to 31**

Alternative performance measures
Our statutory results are prepared in accordance with the recognition and measurement principles of the International Financial Reporting Standards. In addition, we use a number of alternative performance measures in the description of our business performance and financial position. These measures are labelled with an A and further information is set out on **page 65** of the Annual Report and Accounts.

Report of the Auditor
The auditor's report on the full accounts for the year ended 31 December 2021 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.

Inside this report

This Annual Review incorporates the Strategic Report which forms part of the 2021 Annual Report and Accounts along with some information about the Board of Directors, detail on remuneration as well as some general shareholder information.

On behalf of the Board

Robin Budenberg
Chair, Lloyds Banking Group
23 February 2022

We're driven by our purpose

Helping Britain Prosper

Chair's statement

Becoming truly purpose-driven will deliver long-term sustainability and benefit all our stakeholders

Robin Budenberg
Chair

Overview

In my first year as Chair of Lloyds Banking Group I have been impressed by the continued progress the Group is making in supporting its customers and Helping Britain Recover. I am immensely proud of the continued support and dedication of our staff which has enabled us to play such a leading role in supporting the UK economy throughout the crisis and on behalf of the Board, I would like to thank them for their ongoing commitment.

At the same time 2021 has been a year of progress and transition for the Group, with a new management team in place, continued business momentum and solid financial performance enabling an increased ordinary dividend and further excess capital return. We made strong progress against our transitional strategy, Strategic Review 2021, building further foundations and strengthening our position as the UK's leading financial partner, whilst further enhancing key capabilities.

Purpose-driven business

As I mentioned last year, the role of the 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 culture and values as an organisation. Given the increasingly dynamic and competitive environment we have spent a lot of time this year with the new management team considering the most appropriate future strategy for the Group.

I am really pleased with the outcome: a strategy directly aligned to our purpose of Helping Britain Prosper, building on the existing strengths of the Group, that will deliver long-term and profitable growth whilst making a meaningful and positive difference for all stakeholders.

We are committed to Helping Britain Prosper by creating a more sustainable and inclusive future for people and businesses, shaping finance as a force for good. Further detail on our new strategy can be found on **pages 06 to 21**.

Climate change is one area where I think we can make a big difference. We want to be a leader in accelerating the UK's transition to a low carbon economy and are developing targets and plans to deliver our net zero ambitions in our own operations and financed emissions. With our full year results we have published our inaugural Climate Report and will continue to implement the recommendations of the Financial Stability Board's Task Force on Climate-related Financial Disclosures in line with industry guidelines and regulatory requirements, whilst delivering in the near term.

As we move to become a truly purpose-driven business, I am confident that our new strategy will provide the capabilities to deliver even better outcomes for customers, colleagues and shareholders whilst supporting the communities in which we operate.

Governance and culture

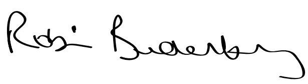
There are clearly strong links between governance and establishing a culture that supports long-term sustainable success. The Board and senior management have a vital role to play in shaping and embedding a healthy corporate culture and I am keen to ensure we build a strong reputation in this area. During 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 80** of the Annual Report and Accounts.

The values and standards of behaviour we set are an important guiding influence and, as I mentioned last year, we are determined to address and learn from historical failures, including those associated with HBOS Reading where we are committed to ensuring all those impacted are treated fairly and compensated appropriately.

Diversity remains a priority from both a corporate and Board perspective. The Group was the first FTSE 100 company to set targets to increase both gender and ethnic diversity at senior levels, and implemented a Race Action plan to drive change. I am also keen to ensure the Board itself reflects diversity, not just gender or ethnic diversity but skills, experience, educational and professional background to provide the range of perspectives, insights and challenge needed to support good decision-making. Aligned to this I am pleased to say we meet the requirements of both the Hampton-Alexander Review and the Parker Review. Further detail on specific Board changes in the year can be found in our governance report on **page 70** of the Annual Report and Accounts.

In summary I am confident that our new strategy and commitment to become a truly purpose-driven business will enhance the long-term future of the Group and benefit all our stakeholders. We have been playing our part in the national response to the pandemic and will continue to ensure the Group is at the heart of the UK recovery and Helping Britain Prosper.

Robin Budenberg
Chair



Group Chief Executive's review

Continued business momentum with an opportunity to do more

2021 was a year of continued delivery for the Group with continued business momentum and solid financial performance. Our clear focus on supporting customers and purpose, Helping Britain Prosper, has positioned us well.

Since joining the Group as Chief Executive in August 2021, I have undertaken a thorough review of the business and am delighted to be launching our new strategy, which will shape how the business operates over the coming years and ensure the long-term sustainability of the business.

> We have a great opportunity to build a really purpose-driven bank, with long-term sustainability, that defines the future of what great financial services look like for our customers, colleagues and shareholders.
>
> **Charlie Nunn**
> Group Chief Executive

Helping Britain Prosper

Our strategic vision
UK customer-focused digital leader and integrated financial services provider, capitalising on new opportunities, at scale

Drive revenue growth and diversification
+
Strengthen cost and capital efficiency
+
Maximise the potential of people, technology and data

Higher, more sustainable returns and capital generation

Group Chief Executive's review continued

Overview

2021 was a year of continued delivery for the Group, with successful strategic execution, ongoing investment and continued franchise growth, enabling the Group to succeed in its customer focused ambitions set out in the Strategic Review 2021. This resulted in a solid financial performance, with continued business momentum and balance sheet growth. Given the Group's performance and strong capital position, the Board has recommended a final ordinary dividend of 1.33 pence per share, in line with our progressive and sustainable ordinary dividend policy and a share buyback of up to £2.0 billion, marking 2021 as a very strong year of capital return to shareholders.

During 2021 the Group focused on Helping Britain Recover, supporting customers and communities across the UK as they continued to deal with the pandemic. I am very proud of the positive impact that the Group was able to make. The dedication of colleagues and their ongoing support for customers, communities and businesses across the UK in these unique and challenging times is impressive. I would like to express my gratitude to all of our colleagues for their resilience, commitment and hard work throughout 2021.

69pts

Our digital channels have continued to perform well, attaining record levels of customer satisfaction with an all-channel net promoter score of 69 for the year.

Since joining the Group in August 2021, I have been impressed by the Group's purpose-driven culture, real customer focus, its commitment to sustainability and diversity, as well as its disciplined risk management. Building on the Group's strong foundations and distinct competitive strengths, we are today launching our new strategy to deliver for all of our stakeholders, as detailed below. I very much look forward to working with my colleagues across the Group to drive our purpose, our growth opportunities and build higher, more sustainable Group returns and capital generation.

Financial performance

In the context of continued business momentum and balance sheet growth, the Group has delivered a solid financial performance with statutory profit after tax of £5.9 billion, significantly higher than 2020. Increased profits benefitted from higher income and the net underlying impairment credit of £1.2 billion in 2021 (2020: underlying impairment charge of £4.2 billion), driven by improvements to the macroeconomic outlook for the UK, combined with robust observed credit performance. Underlying profit before impairment of £6.8 billion was up 6 per cent on 2020, with increased average interest-earning assets, a strengthened banking net interest margin and early signs of recovery in other income, alongside a reduction in operating lease depreciation.

Cost discipline was sustained, with operating costs of £7.6 billion, up 1 per cent compared to the prior year, including the impact of rebuilding variable pay in the context of stronger than expected financial performance. Remediation charges increased in the year to £1,300 million, with £775 million in the fourth quarter. The full year remediation charges relate to a number of pre-existing legacy issues and include a £790 million charge relating to HBOS Reading which reflects the Group's estimate of its full liability, albeit significant uncertainties remain. We continue to support the independent Foskett Panel re-review and Dame Linda Dobbs' independent review process as we work to bring this matter to a conclusion.

The Group has benefitted from continued balance sheet growth during the year. Loans and advances to customers were up £8.4 billion versus prior year at £448.6 billion, driven by strong net growth in the open mortgage book of £16.0 billion, the strongest in over a decade. Cards balances were down year-on-year but are showing signs of recovery with balances growing £0.5 billion in the second half. These were offset by lower SME and Mid Corporate balances given clients' high levels of liquidity, as well as the continued reduction in the closed mortgage book. Customer deposits continued to increase during the year, with significant growth of £25.6 billion since the end of 2020, including significant growth in retail current accounts and relationship savings balances, with continued inflows to our trusted brands. Deposit balances are now up c.£65 billion since the end of 2019.

£16bn

+5.8%

The Group delivered net open book mortgage growth of £16 billion during the year, the strongest in over a decade.

Strong progress made under Strategic Review 2021

The Group launched Strategic Review 2021 last February with a focus on Helping Britain Recover and further enhancing our core capabilities. We have invested c.£0.9 billion to support our strategic initiatives, enabling us to succeed in our Helping Britain Recover commitments and achieving significant progress on our 2021 customer focused commitments. Highlights include strengthening our digital offering and attaining record levels of customer satisfaction, with the all-channel net promoter score maintained at 69 for the year; supporting over 93,000 start-ups and small businesses[1], by providing our customers with online support, business advice and business banking accounts (target: 75,000); expanding the availability of affordable and quality homes by lending more than £16 billion to over 80,000 first-time buyers (target: £10 billion) and; expanding the funding available under the Group's discounted green finance initiatives from £3 billion to £5 billion.

£5bn

Expanded the funding available under the Group's discounted green finance initiatives from £3 billion to £5 billion.

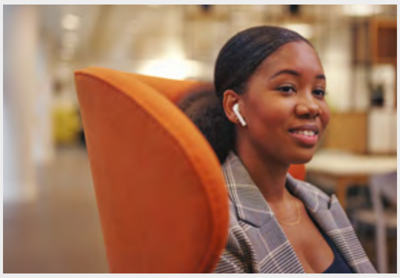
A further priority outlined in Strategic Review 2021 was for the Group to meet more of its customers' broader financial needs. Good progress was made, with over £7 billion net new money in Insurance and Wealth open book Assets under Administration (AuA) over the period (£133 billion as at 31 December 2021). The Group also completed the acquisition of Embark early in 2022, contributing c.£37 billion of AuA on behalf of c.354,000 consumer clients. This acquisition is important as it provides a digital, mass market, direct-to-consumer proposition, complementing the Group's existing advice offerings via Schroders Personal Wealth and Cazenove Capital.

The Group completes Strategic Review 2021 in a strong position.

Delivering for our stakeholders, profitably

Purpose drives value

- Clear purpose and mission
- Strategic direction
- Stronger financial position
- Long-term value creation



Building an inclusive society

- Improving access to quality housing
- Promoting financial inclusion and education
- Enabling regional development
- 50 per cent female, 13 per cent Black, Asian and minority ethnic with 3 per cent Black heritage colleagues in senior roles by 2025

Supporting the transition to a low carbon economy

- Reduce carbon emissions we finance by more than 50 per cent by 2030, on the path to net zero by 2050 or sooner
- Net zero own operations by 2030
- Sustainability outcomes embedded across business priorities

Our strategy

Building on our strong foundations, our purpose of Helping Britain Prosper forms the basis of our new strategy to profitably deliver for all of our stakeholders. Core to our purpose and strategy is our focus on building an inclusive society and supporting the transition to a low carbon economy. This is where we can make the biggest difference, whilst creating new avenues for our future growth. It is only by doing right by our customers, colleagues and communities that we can achieve higher, more sustainable returns for shareholders.

We have a clear strategic vision to be a UK customer-focused digital leader and integrated financial services provider, capitalising on new opportunities, at scale. We will look to deepen relationships with our existing customers, both consumers and businesses of all sizes, and meet more of their financial needs by making our great products more relevant to them and our channels simpler and more personalised to use. This will set the Group on a higher growth trajectory with more diversified revenue streams while we retain our strong focus on cost and capital discipline. Enabled through maximising the potential of our dedicated people, technology and data capabilities, our strategy represents an exciting new chapter for Lloyds Banking Group.

I am confident that the Group's purpose, customer focus, unique business model and significant competitive strengths, embodied in our ambitious strategy will ensure the Group is able to deliver higher, more sustainable long-term returns and capital generation for our shareholders, whilst meeting the needs of broader stakeholders.

Outlook

The coronavirus pandemic continues to have a significant impact on the people, businesses and communities of the UK and around the world. As we look forward into 2022, we are seeing early recovery and the macroeconomic outlook is improving, supported by the successful vaccine roll out in the UK. Although the outlook remains uncertain, particularly with regards to new virus variants, as well as the impact of inflation on the economy and households, I am confident that the Group is well-placed to deliver increased returns whilst Helping Britain Prosper, as embodied in our new strategy. This is reflected in the new guidance outlined below.

2022 guidance

Reflecting confidence in the Group's business model and new strategy and based on our current macroeconomic assumptions, the Group now expects:

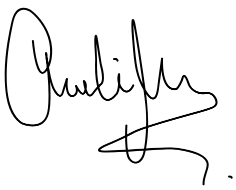
- Banking net interest margin above 260 basis points
- Operating costs of c.£8.8 billion on the new basis, with the increase from the 2021 equivalent (£8.3 billion) reflecting stable business-as-usual costs, incremental investment and new businesses
- Asset quality ratio to be c.20 basis points
- Return on tangible equity of c.10 per cent
- Risk-weighted assets at the end of 2022 to be c.£210 billion

2024 and 2026 guidance

Based on the Group's new strategy, reflecting focus on our growth potential, improved efficiency and realising the capabilities of our people, technology and data, the Group expects:

- Return on tangible equity in excess of 10 per cent by 2024 and in excess of 12 per cent by 2026, as the full benefits of our investment are realised
- Additional revenues of c.£0.7 billion by 2024 and more than double that of c.£1.5 billion by 2026
- Business-as-usual costs flat in 2024 versus 2021, while costs increase only to finance new investment, enabling a cost:income ratio of less than 50 per cent by 2026
- Asset quality ratio to be less than 30 basis points over 2022 to 2024
- Capital generation of around 150 basis points per annum over 2022 to 2024, improving to 175 to 200 basis points by 2026. We are committed to returning excess capital to shareholders and expect to pay down to our target capital ratio by 2024

Charlie Nunn
Group Chief Executive



1 This figure comprises both for-profit enterprises and not-for-profit enterprises, such as charities. Not-for-profit enterprises comprise approximately 10 per cent of this figure.

Our strategy

Every great journey needs a purpose. Ours is Helping Britain Prosper

Our focus on Helping Britain Prosper has made a real difference to customers and society, but we are taking further steps to build a truly purpose-driven organisation that is more inclusive and sustainable.

Our strategic planning process

We regularly assess our strategy in light of our changing operating environment to ensure that our focus remains the right one. With new leadership in place, we had an opportunity to review the Group's strategic direction.

Over the past year we have considered how we can build on the Group's successful transformation from previous years, during which we created significant benefits for our customers and other key stakeholders, while also positioning the Group well to succeed in a digital world.

Our new strategy responds to continuously evolving customer and societal expectations and challenges, such as climate change, new technologies and a rapidly changing competitive environment.

With our defining purpose further embedded in the strategy, we are aiming to play an even more active role in UK society and drive its prosperity while delivering enduring value to all our stakeholders.

Developing our **new strategy**

June to August 2021

With a number of new members in place, the Board and the Group Executive Committee took an opportunity to use their annual strategic offsite sessions to discuss the forces shaping the Group's operating environment. Key strategic questions to be considered as part of the review undertaken in the second half of the year were also formulated. Charlie Nunn joined the Group in August 2021 as our new Group Chief Executive, and shared his initial thoughts with the Board.

Whilst our Group purpose of Helping Britain Prosper remains unchanged, the Board and the Executive Management team recognised that in order to further embed it at the heart of our strategy, we need to better articulate how it translates into the Group's strategy and how it drives our strategic decision-making through a compelling and active mission.

September to November 2021

We continued to develop our mission, engaging with colleagues representing different levels and functions of the Group through interactive sessions. We also tested our ideas with a number of personal and business customers, to ensure our mission was relevant and helped us meet their expectations.

With our purpose and mission shaping the developing strategy, emerging business visions were formulated together with key strategic choices. These were reviewed and discussed with the Board who provided input on the Group's future shape. More detailed initiatives were subsequently presented in the context of investment prioritisation and the Group's longer-term financial plan.

December 2021 to February 2022

Following widespread engagement across the Group, our proposed mission, which provides the bridge between our purpose and strategy, was finalised with the Executive Management team and the Board to provide the guiding force for the organisation.

Strategic priorities previously discussed were further refined based on the Board's feedback and developed into detailed strategic plans with measurable operating and financial metrics and targets which support our strategic aspirations for the next three years and beyond.

The Board reviewed the more detailed plan and final financial plan, placing particular emphasis on the effective management of the programme and the mitigation of potential execution risks. At the same time, a communication plan was developed with the Board's input, to ensure that all our stakeholders understand the role our purpose plays for the Group.

2022 to 2024

The Board and the Group Executive Committee will receive regular updates on delivery against strategic plans, with a monthly Strategic Delivery Forum established to ensure more detailed tracking of deliverables and milestones.

Over the next few pages, we outline our purpose architecture, the evolving market trends and our new strategy.

Helping Britain Prosper

Helping Britain Prosper

Our mission

We Help Britain Prosper by creating a more sustainable and inclusive future for people and businesses, shaping finance as a force for good

Our manifesto

Our mission is everything. It's what drives us, what makes us different and **defines how we profitably grow**. It's how we'll create a future where our planet is cared for, people feel safe and included, and businesses and communities can thrive.

We serve millions of individuals, families and businesses, big and small, every day. This means we're better placed than anyone to make the way that we spend, save, borrow, invest and protect what matters, **a force for good.**

We will lead in the bold decisions we make as a business, from where and how we invest, to the products and services we offer, to the workplace we create. We will search for new ways to work with people, communities and businesses, to always evolve with their needs. And we will **never stop innovating to make sustainable, ethical choices** easy and rewarding.

With restless energy for positive change, we are **reshaping financial services so they'll work for Britain, for generations to come.**

Our **decision-making principles**

By following our principles, we will meet the needs of all our stakeholders: customers, colleagues, communities and shareholders, today and for generations to come.

More pioneering

We will always challenge ourselves to do things differently, working hard to improve how we serve our customers and create long-term, profitable growth.

More sustainable

We will always consider the direct and indirect impact of our decisions on nature and Britain's transition to net zero.

More inclusive

We will always shape what we do and what we offer around people's different needs and circumstances.

More secure

We will always look for ways to help people, communities and businesses feel more supported, in control and confident about their future.

Supporting the achievement of the following UN Sustainable Development Goals (SDGs)

Our mission and principles provide a lens through which to assess the key choices we face when considering the future shape of the Group.

We know that becoming a truly purpose-driven organisation will take time. A key element of our strategy will be to build ambition progressively, and to embed our purpose into decision-making, culture and capabilities.

Our external environment

What our customers want

- COVID-19 has continued to profoundly impact our customers' lives, while also accelerating underlying behavioural shifts
- Against this challenging backdrop, we have provided support to our customers and clients, and ensured continued good access to banking services
- Personal and business customers are increasingly turning to digital channels for their simpler banking needs, with increasing expectations for speed, convenience, and relevance
- We have continued to invest in enhancing our customer propositions and our businesses, with a focus on deepening our customer and client relationships through our unique integrated banking, insurance and wealth offering

Market dynamics

COVID-19 continues to have a profound impact on many of our customers' lives and finances, as the acute phase of the health crisis transitions to a new normal, albeit one with longer-term uncertainty.

In 2022 households and businesses face pressures from a rising cost of living, supply chain and labour market disruption, and elevated small business borrowing levels which challenge our customers' financial resilience. Longer-term societal challenges remain: acceleration to net zero; inadequate retirement saving; lack of advice at retirement; growing intergenerational wealth transfer; increasing wealth concentration; lack of affordable homes and a long-term increase in private renting; and maintaining access to cash and banking services for vulnerable customers and the 11 million people in the UK lacking essential digital skills. These underline the role we have in supporting our customers' financial lives with our unique, broad business model.

The experience of the past two years has accelerated customer trends that will persist. Customers' use of digital channels has increased, particularly for small businesses, with increasing expectations for convenience, speed, and relevance shaped by frictionless experiences outside of financial services.

Nevertheless, we see customers continuing to value human support for complex financial needs, such as long-term financial planning. We also continue to see our highest-value customers using human support. Therefore, there is a compelling case for an all-channel distribution model.

Businesses are increasingly turning to digital ecosystem solutions, seeking propositions that simplify operations and that seamlessly integrate their financial services into their processes such as accounting and payroll. Younger customers have shown increasing willingness to try new financial services, such as buy-now-pay-later and higher risk investments, influenced by new forms of social media. These trends illustrate the need to provide highly integrated financial service experiences, as well as the importance of the role of trusted brands in guiding customers in an increasingly fragmented digital financial services market.

Our response

In 2021, we have continued to provide support to our personal and business customers, including repayment holidays and government-backed loan schemes for businesses. Our colleagues have provided our customers good access to banking services, despite operational challenges and heightened customer need, with dedicated phone lines and additional support for vulnerable customers in place.

We have significantly increased our funding support for social housing, while also exceeding our mortgage lending target for first-time buyers by over £6 billion. Similarly, we have continued to support UK businesses in improving productivity and in achieving a sustainable recovery through a combination of digital skills training, mentoring and increased funding available under green finance initiatives.

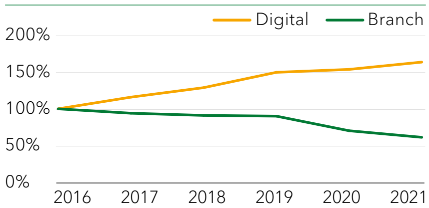
Investment in our digital proposition continues to improve the experience of both our personal and business customers by modernising our technology architecture, with a focus on improving system resilience and efficiency, and responsiveness to fast evolving customer expectations. Consequently, our mobile apps are consistently rated ahead of our competitors by customers across 2021, with Lloyds Bank, Halifax and BoS all ranked in the top four on both Google Play and App Store. Similarly, our dual focus on improving our digital proposition and providing digital skills training has resulted in SME products originated via a digital source increasing by c.60 per cent year-on-year, exceeding our target.

We have invested in payments capability, successfully maintaining a market-leading share in card spending for personal customers and delivering a three-fold increase in the number of corporate clients onboarded to the new cash management and payments platform year-on-year.

We are uniquely positioned to serve our customers' lifetime banking, insurance and wealth needs in one place through a comprehensive product range. With ever increasing competition, we are investing in data capabilities to personalise and deepen our customer relationships and meet a broader range of needs, whilst ensuring we face the ethical considerations posed by new data uses. With this focus and our recent acquisition of the fast-growing investment and retirement platform Embark, we have increased our public target for net customer flows into our Insurance and Wealth business.

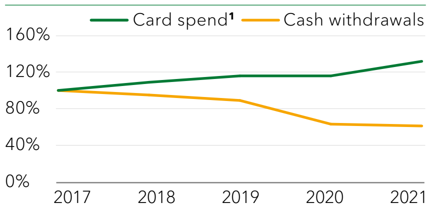
Change in Channel Usage versus 2016

Average visits per user



Card spend versus cash withdrawals

Indexed 2017



1 Includes credit and debit card spend.

Link to principal risks

Change/execution, Data, Conduct, Credit, Operational resilience

Pace of digital innovation

- Digital adoption continues to accelerate, with COVID-19 driving a continued shift in customer behaviours
- New technologies are increasingly being deployed to deliver significant improvements to customer experience and deliver a step-change in efficiency
- Cyber security and the protection and appropriate use of customer data remain important factors in retaining customer trust

Market dynamics

The pace of digital adoption amongst customers continues to increase and a physical presence is no longer a prerequisite for customer growth. New business models based around ecosystems and networks are new sources of scale, enabled by a supportive regulatory environment and next-gen technology such as cloud and APIs.

Banks have reduced branch networks in 2021, adapting to changing customer usage, and have made significant investment in technology to respond to new competition and to meet increasing customer expectations. Investment in data capability remains important, using insights to gain a better customer understanding and to deliver more personalised customer interactions. For banks with significant data assets, this represents a potential competitive benefit, as well as an integral responsibility in safeguarding this data against cyber threats. Deployment of new technology to automate manual processes and improve defences against fraud has allowed both customer experience enhancements and efficiency savings.

Beyond this, the sector is increasing investment in new technologies that have the potential to transform customer offerings and deliver a step-change in efficiency, from the migration and simplification of legacy systems to the creation of new cloud-based architecture. While many of these initiatives are in their infancy and pose significant challenges in execution, successful adoption has the potential to deliver highly innovative customer propositions with a significantly reduced time to market, as well as a highly scalable, resilient and agile technology architecture at a significantly lower cost.

Our response

The Group continues to see significant value in its all-channel distribution model, maintaining a wide branch footprint to support our customers in accessing the channel of their choice.

In 2021 we have improved digital capabilities for both personal customers and commercial clients, adding features that our customers value such as variable contactless card limits. We have also been able to bring these to market more frequently than ever before, with mobile app releases increasing 1.8 times year-on-year. Importantly, despite the significant volume and pace of change this has not been at the expense of customer experience, with our record all-channel net promoter score maintained in 2021.

We are investing in artificial intelligence and machine learning to improve customer and colleague experience, and to drive operational efficiencies through automation. This enables our colleagues to focus on more complex, value-adding tasks to better support our customers. Advanced analytics deployment is improving fraud detection rates, a growing challenge in a more digital world. We have significantly increased investment in improving our use of data, with a more customer-centric view enabling us to identify customer needs more quickly and effectively, for example in better identifying and meeting more of our customers' banking and insurance needs.

We continue to explore the potential of new technology architecture, supported by strategic partnerships, and in 2021 we increased investment in this area to assess these capabilities and opportunities. This included the safe migration of around 120,000 back book customer accounts in a pilot of new bank architecture, providing a proof-point for our investment and to build confidence in our ability to utilise new cloud-based architecture.

In 2022, and beyond, the Group remains focused on delivering improvements for customers and colleagues, with increased investment levels enabled by our continuing focus on efficiency, to improve our competitive positioning and deliver sustainable shareholder returns.

Customers are using the digital channel for simpler needs

% volume of products originated digitally

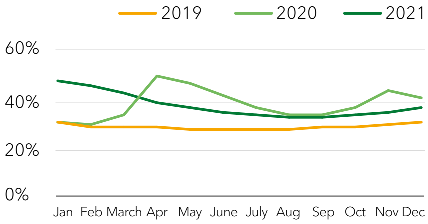
84%

2021[1]	**84**
2020[1]	85
2019[1]	75
2018[1]	73
2017	68
2016	61
2015	54
2014	40

1 Data includes MBNA data from 2018 onwards.

Online spend (transaction volumes)

Share of online transactions by month, %



Link to principal risks

Change/execution, Conduct, Data, Model, Operational, Operational resilience, People

Our strategy continued

Uneven economic recovery

- Given our focus on UK customers, the Group's prospects are closely linked to developments in the UK economy
- The economic outlook remains uncertain, dependent on success of vaccines and treatments for emerging variants of COVID-19 in allowing a return to pre-pandemic patterns of household spending, and in resolving current disruption to global supply chains
- We expect the UK economy to grow by 3.7 per cent in 2022 after a weak turn of the year, and return to pre-pandemic growth in 2023 at 1.5 per cent

Overview

UK GDP grew by over 7 per cent in 2021, but recovery from the pandemic-driven 9 per cent drop in 2020 was incomplete.

'Lockdown' measures at the start of 2021 were largely removed by mid-year, but household spending has returned more slowly towards its pre-pandemic level. The emergence of the Omicron COVID-19 variant in late November resulted in the imposition of 'Plan B' restrictions during December in England and some further restrictions on household mixing elsewhere in the UK. Unemployment was, however, held down by the government's furlough scheme, and at 4.1 per cent in December after scheme closure was just 0.3 percentage points higher than pre-pandemic. Inflation, on the other hand, has risen recently to its highest in three decades and is likely to rise further by the second quarter of 2022. Disrupted global supply chains have struggled to match consumers' high demand for goods as spend has been diverted from services; energy prices jumped sharply due to supply disruptions and the labour force size has been reduced by elevated early retirement and sickness, and some return of EU citizens to their homelands.

UK GDP is expected to recover further in 2022, despite mild pandemic-related restrictions in January and household spending squeezed by high inflation. The strength of further recovery depends crucially on the degree to which COVID-19 vaccines and treatments allow a return to pre-pandemic spending patterns. It will also depend on how much improving global production capacity and domestic labour supply might start to reduce high inflation, and how rapidly interest rates may have to rise to help ensure that inflation falls back towards its target level.

Our forecast of 3.7 per cent UK GDP growth in 2022 assumes no further 'lockdowns', that elevated inflation will begin to fall gradually during the second half of the year, and that interest rates will rise only mildly above their pre-pandemic level. There is a high degree of uncertainty around those assumptions, however.

The pandemic has also increased uncertainty for the longer-term economic outlook, adding to existing uncertainties stemming from new business processes and costs resulting from Brexit, and impacts of climate change. Deeply unequal societal impacts of the COVID-19 recession, and the current period of elevated inflation, might provoke large changes to taxation and benefits policies.

Market dynamics

The very unusual depth of recession and recovery, together with new types of government support, the furlough scheme and lending guarantees for businesses, for example, have resulted in unusual trends in our markets across 2020 and 2021.

Restricted spending opportunities, but incomes supported by furlough, has driven households' deposits to rise by a further 7.4 per cent in 2021 after 9.9 per cent in 2020. Recovery in consumer credit began only in the second half of the year, market balances are estimated to have fallen a further 1 per cent in 2021 overall after their 9.5 per cent fall in 2020. However, the strength of deposits and falling consumer credit payments provided resources to support house purchases, encouraged by the temporary stamp duty holiday and shifting preferences for space and location due to the pandemic. As a result, house prices have risen strongly, increasing almost 10 per cent in 2021 after a rise of 5 per cent in 2020, and mortgage market balances growth accelerated to 5.1 per cent in 2021, its strongest since 2008.

Businesses' borrowing and deposits market volumes have also performed very differently to previous recessions. Lending guarantee schemes have driven a strong rise in SME lending and deposit market balances, unlike falls in previous recessions. Non-financial corporate deposits rose by a further 5.0 per cent in 2021 after increasing 28.3 per cent in 2020, and lending balances are estimated to have fallen by only close to 1 per cent in 2021 after a strong 9.3 per cent rise in 2020.

If the economy does gradually return much closer to pre-pandemic conditions through 2022, then these abnormal trends in our markets should begin to unwind. Households' deposit accumulation will slow and consumer credit rise, as household spending gets closer to pre-pandemic levels, with disposable incomes under pressure from inflation.

The housing market is expected to quieten now stamp duty has returned to its normal rate, and as interest rates rise, we expect broadly flat house prices in 2022. Businesses are likely to begin to use some of their deposits to pay down some of the large increase in borrowing now that interest is becoming payable and the worst point of the economic crisis appears to have passed. We expect businesses' deposits to fall slightly in 2022, and their lending balances to rise only slightly, although that aggregate masks a significant fall expected for SME lending balances and a return to more normal rates of growth for borrowing by large companies.

Our response

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

UK economic growth

GDP growth

7.5%

2021	7.5
2020	-9.4
2019	1.7
2018	1.7
2017	2.1

Office for National Statistics

UK housing market

House price growth (Dec versus. Dec basis)

9.7%

2021	9.7
2020	5.2
2019	4.0
2018	2.0
2017	2.8

Halifax

UK unemployment rates

Unemployment rate

4.5%

2021	4.5
2020	4.5
2019	3.8
2018	4.1
2017	4.4

Office for National Statistics

Link to principal risks

Capital, Climate, Credit, Funding and liquidity, Market, Regulatory and legal

Evolving competitor landscape

- Competition continues to increase across the Group's core markets, from both long-established competitors and new, digitally focused entrants
- Neo-banks continue to gain customers at significant pace, although sustainable profitability of new business models remains unproven
- We are witnessing greater disaggregation of the traditional, vertically integrated business model as new competitors attempt to disrupt parts of the value chain
- Emerging signs of large, international peers expanding into the UK market through creation of digital-only offerings

Market dynamics

The UK has a highly competitive market due to a proactive regulatory environment, a societal shift towards digital services and a thriving Fintech ecosystem developing innovative new business models on new technology and funded by plentiful private capital in the low-rate environment.

Digital-only providers have continued to see significant growth in customer numbers, particularly in the small business segment, supported by broader digital adoption. The largest neo-banks have scaled to compete with long-established banks, due to strong digital functionality and high levels of customer satisfaction. Despite this, financial sustainability remains unproven for most. Indeed, those that have started to highlight emerging signs of profitability have tended to mirror more traditional banking models. Nevertheless, digital-only providers continue to disaggregate the traditional vertically integrated banking business model by targeting the most profitable elements with innovative new propositions and attracting significant valuations (for example buy-now-pay-later).

Large international peers have also entered the UK market through new digital-only brands, with UK entry a likely precursor to broader international expansion aims. While these businesses are currently in their infancy with limited product offerings, there is scope to significantly scale these businesses and provide a competitive offering over the longer term, supported by significant investment budgets.

Traditional UK bank competitors have refocused on core business areas and improving their digital offerings. More diversified peers have delivered higher revenues during the COVID-19 pandemic compared to those with a greater gearing towards net interest income, although an improving rate outlook is likely to support these business models. Peers have also continued to accelerate restructuring exercises to offset revenue headwinds, including significant reductions in branch numbers.

Our response

Our strong franchise, combined with ongoing focus on innovation, provides us with the ability to retain customer relevance and respond to changing expectations. Our all-channel, trusted brands and integrated model provides customers choice in how to interact with our services. While the usage of physical channels is reducing, they remain important for many of our customers and are a valuable channel for building trust and deepening customer relationships. We continue to respond to changing customer expectations and preferences, enhancing our functionality and increasing our speed to market, and maintaining our position as the largest UK digital bank.

Our extensive customer offering as the UK's only integrated financial services provider is a compelling, competitive proposition which we continue to enhance, delivering holistic solutions in areas such as Insurance and Wealth management, alongside our traditional Retail and Commercial Banking activities. This includes the growth of our wealth joint-venture, Schroders Personal Wealth, as well as the acquisition of Embark. These businesses enhance our existing capabilities and allow us to meet more of our customers' broader financial needs.

We remain cognisant of the evolving competitive environment and recognise that we must continue to build on and develop our competitive strengths, through diversification of our business, expanding our offering to customers and capturing new growth opportunities.

Link to principal risks

Conduct, Operational, Regulatory and legal, Strategic

Shift in societal and environmental needs

- Addressing climate change and societal challenges requires urgent action
- Stakeholders expect companies to play their role in developing a more sustainable and inclusive world
- This is fully aligned with our purpose of Helping Britain Prosper and our strategy

Market dynamics

There is an expectation that companies help address broader societal and environmental challenges. The pandemic has accelerated this shift in expectations by exposing inequalities in our society but also demonstrating what we can achieve as a society if we work together. Similarly there is a growing urgency to tackle the global climate challenge. It is not only customers or society more broadly who demand action from companies to respond to these challenges, it is also our colleagues, shareholders and other stakeholders who recognise the role we can play in effecting change.

Our response

With our purpose of Helping Britain Prosper, we recognise we have a responsibility to help address the economic, social and environmental challenges the UK faces. As one of the largest UK financial institutions we are in a unique position to drive change.

In line with our commitments, to Help Britain Recover, we have in 2021, for example, helped over 193,000 small businesses to boost their digital capability, expanded the availability of quality and affordable homes by lending over £16 billion to first-time buyers, and supported the transition to low carbon by expanding the funding available under our discounted green finance initiatives from £3 billion to £5 billion.

We believe that responding more actively to society's key challenges is the right thing to do and an important enabler to building a better business and delivering higher, more sustainable returns to our shareholders. Our purpose forms the basis of our new strategy, including a strong focus on environmental and social topics, creating value for all of our stakeholders.

Link to principal risks

Capital, Climate, Conduct, Credit, Market, Operational, Operational resilience, People, Regulatory and legal

A clear strategic vision…

Helping Britain Prosper

Our strategic vision

UK customer-focused digital leader and integrated financial services provider, capitalising on new opportunities, at scale

Building an inclusive society

Supporting the transition to a low carbon economy

...with a transformational plan...

Grow

Drive revenue growth and diversification

Focus

Strengthen cost and capital efficiency

Change

Maximise the potential of people, technology and data

...creating higher and more sustainable value

Higher, more sustainable, returns and capital generation

>10% RoTE by 2024

c.£0.7bn additional revenues from strategic initiatives

c.£8.8bn operating costs, flat on 2022

c.150bps capital generation per annum

>12% RoTE by 2026

c.£1.5bn additional revenues from strategic initiatives

<50% cost:income ratio

175–200bps capital generation per annum

Our strategy continued

Helping Britain Prosper

Drive revenue growth and diversification

Why this is important

Growth is a core focus of our strategy. Around two-thirds of our £3 billion strategic investment over the next three years is aligned to growing and diversifying revenue. We have carefully prioritised opportunities across each of our businesses to ensure we generate value in the near-term as well as creating new revenue streams which deliver over the longer-term.

Supporting the achievement of the following UN Sustainable Development Goals

Our four areas of focus

- Deepen and innovate in Consumer
- Create a new mass affluent offering
- Digitise and diversify our SME business
- Target our Corporate and Institutional offering

Deepen and innovate in Consumer

Leading UK consumer franchise
We start from a strong position as the largest UK consumer franchise with a full set of products, leading financial services brands and record levels of satisfaction across our channels. We have 26 million customer relationships through our iconic and trusted brands, with over 18 million digitally active users, making us the largest digital bank in the UK. Our digital customers engage with us nearly once a day on average. Alongside, we have the largest branch network in the UK, working closely with local communities and customers. We are the market leader in mortgages, current accounts, savings and credit cards and a top three home insurance and workplace pensions provider.

Opportunity to build and sustain more high value relationships
We serve customers directly through our three strong and trusted relationship brands – Lloyds, Halifax and Bank of Scotland. Based on our capabilities versus our current customer engagement, there is significant potential for us to grow by meeting more of our existing customers' needs. Our relationship-led business should be the first place that customers in our priority segments turn to for all their financial needs across their lifetime.

Deepen and innovate in Consumer relationships
We will protect and grow our existing franchise by continuing to improve our offering in core product areas to maintain our leading market shares. In addition, we will further enhance and optimise our unsecured lending proposition to capture spend normalisation and drive balance growth.

We aim to deepen and build high-value relationships through our breadth of products, by providing a more personalised, relevant engagement, and offering a simple, convenient way for customers who want a more unified experience, to fulfil more of their needs in one place. As part of this we will develop a home ecosystem with integrated mortgages, green retrofit solutions and insurance products. We will continue to help our customers through all channels and provide support and education to build their financial resilience and opportunities.

Our data and analytics capability, and our digital leadership will drive personalised engagement, offers, pricing and credit risk decisions. Payments will be a key anchor to drive greater engagement. Through enhanced propositions we aim to grow our market share in credit card spend, which is below our credit card balances share. We will innovate to meet emerging customer needs, including new leasing and financing solutions for electric vehicle charging points.

2024 outcomes

>5%
Increase in depth of relationship[1] through meeting more needs of existing customers

>10%
Increase in digitally active customers to more than 20 million

£10bn
Green mortgage lending[2]

Grow
Credit card spend market share

1 Product holdings across brands for franchise customers with active relationship.
2 New mortgage lending on new and existing residential property that meets an Energy Performance Certificate (EPC) rating of B or higher. Cumulative to 2024.

Opportunity to meet more of our customers' financial needs
Customer needs met

£200m
revenues for every 5% increase in needs met

Total across all providers (Average UK consumer)	c.7
Met by Lloyds Banking Group (Average Lloyds Banking Group customer)	2.5

Unlock the intermediary opportunity
Intermediaries constitute a significant proportion of the market for certain key products, representing around 40 per cent of our total consumer income supported by our strong specialist brands, unique to our Group. Whilst we have a leading proposition and market share in mortgages, there are opportunities to significantly leverage our scale to grow in under-represented intermediary products such as motor finance, home insurance, protection, individual pensions and investments. By making it easier for intermediaries to do business with us, the Group can deliver high quality products and services to all customer segments via reliable, low-friction, intermediated customer journeys. We will look to emulate our success in workplace pensions where we have grown market share from 10 per cent to 19 per cent since 2017.

Innovate and broaden our intermediary propositions
We will protect and grow our franchise to maintain our leading intermediary market shares with our specialist brands and partnerships with major distributors. In addition, we will strengthen our intermediary insurance offering to capture market share as we aim to become a top three protection provider by 2025.

We will deliver new platforms and propositions, including by embracing embedded finance propositions. Our intermediary proposition will build upon Embark's modern digital platform and contribute towards our target of generating more than £55 billion of new open book net flows in long term investments and retirement products by 2024. We will differentiate our offering to capture value by innovating to develop new propositions such as a transport offering with more flexible finance solutions, with expanded manufacturer partnerships and services, and scaling Citra Living, our private rental housing business.

Opportunity for intermediary market share growth, %
LBG intermediary market share

Mortgages	19
Workplace pensions	19
Motor finance	14
Home insurance	9
Protection	5
Individual pensions	3

2024 outcomes

>£55bn
new Assets under Administration
Investment and retirement open book net flows[1]

Top 3
Protection provider by 2025

£20bn–25bn
Invested in climate-aware investment strategies[2] through Scottish Widows by 2025

£8bn
Financing and leasing for Electric Vehicles and Plug-in Hybrid Electric Vehicles

1 Includes long-term savings and excludes Embark day one contribution of c.£37bn, longstanding, unbundled investment only pensions, Cazenove and legacy Private Banking Trusts.
2 Pre-defined funds that have an in-built bias or tilt towards companies that are transitioning their business models to be less carbon-intensive and/or developing climate solutions.

Create a new mass affluent offering

Strong platform for growth
Mass affluent is an attractive and currently under-served segment of the market. We see a clear gap in the market for a digital-first, integrated offering combining a full set of banking, insurance and investment products. This requires being able to support customers in the accumulation and decumulation stage of their lives by joining-up services across banking, housing, pensions and investments. The Group is uniquely placed to do this. It starts with the largest mass affluent customer base in the UK of more than two million customers through its banking relationships and a complete product range at scale.

Opportunity to expand in growing mass affluent market
We intend to focus on the broader pool of mass affluent customers with income or wealth above £75,000, with a scale digital offering and integrated banking solution. We have ambitious growth plans which the Embark acquisition will help us realise, targeting a top three position in direct-to-consumer self-directed and digitally-guided advice business, as well as a top-three position in the individual pensions and retirement drawdown market.

Business priorities
We will develop a tailored banking proposition, offering our customers personalised banking experience through a convenient and easy-to-use digital interface and tailored products such as higher-value mortgages and lending solutions.

We will offer enhanced investments, platforms and digital-first advice. We will provide access to digital-guided advice for simple investment solutions and an option to access human support, if needed.

We will ensure greater integration across the Group with seamless customer journeys to onboard and provide access to a full set of propositions – connecting our banking, insurance, lending, payments and investments (including sustainable options) at low cost to serve. A clear, distinct and aspirational value proposition will be critical to convert customers to the offering.

2024 outcomes

>£5bn
Incremental total banking balances for mass affluent increasing to £10 billion to £15 billion by 2026

>£7bn
Incremental net flows into investment proposition increasing to £25 billion by 2026

Grow
Number of mass affluent personal customer account customers

Helping Britain Prosper

Drive revenue growth and diversification continued

Digitise and diversify our SME business

Well positioned to succeed
The Group serves over one million clients across its Business Banking and SME franchises. It is a top three player across key purpose aligned sectors such as agriculture, real estate and healthcare. With a strong 20 per cent primary relationship market share of SMEs, we have an important role to play in driving growth in priority areas and regions, lifting UK productivity, supporting start-ups, growing quality jobs and supporting our clients on key issues, including sustainability.

Opportunity to meet more client needs with a digital-first model
We have scope to build a more diversified earnings base and grow our market share in other trading sectors and meet more of our customers' non term-lending and transactional needs. Our strong set of relevant transaction banking products and more than 1,000 relationship and product specialists across the UK, provides a firm foundation for growth.

To deliver our vision we must further build our digital SME banking capability. We need to digitise front-to-back to improve client experience and enable clients to conveniently and quickly self-serve and meet their day-to-day needs. This is essential given changing client expectations, increasing digital engagement and competition. In conjunction, we need to selectively build out key products like asset finance, invoice discounting, trade, merchant acquiring and e-commerce solutions. These are important relationship anchors in which we are currently underweight. For example, in merchant acquiring, where volumes are growing around 20 per cent year-on-year, where we have a c.5 per cent market share today.

Business priorities
We will deliver a digital customer offering which caters to the growing preference for data enriched digitised service channels, with relationship managers focused on complex needs, delivering value for our customers and the Group. We aim to grow our digital product origination and fulfilment to more than 50 per cent of total volumes, with automated lending decisions for smaller loans improving time-to-cash. For new customers we will provide a quick and intuitive onboarding experience.

Alongside digitisation, we will expand our SME proposition through merchant services, trade, cashflow lending, and broader, value added services like supporting SME transition to net zero.

We will broaden relationships with improved returns by providing extensive support to UK businesses, improving service and supporting net zero transition.

2024 outcomes

>50%
Share of products originated and fulfilled digitally

>15%
Income growth in mid-sized SME transaction banking and working capital

20% p.a.
Growth in new merchant services clients

Target our Corporate and Institutional offering

Differentiated position
The Group has a well-established focused and disciplined Corporate and Institutional franchise, maintaining active relationships with two-thirds of the FTSE 350. The business has a significant role in delivering the Group's purpose, including contributing to regional development and transition to net zero. We have strong core capabilities in cash, debt and risk management products, such as transaction banking, lending and interest rate risk management. In addition, our Corporate and Institutional offering has important synergies with the broader Group, providing product capabilities such as foreign exchange and rates management to our Consumer and SME franchises, and generating £0.5 billion of relationship income from Corporate and Institutional clients' use of the Group's motor, insurance and pension propositions.

Opportunity to strengthen a core business with focus on UK-linked clients
In recent years, we have improved returns and generated material capital for the Group through disciplined participation and optimisation. Maintaining our current prudent risk appetite, we can now significantly build on this to grow in key sectors aligned to our purpose and areas where we have deep capability. By enhancing our capabilities and sector coverage, there is significant headroom to grow other operating income as a proportion of total income by meeting more of our existing clients' needs. This is illustrated by our proportion of other operating income being 18 percentage points lower than top quartile peers.

Business priorities
We will strengthen our cash, debt and risk management offering with product enhancements in transaction banking, debt financing and targeted markets investments. We will drive growth and value from our new cash management and payments platform by continuing to build on the three-fold increase in corporate clients onboarded to the platform in 2021. Within transaction banking we will also launch a new supply chain proposition this year. Within debt financing, to meet the needs of our UK clients we will provide an expanded US dollar franchise and continue to invest in our foreign exchange and rates management capabilities. As we fulfil our clients' borrowing needs, we will increase our balance sheet velocity and capital efficiency through a scaled originate-to-distribute model.

Our selective participation means that we are not looking to expand into regions where we do not have sufficient scale, capability or a clear UK link. Also, we will not participate outside of our core cash-debt-risk management capabilities.

We will maintain our disciplined sector focus, continuing to drive our purpose outcomes by supporting goals such as regional development and building our leading green financing capability to support more clients with their transition plans.

2024 outcomes

£15bn
Sustainable financing[1]

Top 5
GBP interest rate swaps ranking; deepen FX share of wallet

>20%
Growth in other operating income

<£3bn
Net risk-weighted asset growth

1 Includes Clean Growth Finance Initiative, Commercial Real Estate Green Lending, Renewable Energy Financing, Sustainability linked Loans and Green, ESG and Social Bond facilitation. New cumulative to 2024.

Our strategy continued

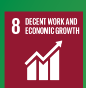
Helping Britain Prosper

Strengthen cost and capital efficiency

Why this is important

As we invest to grow and diversify our revenue, it is essential to maintain our disciplined cost management approach. Capital efficiency will improve as we maintain our strong balance sheet with a disciplined risk approach.

Supporting the achievement of the following UN Sustainable Development Goals



Strengthen cost efficiency

As we invest to grow and diversify our revenue, it is essential to maintain our disciplined cost approach – a key strength of the Group. These are important to create capacity for investment and growth, to increase the pace at which we can change and improve our services, and to further strengthen our resilience. Our key priorities are to:

- **Lower cost of technology** by simplifying our technology estate through decommissioning or migration to more efficient infrastructure, including leveraging public and our private cloud
- **Lower cost of change** by modernising our technology applications and infrastructure, reducing cost of ownership and driving greater agility
- **Lower cost to serve** by enhancing self-service capabilities across distribution and customer operations, as well as delivering further end-to-end digitisation of customer journeys
- **Improve productivity** through automation and simplification
- **Optimise office portfolio** in line with hybrid ways of working and transformed workspaces, resulting in a significant reduction in office footprint by 2024

2024 outcomes

>15%
Reduction in legacy applications

15%
Gross reduction in run and change technology costs

>10%
Increase in customers served per distribution FTE

>30%
Reduction in office footprint

Proven track record of managing costs

Operating costs (existing basis)

£7.6bn

2021	7.6
2020	7.6
2017	8.2
2014	8.3

Strengthen capital efficiency

The Group's capital efficient business model will be strengthened by strategic initiatives, continued rigid discipline on pricing and returns, portfolio management and enhancement of capital efficient capabilities. Our new growth initiatives reflect disciplined participation choices, focusing on new, less capital intensive, fee-generating businesses. Building and scaling an originate-to-distribute model in the Commercial bank and leveraging our synergies with Scottish Widows will increase balance sheet velocity and generate higher fee income.

We will continue our rigorous portfolio management, with tail management optimising areas of low performing business. We will continue to use our economic value framework to assess and optimise existing portfolios, determine new business pricing and evaluate new strategic opportunities, helping ensure efficient usage and distribution of capital.

Capital generation

(pre-variable pension distribution)

Three-year average (2019 to 2021):	c.140bps
Guidance: 2022 to 2024 average:	c.150bps
Guidance: 2026+:	175 to 200bps

Helping Britain Prosper

Maximise the potential of people, technology and data

Why this is important

Delivering this strategy will require the Group to build on the capabilities and new ways of working it has developed over the last few years and accelerate the pace at which it uses digital technologies and data to support customers. We seek to emulate our success in building the largest UK Retail digital bank on a larger scale across the Group. Our prior investments in technology and data provide a strong foundation for delivering on our strategy.

Supporting the achievement of the following UN Sustainable Development Goals

People

Transforming ways of working
Our colleagues' expertise and skills are instrumental to our success. It is our people who offer the most distinctive customer experience, will drive us to innovate, take thoughtful risk and enable change at greater pace, delivering for our customers. Going forward, we will need to invest in our people and how the organisation works to deliver this strategy. This will include further developing our ways of working and culture to enable greater empowerment for the teams serving customers and innovating our products, with clear accountability to drive growth and maintain our disciplined risk approach. It will also increase collaboration and organisational 'joining-up', to serve customers better and manage risk across our divisions and functions.

Recruiting and developing new skills and building an inclusive organisation
We will help colleagues develop key skills of the future and create a more diverse workforce, especially at senior levels, given the strong link to better decision making, productivity and employee engagement found in more inclusive teams. To this end, we have ambitious targets to increase the proportion of women, Black, Asian and minority ethnic colleagues in senior positions. In addition, we will focus on augmenting our in-house data and digital skills to ensure our organisation has the skills it needs, increasing efficiency and reducing dependence on external providers. Together with our purpose and culture, these ambitions aim to make the Group an employer of choice in financial services.

Technology

Further embedding an agile technology model, driving scale, efficiency and business value
There is significant scope to enhance our technology estate by taking a Group-wide approach to transforming core functions and capabilities alongside businesses to deliver value. We seek to continually deliver value and improve resilience as we progressively modernise and simplify our technology estate, including rationalising data centres and legacy applications, driving greater adoption of the cloud and increasing automation. Alongside these we will enhance our operating model by embedding modern engineering practices, with multi-skilled teams.

Data

Leveraging data-driven insights
The Group will leverage data-driven capabilities to create value for customers from our information flows, with 26 million consumer relationships and one billion transactions each month. In an increasingly competitive market, it is vital that we are able to appropriately and ethically use this data to create insights that deliver better customer outcomes, strengthen our own risk management process and generate value for all our stakeholders.

We will leverage data capabilities to support our business strategies across multiple use cases, including personalised propositions to improve customer relevance and better need fulfilment. We will enhance customer service experience by leveraging data and analytics, with automated processes making transactions and needs fulfilment easier.

2024 outcomes

Improve
Employee engagement index

20%
Applications on cloud (private and public)

60%
Business new lending decisions automated

Our unique business model

Our purpose

Helping Britain Prosper

The Group has a clear ongoing purpose of Helping Britain Prosper.

Read more on **pages 08 and 09**

Our mission

We Help Britain Prosper by creating a more sustainable and inclusive future for people and businesses, shaping finance as a force for good.

Our culture

The Group is strengthening the connection between our purpose, culture and strategy, adopting a values-led approach to help us move forward with the right culture.

Our shared values are important to us and their re-expression will set out how we work together in the right way.

It's been important to work with colleagues over the past 18 months to understand our culture deeply and shape what we need for the future. We will talk about our refreshed values with colleagues in 2022.

Read more on **page 80** of the Annual Report and Accounts

Our vision UK customer-focused digital leader and integrated financial services provider, capitalising on new opportunities, at scale.

Our trusted brands

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

LLOYDS BANK | mbna | LEX AUTOLEASE | Schroders personalwealth

BANK OF SCOTLAND | HALIFAX | LDC | IWEB | AMC

BM BIRMINGHAM MIDSHIRES | SCOTTISH WIDOWS | blackhorse | embark group

Our business areas

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

Retail

Commercial Banking

Insurance and Wealth

Read more on our divisional financial performance on **pages 56 to 61** of the Annual Report and Accounts

Our products

Lending: mortgages, credit cards, personal and business loans

Deposit taking: current accounts, savings accounts

Insurance: home, motor and protection

Investment: pensions and investment products

Commercial financing: lending, debt capital markets, private equity

Risk management: interest rate hedging, currency, liquidity

How we create value, and what sets us apart

Purpose-driven and customer-focused culture
Our strategy is directly aligned to our purpose of Helping Britain Prosper and we believe this will enable delivery of sustainable long-term returns. Customers remain at the heart of our strategy.

Leading UK customer franchise with deep customer insight
Our scale and reach across the UK means that our franchise extends to 26 million customers with 18.3 million digitally active. Extensive customer data and analysis ensures we can meet the needs of these customers more effectively.

All-channel distribution focus with digital leadership and trusted brands
Operating through a range of distribution channels ensures our customers can interact with us when and how they want. Operating a range of leading, trusted, brands enables us to address the needs of different customer segments more effectively.

Differentiated business model, meeting all consumer and business financial needs in one place
We have a unique customer proposition, serving all our customers' banking and insurance needs in one place through a comprehensive product range.

Operating at scale with cost discipline
Our scale and efficiency enables us to operate more effectively.

Financial strength and disciplined risk management
We have a strong capital position and continue to take a disciplined approach to risk, as reflected through the quality of our portfolio and underwriting criteria.

Dedicated colleagues with strong values
We have a highly engaged, customer focused, diverse, workforce with significant expertise and experience.

Transforming to create higher and more sustainable value

Building on our strong foundations and distinct competitive strengths, our purpose of Helping Britain Prosper forms the basis of our new strategy to profitably deliver for all of our stakeholders.

We will look to deepen relationships with our existing customers, both consumers and businesses of all sizes, and meet more of their financial needs, by making our great products more relevant to them and our channels simpler and more personalised to use.

This will set the Group on a higher growth trajectory with more diversified revenues, focused on a number of strategic priorities. This will set the Group on a higher growth trajectory with more diversified revenue streams, while we retain our strong focus on cost and capital discipline. Enabled by maximising the potential of our dedicated people, technology and data capabilities.

Responding to emerging trends that are shaping our industry

As a large, UK-focused financial services provider we face several external challenges to our business model and strategy:

- Unprecedented societal change
- Challenging and uncertain macroeconomic environment
- Accelerated shift to digital and new capabilities
- Step-change in ways of working

External challenges we face are discussed on **pages 10 to 13**.

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 regularly review the associated risk implications, to enhance our sustainability over the longer term.

Read more on **pages 37 to 43**

Our unique business model continued

Delivering value for our stakeholders

For over 325 years, with our unique family of brands, we have supported Britain through the good times and the bad.

As the UK's largest retail and commercial financial services provider, and with a presence across the country, we have an important role to play in supporting the economy through lending, deposits, risk management and the efficient flow of funds, while working with others to help build an inclusive, greener and more resilient economy.

We have many different stakeholders to consider as we run the Group, and our two-way communication and partnership is vital to the success of our Group.

Customers

We provide financial services to **26 million** customers in the UK, including personal loans, credit cards and car finance.

- Trusted with over £476 billion in customer deposits
- Provided more than £448 billion in lending
- Provided £307 billion mortgages to homebuyers
- More than £16 billion lent to 80,000 first-time buyers during 2021
- In 2021 we handled c.130,000 calls a month from customers who needed support with their current financial situation

Investors

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

- Earnings per share of 7.5p
- Dividend per share 2.00p
- Buyback of £2 billion

Colleagues

Our **58,000 colleagues** are vital to the delivery of the Group's strategy and ambitions. They provide an essential service for customers, communities and businesses, in our call centres and branches. We ensure we create the right environment for our colleagues to deliver our aim to become the best bank for customers, colleagues and shareholders.

- 98.6 per cent of our colleagues are based in the UK
- Paid over £2.7 billion to employees
- Launched our Race Action Plan in 2020

Business

We support British businesses and corporates of all sizes, enabling our customers to grow and transition to a low carbon economy, as well as providing ongoing support for those that have been affected by the pandemic.

- Helping over 193,000 small businesses grow their digital capability
- Develop appropriate recovery plans for our customers, supported by 1,100 business specialists in communities across Britain
- More than £6.9 billion of green and ESG-related finance delivered

Suppliers

We rely on around **2,600 partners** for important aspects of our operations and customer service provision.

- Procured goods and services worth £4.6 billion with 96 per cent of our supplier spend incorporated in the UK

Society and environment

We have a presence in nearly every community and our aim is to help these communities prosper.

- £46 million in community investment
- 1,700 digital devices and data provided to customers
- Planted two million trees across the UK in conjunction with the Woodland Trust since 2020

Further information is available in our ESG Report and Climate Report.

Regulators and Government

We liaise with our regulators and other government authorities, including HMRC, regularly to ensure the business is aligned to the evolving regulatory framework. Lloyds Banking Group is one of the UK's largest tax payers.

- £3.7 billion of cash taxes paid to the UK government in 2021

Board stakeholder engagement and decision making

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

Acknowledging the breadth of the Group's stakeholders and the size of the organisation, stakeholder engagement takes place at a number of levels.

In addition to direct engagement by members of the Board, the Board considers the stakeholder impacts of all proposals submitted to it from across the Group. Stakeholder interests are central to the Board's delegation of the management of the business to the Executive. Additional page references are included within each key decision to examples of action taken by the Executive under this delegation.

In turn the Executive, including the Group Chief Executive and Chief Financial Officer, routinely provide the Board with details of non-Board stakeholder interaction and feedback from across the wider Group, through their regular business updates. Stakeholder interests are also identified by the Executive for consideration in all other proposals put to the Board.

Interaction has again mostly been undertaken virtually this year where necessary, in compliance with the government's COVID-19 requirements.

Section 172(1) statement

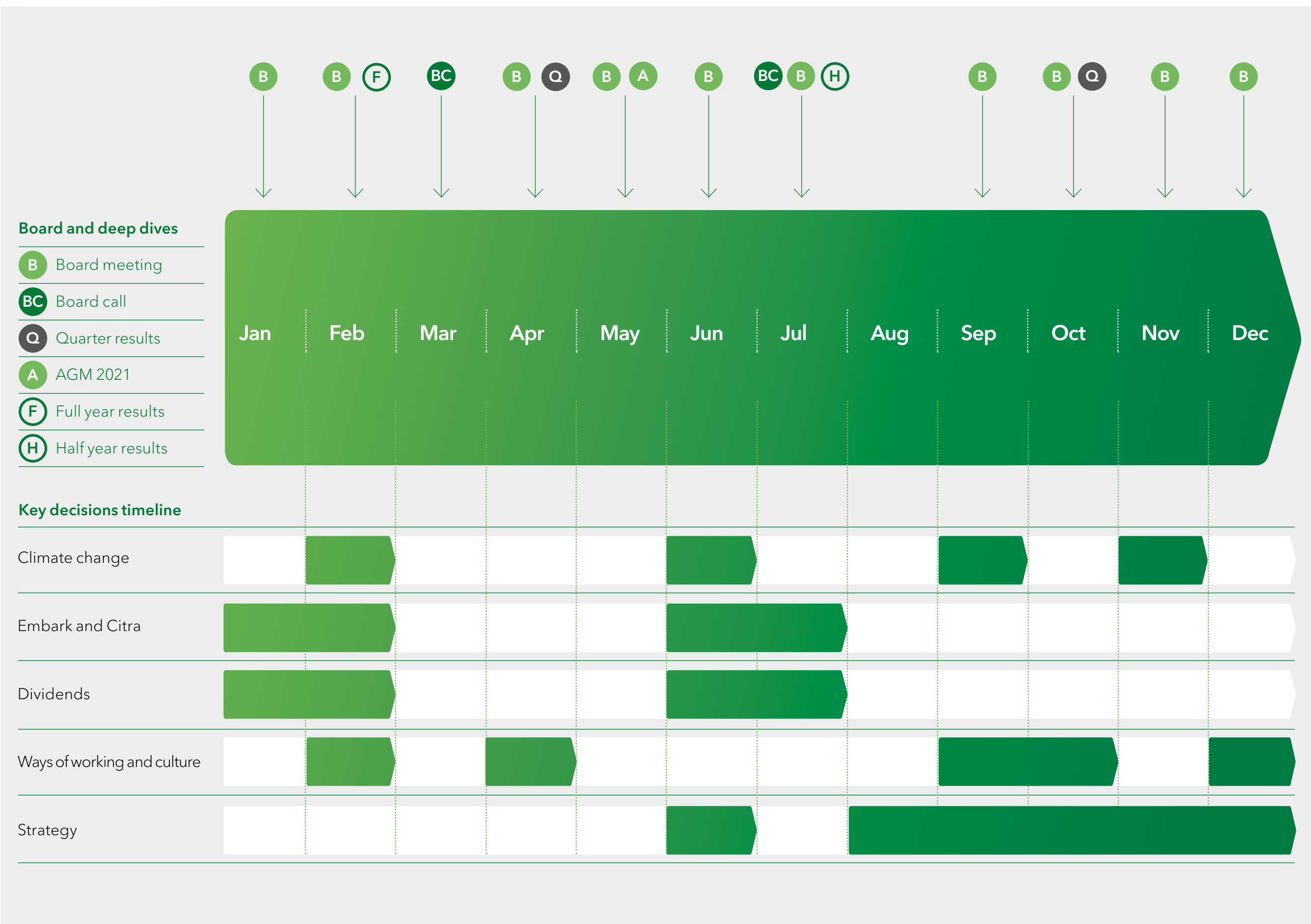
In accordance with the Companies Act 2006 (the Act), the Directors provide this statement describing how they have had regard to the matters set out in section 172(1) of the Act, when performing their duty to promote the success of the Company under section 172. Further details on key actions are also contained within the Corporate Governance Report on **pages 70 to 133** of the Annual Report and Accounts.

The Directors remain mindful in all their deliberations of the long-term consequences of their decisions, as well as the importance of the Group maintaining a reputation for high standards of business conduct and the Board engaging with, and taking account of the views of, key stakeholders.

Key stakeholder engagement

The Non-Executive Directors undertook an engagement programme which allowed them to hear directly from customers, clients and colleagues, to help understand what matters in their lives, the role the Group plays in supporting them and how the Group is performing in that regard. A range of activities took place, which will extend into 2022, including meeting with customers, attending client visits and sitting with colleagues to understand the Group's culture and discuss future ways of working. The Non-Executive Directors found these sessions to be of great benefit, giving many valuable insights which they take account of, as appropriate, in their decision-making.

Board meetings and activity in 2021



Our stakeholders

Customers

The Board remains committed to understanding and addressing our customers' needs, which is vital to setting and achieving the Company's goals. Examples of Board engagement with customers included:

- Regular Board updates from across the Group, identifying key areas of customer concern, covering a range of internal and external measures including customer indices and market share updates
- These regular updates gave valuable insight into the Group's performance in delivering on customer-related objectives, on improving customer outcomes and in determining where further action was required
- The Group Chief Executive attended customer engagement events, an important opportunity for customers to raise any concerns directly

Investors

The Group has the largest shareholder base in the UK, with around 2.3 million shareholders including most of our employees, and is committed to understanding the needs and expectations of all shareholders, both private and institutional. Examples of Board engagement with shareholders included:

- Updates on market views and shareholder sentiment provided by Investor Relations, including an annual presentation from the Group's corporate brokers on market dynamics and perception of the Group
- The Board's Nomination and Governance Committee considered correspondence received from institutional shareholders and non-governmental organisations, along with feedback on material retail shareholder correspondence
- Various Directors engaged with shareholders, including the Chair and the Chief Executive Officer, in over 60 meetings with institutional shareholders, focusing on matters including Group purpose, corporate strategy, governance and financial performance
- In addition, the Senior Independent Director engaged extensively with both institutional shareholders and proxy agencies, to better understand their views of the Group and to provide an update on a range of ESG topics. The Remuneration Committee Chair also engaged directly with shareholders during the year
- Overall, the Group undertook c.350 meetings with institutional investors, many of which were attended by management and Directors. Retail shareholder events were also held in July and December
- A live virtual shareholder engagement event was held during May, allowing all shareholders to hear from members of the Board and to pose questions directly to them, before the Group's Annual General Meeting

Colleagues

Colleagues are central to the delivery of the Group's strategy and ambitions and this is recognised by the Board in its engagement with colleagues throughout the year. In 2021, the Board reviewed how it engages with the Group's workforce and decided that the Responsible Business Committee should be the designated body for the Board's engagement with the workforce, creating a dedicated resource of Non-Executive Directors, while retaining a commitment for the whole Board to continue to engage with colleagues. The Responsible Business Committee reports regularly to the Board on all of its activities, including colleague engagement.

The Board will continue to consider its arrangements in engagement with the Group's workforce to ensure the arrangements remain effective and continue to give a meaningful understanding of the views of the workforce and to encourage dialogue between the Board and the workforce.

Examples of Board engagement included:

- Consideration by the Responsible Business Committee of regular workforce engagement updates, covering key themes raised by colleagues, trends on people matters and updates on colleague sentiment
- A further annual report summarising engagement activity, key themes and issues raised during the year
- Consideration of the outcomes of surveys completed by colleagues across the Group, including annual and adhoc surveys, and review of progress in addressing the matters colleagues raised
- Board member attendance at a range of business area leadership meetings, Community Calls and colleague network events
- Informal colleague dinners and breakfast meetings were held by the Group Chief Executive
- Town Hall sessions hosted by both the Chair and the Group Chief Executive with Board member attendance, complemented by engagement sessions led by other senior leaders, with feedback shared with the wider Board

During the year the Group communicated directly with colleagues detailing Group performance, changes in the economic and regulatory environment and updates on key strategic initiatives. Meetings were held throughout the year between the Group and our recognised unions.

Given improved Group performance in 2021, the Remuneration Committee approved Group Performance Share awards for colleagues. 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 101** in the Directors' Remuneration Report of the Annual Report and Accounts.

Society and environment

The Group has a presence in almost every UK community, and the Board places great importance on engagement and action to help these communities prosper, and to help build a more sustainable and inclusive future. Engagement with communities, and as relevant to environmental considerations included:

- Dedicated updates on climate, environmental, social and governance related matters, covering all aspects of the Group's business, and the Board reviews progress against any action it considers is required
- The Board is supported in environmental matters by its Responsible Business Committee, which considers stakeholder views on all matters relating to the Group's goals to be a trusted, sustainable, inclusive and responsible business. The Responsible Business Committee's report can be found on **page 100** of the Annual Report and Accounts
- The Board continues to value the support of the Group's regional colleague ambassadors, who help in establishing strong relationships with local politicians, councils and other community institutions across the UK

Board stakeholder engagement and decision making continued

Our stakeholders Continued

Regulators and government

The Board continues to maintain strong and open relationships with our regulators and government authorities, including key stakeholders such as HMRC and HM Treasury. Relevant engagement included:

- The Chair and individual Directors, in particular the Chairs of the Board's committees, held continuing discussions with the FCA and PRA on a number of aspects of the regulatory agenda
- The Board regularly reviewed updates on wider Group regulatory interaction, providing a view of key areas of regulatory focus, and also progress made in addressing key regulatory priorities
- The Board takes its fiscal responsibilities very seriously, and was pleased to approve for publication the Group's annual Tax Strategy and Approach to Tax
- A meeting was held between the Board and the PRA to discuss the outcome and progress of action relevant to the PRA's Periodic Summary Meeting letter

Suppliers

The Group relies on a number of partners for important aspects of our operations and customer service provision. The Board recognises the importance of these relationships, and engagement with suppliers included:

- 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 suppliers, ensuring the Group's supplier payment practices continue to meet wider industry standards
- The Board continued to oversee resilience in the supply chain, ensuring the Group's most important supplier relationships were not impacted by potential material events
- The Board continues to have zero tolerance towards modern slavery in the Group's supply chain, and receives updates on ongoing enhancements to the Group's supplier practices, including measures to address the risk of human trafficking and modern slavery in our wider supply chain.

Key decisions

Climate change

See more on pages 35 to 36

The Board remains committed to the ambitious climate change goals set for the Group in 2020, including reducing the emissions we finance by more than 50 per cent by 2030 and achieving net zero by 2050 or sooner, with a number of key steps already having been taken in this regard, under the Board's supervision. The Board has also given much consideration to the Group's progress against these objectives, and during the year oversaw a number of additional commitments to further drive the Group's progress.

These included a new ambition to target halving the carbon footprint of Scottish Widows investments by 2030 on the path to net zero by 2050, and three new pledges specifically relevant to the Group's own operations, ranging from further reducing our own carbon footprint with targets for reduced emissions and energy use in respect of the Group's buildings and colleague travel, and related collaboration with key stakeholders including our suppliers.

The Board also approved via its Responsible Business Committee enhancements to our external sector statements and was pleased that the Group was able to join the Net-Zero Banking Alliance and the Powering Past Coal Alliance, both of which reinforce the Group's net zero ambitions and the Board's desire that the Group help the UK transition to a low carbon economy.

Progress against all of these initiatives and activities continues to be closely monitored by the Board. The Group's climate ambitions and related stakeholder interests have also been a key consideration for the Board during the course of the year in the development of the Group's purpose and strategy. Further information on our progress in meeting climate ambitions can be found in our supplementary 2021 Climate Report.

Embark acquisition and Citra Living

See more on pages 32 and 33

The Board recognises the importance of meeting more of the Group's customers' needs, and wherever possible acting on our commitment to Helping Britain Recover, by taking action in areas of national priority.

The Board considered and approved the acquisition in July 2021 of Embark Group, an investment and retirement platform business, helping to satisfy Group customer demand for clear, simple and affordable financial planning and retirement products and services, in addition to the ability to serve all of our customers financial needs in one place. The transaction also sought to deliver attractive growth and returns over time, creating value for the Group's shareholders, the transaction completed in early 2022.

The Board also considered and approved entry into the private rental market, with the launch of Citra Living.

The Board recognises the importance of helping to expand the availability of quality and affordable homes, with one in five households in the UK renting privately. Citra Living will focus on buying and renting good quality newly built properties, ensuring continued support for the housebuilding sector, and helping to address the increase in demand for rental properties.

Citra Living will form part of Lloyd's approach to the decarbonisation of housing, focusing on buying and renting energy efficient properties, helping to reduce the environmental impact of the UK's housing stock and contributing to the UK's overall net zero goals. The Board was pleased that Citra Living was able to build on the Group's existing support for the housing market, while also contributing to the Group's environmental ambitions.

Dividend payments

See more on **page 55** of the Annual Report and Accounts

Following the Board's decision in February 2021 to recommend a final ordinary dividend for 2020, up to the maximum that could be recommended under sector-wide regulatory constraints, the Board was keenly aware of stakeholder expectations in relation to future dividend payments, in particular our investors and also the regulators.

Acknowledging the Group's ongoing strong capital position, the Board was therefore pleased to be able to recommend a final dividend of 1.33 pence per share for 2021, with reference to the Group's progressive and sustainable dividend policy, and following the payment of an interim dividend during the course of the year.

On consideration of a number of factors, including stakeholder expectations, the Board also was pleased to be able to return capital by way of an ordinary share buyback programme of up to £2 billion, acknowledging levels of surplus capital, the normalisation of ordinary dividends, and also the flexibility that a buyback programme offers.

The Board remains committed to future capital returns, and paying regard to stakeholder feedback amongst other factors, intends to maintain its progressive and sustainable ordinary dividend policy, with due consideration to be given to further excess capital returns at the end of 2022 as appropriate.

Ways of working and culture

See more on **pages 21 and 80** of the Annual Report and Accounts

Transforming the Group's ways of working has been a key priority for the Board, as colleagues have continued to adjust to the changes necessitated by the COVID-19 pandemic, which have now resulted in fundamental changes in how people work. The Board recognised the importance of reacting to these changes as they evolved during the year, and oversaw a multiphase transition for the Group to new ways of working, acknowledging both external change and colleague sentiment.

The Board has overseen the development of an 'activity led' approach to hybrid working, recognising that the diverse nature of jobs within the Group and the colleagues who fulfil them, means that a 'one size fits all' approach to hybrid working would not be appropriate.

The Board has focused on ensuring the overarching vision for the Group's future ways of working remained grounded in the Group's evolving values and behaviours by adopting a 'test and learn' approach, prioritising colleague safety and wellbeing throughout.

The Board understands that both the physical and technological workplace need to change to align to colleague needs now and in the future. It has supported the acceleration of activity under the Future Workplace programme to transform office work spaces and deploy modern workplace technology enablers for new ways of working.

In addition, the Board has continued to oversee the Group's initiatives to implement cultural change through the Group culture plan. This plan covers areas including career progression, simplification of processes and ensuring colleagues are given the opportunity to continually develop their skills to meet the changing needs of our customers. It is continually developed based on both colleague feedback and in response to external events.

Strategy

See more on **pages 06 to 21**

As the Group completed implementation of Strategic Review 2021, and our new Group Chief Executive joined the organisation in August, the Board considered that this was the appropriate time to revisit the Group's strategy for the coming years, ensuring that the Group remained focused on and driven by its central purpose of Helping Britain Prosper.

To that end, under the Board's guidance, the Group Chief Executive led a process of reviewing the Group's strategic priorities, discussed in detail on **page 07** of the Annual Report and Accounts.

The development of the Group's new strategy drew on the customer insights the Group and Board gathers through regular surveys and interactions with our customers, feedback from bi-annual colleague surveys, and proactive regular engagement with our regulators and other stakeholders.

The Group also sought feedback on specific aspects of the strategy development, such as the Group's new mission, through colleague surveys and interactive sessions, as well as targeted customer and client research.

In addition to regular sessions, the Board held a number of dedicated sessions with senior management during the development of the Group's strategy, allowing both reflection on stakeholder feedback and input from Board members on key aspects of the development of the strategy.

This included the requirement for the strategy to be driven by our purpose, ensuring focus on meeting customer needs in a conduct-friendly manner, and moving the business to more sustainable growth.

The Board will continue to take the invaluable feedback and views of its stakeholders into consideration as the Group implements and delivers our new strategy, ensuring we stay true to our commitments to meeting the needs of all our stakeholders.

Full detail of the Group's new strategy is provided under 'Our strategy' on **pages 06 to 21** of the Annual Report and Accounts.

2021 key performance indicators

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 and 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.

The key performance indicators shown here directly impact the remuneration awarded to Executive Directors, which is heavily weighted towards the delivery of long-term, sustainable performance.

The implementation of our simplified balanced scorecard in 2021 provides greater transparency to substantiate how our performance directly aligns with remuneration outcomes.

Our 2021 balanced scorecard

Financial (50 per cent)
- Statutory profit after tax (20 per cent)
- Return on tangible equity (20 per cent)
- Operating costs (10 per cent)

Strategic (50 per cent)
- Employee engagement (10 per cent)
- Operational carbon emissions (7.5 per cent)
- Group Customer Dashboard (25 per cent)
- Our gender and ethnic representation in senior roles (7.5 per cent) which can be found on **page 34**

Key performance indicators that are directly linked to our remuneration balanced scorecard are marked with this symbol ®

Full details are provided on **page 105** of the Annual Report and Accounts.

Financial

Statutory profit after tax ®
£m

5,885

2021	**5,885**
2020	1,387
2019	3,006
2018[1]	4,506
2017[1]	3,649

Statutory profit after tax up significantly, benefitting from a net impairment credit.

1 Restated to reflect amendments to IAS 12.

Underlying profit[A]
£m

8,040

2021	**8,040**
2020	2,193
2019	7,531
2018	8,066
2017[1]	7,628

Underlying profit before tax was significantly higher in 2021, reflecting higher net income and the net impairment credit in the year, partly offset by increased remediation costs.

1 Restated to include remediation.

Ordinary dividend
p per share

2.00

2021	**2.00**
2020	0.57
2019	1.12
2018	3.21
2017	3.05

Progressive and sustainable ordinary dividend per share including interim and final dividends.

Return on tangible equity[A] ®
%

13.8

2021	**13.8**
2020[1]	2.3
2019[1]	6.6
2018[1]	10.6
2017[1]	8.1

Significantly higher return on tangible equity given tax benefit and increased statutory profit.

2022 TARGET
Return on tangible equity of c.10 per cent.

1 From 2021, to aid comparability with peers, we report return on tangible equity without adding back the post-tax amortisation of intangible assets. Comparatives have been restated.

Common equity tier 1 ratio (CET1)
%

16.3

2021[1]	**16.3**
2020	16.2
2019[1]	13.8
2018[1]	13.9
2017[1]	13.9

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[A], reflecting the dividend paid up by the Insurance business and declared share buybacks.

Operating costs[A] ®
£m

7,630

2021	**7,630**
2020	7,585
2019	7,875
2018	8,165
2017	8,184

Sustained cost discipline in 2021, with operating costs up 1 per cent, reflecting the impact of rebuilding variable pay.

2022 TARGET
Operating costs of c.£8.8 billion on the new basis, with the increase from the 2021 equivalent (£8.3 billion) reflecting stable business-as-usual costs and incremental investment and new businesses[1].

1 From the first quarter of 2022 the Group will include all restructuring costs, apart from merger, acquisition and integration costs, within operating costs. See **page 51** of the Annual Report and Accounts.

Economic profit[A]
£m

3,063

2021[1]	**3,063**
2020[1]	(1,257)
2019[1]	428
2018[1]	1,858
2017[1]	1,509

Economic profit, a measure of profit taking into account a charge for equity utilisation. Economic profit in 2021 benefitted from a net impairment credit.

1 In 2021 the basis was amended in line with reward scheme performance measures. Comparatives have been restated.

Total shareholder return
%

35

2021	**35**
2020	(42)
2019	27
2018	(20)
2017	14

Total in-year shareholder return increased, reflecting the increased ordinary dividend and higher share price.

Non-financial

Customer satisfaction
(all-channel net promoter score)

69.3

2021	**69.3**
2020[1]	68.8
2019[1]	66.0
2018[1]	63.4
2017[1]	64.8

Our all-channel net promoter score measures the customer perception of day-to-day services across our channels. In 2021, our focus on service is reflected in a new record high as we continued to support customers through the pandemic.

1 Restated to reflect changes in measurement approach.

Digitally active customers
m

18.3

2021	**18.3**
2020	17.4
2019	16.4
2018	15.7
2017	13.4

Reflecting the pace of digital adoption, the number of active digital customers increased in the year to 18.3 million, with 14.7 million app customers which is a 12 per cent increase from last year.

Our mobile apps rated consistently ahead of competitors by customers across 2021, with Lloyds Bank, Halifax and Bank of Scotland all ranked in the top four on both Google Play and App Store. Out of 36,000 reviews, 75 per cent of customers rated our apps 5* (84 per cent 4* and above).

Customer complaints
FCA reportable complaints per 1,000 accounts

2.9

H1 2021	**2.8**
H2 2020	2.9
H1 2020	2.6
H2 2019	3.0
H1 2019	2.9

The last year has been exceptionally difficult for people across the UK, and while we are now seeing normal life slowly resume, we know that there are still challenges and uncertainties ahead. We do make mistakes, but when this happens, we work hard to fix the issue quickly for the customer involved and learn from any mistakes.

H2 2021 data not available at time of publishing.

Employee engagement index
% favourable

72

2021	**72**
2020	81
2019	74
2018	73
2017	76

Employee engagement remained strong in 2021 despite a decline since 2020, an all-time high.

This is driven by falls in a range of factors, most notably confidence in the future, career progression, the Group's wellbeing support and perceptions of reward fairness. Despite this, colleague mood improved with stronger feelings of happiness and support, whilst advocacy for managers and Your Best rose.

This survey also allowed colleagues to directly inform the future strategy of the Group, with more than 44,000 comments for future areas of focus.

Operational carbon emissions
tCO_2e (market based)

118,057

2021	**118,057**
2020	119,878
2019	180,002
2018	197,678

This year, our overall market-based carbon emissions were 118,057 tonnes CO_2e, a 34.4 per cent decrease since our baseline year 2018/19. We have seen a continued reduction in our carbon emissions this reporting year, mainly driven by the impact of COVID-19 on our operations, in particular on travel-related carbon emissions. Since 2019/20 we also include estimated colleagues' home-working carbon emissions.

Group customer dashboard
% of customer experience metrics achieving target (November YTD)

79

2021[1]	**79**
2020	74
2019	65
2018	72
2017	76

The Group Customer Dashboard (GCD) measures customer experience outcomes through a combination of peer benchmarks, customer feedback scores, and operational key performance indicators.

In 2021, 79 per cent of GCD metrics achieved target. Despite a challenging operating environment, benchmarked measures evidence that the Group has further strengthened customer experience outcomes versus competitors, with average 2021 rank position improved versus 2020 and exceeding target. Internal measures highlight operational service challenges, as well as the ongoing strength of our colleagues in supporting our customers.

1 2021 GCD construct enhanced, so comparison to prior years is not like-for-like.

2021 strategic performance

2021 was a transitional year, enabling the Group to continue to Help Britain Recover while progressing our customer ambitions and further enhancing our capabilities. Along with the core capabilities of the Group, it provided strong foundations for the next stage of our strategic development.

Building on our unique competitive strengths and position at the heart of the UK economy, in 2021, our focus on Helping Britain Recover enabled us to better support our customers' financial health and resilience.

We also focused on further enhancing our core capabilities to better position the Group for sustainable, long-term success. Our priorities built upon the strong foundations from previous strategic reviews, reinforcing our customer focus and leveraging the unique strengths and assets of the Group, including our purpose, customer-focused business model and our leading all-channel propositions.

Through this approach, focusing on near-term execution underpinned by long-term strategic vision, we ensured that the Group continued to build momentum during a period of management and organisational change.

£3.4bn
funding in support of social housing sector with over 70 per cent ESG-related

Helping Britain Recover

Help rebuild households' financial health and wellbeing

- We continued to invest in supporting customers facing financial difficulties, and at the beginning of 2021 we had over 6,500 colleagues trained to support customers to build their financial resilience
- We achieved accreditation as Mental Health Accessible for Halifax and Bank of Scotland in addition to our existing Lloyds Bank accreditation
- We partnered with independent debt advice organisations to ensure customers had access to practical support

Support businesses to recover, adapt and grow

- We have helped our business customers to plan for their recovery, supported by over 1,100 business specialists in communities across Britain, and delivered extensive colleague training to ensure we can understand and best support our customers' individual needs
- We have supported over 93,000 start-ups and small businesses[1], by providing our customers with online support, business advice and business banking accounts, exceeding our initial commitment of 75,000 by the end of 2021
- We have supported over 193,000 small businesses to boost their digital capability and technology adoption in 2021 through the Lloyds Bank Academy and our partnerships with Small Business Britain and the government's Help to Grow Scheme

Expand the availability of affordable and quality homes

- We have provided more than £16 billion of lending to help people buy their first home in 2021, exceeding our target of £10 billion
- We have delivered £3.4 billion of new funding, of which £2.4 billion is ESG-related improvements, in support of the social housing sector. In addition we have actively supported our clients to raise debt in the Capital Market through Green, Sustainable or other ESG linked bonds.
- We have supported the creation of national sustainability standards for housebuilding finance through becoming a member of the NextGeneration Executive Committee alongside Homes England and UK Green Buildings Council, contributing to the development of a checklist and further benchmark to support the delivery of sustainable finance tailored towards the scale of the housebuilder
- We have assessed the energy retrofit requirements of around 240,000 social homes owned and managed by our customers in the social housing sector
- We started to help boost the supply of high quality homes in the private rental market by launching Citra Living

Accelerate the transition to a low carbon economy

- We have expanded the funding available under the Group's discounted green finance initiatives[2] from £3 billion to £5 billion to support businesses as they transition to a low carbon economy
- More than £6.9 billion of green and ESG related finance[3] was delivered in 2021
- We launched our new goal to ensure our own operations are net zero by 2030 and, in support of the goal, we have also joined the UK Green Building Council's Net Zero Carbon Buildings Commitment
- We became the first major pensions and insurance provider to target halving the carbon footprint of our investments by 2030 on our path to net zero by 2050 and published the Scottish Widows Climate Action Plan
- We have introduced a flagship fossil fuel-free fund to support green growth and allow pension savers to choose to invest in UK companies pursuing a positive environmental impact

Build an inclusive society and organisation

- We progressed our new aspirations for our leadership team to reflect the society that we serve through our targets of 50 per cent women, 13 per cent Black, Asian and minority ethnic colleagues, and 3 per cent Black heritage colleagues in senior roles by 2025, achieving 37.7 per cent, 8.8 per cent and 1 per cent respectively in 2021
- We maintained our £25.5 million contribution to our independent charitable foundations with the Lloyds Bank Foundation for England and Wales focusing 23 per cent of its support on Black, Asian and minority ethnic led charities. In 2021, our total community investment was £46 million, which includes our colleagues' time, direct donations and in-kind giving
- We supported regional regeneration by 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
- We supported financial inclusion by providing banking for groups of people experiencing homelessness, financial abuse, victims of modern slavery and supporting the prisoner banking programme

1 This figure comprises both for-profit enterprises and not-for-profit enterprises, such as charities. Not-for-profit enterprises comprise approximately 10 per cent of this figure.
2 Funding provided by Commercial Banking since 2016 under the Clean Growth Finance Initiative (CGFI) and Commercial Real Estate Green Lending (CRE GL).
3 Includes CGFI, CRE GL, Renewable Energy Financing, Sustainability Linked Loans and Green/ESG/Social Bond facilitation.

Our customer ambitions

Summary outcomes

- Record net open mortgage book growth in 2021 – £16 billion
- Maintain record all-channel net promoter score in 2021 – 69 points
- Positive annual growth in net new open book Assets under Administration (AuA) in Insurance and Wealth in 2021 – over £7 billion
- Growth in SME products originated via a digital source in 2021 – c.60 per cent versus target of 50 per cent

During 2021, we made significant progress across our core business areas, delivering growth while increasing customer satisfaction and enhancing product capabilities.

We delivered record mortgage net growth in the period, up £16 billion as we maintained our share in a buoyant market. In addition, we further increased customer satisfaction in our multi-channel model, with our record all-channel net promoter score of 69 points. This was made possible by continued improvements to our customer journeys while maintaining a wide branch footprint. We further enhanced our payments experience by launching new features, including subscription management tools and seamless integrations with Click to Pay, enabling a quicker and easier online checkout experience.

Enhancing our wealth offering is a core element of our customer ambitions. We delivered over £7 billion net new open book AuA in Insurance and Wealth. We announced the acquisition of Embark, a fast-growing investment and retirement platform business, with assets under administration of around £37 billion, on behalf of c.354,000 customers.

This acquisition augments the Group's wealth proposition by enabling the Group to deliver a modern and leading direct-to-consumer proposition and new platform services for our share-dealing business and the IFA sector.

As our SME clients increasingly turn to digital channels, we focused on enhancing our digital product origination and servicing capabilities. This led to an increase of c.60 per cent in SME products originated via a digital source in 2021.

We have also strengthened our Corporate and Institutional capabilities by modernising our markets proposition across core products, improving sterling rates ranking.

69pts

Maintained record all-channel net promoter score

Enhanced capabilities

Summary outcomes

- Year-on-year increase in mobile app releases – 1.8 times in 2021
- Customer accounts safely migrated to pilot of new bank architecture – c.120,000 versus target of 400,000
- Three-fold increase in corporate clients on new cash management and payments platform
- Reduction in office space in 2021 – c.9 per cent versus target of 8 per cent, with c.20 per cent cumulative reductions to be achieved by 2023

Strategic Review 2021 identified four capabilities that are critical to sustainable success: technology, payments, data and ways of working. During 2021, we have made substantive progress in all of these areas.

We continued to develop our technology to deliver customer enhancements with almost twice as many mobile application releases versus 2020.

We have increased the efficiency, scalability and resilience of our Group's technology capabilities and realised cost savings from decommissioning over 12,000 legacy applications and services in line with plans. We safely migrated c.120,000 customer accounts to our pilot new bank architecture, providing a proof-point for our ongoing investment and confidence for our cloud plans.

On payments, we launched the final phase of our new cash management and payments platform, enabling our clients to access services that meet their complex needs, with self-service tools and enhanced data analytics that provide key insights.

We continued to improve our use of data and refined analytics capability to generate value across the Group through a diverse range of use cases. Examples include a new Group Treasury balance forecasting tool for non-FI clients which is c.20 per cent more accurate.

We successfully demonstrated the ability to host data at scale and operate on the public cloud by safely migrating 45 million customer records, workloads and models to Google Cloud Platform (GCP).

Finally, as we are evolving our ways of working, we started optimising our office environments. We transformed almost 6,000 workstations across our UK estate to enable increased collaboration and are piloting branches as alternative workspace for colleagues. We are on track to reduce our office space by 20 per cent by 2023, with c.9 per cent reduction achieved in 2021.

3x

Increase in corporate clients onboarded to new cash management and payments platform

2021 inclusion and diversity performance

Lloyds Banking Group aims to create a fully inclusive environment that is representative of modern-day Britain and where everyone can reach their potential. Our inclusion and diversity performance remains a critical focus area for the Group.

Ethnic diversity

Our aim is to increase the ethnic diversity of our workforce and unlock the potential of our Black, Asian and minority ethnic colleagues. We have a Race Action Plan to help us meet our goals. We have set aspirations to increase representation of Black, Asian and minority ethnic colleagues to 13 per cent at senior management levels, and increase Black heritage representation in senior roles to at least 3 per cent by 2025, aligning with the overall UK labour market. Leading from the top, the Board exceeded the Parker review recommendation of 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. In 2021, we set new aspirations for a leadership team that reflects the society we serve, of 50 per cent women in senior roles by 2025. Our Board is committed to maintaining at least three female Board members and over time will aim to reach 50 per cent male and female representation on the Board to match the ambition that the Group has set for female senior executives. Reflecting these aspirations, the Board will aim to meet any recommendations set out by the FTSE Women Leaders review (formerly the Hampton-Alexander Review).

Sexual orientation and gender identity

We are proud to have created an inclusive and open working environment for our LGBT+ colleagues, and our LGBT+ colleague network, Rainbow, plays a pivotal role in our approach in supporting our LGBT+ colleagues, with over 5,000 members and supporters.

Supporting disability

The Group has the ambition of supporting our colleagues with disabilities and long-term health conditions to be the best that they can be, and to be valued for who they are. The Group holds the Business Disability Forum Gold Standard accreditation, and has retained Disability Confident status from the Department for Work and Pensions.

The Group offers bespoke training, career development and adjustments for colleagues and applicants with disabilities, including those who became disabled while employed.

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 surveys. We conducted our Pulse survey early in 2021 during which we identified that colleagues felt their wellbeing continued to be supported by the Group and their leaders.

Our annual autumn survey was completed by 71 per cent of the Group and this survey also allowed colleagues to directly inform the future strategy of the Group with more than 44,000 comments about the areas for future focus.

Despite lower engagement in 2021, we have seen an increase in overall mood linked to better work-life balance, good teamwork and strong manager capabilities. The Financial Services Culture Board (FSCB) assessment also showed that on many metrics we performed better when compared to pre-pandemic levels, but had not retained the high scores of 2021; indeed the FSCB noted that the 'COVID glow' had faded across their respondents in 2021.

Further information related to our progress on our inclusion and diversity focus areas, societal initiatives and our Race Action Plan can be found in our 2021 ESG Report. www.lloydsbankinggroup.com/who-we-are/responsible-business/downloads

Our inclusion and diversity performance

Gender		2021	2020
Board members	Male	**6**	8
	Female	**4**	4
GEC and GEC direct reports	Male	**78**	86
	Female	**42**	41
Senior managers	Male	**4,368**	4,540
	Female	**2,640**	2,670
Colleagues	Male	**27,216**	28,948
	Female	**37,256**	39,817
Ethnicity			
% of Board members from an minority ethnic background		**20%**	8.3%
% of senior managers from an minority ethnic background✓		**8.8%**	7.7%
% of colleagues from an minority ethnic background✓		**11.3%**	10.6%
Disability			
% of colleagues who disclose that they have a disability		**3.7%**	3.2%
Sexual orientation			
% of colleagues who disclose that they are lesbian, gay, bisexual or transgender		**2.5%**	2.3%

All data as at 31 December 2021. The Group Executive Committee (GEC) assists the Group Chief Executive in strategic, cross-business or Group-wide matters and inputs to Board. GEC and direct reports includes the Group Chief Executive, GEC and colleagues who report to a member or attendee of the 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, Isle of Man, 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, Asian, Black, Middle Eastern, North African and other (non-white) ethnicities.

Colleague grades: from A through to G, Executive (X), (EX) and Executive Director (ED), A being the lowest.

✓ Senior managers: Grades F, G and Executive (F being the lowest).
Indicator is subject to Limited ISAE 3000 (revised) assurance by Deloitte LLP for the 2021 Annual Responsible Business Reporting. Deloitte's 2021 assurance statement and the 2021 Reporting Criteria are available online at www.lloydsbankinggroup.com/who-we-are/responsible-business/downloads

2021 climate change progress

Our net zero ambitions

Financed emissions

Bank Scottish Widows

Work with customers, government and the market to help **reduce the carbon emissions we finance by more than 50% by 2030 on the path to net zero by 2050 or sooner**[1]

Target halving the **carbon footprint**[2] **of all of our investments by 2030 on the path to net zero by 2050**[3]

1 From a 2018 baseline.
2 Further detail in the Climate report.
3 From a 2019 baseline.

Own operations[4]

Net zero carbon operations by 2030

Reduce total **energy consumption** by 50% by 2030

Maintain **travel carbon emissions** below 50% pre-COVID-19 levels

4 All from a 2018/19 baseline.

Our climate strategy

We believe that the transition to a low carbon economy represents an opportunity to build a resilient future, creating new businesses and jobs. The transition will require transformation of every sector at scale.

We want to play our part in supporting the transition and support the aims of the 2015 Paris Climate Agreement, the UK Government's net zero target, the Ten Point Plan for the Green Industrial Revolution and the Task Force on Climate-related Financial Disclosures (TCFD) recommendations. Supporting an effective transition is a priority for us and an integral part of our new strategy. Our Board is fully engaged in key decisions and ensuring continued progress. We have prioritised our activities around net zero ambitions associated with achieving net zero in our own operations by 2030 and for the activities of those we finance by 2050, with interim ambitions set for 2030.

Our priority areas are greening the built environment, supporting the energy transition, low carbon transportation, sustainable farming and natural capital, and sustainable investments and pensions. These form a fundamental part of our overall approach to net zero and represent where we see the greatest challenge and opportunity to help accelerate the transition to a low carbon economy for the UK. Our ambitions and priority areas are underpinned by four pillars of our sustainability strategy that will help us to achieve our ambitions in a manner that engages the whole of our organisation and across our wider stakeholder network.

As signatories to Net-Zero Banking Alliance (NZBA), we have committed to setting sector-based ambitions across our highest emitting sectors. We have now published ambitions covering Power, Thermal Coal, Oil and Gas and Retail (motor) vehicles.

We will report additional sector ambitions in 2022 for parts of our remaining carbon-intensive sectors, including residential mortgages, transportation and automotive activity beyond Retail (motor) vehicles.

We will also develop further ambitions and a transition plan in accordance with the timelines stipulated by the NZBA. Our sector ambitions for our banking activities complements our Scottish Widows Climate Action Plan, which covers our approach for our investing activity through Scottish Widows.

Our new strategy includes a number of specific outcomes that will help finance the transition of our customers, with £10 billion of green mortgage lending by 2024, £8 billion financing and leasing for electric and plug-in hybrid electric vehicles by 2024, and £15 billion sustainable financing for corporate and institutional clients by 2024, and £20–25 billion in climate-aware investment strategies through Scottish Widows by 2025. In-year targets are part of the 2022 Group balanced scorecard, supplementing the measure on reducing our own operational carbon emissions.

We will continue to identify, manage and disclose material sustainability and climate-related risks and opportunities and their impact on the Group, in line with the TCFD recommendations. A high-level summary of our disclosure aligned to the TCFD recommendations is provided below. Further detailed information can be found in our 2021 Climate Report, a supplement to our Annual Report which enables the Group to provide comprehensive reporting of our climate strategy and risk management activities in alignment with the TCFD recommendations and recommended disclosures. www.lloydsbankinggroup.com/who-we-are/responsible-business/downloads

Progress against TCFD recommendations

We have been continually making progress against the TCFD recommendations and enhancing our climate-related financial disclosures since our 2018 Annual Report and Accounts. We comply with the FCA's Listing Rule 9.8.6R(8) and make disclosures consistent with the 2017 TCFD recommendations and recommended disclosures across all four of the TCFD pillars: Strategy; Governance; Risk Management; and Metrics and Targets.

We will continue to assess and develop our disclosures against the TCFD recommendations and recommended disclosures in 2022, taking into account relevant TCFD guidance and materials and evolving best practice. Key areas of focus in 2022 include:

Strategy

- We explored the resilience of our credit portfolios under three different climate scenarios as a result of our participation in the Bank of England's Climate Biennial Exploratory Scenario (CBES), as well as undertaking other internal activity developing initial quantitative insight for key sectors. We will undertake further climate scenario analysis in 2022 that leverages learnings from the CBES exercise and access to improved data and analytical capabilities. This will allow us to better understand the resilience of the Group's business model to climate risks. In particular, the aim is to support the development of new business plans and sector ambitions to achieve the Group's net zero ambitions and to examine the resilience of these to physical and transition risks.

Metrics and targets

- We have developed metrics to assess climate-related risks and opportunities that include current and projected financed emissions, emissions intensity, sustainable finance and sectors with increased climate risk (exposure, limit, maturity). We have evolved our Group Balanced Scorecard so that it now includes two ESG measures that are aligned to climate change to reflect our net zero ambitions. The additional climate scenario analysis we will conduct in 2022 will lead to enhancements to the physical and transition risk assessment of our high carbon sectors and clients within these that will allow for improved management information and reporting to the Board as well as NZBA sector target setting.
- We have disclosed our Scope 1, 2 and 3 emissions for our own operations, along with our initial Scope 3 financed emissions for most of our banking and Scottish Widows activity. Our future focus will be on disclosing our Scope 3 supply chain emissions and extending the coverage of Scope 3 financed emissions by including additional asset classes where methodologies exist and engaging across the industry on calculation approaches for asset classes where methods do not exist.
- We have developed ambitions to achieve net zero for our own operations by 2030 and for the activities of those we finance by 2050, with interim ambitions set for 2030. We have also developed 2030 ambitions for our operational energy, water and waste and an initial set of our highest emitting sectors. We are on track to disclose further ambitions for high emitting sectors in line with our NZBA commitments, along with a net zero transition plan that further communicates our decarbonisation strategy.

Progress against TCFD recommendations

Recommendation	Recommended disclosures	Reference	Summary of progress
Strategy Disclose the actual and potential impacts of climate-related risks and opportunities on the organisation's business, strategy and financial planning where such information is material	**A** Describe the climate-related risks and opportunities the organisation has identified over the short, medium and long term **B** Describe the impact of climate-related risks and opportunities on the organisation's business, strategy and financial planning **C** Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario	A: 2021 Climate Report **pages 07 to 15** B: 2021 Climate Report **pages 13 to 15** C: 2021 Climate Report **pages 66 to 70**	• We have prioritised our activities around net zero ambitions associated with achieving net zero in our own operations by 2030 and for the activities of those we finance by 2050, with interim ambitions set for 2030 • We have defined four sustainability strategic pillars that will help us to achieve our ambitions in a manner that engages across the whole of our organisation and also across our wider stakeholder network • We have described the key climate-related risks and opportunities identified to date and defined our short, medium and long-term time horizons • In preparing the Group's financial statements, we have considered the impact of climate-related risks on our financial position and performance • In 2021, the Group started to incorporate initial consideration of the Group's key climate risks and opportunities as part of our financial planning process • We are continuing to develop climate modelling and scenario analysis capabilities to quantify climate risk • We participated in the Bank of England's Climate Biennial Exploratory Scenario, which created a foundation capability that we are extending further as we embed climate into risk management and other processes • We have developed initial climate scenario analysis quantitative insights for key sectors
Metrics and targets Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material	**A** Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process **B** Disclose Scope 1, Scope 2, and if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks **C** Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets	A: 2021 Climate Report **pages 32 to 46** B: 2021 Climate Report **pages 35 to 40, 45 to 46** C: 2021 Climate Report **pages 32 to 34, 41 to 46**	• We have developed several initial metrics to measure our progress against our net zero ambitions, which include measures related to our financed emissions, sustainable finance and own operations • We have provided details of our Scope 1, 2 and 3 emissions for our own operations, calculated an initial 2019 financed emissions baseline for Scottish Widows and provided both an updated 2018 financed emissions baseline and 2019 financed emissions for our banking activity • We have specific sector ambitions for our banking activity related to power[1], oil and gas, thermal coal[1] and UK motor, and Scottish Widows has developed its first Climate Action Plan (published February 2022) • We have introduced new 2024 sustainable finance strategic outcomes across the Group[2] • More than £6.9 billion of green and ESG related finance[3] was delivered in 2021 • We also estimate that through Scottish Widows we will make discretionary investment of £20-25 billion into climate-aware investment strategies by 2025, with at least £1 billion invested in climate solutions investments • We developed three new operational climate pledges in 2021 that are designed to accelerate our plan to achieve net zero carbon operations and we continue to measure progress against those and our wider environmental ambitions for our own operations
Governance Disclose the organisation's governance around climate-related risks and opportunities	**A** Describe the Board's oversight of climate-related risks and opportunities **B** Describe management's role in assessing and managing climate-related risks and opportunities	A: 2021 Climate Report **pages 48 to 49** B: 2021 Climate Report **pages 50 to 51**	• Our governance structure provides clear oversight and ownership of the Group's sustainability strategy and management of climate risk at Board and Executive levels • The Board is engaged on a regular basis on our sustainability agenda and in 2021 received training to continue to develop understanding of climate risk • In 2021, we established the Group Net Zero Committee to provide Executive direction and oversight of the Group environmental sustainability strategy • Key Committee decisions include approval of our sector ambitions and external sector statements
Risk management Disclose how the organisation identifies, assesses, and manages climate-related risks	**A** Describe the organisation's process for identifying and assessing climate-related risks **B** Describe the organisation's process for managing climate-related risks **C** Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organisation's overall risk management	A: 2021 Climate Report **pages 54 to 55** B: 2021 Climate Report **pages 56 to 64** C: 2021 Climate Report **page 53**	• We have continued to embed climate risk into our activities and Enterprise Risk Management Framework, through consideration of climate risk as its own principal risk, and integration into other principal risks materially impacted • In 2021 we introduced the Group Climate Risk Policy to provide an overarching framework for the management of climate risks and opportunities across the Group • We have undertaken detailed analysis of our portfolios and the pathways required to reduce emissions, including deep dives into sectors at increased risk from impacts of climate change • Ongoing development of climate risk assessment tools and methodologies, including our qualitative climate risk assessment tool in Commercial Banking

1 Our power sector ambition was set prior to us joining the NZBA and will be updated in 2022 to align with NZBA guidance. Our thermal coal ambition is a commitment to exit all entities that operate thermal coal facilities by 2030 (see 2021 Climate Report **page 32**) and will currently be tracked through lending exposure to the sector as opposed to annual emissions estimates.

2 See **page 41** of our 2021 Climate Report for more detail on our 2024 sustainable finance strategic outcomes.

3 Includes Clean Growth Finance Initiative, Commercial Real Estate Green Lending, Renewable Energy Financing, Sustainability Linked Loans and Green/ESG/Social Bond facilitation.

Risk overview

Effective risk management and control

Our approach to risk

Risk management is at the heart of Helping Britain Prosper and creating a more sustainable and inclusive future.

Employing informed risk decision-making and robust risk management, supported by a consistent risk-focused culture, we strive to protect the Group and our stakeholders, while fulfilling our strategic mission.

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

The risk management section from **pages 134 to 193** of the Annual Report and Accounts provides an in-depth picture of how risk is managed within the Group, including the approach to risk appetite, risk governance, stress testing and detailed analysis of the principal risk categories including the framework by which these risks are identified, managed, mitigated and monitored.

Our enterprise risk management framework

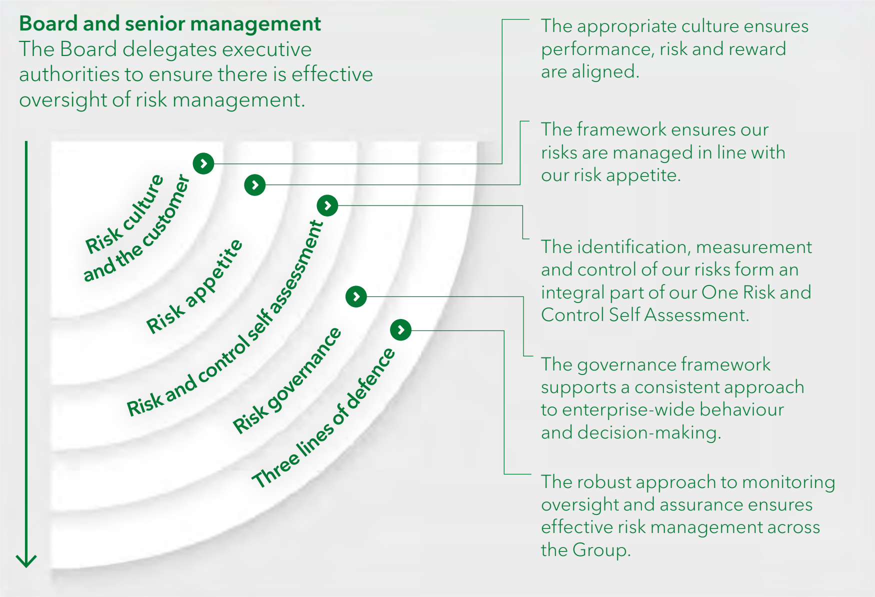
The Group's comprehensive enterprise risk management framework, that applies to all legal entities across the Group, is the foundation for the delivery of effective risk control. It enables proactive identification, active management and monitoring of the Group's risks, which is supported by our One Risk and Control Self-Assessment approach.

The Group's risk appetite, principles, policies, procedures, controls and reporting are regularly reviewed and updated 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 Board risk appetite statement annually. Board-level risk appetite metrics are augmented by further sub-Board level metrics and cascaded into more detailed business 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 Board engagement and decision-making.

Enterprise risk management framework



More information on the Board's responsibilities can be found on **page 86** of the Annual Report and Accounts and our Risk committees on **pages 138 to 140** of the Annual Report and Accounts.

Risk culture and the customer

Following the successful transition between the previous, interim and new Group Chief Executives, a transparent risk culture continues to resonate 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. The Group aims to support this through ongoing investment in infrastructure and developing colleagues' capabilities.

Senior management articulate the core risk values to which the Group aspires, based on the Group's prudent business model and approach to risk management with 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

The Group aims to maintain a strong focus on building and sustaining long-term relationships with customers through the economic cycle.

Connectivity of risks and our strategic risk management framework

COVID-19 has demonstrated how individual risks in aggregate, through their interconnectivity, can place significant pressure on the Group's strategy, business model and performance.

In response to these unprecedented events, a new strategic risk management framework was approved.

Extensive work has been undertaken in 2021 to build a deeper analytical understanding of the Group's key strategic risk themes and risk connectivity. The Group is committed to advancing these capabilities in 2022, while further integrating strategic risk into Group-wide business planning, placing it at the heart of our strategic priorities and Group-wide risk management.

The following pages outline:

- Key focus areas and mitigating actions for the Group's principal risks
- A deeper insight into how risks are being managed through the Group's strategy
- Important emerging risk themes

The risks can be defined as:

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

Strategic: 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

Emerging: 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.

Risk overview continued

Principal risks

Despite a resilient recovery, 2021 has been another year of significant uncertainty, with COVID-19 accelerating broad structural changes, including ways of working and impacts to global and domestic economies.

COVID-19 has continued to have a significant impact on all risk types in 2021. Understanding and managing its impacts dynamically has remained 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 in this section, are reported regularly to the Board Risk Committee and the Board. The Board Risk Committee report from **pages 94 to 99** of the Annual Report and Accounts outlines its activities during the year, as well as its purpose, responsibilities and composition.

As part of a review of the Group's risk categories, governance risk is no longer a principal risk and is now classified as a secondary risk category. A detailed review of the Group's enterprise risk management framework is planned for 2022, which may result in further changes to our principal risks.

The risk management section from **pages 134 to 193** of the Annual Report and Accounts provides a more in-depth picture of how each principal risk is managed within the Group.

Market risk

The Group's structural hedge has increased to £240 billion (2020: £186 billion) mostly due to a significant growth in customer deposits. Both customer behaviour and hedging of these balances are reviewed regularly to ensure near-term interest rate exposure is managed.

The Group's defined benefit pension schemes have seen an improvement in IAS 19 accounting surplus to £4.3 billion, (2020: £1.5 billion). This is due to strong asset returns, an increase in the discount rate and deficit reduction contributions, partially offset by higher gilt yields and inflation.

Key mitigating actions

- Structural hedge programmes implemented to stabilise earnings
- Equity and credit spread risks are closely monitored and, where appropriate, asset and liability matching is undertaken
- The Group's defined benefit pension schemes continue to monitor their credit allocation and longevity hedge as well as the hedges in place against nominal rate and inflation movements

Credit risk

The Group continued to actively support its customers throughout 2021, with a range of flexible options and payment holidays, as well as lending through the UK Government support schemes. This support, alongside the other public policy interventions, has contributed to the economic recovery in 2021 and helped keep credit defaults and business failures at low levels.

The improved economic outlook was a key driver of the 2021 net underlying impairment credit of £1,207 million, which compares to the full year impairment charge of £4,247 million taken in 2020 in light of anticipated losses resulting from the pandemic. Although reduced in 2021, the Group still holds appropriate customer related expected credit loss allowances of £4,477 million (2020: £6,832 million).

Key mitigating actions

- Prudent, through-the-cycle risk appetite
- Robust risk assessment, models and credit sanctioning
- Sector and asset class concentrations closely monitored and controlled
- Group-wide Road to Recovery programme established to manage and support increases in businesses experiencing financial difficulties

Change/execution risk

The change/execution risk profile has remained stable with proactive reprioritisation and management of the Group's change portfolio continuing through 2021. Focus has remained on the ongoing evolution and strengthening of the control framework and change capability required to support the Group's business and technology transformation plans.

Key mitigating actions

- Continued evolution and enhancement of the Group change policy, method and control environment
- Measurement and reporting of change/execution risk
- Providing sufficient skilled resources to safely deliver and embed the change portfolio and support future transformation plans

Conduct risk

Overall improvement in conduct risk as a result of the Group's continued support to customers impacted by COVID-19, with focus on outcomes for customers with UK Government support schemes, treating customers in financial difficulty fairly and working through legacy issues.

Key mitigating actions

- Robust conduct risk framework in place to support delivery of fair customer outcomes, market integrity and competition requirements
- Active engagement with regulatory bodies and key stakeholders to ensure that the Group's strategic conduct focus continues to meet evolving stakeholder expectations

Risk trends

- Stable risk
- Increased risk
- Decreased risk
- New risk embedding

Principal risks continued

Funding and liquidity risk

The Group maintained its robust funding and liquidity position throughout 2021, with the loan to deposit ratio falling to 94 per cent (2020: 98 per cent).

Ahead of the closure of the Term Funding Scheme with additional incentives for SMEs (TFSME) in October 2021, the Group drew additional funds, taking the total amount outstanding to £30 billion as at 31 December 2021, facilitating a significant reduction in money market and wholesale funding.

Key mitigating actions

- The Group manages and monitors liquidity risks and ensures that liquidity risk management systems and arrangements are adequate with regard to the internal risk appetite, Group strategy and regulatory requirements
- Significant customer deposit base, driven by inflows to trusted brands

Capital risk

The Group's CET1 capital ratio increased to 16.3 per cent on a pro forma[1] basis (2020: 16.2 per cent) with significant capital build in 2021 (pre announced distributions) largely reflecting banking profitability and reduced risk-weighted assets, offset in part by pension contributions, the partial unwind of IFRS 9 relief and the capital required to fund the Insurance acquisition of Embark Group.

The significant resultant headroom against the Board's target CET1 level of c.12.5 per cent, plus a management buffer of c.1 per cent, has been used to absorb the impact of regulatory changes that applied on 1 January 2022, which reduced the pro forma[1] CET1 capital ratio to c.14.0 per cent.

Key mitigating actions

- The Group has a capital management framework that includes the setting of capital risk appetite and capital planning and stress testing activities
- The Group monitors early warning indicators and maintains a Capital Contingency Framework as part of a Recovery Plan which are designed to identify emerging capital concerns at an early stage, so that mitigating actions can be taken, if needed

1 Reflects both the dividend paid up by the Insurance business in the subsequent first quarter period and the impact of the announced ordinary share buyback programme.

Insurance underwriting risk

Life and Pensions present value of new business premium increased to £17.3 billion (2020: £14.5 billion) despite continued pandemic headwinds. Continued economic uncertainty related to COVID-19 increases persistency risks. Significant amounts of mortality and morbidity risk continue to be reinsured.

No material change to General Insurance underwriting risk in 2021, with total gross written premium of £655 million (2020: £662 million).

Key mitigating actions

- Robust Insurance processes for underwriting, reinsurance, claims management, pricing, product design and product management
- Management through diversification and pooling of risks
- Adherence to policies and frameworks, including risk reporting and regular experience analysis investigations to understand deviations from expectations

Data risk

Investment continues to be made to enhance the maturity of data risk management, data capabilities and focus on the end-to-end management of data risk, including our suppliers.

Key mitigating actions

- Delivered a data strategy and enhanced capability in data management and privacy, assurance of suppliers and data controls and processes
- Embedded data by design and data ethics principles into the data science lifecycle

People risk

In 2021, there has been continued pressure on colleague workloads and further significant changes to ways of working, as colleagues who worked from home during the pandemic transition into a workstyle based on their role. Colleague feedback has been provided via the Employee engagement survey, and work is underway to address the key themes identified.

Key mitigating actions

- Delivery of strategies to attract, retain and develop high-calibre people with the required capabilities, together with implementation of rigorous succession planning for our senior leaders
- Continued focus on the Group's culture by developing and delivering initiatives that reinforce appropriate behaviours

Operational resilience risk

Despite ongoing heightened risks from COVID-19, business continuity plans have remained resilient. Policy statements published by the regulators in March 2021 have driven further activity to enhance the existing approach to operational resilience. Technology resilience remains a key area of focus.

Key mitigating actions

- Refreshed operational resilience strategy to deliver against new regulation and improve the Group's ability to respond to incidents while delivering key services to customers
- Investment in technology improvements, including enhancements to the resilience of systems that support critical business processes

Risk overview continued

Principal risks continued

Operational risk

Against the backdrop of COVID-19, economic uncertainty and changes in senior management throughout the year, the operational risk profile has remained broadly stable with operational losses in line with previous years. Cyber and security, technology and sourcing continue to be the most material operational risk areas.

Key mitigating actions

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

Model risk

Model risk remains above pre-pandemic levels. The effect of government-led customer support schemes weakened relationships between model inputs and outputs, and there remains a reliance on the use of judgement, particularly in the areas of forecasting and impairment. However, recent months have seen more stable patterns for model outputs, and we expect model drivers to remain valid in the longer term.

In common with the rest of the industry, changes required to capital models following new regulations will create a temporary increase in the risk relating to these models during the period of transition.

Key mitigating actions

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

Regulatory and legal risk

Regulatory engagement through 2021 has focused on the Group's response to COVID-19, strategic transformation and regulatory initiatives. Proactive engagement on emerging focus areas has helped the regulatory risk profile remain broadly stable, despite the previously announced regulatory fine relating to the past communication of historical home insurance renewals.

Legal risk continues to be impacted by the evolving UK legal and regulatory landscape due to the UK's exit from the EU and other changing regulatory standards as well as uncertainty arising from the current and future litigation landscape.

Key mitigating actions

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

Strategic risk

Strategic risk is a significant source of risk for the Group, influencing the Group's strategy, business model, performance and risk profile.

Significant work has been undertaken during 2021 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.

Key mitigating actions

- Considering the strategic implications of emerging trends and addressing them through our strategy
- Integration of strategic risk into business planning process and embedding into day-to-day risk management

Climate risk

The Group continued to embed climate risk into its activities, including undertaking detailed analysis of its portfolios and the pathways required to reduce the emissions that the Group finances. This included deep dives into sectors at increased risk from the impacts of climate change.

The Group has continued to develop scenario modelling capabilities and completed Part I of the Bank of England's 2021 Biennial Exploratory Scenario on the Financial Risks for Climate Change.

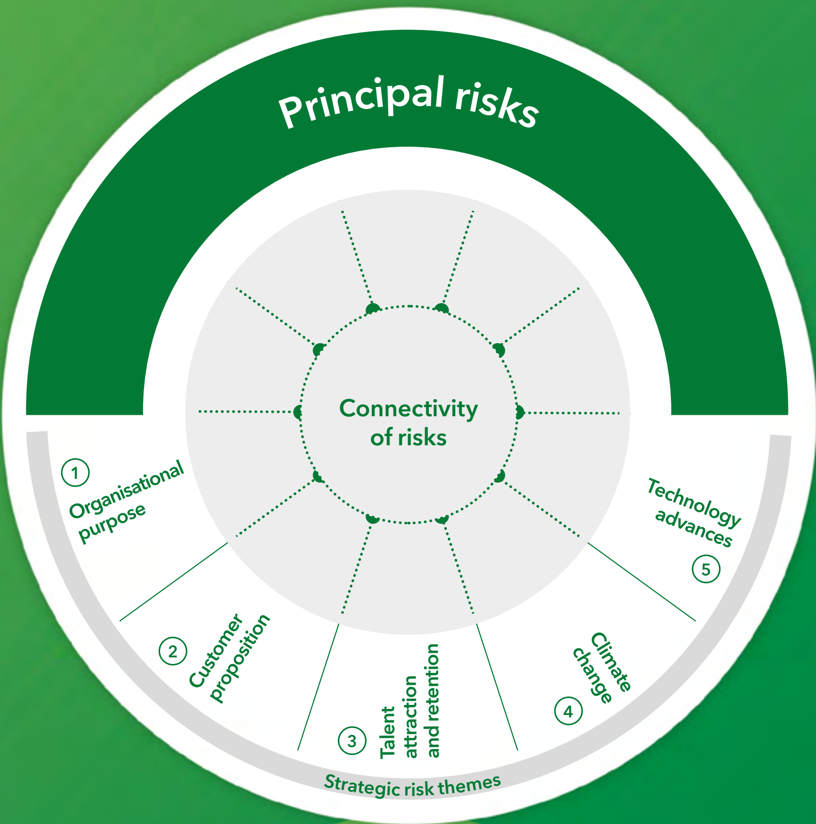
Key mitigating actions

- Established Group climate risk policy in place
- Ongoing development of climate assessment tools and methodologies
- Climate risk is included as part of regular risk reporting to the Board
- Initial consideration of the Group's key climate risks undertaken as part of our financial planning process
- Continued progress against the Task Force on Climate-related Financial Disclosures (TCFD) recommendations, enhancing our climate related financial disclosures

Strategic risk

Strategic risk themes

Understanding the potential risk implications of our strategy is an important area of focus. Using both quantitative and qualitative analysis, key strategic risk themes have been identified and assessed (see below). These risks are aligned to the key areas of focus in the Group's strategy and can result in impacts on the Group's wider principal risks.



Emerging risks

Emerging risks can either impact our principal risks directly or through our strategic responses

See more on **pages 141 to 142** of the Annual Report and Accounts

1 Organisational purpose

An organisational purpose with clear underlying principles and mission statements will enable us to build a more profitable and sustainable business for the Group's stakeholders. Risks may arise from:

- Conflicting interpretation of the key principles and mission statement
- Inability to inspire the culture and galvanise the organisation to support a progressive strategy
- Stated purpose failing to resonate with our stakeholders due to conflicting objectives

2 Customer proposition

Risk of adverse impacts on reputation, customer attraction, customer retention and income generation, arising from:

- Inappropriate products and services
- Inability to respond to changing customer profiles and needs
- Failure to maintain trust and deepen relationships

3 Talent attraction and retention

Inability to meet the Group's customer, colleague and transformation goals due to:

- Competition for specialist skills in a challenging labour market
- Failure to attract, develop and retain talent and capabilities for delivering the Group's agenda

4 Climate change

Failure to:

- Adapt to shifting consumer and colleague expectations
- Achieve regulatory and external climate commitments
- Support the transition to a low carbon economy as both a lender and employer

5 Technology advances

Potential for greater operational costs, reduced resilience and uncompetitive or inappropriate customer offering, driven by:

- Failure to keep pace with advances in technology
- Inability to effectively leverage data, while ensuring strong data ethics
- Misalignment of technology versus customer appetite

Risk overview continued

Emerging risks

Horizon scanning and emerging risks are important considerations for the Group, enabling our business to identify the most pertinent risks and opportunities and respond through our strategic planning and long-term risk mitigation framework.

Internal working groups have been established to regularly scan the horizon and identify emerging risks. This is supplemented by consultation with external experts, to gain an external context, ensuring broad coverage.

Progress has been made this year on a data-driven approach, piloting a methodology for interrogating industry news and other external data sources, using available technology to further expand our insight. It is intended to develop this further in 2022, to incorporate more sophisticated technology and innovation practices.

In many cases, the Group's most notable emerging risks are aligned with the themes identified.

These emerging risks themes raise questions in respect of our participation choices, HR policies, recruitment and retention strategies in response to the changing socio-economic, competitive and technological landscape.

Some of the emerging risks that the Group has monitored during 2021 are outlined below. More detail is provided in **pages 141 to 142** of the risk management section of the Annual Report and Accounts.

Emerging risks and key considerations

Emerging risk theme	Key considerations
Breakdown of the EU	Wide-ranging risks associated with dissolution of the European Union, with member states choosing to function independently.
Climate change transition risk	Risks arising from the Group's participation choices, policies and investments to support transition to a zero carbon economy and its ability to meet published climate targets.
Data-driven propositions	Harnessing real-time data, emerging technologies and communication channels, to meet consumer appetite for bespoke products and services.
Digital currencies	Risks and opportunities posed by introduction of new, or wider adoption of existing, digital currencies, associated supporting infrastructure and subsequent management.
Evolving regulation	Changing regulatory standards and possibility of retrospective application, driving reputational damage, fines, litigation and remediation activity.
Future pandemics and the world's ability to respond	Economic, political, social and technological impacts caused by mutations of existing viruses, new viruses, or resistance to treatments for existing illnesses.
Inequality and changing demographic	Widening wealth and opportunity gap, increasing diversity and changing age mix within society, resulting in changing demands on banking.
Long term impact of the UK's exit from the EU	Long-term macro-economic, regulatory and social impacts on the UK as a result of the UK's exit from the EU.
Modern skills and recruitment diversity	Diversification of recruitment approach in respect of candidate backgrounds, skills and avenues of attainment, to adapt to a modern technology-driven landscape.
Pace of technological change	Ability to keep pace with accelerating technological change, evolving technology landscape, changing customer expectations and new product and service propositions.
Populism, de-globalisation and supply chains	Disenfranchisement driving geopolitical tensions between states, diminishing integration and adverse effects on supply chains.
Science, technology, engineering and mathematics (STEM) qualification supply versus demand	Risks posed by the balance of STEM degree qualification in the UK lagging behind the accelerating demands for STEM qualified candidates in the workforce.
Scottish independence	Wide-ranging consequences arising from the movement for Scotland to become a sovereign state, independent from the United Kingdom.
Ways of working	Ability to provide a colleague proposition enabling flexible location and agile working, aligning to individual requirements, together with associated risks of such arrangements (e.g. Operational, People and Data risk).

Viability statement

The Directors have an obligation under the UK Corporate Governance Code to state whether they believe the Company and the Group will be able to continue in operation and meet their liabilities as they fall due over a specified period determined by the Directors, taking account of the current position and the principal risks of the Company and the Group.

In making this assessment, the Directors have considered a wide range of information, including:

- The principal and emerging risks which could impact the performance of the Group
- The 2022 Strategic Review which sets out the Group's customer and business strategy for the period from 2022 to 2026
- The Group's operating plan which comprises detailed financial, capital and funding projections together with an assessment of relevant risk factors for the period from 2021 to 2024 inclusive

In particular, the assessment included consideration of the ongoing impact of, and subsequent recovery from, the pandemic; the current and expected future impact of the UK's exit from the EU on the UK economy and regulatory agenda; and climate-related matters.

Group, legal entities, divisional and business unit operating plans are produced and subject to rigorous stress testing on an annual basis. The planning process takes account of the Group's business objectives, the risks taken to seek to meet those objectives and the controls in place to mitigate those risks to remain within the Group's overall risk appetite.

The Group's annual planning process comprises the following key stages:

- The Board reviews and agrees the Group's strategy, risk appetite and objectives in the context of the operating environment and external market commitments
- The divisional teams develop their operating plans, ensuring that they are in line with the Group's strategy and risk appetite
- The financial projections and the underlying assumptions in respect of expected market and business changes, and future expected legal, accounting and regulatory changes, are subject to rigorous review and challenge from both divisional and Group executives
- In addition, the Board obtains independent assurance from the Risk division over the alignment of the plan with Group strategy and the Board's risk appetite. This assessment performed by the Risk division also identifies the key risks to delivery of the Group's operating plan
- The planning process is also underpinned by a robust capital and funding stress testing framework. This framework allows the Group to assess compliance of the operating plan with the Group's risk appetite
- The scenarios used for stress testing are designed to be severe but plausible, and take account of the availability and likely effectiveness of mitigating actions that could be taken by management to avoid or reduce the impact or occurrence of the underlying risks. In considering the likely effectiveness of such actions, the conclusions of the Board's regular monitoring and review of risk and internal control systems, as discussed on **page 86** of the Annual Report and Accounts, is taken into account. Further information on stress testing and reverse stress testing is provided on **page 140** of the Annual Report and Accounts
- The final operating plan, Risk division assessment and the results of the stress testing are presented to the Board for approval. Once approved, the operating plan drives detailed divisional and Group targets for the following year

The Directors have specifically assessed the prospects of the Company and the Group over the current plan period. The Board considers that a three-year period continues to present a reasonable degree of confidence over expected events and macroeconomic assumptions, while still providing an appropriate longer-term outlook. The Directors have also reviewed a less detailed high level forecast for the years 2025 to 2026; this high level forecast contains no information which would cause different conclusions to be reached over the longer-term viability of the Company and Group. Information relevant to the assessment can be found in the following sections of the Annual Report and Accounts:

- The Group's principal activities, business and operating models and strategic direction are described in the strategic report on **pages 02 to 43**
- Emerging risks are disclosed on **pages 141 to 142** of the Annual Report and Accounts
- The principal risks, including the Group's objectives, policies and processes for managing credit, capital, liquidity and funding, are provided in the risk management section on **pages 134 to 193** of the Annual Report and Accounts
- The Group's approach to stress testing and reverse stress testing, including both regulatory and internal stresses, is described on **page 140** of the Annual Report and Accounts

Based upon this assessment, the Directors have a reasonable expectation that the Company and the Group will be able to continue in operation and meet its liabilities as they fall due over the next three years to 31 December 2024.

Going concern

The going concern of the Company and the Group is dependent on successfully funding their respective balance sheets and maintaining adequate levels of capital.

In order to satisfy themselves that the Company and the Group have adequate resources to continue to operate for the foreseeable future, the Directors have reviewed the Group's operating plan and its funding and capital positions, including a considerations of the implications of the COVID-19 pandemic and climate change. The Directors have also taken into account the impact of further stress scenarios as well as a number of other key dependencies which are set out in the risk management section under principal risks and uncertainties: funding and liquidity on **page 39** and **pages 171 to 175** and capital position on **pages 176 to 185** of the Annual Report and Accounts.

Additionally, the Directors have considered the capital and funding projections of the Company. Accordingly, the Directors conclude that the Company and the Group have adequate resources to continue in operational existence for a period of at least 12 months from the date of the approval of the financial statements and therefore it is appropriate to continue to adopt the going concern basis in preparing the accounts.

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	– Delivering value for our stakeholders, **page 24** – Board stakeholder engagement and decision making, **pages 26 to 29** – ESG Report 2021, **page 14** www.lloydsbankinggroup.com/who-we-are/responsible-business/downloads – Code of Supplier Responsibility link to documents: www.lloydsbankinggroup.com/who-we-are/working-with-suppliers/responsible-sourcing-suppliermanagement
Environmental matters	• Environmental (TCFD) statement	– Board stakeholder engagement and decision making, **page 28** – 2021 climate change progress, **pages 35 to 36** – Climate Report 2021 link to documents: www.lloydsbankinggroup.com/who-we-are/responsible-business/downloads
Employees	• Colleague Policy[1] • Code of Responsibility • Health and Safety Policy[1]	– Board stakeholder engagement and decision making, **page 27** – 2021 inclusion and diversity performance, **page 34** – ESG Report 2021, **pages 45 to 55** – Code of Ethics and Responsibility link to documents: www.lloydsbankinggroup.com/who-we-are/responsible-business/downloads
Respect for human rights	• Human Rights Policy statement • Colleague Policy[1] • Pre-Employment vetting standards[1] • Data Privacy Policy[1] • Modern Slavery and Human Trafficking Statement • Information and Cyber Security Policy[1]	– Board stakeholder engagement and decision making, **page 28** – 2021 inclusion and diversity performance, **page 34** – The Group are guided by the International Bill of Human Rights, the International Labour Organisation's (ILO) Core Labour Standards and its Tripartite Declaration of Principles, the Organisation for Economic Co-Operation and Development (OECD) Guidelines for Multinational Enterprises, and the UN's Guiding Principles on Business and Human Rights. 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. Pursuant to the UK Modern Slavery Act, we produce a Modern Slavery Statement. – Modern Slavery and Human Trafficking Statement – Human Rights Policy Statement – ESG Report 2021, **pages 45 to 63** link to documents: www.lloydsbankinggroup.com/who-we-are/responsible-business/downloads
Social matters	• Volunteering standards[1] • Matched giving guidelines[1]	– Delivering value for our stakeholders, **page 25** – Board stakeholder engagement and decision making, **page 27** – 2021 strategic performance, **page 32** – ESG Report 2021, **page 53** link to documents: www.lloydsbankinggroup.com/who-we-are/responsible-business/downloads
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]	– Our external environment, **page 11** – ESG Report 2021, **pages 55 to 63** – Anti-Bribery Policy Statement link to documents: www.lloydsbankinggroup.com/who-we-are/responsible-business/downloads
Description of principal risks and impact of business activity		– Risk overview, **pages 37 to 43**
Description of the business model **Non-financial key performance indicators**		– Our unique business model, **pages 22 to 23** – 2021 key performance indicators, **page 30** – Our strategy, **pages 06 to 21** – 2021 strategic performance, **page 32** – Global Reporting Initiative (GRI) standards www.lloydsbankinggroup.com/who-we-are/responsible-business/downloads – Reporting Criteria www.lloydsbankinggroup.com/who-we-are/responsible-business/downloads – ESG Report 2021 www.lloydsbankinggroup.com/who-we-are/responsible-business/downloads

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 2021.

Directors' remuneration

Remuneration Committee Chair's statement

Alan Dickinson
Chair, Remuneration Committee

As a result of external events colleagues reward last year was impacted by a sharp fall in profitability. This year, with the recovery, colleagues rightly benefit as we reward their hard work.

Remuneration principles

Our performance and remuneration philosophy is built on four core reward principles:

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

Our reward principles ensure fair reward outcomes that are linked to our purpose, Group's performance and the experiences of our shareholder and investors.

Remuneration content

Dear shareholder

On behalf of the Board, I am pleased to present the Directors' remuneration report for the year ended 31 December 2021.

2021 has been another extraordinarily challenging year in which the Group has sought to do all that we can to Help Britain Recover as part of our Group purpose of Helping Britain Prosper. Our priority has been assisting our personal customers, businesses and the communities in which we operate to deal with the financial consequences caused by the pandemic. What has been achieved has once again required an enormous amount of sustained effort and commitment from our people.

Last year, despite that tremendous work, often above and beyond normal commitments, the Committee took the decision that, in the exceptional circumstances arising from the pandemic, as well as to reflect the Group's reduced profitability in 2020 and align with the experience of shareholders, no bonuses (Group Performance Share) would be awarded to any colleagues. That decision has had a significant impact on the motivation of our workforce and retention of talent through 2021, which the Committee has monitored closely. Given the improved performance of the Group in 2021 and the continued hard work of our people, the Committee felt it was important to reward them for their commitment and contribution. We are pleased that the materially greater profitability of the Group has enabled this to be possible.

As we deliver the next phase of the Group's strategy, it remains crucial that we are able to attract and retain critical talent and reward our colleagues appropriately while maintaining the continuing strong link to the interests of shareholders and responding to the broader societal challenges evolving around us.

2021 variable reward outcomes

To ensure consistency, the Committee felt that it was important to operate the same framework for determining Group Performance Share awards in 2021 as it did in 2020, including applying a profit threshold.

Given a stronger economic environment and financial performance, which has enabled the reinstatement of capital distributions, the Committee has approved a Group Performance Share pool of £399 million. The 2021 pool reflects a collective adjustment of £83 million, including adjustments for the fine from the Financial Conduct Authority in 2021 in respect of insurance renewal documentation and the provision for the independent review of the compensation for customers of HBOS Reading.

This adjustment applied to the whole pool ensures there is alignment with the impact on shareholders.

When discussing the allocation of the pool, the Committee wanted to ensure that customer-facing colleagues received awards that reflected the hard work and commitment to customers shown through 2021 and supported the Group Chief Executive's decision to allocate a higher proportion of the pool to those colleagues.

In considering the vesting outcome for the Executive Group Ownership Share awards granted in 2019, the Committee discussed each measure and considered that these awards were intended to reward long-term performance and strategic delivery. The Group's economic profit has improved despite the challenging income environment and there has been strong progress against customer measures which align to the Group's ambition to be the Best Bank for Customers. Overall, the 2019 plan vests at 41.8 per cent of maximum.

With respect to the provision taken for the independent review of compensation for customers of HBOS Reading, the Remuneration Committee is considering whether performance adjustments are appropriate for a number of individuals. Pending such further consideration, variable remuneration awards and vestings for 2022 will be frozen for former Executive Directors (the former Group Chief Executive, former Chief Financial Officer and former Chief Operating Officer). The former Group Chief Executive and former Chief Operating Officer voluntarily withdrew from the 2019 GPS awards as a result of the overall performance of the Group and the issues faced during 2019, including publication of the Cranston report.

Executive Director remuneration outcomes

The Group welcomed Charlie Nunn as Group Chief Executive in August 2021, taking over from Sir António Horta-Osório who retired from the Group on 30 April 2021. William Chalmers assumed the role for the interim period from 1 May 2021 to 15 August 2021. As a result of these changes during the year, reporting is more complicated and we have therefore provided additional explanation to support the mandatory disclosures. I would highlight the following:

- In aggregate the single total remuneration for the three individuals in the role of Group Chief Executive during 2021 is £8.9 million, but excluding one-off buy out awards granted to Charlie Nunn is £4.6 million. On this underlying basis, this is an increase of 28 per cent compared to full year 2020 but reflects the fact no bonus was awarded in 2020.

Directors' remuneration continued

- Excluding the one-off buy-out awards granted to Charlie Nunn, the CEO pay ratio is 117:1. This is a 23 per cent increase on 2020 when no bonuses were awarded.
- Sir António Horta-Osório was eligible to receive a pro-rata Group Performance Share award for the period 1 January 2021 to his retirement date on 30 April 2021. The Committee determined an award of £345,059 in line with Group performance, as outlined on **page 105** of the Annual Report and Accounts. In addition, under the rules of the Executive Group Ownership Share awards made in 2019 and 2020, awards are pro-rated to the retirement date.

A 1 per cent pay increase is proposed for the Executive Directors. This demonstrates continued restraint in executive remuneration, and compares to pay increases of 4 per cent or higher for two-thirds of our junior colleagues.

The Committee determined that a Group Performance Share (annual bonus) award of £348,648 should be made to the Group Chief Executive. This award is pro-rated for the period from 16 August 2021 to 31 December 2021 and is in line with the Group performance as assessed by the Committee and outlined on **page 105** of the Annual Report and Accounts. An award of £704,627 was determined for the Chief Financial Officer reflecting the joint roles and responsibilities performed while acting as Interim Group Chief Executive as outlined on **page 105** of the Annual Report and Accounts.

To ensure that the Group Chief Executive and Chief Financial Officer are aligned to the long-term success of the Group and motivated to deliver the next phase of the Group's strategy and sustainable returns, the Remuneration Committee has awarded 2022 Long Term Share Plan awards of 150 per cent of salary to the Group Chief Executive and the Chief Financial Officer to reflect the Group's performance in 2021 and other factors taken into account in the 'pre-grant test' as outlined on **page 115** of the Annual Report and Accounts. The normal range for awards for Executive Directors is 125 per cent to 150 per cent of salary.

The level of award for the Group Chief Executive acknowledges that prior to joining, Charlie Nunn agreed to voluntarily reduce the maximum opportunity from 200 per cent under the approved Directors' Remuneration Policy to 150 per cent. Consistent with the awards for 2020 performance granted in March 2021, these 2022 awards are subject to underpins for the first three years which align the vesting outcomes to longer-term shareholder experience and are deferred for up to seven years.

For 2022 awards, the Committee felt that it was important that progress toward climate change commitments should be reflected in the vesting of awards and has therefore included specific consideration of this within the 'pre-vest test'. Full details of the 2022 LTSP award can be found on **page 115** of the Annual Report and Accounts. LTSP awards will be granted to senior colleagues, to ensure there is alignment to shareholder experience and retain critical talent through the next phase of the Group's strategic delivery.

Shareholding and post-employment shareholding requirements

We have closely monitored the ongoing developments in policy expectations for senior executives after leaving their posts and as a result, from 1 January 2022, the current Group Chief Executive and Chief Financial Officer will be subject to a post-employment shareholding requirement for two years. This will require them to maintain their shareholdings at a level equal to the lower of the shareholding requirement immediately prior to departure or the actual shareholding on departure. Nominee arrangements are also in place to assist with enforcing shareholding requirements. To fulfil the requirement the Group Chief Executive and Chief Financial Officer (and at a later date, any new Executive Director) will be contractually bound not to dispose of a set number of shares which will be confirmed prior to their departure. We have reviewed our current shareholding policy and subject to shareholder approval at the AGM in 2023, the intention will be to align the shareholding policy for Executive Directors with other members of Senior Management and increase the timeframe by which the shareholding requirement should be achieved from three to five years from their commencement date.

Wider workforce engagement

The Committee regularly seeks input from a wide range of sources, including reviewing the annual colleague engagement survey and feedback from our recognised unions. We know that many colleagues were unhappy with the decision not to pay bonuses for 2020 performance and that this had an impact on the colleague survey results where engagement levels dropped year-on-year. Some colleagues also feel the pay increases in 2021 were disappointing given the current rate of inflation. Management has listened to colleague feedback and sought to prioritise spend towards junior colleagues and provide pay progression for colleagues more broadly. The 2022 pay budget provides for a minimum pay increase of £1,000 for junior colleagues. The minimum salary in our organisation will rise to £10.60 per hour (£19,292). With Flex cash included, this equates to a £20,000 minimum starting rate for new joiners.

Our pay proposal is subject to a ballot of each union's members.

Responding to feedback

For 2021 we simplified our Group scorecard to seven performance measures, weighted equally between areas of financial and non-financial focus with 15 per cent of the scorecard assessing progress on specific ESG metrics for our climate and diversity ambitions. We believe this simplified approach, supported by use of careful and balanced judgement, ensures that our remuneration aligns to the Group's performance, purpose and strategy as well as taking into account shareholder interests. With greater focus on integrating societal purpose and environmental aspects into our strategic delivery, the Committee is aware of the importance of continuing to develop a framework within which remuneration decisions are made to ensure that they incentivise the required behaviours and performance.

During 2021, I took the opportunity to listen to a broad range of shareholders and other key stakeholders. You told me that your main focus continues to be ensuring there is a clear alignment between business strategy and performance and executive remuneration outcomes, with a specific focus on ensuring that ESG measures are incorporated into the performance assessment.

Aligned to your feedback, we have made a limited but important change to the Group scorecard for 2022, to bring greater focus on our climate change ambitions and ensure our purpose of Helping Britain Prosper is at the heart of everything we do. For 2022, ESG metrics aligned directly to our public commitments on climate change and promoting inclusion and diversity will account for 17.5 per cent of the scorecard.

Future strategic alignment

Responding to the Group Chief Executive's strategy announcements, the Committee will undertake a policy review to ensure the remuneration framework aligns and supports the successful delivery of the strategy. We will engage shareholders through 2022 on changes proposed for the next Policy cycle.

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

Alan Dickinson
Chair, Remuneration Committee

Executive Director single total figure of remuneration (audited)

£000	Charlie Nunn[1] 2021	Charlie Nunn[1] 2020	William Chalmers[2] 2021	William Chalmers[2] 2020	Sir António Horta-Osório[3] 2021	Sir António Horta-Osório[3] 2020	Totals 2021	Totals 2020
Base salary	**426**	–	**901**	807	**432**	1,295	**1,759**	2,102
Fixed Share Award[6]	**402**	–	**569**	504	**346**	1,050	**1,317**	1,554
Benefits	**51**	–	**46**	45	**134**	159	**231**	204
Pension	**64**	–	**122**	121	**60**	194	**246**	315
Total fixed pay	**943**	–	**1,638**	1,477	**972**	2,698	**3,553**	4,175
Group Performance Share	**349**	–	**705**	–	**345**	–	**1,399**	–
Long-term incentive[4,5]	**–**	–	**–**	–	**1,199**	904	**1,199**	904
Total variable pay	**349**	–	**705**	–	**1,544**	904	**2,598**	904
Other remuneration[7]	**–**	–	**–**	–	**–**	2	**–**	2
Buy out[1]	**4,231**	–	**–**	–	**–**	–	**4,231**	–
Total remuneration	**5,523**	–	**2,343**	1,477	**2,516**	3,604	**10,382**	5,081
Less: Performance adjustment	**–**	–	**–**	–	**–**	–	**–**	–
Total remuneration less buy-outs and performance adjustment	**1,292**	–	**2,343**	1,477	**2,516**	3,604	**6,151**	5,081

1 Charlie Nunn succeeded Sir António Horta-Osório as Group Chief Executive on the 16 of August 2021. He was granted cash of £369,703 and deferred share awards over 8,301,708 shares to replace unvested awards given up from his former employer, HSBC, as described on **page 110** of the Annual Report and Accounts and a lost opportunity bonus award for 2020. The value of the lost opportunity bonus award was £1,316.564 calculated by reference to his 2019 bonus, adjusted downward to reflect HSBC's group bonus pool as disclosed in their 2020 Annual Report and a further 20 per cent pre-agreed discount.
2 As previously disclosed William Chalmers was the Interim Group Chief Executive from 1 May 2021 until 15 August 2021 and his remuneration in the table above includes changes to his remuneration for this period (pro-rated deputisation payment of £90,441 and Fixed Share Award of £64,595).
3 Sir António Horta-Osório retired as an Executive Director and Group Chief Executive on 30 April 2021. His remuneration details for 2021 are in respect of services provided as an Executive Director. Details of Sir António Horta-Osório's retirement terms are provided on **page 107** of the Annual Report and Accounts.
4 The 2019 Group Ownership Share (GOS) vesting (see **page 107** of the Annual Report and Accounts) at 41.8 per cent was confirmed by the Remuneration Committee at its meeting on 17 February 2022. The total number of shares due to vest are 2,498,568 for Sir António Horta-Osório and the award was pro-rated to reflect Sir António Horta-Osório's leaving date. The average share price between 1 October 2021 and 31 December 2021 47.993 pence has been used to indicate the value. The shares were awarded in 2019 based on a share price of 48.576 pence and as such no part of the reported value is attributable to share price appreciation.
5 LTIP figures for 2020 have been adjusted to reflect the share price on the date of vesting (5 March 2021) 39.826 pence instead of the average price 32.623 pence reported in the 2020 report.
6 The fixed share award is part of fixed remuneration and is not subject to any performance conditions see **page 114** of the Annual Report and Accounts.
7 Other remuneration payments comprise income from all employee share plans, which arise through employer matching or discounting of employee purchases.

Single total figure of remuneration for Chair and Non-Executive Directors (audited)

	Fees (£000) 2021	Fees (£000) 2020	Benefits (£000)[4] 2021	Benefits (£000)[4] 2020	Total (£000) 2021	Total (£000) 2020
Chair and Non-Executive Directors						
Robin Budenberg	**618**	45	**–**	–	**618**	45
Alan Dickinson	**397**	347	**1**	1	**398**	348
Sarah Legg	**212**	166	**2**	–	**214**	166
Lord Lupton	**287**	313	**1**	4	**288**	317
Amanda Mackenzie	**164**	165	**–**	–	**164**	165
Harmeen Mehta[1]	**16**	–	**–**	–	**16**	–
Nick Prettejohn[2]	**363**	508	**1**	8	**364**	516
Stuart Sinclair	**231**	254	**–**	–	**231**	254
Sara Weller[3]	**76**	207	**1**	3	**77**	210
Catherine Woods	**232**	135	**5**	–	**237**	135

1 Harmeen Mehta was appointed on 1 November 2021.
2 Nick Prettejohn retired 30 September 2021.
3 Sara Weller retired 20 May 2021.
4 Other benefits relates to reimbursement for expenses incurred in the course of duties. Non-Executive Directors do not receive variable pay.

Our Board

Overseeing our new strategy

Robin Budenberg CBE
Chair

NG Re RB

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

Re A Ri NG RB

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 Non-Executive Director

A Ri RB

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 eight 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, Honorary Vice President of the Hong Kong Society for Rehabilitation and a trustee of the Lloyds Bank Foundation for England and Wales.

Lord Lupton CBE
Independent Non-Executive Director and Chair of Lloyds Bank Corporate Markets plc

RB

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 Non-Executive Director

RB Re NG

Appointed: October 2018

Skills, experience and contribution:

Extensive experience in ESG matters, including responsible business and sustainability

Considerable customer engagement experience

Strong digital technology experience

Significant marketing and brand background

Amanda was a member of Aviva's Group Executive for seven years 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.

Harmeen Mehta
Independent Non-Executive Director

Appointed: November 2021

Skills, experience and contribution:

Extensive experience leading digital, engineering, IT and innovation transformation

A wealth of international and financial services knowledge having lived in 11 countries and worked across 30 countries in her career

Experience of incubating new businesses and creating new revenue streams in businesses

Harmeen was appointed Chief Digital and Innovation Officer at BT in April 2021. Prior to that role, she spent seven years as Global Chief Information Officer and Head of Cyber Security and Cloud Business at Bharti Airtel, leading its cloud and security businesses. Earlier in her career, Harmeen held CIO positions at BBVA, HSBC and Bank of America Merrill Lynch.

External appointments:
Chief Digital and Innovation Officer at BT; Non-Executive Director at Max Healthcare.

Stuart Sinclair
Independent Non-Executive Director

Re NG RB

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.

Catherine Woods
Independent Non-Executive Director

Ri A Re

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 Non-Executive Director and Deputy Chair of BlackRock Asset Management Ireland Limited.

Kate Cheetham
Group General Counsel and Company Secretary

Appointed: July 2019

Skills and experience:
Kate became Group General Counsel in May 2015 and Group Company Secretary in July 2019. Kate joined the Group in 2005 from Linklaters, where she was a corporate lawyer specialising in mergers and acquisitions transactions. Before her current roles, Kate held a number of senior positions including Deputy Group General Counsel and General Counsel for Group Legal. Kate is a trustee of the Lloyds Bank Foundation for England and Wales.

Charlie Nunn
Executive Director and Group Chief Executive

Appointed: August 2021

Skills, experience and contribution:

- Extensive financial services experience including in Chief Executive and other leadership roles
- Strategic planning and implementation
- Extensive experience of digital transformation

Charlie has over 25 years' experience in the financial services sector. Prior to joining the Group, Charlie held a range of leadership positions at HSBC, including Global Chief Executive, Wealth and Personal Banking, and Group Head of Wealth Management and Digital, as well as Global Chief Operating Officer of Retail Banking and Wealth Management.

Charlie began his career at Accenture, where he worked for 13 years in the US, France, Switzerland and the UK before being made a Partner. He then moved to McKinsey & Co. as a Senior Partner, leading on projects for five years.

External appointments:
None.

William Chalmers
Executive Director and Chief Financial Officer

Appointed: August 2019 (Chief Financial Officer), May-August 2021 (Interim Group Chief Executive)

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 joined the Board in August 2019, when he was appointed Chief Financial Officer, and was appointed Interim Group Chief Executive from May 2021 to August 2021.

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.

Key[1]

- 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
- New to the Board in 2021
- Existing Board member

1 Committee Chairs and members shown as at 23 February 2022

Each of the Directors of Lloyds Banking Group plc is also a director of Lloyds Bank plc and Bank of Scotland plc (Ring-Fenced Banks). The boards of the Ring-Fenced Banks have three additional Non-Executive Directors, Nigel Hinshelwood (Senior Independent Director), Sarah Bentley and Brendan Gilligan. Read their biographies and about the Ring-Fenced Banks on pages 77 and 81 of the Annual Report and Accounts.

Other Lloyds Banking Group plc Board members in 2021, with retirement dates

- Lord Blackwell (Chair) – 1 January 2021
- Sir António Horta-Osório (Group Chief Executive) – 30 April 2021
- Sara Weller – 20 May 2021
- Nick Prettejohn – 30 September 2021 (both Non-Executive Directors)

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 Board is considering the format of this year's AGM, which will be held at 11:00am on Thursday 12 May 2022 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

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:

Service Provider	Telephone Dealing	Internet Dealing
Bank of Scotland Share Dealing	0345 606 1188	www.bankofscotland.co.uk/sharedealing
Halifax Share Dealing	03457 22 55 25	www.halifax.co.uk/sharedealing
Lloyds Bank Direct Investments	0345 60 60 560	www.lloydsbank.com/share-dealing.asp
IWeb Share Dealing	03450 707 129	www.iweb-sharedealing.co.uk/share-dealing-home.asp

Note:
All internet services are available 24/7. Telephone dealing services are available between 8.00 am and 9.00 pm, Monday to Friday. To open a share dealing account with any of these services, you must be 18 years of age or over and be resident in the UK, Jersey, Guernsey or the Isle of Man.

Share dealing for the Lloyds Banking Group Shareholder Account

Share dealing services for the Lloyds Banking Group Shareholder Account are provided by Equiniti Shareview Dealing, operated by Equiniti Financial Services Limited. Details of the services provided can be found either on the Shareholder information page of our website at www.lloydsbankinggroup.com or by contacting Equiniti using the contact details provided below.

Individual Savings Accounts (ISAs)

There are a number of options for investing in Lloyds Banking Group shares through an ISA. For details of services and products provided by the Group please contact Bank of Scotland Share Dealing, Halifax Share Dealing or Lloyds Bank Direct Investments using the contact details above.

American Depositary Receipts (ADRs)

Our shares are traded in the USA through a New York Stock Exchange-listed sponsored ADR facility with The Bank of New York Mellon as the depositary. The ADRs are traded on the New York Stock Exchange under the symbol LYG. The CUSIP number is 539439109 and the ratio of ADRs to ordinary shares is 1:4.

For details contact: BNY Mellon Shareowner Services, 462 South 4th Street, Suite 1600, Louisville KY 40202. Telephone: 1-866-259-0336 (US toll free), international callers: +1 201-680-6825. Alternatively visit www.adrbnymellon.com or email shrrelations@cpushareownerservices.com

Security – share fraud and scams

Shareholders should exercise caution when unsolicited callers offer the chance to buy or sell shares with promises of huge returns. If it sounds too good to be true, it usually is and we would ask that shareholders take steps to protect themselves. We strongly recommend seeking advice from an independent financial adviser authorised by the Financial Conduct Authority (FCA). Shareholders can verify whether a firm is authorised via the Financial Services Register which is available at www.fca.org.uk

If a shareholder is concerned that they may have been targeted by such a scheme, please contact the FCA Consumer Helpline on 0800 111 6768 or use the online 'Share Fraud Reporting Form' available from their website (see above). We would also recommend contacting the Police through Action Fraud on 0300 123 2040 or visiting www.actionfraud.org.uk for further information.

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

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

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

Register today to manage your shareholding online

Get online in just three easy steps:

step 1
Register at
www.shareview.co.uk/info/register

step 2
Receive your activation code in post

step 3
Log on

Scan me
to register

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 Lloyds Banking Group plc together with its subsidiaries (the Group) and its current goals and expectations. Statements that are not historical or current facts, including statements about the Group's or its directors' and/or management's beliefs and expectations, are forward looking statements. Words such as, without limitation, 'believes', 'achieves', 'anticipates', 'estimates', 'expects', 'targets', 'should', 'intends', 'aims', 'projects', 'plans', 'potential', 'will', 'would', 'could', 'considered', 'likely', 'may', 'seek', 'estimate', 'probability', 'goal', 'objective', 'deliver', 'endeavour', 'prospects', 'optimistic' and similar expressions or variations on these expressions are intended to identify forward looking statements. These statements concern or may affect future matters, including but not limited to: projections or expectations of the Group's future financial position, including profit attributable to shareholders, provisions, economic profit, dividends, capital structure, portfolios, net interest margin, capital ratios, liquidity, risk-weighted assets (RWAs), expenditures or any other financial items or ratios; litigation, regulatory and governmental investigations; the Group's future financial performance; the level and extent of future impairments and write-downs; the Group's ESG targets and/or commitments; statements of plans, objectives or goals of the Group or its management and other statements that are not historical fact; expectations about the impact of COVID-19; 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 include, but are not limited to: general economic and business conditions in the UK and internationally; market related risks, trends and developments; risks concerning borrower and counterparty credit quality; fluctuations in interest rates, inflation, exchange rates, stock markets and currencies; volatility in credit markets; volatility in the price of our securities; 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; inability to capture accurately the expected value from acquisitions; potential changes in dividend policy; the ability to achieve strategic objectives; insurance risks; management and monitoring of conduct risk; exposure to counterparty risk; credit rating risk; tightening of monetary policy in jurisdictions in which the Group operates; instability in the global financial markets, including within the Eurozone, and as a result of ongoing uncertainty following the exit by the UK from the European Union (EU) and the effects of the EU-UK Trade and Cooperation Agreement; political instability including as a result of any UK general election and any further possible referendum on Scottish independence; operational risks; conduct risk; 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; inadequate or failed internal or external processes or systems; acts of hostility or terrorism and responses to those acts, or other such events; geopolitical unpredictability; risks relating to sustainability and climate change (and achieving climate change ambitions), including the Group's ability along with the government and other stakeholders to measure, manage and mitigate the impacts of climate change effectively; changes in laws, regulations, practices and accounting standards or taxation; changes to regulatory capital or liquidity requirements and similar contingencies; assessment related to resolution planning requirements; the policies and actions of governmental or regulatory authorities or courts together with any resulting impact on the future structure of the Group; failure to comply with anti-money laundering, counter terrorist financing, anti-bribery and sanctions regulations; failure to prevent or detect any illegal or improper activities; projected employee numbers and key person risk; increased labour costs; assumptions and estimates that form the basis of our financial statements; the impact of competitive conditions; and exposure to legal, regulatory or competition proceedings, investigations or complaints. A number of these influences and factors are beyond the Group's control. Please refer to the latest Annual Report on Form 20-F filed by Lloyds Banking Group plc with the US Securities and Exchange Commission (the SEC), which is available on the SEC's website at www.sec.gov, for a discussion of certain factors and risks. Lloyds Banking Group plc may also make or disclose written and/or oral forward-looking statements in other written materials and in oral statements made by the directors, officers or employees of Lloyds Banking Group plc 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 whether as a result of new information, future events or otherwise. 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