Governance

Making banking easier for people affected by homelessness

Homelessness is a very real challenge facing all cities across the UK. The Lloyds Bank Flagship Branch on Manchester's Market Street, in conjunction with Barnabus, the Booth Centre and other local charities, help individuals affected by homelessness to access banking products and services to support them in their journey to regaining financial independence.

Working with the charities and the Manchester Homelessness Partnership to understand the social, economic, and health issues associated with homelessness, Market Street Branch were able to respond in a way that met the needs of their clients. The success of this partnership has given way to developing further relationships between branches and local charities in Glasgow, Cardiff and London as we move into 2019.

100+
people opened bank accounts that they have been refused before

> Working in partnership with frontline charities across Manchester has opened my eyes to the size and scale of the challenge. Overcoming barriers associated with identification and opening a bank account allows clients to claim benefits, get accommodation, start work and live a normal life and I'm delighted that our efforts across Greater Manchester have helped over 100 people open bank accounts.

James Hargreaves
Local Director for Lloyds Bank Manchester

visit **lloydsbankinggroup.com/prosperplan**

A letter from our Chairman
Building robust stakeholder relationships

During the year, the Board continued to ensure corporate governance was embedded into the thinking and processes of the business.

Lord Blackwell
Chairman

Chairman's letter

This Corporate Governance Report details our approach to governance in practice, how the Board operates and the key activities of the Board during the year, together with information on the annual Board evaluation process. It also includes the reports from each of the Board's principal Committees.

Strong Board oversight is vitally important alongside the executive governance framework. A major focus over the last year has been the implementation of our strategic transformation programme, following extensive Board engagement in the conception and design of the strategy to deliver the 'Bank of the Future'.

This transformation programme is managed through multiple workstreams and initiatives, and the scale and pace of change is highly demanding. It has involved a significant shift in organisational decision-making and controls from business and functional lines to cross divisional workstreams. It has also required a substantial investment in colleague skills and culture to support the re-shaping of roles around the new ways of working. The Board has devoted considerable time to reviewing the way this is being implemented, with particular attention to the management of the risks arising from the implementation of new technologies, the new ways of working and the overall pace of change.

Board and Committee changes

There have been a number of changes to the Board and Committees during the year. Amanda Mackenzie was appointed to the Board in October, and became a member of the Board Risk Committee and the Responsible Business Committee. She is also joining the Remuneration Committee with effect from 1 March 2019. Also, Nick Prettejohn is joining the Nomination and Governance Committee with effect from 1 March 2019. After three years on the Board, Deborah McWhinney decided to leave the Group, for personal reasons, with effect from 31 December 2018. Deborah provided valuable insight to the Board during her tenure, especially in respect of IT infrastructure and cyber security. She left with our thanks and best wishes for the future.

Anita Frew stepped down as Chairman of the Remuneration Committee in September and was replaced by Stuart Sinclair. Anita will continue to be a member of the Committee, and remains as the Group's Deputy Chairman and Senior Independent Director. Further to the announcement in October that George Culmer would be retiring from the Group in the third quarter of 2019, the Group announced, in February 2019 that, subject to regulatory approvals, William Chalmers will succeed George as Executive Director and Chief Financial Officer.

Governance and the ring-fenced bank structure

Building on the work carried out last year to create our non-ring fenced bank, Lloyds Bank Corporate Markets plc, the Group has now completed the new regulatory requirements by establishing new governance around its ring-fenced banking activities – Lloyds Bank plc and Bank of Scotland plc (together the 'Ring-Fenced Banks'). These companies serve the Group's personal and business clients in the UK and contain the vast majority of the Group's UK banking activities. Further information on the governance structure for the Ring-Fenced Banks can be found on page 58.

Group Directors are also Directors of the Ring-Fenced Banks and, in addition, we have appointed three Non-Executive Directors to the Ring-Fenced Banks, who are independent of the Group (the 'Ring-Fenced Bank only Directors'). These three Ring-Fenced Bank only Directors were recruited during 2018 and took up their formal roles on 1 January 2019. They are Nigel Hinshelwood and Brendan Gilligan, who both have extensive experience of the financial sector, and Sarah Bentley, who has significant experience in consumer-focused industries as well as in digital technology. More information is provided in the Nomination and Governance Committee report on pages 67 to 69. Nigel Hinshelwood has been appointed as the Senior Independent Director of the Ring-Fenced Bank Boards.

Board evaluation

In accordance with the UK Corporate Governance Code the Board engaged Egon Zehnder to facilitate the annual review of the Board and its Committees, following two years in which we had undertaken internal reviews of board effectiveness. This process ran between August 2018 and January 2019, and was overseen by the Nomination and Governance Committee. The process which was undertaken and the findings of the review can be found on pages 62 to 63, together with information about our progress against the 2017 review actions.

Corporate Governance Code

During the year under review, the Group applied and was fully compliant with the UK Corporate Governance Code 2016. Additionally, in preparation for our adoption of the UK Corporate Governance Code 2018 from 1 January this year, the Group undertook a review of its Corporate Governance Framework. We also considered our approach to workforce engagement. Further information on workforce engagement can be found on page 17 and 64. We will report on our application of the UK Corporate Governance Code 2018 in next year's annual report.

The Board has engaged with the Group's stakeholders during the year, and further details on this can be found on pages 16 to 18.

Lord Blackwell
Chairman

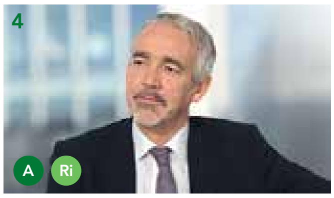
Strategy

The Board has been engaged with the Group's strategy through multiple touchpoints throughout the year. These have included:

- the annual cycle of two offsite meetings to debate priorities and agree implementation plans;
- a suite of formal Board metrics and qualitative reporting to monitor progress and risks;
- 'Deep dive' sessions on key areas (see page 56 for more information);
- 'Gallery Walk' sessions with workstream teams in the Lab environment (more information can be found on page 17); and
- a wide range of informal interactions to 'feel the pulse'.

Board of Directors[1]

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



A Member of Audit Committee

NG Member of Nomination and Governance Committee

RB Member of Responsible Business Committee

Re Member of Remuneration Committee

Ri Member of Board Risk Committee

● Committee Chairman

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

1. Lord Blackwell Chairman

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

Skills and experience:

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

Lord Blackwell is an experienced Chairman and Non-Executive Director within the financial services sector having previously been Chairman of Scottish Widows Group. He was previously Senior Independent Director and Chairman of the UK Board for Standard Life and Director of Group Development at NatWest Group. His past Board roles have also included Chairman of Interserve plc, and Non-Executive Director of Halma plc, Dixons Group, SEGRO and Ofcom. He was Head of the Prime Minister's Policy Unit from 1995 to 1997 and was appointed a Life Peer in 1997.

External appointments: Governor of the Yehudi Menuhin School and a member of the Governing Body of the Royal Academy of Music.

2. Anita Frew Deputy Chairman and Senior Independent Director

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

Skills and experience:

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

Anita was previously Chairman of Victrex plc, the Senior Independent Director of Aberdeen Asset Management and IMI plc, an Executive Director of Abbott Mead Vickers, a Non-Executive Director of Northumbrian Water and has held various investment and marketing roles at Scottish Provident and the Royal Bank of Scotland.

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

3. Alan Dickinson Independent Director

Appointed: September 2014

Skills and experience:

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

Alan has 37 years' experience with the Royal Bank of Scotland, most notably as Chief Executive of RBS UK. More recently, Alan was a Non-Executive Director of Willis Limited and Chairman of its Risk Committee. He was formerly Chairman of Brown, Shipley & Co. Limited, a Non-Executive Director of Nationwide Building Society where he was Chairman of its Risk Committee and a Governor of Motability.

External appointments: Chairman of Urban&Civic plc.

4. Simon Henry Independent Director

Appointed: June 2014

Skills and experience:

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

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

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

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

Appointed: June 2017

Skills and experience:

- Extensive international corporate experience, especially in financial markets
- Strong board governance experience, including investor relations and remuneration
- Regulatory and public policy experience
- Significant experience in strategic planning and implementation

Lord Lupton was Deputy Chairman of Baring Brothers, co-founded the London office of Greenhill & Co., and was Chairman of Greenhill Europe. He was previously Chairman of Trustees of Dulwich Picture Gallery, a Trustee of the British Museum, Governor of Downe House School and a member of the International Advisory Board of Global Leadership Foundation. He became a Life Peer in October 2015 and is a former Treasurer of the Conservative Party. He served on the House of Lords Select Committee on Charities.

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

6. Amanda Mackenzie OBE Independent Director

Appointed: October 2018

Skills and experience:

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

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

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

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

Appointed: June 2014

Skills and experience:

- Deep financial services experience, particularly in insurance
- In-depth regulatory knowledge and experience
- Governance experience and strong leadership qualities
- Significant experience in strategic planning and implementation

Nick has served as Chief Executive of Lloyd's of London, Prudential UK and Europe and Chairman of Brit Insurance. He is a former Non-Executive Director of the Prudential Regulation Authority and of Legal & General Group Plc as well as Chairman of the Financial Services Practitioner Panel and the Financial Conduct Authority's Financial Advice Working Group. He was previously a Member of the BBC Trust and Chairman of the Britten-Pears Foundation.

External appointments: Chairman of Reach plc (formerly Trinity Mirror plc) and of their Nomination Committee. He is also Chairman of the Royal Northern College of Music and a member of the Board of Opera Ventures.

8. Stuart Sinclair Independent Director

Appointed: January 2016

Skills and experience:

- Extensive experience in retail banking, insurance and consumer finance
- Governance and regulatory experience
- Significant experience in strategic planning and implementation
- Experience in consumer analysis, marketing and distribution

Stuart is a former Non-Executive Director of TSB Banking Group plc, TSB Bank plc, LV Group, Virgin Direct and Vitality Health (formerly Prudential Health). Until recently he was the Interim Chairman of Provident Financial plc. He was also a former Senior Independent Director of Swinton Group Limited. In his executive career, he was President and Chief Operating Officer of Aspen Insurance after spending nine years with General Electric as Chief Executive Officer of the UK Consumer Finance business then President of GE Capital China. Before that he was Chief Executive Officer of Tesco Personal Finance and Director of UK Retail Banking at the Royal Bank of Scotland. He was a Council member of The Royal Institute for International Affairs (Chatham House).

External appointments: Senior Independent Director and Chair of the Risk & Capital Committee at QBE UK Limited (formerly QBE Insurance (Europe) Limited).

9. Sara Weller CBE Independent Director

Appointed: February 2012

Skills and experience:

- Background in retail and associated sectors, including financial services
- Strong board governance experience, including investor relations and remuneration
- Passionate advocate of customers, the community, financial inclusion and the development of digital skills
- Considerable experience of boards at both executive and non-executive level

Sara's previous appointments include Managing Director of Argos, various senior positions at J Sainsbury including Deputy Managing Director, Chairman of the Planning Inspectorate, Lead Non-Executive Director at the Department of Communities and Local Government, a Board member at the Higher Education Funding Council, a Non-Executive Director of Mitchells & Butlers as well as a number of senior management roles for Abbey National and Mars Confectionery.

External appointments: Non-Executive Director of United Utilities Group and Chair of their Remuneration Committee and a member of their Nomination Committee, Lead Non-Executive Director at the Department for Work and Pensions, a Governing Council Member of Cambridge University and Trustee of Lloyds Bank Foundation for England and Wales.

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

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

Skills and experience:

- Extensive experience in, and understanding of, both retail and commercial banking built over a period of more than 30 years, working both internationally and in the UK
- Drive, enthusiasm and commitment to customers
- Proven ability to build and lead strong management teams

António previously worked for Citibank, Goldman Sachs and held various senior management positions at Grupo Santander before becoming its Executive Vice President and member of the Group's Management Committee. He was a Non-Executive Director of Santander UK and subsequently its Chief Executive. He is also a former Non-Executive Director of the Court of the Bank of England.

External appointments: Non-Executive Director of EXOR N.V., Fundação Champalimaud and Sociedade Francisco Manuel dos Santos in Portugal, a member of the Board of Stichting INPAR Management/Enable and Chairman of the Wallace Collection.

11. George Culmer Executive Director and Chief Financial Officer

Appointed: May 2012 (Board)

Skills and experience:

- Extensive operational and financial expertise including strategic and financial planning and control
- Worked in financial services in the UK and overseas for over 25 years

George was an Executive Director and Chief Financial Officer of RSA Insurance Group, the former Head of Capital Management of Zurich Financial Services and Chief Financial Officer of its UK operations as well as holding various senior management positions at Prudential. He is a Non-Executive Director of Scottish Widows.

External appointments: None.

12. Juan Colombás Executive Director and Chief Operating Officer

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

Skills and experience:

- Significant banking and risk management experience
- International business and management experience

Juan is responsible for leading a number of critical Group functions and driving the transformation activities across the Group in order to build the Bank of the Future. He was previously the Chief Risk Officer and an Executive Director of Santander's UK business. Prior to this, he held a number of senior risk, control and business management roles across the Corporate, Investment, Retail and Risk Divisions of the Santander Group. He was previously the Vice Chairman of the International Financial Risk Institute.

External appointments: None.

13. Malcolm Wood Company Secretary

Appointed: November 2014

Skills and experience:

Malcolm was previously General Counsel and Company Secretary of Standard Life after a career as a corporate lawyer in private practice in London and Edinburgh. He has a wealth of experience in governance, policy and regulation. He is a Fellow of the Institute of Chartered Secretaries and Administrators and a Member of the Corporate Governance Council and the GC100. Malcolm is an attendee of the Group Executive Committee.

Group Executive Committee

Delivering our vision and managing a more agile organisation

Executive Director members

The depth of diverse experience and complementary skills in our management team strengthens our ability to adjust to changing market environments and deliver our strategy to become the best bank for customers, colleagues and shareholders.

António Horta-Osório Executive Director and Group Chief Executive

António joined the Board as an Executive Director in January 2011 and became Group Chief Executive in March 2011. Read his full biography on page 53.

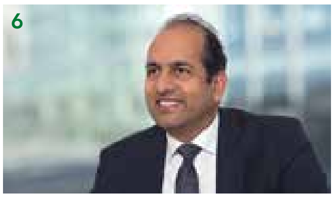
George Culmer Executive Director and Chief Financial Officer

George joined the Board as an Executive Director in May 2012. Read his full biography on page 53.

Juan Colombás Executive Director and Chief Operating Officer

Juan joined the Group as Chief Risk Officer in January 2011 and joined the Board as an Executive Director in November 2013. He became Chief Operating Officer in September 2017. Read his full biography on page 53.

Other members and attendees



1. Carla Antunes Da Silva Group Strategy, Corporate Ventures and Investor Relations Director (GEC attendee)

Appointed: June 2018 (GEC)

Skills and experience: Since joining the Group in October 2015, Carla led the 2018 to 2020 Group Strategic Review and, prior to that, the work on the Bank of the Future. Carla is responsible for supporting senior management with strategic decision making such as recommendations on mergers, acquisitions/disposals, joint ventures and partnerships and also manages the Group's relationships with shareholders, analysts and the wider investment community. Carla joined from Credit Suisse where she headed the European Banks equity research team, with lead coverage of UK banks. Carla has over 18 years of financial analysis, strategy and management experience from her time with JPMorgan, Deutsche Bank and Credit Suisse Group. Carla currently serves as a Non-Executive Director of Lloyds Bank Corporate Markets plc.

2. John Chambers Group Chief Information Officer (GEC attendee)

Appointed: June 2018 (GEC)

Skills and experience: John was appointed as the Group's Chief Information Officer in September 2017. During the course of his career, John has been responsible for delivering large scale IT solutions, building teams that can operate at scale and working as part of global operating environments such as Barclays, Capita and Indian headquartered IT and business process outsourcing firms. His experience spans systems integration, large scale data analytics, enterprise application platforms, software product development, IT operations and infrastructure.

3. Kate Cheetham Group General Counsel (GEC attendee)

Appointed: July 2017 (GEC)

Skills and experience: Kate was appointed Group General Counsel in January 2015. Kate joined the Group in 2005 from Linklaters, where she was a corporate lawyer specialising in M&A transactions. Before her current role, 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 and is a Non-Executive Director of Scottish Widows.

4. Paul Day Chief Internal Auditor (GEC attendee)

Appointed: September 2016 (GEC)

Skills and experience: Paul joined the Group as a contractor in September 2016 and was formally employed by the Group in June 2017. He joined from Deloitte where he was a partner in the UK Financial Services practice and led the UK Financial Services Internal Audit business. Paul has specialised in internal and external audit roles across financial services for over 20 years, including 10 years in various leadership roles in Barclays Internal Audit.

5. Antonio Lorenzo Chief Executive, Scottish Widows and Group Director, Insurance and Wealth

Appointed: March 2011 (GEC)

Skills and experience: Antonio joined the Group as head of the Wealth and International division and Group Corporate Development, leading the Group's strategic review and subsequent programme of reducing non-core assets and exiting international locations. From 2013, he assumed the role of Group Director, Consumer Finance & Group Corporate Development, leading the division's growth strategy whilst completing the sale of TSB. At the end of 2015 he was appointed Chief Executive, Scottish Widows and Group Director, Insurance and during 2017 he also assumed responsibility for the Wealth Division. Antonio is also Group Executive Sponsor for Emerging Talent. Antonio joined the Group from Santander, where he had worked in a number of different leadership roles and jurisdictions since 1998. He was part of the management team that completed the take-over of Alliance & Leicester and Bradford & Bingley and was Chief Financial Officer of Santander UK. Before Santander, Antonio spent over nine years at Arthur Andersen.

6. Vim Maru Group Director, Retail

Appointed: September 2013 (GEC)

Skills and experience: Vim was appointed Group Director, Retail in September 2017. He joined the Group in June 2011 as Managing Director, Customer Products. Vim is also a UK Finance Board member, leading on Retail Banking. Previously Vim worked for over 12 years at Santander, in a range of roles in Corporate Strategy, Mergers & Acquisitions, the Life Division and most recently held the position of Director, Retail Products.

7. Zaka Mian Group Director, Transformation

Appointed: August 2016 (GEC)

Skills and experience: Zak joined the Group in 1989 as a Business Analyst in IT and has carried out multiple roles involving Retail CIO, Head of IT Architecture and leading the Digital Transformation programme. He was appointed Group Director, Digital and Transformation in 2016 and his responsibilities increased in September 2017 as the Group Director, Transformation. He is responsible for the digital transformation of the Group, including all IT and business change, and ensuring we are ready to meet the future expectations of our customers.

8. David Oldfield Group Director, Commercial Banking

Appointed: May 2014 (GEC)

Skills and experience: David was appointed as Group Director for the Commercial Banking division in September 2017 responsible for supporting corporate clients from SMEs and mid corporates through to large corporates and financial institutions. David started his career with Lloyds Bank in 1986 on the graduate entrant programme and has held a number of key leadership roles across all Divisions of the Group since that time. Immediately prior to his current role he was Group Director Retail and Consumer Finance, responsible for the Lloyds, Halifax, Bank of Scotland, Lex Autolease and Black Horse Brands including the retail branch networks, customer products and telephone banking, in addition to Retail Business Banking and UK Wealth businesses. David is a Fellow of the Chartered Institute of Bankers. He is also Group Executive Sponsor for Disability.

9. Jakob Pfaudler Group Director, Community Banking (GEC attendee)

Appointed: September 2017 (GEC)

Skills and experience: Jakob was appointed Group Director, Community Banking in September 2017. From 2015 to 2017 he was Chief Operating Officer for the Retail Bank and prior to this he was Managing Director of Asset Finance. Other previous roles include Chief Operating Officer for Wealth & International, Managing Director International Retail and International Banking and Wholesale Banking Operations Director.

Jakob joined the Group in 2004 having spent six years with McKinsey & Company, in their London office. Prior to McKinsey, Jakob spent time with Goldman Sachs and Oliver Wyman.

Jakob is also a Non-Executive Director of Scottish Widows.

10. Janet Pope Chief of Staff and Group Director, Responsible Business and Inclusion

Appointed: January 2015 (GEC)

Skills and experience: Janet joined the Group in 2008 to run the Savings business. She was previously Chief Executive at Alliance Trust Savings, prior to which she was EVP Global Strategy at Visa International. Janet spent 10 years at Standard Chartered Bank where she held a variety of roles including Retail Banking MD for Africa and non-executive directorships at Standard Chartered Bank Zimbabwe, Kenya, Zambia and Botswana. Janet is Chair of the Charities Aid Foundation Bank and a Non-Executive Director of the Banking Standards Board. She is also the Group's Executive Sponsor for Sexual Orientation and Gender Identity.

11. Stephen Shelley Chief Risk Officer

Appointed: September 2017 (GEC)

Skills and experience: Stephen was appointed Chief Risk Officer in September 2017. He joined the Group in May 2011 as Chief Credit Officer for Wholesale, Commercial and International. In October 2012 he became Risk Director, Commercial Banking Risk and was also a member of the Commercial Banking Management Group. Prior to joining the Group Stephen was Chief Risk Officer at Barclays Corporate and prior to that was Chief Credit Officer for the UK Retail and Corporate business in Barclays. In a 21-year career at Barclays, Stephen undertook a variety of roles in the front office and risk. He was also a member of the Group Risk Executive team and a Chair of Group Credit Committees. Stephen is also the Group's Executive Sponsor for Gender Diversity and Equality.

12. Jennifer Tippin Group People and Productivity Director

Appointed: July 2017 (GEC)

Skills and experience: Jen was appointed as Group People and Productivity Director in July 2017 and is responsible for leading the people function, property, sourcing, divestment and development teams and managing the Group's cost base. Prior to her current role, Jen held the roles of Group Customer Services Director and Managing Director, Retail Business Banking. Jen has enjoyed a career spanning multiple industries, including banking, engineering and the airline sector. Jen is a Non-Executive Director of Lloyds Bank Corporate Markets plc and a Non-Executive Director of the Kent Community NHS Foundation Trust.

13. Andrew Walton Group Corporate Affairs Director

Appointed: December 2018 (GEC)

Skills and experience: Andrew joined the Group as Group Corporate Affairs Director, taking on responsibility for internal and external communications, reputation management and public affairs. Prior to Lloyds, Andrew was Senior Managing Director and Global Head of Financial Services for the Strategic Communications segment of FTI Consulting.

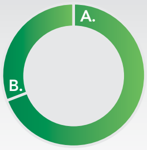
14. Malcolm Wood Company Secretary (GEC attendee)

Appointed: November 2014 (GEC)

Skills and experience: Malcolm joined the Group as Company Secretary in November 2014. Read his full biography on page 53.

Corporate governance report
Our Board in 2018[1]

Gender diversity

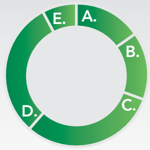


- **A.** Male: 9
- **B.** Female: 4

Skills and experience
(Non-Executive Directors only)

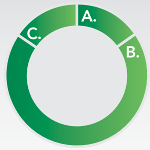
Skill	
Retail/Commercial Banking	7 out of 10
Financial markets/wholesale banking/ corporate clients	8 out of 10
Insurance	5 out of 10
Prudential and conduct risk in financial institutions	10 out of 10
Core technology operations	5 out of 10
Government/regulatory	10 out of 10
Consumer/marketing/distribution	8 out of 10
Strategic thinking	10 out of 10

Board tenure



- **A.** 0-2 years: 2
- **B.** 2-4 years: 2
- **C.** 4-6 years: 4
- **D.** 6-8 years: 4
- **E.** 8+ years: 1

Age



- **A.** 46-55: 2
- **B.** 56-65: 9
- **C.** 66-75: 2

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

Board and Committee composition and attendance in 2018[4]

Board member	Board meetings	Nomination and Governance Committee	Audit Committee	Board Risk Committee	Remuneration Committee	Responsible Business Committee
Lord Blackwell (C)	8/8	7/7 (C)	–	8/8	6/6	4/4
António Horta-Osório	8/8	–	–	–	–	–
Juan Colombás	8/8	–	–	–	–	–
George Culmer	8/8	–	–	–	–	–
Alan Dickinson	8/8	7/7	7/7	8/8 (C)	6/6	–
Anita Frew	8/8	6/7	7/7	8/8	6/6 (C)[3]	4/4
Simon Henry	7/8	–	7/7 (C)	8/8	–	–
Lord Lupton	8/8	–	6/7	8/8	–	–
Amanda Mackenzie[1]	1/1	–	–	2/2	–	1/1
Deborah McWhinney[2]	8/8	–	6/7	8/8	–	–
Nick Prettejohn	8/8	–	7/7	8/8	–	–
Stuart Sinclair	7/8	–	–	7/8	6/6 (C)[3]	4/4
Sara Weller	8/8	7/7	–	8/8	6/6	4/4 (C)

1 Amanda Mackenzie joined the Board and respective Committees on 1 October 2018.
2 Deborah McWhinney retired from the Board on 31 December 2018.
3 Stuart Sinclair succeeded Anita Frew as the Chair of the Remuneration Committee on 1 September 2018.
4 Where a Director is unable to attend a meeting s/he receives papers in advance and has the opportunity to provide comments to the Chair of the Board, or to the relevant Committee Chair.
(C) Chairman

'Deep dive' sessions

The Board regularly takes the opportunity to hold 'deep dive' sessions with senior management outside formal Board meetings. The purpose of the sessions is to provide the Board with deeper insight into key areas of strategic focus, whilst providing Directors with a greater understanding and appreciation for the subject matter to help drive better quality of debate and enhance knowledge. The sessions are structured to allow plenty of opportunity for discussion and include presentations and videos.

In 2018 deep dive sessions were held on the following topics:

- IT Architecture Strategy
- People and ways of working (initial deep dive in April, and update meeting in October)
- Open Banking
- Lloyds Bank Corporate Markets plc update
- Scottish Widows strategy
- Governance of GSR3 and value streams

Key focus areas

The Board sets the strategy, oversees its delivery and establishes the culture, values and standards of the Group. The Board ensures that the Group manages risk effectively, monitors financial performance and reporting and ensures that appropriate and effective succession planning arrangements and remuneration policies are in place. It provides and encourages entrepreneurial leadership across the Group within this framework.

Below are details of the main topics discussed by the Board during the year.

Discussions and decisions

Regular updates

- Group Performance Report
- Finance report, including budgets, forecast and capital positions
- Risk reports
- 2018 customer performance dashboard
- Chairman's report
- Reports from Chairmen of Committees and principal subsidiaries

Financial

- 2018 budget
- Dividend approval
- Update on structural hedging strategy
- Pension scheme valuations
- Group Corporate Treasury Management information pack
- GSR3 and four year operating plan
- Draft results and presentations to analysts
- Funding and liquidity plans
- Capital plan
- Basel Pillar 3 disclosures
- Annual report and Form 20-F
- Unconsolidated income statement
- Group treasury plan 2019

Strategy

- Two strategy away days to review the progress in implementing the Group's strategy
- 'Deep dive' on IT Architecture Strategy
- 'Deep dive' on Open Banking
- Consideration and approval of large transactions
- Cloud strategy, which supports the transformation of the Group's IT architecture

Customers

- Annual review of customer conduct framework and risks
- Performance reviews against customer dashboard
- Deep dives on customer propositions, including mortgage offerings and transforming customer journeys
- Processes and outcomes for fair treatment of customer complaints and remediation
- Progress in providing a 'single customer view' of Group products and supporting Open Banking developments
- Supporting vulnerable customers and customers in financial difficulty
- Updates on our support for financial inclusion

Culture and values

- 'Deep dive' on people and ways of working in April, and an additional deep dive in October
- Helping Britain Prosper Plan
- Conduct, culture and values – Culture dashboard
- Responsible business report

Governance and stakeholders[1]

- Establishment of the operational, organisational and governance structure for the Ring-Fenced Banks.
- Board effectiveness and Chairman's performance reviews
- AGM documentation approval and subsequent voting results briefing
- Review and approval of the Corporate Governance Framework
- Review and approval of various Group policies including Signing Authorities, Group Statement on Modern Slavery, and Board and GEC Members' Dealing Policy
- Investor Relations updates
- Revised principal Committee responsibilities
- Chairman's fee review (without Chairman present)
- Non-Executive Directors' fees review (with Non-Executive Directors' abstaining)
- Going concern and viability statement
- Banking Standards Board update
- Board appointments and Executive succession plans

1 Further details regarding stakeholder engagement can be found on pages 16 to 18.

Regulatory

- Ring-Fenced Banking updates
- Whistleblowing updates
- Regulatory updates
- Senior Manager and Certification Regime updates

Risk management

- Approval of Group risk appetite
- Cyber security briefings
- Review and approval of conduct risk
- Review and approval of PRA and EBA stress testing results
- Review and approval of the Risk Management Framework

Governance in action

Schroders joint venture

On 23 October 2018, the Group announced a strategic partnership with Schroders plc to create a market-leading wealth management proposition. The three key components of the partnership are:

(i) the establishment of a new financial planning joint venture (the 'JV');

(ii) the Group taking a 19.9 per cent stake in Schroders high net worth UK wealth management business; and

(iii) the appointment of Schroders as the active investment manager of approximately £80 billion of the Scottish Widows and Lloyds Banking Group insurance and wealth related assets.

This strategic partnership will combine the Group's significant client base, multi-channel distribution and digital capabilities with Schroders' investment and wealth management expertise and technology capabilities.

As part of the structure of the partnership, the Board considered two primary elements:

- The management of the insurance and wealth related assets; and
- The establishment of the JV

Management of the assets was largely the responsibility of the Insurance Business. In July 2018, a recommendation was made to the Insurance Board (and the Boards of all the other entities that were to be parties to the arrangements) proposing that Schroders be appointed as core investment management and investment advisory partner following a structured Request for Proposal process, involving two rounds of bidding, due diligence, site visits, client references and joint implementation workshops. An evaluation process indicated that Schroders would be the preferred bidder, with Schroders standing out on strategic alignment as well as investment performance, which was seen as key to building a successful long-term relationship. The recommendation included the proposed strategic partnership with the Wealth business, which would benefit the Insurance business. The recommendation to appoint Schroders to manage the funds was accepted in principle by the Insurance Board, subject to approval of the proposed JV arrangements by the Group Board. Group Board approval of the JV proposals was obtained on 2 October 2018.

The JV element of the partnership was considered by the main Group Board. Initially papers were presented at scheduled Board meetings, but as the proposal progressed, a Committee of the Board considered and approved the project to provide flexibility, to better respond to the needs of the business and engage in governance of the project, which was important for the implementation of the Group's strategy in the area of insurance and wealth, and for the Group as a whole. The Board scrutinised the proposal to satisfy itself that the establishment of the JV was in the best interests of the Group's customers. The Board considered, amongst other things, the process for referring Group customers to the JV and that the standards of customer service would meet the Group's values and standards, ensuring that customers were at the heart of the decision being made.

Revised Group governance arrangements and Group restructure to comply with ring-fencing

Following the financial crisis, UK legislation was passed to better protect customers and the day-to-day banking services they rely on. The new rules mean large UK banks must separate personal banking services such as current and savings accounts from risks in other parts of the business, like investment banking. This is called ring-fencing. Banks have taken different approaches on how they implement these rules with effect from 1 January 2019.

The Group, led by the Nomination and Governance Committee, has worked closely with the Regulators to ensure that there is in place a Group structure and governance arrangements which are appropriate for the Group, and meet regulatory requirements. Lloyds Bank plc and Bank of Scotland plc have been identified as the banks which have been included within the ring-fence (together, the 'Ring-Fenced Banks'). Broadly, there are three key PRA principles that underpin the governance structure for the Ring-Fenced Banks.

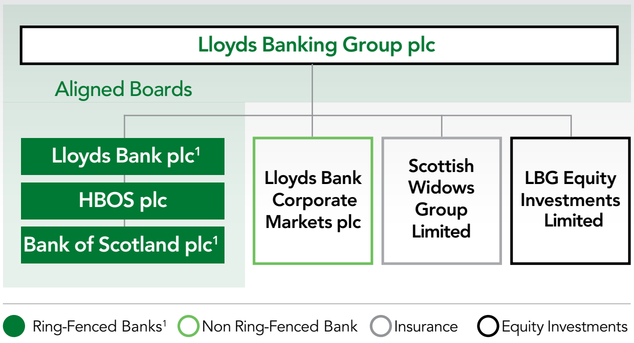
- **Independent decision making by the Ring-Fenced Bank Boards** – on any matters where there might be a conflict between the interests of the Ring-Fenced Banks and the interests of another part of the Group, ensuring that the Ring-Fenced Bank Boards act in the interests of the Ring-Fenced Banks.
- **Risks considered and managed from the Ring-Fenced Banks' perspective** – this includes maintenance of the capital adequacy and liquidity of the Ring-Fenced Banks.
- **Clear and effective governance at both Ring-Fenced Bank and Lloyds Banking Group plc level** – including second and third lines of defence in respect of risk management.

In order to meet ring-fencing requirements a major governance and legal entity programme has been implemented across the Group, which has included the following aspects:

Reorganisation

The reorganisation of the subsidiaries of the Group, which have now been restructured into four sub-groups under Lloyds Banking Group plc:

- the 'Ring-Fenced Bank sub-group' containing Lloyds Bank plc and Bank of Scotland plc (which includes the Halifax business and MBNA);
- the 'LBCM sub-group' under Lloyds Bank Corporate Markets plc, which now holds the Group's subsidiaries and branches in the Crown Dependencies, Singapore and the US. A number of client agreements were also transferred from Lloyds Bank plc and Bank of Scotland plc to Lloyds Bank Corporate Markets plc in order to comply with the ring-fencing regulatory requirements which took effect on 1 January 2019;
- the 'Insurance sub-group' under Scottish Widows Group Limited (including Scottish Widows Limited); and
- the 'Equity sub-group' under a new equity holding company, LBG Equity Investments Limited, under which the principal subsidiary is Lloyds Development Capital Limited.



The board structure

To facilitate effective governance, the boards of Lloyds Banking Group plc, Lloyds Bank plc, Bank of Scotland plc and HBOS plc are run on an aligned basis as the business of the Ring-Fenced Banks accounts for the majority of the Group's operations. This involves the Directors of Lloyds Banking Group plc also sitting on the Boards of the other three companies. To provide further support to the fulfilment of the three key principles of governance of the Ring-Fenced Banks outlined above, three additional independent Non-Executive Directors have been appointed to the Ring-Fenced Bank Boards.

Consistent with the existing independent Scottish Widows Limited Board, Lloyds Bank Corporate Markets plc also has an independent Board. Further detail on the risk management framework of the Group and of each sub-group is set out on page 106.

New directors of the Ring-Fenced Banks

During the first quarter of the year the Nomination and Governance Committee oversaw the selection process and recommendation for appointment of three new Non-Executive Directors to the Boards of Lloyds Bank plc and Bank of Scotland plc. As described in the Chairman's introduction on page 51, Sarah Bentley, Brendan Gilligan and Nigel Hinshelwood were recruited during the year, and took office with effect from 1 January 2019. All the Ring-Fenced Bank only Directors sit on the Board Risk Committees of each of the Ring-Fenced Banks and two are members of the relevant Audit and Remuneration Committees. Nigel Hinshelwood, who is the Senior Independent Director of each of the Ring-Fenced Banks with effect from 1 January 2019, is also a member of the Nomination Committee of each of the Ring-Fenced Banks.

Q&A with Alan Dickinson, Chair of the Board Risk Committee

Q: What is the Group's risk appetite and risk tolerance?

A: Taking risk is a critical part of what any bank must do. How well it does that determines how well it meets the needs of its customers and how successful it will be as an organisation.

The Board Risk Committee has three key responsibilities.

The first is to review the environment in which the Group is operating – factors such as the economic and geopolitical climate for example – and recommend for Board approval how much risk the Group should take – the 'Risk Appetite'. This will usually be a maximum level of risk in any one area – such as how large a proportion of new mortgage loans should be represented by high loan to value loans, typically to first time buyers.

The second is to ensure that the ways in which the risk that is taken are effective and efficient, for example setting out policies and procedures to be followed and checks and balances to make sure that the right actions happen. This is the Risk Management Framework which is reviewed regularly by the Board Risk Committee to give comfort that it is still guiding the Group to do those things right.

The third responsibility is to continually assess the ways in which Group colleagues have risk in mind when doing their jobs – what I would call the 'Risk Culture'. The role of the Board and its Risk Committee is to set the 'tone from the top' – to set an example as to what risks to take and how to manage those risks.

Q: How do we remain focused on resolving legacy conduct, litigation and regulatory matters?

A: The Committee pays a great deal of attention to these issues. Whilst PPI mis-selling is by far the most costly and well known issue, there remain many smaller issues which have been identified over the years since the financial crisis. The Group has established very considerable resources to address these potential redress requirements and has made material progress over the last 12 months in resolving these matters. In very many cases our customers may have been unaware of their potential claim. The Board Risk Committee has placed great emphasis on clearing up these issues and achieving resolution as rapidly as possible and reviews progress at each and every meeting.

Q: What are the biggest risk factors to our industry and what steps are we taking to address them?

A: Even in the best of times, it is essential for banks to be aware of both inherent and emerging risks of which there are many. The inherent risks receive regular scrutiny, but emerging risks require special attention particularly with a banking group the size of Lloyds Banking Group.

The sheer scale of our balance sheet and the nature of banking in taking deposits and lending those deposits on to other customers means that we are mindful of the risks in the UK economy at any time and indeed in the global economy given that, as a trading nation, what goes on in the world will very rapidly impact the UK. The geopolitical situation and, closer to home, EU exit are very important risk factors to be considered when assessing the Group's Risk Appetite.

As economic cycles mature, it is important to be mindful of the impact of the money supply upon asset prices and to gauge the impact of a sudden reversal of asset price growth on investor sentiment, markets and the real economy. We are always wary of asset price bubbles and the potential impact upon an ever more closely linked global economy of a sudden reversal.

Aside from the balance sheet impacts of such events, operational resilience has become ever more important as the processes and systems by which banks provide their services become ever more technologically reliant and dependent upon continued smooth running of services provided in-house and through expert third parties. The demand for change and more sophisticated services in itself brings operational risk as platforms are changed. Add on the increasing risk of cyber attacks and operational resilience is receiving a very considerable amount of attention from the Board Risk Committee.

Change also brings other risks. It is important to provide the ever more user friendly and sophisticated services that the banking customers of tomorrow increasingly require, and will obtain from other suppliers if we do not. Changing processes and systems that have been established over decades if not more and making the organisation agile and able to respond to demand, is a very material risk and will take up a great deal of the Board Risk Committee's time for many years ahead.

Q: What keeps you awake at night?

A: Fortunately, I sleep pretty well. The comprehensive work programme undertaken by the Board Risk Committee means that most issues have been reviewed in detail and actions taken or accelerated where appropriate.

The greater concerns lie where it is simply impossible to be in control of events be they geopolitical or, say, operational such as cyber-security. It is much easier to predict with accuracy potential losses from lending on mortgage or credit card than the reputational and financial losses that might arise from a successful cyber-attack.

Ensuring that the Group is as prepared as it possibly can be with the strongest defences and tools at its disposal is the only prudent course to take and is one we have pursued vigorously in recent years to protect the Group and all of its customers from whatever might happen in the future.

Beyond Board meetings

Non-Executive Directors regularly meet with senior management and spend time increasing their understanding of the business through site visits, formal briefing sessions or more informal events including breakfast meetings with senior staff. These informal meetings allow Directors greater time to discuss business in an informal setting, ensuring that there is sufficient time for the Board to discuss matters of a material nature at Board meetings.

Non-Executive Directors see attendance at Board and Committee meetings as only one part of their role. In addition to the annual schedule of Board and Committee meetings, the Non-Executive Directors undertake a full programme of activities and engagements each year, please see pages 16 to 18 for more information.

Where further training or awareness is identified, such as new technology, regulations or sector advances, deep dives are held with the relevant field expert to provide overviews, chances to raise questions, and debate the impacts on business in an informal setting. Details of the new mandatory training that has been rolled out to the Non-Executive Directors this year can be seen on page 63.

The Board held joint discussions with Scottish Widows Group Limited in April, and Lloyds Bank Corporate Markets plc in September. These meetings are important in respect of both governance and the sharing of best practice. They also provide the opportunity for in-depth focus on both insurance and corporate markets matters. Performance and business updates are also provided, and, in the case of Lloyds Bank Corporate Markets plc, updates on key milestones in respect of the development of this new bank.

How our Board works
Meetings, activities and processes

The right processes in place to deliver on our strategy

During the year, there were eight scheduled Board meetings, with details of attendance shown on page 56. In addition to formal meetings, the Board meets as necessary to consider matters of a time-sensitive nature. The Chairman and the Chairmen of each Committee ensure Board and Committee meetings are structured to facilitate open discussion, debate and challenge.

The Board is supported by its Committees which make recommendations on matters delegated to them under the Corporate Governance Framework, in particular in relation to Board appointments internal control risk, financial reporting, governance and remuneration issues.

The management of all Committees is in keeping with the basis on which meetings of the Board are managed. Each of the Committees' structures facilitates open discussion and debate, with steps taken to ensure adequate time for members of the Committees to consider proposals which are put forward.

The Executive Directors make decisions within clearly defined parameters which are documented within the Corporate Governance Framework. However, where appropriate, any activities outside the ordinary course of business are brought to the full Board for their consideration, even if the matters fall within the agreed parameters. The Corporate Governance Framework helps to ensure that decisions are made by management with the correct authority.

In the rare event of a Director being unable to attend a meeting, the Chairmen of the respective meetings discuss the matters proposed with the Director concerned wherever possible, seeking their support and feedback accordingly. The Chairman subsequently represents those views at the meeting.

The Board recognises the need to be adaptable and flexible to respond to changing circumstances and emerging business priorities, whilst ensuring the continuing monitoring and oversight of core issues.

The Group has a comprehensive and continuous agenda setting and escalation process in place to ensure that the Board has the right information at the right time and in the right format to enable the Directors to make the right decisions. The Chairman leads the process, assisted by the Group Chief Executive and Company Secretary. The process ensures that sufficient time is being set aside for strategic discussions and business critical items.

The process of escalating issues and agenda setting is reviewed at least annually as part of the Board Effectiveness Review with enhancements made to the process, where necessary, to ensure it remains effective. Details of the meeting process are provided on the next page.

The Non-Executive Directors also receive regular updates from the Group Chief Executive's office including a weekly email which gives context to current issues. In-depth and background materials are regularly provided via a designated area on the secure electronic Board portal.

A full schedule of matters reserved for the Board and Terms of Reference for each of the principal Committees can be found at www.lloydsbankinggroup.com

Q&A with Anita Frew, Deputy Chairman and Senior Independent Director

Q: What is your role as Senior Independent Director?

A: I have a number of different stakeholders to whom I am accountable, being shareholders, the Chairman, the other Directors and the Group as a whole. I make myself available to shareholders when there are concerns that have not or cannot be dealt with through the usual channels of the Chairman or Executive Directors. I also attend regular meetings with major shareholders to ensure that there is a balanced understanding of the issues and concerns that this group of shareholders have. I act as a sounding board for the Chairman and Group Chief Executive on Board and shareholder matters, and have regular meetings with both. In matters relating to the Chairman such as his performance and conduct evaluation, agreeing his objectives and succession planning, I will Chair the Nomination and Governance Committee in his place to ensure independence. I will also conduct his annual appraisal, and deal with any concerns regarding the Chairman that other members of the Board have.

Regarding the Board as a whole, I act as a trusted intermediary for the other Non-Executive Directors where this is required to help them to challenge and contribute effectively; and take the initiative in discussion with the Chairman or other Board members if it should seem that the Board is not functioning effectively.

For the Group, as the Ring-Fenced Bank structure is now in place, I also liaise and collaborate with the Ring-Fenced Bank Senior Independent Director where appropriate.

Q: Where does the Senior Independent Director add value?

A: The role of the Senior Independent Director has grown enormously in the past few years, and I believe stakeholders really value this alternative contact within the Board, providing a highly versatile intermediary with the Board and senior management. This is supported by me having a close relationship with the stakeholders to reinforce the trust and confidence needed to perform the role effectively. The majority of my role is undertaken during normal business circumstances, but recognising that I will need to step in when any issues arise. The relationships fostered during times of normal business provide a strong basis to deal with any such issues effectively and independently.

Q: As Whistleblowing Champion for the Group, what are the reporting lines to you, and how do matters get escalated to the Board?

A: My role as the Group's whistleblowing Champion is to oversee the integrity, independence and effectiveness of the Group's procedures for whistleblowing. There is a dedicated team within the Group that is responsible for managing whistleblowing concerns and as such I delegate much of the day-to-day activity to these trusted colleagues. I retain oversight over the team through regular catch up meetings and have a direct reporting line for matters that require escalation to me. On an annual basis, I am responsible for presenting to the Board on the effectiveness of the Group's arrangements and this includes relevant case updates, industry perspective and whether the internal processes are effective to handle disclosures properly.

Q: Are you satisfied the Company has a robust process in place in respect of whistleblowing?

A: The Group's whistleblowing arrangements are subject to annual review by Group Internal Audit. This provides an opportunity for an independent party to review the whistleblowing processes and test whether they are effective. The results to date from these reviews have been positive compared to our peers. The Audit Committee and Board also receive regular reports regarding whistleblowing.

In addition, the Group has recently participated in a benchmarking exercise led by Protect. Protect (formerly known as Public Concern at Work) provide external confidential advice. Colleagues can contact the independent UK Whistleblowing charity, Protect who can talk you through your options and help you raise a concern about risk, malpractice or suspected wrongdoing at work. This exercise reviewed the governance, engagement and operational arrangements and compared these to other financial and non-financial companies. The Group scored positively with the results showing a favourable position.

Board meetings

Start of the year

- A yearly planner is prepared by the Company Secretary to map out the flow of key items of business to the Board.
- Board venues are agreed and colleagues in the areas that the Board will visit are engaged at both senior management and operational level.

Agenda set

- The Chairman holds monthly meetings to review the draft agenda and planner with the Company Secretary and Chief of Staff, as well as quarterly meetings with a wider group of central functions, to identify emerging issues.
- The draft Board agenda is discussed between the Chairman and the Group Chief Executive and reviewed at GEC meetings.
- Matters may be added to agendas in response to external events, Non-Executive Director requests, regulatory initiatives and the quarterly Board topic review meetings.

Papers compiled and distributed

- Templates and guidelines are included within targeted training for authors of papers to ensure consistency and high quality of information.
- Meeting packs are uploaded and communicated to all Directors via a secure electronic Board portal typically a week in advance of the meeting to ensure sufficient time to review the matters which are to be discussed and seek clarification or any additional information.

Before the meeting

- Executive meetings are held ahead of all Board and Committee meetings to ensure all matters being presented to the Board have been through a thorough discussion and escalation process.
- Committee meetings are held prior to Board meetings, with the Chairman of each Committee then reporting matters discussed to the Board.
- Non-Executive discussions and informal dinners are held prior to most Board meetings, some of which also include the Group Chief Executive.

Board meeting

- Board meetings have certain standing items, such as a report from the Group Chief Executive and Chief Financial Officer on Group performance, reports from the Chairmen of Committees and principal subsidiaries and updates from GEC members.
- Topics for deep dives or additional items are discussed when required and include business, governance and regulatory updates.
- The Board makes full use of technology such as video conferencing, teleconferencing, a Board portal and tablets/devices in its meeting arrangements. This leads to greater flexibility, security and efficiency in Board paper distribution and meeting arrangements.

After the meeting

- The Board meetings offer the Board the chance to meet colleagues within the business, and if any additional meetings are required to provide more details, these are arranged.
- Minutes and matters arising from the meeting are produced and circulated to the Directors for review and feedback.
- Those responsible for matters arising are asked to provide updates to a subsequent meeting.

Lord Blackwell's visit to Cardiff

As one of his regular site visits, Lord Blackwell was in Cardiff in September meeting colleagues from St. William House, local branches and Lloyds Bank Foundation charity, Women Connect First.

The Chairman met with a number of teams, including the Group Customer Services Customer Solutions Centre, which is designing and developing a new customer management system which utilises artificial intelligence, and colleagues from Black Horse, including the Complaints team. Lord Blackwell sat with colleagues and went through some live cases with them, discussing the challenges they face in ensuring fair and reasonable outcomes.

This was followed by a networking lunch with the Commercial Banking SME and the Mid Markets Team, who deliver local face-to-face relationships across five geographical areas of Wales.

Lord Blackwell's visit continued with a Town Hall session, with over 200 colleagues, followed by a visit to two local branches where he discussed the evolution of technology with mortgage advisors, and how their role has changed. Lord Blackwell then met with Women Connect First, which aims to empower black and minority ethnic women in Cardiff, helping them realise their full potential and make an impact on Welsh society.

To end his visit in Cardiff, Lord Blackwell hosted a colleague recognition dinner. The evening recognised the achievements of colleagues who demonstrate the Group values of making a difference together, keeping things simple and putting customers first.

How our Board works
Assessing our effectiveness

Board evaluation

How the Board performs and is evaluated
In accordance with the three-year cycle, the 2018 effectiveness review was facilitated externally by Egon Zehnder1, an external board evaluation specialist, between August 2018 and January 2019. The annual effectiveness review, which is facilitated externally at least once every three years, provides an opportunity to consider ways of identifying greater efficiencies, maximising strengths and highlighting areas of further development. The effectiveness review was commissioned by the Board, assisted by the Company Secretary and overseen by the Nomination and Governance Committee. Details of this effectiveness review are provided below.

The Board conducted internal effectiveness reviews in 2016 and 2017. These were led by the Chairman of the Board, and included a review of effectiveness of the Board, its Committees and individual Directors with the support of the Nomination and Governance Committee. Performance evaluation of the Chairman is carried out by the Non-Executive Directors, led by the Senior Independent Director, taking into account the views of the Executive Directors.

2018 evaluation of the Board's performance
The 2018 effectiveness review sought the Directors' views on a range of topics including: strategy; planning and performance; risk and control; Board composition and size; balance of skills and experience; diversity; culture and dynamics; the Board's calendar and agenda; the quality and timeliness of information; and support for Directors and Committees.

The effectiveness review findings focus on both evaluation of effectiveness of the Board as a whole, and of the individual Directors.

This is a well functioning Board underpinned by a shared purpose, strong team dynamics and robust processes.[2]

If Directors have concerns about the Company or a proposed action which cannot be resolved, it is recorded in the Board minutes. Also on resignation, Non-Executive Directors are encouraged to provide a written statement of any concerns to the Chairman, for circulation to the Board. No such concerns were raised in 2018 and up to the date of this report.

External evaluation process

Stage 1 – August 2018

Initial meetings with the Chairman took place to build on the existing questionnaire and establish a discussion guide. Analysis of the existing skills matrix was undertaken. This enabled Egon Zehnder to understand the Board's purpose and scope out the effectiveness review.

Stage 2 – September to November 2018

Questionnaires were sent to the Directors ahead of the one-to-one interviews with each Director. Egon Zehnder also attended the November Board meeting. This enabled Egon Zehnder to witness and evaluate the Board's processes and behaviours.

Stage 3 – January 2019

Findings were reviewed with the Company Secretary. The summary findings were then shared and discussed with the Chairman and feedback on each of the Committees was shared with the relevant principal Committees. The final summary was presented to the Board in January at a meeting facilitated by Egon Zehnder. Feedback on individual Directors is shared with the Chairman.

Highlights from the 2018 review

The evaluation concluded that the performance of the Board, its Committees, the Chairman and each of the Directors continues to be effective. All Directors demonstrated commitment to their roles.

The key findings and areas for consideration include the following:

	Findings	Areas for consideration
Purpose and Strategy	• Purpose of creating the conditions for sound governance and renewed stakeholder confidence has been well executed through tight controls and disciplined risk management; • The strategy is clear and the Directors are aligned on strategic priorities.	• Despite strong engagement in strategy the Board agenda is perceived to be still overly rooted in regulatory compliance and risk mitigation. Looking ahead, there is an opportunity for the Board to become more outwardly-focused.
Processes	• Controls and governance are very strong; • Committees are broadly well chaired; • The 2018 strategy review process was hailed as a great success in allowing for wide-ranging and free-flowing debate.	• Further streamlining of meeting papers and agendas to enable more expansive discussion; • The increase in the number of Directors attending aligned Board meetings may require different disciplines in the conduct of meetings; • Large attendance of Committee meetings could inhibit debate.
People	• The Chairman: – has focused on building an independently-minded, diverse Board, and has laid the foundations for an open Board culture; – invests considerable one-on-one time with Non-Executive Directors, which provides a platform for timely, two-way feedback, and helps the new Non-Executive Directors build confidence and a sense of belonging. • Board Directors are committed and suitably inquisitive. They come well-prepared to meetings and show a healthy balance of supporting management and asking pertinent questions.	• Consideration as to whether there is scope for bringing further technology know-how to the Board in due course; • Non-Executive Directors would like to offer greater support to the Chairman by leveraging their unique skills and experience more fully.

1 At the time of the 2018 review Egon Zehnder provided certain Board and senior management level services from time to time, including in respect of succession planning as detailed on page 67, otherwise Egon Zehnder has no other connection with the Group.

2 2018 Board Effectiveness Review.

Progress against the 2017 internal Board effectiveness evaluation

During the year, work focused particularly on Board papers and presentations. A summary of the Board's progress against the actions arising from the 2017 evaluation are set out below.

	Recommendations from the 2017 evaluation	Actions taken during 2018
Board papers and presentations to the Board	• Reduction in volume of Board papers. • More concise reports, highlighting important points and avoiding unnecessary volume and repetition. • Fewer and shorter presentations.	• A review of the schedule of Board and Committee meetings took place, and a number of meetings have been removed after being considered unnecessary. • Instructions have been given to all those who produce Board papers to avoid repetition between presentations and briefing papers. Bespoke training has also been provided by the Company Secretary. • In order to allow more time for discussion, challenge and debate, certain items of the agenda at Board meetings had no presentations although the responsible executives were available at the meeting to respond to queries from the Board. • Enhanced video conferencing facilities have been installed in various Group locations to improve the quality of remote participation in meetings when attendance in person is not possible.
Stakeholder feedback	• Increased feedback from stakeholders other than regulators and customers, including shareholders and bondholders.	• The Group's brokers attended the Board meeting in April to provide investor feedback on the results and strategy announcements. • The bi-annual presentation to the Board on reputation contained information on shareholder sentiment and was attended by the Group Director of Investor Relations. • A governance lunch was held in November with key institutional shareholders. This was hosted by the Chairman and the Chairmen of the Board Committees, and feedback was reported to the Board. • As part of the monthly report to the Board, the CFO now reports on the Bank of England's 'minimum requirements for own funds and eligible liabilities' and will continue to highlight significant developments related to the Group's debt funding.
Responsible Business Committee Terms of Reference	• Terms of Reference to be reviewed and updated to avoid duplication of effort in areas covered by other Committees.	• The Terms of Reference were reviewed, and considered by the Nomination and Governance Committee in April, and approved by the Board in November.
Non-Executive Director Recruitment	• Major change management; finance; accounting and data experience to be considered for future recruitment of Directors.	• These areas of experience will continue to be considered. • Amanda Mackenzie, appointed in October 2018 has a substantial amount of experience in respect of change management.

Professional development and training programme at a glance

In addition to the existing methods of training for the Directors, the Board agreed in 2017 that the Non-Executive Directors should be provided with a mandatory training programme. This was trialled by members of the Nomination and Governance Committee and has since been rolled out to the rest of the Directors.

Training modules were identified from a list of the topics used by Group colleagues, and following discussions between Group Secretariat, Risk and Group Learning, the following themes were identified as being the most relevant for Non-Executive Directors:

- Anti-Bribery
- Competition Law
- Information Security
- Whistleblowing
- Senior Manager and Certification Regime (SMCR) has also been included as an additional theme for all Non-Executive Directors.

Delivery of training

The training is delivered via an online training platform on the Group's intranet. The Directors can access this at any time, and once the training is completed, it is recorded on the system to provide a full audit trail. The Directors have completed the modules for 2018.

How our Board works
Internal control

Board responsibility

The Board is responsible for the Group's risk management and internal control systems, which are designed to facilitate effective and efficient operations and to ensure the quality of internal and external reporting and compliance with applicable laws and regulations. The Directors and senior management are committed to maintaining a robust control framework as the foundation for the delivery of effective risk management. The Directors acknowledge their responsibilities in relation to the Group's risk management and internal control systems and for reviewing their effectiveness.

In establishing and reviewing the risk management and internal control systems, the Directors carried out a robust assessment of the principal risks facing the Company, including those that would threaten its business model, future performance, solvency or liquidity, the likelihood of a risk event occurring and the costs of control. The process for identification, evaluation and management of the principal risks faced by the Group is integrated into the Group's overall framework for risk governance. The Group is forward-looking in its risk identification processes to ensure emerging risks are identified. The risk identification, evaluation and management process also identifies whether the controls in place result in an acceptable level of risk.

At Group level, a consolidated risk report and risk appetite dashboard are reviewed and regularly debated by the executive Group Risk Committee, Board Risk Committee and the Board to ensure that they are satisfied with the overall risk profile, risk accountabilities and mitigating actions. The report and dashboard provide a monthly view of the Group's overall risk profile, key risks and management actions, together with performance against risk appetite and an assessment of emerging risks which could affect the Group's performance over the life of the operating plan. Information regarding the main features of the internal control and risk management systems in relation to the financial reporting process is provided within the risk management report on pages 105 to 159. The Board concluded that the Group's risk management arrangements are adequate to provide assurance that the risk management systems put in place are suitable with regard to the Group's profile and strategy.

Control Effectiveness Review

An annual Control Effectiveness Review (CER) is undertaken to evaluate the effectiveness of the Group's control framework with regard to its material risks, and to ensure management actions are in place to address key gaps or weaknesses in the control framework. Business areas and head office functions assess the controls in place to address all material risk exposures across all risk types. The CER considers all material controls, including financial, operational and compliance controls. Senior management approve the CER findings which are reviewed and independently challenged by the Risk Division and Group Internal Audit and reported to the Board. Action plans are implemented to address any control deficiencies.

Reviews by the Board

The effectiveness of the risk management and internal control systems is reviewed regularly by the Board and the Audit Committee, which also receives reports of reviews undertaken by the Risk Division and Group Internal Audit. The Audit Committee receives reports from the Company's auditor, PricewaterhouseCoopers LLP (which include details of significant internal control matters that they have identified), and has a discussion with the auditor at least once a year without executives present, to ensure that there are no unresolved issues of concern.

The Group's risk management and internal control systems are regularly reviewed by the Board and are consistent with the guidance on Risk Management, Internal Control and Related Financial and Business Reporting issued by the Financial Reporting Council and compliant with the requirements of CRD IV. They have been in place for the year under review and up to the date of the approval of the Annual Report. The Group has determined a pathway to compliance with BCBS 239 risk data aggregation and risk reporting requirements and continues to actively manage enhancements.

Workforce engagement

During the year, the Nomination and Governance Committee made a recommendation to the Board as to how the Board would engage with the 'wider workforce' as a key stakeholder following the Financial Reporting Council's recent guidelines. The Board has discussed and agreed the approach to engagement during 2019, methods of gathering and documenting workforce views, and considering how feedback provided by the workforce would be presented to and considered by the Board on a timely basis.

The definition of the Group's 'workforce' was considered and agreed as 'our permanent employees, contingent workers and third-party suppliers that work on the Group's premises delivering services to our customers and supporting key business operations.

Engagement activity and developing dialogue

Board members already participate in a number of key engagement activities such as site visits, Q&A sessions, colleague feedback sessions, Chairman's breakfasts, and the Helping Britain Prosper Live events. Enhancements to current engagement activities have been agreed to provide the opportunity for feedback, themes and viewpoints of the wider workforce to be brought to the attention of the Board for discussion and debate to encourage a meaningful dialogue between the Board and the workforce.

From the second quarter of 2019, the Board will receive a report on a quarterly basis to provide further oversight and insight into workforce related activity and support with key decision making.

For details of Board engagement with colleagues during 2018, please see page 17.

Raising concerns in confidence

The Group's existing whistleblowing channel provides an opportunity for both colleagues and the wider workforce to raise concerns in confidence.

Complying with the UK Corporate Governance Code 2016

The UK Corporate Governance Code 2016 (the 'Code') applied to the Lloyds Banking Group 2018 financial year. The Group confirms that it applied the main principles and complied with all the provisions of the Code throughout the year. The Group has been subject to the provisions of the UK Corporate Governance Code 2018 since January 2019, and will report on this next year. The Code is publicly available at www.frc.org.uk. The following two pages explain how we have applied the Main Principles and the provisions of the Code during the year.

The Group has adopted the UK Finance Code for Financial Reporting Disclosure and its 2018 financial statements have been prepared in compliance with its principles.

A. Leadership ✓

A1. The Board's Role The Group is led by an effective, committed unitary Board, which is collectively responsible for the long-term success of the Group. The Group's Corporate Governance Framework, which is reviewed annually by the Board, sets out a number of key decisions and matters that are reserved for the Board's approval. Further details can be found online at www.lloydsbankinggroup.com and on page 60.

	Independent	Responsibilities
Chairman Lord Blackwell		Lord Blackwell leads the Board and promotes the highest standards of corporate governance. He sets the Board's agenda and builds an effective and complementary Board. The Chairman leads Board succession planning and ensures effective communication with shareholders.
Executive Directors **Group Chief Executive** António Horta-Osório		António Horta-Osório manages and leads the Group on a day-to-day basis and makes decisions on matters affecting the operation, performance and strategy of the Group's business. He delegates aspects of his own authority, as permitted under the Corporate Governance Framework, to other members of the Group Executive Committee.
Chief Financial Officer George Culmer		Under the leadership of the Group Chief Executive, George Culmer and Juan Colombás make and implement decisions in all matters affecting operations, performance and strategy. They provide specialist knowledge and experience to the Board. Together with António Horta-Osório, George Culmer and Juan Colombás design, develop and implement strategic plans and deal with day-to-day operations of the Group.
Chief Operating Officer Juan Colombás		
Non-Executive Directors **Deputy Chairman and Senior Independent Director** Anita Frew	✓	As Deputy Chairman, Anita Frew would ensure continuity of chairmanship during any change of chairmanship. She supports the Chairman in representing the Board and acts as a spokesperson. She deputises for the Chairman and is available to the Board for consultation and advice. The Deputy Chairman may represent the Group's interests to official enquiries and review bodies. As Senior Independent Director, Anita Frew is also a sounding board for the Chairman and Chief Executive. She acts as a conduit for the views of other Non-Executive Directors and conducts the Chairman's annual performance appraisal. She is available to help resolve shareholders' concerns and attend meetings with major shareholders and financial analysts to understand issues and concerns.
Alan Dickinson	✓	The Non-Executive Directors challenge management constructively and help develop and set the Group's strategy. They actively participate in Board decision-making and scrutinise management performance. The Non-Executive Directors satisfy themselves on the integrity of financial information and review the Group's risk exposures and controls. The Non-Executive Directors, through the Remuneration Committee, determine the remuneration of Executive Directors.
Simon Henry	✓	
Lord Lupton	✓	
Amanda Mackenzie[1]	✓	
Deborah McWhinney[2]	✓	
Nick Prettejohn	✓	
Stuart Sinclair	✓	
Sara Weller	✓	
Company Secretary Malcolm Wood		The Company Secretary advises the Board on various matters including governance and ensures good information flows and comprehensive practical support is provided to Directors. He maintains the Group's Corporate Governance Framework and organises Directors' induction and training. The Company Secretary communicates with shareholders as appropriate and ensures due regard is paid to their interests. Both the appointment and removal of the Company Secretary is a matter for the Board as a whole.

1 Amanda Mackenzie joined the Board with effect from 1 October 2018.
2 Deborah McWhinney left the Board with effect from 31 December 2018.

A2. Division of responsibilities There is clear division of responsibility at the head of the Company, as noted above. As documented in the Group's Corporate Governance Framework there is clear separation between the role of the Chairman, who is responsible for the leadership and effectiveness of the Board, and the Chief Executive, who is responsible for the running of the Company's business.

A3. Role of the Chairman The Chairman has overall responsibility for the leadership of the Board and for ensuring its effectiveness. The responsibilities of the Chairman and his fellow Directors are set out above.

Lord Blackwell was independent on appointment.

Corporate governance report continued

A4. Role of the Non-Executive Directors The Senior Independent Director ('SID'), Anita Frew, acts as a sounding board for the Chairman and Group Chief Executive. She can be contacted by shareholders and other Directors as required.

The Non-Executive Directors challenge management constructively and help develop and set the Group's strategy.

Meetings are held between the Non-Executive Directors in the absence of the Executive Directors, and at least once a year in the absence of the Chairman.

Further information on meeting arrangements and the responsibilities of the Directors are given on pages 59 to 61 and 65 respectively.

B. Effectiveness ✓

B1. The Board's composition The balance of skills, experience, independence, and knowledge on the Board is the responsibility of the Nomination and Governance Committee, and is reviewed annually or whenever appointments are considered. Having the right balance on the Board and its Committees helps to ensure that those bodies discharge their respective duties and responsibilities effectively.

In particular, the Nomination and Governance Committee monitors whether there are any relationships or circumstances which may affect a Director's independence. Following the most recent review of independence the Committee concluded that all Non-Executive Directors are independent in character and judgement as shown on page 65.

More information on the annual Board effectiveness review can be found on pages 62 to 63 and information on the Board Diversity Policy can be found on page 69.

B2. Board appointments The process for Board appointments is led by the Nomination and Governance Committee, which then makes a recommendation to the Board.

More details about succession planning can be found on page 67.

More information about the work and focus of the Nomination and Governance Committee can be found on pages 67 to 69.

B3. Time commitments Non-Executive Directors are advised of time commitments prior to their appointment and they are required to devote such time as necessary to discharge their duties effectively. The time commitments of the Directors are considered by the Board on appointment and annually, and following the most recent review, the Board is satisfied that there are no Directors whose time commitments are considered to be a matter for concern. External appointments, which may affect existing time commitments for the Board's business, must be agreed with the Chairman, and prior Board approval must be obtained before taking on any new external appointments.

No Executive Director has either taken up more than one Non-Executive Director role at a FTSE100 company or taken up the Chairmanship of such a company.

More information on Directors' attendance at Board and Committee meetings can be found on page 56.

B4. Training and development The Chairman leads the training and development of Directors and the Board generally and regularly reviews and agrees with each Director their individual and combined training and development needs.

Ample opportunities, support and resources for learning are provided through a comprehensive programme, which is in place throughout the year and comprises both formal and informal training and information sessions.

The Chairman personally ensures that on appointment each Director receives a full, formal and tailored induction. The emphasis is on ensuring the induction brings the business and its issues alive for the new Director, taking account of the specific role they have been appointed to fulfil and the skills/experience of the Director to date.

Directors who take on or change roles during the year attend induction meetings in respect of those new roles. The Company Secretary maintains a training and development log for each Director.

B5. Provision of information and support The Chairman, supported by the Company Secretary, ensures that Board members receive appropriate and timely information.

The Group provides access, at its expense, to the services of independent professional advisers in order to assist Directors in their role.

Board Committees are also provided with sufficient resources to discharge their duties.

All Directors have access to the services of the Company Secretary in relation to the discharge of their duties.

B6. Board and Committee performance and evaluation An externally facilitated performance evaluation was completed in 2018, with internally facilitated evaluations having taken place in 2016 and 2017. More information can be found on pages 62 to 63, along with the findings, actions, and progress made during the year.

B7. Re-election of Directors At the 2019 AGM all Directors will seek re-election or election. Being the first AGM following her appointment, Amanda Mackenzie will stand for election, with all other Directors standing for re-election. The Board believes that all Directors continue to be effective and committed to their roles.

C. Accountability ✓

C1. Financial and business reporting The Code requirement that the Annual Report is fair, balanced and understandable is considered throughout the drafting and reviewing process and the Board has concluded that the 2018 Annual Report is fair balanced and understandable. The Directors' and Auditors' Statements of Responsibility can be found on pages 81 and 161 respectively. Information on the Company's business model and strategy can be found on pages 1 to 35.

C2. Risk management and internal control systems The Board is responsible for the Group's risk management and internal controls systems; see page 64 for more detail regarding internal control. The Audit Committee is responsible for the effectiveness of internal controls and the Risk Management Framework. Further information can be found on pages 70 to 73.

The Board Risk Committee is responsible for the review of the risk culture of the Group, setting the tone from the top in respect of risk management. Further information can be found on pages 74 to 77.

The Directors' viability statement and confirmation that the business is a going concern can be found on page 80.

C3. Role and responsibilities of the Audit Committee The Board has delegated a number of responsibilities to the Audit Committee, including oversight of financial reporting processes, the effectiveness of the internal controls and the risk management framework, whistleblowing arrangements and the work undertaken by the external and internal auditors. The Audit Committee Report which can be found on pages 70 to 73, sets out how the Committee has discharged its duties and areas of focus during the year.

D. Remuneration ✓

D1. Level and elements of remuneration The Group is committed to offering all colleagues a reward package that is competitive, performance-driven and fair and its Remuneration Policy is designed to promote the long term success of the Company. The Directors' Remuneration Report on pages 82 to 99 provides full details regarding the remuneration of Directors. The Remuneration Policy can be found in the 2016 Annual Report and Accounts and remains unchanged since last approved by shareholders at the 2017 AGM.

D2. Procedure The work of the Remuneration Committee and its focus during the year can be found on page 96.

E. Relations with Shareholders ✓

E1. Shareholder engagement The Board actively engages with all stakeholders including shareholders and more information on our approach to relations with shareholders can be found on pages 16 to 17.

E2. Use of General Meetings The Board values the AGM as a key opportunity to meet shareholders. The 2019 AGM will be held on 16 May 2019. The whole Board is expected to attend and will be available to answer shareholders' questions.

To facilitate shareholder participation, electronic proxy voting and voting through the CREST proxy appointment service are available. All votes are taken by way of a poll to include all shareholder votes cast.

A webcast of the AGM is carried out to allow shareholders who cannot attend in person to view the meeting live.

Key

✓ Fully Compliant

Nomination and Governance Committee report

The Committee has overseen further development of the Group's senior management succession planning programme.

Dear Shareholder

Board and GEC changes

As reported in my introduction to the Governance Report on page 51, there have been a number of changes to the Board during the year, all of which have been overseen by the Nomination and Governance Committee (the 'Committee'). The Committee conducted a rigorous process for identifying and assessing candidates to recruit both the Ring-Fenced Bank only Non-Executive Directors and an additional Group Non-Executive Director. Details of this selection process can be found on page 69. The Committee has also overseen the transition from Anita Frew to Stuart Sinclair as the Chair of the Remuneration Committee Chairman, and as part of the succession plan which is in place for senior management, have approved the appointment of Kate Cheetham as Company Secretary to replace Malcolm Wood when he retires from the Group in June 2019.

Following the announcement in October that George Culmer would be retiring from the Group in the third quarter of 2019, the Nomination and Governance Committee conducted a rigorous search process for his successor. This led to the announcement in February 2019 that, subject to customary regulatory approvals, William Chalmers would join the Group in June 2019, becoming an Executive Director and Chief Finance Officer when George steps down.

Board effectiveness review

As highlighted in my letter on page 51, an externally facilitated Board effectiveness review was conducted during the year. This was overseen by the Committee, and full details are provided on pages 62 to 63.

Succession planning

The Committee continued its work on succession planning during the year, focusing on the level below the Group Executive Committee (GEC). This has included working with Egon Zehnder to review the changing role requirements and characteristics for bank leadership in the context of the Bank of the Future.

The outcome of this review provided a comprehensive view of the GEC role characteristics against which the current senior management layer below GEC can be assessed to ensure alignment of capability, aspiration and adequacy of current development plans. The identified characteristics are designed to represent the particular leadership requirements of those undertaking GEC-level roles within the Group as we build the Bank of the Future. Our ambition is to ensure an Executive team that embraces the diverse strengths of individual leaders and collectively exhibits the characteristics expected of a team leading the Group to succeed in a digital world. The GEC characteristics align to the leadership behaviours: inspire delivery; encourage simplicity; develop confidence; and build trust. Additional emphasis is placed upon key capabilities required to lead cultural transformation, including innovative strategic thinking; agile change management; digital technology; collaborative team working and insightful customer perspectives.

The GEC characteristics will become the benchmark for the assessment of, and development planning for, GEC members and attendees as well as successors into those roles. The characteristics will be considered in addition to knowledge and experience criteria around breadth of banking/financial services and governance experience. Work was undertaken in September 2018 to support identified successors in reviewing and refreshing their development plans to ensure that these directly support their succession readiness in line with the characteristics.

During the year GEC members and attendees have been assessed against the GEC characteristics, with both a desktop assessment and self-assessments by GEC members and attendees. These have been reviewed by the Group Chief Executive and me, and formed the basis for discussion with the Committee and other Board members about executive capabilities and succession plans.

Individual assessment scores against the GEC characteristics have been shared with each GEC member and attendee for discussion with their line manager. Additional personal development interventions have been agreed as appropriate, with individual development plans continuing to be owned and driven by each Executive.

Overall, the results of the assessment evidence that the GEC collectively exhibit strong capabilities in the leadership characteristics required to deliver the Bank of the Future. As a team, their breadth of banking and governance experience provides the knowledge base required to enable robust decision-making. Personal characteristics around values, judgement and drive are aligned with the Group's target culture.

UK Corporate Governance Code

The Financial Reporting Council published in July an amended UK Corporate Governance Code (the 'New Code'), which is applicable from 1 January 2019, with requirements relating to the annual report applicable to the report and accounts for the year ending 31 December 2019. The Group will be reporting against this New Code in next year's annual report, but the requirements have been considered by the Committee and the Board during the year under review and work has been done to implement changes to procedures, governance, culture and practice in line with the New Code.

The Group's Corporate Governance Framework

The Corporate Governance Framework was updated in 2017 to anticipate the governance requirements of ring-fencing on the basis of discussions at that time. During 2018, the Corporate Governance Framework was further updated to include additional amendments to reflect commitments made to the Regulator. These amendments included wording to reflect the role of Risk Officer for the Ring-Fenced Banks, particularly in relation to the Risk Committees, additional detail on the conduct of aligned Board and Committee meetings, and clarification of the management of conflict issues. More information on the aligned meetings can be found on page 58.

The Committee has also overseen amendments to the Corporate Governance Framework to reflect the requirements of the New Code ahead of implementation in 2019.

Lord Blackwell
Chairman, Nomination and Governance Committee

Activities during the year

	Key issues	Committee review and conclusion
Board composition	Recruitment of a new Non-Executive Director	The external search firm Russell Reynolds Associates[1] provided a shortlist of candidates for consideration. Interviews with various members of the Board were held, and the process resulted in the appointment of Amanda Mackenzie in October.
	Change in Chairman of the Remuneration Committee	Following Anita Frew's decision to step down as the Remuneration Committee Chair, the Committee recommended to the Board that Stuart Sinclair replace her in this role. This recommendation was based on Board succession planning and the fact that Stuart is an experienced Non-Executive Director, has been a member of the Remuneration Committee since he joined the Company in January 2016, and has external experience of chairing Board committees.
	Structure and composition of the Board	From the ongoing assessment of the Board members, the Chairman creates a skills matrix which the Committee uses to track the Board's strengths and identify gaps in the desired collective skills profile of the Board, giving due weight to diversity in its broadest sense. Recommendations are made to the Board as appropriate. The skills matrix was considered in the appointment of Amanda Mackenzie, and the appointment of the Ring-Fenced Bank only Directors.
Executive succession planning	Establishing the GEC characteristics and identifying and supporting potential successors into GEC-level roles	During the year, the Committee, led by the Chairman, reviewed the succession plans and development plans for key senior management roles, and established the GEC characteristics as described on page 67. This included updating the ongoing development plans for potential successors into Executive Director roles, including Group Chief Executive.
Ring-Fenced Bank	Recruitment of the Ring-Fenced Bank only Directors	Russell Reynolds Associates was engaged to shortlist candidates for the positions of three Ring-Fenced Bank only Non-Executive Directors. The recruitment process, led by the Chairman, included interviews with various members of the Board and resulted in the appointment of Nigel Hinshelwood, Sarah Bentley and Brendan Gilligan with effect from 1 January 2019.
Annual Board effectiveness review	Annual effectiveness review of the Board and its Committees	During the year the Committee selected Egon Zehnder to facilitate the review by the Board and its Committees of their effectiveness and provided oversight for the process. The Committee also reviewed its own effectiveness and found that it met its key objectives and carried out its responsibilities effectively. Full details of the review can be found on pages 62 to 63.
Governance	The Committee provides oversight for various aspects of corporate governance, and during the year key activities included the following:	• Annual review of the Corporate Governance Framework, amendments which took into account the Group's approach to compliance with the PRA's Ring Fenced Banks Governance Principles, and the requirements of recent regulatory developments including the terms of the revised UK Corporate Governance Code. Our application of the New Code will be reported upon next year; • Continuing oversight of the governance structure for the Ring-Fenced Banks; • A review of the Board/Committee responsibilities and the matters reserved for the Board to assess any instances of overlap or gaps in coverage or escalation; • In the light of the increasing importance of IT in the Group's GSR3 strategy, a review of the governance and oversight of the IT Programme; • Considering correspondence with shareholders; • Approval of the appointment of Trustees to the Bank's Foundations.
Diversity	A review of the Diversity Policy was undertaken	The Board considered and approved the adoption of a public goal to increase ethnic diversity in the senior management population, a first for a FTSE-100 company. This has now been incorporated into the Board Diversity Policy which was approved by the Board in January 2019. The Board Diversity Policy is available at www.lloydsbankinggroup.com. Please see pages 22 to 23 and 69 for further information regarding diversity.
	The Diversity Policy was a consideration in recruitment during the year	Diversity, in its broadest sense as detailed in the Policy, was taken into consideration as part of the recruitment of Amanda Mackenzie and the Ring-Fenced Bank only Directors during the year.
Independence and time commitments	Reviewing whether Non-Executive Directors were demonstrably independent and free from relationships and other circumstances that could affect their judgement	In recommending Directors for re-election the Committee reviews the performance of each Non-Executive Director and their ability to continue meeting the time commitments required. It also takes account of any relationships that had been disclosed. Details of conflicts of interest can be found on page 79. A particularly rigorous review of Lord Blackwell, Anita Frew and Sara Weller was undertaken as a result of having held the position of Non-Executive Director for longer than six years. Based on its assessment for 2018, the Committee is satisfied that, throughout the year, all Non-Executive Directors remained independent[2] as to both character and judgement. All Directors were considered to have appropriate roles, including capabilities and time commitments.
Training	Overseeing the roll out of training to all Non-Executive Directors	In addition to existing methods of training for the Non-Executive Directors, at the end of 2017, members of the Committee trialled an online mandatory training programme. This was subsequently rolled out to the rest of the Board. Full details can be found on page 63.

1 Aside from assisting with senior recruitment and benchmarking, Russell Reynolds Associates have no other connection to the Company.

2 The Chairman was independent on appointment. Under the Code, thereafter the test of independence is not appropriate in relation to the Chairman.

Committee purpose and responsibilities

The purpose of the Committee is to keep the Board's governance, composition, skills, experience, knowledge, independence and succession arrangements under review and to make appropriate recommendations to the Board to ensure the Company's arrangements are consistent with the highest corporate governance standards.

The Committee reports to the Board on how it discharges its responsibilities and makes recommendations to the Board, all of which have been accepted during the year. The Committee's terms of reference can be found at www.lloydsbankinggroup.com/our-group/corporate-governance.

Committee composition, skills and experience

To ensure a broad representation of experienced and independent Directors, membership of the Committee comprises the Chairman, the Deputy Chairman, who is also the Senior Independent Director, the Chairman of the Board Risk Committee and the Chairman of the Responsible Business Committee. The Group Chief Executive attends meetings as appropriate.

Details of Committee memberships and meeting attendance can be found on page 56.

The Board diversity policy

The Board Diversity Policy (the Policy) sets out the Board of Lloyds Banking Group's approach to diversity and provides a high level indication of the Board's approach to diversity in senior management roles which is governed in greater detail, through the Group's policies, a summary of which is provided below.

The Board places great emphasis on ensuring that its membership reflects diversity in its broadest sense. A combination of demographics, skills, experience, race, age, gender, educational and professional background and cognitive and personal strengths on the Board is important in providing a range of perspectives, insights and challenge needed to support good decision making.

New appointments are made on merit, taking account of the specific skills and experience, independence and knowledge needed to ensure a rounded Board and the diversity benefits each candidate can bring to the overall Board composition. Amanda Mackenzie was the only Director to be appointed to Lloyds Banking Group plc during the year, and as part of her appointment diversity was considered in its broadest sense. Amanda brings experience of customer focus and leadership of Business in the Community, which will be a major asset in supporting our mission of Helping Britain Prosper.

Objectives for achieving Board diversity may be set on a regular basis. On gender diversity the Board has a specific objective to maintain at least three female Board members and, recognising the target referred to in the Hampton-Alexander Review for FTSE companies to move towards 33 per cent female representation by 2020, to take opportunities to increase the number of female Board Members over time where that is consistent with other skills and diversity requirements. Female representation on the Board is currently 25 per cent (based on three female Directors and nine male Directors).

The Board also places high emphasis on ensuring the development of diversity in the senior management roles within the Group and supports and oversees the Group's objectives of achieving 40 per cent of senior roles held by female executives by 2020, and of 8 per cent of senior roles being held by Black, Asian and Minority Ethnic (BAME) executives by 2020. This is underpinned by a range of policies within the Group to help provide mentoring and development opportunities for female and BAME executives and to ensure unbiased career progression opportunities. Progress on this objective is monitored by the Board and built into its assessment of executive performance. A copy of the Policy is available on our website at www.lloydsbankinggroup.com/responsible-business and information on Board diversity can be found on pages 22, 23 and 56.

Process for new Group and Ring-Fenced Bank Non-Executive Director appointments

Step 1

Russell Reynolds Associates was appointed by the Committee and provided with a remit of what skills and experience the candidates should have, based on the existing skills matrix of the Board, and taking into account diversity in its broadest sense.

Step 2

Interviews were held between the Chairman and a shortlist of candidates.

Step 3

The Committee considered the shortlisted candidates, having been provided with an extensive report from Russell Reynolds Associates which was based on interviews with the candidates and included details of their background, skills, experience and a full evaluation. Interviews took place with various members of the Committee. The Committee recommended the appointments to the Board, which subsequently approved them, subject to regulatory approval where required.

Step 4

Formal offer letters were sent.

Step 5

Regulatory applications were made to the PRA and the FCA in respect of the relevant Directors, and approval was obtained.

Step 6

Formal appointment of the Directors took place.

Q&A with Amanda Mackenzie OBE, Independent Director

Q: What did you think of the appointment and induction process?

A: Exceedingly thorough! It gave ample opportunity for Lloyds Banking Group to learn about me and vice versa. A Non-Executive Director role today comes with a much greater amount of obligation and scrutiny, rightly so, but it does mean you have to be assured of the company you are joining and of course they of you. I have to say the Group's very clear purpose of 'Helping Britain Prosper' and the determination of everyone I met to make that a reality was very appealing. The Group is prepared to make some tough decisions to deliver on its purpose. The induction process has been wholehearted, open, thorough and interesting. Given my background there are clearly some areas in which I am not an expert and never will be, but I do need to know enough and the induction process has not made me feel foolish for the need to ask basic questions and by contrast has been very welcoming of my knowledge where it is greatest and can help.

Q: What are your first impressions of how the Board functions and the Group's governance framework?

A: I left the first Board strategy away day I attended with one overarching thought: the combined Board and Group Executive are an incredible group of people and Lloyds Banking Group is an amazing company. Of course there's much to be done, but, with the right approach, it will be. And no I wouldn't say that if I didn't believe it or if I hadn't seen some comparisons. So far I feel the Board functions extremely well and the governance framework is clear, as simple as it can be and the various lines of defence operate the way one should expect they do.

Q: What are you looking to bring to the Board / What excites you about your role with Lloyds?

A: I certainly hope I can bring my expertise to the Board. I am very thrilled to be part of it and play my part in Helping Britain Prosper.

Audit Committee report

The Committee has delivered on its responsibilities of ensuring the integrity of the financial statements and effectiveness of internal and external audit services.

Dear Shareholder

The past year has been another busy one for the Audit Committee (the 'Committee'). In addition to continuing focus on issues relevant to the Company's financial reporting and its internal control framework, considerable time has been spent on other key areas, including implementation of IFRS 9 and oversight of the process for the selection of a new external auditor.

A number of firms were invited by the Committee to tender for the external audit mandate. Our current auditor, PwC, did not participate. The process, overseen in the first instance by a Selection Committee comprised of members of the Committee, involved representatives meeting with senior management from across the Group. After careful consideration by the Committee, a recommendation was made to the Board for the appointment of Deloitte LLP, which the Board accepted. Subject to shareholders' approval at the 2021 AGM, Deloitte LLP will therefore be appointed as external auditor in place of PwC, with effect from the year ending December 2021. Ensuring in the interim the continued effectiveness of the external auditor has also been a focus, with the Committee reviewing the plan for the external audit, and considering reports from the auditor on accounting and control matters.

Whilst the regulator has confirmed a 2019 deadline for claims relating to payment protection insurance (PPI), provisioning for other conduct matters in addition to PPI has continued to form part of the Committee's focus. Preparations for the implementation of the ring-fencing regime have also been an important area of consideration, with the Committee reviewing the control and accounting aspects of the establishment of the Group's non ring-fenced bank, which was successfully made operational during the second half of 2018. The Committee has in addition considered other key areas of judgement and complexity relevant to the financial statements, including review of significant one-off transactions, assisting in determining the appropriate accounting treatment in the sale of the Company's c.3 per cent stake in Standard Life Aberdeen, and the sale of c.£4 billion of Irish mortgage assets.

The Committee considered the style and format of external disclosure for quarters one and three of 2018, and agreed a significant simplification of information provided. IFRS 9 was successfully implemented during the year, although the Committee will continue to pay close attention to how the underlying models perform in potentially volatile economic scenarios.

The wider external environment as we head into 2019 continues to be challenging, with an ongoing focus on regulation in the financial sector, and recent proposals for change in respect of audit practice. I am nonetheless pleased to report that in the opinion of the Committee, the Company continues to meet its obligations in respect of financial reporting and disclosure, and continues to operate an effective internal control framework.

Simon Henry
Chairman, Audit Committee

Committee purpose and responsibilities

The purpose of the Committee is to monitor and review the Group's financial and narrative reporting arrangements, the effectiveness of the internal controls (including over financial reporting) and the risk management framework, whistleblowing arrangements and each of the internal and external audit processes, including the statutory audit of the consolidated financial statements and the independence of the statutory auditor.

The Committee reports to the Board on how it discharges its responsibilities and makes recommendations to the Board, all of which have been accepted during the year. A full list of responsibilities is detailed in the Committee's terms of reference, which can be found at www.lloydsbankinggroup.com/our-group/corporate-governance. In satisfying its purpose, the Committee undertakes the functions detailed within Disclosure Guidance and Transparency Rule 7.1.3R.

During the year the Committee considered a number of issues relating to the Group's financial reporting. These issues are summarised on the next page, including discussion of the conclusions the Committee reached, and the key factors considered by the Committee in reaching its conclusions.

In addition, the Committee considered a number of other significant issues not related directly to financial reporting, including internal controls, internal audit and external audit. These issues are also discussed in detail in the next section, including insight into the key factors considered by the Committee in reaching its conclusions.

Committee composition, skills and experience

The Committee acts independently of the executive to ensure that the interests of the shareholders are properly protected in relation to financial reporting and internal control.

All members of the Committee are independent Non-Executive Directors with competence in the financial sector and their biographies can be found on pages 52 to 53. Simon Henry is a Chartered Global Management Accountant and has extensive knowledge of financial markets, treasury, risk management and international accounting standards. He is a member having recent and relevant financial experience for the purposes of the UK Corporate Governance Code and is the Audit Committee financial expert for SEC purposes.

During the course of the year, the Committee held separate sessions with the internal and external audit teams, without members of the executive management present. For details of how the Committee was run, see page 60.

Annually the Committee undertakes an effectiveness review. The review forms part of the Board evaluation process with Directors being asked to complete parts of the questionnaire relating to the Committees of which they were members. The findings of the review were considered by the Committee at its January 2019 meeting. On the basis of the evaluation the feedback was that the performance of the Committee continues to be effective.

Whilst the Committee's membership comprises the Non-Executive Directors noted on page 56, all Non-Executive Directors may attend meetings as agreed with the Chairman of the Committee. The Group Financial Controller, Chief Internal Auditor, the external auditor, the Group Chief Executive, the Chief Financial Officer, the Chief Risk Officer and the Chief Operating Officer also attend meetings of the Committee as appropriate. Details of Committee membership and meeting attendance can be found on page 56.

Financial reporting

During the year, the Committee considered the following issues in relation to the Group's financial statements and disclosures, with input from management, Risk Division, Group Internal Audit and the external auditor:

Activities for the year

	Key issues	Committee review and conclusion
Payment Protection Insurance (PPI)	Management judgement is used to determine the assumptions used to calculate the Group's PPI provision. The principal assumptions used in the calculation are the number of future complaints, the extent to which they will be upheld, the average redress to be paid and expected future administration costs. During the year the Group provided a further £750 million for further operating costs and redress as claims volumes were higher than previously expected.	The Committee continued to challenge management's assumptions used to calculate the Group's provision for PPI redress and associated administration costs. The overall cost remains uncertain and the Committee reviewed management's use of sensitivities used to evaluate this uncertainty. The Committee reviewed management's assessment of future customer claims volumes considering, inter alia, the potential impact of regulatory changes; the FCA media campaign; claims management company and customer activity; and the additional remediation arising from the continual improvement of the Group's operational practices. The Committee concluded that the provision for PPI redress and the Group's external disclosures were appropriate. The disclosures relating to PPI are set out in note 37: 'Other provisions' of the financial statements.
Other conduct provisions	In 2018, the Group made provisions totalling £600 million in respect of other conduct matters, including £151 million for secured and unsecured arrears handling activities; and £45 million in respect of packaged bank accounts. There were relatively few new conduct matters in 2018 and the majority of the provisions raised in 2018 related to issues caused prior to the implementation of the Group's Conduct Strategy in 2013.	The Committee has monitored developments on the Group's secured and unsecured arrears handling activities, including the impact of the Group's enhanced data capabilities and the risks emerging around operational costs. The Committee has also reviewed management's assessment of the provision required for packaged bank accounts, including estimates made in respect of future complaint volumes and uphold rates. The Committee was satisfied that the provisions for other conduct matters were appropriate. The disclosures relating to other conduct provisions are set out in note 37: 'Other provisions' of the financial statements.
Allowance for impairment losses on loans and advances	The Group adopted IFRS 9 on 1 January 2018 and issued a transition document setting out the impact on the Group. IFRS 9 differs significantly from the previous impairment standard (IAS 39) as it requires impairment losses to be recognised on an expected loss (rather than incurred loss) basis. As a result, the Group's impairment provision is dependent on management's forward looking judgements on matters such as interest rates, house prices and unemployment rates, as well as its assessment of a customer's current financial position and whether it has suffered a significant increase in credit risk.	The Committee reviewed the Group's transition document and was satisfied that it was appropriate. Throughout 2018, the Committee challenged both the level of provision held by the Group, and the judgements and estimates used to calculate the provision. It reviewed on a regular basis the Group's analysis by stage of its drawn and undrawn balances and its coverage ratios for the Group's lending portfolios. The Committee was satisfied that the impairment provisions, and associated disclosures, were appropriate. Management has designed its disclosures so that they comply with the requirements of the accounting standard, provide relevant information to users to gain an understanding of the new concepts and include sensitivities of assumptions where appropriate. The disclosures relating to impairment provisions are set out in note 20: 'Allowance for impairment losses' and note 52: 'Financial risk management' of the financial statements. The allowance for impairment losses on loans and advances to customers at 31 December 2018 was £3,150 million (1 January 2018: £3,223 million).
Ring-fencing	In readiness for the ring-fencing regime, which came into force on 1 January 2019, the Group has transferred certain businesses, and assets and liabilities out of Lloyds Bank plc and Bank of Scotland plc (together, the ring-fenced bank) and their subsidiaries to other parts of the Group, including the Group's non ring-fenced bank, Lloyds Bank Corporate Markets plc (LBCM). For each transfer, the principal accounting judgement considered by management was whether it involved the transfer of a business or a transfer of assets and liabilities.	The Committee discussed the controls and accounting aspects of the Group's activities to establish its non ring-fenced bank, including the intra-group transfers made to ensure that the Group's activities were appropriately separated. Two examples of these transfers included the transfer of Scottish Widows from Lloyds Bank plc to Lloyds Banking Group plc and the migration of a number of businesses and customer assets from Lloyds Bank plc to LBCM. The Committee was satisfied that the control framework established by management to mitigate the financial control risks associated with the transfers was adequate and that the judgements used to determine the accounting for the transfers were appropriate.

Corporate governance report continued

	Key issues	Committee review and conclusion
Retirement benefit obligations	The value of the Group's defined benefit pension plan obligations is determined by making financial and demographic assumptions, both of which are significant estimates made by management.	The Committee considered the most critical assumptions underlying the calculation of the defined benefit liabilities, including those in respect of the discount rate, inflation and mortality. The Committee was satisfied that management had used appropriate assumptions that reflected the Group's most recent experience and were consistent with market data and other information. The Committee was satisfied that the Group's quantitative and qualitative disclosures made in respect of retirement benefit obligations are appropriate. The relevant disclosures are set out in note 35: 'Retirement benefit obligations' of the financial statements. The defined benefit obligation at 31 December 2018 was £41,092 million (31 December 2017: £44,384 million).
Recoverability of the deferred tax asset	A deferred tax asset can be recognised only to the extent that it is more likely than not to be recoverable. The recoverability of the deferred tax asset in respect of carry forward losses requires consideration of the future levels of the Group's taxable profit and the legal entities in which the profit will arise.	The Committee has reviewed management's assessment of forecast taxable profits based on the Group's operating plan, the split of these forecasts by legal entity and the Group's long-term financial and strategic plans. Management's forecasts included estimates of the impact of the changes in the Group's structure made to comply with ring-fencing requirements. The Committee agreed with management's judgement that the deferred tax assets were appropriately supported by forecast taxable profits, taking into account the Group's long-term financial and strategic plans. The disclosures relating to deferred tax are set out in note 36: 'Deferred tax' of the financial statements. The Group's net deferred tax asset at 31 December 2018 was £2,453 million (31 December 2017: £2,284 million).
Uncertain tax positions	The Group has open tax matters which require it to make judgements about the most likely outcome for the purposes of calculating its tax position.	The Committee took account of the respective views of both management and the relevant tax authorities when considering the uncertain tax positions of the Group. The Committee also understood the external advice obtained by management to support the views taken. The Committee was satisfied that the provisions and disclosures made in respect of uncertain tax positions were appropriate. The relevant disclosures are set out in note 47: 'Contingent liabilities and commitments' of the financial statements.
Value-In-Force (VIF) asset and insurance liabilities	Determining the value of the VIF asset and insurance liabilities requires management to make significant estimates for both economic and non-economic actuarial assumptions.	The Committee received a paper from the Group's Insurance Audit Committee summarising its activities, which included a review of the economic and non-economic assumptions made by management to determine the Group's VIF asset and insurance liabilities. The Committee reviewed this paper and discussed the assumptions made by management. The Committee was satisfied that the value and associated disclosures of the VIF asset (2018: £4,762 million; 2017: £4,839 million) and liabilities arising from insurance contracts and participating investment contracts (2018: £98,874 million; 2017: £103,413 million) were appropriate.
One-off transactions	Determining the appropriate accounting for certain one-off transactions requires management to assess the facts and circumstances specific to each transaction.	During the first half of 2018, the Group sold its Irish residential mortgage portfolio for approximately £4 billion of cash consideration. The Committee reviewed the accounting proposed by management, including the recognition of a £105 million loss on disposal and the derecognition of the assets from the Group's balance sheet, and was satisfied that it was appropriate. During June 2018, the Group sold its 3.3 per cent stake in Standard Life Aberdeen for £344 million. The Committee reviewed management's proposed accounting, which had no impact on the Group's income statement as the investment was classified as 'at fair value through other comprehensive income'. The Committee was satisfied that the accounting was appropriate.
Future accounting standards	The Committee has discussed the requirements of IFRS 16 (Leases), which the Group adopted on 1 January 2019; and IFRS 17 (Insurance Contracts), which is expected to come into force for the year ending 31 December 2022.	The Committee discussed the Group's approach to the new leasing standard (IFRS 16) noting that the principal impact of the standard on the Group was to bring its property leases 'on-balance sheet'. The impact on the Group's balance sheet at 1 January 2019 was to recognise a right of use asset and a corresponding liability of approximately £1.8 billion. It also discussed the Group's approach to the changes required by IFRS 17 noting that this standard will fundamentally change the accounting for insurance products, requiring that the profit be recognised over the life of the contract rather than permitting immediate up-front profit recognition. The Committee was satisfied with the Group's disclosure included in its 'Future accounting developments' note to the financial statements setting out the impact of accounting standards that were not effective for the Group at 31 December 2018.
Viability statement	The Directors are required to confirm whether they have a reasonable expectation that the Company and the Group will be able to continue to operate and meet their liabilities as they fall due for a specified period. The viability statement must also disclose the basis for the Directors' conclusions and explain why the period chosen is appropriate.	The Committee assisted the Board in performing its assessment of the viability of the Company and the Group with input from management. The viability assessment, which was based on the Group's operating, capital and funding plans, included consideration of the principal and emerging risks which could impact the performance of the Group, and the liquidity and capital projections over the period. The Committee was satisfied that the viability statement could be provided and advised the Board that three years was a suitable period of review. The viability statement is disclosed within the Directors' report on page 80.

Other significant issues

The following matters were also considered by the Committee during the year:

Risk management and internal control systems
Full details of the internal control and risk management systems in relation to the financial reporting process are given within the risk management section on pages 105 to 159. Specific matters that the Committee considered for the year included:

- the effectiveness of systems for internal control, financial reporting and risk management
- the extent of the work undertaken by the Finance teams across the Group to ensure that the control environment continued to operate effectively
- the major findings of internal investigations into control weaknesses, fraud or misconduct and management's response along with any control deficiencies identified through the assessment of the effectiveness of the internal controls over financial reporting under the US Sarbanes-Oxley Act

The Committee was satisfied that internal controls over financial reporting were appropriately designed and operating effectively.

Group Internal Audit
In monitoring the activity, role and effectiveness of the internal audit function and their audit programme the Committee:

- monitored the effectiveness of Group Internal Audit and their audit programme through quarterly reports on the activities undertaken and a report from the Quality Assurance function within Group Internal Audit
- approved the annual audit plan and budget, including resource and reviewed progress against the plan through the year
- assessed Group Internal Audit's resources and skills (supplemented by externally sourced subject matter experts as required) as adequate to fulfil its mandate
- oversaw Group Internal Audit's progress against the 2017 External Quality Assessment
- considered the major findings of significant internal audits, and management's response

Speak Up (the Group's whistleblowing service)
The Committee received and considered reports from management on the Group's whistleblowing arrangements. The Committee reviewed the reports to ensure there are arrangements in place which colleagues can use in confidence to report concerns about possible improprieties in financial reporting or other matters, and that there is proportionate and independent investigation of such matters or appropriate follow up. Of the reports submitted, the Committee was satisfied with the actions which had been taken.

Auditor independence and remuneration
Both the Board and the external auditor have policies and procedures designed to protect the independence and objectivity of the external auditor. In 2018, the Committee amended its policy on business recovery services provided by the auditor in respect of the Group's customers to reflect revisions made by the Financial Reporting Council (FRC) to its rules. To ensure that there is an appropriate level of oversight by the Committee, the policy sets a financial threshold above which all non-audit services provided by the external auditor must be approved in advance by the Committee; the policy permits senior management to approve certain engagements with fees for amounts below the threshold. The policy also details those services that the Committee prohibits the external auditor from providing to the Group; these are consistent with the non-audit services which the FRC considers to be prohibited. The total amount of fees paid to the auditor for both audit and non-audit related services in 2018 is disclosed in note 12 to the financial statements.

External auditor
The Committee oversees the relationship with the external auditor (PwC) including its terms of engagement and remuneration, and monitors its independence and objectivity. Mark Hannam has been PwC's senior statutory audit partner for the Group and the Company since the beginning of 2016, and attends all meetings of the Committee. During 2018, the Committee reviewed PwC's audit plan, including the underlying methodology, and PwC's risk identification processes. In its assessment of PwC's performance and effectiveness, the Committee has considered: PwC's interactions with the Committee; the responses to a questionnaire issued to the Group's businesses, Finance, Risk and Internal Audit; and the FRC's Audit Quality Inspection Report published in June 2018. In addition, the FRC's Audit Quality Review team reviewed PwC's audit of the Group's 2017 financial statements as part of its latest annual inspection of audit firms. The Chairman and the Committee received a copy of the findings and discussed them with PwC. Whilst there were no significant findings, some areas of PwC's audit procedures were identified as needing limited improvements only. The Committee concluded that it was satisfied with the auditor's performance and recommended to the Board a proposal for the re-appointment of the auditor at the Company's AGM.

Statutory Audit Services compliance
The Company and the Group confirm compliance with the provisions of The Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014 (the 'Order') for the year to 31 December 2018. PwC has been auditor to the Company and the Group since 1995, having previously been auditor to certain of the Group's constituent companies.

PwC was re-appointed as auditor with effect from 1 January 2016 following a tender process conducted in 2014 in respect of the audit contract for the 2016, and subsequent, financial years.

During 2018 the Group carried out a formal review to choose its auditor for the year ended 31 December 2021. In accordance with the Order, PwC was excluded from this review. In October 2018, the Board (following the recommendation of the Audit Committee) approved the proposed appointment of Deloitte LLP. A recommendation for approval of this appointment will be made to the shareholders at the 2021 Annual General Meeting and subject to shareholder approval, Deloitte LLP will undertake the Group audit for the year ending 31 December 2021.

Board Risk Committee report

The environment within which the Group operates is increasingly subject to considerable change.

Dear Shareholder

I am pleased to report on how the Board Risk Committee (the 'Committee') has discharged its responsibilities throughout 2018.

During the year, the Committee gave detailed consideration to a wide range of existing and emerging risks, recognising that the environment within which the Group operates is increasingly subject to considerable change. This is achieved through effective planning of the agenda which ensures specific attention is given to those emerging risks which are considered to be of ongoing importance to the Group and its customers, alongside standing areas of risk management. The Committee continues to make use of dedicated sub-committees to provide additional focus on particular areas of significance.

The Committee considered delivery of key regulatory change programmes such as ring-fenced banking, together with other areas of regulatory attention such as data governance and operational resilience, where the Group continues to strengthen its control environment. Focus was also given to management of customer rectifications, where good progress continued to be made with reduction of the volume of rectification programmes and customers impacted. Stress testing undertaken by the Group, which included the impacts of IFRS 9 for the first time and considered the potential impacts of severe economic scenarios on the Group's business model, also continued to be reviewed and challenged by the Committee. Each of these areas will be subject to ongoing focus in 2019.

Looking ahead, other areas of focus will include continued improvements in the Group's treatment of customers in financial difficulty, and consumer indebtedness more generally, operational resilience and ever evolving cyber risks, together with risks associated with delivery of the Group's overall strategy and change portfolio. Uncertainties, particularly around the EU Exit, inevitably continue to provide challenges and potential impacts for the Group's risk profile; the Committee continues to closely monitor developments in these areas.

The Committee has concluded that the Group continues to have strong discipline in the management of both emerging and existing risks, and the Committee's work continues to help support the Group in achieving its core aim of operating as a digitised, simple, low risk financial services provider.

Alan Dickinson
Chairman, Board Risk Committee

Committee purpose and responsibilities

The purpose of the Committee is to review the risk culture of the Group, setting the tone from the top in respect of risk management. The Committee is also responsible for ensuring the risk culture is fully embedded and supports at all times the Group's agreed risk appetite, covering the extent and categories of risk which the Board considers as acceptable for the Group.

In seeking to achieve this, the Committee assumes responsibility for monitoring the Group's Risk Management Framework, which embraces risk principles, policies, methodologies, systems, processes, procedures and people. It also includes the review of new, or material amendments to risk principles and policies, and overseeing any action resulting from material breaches of such policy.

More details on the Group's wider approach to risk management can be found in the risk management section on pages 105 to 159. Full details of the Committee's responsibilities are set out in its terms of reference, which can be found at www.lloydsbankinggroup.com/our-group/corporate-governance

Committee composition, skills, experience and operation

Alan Dickinson, Chairman of the Committee, is a highly regarded retail and commercial banker, having spent 37 years with the Royal Bank of Scotland, most notably as Chief Executive of RBS UK, overseeing the group's Retail and Commercial operations in the UK. The Committee is composed of Non-Executive Directors, who provide core banking and risk knowledge, together with breadth of experience which brings knowledge from other sectors, and a clear awareness of the importance of putting the customer at the centre of all that the Group does.

All Non-Executive Directors are members of the Committee. The Chief Risk Officer has full access to the Committee and attends all meetings. The Chief Internal Auditor and members of the Executive also attend meetings, as appropriate.

Annually the Committee undertakes an effectiveness review. The review forms part of the Board evaluation process with Directors being asked to complete parts of the questionnaire relating to the Committees of which they were members. The findings of the review were considered by the Committee at its January 2019 meeting. On the basis of the evaluation, the feedback was that the performance of the Committee continues to be effective. Details of Committee membership and meeting attendance can be found on page 56.

As the most senior risk committee in the Group, the Committee interacts with other related risk committees, including the executive Group Risk Committee. Such interaction assists with the agenda planning process, where in addition to annual agenda planning, matters considered by the Group Risk Committee are reviewed to ensure escalation of all relevant matters to the Committee.

Matters considered by the Committee

Over the course of the year the Committee considered a wide range of risks facing the Group, both standing and emerging, across all key areas of risk management, in addition to risk culture and risk appetite, as noted above.

As part of this review, certain risks were identified which required further detailed consideration. Set out on the following pages is a summary of these risks, with an outline of the material factors considered by the Committee, and the conclusions which were ultimately reached.

During 2018, the Committee continued to utilise established sub-committees to provide additional focus on areas such as IT resilience and cyber, and stress testing and recovery planning. These sub-committees enable members of the Committee to dedicate additional time and resource to achieving a more in-depth understanding of the topics covered, and enable further review and challenge of the associated risks.

Activities during the year

	Key issues	Committee review and conclusion
Conduct risk		
Rectifications	The Committee continues to focus closely on the Group's management of customer rectifications.	Throughout 2018 the Committee has considered reports on the Group's rectifications portfolio performance, particularly the initiatives to reduce the number of customers with outstanding remediation. The Committee has noted substantial progress in the pace and quality of remediation in delivering a reduction in the number of customers awaiting redress and expect improvements in the time taken to deliver the right customer outcomes. The Committee has remained close to progress on material rectifications, including HBOS Reading. Conclusion: Root cause analysis and read-across activities continue to improve and embed across the Group with good progress in reducing the volume of rectification programmes and customers impacted. This will remain a key focus for the Committee.
CiFD	The Committee continues to focus closely on the Group's management of conduct risks and issues associated with customers in financial difficulty.	In 2018 the Committee considered reports on the progress of resolution of conduct issues affecting customers in financial difficulty. Key focus areas included pace and quality of remediation and analysis of lessons learned to prevent similar issues from arising in the future. The Committee also considered the progress made in transforming our approach to helping customers in financial difficulty and improving customer outcomes. Conclusion: Whilst good progress had been made, ongoing improvement in the Group's treatment of customers in financial difficulty will continue to be an area of focus.
Financial risk – covering Credit and Market risk		
Commercial credit quality	Reviews were undertaken of the Commercial Banking credit portfolio with a focus on sectors that have been impacted by slower economic growth.	A detailed review of the portfolio was conducted, which considered the quality of the overall portfolio as well as newly originated business. The Committee reviewed sectors that have been impacted by slower economic growth or structural change, notably those that are linked to discretionary consumer spending, for example, retail, as well as areas such as commercial real estate, agriculture and leveraged finance. Credit exposure and risk levels were monitored with reference to management information and risk appetite limits which included overall portfolio information as well as material individual exposures. The Committee also considered the Group's approach to credit policies and individual transaction limits, and reviewed summary details of transactions and portfolio reviews that were assessed at the Group's most senior credit committee. Conclusion: Overall Commercial Banking credit quality remained stable. Origination quality has been maintained, supported by a consistent through-the-cycle approach to risk appetite. The portfolio continues to be monitored closely with consideration given to the macroeconomic outlook and emerging trends.
Customer indebtedness	The Committee reviewed the risks relating to consumer lending indebtedness, PRA guidance on managing affordability risk, new FCA rules on Persistent Debt for credit cards, and residual value risk in Motor Finance.	Consideration was given to regulatory feedback, the Group's lending controls and risk appetite monitoring, new consumer lending indebtedness risk and the residual value risk profile in the Motor Finance portfolio. The Committee noted that lending controls and risk appetite metrics for both indebtedness and affordability assessment are in place, and acknowledged the Group's actions to closely monitor and control higher risk and marginal indebtedness segments and reduce exposure over time. The Committee reviewed progress against implementation of new FCA rules on Persistent Debt in the cards portfolio. Persistent Debt has decreased and further treatments are being tested to encourage higher levels of repayment. The Committee reviewed the progress being made to strengthen risk appetite limits and controls on residual value risk in the Motor Finance portfolio. Conclusion: The Committee was satisfied that appropriate lending controls and monitoring are in place for affordability and indebtedness and noted progress made to strengthen these and improve visibility of customers' debt positions, as well as ensure resilience in Motor Finance.
Retail secured	The Committee reviewed risks associated with the Group's UK mortgage portfolio including interest only and buy-to-let lending.	Consideration was given to the appropriateness of the Group's credit risk appetite for new mortgage lending, risks inherent in the portfolio and comparative benchmarks of business mix and performance. The Committee noted the credit quality of new business and reductions in the level of arrears across the portfolio. In line with our 'Helping Britain Prosper Plan', the Group participates more fully in lending to first time buyers and the buy-to-let market than our peer group. The Committee reviewed the additional credit controls that have been introduced to further reduce exposure to more marginal customers in these segments. The Committee also reviewed plans to address the risks associated with maturing interest only mortgages and noted progress made. Conclusion: The Committee was satisfied that appropriate credit controls were in place to support continued market participation in line with the Group's risk appetite limits, and that progress has been made on controls to address the risk of interest only lending.
Economic update	The Committee continues to consider key economic risks, particularly given the increasingly uncertain outlook.	During the year the Committee has increased consideration of macroeconomic risks impacting the Group's central economics forecast incorporated into the Group's Four-Year Operating Plan. The Committee has focused on economic and geo-political risks such as EU Exit and wider global economic risks, including US monetary policy, the impact of the US currency on emerging markets, trade wars, UK property markets and UK productivity. Conclusion: The Committee will continue to closely monitor economic uncertainties, particularly arising from EU Exit. The Committee will also focus on risks emerging from the EU due to slower growth and political challenges, as well as risks from wider global events.

Corporate governance report continued

	Key issues	Committee review and conclusion
Stress testing	The Committee continues to review the key vulnerabilities of the Group to adverse changes in the economic environment, ensuring that there are adequate financial resources in the event of a severe yet plausible downturn.	The Committee has reviewed the stress testing outputs from both the internal and regulatory exercises. This year, PRA stress testing included the impact of IFRS 9 for the first time, which requires us to recognise expected lifetime losses rather than reflecting incurred losses and accelerates loss recognition. This was a key area of focus and challenge at the Committee, which reviewed the evolution of balances through IFRS 9 stages under stress, and associated impairment impact. In addition the Committee assessed the usage and governance of models in the stress testing process to ensure the results were satisfactorily produced. Conclusion: The Group continues to review the impact of severe economic scenarios on our business model, whilst the Committee ensures the necessary risk oversight via review and challenge of the internal and regulatory stress tests.
Operational risk		
Operational resilience	Operational resilience is one of the Group's most important non-financial risks. Key focus in 2018 has been to enhance the existing approach to operational resilience and strengthen the control environment, to improve the Group's ability to respond to incidents and continue delivering key services to our customers.	Key areas of focus for the Committee have included updates on the Group's cloud strategy, review of the updated operational resilience strategy and response to the Bank of England's discussion paper. In addition, the Committee has reviewed papers relating to key risk reduction programmes including Identity and Access Management, insider risk and updates to the Group's approach to managing its third-party suppliers. Given the significance of the risk to the Group, the Committee has a sub-committee specifically focused on IT and cyber risks. Conclusion: The Committee takes the operational resilience of its services very seriously and has taken valuable insight from having independent advice and guidance. It has agreed risk appetite statements for critical services and has strengthened these over the last period to reflect the increased focus on resilience. The Committee considers that governance of operational resilience risk is robust and that activities in plan will ensure the ongoing resilience of key services to the Group's customers.
Data risk	The Committee continues to focus on data governance and privacy risks including oversight of the Group's compliance with the General Data Protection Regulation (GDPR), and the associated risks and controls.	Data risk continues to be an area of significant regulatory and media attention and the Committee has overseen the implementation of robust governance, to ensure compliance with GDPR. Clear accountabilities have been established by the creation of Divisional Data Privacy Accountable Persons, driving a culture of compliance. A Group Data Protection Office (GDPO) has been established to independently oversee compliance. The Group continues to drive enhancements to the control environment to ensure value is harnessed from the data that we hold, enabling delivery against key strategic priorities, whilst ensuring transparency and trustworthiness to our customers and colleagues. Conclusion: The Group continues to heighten the controls required to manage data risk. In 2019 data risk has been classified as a primary risk type.
People risk	The Committee recognises the importance of People risk management to ensure the Group has the right capabilities and culture as we build the Bank of the Future.	The Committee continued to focus on the People risk profile, recognising the challenges faced in successfully delivering the Group strategic and extensive regulatory change agenda. The Group recognises the increasing demands on colleagues and is monitoring colleague wellbeing and engagement as well as developing colleague skills to achieve capability enhancement for a digital era. Particular consideration is given to critical and high performing individuals. The Group has made significant progress in evolving and refining the compliance control environment for the Senior Manager and Certification Regime (SMCR). The delivery of the SMCR extension will remain a focus for 2019. Conclusion: The Committee provides oversight of People risk, which will remain a key focus as the Group delivers simplified colleague processes and maximises colleague skills and capability to achieve the workforce of the future.
Change and execution risk	The Committee continues to recognise risks associated with an extensive strategic change agenda, incorporating both discretionary and regulatory change. Focus areas include new execution risk metrics, effective change oversight and governance.	Recognising the extent of our transformation agenda, the Committee has received regular monitoring of key change and execution risk indicators. Metrics have been developed and refined throughout the year, alongside regular reporting. The effectiveness and model for change oversight has been reviewed and refreshed to ensure that there is risk-based assessment of strategic change activity. Similarly, the risk governance with respect to strategic change has been reviewed. Conclusion: There is significant work needed to transform how change is delivered, impacting both capacity and required change capability. This reorganisation is happening concurrently with change delivery. Further focus is required to manage dependencies and associated risks alongside refinement of execution risk metrics, and change/execution risk reporting.
EU Exit planning	Negotiations continue to determine the final terms of the UK's exit from the EU. The ongoing uncertainty regarding the options, timing and the process itself could affect the outlook for the UK and global economy.	The key risks for the Group include volatility and possible discontinuities in financial markets, impact on our customers' trading performance, financial position and credit profile, and ability to operate cross-border. When reviewing the possible impacts of the EU Exit, the Committee has given particular consideration to the Group's strong UK focus and UK-centric strategy. The Committee continues to closely monitor developments, with specific focus on the trading, financial and operational impacts for the Group, and the continued support of our customers. Conclusion: The EU exit plans continue to be closely monitored by the Committee via specific regular updates, a suite of early warning indicators and corresponding risk mitigation plans.

	Key issues	Committee review and conclusion
Money laundering	Financial crime is a priority for the UK Government, law enforcement and regulators. The Committee continues to monitor the Group's management of financial crime risk in light of significant regulatory change.	The Committee considered the unprecedented volume of regulatory and legislative change, noting the Group's response to the updated Money Laundering Regulations and UK Criminal Finances Act. Accordingly, the Committee reviewed the Annual Group Money Laundering Officer's Report (MLRO report) and was satisfied with the standard of compliance detailed within. Additionally, the Committee acknowledged the strategic plans in place to continually improve the Group's Financial Crime control framework. The Committee noted the positive outcome of the FCA Systematic Anti-Money Laundering Programme review, recognising the Group's '*largely effective Financial Crime control framework*' and '*strong tone from the top*'. Additionally, the Committee noted the progress in the Group's money mules strategy which has resulted in a significant improvement in the identification and prevention of illicit funds being laundered through Group accounts. Conclusion: The Committee noted satisfaction with the standard of compliance documented in the MLRO report, and acknowledged the action plans in place across the Group to further enhance the Group's position.
Fraud	The Committee continues to closely monitor the Group's management of fraud risk, whilst minimising the impact of controls on genuine customer journeys.	The Committee considered the challenging and evolving nature of the fraud risk environment influenced by factors such as an increasing sophistication of fraud typologies, third-party data breaches, and an uplift in social engineering fraud. The Group continues to invest in new and innovative controls, as well as working in collaboration with the public sector to prevent, detect, and respond to fraud risks. As such, the Committee was updated on strategic plans which will deliver enhanced controls enabling the Group to continue to manage fraud risk within appetite. Additionally, the Committee acknowledged the leading role the Group has played in the development of an industry code for authorised push payment fraud. The code will be agreed in early 2019 and the Group is well positioned to manage the impact. Conclusion: The Committee noted the positive work undertaken in the detection and prevention of fraud; acknowledged the need to maintain momentum, and therefore parity, with our peers; and, recognised the continuing efforts of the Group to protect the integrity of genuine customer journeys.

Regular reporting categories

Regulatory and legal risk	Managing regulatory risk continues to be a key focus within the Group due to the significant amount of highly complex and interdependent regulatory reform that we have managed in 2018, and will continue to manage in 2019.	The Committee has continued focus on ensuring effective controls and oversight to comply with existing regulatory obligations, as well as receiving regular updates on emerging legal trends. There have been ongoing significant regulatory change programmes in which the Board has placed increased focus in order to ensure successful execution, including the Basel Committee on Banking Supervision (BCBS 239) and Markets in Financial Instruments Directive II. Due consideration to the governance and compliance of the ring-fenced bank has also been considered by the Committee, including monthly programme reporting until the ring-fencing legislation took effect. Conclusion: The Group continues to place significant focus on complex regulatory changes, as well as ensuring effective horizon scanning of upcoming trends. Regulatory risk will remain a priority area of focus for the Committee in 2019.
Model risk	The Committee continues to recognise the importance of the Group Executive and the Board holding a strong understanding of the Group's models, their associated risks and performance.	During the year the Committee discussed the current model risk profile, with specific focus on the new IFRS 9 Impairment models, trends in performance and actions being taken to resolve material model issues. The Committee considered wider model issues such as the increase in automation and analytics required to support the Bank's strategic aims, regulatory issues and the action being taken by the Group to address these, as well as benchmarking the Group's approach to model risk management compared to the industry. Conclusion: Whilst good progress was made in 2018, the demand for models and model related activity is expected to continue to increase, with key drivers being the Group strategy, and the need to meet new regulatory requirements in the longer-term.
Complaints	The Committee continues to focus on ensuring the Group is resolving customer complaints in a timely manner and eradicating the causes for complaints.	The Committee continues to focus on ensuring the Group has an effective framework for managing complaints including root cause analysis to establish lessons learned and help prevent similar issues in the future. Consideration has been given to complaint metric performance and quality as measured by the Financial Ombudsman Service. Conclusion: The Group continues to make good progress however focus needs to remain on reducing the reasons for customers to complain in 2019 and to learn from root cause analysis.
Vulnerability	Vulnerable customers represent a significant proportion of the Group's customer base and continue to be an area of close focus.	The Committee considered progress on implementing the Group's strategy for vulnerable customers which is aligned to UK Finance Vulnerability Taskforce Principles. The Committee noted the actions in train, including enhanced guidance, more detailed evidencing of embedding, enhancement of the control framework and developing improved management information. The Group's signature actions for 2019 will focus on Mental Health, Critical Illness, Financial Abuse, Age Vulnerability and Access to Service. Conclusion: The Committee recognise the ongoing activity and the progress made, coupled with the significant focus required to deliver effectively on both the Group's aspirations and external expectations.

Responsible Business Committee report

Doing business in a responsible way is key to the successful delivery of our purpose to Help Britain Prosper

Dear Shareholder

I am pleased to report on the activity of the Responsible Business Committee (the Committee) in 2018.

During the year, as well as overseeing progress against the Helping Britain Prosper Plan as a whole, the Committee focused on some major and emerging Responsible Business themes.

The four Lloyds Banking Group charitable Foundations do critical work to tackle disadvantage across the UK. The Committee met with Baroness Fritchie, chair of the Lloyds Bank Foundation for England and Wales, to discuss how we could jointly do more to support activity in key areas such as domestic abuse or homelessness.

The Committee took a comprehensive deep dive to review the Company's emerging sustainability strategy. The Group committed to supporting the country's transition to a lower carbon economy, in line with the Government's Clean Growth Plan, and directors from all business areas described how their activity contributed to the overall plan.

I had great pleasure in attending the regional launch of our Digital Academy in Manchester in December. Improving digital skills, is a key plank of Britain's plan to increase productivity, and the Academy works with local organisations and national partners to deliver a range of training, including basic skills (like preparing a CV) as well as more advanced activity, and is accessible to all members of the community.

Further information on the activities which the Committee keeps under review are set out in the 2019 Helping Britain Prosper Plan on page 19. The Plan sets out how the Company seeks to help people, communities and businesses prosper.

In conclusion, I would like to thank the many colleagues across the Group for their hard work and extraordinary commitment to supporting Responsible Business activity in their 'day jobs', as well as by volunteering over 235,000 hours of their time and helping to raise £3.8 million for our charity of the year, Mental Health UK.

The report that follows gives more examples of our activity to Help Britain Prosper in 2018, and I hope you find it both interesting and informative.

Sara Weller
Chairman, Responsible Business Committee

How the Committee spent its time in 2018

During the year, the Committee undertook a detailed exercise to consider how its role and remit would develop to ensure it remained best placed to assist with the delivery of the Company's strategy by concentrating on overseeing the key initiatives to deliver the responsible business strategy.

The Committee agreed that its approach should focus on three material areas aligned to the Bank of the Future with the aim of enabling people, businesses and communities to be ready for the future.

Digital Skills has been a significant area for review and debate during the year, with regular updates provided on the direction of and progress with the establishment of the Lloyds Bank Academy. The Committee has provided input and challenge to the team working on the Academy programme and supported the pilot programmes undertaken in Manchester.

The development of the Company's **Sustainability** strategy was considered with input from external advisers. The Committee engaged with the leaders of business areas on the application of the approach to helping customers in a sustainable way. These included the assistance provided for customers who are victims of flooding, work to support the transition to a low carbon economy and the development of green loans. The Company's sustainability strategy was recommended to the Board for approval in September 2018 and published on the Company's website www.lloydsbankinggroup.com/our-group/responsible-business/sustainability-in-Lloyds-banking-group.

The alignment of the working relationship between the Company and the charitable **Foundations** was a key area of focus. The Committee considered and supported the development of plans to work in partnership with the Foundations to support the Charitable Sector through strengthening skills-based volunteering across Foundations-supported charities.

In other activities, the Committee considered reports on: an outline for an assurance process on responsible business activities within business areas; colleague engagement in responsible business activities; the partnership with the University of Birmingham's Centre for Responsible Business; the approach to communicating the Company's role as a responsible business; the Company's policies relating to responsible business including the Code of Responsibility and the Statement on compliance with the Modern Slavery Act.

At each meeting, updates have been provided on the performance against the metrics of the **Helping Britain Prosper Plan** on which a report is provided on page 20.

Committee purpose and operation

The Committee's role is to support the Board in overseeing the Group's performance as a responsible business by providing oversight of, and support for, the Group's strategy and plans for delivering the aspiration, to be seen as a trusted, responsible business, as part of the Company's purpose to Help Britain Prosper. This role is fulfilled by providing oversight and challenge on those activities which impact on the Company's behaviour and reputation as a trusted, responsible business and by considering and recommending to the Board for approval the Responsible Business Report and Helping Britain Prosper Plan.

The Chairman of the Committee reviews the forward agenda regularly to ensure that the focus of the Committee's work is on its key priorities and members have sufficient time at meetings to raise issues of concern and to engage in constructive dialogue with colleagues.

Committee composition, attendance at meetings and effectiveness review

Representatives from Group Internal Audit and the Chief Operating Office are invited to meetings as appropriate.

During the year, the Committee met its key objectives and carried out its responsibilities effectively, as confirmed by the annual effectiveness review. The Committee will consider the output from the 2018 effectiveness review and whether amendments could be made to its current working arrangements.

Details of committee membership and meeting attendance can be found on page 56.

Directors' report

Corporate governance statement

The Corporate Governance report found on pages 50 to 78 together with this Directors' report of which it forms part, fulfils the requirements of the Corporate Governance Statement for the purpose of the Financial Conduct Authority's Disclosure Guidance and Transparency Rules (DTR).

Profit and dividends

The consolidated income statement shows a statutory profit before tax for the year ended 31 December 2018 of £5,960 (2017: £5,275 million). The Directors have recommended a final dividend for 2018, which is subject to approval by the shareholders at the AGM, of 2.14 pence per share (2017: 2.05 pence per share) totalling £2,288 for the year (2017: £1,475 million). The final dividend will be paid on 21 May 2019.

The final dividend in respect of 2017 of 2.05 pence per ordinary share was paid to shareholders on 29 May 2018, and an interim dividend for 2018 of 1.07 pence per ordinary share was paid on 26 September 2018; these dividends totalled £2.24 billion. Further information on dividends is shown in note 44 on page 234 and is incorporated by reference.

The Board continues to give due consideration at each year end to the return of any surplus capital and for 2018, the Board intends to implement a share buyback of up to £1.75 billion, equivalent to up to 2.46 pence per share. This represents the return of capital over and above the Board's view of the current level of capital required to grow the business, meet regulatory requirements and cover uncertainties.

The share buyback programme is intended to commence in March 2019 and is expected to be completed during 2019. Given the total ordinary dividend of 3.21 pence per share and the intended share buyback, the total capital return for 2018 will be up to 5.67 pence per share, an increase of 27 per cent on the prior year, equivalent to up to £4.0 billion.

The Company intends to use the authority for the repurchase of ordinary shares granted to it at the 2018 AGM to implement the proposed share buyback. Details of this existing authority are set out under 'Power of Directors in relation to shares'.

Appointment and retirement of Directors

The appointment and retirement of Directors is governed by the Company's articles of association, the UK Corporate Governance Code and the Companies Act 2006. The Company's articles of association may only be amended by a special resolution of the shareholders in a general meeting.

Amanda Mackenzie has been appointed to the Board since the 2018 AGM and will therefore stand for election at the forthcoming AGM. In the interests of good governance and in accordance with the provisions of the UK Corporate Governance Code, all other Directors will retire, and those wishing to serve again will submit themselves for re-election at the forthcoming AGM.

Biographies of current Directors are set out on pages 52 to 53. Details of the Directors seeking election or re-election at the AGM are set out in the Notice of Meeting.

Board composition changes

Changes to the composition of the Board since 1 January 2018 up to the date of this report are shown in the table below:

	Joined the Board	Left the Board
Amanda Mackenzie	1 October 2018	
Deborah McWhinney		31 December 2018

Directors' and Officers' liability insurance

Throughout 2018 the Group had appropriate insurance cover in place to protect Directors, including the Directors who retired or resigned during the year, from liabilities that may arise against them personally in connection with the performance of their role.

As well as insurance cover, the Group agrees to indemnify the Directors to the maximum extent permitted by law. Further information on the Group's indemnity arrangements is provided in the Directors' indemnities section.

Change of control

The Company is not party to any significant agreements which take effect, alter or terminate upon a change of control of the Company following a takeover bid. There are no agreements between the Company and its Directors or employees providing compensation for loss of office or employment that occurs because of a takeover bid.

Directors' indemnities

The Directors of the Company, including the former Director who retired during the year, have entered into individual deeds of indemnity with the Company which constituted 'qualifying third-party indemnity provisions' for the purposes of the Companies Act 2006. The deeds indemnify the Directors to the maximum extent permitted by law and remain in force. The deeds were in force during the whole of the financial year or from the date of appointment in respect of the Director appointed in 2018. Deeds for existing Directors are available for inspection at the Company's registered office.

The Company has also granted deeds of indemnity by deed poll and by way of entering into individual deeds, which constitute 'qualifying third-party indemnity provisions' to the Directors of the Group's subsidiary companies, including to former Directors who retired during the year and since the year end, and to Group colleagues subject to the provisions of the Senior Managers and Certification Regime. Such deeds were in force during the financial year ended 31 December 2018 and remain in force as at the date of this report.

Qualifying pension scheme indemnities have also been granted to the Trustees of the Group's Pension Schemes, which were in force for the whole of the financial year and remain in force as at the date of this report.

Power of Directors in relation to shares

The Board manages the business of the Company under the powers set out in the articles of association, which include the Directors' ability to issue or buyback shares. The Directors were granted authorities to issue and allot shares and to buyback shares at the 2018 AGM. Shareholders will be asked to renew these authorities at the 2019 AGM. The authority in respect of purchase of the Company's ordinary shares is limited to 7,219,629,615 ordinary shares, equivalent to 10 per cent of the issued ordinary share capital of the Company as at the latest practicable date prior to publication of the 2018 AGM circular.

The Company undertook a share buyback programme, between 8 March 2018 and 24 August 2018, repurchasing in aggregate 1,577,908,423 ordinary shares for an aggregate consideration of £1 billion (aggregate nominal value of the shares £157,790,842.30) as a means by which to return capital to shareholders, given the amount of surplus capital. The 2018 buyback also assisted in the normalisation of ordinary dividends, and gave the flexibility that a buyback programme offers. All of the repurchased shares were cancelled, and together represented 2.22 per cent of the called up share capital of the Company at completion of the programme. Further information in relation to the 2018 share buyback programme is provided on page 49.

Conflicts of interest

The Board has a comprehensive procedure for reviewing, and as permitted by the Companies Act 2006 and the Company's articles of association, approving actual and potential conflicts of interest. Directors have a duty to notify the Chairman and Company Secretary as soon as they become aware of actual or potential conflict situations. Changes to commitments of all Directors are reported to the Nomination and Governance Committee and the Board and a register of potential conflicts and time commitments is regularly reviewed and authorised by the Board to ensure the authorisation status remains appropriate.

Stuart Sinclair is a Senior Independent Director at QBE UK Limited, a general insurance and reinsurance company. Lord Lupton is a senior advisor to Greenhill Europe, an investment bank focused on providing financial advice on significant mergers, acquisitions, restructurings, financings and capital raising to corporations, partnerships, institutions and governments. The Board has recognised that potential conflicts may arise as a result of these positions. The Board has authorised the potential conflicts and requires Mr. Sinclair and Lord Lupton to recuse themselves from discussions, should the need arise.

Branches

The Group provides a wide range of banking and financial services through branches and offices in the UK and overseas.

Research and development activities

During the ordinary course of business the Group develops new products and services within the business units.

Information incorporated by reference

The following additional information forms part of the Directors' report, and is incorporated by reference.

Content		Pages
Group results	Summary of Group results	37 to 43
Ordinary dividends	Dividends on ordinary shares	234
Directors' biographies	Board of Directors	52 to 53
Directors in 2018[1]	Board of Directors	52 to 53
Directors' emoluments	Directors' remuneration report	82 to 104
Internal control and financial risk management	Financial reporting risk Risk management and Financial instruments	107 105 to 159, 241 to 252 and 255 to 268
Information included in the strategic report	Future developments Greenhouse gas emissions (additional information) Supporting people with disabilities Engaging colleagues	2 to 35 24 to 25 22 to 23 17
Disclosures required under Listing Rule 9.8.4R	Significant contracts Dividend waivers	237 to 238 234
Principal risks and uncertainties	Funding and liquidity Capital position	34 and 147 to 152 139 to 147
Share capital and control	Share capital and restrictions on the transfer of shares or voting rights Special rights with regard to the control of the Company Employee share schemes – exercise of voting rights	229 229 229

1 Deborah McWhinney also served as a director during the year, retiring from the Company on 31 December 2018.

Substantial shareholders

Information provided to the Company by substantial shareholders pursuant to the DTR is published via a Regulatory Information Service.

As at 31 December 2018, the Company had been notified by its substantial shareholders under Rule 5 of the DTR of the following interests in the Company's shares:

	Interest in shares	% of issued share capital with rights to vote in all circumstances at general meetings[1]
BlackRock Inc.	3,668,756,765[2]	5.14%
Harris Associates L.P.	3,551,514,571[3]	4.99%

1 Percentage provided was correct at the date of notification.

2 The most recent notification provided by BlackRock Inc. under Rule 5 of the DTR identifies (i) an indirect holding of 3,599,451,380 shares in the Company representing 5.04 per cent of the voting rights in the Company, and (ii) a holding of 69,305,385 in other financial instruments in respect of the Company representing 0.09 per cent of the voting rights of the Company. BlackRock Inc.'s holding most recently notified to the Company under Rule 5 of the DTR varies from the holding disclosed in BlackRock Inc.'s Schedule 13-G filing with the US Securities and Exchange Commission dated 5 February 2019, which identifies beneficial ownership of 4,598,344,792 shares in the Company representing 6.5 per cent of the issued share capital in the Company. This variance is attributable to different notification and disclosure requirements between these regulatory regimes.

3 An indirect holding.

No further notifications have been received under Rule 5 of the DTR as at the date of this report.

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 considered a number of key dependencies which are set out in the risk management section under principal risks and uncertainties: funding and liquidity on page 34 and pages 147 to 152 and capital position on pages 139 to 147. Additionally, the Directors have considered the capital and funding projections of the Company and Group. 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.

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 2017 Group Strategic Review, which sets out the Group's customer and business strategy for the three year period from 2018 to 2020 inclusive; and
- the Group's four year operating plan which comprises detailed customer, financial, capital and funding projections together with an assessment of relevant risk factors for the period from 2019 to 2022 inclusive.

In particular, the Board considered a range of possible impacts arising from the uncertain economic and geopolitical outlook, notably the implications of the possible outcomes of the EU exit negotiations. The Group's four year operating plan also incorporated the impact of the IFRS 9 'Financial Instruments' and the continuing low interest rate environment.

Group, divisional and business unit operating plans covering a period of four years 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 revises 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 based on the Board's objectives 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 Risk Division over the alignment of the plan with Group strategy and the Board's risk appetite. This assessment performed by 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 64, is taken into account. Further information on stress testing and reverse stress testing is provided on page 110.
- The final four year 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 first three years of the current plan. The uncertain global economic and political environment, including the longer-term impact of the UK's plans to leave the EU, together with the pace of regulatory change mean that the assumptions supporting the fourth year of the operating plan are likely to be less reliable. As a result, the Board considers that a three year period continues to present a reasonable degree of confidence over expected events and macroeconomic assumptions, whilst still providing an appropriate longer-term outlook, although the remaining period of the operating plan 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 1 to 35;
- Emerging risks are disclosed on pages 108 to 109;
- 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 115 to 159; and
- The Group's approach to stress testing and reverse stress testing, including both regulatory and internal stresses, is described on page 110.

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 2021.

Greenhouse gas emissions

The Group has voluntarily reported greenhouse gas emissions and environmental performance since 2009, and since 2013 this has been reported in line with the requirements of the Companies Act 2006. Our total emissions, in tonnes of CO_2 equivalent, are reported in the strategic report on page 25.

Deloitte LLP has provided limited level ISAE 3000 (Revised) assurance over selected non-financial indicators as noted by ✓. Their full, independent assurance statement is available online at www.lloydsbankinggroup.com/rbdownloads.

Methodology

The Group follows the principles of the Greenhouse Gas (GHG) Protocol Corporate Accounting and Reporting Standard to calculate our Scope 1, 2 and 3 emissions from our worldwide operations. The reporting period is 1 October 2017 to 30 September 2018, which is different to that of our Directors' report (January 2018 – December 2018). This is in line with Regulations in that the majority of the emissions reporting year falls within the period of the Directors' report. Emissions are reported based on an operational boundary. The scope of reporting is in line with the GHG Protocol and covers Scope 1, Scope 2 and Scope 3 emissions. Reported Scope 1 emissions cover emissions generated from gas and oil used in buildings, emissions from UK company-owned vehicles used for business travel and emissions from the use of air conditioning and chiller/refrigerant plant. Reported Scope 2 emissions cover emissions generated from the use of electricity, calculated using both the location and market-based methodologies. Reported Scope 3 emissions relate to business travel undertaken by colleagues and emissions associated with the extraction and distribution of each of our energy sources – electricity, gas and oil. A detailed definition of these emissions can be found in our 2018 Reporting Criteria online at www.lloydsbankinggroup.com/rbdownloads.

Intensity ratio

	Oct 2017 – Sept 2018	Oct 2016 – Sept 2017	Oct 2015 – Sept 2016
GHG emissions (CO_2e) per £m of underlying income (Location Based)[1]	13.1	15.5	19.4
GHG emissions (CO_2e) per £m of underlying income (Market Based)	6.2	16.4	19.4

1 Location based intensity levels have been restated for 2015-2016 and 2016-2017 to reflect changes to emissions data only, replacing estimated data with actuals; underlying income figures for those years have not changed.

This year, our overall location based carbon emissions were 244,407 tCO_2e; a 15 per cent decrease since 2017, and 57 per cent against our 2009 baseline. Reductions achieved are attributable to our Environmental Action Plan (EAP), launched in 2010, which has delivered a reduction in gas and electricity consumption through an extensive energy management programme, alongside decarbonisation of the UK electricity grid.

Additionally, we are now disclosing market based emissions figures. For 2018, this is equal to 115,467 tCO_2e – a comparative decrease of 62 per cent year on year and 79% against 2009 baseline. Further reductions in market emissions are attributable to the purchase of solar, wind, hydro and biomass Renewable Energy Guarantees of Origin (REGOs) equivalent to total UK electricity consumption in 2018.

Omissions

Emissions associated with joint ventures and investments are not included in this disclosure as they fall outside the scope of our operational boundary. The Group does not have any emissions associated with heat, steam or cooling and is not aware of any other material sources of omissions from our reporting.

Independent auditor and audit information

Each person who is a Director at the date of approval of this report confirms that, so far as the Director is aware, there is no relevant audit information of which the Company's auditor is unaware and each Director has taken all the steps that he or she ought to have taken as a Director to make himself or herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information. This confirmation is given and should be interpreted in accordance with the provisions of the Companies Act 2006.

Resolutions concerning the re-appointment of PricewaterhouseCoopers LLP as auditor and authorising the Audit Committee to set its remuneration will be proposed at the AGM.

Statement of directors' responsibilities

The Directors are responsible for preparing the annual report, the Directors' remuneration report and the financial statements in accordance with applicable law and regulations. Company law requires the Directors to prepare financial statements for each financial year. Under that law, the Directors have prepared the Group and parent Company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law, the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Company and Group for that period. In preparing these financial statements, the Directors are required to: select suitable accounting policies and then apply them consistently; make judgements and accounting estimates that are reasonable and prudent; and state whether applicable IFRSs as adopted by the European Union have been followed.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the financial statements and the Directors' remuneration report comply with the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

A copy of the financial statements is placed on our website at www.lloydsbankinggroup.com. The Directors are responsible for the maintenance and integrity of the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Each of the current Directors who are in office as at the date of this report, and whose names and functions are listed on pages 52 to 53 of this annual report, confirm that, to the best of his or her knowledge:

- the Group financial statements, which have been prepared in accordance with IFRSs as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and Group; and
- the management report contained in the strategic report and the Directors' report includes a fair review of the development and performance of the business and the position of the Company and Group, together with a description of the principal risks and uncertainties that they face.

The Directors consider that the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy. The Directors have also separately reviewed and approved the strategic report.

On behalf of the Board

Malcolm Wood Company Secretary
19 February 2019
Lloyds Banking Group plc
Registered in Scotland
Company number SC95000

Directors' remuneration report
Remuneration Committee Chairman's statement

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

KEY MESSAGES

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

Composition of Executive Director Remuneration

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

Variable Reward Components

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

95%	5%
Shares	**Cash**

Dear Shareholder

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

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

Responding to feedback

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

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

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

Our performance and remuneration philosophy

We continue to operate four core reward principles:

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

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

What we have changed in response to your feedback

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

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

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

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

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

Delivery through collective success

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

  Full details are provided on page 86.

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

  Full details are provided on page 87.

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

  Full details are provided on page 87.

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

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

2019 Annual General Meeting

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

Stuart Sinclair

Stuart Sinclair
Chairman, Remuneration Committee

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

Total Remuneration for Executive Directors 2017 vs 2018

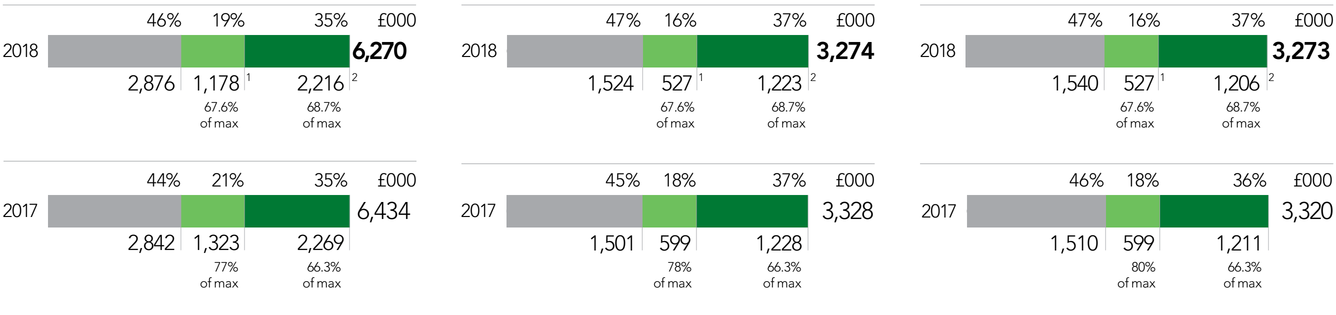
The charts below summarise the Executive Directors' remuneration for the 2017 and 2018 performance years. Full details are provided on page 88.

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

António Horta-Osório
Group Chief Executive (GCE)

George Culmer
Chief Financial Officer (CFO)

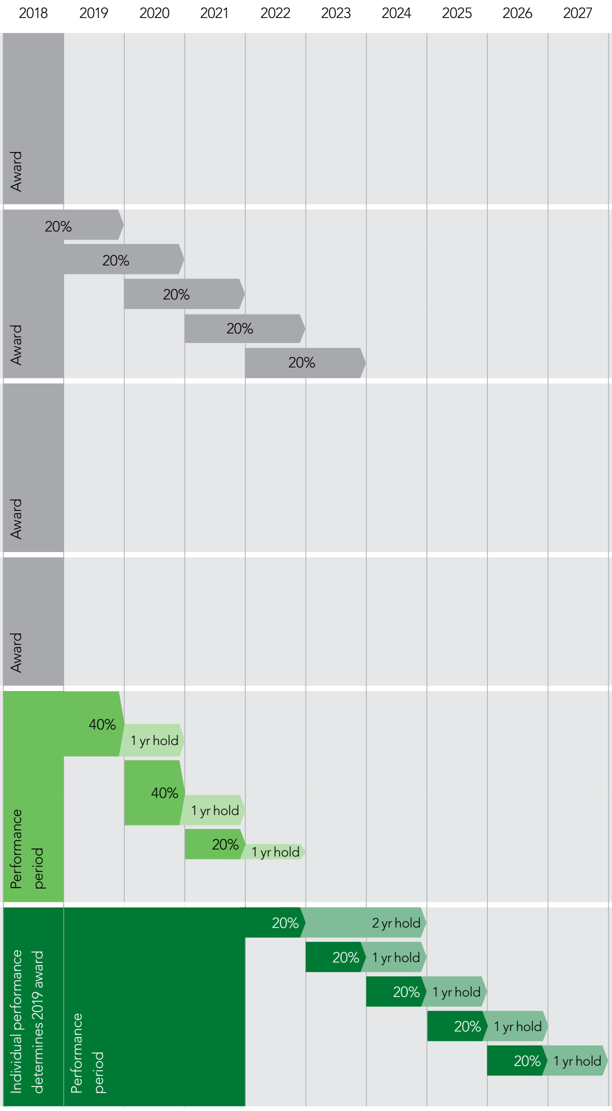
Juan Colombás
Chief Operating Officer (COO)



1 2018 Group Performance Share, awarded in March 2019.

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

How Executive Director remuneration is composed[1]



		Implementation
FIXED	Base Salary	For 2019: The Group has applied a total pay budget of 2.6 per cent for the wider colleague population. GCE: £1,269,288 (1 January 2019) (2 per cent) CFO: £779,351 COO: £794,938 (1 January 2019) (2 per cent).
FIXED	Fixed share award	For 2019: GCE: £1,050,000 CFO: £504,000 COO: £497,000 Awards are released in shares in equal tranches over a five year period.
FIXED	Pension	For 2019: GCE: 33 per cent of base salary CFO: 25 per cent of base salary COO: 25 per cent of base salary
FIXED	Benefits	Benefits remain unchanged from 2018. Executive Directors receive a flexible benefits allowance in line with colleagues, (4 per cent of salary). This can be used to select benefits including life assurance and critical illness cover. Other benefits include car allowance, transportation and private medical cover.
VARIABLE	2018 Group Performance Share	For 2018, the following awards were made: GCE: £1,177,700 CFO: £526,841 COO: £526,841 £2,000 is paid in cash in March 2019, with the balance of the upfront 40 per cent delivered in shares. Half of this is delivered in June 2019 and the remainder subject to holding until March 2020. The remaining 60 per cent is deferred into shares with 40 per cent vesting in 2020 and 20 per cent in 2021. Half of each deferral is also subject to holding for one year.[2] See page 93.
VARIABLE	2019 Group Ownership Share	For 2019 the following awards are being made: GCE: 300 per cent of base salary. CFO: No award COO: 275 per cent of base salary. Awards will be subject to a three year performance period with vesting between the third and seventh anniversary of award. Any shares released are subject to a further holding period in line with regulatory requirements and market practices.[2] See page 94.

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

2 Variable remuneration is subject to malus and clawback. See page 94.

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

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

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

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

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

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

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

How we have performed over one year

Financial performance

£8,066m

+6%

Underlying profit

How we have performed over three years (2016 LTIP measures) – see page 89.

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

Actual: 44.7%

100%

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

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

Actual: (4.8%)

0%

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

Economic profit
(25% weighting)

Actual: £3,291m

94.8%

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

Customer satisfaction
(10% weighting)

Actual: 1st

100%

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

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

Actual: 14.1m

100%

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

Customer complaints per 1,000
(5% weighting)

Actual: 3.04

100%

4.18 25% payout — **3.78** 100% payout

Colleague engagement
(7.5% weighting)

Actual: 73

100%

66 25% payout — **72** 100% payout

Customer complaints FOS change rate
(5% weighting)

Actual: 18%

100%

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

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

Directors' remuneration report continued

Annual report on remuneration

2018 Group Balanced Scorecard

A balanced scorecard approach is used to assess Group performance and divisional performance. The Group Balanced Scorecard is made up of 20 measures with clearly defined performance targets agreed by the Committee in Q1 2018. Each receives a mechanical score of 1 to 5 depending on performance against those targets, resulting in an overall score and performance rating, see table on page 87. The Group Chief Executive's individual performance is measured through the Group Balanced Scorecard.

The 2018 Group Balanced Scorecard is as follows:

		Objective	Measure	Performance Range/Outcome: Minimum: 1	Outcome	Performance Range/Outcome: Maximum: 5	Score
Non-Financial	Customer	Satisfying our customers	Customer Dashboard (score relating to c. 120 customer specific measures)	0-29	73	85-100	4
		Retaining and growing customers	Customer Index (Reviewing customer experience and customer value)	<4	8	≥9	4
		Making business with us easier	Improvement of customer journeys	The Group has standardised the majority of its customer journeys with little progress to optimise.	50% standardised / 50% optimised	The Group has optimised the majority of its customer journeys with the remainder being standardised.	4
		Fewer complaints, better handled, driving better outcomes	Total FCA Complaints per '000	>3.25	3.04	<3.00	4
			FOS Change Rate	>30%	18%	≤25%	5
	People	More engaged colleagues	Banking Standards[1] Board Colleague Survey results – Score movement (absolute)	>-6	-2	≥1	3
			Banking Standards[1] Board Colleague Survey results – Change vs BSB median (relative)	>-2	-1	≥1	
		Building a better culture	Colleague and cultural engagement scores	<63	70.1	≥73	4
		Building skills for the future	Colleague upskilling/ retraining completion	<3,000 training interventions	13,548	≥4,200 training interventions	5
	Control environment	Maintaining a low risk Bank	Board Risk Appetite	>10% red metrics	0.0%	≤4% red metrics	5
		Change delivered safely	Change Execution Risk	Less than 75% of change indicators rated Green, over 15% rated Red	92.9% Green / 4.7% Red	Over 92.5% of change indicators rated Green, less than 5% rated Red	4
		Major programmes delivered as planned	Successful delivery of Major Group Core Programmes (based on time, cost and quality approach)	<5	11	≥14	4
		Building great relationships with regulators	Regulatory Management and Engagement	Under performance of ≥3 metrics	All metrics rated Good	Top performance in ≥4 metrics. No metrics at Good, Developing or Under.	3
	Building the business	Faster and simpler change	Change delivered through Agile methodology	<10% of portfolio	15.5%	≥17.5% of portfolio	4
		Building great relationships with external stakeholders	Reputation with external stakeholders – excluding regulators	<0.55	2.90	≥3.55	3
		Managing investments and delivering benefits	Investment Performance (based on time, cost and quality approach)	<5	11	≥14	4
		Making the most of our data	Data Maturity Level	<2.6	2.86	>2.9	4
		Helping Britain Prosper	Deliver Helping Britain Prosper targets	<Less than 50% of metrics rated Green	90.9% rated Green	≥90% metrics rated Green, none Red	5
Financial	Finance	Delivering a capital efficient, low cost, profitable Bank	Cost: Income Ratio (including remediation)	>52.9%	49.3%	<48.9%	4
			Statutory Profit after tax	<3,180m	4,400m	≥4,373m	5
			Common Equity Tier 1 generation	<140bps	210bps	>200bps	5

1 Banking Standards Board measure combines the absolute and relative movement in one metric.

Overall 4.15

Calculating the 2018 Group Performance Share outcome

The Annual Group Performance Share outcome is calculated using the following steps.

	Timeline	Process	Calculation step
Funding inputs	Q1. 2018	Group underlying profit target determined. Threshold set 20 per cent below target, below which no bonus payable.	£8,616m[1]
		The Committee set a funding level to award at target which is 30 per cent of max opportunity for EDs, as per policy, and 50 per cent for all other colleagues.	£447.5m[2]
		Percentage of underlying profit used to fund Group Performance Share determined.	£447.5m / £8,616m = 5.1%
Funding calculation	Q4. 2018	Group underlying profit reported (adjusted).	£9,154m[3]
		Application of funding percentage.	£9,154m x 5.1% = £466.9m

Balanced Scorecard Outcome	1.00 – 1.59	Threshold	1.60 – 2.59	2.60 – 2.79	2.80 – 3.19	3.20 – 3.59	3.60 – 3.79	3.80 – 4.19	4.20 – 4.59	4.60 – 4.79	4.80 – 5.00	Maximum
Group Scorecard Rating	Under		Developing	Good Minus	Good	Good Plus	Strong Minus	Strong	Strong Plus	Top Minus	Top	
Group Balanced Scorecard Modifier	0		0.55 – 0.80	0.90	1.00	1.05	1.10	1.15	1.20	1.25	1.30	

Assessment of performance against Group Balanced Scorecard objectives agreed in Q1 2018.	Balanced Scorecard Outcome 4.15/5
Group Balanced Scorecard Modifier.	£466.9m x 1.15 = £536.9m
Reduction for conduct, and other factors.	£536.9m – £72.4m = £464.5m
	Overall pool £464.5m
Final approved GPS funding for the Group was 4 per cent greater than the original target.	£464.5m / £447.5m = 104% (Group Funding Modifier)

		Underlying profit £m	Pool Funding %	Funding (mechanical) £m	GPS Funding Performance Adjustment £m	Conduct, risk and other factors £m	**Overall Pool £m**	Final % of Underlying Profit %
2017	Target	7,846	5.1%	400.0		–	**–**	–
	Actual	8,567		436.9	87.4	(109.6)	**414.7**	4.8
2018	Target	8,616[1]		447.5[2]		–	**–**	–
	Actual	9,154[3]		466.9	70	(72.4)	**464.5**	5.1

1 Target full year underlying profit agreed by Board, adjusted for conduct and target GPS expense.
2 On target increased year-on-year due to population change, including colleagues moving from incentives to Group Performance Share in 2018.
3 Underlying profit of £8,066m adjusted by £600m for conduct provision, £27m for year-on-year Prudential Value Adjustment in line with regulatory requirement and £461m for Group performance share expense in 2018.

Executive Directors' Group Performance Share outcome for 2018 (audited)

Individual awards for Executive Directors are determined through the assessment of individual performance using the Group or their divisional balanced scorecard. Personal contribution may be considered where it diverges from scorecard outcomes. Awards will not be made if the Group does not meet threshold financial performance or if an individual is rated Developing or below.

Awards are based on pre-determined formulaic pay out ranges commensurate with performance as follows:

Individual Performance	Under – Developing	Threshold	Good Minus	Good	Good Plus	Strong Minus	Strong	Strong Plus	Top Minus	Top	Maximum
Opportunity (% of maximum)	No award		12.5% – 24.15%	24.16% – 35.83%	35.84% – 47.49%	47.5% – 59.15%	59.16% – 70.82%	70.83% – 82.49%	82.5% – 94.15%	94.16% – 100%	

Based on the mechanical outturn of individual scorecards, a recommendation is made on the award level within the pre-determined pay out range. This was the mid point of the range and no discretion was applied.

The Group modifier is applied to all colleague awards to take into account Group Performance against target. For 2018 an adjustment of 4 per cent.

Executive Director	Balanced Scorecard	Final Individual rating	Award (% of max)	Group Funding Modifier	**Final Award (% of max)**	GPS Maximum Opportunity (% of salary)	**Final Award (% of salary)**
António Horta-Osório	Group	Strong	65%	104%	**67.6%**	140%	**94.60%**
George Culmer	Finance	Strong	65%		**67.6%**	100%	**67.60%**
Juan Colombás	Chief Operating Office	Strong	65%		**67.6%**	100%	**67.60%**

Read more page 88

Directors' remuneration report continued

Individual performance ratings are determined on the basis of whole job contribution taking account of both (i) what has been achieved against the balanced scorecard objectives for the area for which they have responsibility and (ii) personal performance that considers how performance has been achieved through their leadership approach. For the Group Chief Executive the relevant Balanced Scorecard is the Group Balanced Scorecard, for the Chief Financial Officer the Finance Division Scorecard, and for the Chief Operating Officer the Chief Operating Office Scorecard. Discretion may be applied in deciding whether personal performance rating should vary from the mechanical outcome provided by the Balanced Scorecard metrics. No discretion has been exercised for 2018.

António Horta-Osório
Group Chief Executive

The Group Chief Executive's performance assessment for 2018 reflected the Group's objectives, assessed as Strong.

For Group Balanced scorecard please see **page 86**

George Culmer
Chief Financial Officer

Finance Balanced Scorecard rating

BSC category	Assessment	Rating
Customer	4.00	Strong
People	3.75	Strong minus
Control environment	4.00	Strong
Building the business	3.67	Strong minus
Finance	4.60	Top minus

- The Chief Financial Officer's individual performance assessment for 2018 reflected the Finance division's objectives, assessed as Strong. The individual block ratings and assessment are shown above.

Juan Colombás
Chief Operating Officer

COO Balanced Scorecard rating

BSC category	Assessment	Rating
Customer	4.20	Strong Plus
People	3.50	Good Plus
Control environment	4.25	Strong Plus
Building the business	4.00	Strong
Finance	4.50	Strong Plus

- The Chief Operating Officer's individual performance assessment for 2018 reflected the Chief Operating Office objectives, assessed as Strong. The individual block ratings and assessment are shown above.

Key considerations factored into assessing performance and overall rating include, but are not limited to, the following:

Other performance considerations (António Horta-Osório)
- Launched the third stage of the Group's strategic plan with strategic investment of more than £3 billion over three years.
- Increased customer 'net promoter' score, with reduction in compliants, set against continuing legacy conduct issues and remediation.
- Further progress in building market leading savings and wealth proposition with agreed Schroders JV.
- Maintained colleague engagement above UK high-performing norm, with significant increase in skills training.
- Continued progress against Helping Britain Prosper targets.
- Financial performance above plan, allowing for increased return of capital to shareholders.

Overall rating
Strong

Other performance considerations (George Culmer)
- Strong financial performance delivered in a continuing challenging low interest rate environment.
- Continued improvement in the Group's cost:income ratio to 46 per cent (49.3 per cent including remediation).
- CET1 capital generation of 210 bps, comfortably exceeding market guidance of 200 bps.
- Effective management of the establishment of the non-ring fenced bank, Lloyds Bank Corporate Markets plc.
- Very strong leadership of the Finance, Legal and Strategy division with excellent colleague engagement.

Overall rating
Strong

Other performance considerations (Juan Colombás)
- Maintained a strong operational environment including developing and implementation of Change, Information and Cyber Security risk control, reporting and insight.
- Delivered customer complaint reductions which saw an 8.2 per cent year-on-year reduction to a close of 3.04 FCA complaints per thousand.
- Exemplary leadership of delivery of the latest strategic plan, transforming the Group for success in a digital world.
- Fully supported the People transformation activities across the Group, delivering in excess of 1 million training and development hours for colleagues.
- Maintained colleague engagement at levels in excess of the UK high performing norm.

Overall rating
Strong

Single total figure of remuneration (audited)

	António Horta-Osório		George Culmer		Juan Colombás		Total	
£000	**2018**	2017	**2018**	2017	**2018**	2017	**2018**	2017
Base salary	**1,244**	1,220	**776**	760	**779**	753	**2,799**	2,733
Fixed share award	**900**	900	**504**	504	**497**	497	**1,901**	1,901
Benefits	**157**	156	**49**	46	**68**	71	**274**	273
Group Performance Share	**1,178**	1,323	**527**	599	**527**	599	**2,232**	2,521
2016 Long-term incentive (LTIP)[1]	**2,216**	2,269	**1,223**	1,228	**1,206**	1,211	**4,645**	4,708
Pension allowance	**573**	565	**194**	190	**195**	188	**962**	943
Other remuneration[2]	**2**	1	**1**	1	**1**	1	**4**	3
Total remuneration	**6,270**	6,434	**3,274**	3,328	**3,273**	3,320	**12,817**	13,082

1 The 2016 LTIP vesting (see page 89) at 68.7 per cent and dividend equivalents awarded in shares were confirmed by the Remuneration Committee at its meeting on 14 February 2019. The total number of shares vesting were 3,445,449 and 509,271 shares delivered in respect of dividend equivalents for António Horta-Osório, 1,901,209 shares vesting and 281,017 shares delivered in respect of dividend equivalents for George Culmer and 1,874,804 shares vesting and 277,114 shares delivered in respect of dividend equivalents for Juan Colombás. The average share price between 1 October 2018 and 31 December 2018 (56.04 pence) has been used to indicate the value. The shares were awarded in 2016 based on a share price of 72.978 pence and as such no part of the reported value is attributable to share price appreciation. LTIP and dividend equivalent figures for 2017 have been adjusted to reflect the share price on the date of vesting (67.1043 pence) instead of the average price (66.75 pence) reported in the 2017 report.

2 Other remuneration payments comprise income from all employee share plans, which arises through employer matching or discounting of employee purchases.

Pension and benefits (audited)

Pension/Benefits £	António Horta-Osório	George Culmer	Juan Colombás
Cash allowance in lieu of pension contribution	573,400	193,883	194,838
Car or car allowance	12,000	17,943	12,000
Flexible benefits payments	48,800	30,563	30,138
Private medical insurance	38,151	760	17,342
Tax preparation	24,000	–	5,881
Transportation	34,265	–	2,542

Defined benefit pension arrangements (audited)

António Horta-Osório has a conditional unfunded pension commitment. This was a partial buy-out of a pension forfeited on joining from Santander Group. It is an Employer-Financed Retirement Benefits Scheme (EFRBS). The EFRBS provides benefits on a defined benefit basis at a normal retirement age of 65. The benefit in the EFRBS accrued during the six years following commencement of employment, therefore ceasing to accrue as of 31 December 2016.

The EFRBS was subject to performance conditions. It provides a percentage of the GCE's base salary or reference salary in the 12 months before retirement or leaving. No additional benefit is due in the event of early retirement. The rate of pension accrued in each year depended on share price conditions being met and the total pension due is 6 per cent of his base salary of £1,244,400 or £74,664.

There are no other Executive Directors with defined benefit pension entitlements.

Under terms agreed when joining the Group, Juan Colombás is entitled to a conditional lump sum benefit of £718,996 either (i) on reaching normal retirement age of 65 unless he voluntarily resigns or is dismissed for cause, or (ii) on leaving due to long-term sickness or death.

2016 LTIP vesting (audited)

Awards in the form of conditional rights to free shares in 2016 were made over shares with a value of 300 per cent of reference salary for the GCE and 275 per cent of salary for the CFO and COO. These LTIP awards are vesting at 68.7 per cent, as detailed in the table below. This reflects the Group's strong financial and strategic performance over the three financial years ended 31 December 2018, balanced against significant uncertainty in the economic and political environment impacting negatively on share price performance, resulting in no vesting for the Total Shareholder Return component.

The Committee has an overarching discretion to reduce the level of award that will vest, regardless of whether the performance condition for partial or full vesting has been met. This qualitative judgement ensures that vesting is not simply driven by a formula that may give an unexpected or unintended remuneration outcome compared to Group performance. The Committee considers this discretion carefully, taking into account circumstances that are relevant to the performance measures and the period under consideration. No discretion has been applied in respect of the vesting outcome for the 2016 LTIP. This was discussed, but it was agreed that the formulaic outcomes were fair and reflective against the original targets set in 2016. Executive Directors are required to retain any vested shares for a further two years after vesting.

Weighting	Measure	Threshold	Maximum	Actual	Vesting
30%	Absolute total shareholder return (TSR)	8% p.a.	16% p.a.	(4.8%)	0%
25%	Economic profit	£2,507m	£3,308m	£3,291m	23.7%
10%	Cost:income ratio[1]	47.3%	46.1%	44.7%	10%
10%	Customer complaint handling[2]	4.18	3.78	3.04	5%
	(FCA reportable complaints/FOS change rate)	=<29%	=<25%	18%	5%
10%	Customer Satisfaction	3rd	1st	1st	10%
7.5%	Digital active customer growth	13.4m	14.0m	14.1m	7.5%
7.5%	Colleague engagement score	66	72	73	7.5%
				LTIP (% maximum) vesting	68.7%

1 Adjusted total costs.

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

Chairman and Non-Executive Directors (audited)

	Fees £000		Total £000	
	2018	2017	2018	2017
Chairman and current Non-Executive Directors				
Lord Blackwell[1]	743	728	755	740
Alan Dickinson	230	248	230	248
Anita Frew	380	364	380	364
Simon Henry	182	166	182	166
Lord Lupton	318	161	318	161
Amanda Mackenzie[2]	31	–	31	–
Deborah McWhinney	174	142	174	142
Nick Prettejohn	449	441	449	441
Stuart Sinclair	172	152	172	152
Sara Weller	199	190	199	190
Former Non-Executive Directors				
Anthony Watson (retired May 2017)	–	91	–	91
Nick Luff (retired May 2017)	–	69	–	69
Total	2,878	2,752	2,890	2,764

1 Benefits: car allowance (£12,000).

2 Appointed 1 October 2018.

Directors' remuneration report continued

Loss of office payments and payments within the reporting year to past Directors (audited)

There were no payments for the loss of office during 2018. In April 2018, following a Court judgment in relation to Integration Awards granted under the Group's Long-Term Incentive Plan (the LTIP) in 2009, 2,063,640 shares were released and £271,169 paid to John Eric Daniels, former Group Chief Executive and 1,424,778 shares were released and £386,167 paid to Truett Tate, former Executive Director.

External appointments

António Horta-Osório – During the year ended 31 December 2018, the GCE served as a Non-Executive Director of Exor, Fundação Champalimaud, Stichting INPAR Management/Enable and Sociedade Francisco Manuel dos Santos. The Group Chief Executive is entitled to retain the fees, which were £380,569 in total.

Relative importance of spend on pay

The graphs illustrate the total remuneration of all Group employees compared with returns of capital to shareholders in the form of dividends and share buyback.

Dividend and share buyback[1] £m

1 2018: Ordinary dividend in respect of the financial year ended 31 December 2018, partly paid in 2018 and partly to be paid in 2019 and intended share buyback.
2017: Ordinary dividend in respect of the financial year ended 31 December 2017, partly paid in 2017 and partly to be paid in 2018 and intended share buyback.

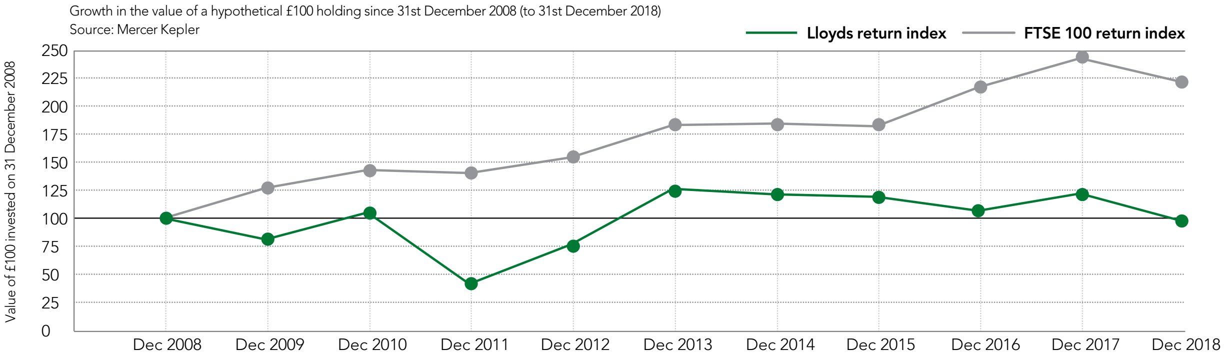
Salaries and performance-based compensation £m

Comparison of returns to shareholders and GCE total remuneration

The chart below shows the historical total shareholder return (TSR) of Lloyds Banking Group plc compared with the FTSE 100 as required by the regulations.

The FTSE 100 index has been chosen as it is a widely recognised equity index of which Lloyds Banking Group plc has been a constituent throughout this period.

TSR indices – Lloyds Banking Group and FTSE 100



	CEO	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
GCE single figure of remuneration £000	J E Daniels	1,121	2,572	855	–	–	–	–	–	–	–
	António Horta-Osório	–	–	1,765	3,398	7,475	11,540	8,704	5,791	6,434	6,270
Annual bonus/ GPS payout (% of maximum opportunity)	J E Daniels	Waived	62%	0%	–	–	–	–	–	–	–
	António Horta-Osório	–	–	Waived	62%	71%	54%	57%	77%	77%	67.6%
Long-term incentive vesting (% of maximum opportunity)	J E Daniels	0%	0%	0%	–	–	–	–	–	–	–
	António Horta-Osório	–	–	0%	0%	54%	97%	94.18%	55%	66.3%	68.7%
TSR component vesting (% of maximum)	J E Daniels	0%	0%	–	–	–	–	–	–	–	–
	António Horta-Osório	–	–	0%	0%	25.3%	30%	30%	0%	0%	0%

Notes: J E Daniels served as GCE until 28 February 2011; António Horta-Osório was appointed GCE from 1 March 2011. António Horta-Osório declined to take a bonus in 2011.

Directors' share interests and share awards

Directors' interests (audited)

	Number of shares			Number of options		Total shareholding[1]		Value
	Owned outright	Unvested subject to continued employment	Unvested subject to performance	Unvested subject to continued employment	Vested unexercised	Total at 31 December 2018	Total at 20 February 2019	Expected value at 31 December 2018 (£000s)[2]
Executive Directors								
António Horta-Osório	25,751,860	1,520,915	17,059,116	36,282	–	44,368,173	44,368,878[7]	18,582
George Culmer	14,754,666	695,245	9,621,899	14,554	–	25,086,364	25,086,978[7]	10,512
Juan Colombás	9,679,888	696,217	9,488,262	29,109	–	19,893,476	19,894,091[7]	7,854
Non-Executive Directors[3]								
Lord Blackwell	150,000	–	–	–	–	150,000	n/a[7]	n/a
Alan Dickinson	200,000	–	–	–	–	200,000	n/a[7]	n/a
Anita Frew	450,000	–	–	–	–	450,000	n/a[7]	n/a
Simon Henry	250,000	–	–	–	–	250,000	n/a[7]	n/a
Lord Lupton	1,000,000	–	–	–	–	1,000,000	n/a[7]	n/a
Amanda Mackenzie OBE[4]	–	–	–	–	–	–	n/a[7]	n/a
Deborah McWhinney[5]	250,000	–	–	–	–	250,000	n/a[7]	n/a
Nick Prettejohn[6]	69,280	–	–	–	–	69,280	n/a[7]	n/a
Stuart Sinclair	–	–	–	–	–	–	n/a[7]	n/a
Sara Weller CBE	340,000	–	–	–	–	340,000	n/a[7]	n/a

1 Including holdings of connected persons.

2 Awards subject to performance under the LTIP had an expected value of 50 per cent of face value at grant (in line with the Remuneration Policy). Values are based on the 31 December 2018 closing price of 51.85 pence. Full face value of awards are £23,004,897 for António Horta-Osório, £13,007,279 for George Culmer and £10,314,767 for Juan Colombás.

3 Deborah McWhinney resigned 31 December 2018. Shares held as at date of resignation.

4 Appointed 1 October 2018.

5 Shareholdings held by Deborah McWhinney are either wholly or partially in the form of ADRs.

6 In addition, Nick Prettejohn held 400 6.475 per cent preference shares at 1 January 2018 and 31 December 2018.

7 The changes in beneficial interests for António Horta-Osório (705 shares), George Culmer (614 shares) and Juan Colombás (615 shares) relate to 'partnership' and 'matching' shares acquired under the Lloyds Banking Group Share Incentive Plan between 31 December 2018 and 20 February 2019. There have been no other changes up to 20 February 2019.

Shareholding requirement (audited)

Executives are expected to build and maintain a company shareholding in direct proportion to their remuneration in order to align their interests to those of shareholders. The minimum shareholding requirements Executive Directors are expected to meet are as follow: 350 per cent of base salary for the GCE and 250 per cent of base salary for other Executive Directors. Newly appointed individuals will have three years from appointment to achieve the shareholding requirement.

There is no appetite for non-compliance with the Shareholding Policy. In the event that exceptional individual circumstances exist resulting in an Executive not being able to comply with the Policy, the Remuneration Committee will consider whether an exception should apply.

In addition to the Group's shareholding requirements, shares vesting are subject to holding periods in line with regulatory requirements.

António Horta-Osório	Shareholding requirement	350%
	Actual shareholding[1]	1,294%
George Culmer	Shareholding requirement	250%
	Actual shareholding[1]	1,184%
Juan Colombás	Shareholding requirement	250%
	Actual shareholding[1]	777%

1 Calculated using the average share price for the period 1 January 2018 to 31 December 2018 (62.554 pence). Includes ordinary shares acquired through the vesting of the deferred Group Performance Share plan, Fixed Share Awards as the shares have no performance conditions; American Deposit Receipts (ADRs) with each one ADR equating to four shares, Executive Share Awards which have vested but have not been exercised; shares held in the Share Incentive Plan (SIP) Trust, i.e. Free, Partnership, Matching and Dividend shares which are no longer subject to forfeiture, as defined in the SIP Rules. Shares held by Connected Persons, as defined by the Companies Act, but broadly meaning spouse or partner and children, may also be included.

The current Shareholding Policy does not take into account post-employment requirements. Consideration of how post-employment shareholding will be incorporated into the Policy will be undertaken in 2019, ahead of a revised policy being implemented in 2020.

As per the diagram on page 84 illustrating how share based remuneration is delivered to our Executive Directors, shares are deferred for up to seven years and clawback provisions can be implemented for up to ten years. Deferred bonus awards and long term incentive awards that are yet to vest are not currently included within the total shareholding for Executive Directors. Based on the number of outstanding bonus deferrals and number of in-flight long term incentive awards granted to each Executive Director, a post-employment shareholding requirement could be achieved until a formal policy is implemented.

None of those who were Directors at the end of the year had any other interest in the capital of Lloyds Banking Group plc or its subsidiaries.

Directors' remuneration report continued

Outstanding share plan interests (audited)

	At 1 January 2018	Granted/ awarded	Dividends awarded	Vested / released / exercised	Lapsed	At 31 December 2018	Exercise price	Exercise periods From	To	Notes
António Horta-Osório										
LTIP 2015-2017	**4,579,006**	–	346,087	3,035,880	1,543,126	**–**				1, 2, 3
LTIP 2016-2018	**5,015,210**	–	–	–	–	**5,015,210**				3
GOS 2017-2019	**5,318,685**	–	–	–	–	**5,318,685**				3
GOS 2018-2020		6,725,221	–	–	–	**6,725,221**				3, 4
Deferred GPS awarded in 2018		1,555,288	–	388,822	–	**1,166,466**				5
2014 Sharesave	**14,995**	–	–	14,995	–		60.02p			6
2016 Sharesave	**14,554**	–	–	–	–	**14,554**	47.49p	01/01/2020	30/06/2020	
2017 Sharesave	**21,728**	–	–	–	–	**21,728**	51.03p	01/01/2021	30/06/2021	
George Culmer										
LTIP 2015-2017	**2,477,167**	–	187,227	1,642,361	834,806	**–**				1, 2, 3
LTIP 2016-2018	**2,767,409**	–	–	–	–	**2,767,409**				3
GOS 2017-2019	**2,993,565**		–	–	–	**2,993,565**				3
GOS 2018-2020		3,860,925	–	–	–	**3,860,925**				3, 4
Deferred GPS awarded in 2018		704,426	–	176,106	–	**528,320**				5
2014 Sharesave	**14,995**	–	–	14,995	–		60.02p			6
2016 Sharesave	**14,554**	–	–	–	–	**14,554**	47.49p	01/01/2020	30/06/2020	
Juan Colombás										
LTIP 2015-2017	**2,442,762**	–	184,627	1,619,551	823,211	**–**				1, 2, 3
LTIP2016-2018	**2,728,973**	–	–	–	–	**2,728,973**				3
GOS 2017-2019	**2,951,987**		–	–	–	**2,951,987**				3
GOS 2018-2020		3,807,302	–	–	–	**3,807,302**				3, 4
Deferred GPS awarded in 2018		704,426	–	176,106	–	**528,320**				5
2016 Sharesave	**29,109**	–	–	–	–	**29,109**	47.49p	01/01/2020	30/06/2020	

1 The shares awarded in March 2015 vested on 12 March 2018. The closing market price of the Group's ordinary shares on that date was 67.50 pence. Shares vested are subject to a further two-year holding period.

2 2015 LTIP award was eligible to receive an amount equal in value to any dividends paid during the performance period. Dividend equivalents have been paid based on the number of shares vested and have been paid in shares. The dividend equivalent shares were paid on 12 March 2018. The closing market price of the Group's ordinary shares on that date was 67.50 pence. The dividend equivalent shares are not subject to any holding period.

3 All LTIPs /GOS have performance periods ending 31 December at the end of the three-year period. Awards were made in the form of conditional rights to free shares.

4 Awards (in the form of conditional rights to free shares) in 2018 were made over shares with a value of 300 per cent of reference salary for António Horta-Osório (6,725,221 shares with a face value of £3,660,000); 275 per cent for George Culmer (3,860,925 shares with a face value of £2,101,193); and 275 per cent for Juan Colombás (3,807,302 shares with a face value of £2,072,010). The share price used to calculate face value is the average price over the five days prior to grant (27 February to 5 March 2018), which was 68.027 pence. As regulations prohibit the payment of dividend equivalents on awards in 2018 and subsequenet years, the number of shares awarded has been determined by applying a discount factor to the share price on award. An adjustment of 25 per cent was applied. Performance conditions for this award are set out in the table below.

5 GPS is deferred into shares. The face value of the share awards in respect of GPS granted in March 2018 was £1,058,016 (1,555,288 shares) for António Horta-Osório; £479,200 (704,426 shares) for George Culmer; and £479,200 (704,426 shares) for Juan Colombás. The share price used to calculate the face value is the average price over the five days prior to grant (27 February to 5 March 2018), which was 68.027 pence.

6 Options exercised on 14 June 2018. The closing market price of the Group's ordinary shares on that date was 63.13 pence.

2018 Group Ownership Share performance measures (for awards made in March 2018)

As requested in the 2017 Directors' Remuneration report, (see implementation of the policy in 2018), the following awards were granted in March 2018. 25 per cent of the proportion of the award attributable to each performance measure will vest at threshold performance.

Strategic priorities	Measure	Basis of payout range	Metric	Weighting
Creating the best customer experience	Customer satisfaction	Major Group average ranking over 2020	Threshold: 3rd Maximum: 1st	10%
	Digital net promoter score	Set relative to 2020 targets	Threshold: 64 Maximum: 67	7.5%
	FCA total reportable complaints and Financial Ombudsman Service (FOS) change rate	Set relative to 2020 targets Average rates over 2020	Threshold: 2.97 Maximum: 2.69 Threshold: =<29% Maximum: =<25%	10%
Becoming simpler and more efficient	Statutory economic profit[1]	Set relative to 2020 targets	Threshold: £2,300m Maximum: £3,451m	25%
	Cost:income ratio	Set relative to 2020 targets	Threshold: 46.4% Maximum: 43.9%	10%
Delivering sustainable growth	Absolute total shareholder return (TSR)	Growth in share price including dividends over 3-year period	Threshold: 8% p.a. Maximum: 16% p.a.	30%
Building the best team	Employee engagement index	Set relative to 2020 markets norms	Threshold: +5% vs UK Norm Maximum: +2% vs UK High Performing Norm	7.5%

1 A measure of profit taking into account Expected Losses, tax and a charge for equity utilisation.

Implementation of the policy in 2019

It is proposed to operate the policy in the following way in 2019:

Base Salary	The Group has applied a total pay budget of 2.6 per cent including a minimum pay award of £600 for eligible colleagues. This is considered an appropriate and competitive budget in the current economic and business climate. Salary increases for the Group Chief Executive (GCE) and Chief Operating Officer (COO) are set below the budget for the wider colleague population at 2 per cent. Following confirmation that the Chief Financial Officer (CFO) is due to retire in 2019, his salary is due to remain in line with 2018.	Salaries will therefore be as follows: GCE: £1,269,288 (with effect from 1 January 2019) CFO: £779,351 COO: £794,938 (with effect from 1 January 2019) CFO Designate[1]: £794,938
Fixed share award	GCE: £1,050,000 CFO: £504,000 COO: £497,000 CFO Designate[1]: £504,000 Shares will be released in equal tranches over a five year period.	
Pension	The level of pension allowances for 2019 are: GCE: 33 per cent of base salary CFO: 25 per cent of base salary COO: 25 per cent of base salary	CFO Designate[1]: 25 per cent of base salary Any new Executive Director appointments in 2019 will attract a maximum allowance of 25 per cent of base salary.
Benefits	Benefits remain unchanged from 2018. Executive Directors receive a flexible benefit allowance in line with colleagues, (4 per cent of salary). This can be used to select benefits including life assurance and critical illness cover. Other benefits include car allowance, transportation tax preparation and private medical cover.	
Group Performance Share	The approach to determining the Group Performance Share outcome for 2019 will remain unchanged from 2018. It will be based on a percentage of the Group's underlying profit, adjusted by a scorecard modifier commensurate with Group Balanced Scorecard performance. Adjustments for conduct and risk factors will also be considered. A financial performance threshold will be set at 20 per cent below the Group's underlying profit target, at which no award will be payable. The Group Balanced Scorecard must also exceed a threshold score of 1.6, below which no award will be payable. Individual award maxima for Executive Directors will remain unchanged from 2018 at 140 per cent of base salary for the GCE and 100 per cent of base salary for other Executive Directors. No award will be payable if an individual is rated below an expected level from a performance, regulatory or risk perspective. Individual awards will be based on pre-determined formulaic pay out ranges commensurate with performance and will be determined by the Remuneration Committee through the assessment of individual performance via a balanced scorecard and personal performance considerations. The Group Chief Executive's individual performance will be measured through the Group Balanced Scorecard, the Chief Financial Officer will be measured through the Finance Division scorecard and the Chief Operating Officer will be measured through the Chief Operating Office scorecard.	The 2019 scorecard will provide a balanced view across financial, operational and strategic measures. This will be equally weighted between financial, customer and conduct measures. Each measure will be assigned a target assessed against a rating scale of 1 to 5. The Committee considers the specific measures and targets that apply to 2019 to be commercially sensitive but will provide information on the level of payout relative to the performance achieved in next year's annual report on remuneration. For the 2019 performance year, any Group Performance Share opportunity will be awarded in March 2020 in a combination of cash (up to 50 per cent) and shares. 40 per cent will be released in the first year following the award with £2,000 paid in cash, and the balance of the upfront 40 per cent delivered in shares; 50 per cent of which will be subject to holding until March 2020. The remaining 60 per cent is deferred into shares with 40 per cent vesting in 2020 and 20 per cent in 2021. 50 per cent of each release will be subject to a further 12-month holding in line with regulatory requirements. The Committee may consider the application of malus and clawback as outlined in the performance adjustment section.
Group Ownership Share	The maximum Group Ownership Share award for Executive Directors is 300 per cent of salary (unchanged from 2018). Awards in 2019 are being made as follows: GCE: 300 per cent of base salary CFO: No award COO: 275 per cent of base salary As regulations prohibit the payment of dividend equivalents on awards in 2019 and subsequent years, the number of shares subject to the award has been determined by applying a discount factor to the share price on grant, as previously disclosed. The Committee approved an adjustment of 29.8 per cent for colleagues who are senior managers, including the Executive Directors. Awards will be subject to a three-year performance period with vesting between the third and seventh anniversary of award, on a pro-rata basis. Any shares released are subject to a further holding period in line with regulatory requirements and market practice.	Awards made in 2019 will vest based on the Group's performance against the financial and strategic measures, set out in the table opposite. In line with the Directors' remuneration policy, the Committee has full discretion to amend payout levels should the award not reflect business and/or individual performance. Business performance includes, but is not limited to, consideration of returns to shareholders. There are no changes to proposed financial and strategic measures to provide consistency with the 2018 plan, while aligning to the key strategic priorities as set out in the third Group Strategic Review. The Committee may consider the application of malus and clawback as outlined in the performance adjustment section.

1 Remuneration for the CFO Designate will take effect from commencement of employment.

Directors' remuneration report continued

	Strategic priorities	Measure	Basis of payout range	Metric	Weighting
Group Ownership Share continued	Creating the best customer experience	Customer satisfaction	Major Group average ranking over 2021	Threshold: 3rd Maximum: 1st	10%
		Digital net promoter score	Set relative to 2021 targets	Threshold: 65.3 Maximum: 68.3	7.5%
		FCA total reportable complaints and Financial Ombudsman Service (FOS) change rate	Set relative to 2021 targets Average rates over 2021	Threshold: 2.88 Maximum: 2.60 Threshold: =<29% Maximum: =<25%	10%
	Becoming simpler and more efficient	Statutory economic profit[1]	Set relative to 2021 targets	Threshold: £2,210m Maximum: £3,315m	25%
		Cost:income ratio	Set relative to 2021 targets	Threshold: 45.9% Maximum: 43.4%	10%
	Delivering sustainable growth	Absolute total shareholder return (TSR)	Growth in share price including dividends over 3-year period	Threshold: 8% p.a. Maximum: 16% p.a.	30%
	Building the best team	Employee engagement index	Set relative to 2021 markets norms	Threshold: +5% vs. UK norm Maximum: +2% vs. UK high Performing norm	7.5%

1 A measure of profit taking into account expected losses, tax and a charge for equity utilisation.

Performance adjustment

Performance adjustment is determined by the Remuneration Committee and/or Board Risk Committee and may result in a reduction of up to 100 per cent of the GPS and/or GOS opportunity for the relevant period. It can be applied on a collective or individual basis. When considering collective adjustment, the Senior Independent Performance Adjustment and Conduct Committee (SIPACC) submits a report to the Remuneration Committee and Board Risk Committee regarding any adjustments required to balanced scorecards or the overall GPS and/or GOS outcome to reflect in-year or prior year risk matters.

The application of malus will generally be considered when:

- there is reasonable evidence of employee misbehaviour or material error or that they participated in conduct which resulted in losses for the Group or failed to meet appropriate standards of fitness and propriety;
- there is material failure of risk management at a Group, business area, division and/or business unit level;
- the Committee determines that the financial results for a given year do not support the level of variable remuneration awarded; and/or
- any other circumstances where the Committee consider adjustments should be made.

Judgement on individual performance adjustment is informed by taking into account the severity of the issue, the individual's proximity to the issue and the individual's behaviour in relation to the issue. Individual adjustment may be applied through adjustments to balanced scorecard assessments and/or through reducing the GPS and/or GOS outcome.

Awards are subject to clawback for a period of up to seven years after the date of award which may be extended to 10 years where there is an ongoing internal or regulatory investigation.

The application of clawback will generally be considered when:

- there is reasonable evidence of employee misbehaviour or material error; or
- there is material failure of risk management at a Group, business area, division and/or business unit level.

Chairman and Non-Executive Director fees in 2019

The annual fee for the Chairman was increased by 2 per cent to £757,700, in line with the overall salary budget for the executive population.

The annual Non-Executive Director fees were increased by 2 per cent, in line with the base salary increase awarded to the senior management of the Group. These changes took effect from 1 January 2019.

	2019	2018
Basic Non-Executive Director fee	**£79,600**	£78,000
Deputy Chairman	**£104,000**	£102,000
Senior Independent Director	**£62,400**	£61,200
Audit Committee Chairmanship	**£72,800**	£71,400
Remuneration Committee Chairmanship	**£72,800**	£71,400
Board Risk Committee Chairmanship	**£72,800**	£71,400
Responsible Business Committee Chairmanship	**£41,600**	£40,800
Audit Committee membership	**£33,300**	£32,650
Remuneration Committee membership	**£33,300**	£32,650
Board Risk Committee membership	**£33,300**	£32,650
Responsible Business Committee membership[1]	**£15,600**	£15,300
Nomination and Governance Committee membership[2]	**£15,600**	£15,300

1 New members only.

2 Including payments to Chairmen of other Committees who are members.

Non-Executive Directors may receive more than one of the above fees.

Percentage change in remuneration levels

Figures for 'All employees' are calculated using figures for UK-based colleagues subject to the GPS plan. This population is considered to be the most appropriate group of employees for these purposes because its remuneration structure is consistent with that of the GCE. For 2018, 65,537 colleagues were included in this category.

	% change in base salary (2017 to 2018)	% change in GPS (2017 to 2018)	% change in benefits (2017 to 2018)
GCE (salary increase effective 1 January 2019)	2	(11)[1]	2
All employees	2.6[2]	1.4[2]	2.6[2]

1 Reflects the increase in base salary from 1 January 2018 against which the award is determined.
2 Adjusted for movements in staff numbers and other impacts to ensure a like-for-like comparison. Salary increases effective 1 April 2019.

Additional disclosures

CEO pay ratio

The Group is committed to ensuring remuneration is competitive, performance-driven and fair. The Group has decided to publish the CEO pay ratio in advance of the formal disclosure requirement using the prescribed Methodology A, as shown in the table below together with an alternative view based on fixed pay.

In assessing the pay ratio for 2018, the Committee has considered likely ratios at industry and sector peers, and companies with a similar employee profile. The Remuneration Committee views pay ratios as a useful reference point to inform policy-setting, but also takes into consideration a number of other factors when considering remuneration levels, including direct engagement on pay with the Group's recognised unions and shareholders. The Committee is confident that the Group's policy on pay is fair and that improvements to pay progression will continue to ensure that lower paid colleagues receive a greater share of pay awards.

	Total remuneration (Methodology A)			Fixed pay		
Year	P25 (Lower Quartile)	P50 (Median)	P75 (Upper Quartile)	P25 (Lower Quartile)	P50 (Median)	P75 (Upper Quartile)
2018	237:1	**169:1**	93:1	113:1	**81:1**	48:1
2017	245:1	**177:1**	97:1	113:1	**82:1**	48:1
Y-o-Y		**(4%)**			**(1%)**	

The median ratio has decreased 4 per cent year-on-year. The median ratio provides a fair reflection of the Group's approach to pay as colleagues at this level make up approximately 70 per cent of the Group's employee base, however, these colleagues do not receive long-term incentive plan awards which are more volatile. For the majority of colleagues, year-on-year changes in remuneration are principally driven by pay awards, which the Group directs to the lowest grades. For example, the P25 colleague in 2017 received a 5 per cent pay increase in 2018, meaning this colleague moved up in the percentile ranking to P25.5. The colleague who is now at P25 for 2018 received a 3 per cent pay increase which brought them up from P24.5 to that level. For 2019, the pay budget has been set at 2.6 per cent, but only 2 per cent for senior colleagues, including the Group Chief Executive. To support the Group's policy of real wage growth and commitment to pay progression, there is a focus on ensuring higher pay awards for colleagues who are lower paid, or paid lower within their pay range. From April 2019, all full-time colleagues will be paid a minimum salary of £17,510. For some colleagues, this will result in an increase of up to 9.9 per cent. This salary level is 7 per cent above the National Living Wage.

Notes to the calculation:

- The P25, P50 and P75 colleagues were determined based on calculating total remuneration for all UK employees as at 31 December 2018. This methodology was selected on the basis that it provided the most accurate means of identifying the median, lower and upper quartile colleagues.
- The 2018 total remuneration for the colleagues identified at P25, P50 and P75 are as follows: £26,490, £37,058, £67,225.
- The 2018 base salary for the colleagues identified at P25, P50 and P75 are as follows: £21,560, £30,364, £45,230.
- The colleague identified at P50 is not eligible to receive a car benefit unless required for role and does not participate in the long term incentive plan, therefore the ratio does not provide a like-for-like comparison to the total remuneration of the Group Chief Executive. Each of the three individuals identified was a full-time employee during the year.
- The single total figure of remuneration calculated for each of the 65,537 UK colleagues includes full time equivalent base pay, Group Performance Share awards for the 2018 performance year, long term incentive plan payments (for eligible colleagues), core benefits, pension, overtime and shift payments, travel/relocation payments and private medical benefit.
- Due to operational constraints, the calculation of the colleague Pension Input Figure excludes the adjustment to uprate the opening value for defined benefit plans specified in section 229 of the Finance Act 2004. The omission of this factor does not materially affect the outcome of the ratio and/or distort the validity of the valuation. All other data has been calculated in line with the methodology for the single total figure of remuneration for the Group Chief Executive.

Directors' remuneration report continued

Gender pay

We reduced our gender pay gap by 1.3 per cent in 2018

The Group is committed to offering all colleagues a reward package that is competitive, performance-driven and fair.

We recognise that supporting gender equality and diversity more broadly supports the success of the UK as a whole. We regularly review our pay levels to ensure that men and women are paid equally for doing equivalent roles across the Group and the Group is committed to increasing the number of women in senior roles. As a result of progress made in hiring female talent into senior positions and targeting greater pay awards for lower graded colleagues (where there is a majority of female colleagues), we have reduced our gender pay gap by 1.3 per cent. An increase in part time working at lower grades and a reduction in the number of female colleagues at the most senior grades, offset the progress made in female colleagues taking on more senior positions in the Group. As a result the mean bonus gap increased by 1.2 per cent from 2017 to 2018. Further information is available at: https://www.lloydsbankinggroup.com/globalassets/our-group/responsible-business/reporting-centre/gender-pay-gap-report-2017-18-final.pdf.

Mean Pay Gap %

Mean Bonus Gap %

Remuneration Committee

The Committee comprises Non-Executive Directors from a wide background to provide a balanced and independent view on remuneration matters. During the year Anita Frew stepped down as Chair of the Committee and was replaced by Stuart Sinclair with effect from 1 September 2018. Stuart has been a member of the Committee since January 2016 and Anita remains a member of the Committee.

For details of membership and attendance at meetings, please see pages 52 to 53 and 56.

The purpose of the Committee is to set the remuneration for all Executive Directors and the Chairman, including pension rights and any compensation payments. It recommends and monitors the level and structure of remuneration for senior management and material risk takers. It also considers, agrees and recommends to the Board an overall remuneration policy and philosophy for the Group that is aligned with its long-term business strategy, its business objectives, its risk appetite, values and the long-term interests of the Group that recognises the interests of relevant stakeholders, including the wider workforce.

Annual effectiveness review

During 2018, the Committee met its key objectives and carried out its responsibilities effectively, as confirmed by the annual effectiveness review.

How the Remuneration Committee spent its time in 2018

The Committee held five scheduled meetings during 2018 where the following key matters were considered.

Committee:

- Approval of terms of reference
- Results of the effectiveness review and suggestions for improvement

Group wide remuneration approach:

- Determination of the overall 2017 Group Performance Share outcome
- Approval of the 2015 LTIP vesting
- Approval of the 2018 Group Performance Share methodology including performance measures included within the Group Balanced Scorecard
- 2018 Colleague Group Ownership Share
- 2018 Sharesave offer
- Approval of a simplified 2019 Balanced Scorecard approach following stakeholder feedback
- Review of the Group's new approach to performance, 'Your Best'

Senior Executives and Executive Directors:

- Review of performance and remuneration arrangements for Executive Directors and key senior management

Key Stakeholders:

- Shareholder feedback following the 2018 AGM in May
- Feedback sessions following engagement with the PRA/FCA
- Consideration of the revised UK Corporate Governance Code and how the Committee intends to ensure compliance moving into 2019 and beyond
- Consideration for ensuring a clear link between pay and performance following the launch of the Group's new approach to performance, 'Your Best'
- Review and approval of MBNA integration remuneration approach
- Review and approval of LDC bonus award approach

Key Priorities for 2019

We are not seeking to make any changes to our Directors Remuneration Policy for 2019 but the Committee will undertake a full review of the Policy in 2019 ahead of the 2020 AGM. During 2019, the Committee will increase its level of oversight on remuneration matters for the wider workforce to support with key decision making when setting the policy. This will include implementation of changes supporting the Group's new performance management approach.

In light of the recent enhancements in corporate governance, the Committee will continue to focus on implementing the revised principles of the UK Corporate Governance Code. In addition to continuous engagement with stakeholders, the Committee intends to increase the level of engagement it has with the wider workforce on remuneration matters.

Advice provided to the Committee:

Mercer is the appointed advisor to the Committee, following a competitive tender process in 2016 and was retained during the year. The Committee is of the view that Mercer provides independent remuneration advice to the Committee and does not have any connections with the Group that may impair its independence. The broader Mercer company provides unrelated advice on accounting and investments. Mercer is a founding member and signatory to the UK Remuneration Consultants Code of Conduct which governs standards in the areas of transparency, integrity, objectivity, confidentiality, competence and due care, details of which can be found at www.remunerationconsultantsgroup.com.

During the year, Mercer attended Committee meetings upon invitation and provided advice and support in areas such as market and best practice, regulatory and governance developments, drafting the remuneration report, and benchmarking pay and performance.

Fees payable for the provision of Remuneration Committee services in 2018 were £89,870, based on time and materials.

António Horta-Osório (Group Chief Executive), Juan Colombás (Chief Operating Officer), Jen Tippin (Group People and Productivity Director), Matt Sinnott (Group Reward Director), Stuart Woodward (Reward Regulation, Governance and Variable Reward Director) and Letitia Smith (Group Director, Conduct, Compliance & Operational Risk) provided guidance to the Committee (other than for their own remuneration).

Stephen Shelley (Chief Risk Officer) and George Culmer (Chief Financial Officer) also attended the Committee to advise as and when necessary on risk, financial and other operational matters.

Statement of voting at Annual General Meeting

The table below sets out the voting outcome at the Annual General Meeting in May 2018.

	Votes cast in favour		Votes cast against		Votes withheld
	Number of shares (millions)	Percentage of votes cast	Number of shares (millions)	Percentage of votes cast	Number of shares (millions)
Directors' remuneration policy (binding vote in 2017)	47,673	98.03%	959	1.97%	535
2018 annual report on remuneration (advisory vote)	39,664	79.22%	10,405	20.78%	645

Directors' remuneration policy

The Group's remuneration policy was approved at the AGM on 11 May 2017 and took effect from that date. It is intended that approval of the remuneration policy will be sought at three-year intervals, unless amendments to the policy are required, in which case further shareholder approval will be sought; no changes are proposed for 2019. The full policy is set out in the 2016 annual report and accounts (pages 90–98) which is available at: https://www.lloydsbankinggroup.com/investors/annual-reports/download-centre/.

The tables in this section provide a summary of the Directors' remuneration policy. There is no significant difference between the policy for Executive Directors and that for other colleagues. Further information about the remuneration policy for other colleagues is set out in section 'Other remuneration disclosures'.

Remuneration policy table for Executive Directors

Base salary

Purpose and link to strategy
To support the recruitment and retention of Executive Directors of the calibre required to develop and deliver the Group's strategic priorities. Base salary reflects the role of the individual, taking account of market competitiveness, responsibilities and experience, and pay in the Group as a whole.

Operation
Base salaries are typically reviewed annually with any increases normally taking effect from 1 January. When determining and reviewing base salary levels, the Committee takes into account base salary increases for employees throughout the Group and ensures that decisions are made within the following two parameters:

- An objective assessment of the individual's responsibilities and the size and scope of their role, using objective job-sizing methodologies.
- Pay for comparable roles in comparable publicly listed financial services groups of a similar size.

Salary may be paid in sterling or other currency and at an exchange rate determined by the Committee.

Maximum potential
The Committee will make no increase which it believes is inconsistent with the two parameters above. Increases will normally be in line with the increase awarded to the overall employee population. However, a greater salary increase may be appropriate in certain circumstances, such as a new appointment made on a salary below a market competitive level, where phased increases are planned, or where there has been an increase in the responsibilities of an individual. Where increases are awarded in excess of the wider employee population, the Committee will provide an explanation in the relevant annual report on remuneration.

Performance measures
N/A

Fixed share award

Purpose and link to strategy
To ensure that total fixed remuneration is commensurate with role and to provide a competitive reward package for Executive Directors with an appropriate balance of fixed and variable remuneration, in line with regulatory requirements.

Operation
The fixed share award will initially be delivered entirely in Lloyds Banking Group shares, released over five years with 20 per cent being released each year following the year of award. The Committee can, however, decide to deliver some or all of it in the form of cash.

Maximum potential
The maximum award is 100 per cent of base salary.

Performance measures
N/A

Pension

Purpose and link to strategy
To provide cost effective and market competitive retirement benefits, supporting Executive Directors in building long-term retirement savings.

Operation
Executive Directors are entitled to participate in the Group's defined contribution scheme with company contributions set as a percentage of salary.

An individual may elect to receive some or all of their pension allowance as cash in lieu of pension contribution.

Maximum potential
The maximum allowance for the GCE is 50 per cent of base salary less any flexible benefits allowance.

The maximum allowance for other Executive Directors is 25 per cent of base salary.

All future appointments as Executive Directors will attract a maximum allowance of 25 per cent of base salary.

Performance measures
N/A

Benefits

Purpose and link to strategy
To provide flexible benefits as part of a competitive remuneration package.

Operation
Benefits may include those currently provided and disclosed in the annual report on remuneration.

Core benefits include a company car or car allowance, private medical insurance, life insurance and other benefits that may be selected through the Group's flexible benefits plan.

Additional benefits may be provided to individuals in certain circumstances such as relocation. This may include benefits such as accommodation, relocation, and travel. The Committee retains the right to provide additional benefits depending on individual circumstances.

When determining and reviewing the level of benefits provided, the Committee ensures that decisions are made within the following two parameters:

- An objective assessment of the individual's responsibilities and the size and scope of their role, using objective job-sizing methodologies.
- Benefits for comparable roles in comparable publicly listed financial services groups of a similar size.

Maximum potential
The Committee will make only increases in the benefits currently provided which it believes are consistent with the two parameters above. Executive Directors receive a flexible benefits allowance, in line with all other employees. The flexible benefits allowance does not currently exceed 4 per cent of base salary.

Performance measures
N/A

Directors' remuneration report continued

All-employee plans

Purpose and link to strategy
Executive Directors are eligible to participate in HMRC-approved share plans which promote share ownership by giving employees an opportunity to invest in Group shares.

Operation
Executive Directors may participate in these plans in line with HMRC guidelines currently prevailing (where relevant), on the same basis as other eligible employees.

Maximum potential
Participation levels may be increased up to HMRC limits as amended from time to time. The monthly savings limits for Save As You Earn (SAYE) is currently £500. The maximum value of shares that may be purchased under the Share Incentive Plan (SIP) in any year is currently £1,800 with a two-for-one match. Currently a three-for-two match is operated up to a maximum employee investment of £30 per month.

The maximum value of free shares that may be awarded in any year is £3,600.

Performance measures
N/A

Group Performance Share plan

Purpose and link to strategy
To incentivise and reward the achievement of the Group's annual financial and strategic targets whilst supporting the delivery of long-term superior and sustainable returns.

Operation
Measures and targets are set annually and awards are determined by the Committee after the year end based on performance against the targets set. The Group Performance Share may be delivered partly in cash, shares, notes or other debt instruments including contingent convertible bonds. Where all or part of any award is deferred, the Committee may adjust these deferred awards in the event of any variation of share capital, demerger, special dividend or distribution or amend the terms of the plan in accordance with the plan rules.

Where an award or a deferred award is in shares or other share-linked instrument, the number of shares to be awarded may be calculated using a fair value or based on discount to market value, as appropriate.

The Committee applies its judgement to determine the payout level commensurate with business and/or individual performance. The Committee may reduce the level of award (including to zero), apply additional conditions to the vesting, or delay the vesting of deferred awards to a specified date or until conditions set by the Committee are satisfied, where it considers it appropriate as a result of a risk matter coming to light before vesting. Awards may be subject to malus and clawback for a period of up to seven years after the date of award which may be extended to 10 years where there is an ongoing internal or regulatory investigation.

Maximum potential
The maximum Group Performance Share opportunities are 140 per cent of base salary for the GCE and 100 per cent of base salary for other Executive Directors.

Performance measures
Measures and targets are set annually by the Committee in line with the Group's strategic business plan and further details are set out in the annual report on remuneration for the relevant year.

Measures consist of both financial and non-financial measures and the weighting of these measures will be determined annually by the Committee. All assessments of performance are ultimately subject to the Committee's judgement, but no award will be made if threshold performance (as determined by the Committee) is not met for financial measures or the individual is rated 'Developing performer' or below. The expected value of the Group Performance Share is 30 per cent of maximum opportunity.

The Committee is committed to providing transparency in its decision making in respect of Group Performance Share awards and will disclose historic measures and target information together with information relating to how the Group has performed against those targets in the annual report on remuneration for the relevant year except to the extent that this information is deemed to be commercially sensitive, in which case it will be disclosed once it is deemed not to be sensitive.

Group Ownership Share plan

Purpose and link to strategy
To incentivise and reward Executive Directors and senior management to deliver against strategic objectives designed to support the long-term success of the Group and encourage working as a team. It ensures executives build an ownership interest in the Group and are motivated by delivering long-term superior and sustainable returns for shareholders.

Operation
Awards are granted under the rules of the 2016 Long-Term Incentive Plan approved at the AGM on 12 May 2016. Awards are made in the form of conditional shares or nil cost options. Award levels are set at the time of grant, in compliance with regulatory requirements, and may be subject to a discount in determining total variable remuneration under the rules set by the European Banking Authority.

The number of shares to be awarded may be calculated using a fair value or based on a discount to market value, as appropriate.

Vesting will be subject to the achievement of performance conditions measured over a period of three years, or such longer period, as determined by the Committee.

The Committee retains full discretion to amend the payout levels should the award not reflect business and/or individual performance. The Committee may reduce (including to zero) the level of the award, apply additional conditions to the vesting, or delay the vesting of awards to a specified date or until conditions set by the Committee are satisfied, where it considers it appropriate as a result of a risk matter coming to light before vesting. Awards may be subject to malus and clawback for a period of up to seven years after the date of award which may be extended to 10 years where there is an ongoing internal or regulatory investigation.

Maximum potential
The maximum annual award for Executive Directors will normally be 300 per cent of salary. Under the plan rules, awards can be made up to 400 per cent of salary in exceptional circumstances.

Performance measures
Measures and targets are set by the Committee annually and are set out in the annual report on remuneration each year.

At least 60 per cent of awards are weighted towards typical market (e.g. Total Shareholder Return) and/or financial measures (e.g. economic profit), with the balance on strategic measures.

25 per cent will vest for threshold performance, 50 per cent for on-target performance and 100 per cent for maximum performance.

The measures are chosen to support the best bank for customers strategy and to align management and shareholder interests. Targets are set by the Committee to be stretching within the context of the strategic business plan. Measures are selected to balance profitability, achievement of strategic goals and to ensure the incentive does not encourage inappropriate risk-taking.

Following the end of the relevant performance period, the Committee will disclose in the annual report on remuneration for the relevant year historic measure and target information, together with how the Group has performed against those targets, unless this information is deemed to be commercially sensitive, in which case it will be disclosed once it is deemed not to be sensitive.

Deferral of variable remuneration and holding periods	**Operation** The Group Performance Share and Group Ownership Share plans are both considered variable remuneration for the purpose of regulatory payment and deferral requirements. The payment of variable remuneration and deferral levels are determined at the time of award and in compliance with regulatory requirements (which currently require that at least 60 per cent of total variable remuneration is deferred for seven years with pro-rata vesting between the third and seventh year, and at least 50 per cent of total variable remuneration is paid in shares or other equity linked instruments subject to a holding period in line with current regulatory requirements).	A proportion of the aggregate variable remuneration may vest immediately on award. The remaining proportion of the variable remuneration is then deferred in line with regulatory requirements. Further information on which performance measures were chosen and how performance targets are set are disclosed in the relevant sections throughout the report.

Remuneration policy table for Chairman and Non-Executive Directors

Chairman and Non-Executive Director fees	**Purpose and link to strategy** To provide an appropriate reward to attract and retain a high-calibre individual with the relevant skills, knowledge and experience. **Operation** The Committee is responsible for evaluating and making recommendations to the Board with regards to the Chairman's fees. The Chairman does not participate in these discussions. The GCE and the Chairman are responsible for evaluating and making recommendations to the Board in relation to the fees of the NEDs. When determining and reviewing fee and benefit levels, the Committee ensures that decisions are made within the following parameters: - The individual's skills and experience. - An objective assessment of the individual's responsibilities and the size and scope of their role, using objective sizing methodologies. - Fees and benefits for comparable roles in comparable publicly listed financial services groups of a similar size. The Chairman receives an all-inclusive fee, which is reviewed periodically plus benefits including life insurance, car allowance, medical insurance and transportation. The Committee retains the right to provide additional benefits depending on individual circumstances. NEDs are paid a basic fee plus additional fees for the chairmanship/membership of committees and for membership of Group companies/boards/non-board level committees.	Additional fees are also paid to the senior independent director and to the deputy chairman to reflect additional responsibilities. Any increases normally take effect from 1 January of a given year. The Chairman and the NEDs are not entitled to receive any payment for loss of office (other than in the case of the Chairman's fees for the six month notice period) and are not entitled to participate in the Group's bonus, share plan or pension arrangements. NEDs are reimbursed for expenses incurred in the course of their duties, such as travel and accommodation expenses, on a grossed-up basis (where applicable). **Maximum potential** The Committee will make no increase in fees or benefits currently provided which it believes is inconsistent with the parameters above. **Performance metrics** N/A

Service agreements

The service contracts of all current Executive Directors are terminable on 12 months' notice from the Group and six months' notice from the individual. The Chairman also has a letter of appointment. His engagement may be terminated on six months' notice by either the Group or him.

Letters of appointment

The Non-Executive Directors all have letters of appointment and are appointed for an initial term of three years after which their appointment may continue subject to an annual review. Non-Executive Directors may have their appointment terminated, in accordance with statute and the articles of association, at any time with immediate effect and without compensation.

All Directors are subject to annual re-election by shareholders.

The service contracts and letters of appointments are available for inspection at the Company's registered office.

On behalf of the Board

Stuart Sinclair

Stuart Sinclair
Chairman, Remuneration Committee

Other remuneration disclosures

This section discloses the remuneration awards made by the Group to Material Risk Takers (MRTs) in respect of the 2018 performance year. Additional information summarising the Group's remuneration policies, structure and governance is also provided. These disclosures should be read in conjunction with the disclosures for Executive Directors contained in the Directors' Remuneration Report (DRR) on pages 82 to 99, and together comply with the requirements of Article 450 of the Capital Requirements Regulation (EU) No. 575/2013 (CRR). The remuneration principles and practices detailed in the DRR apply to MRTs and non-MRTs in the same way as to Executive Directors (other than where stated in this disclosure).

The Group has applied the EBA Delegated Regulation (EU) No 604/2014 to determine which colleagues should be identified as MRTs. MRTs are colleagues who are considered to have a material impact on the Group's risk profile, and include, but are not limited to:

- Senior management, Executive Directors, members and attendees of the Group Executive Committee (GEC) and their respective executive level direct reports;
- Non-Executive Directors
- Approved persons performing significant influence functions (SIFs) and/or all colleagues performing a senior management function
- Other highly remunerated individuals whose activities could have a material impact on the Group's risk profile

Decision making process for remuneration policy

The Group has a strong belief in aligning the remuneration delivered to the Group's executives with the successful performance of the business and, through this, the delivery of long-term, superior and sustainable returns to shareholders. It has continued to seek the views of shareholders and other key stakeholders with regard to remuneration policy and seeks to motivate, incentivise and retain talent while being mindful of the economic outlook. An essential component of the Group's approach to remuneration is the governance process that underpins it. This ensures that the policy is robustly applied and risk is managed appropriately.

The overarching purpose of the Remuneration Committee is to consider, agree and recommend to the Board an overall remuneration policy and philosophy for the Group that is defined by, supports and is closely aligned to its long-term business strategy, business objectives, risk appetite and values and recognises the interests of relevant stakeholders. The remuneration policy governs all aspects of remuneration and applies in its entirety to all divisions, business units and companies in the Group, including wholly-owned overseas businesses and all colleagues, contractors and temporary staff. The Committee reviews the policy annually and Committee pays particular attention to the top management population, including the highest paid colleagues in each division, those colleagues who perform senior management functions for the Group and MRTs. Further details on the operation of the Remuneration Committee can be found on page 96 of the DRR.

The Group has a robust governance framework, with the Remuneration Committee reviewing all compensation decisions for Executive Directors, senior management, senior risk and compliance officers, high earners and any other MRTs. This approach to governance is cascaded through the Group with the Group People Committee having oversight for all other colleagues.

Governance and risk management

An essential component of the approach to remuneration is the governance process that underpins it. This ensures that the policy is robustly applied and risk is managed appropriately.

In addition to setting the overall remuneration policy and philosophy for the Group, the Remuneration Committee ensures that colleagues who could have a material impact on the Group's risk profile are provided with appropriate incentives and reward to encourage them to enhance the performance of the Group and that they are recognised for their individual contribution to the success of the organisation, whilst ensuring that there is no reward for excessive risk taking. The Remuneration Committee works closely with the Risk Committee in ensuring the Group Performance Share (GPS) plan outcome is moderated. The two Committees determine whether the proposed GPS outcome and performance assessments adequately reflect the risk appetite and framework of the Group; whether it took account of current and future risks; and whether any further adjustment is required or merited. The Group and the Remuneration Committee are determined to ensure that the aggregate of the variable remuneration for all colleagues is appropriate and balanced with the interests of shareholders and all other stakeholders.

The Remuneration Committee's terms of reference are available from the Company Secretary and are displayed on the Group's website, www.lloydsbankinggroup.com/our-group/corporate-governance. These terms are reviewed each year to ensure compliance with the remuneration regulations and were last updated in November 2018.

Link between pay and performance

The Group's approach to reward is intended to provide a clear link between remuneration and delivery of its key strategic objectives, supporting the aim of becoming the best bank for customers, and through that, for shareholders. To this end, the performance management process has been developed, with the close participation of the Group's Risk team, to embed performance measures across the Group's reward structure which are challenging and reflect Group and divisional achievement in addition to personal contribution.

The use of a balanced scorecard approach to measure performance enables the Remuneration Committee to assess the performance of the Group and its senior executives in a consistent and performance-driven way. The Group's remuneration policy supports the business values and strategy, based on building long-term relationships with customers and colleagues and managing the financial consequences of business decisions across the entire economic cycle.

Further detail can be found in the DRR. In particular, see pages 86 to 87, 89, 92 to 94 and 97 to 99 of the DRR.

Design and structure of remuneration

When establishing the remuneration policy and associated frameworks, the Group is required to take into account its size, organisation and the nature, scope and complexity of its activities. For the purpose of remuneration regulation, Lloyds Bank plc is treated as a proportionality level I firm and therefore subject to the more onerous remuneration rules.

Remuneration is delivered via a combination of fixed and variable remuneration. Fixed remuneration reflects the role, responsibility and experience of a colleague. Variable remuneration is based on an assessment of individual, business area and Group performance. The mix of variable and fixed remuneration is driven by seniority, grade and role. Taking into account the expected value of awards, the performance-related elements of pay make up a considerable proportion of the total remuneration package for MRTs, whilst maintaining an appropriate balance between the fixed and variable elements. The maximum ratio of fixed to variable remuneration for MRTs is 200 per cent, which has been approved by shareholders (98.77 per cent of votes cast) at the AGM on 15 May 2014.

Remuneration for control functions is set in relation to benchmark market data to ensure that it is possible to attract and retain staff with the appropriate knowledge, experience and skills. An appropriate balance between fixed and variable compensation supports this approach. Generally, control function staff receive a higher proportion of fixed remuneration than other colleagues and the aggregate ratio of fixed to variable remuneration for all control function staff does not exceed 100 per cent. Particular attention is paid to ensure remuneration for control function staff is linked to the performance of their function and independent from the business areas they control.

The table below summarises the different remuneration elements for MRTs (this includes control function staff) and non-MRTs.

Base salary	Base salaries are reviewed annually, taking into account individual performance and market information. Further information on base salaries can be found on page 97 of the DRR.	**Applies to:** • Senior Management, Executive Directors, members/attendees of the GEC and their respective direct reports • Approved Persons performing SIFs and/or all colleagues performing a Senior Management Function • Other MRTs • Non-MRTs
Fees	Non-Executive Director fees are reviewed periodically by the Board. Further information on fees can be found on page 94 of the DRR.	**Applies to:** • Non-Executive Directors (NEDs)
Fixed share award	The fixed share award, made annually, delivers Lloyds Banking Group shares over a period of five years. Its purpose is to ensure that total fixed remuneration is commensurate with the role, responsibilities and experience of the individual; provides a competitive reward package; and is appropriately balanced with variable remuneration, in line with regulatory requirements. The fixed share award can be amended or withdrawn in the following circumstances: • to reflect a change in role; • to reflect a Group leave policy (e.g. parental leave or sickness absence); • termination of employment with the Group; • if the award would be inconsistent with any applicable legal, regulatory or tax requirements or market practice. Further information on fixed share awards can be found on page 97 of the DRR.	**Applies to:** • Senior Management, Executive Directors, members/attendees of the GEC and their respective direct reports • Approved Persons performing SIFs and/or all colleagues performing a Senior Management Function[1] • Other MRTs[1] • Non-MRTs[1]
Benefits	Core benefits for UK-based colleagues include pension, private medical insurance, life insurance, car or car allowance (eligibility dependent on grade) and other benefits that may be selected through the Group's flexible benefits plan. Further information on benefits and all-employee share plans can be found on pages 97 to 98 of the DRR. Benefits can be amended or withdrawn in the following circumstances: • to reflect a change to colleague contractual terms; • to reflect a change of grade; • termination of employment with the Group; • to reflect a change of Reward Strategy/benefit provision; • if the award would be inconsistent with any statutory or tax requirements. Details of NEDs' benefits are set out on page 99 of the DRR.	**Applies to:** • Non-Executive Directors (NEDs) • Senior Management, Executive Directors, members/attendees of the GEC and their respective direct reports • Approved Persons performing SIFs and/or all colleagues performing a Senior Management Function • Other MRTs • Non-MRTs
Short-term variable remuneration arrangements	The Group Performance Share (GPS) plan is an annual discretionary bonus plan. The plan is designed to reflect specific goals linked to the performance of the Group. The majority of colleagues and all MRTs participate in the GPS plan. Individual GPS awards are based upon individual contribution, overall Group financial results and Balanced Scorecard ratings over the past financial year. The Group's total risk-adjusted GPS outcome is determined by the Remuneration Committee annually as a percentage of the Group's underlying profit, modified for: • Group Balanced Scorecard performance • Collective and discretionary adjustments to reflect risk matters and/or other factors. The Group applies deferral arrangements to GPS and variable pay awards made to colleagues. GPS awards for MRTs are subject to deferral and a holding period in line with regulatory requirements and market practice. Further information on the GPS plan can be found on pages 93 and 98 of the DRR.	**Applies to:** • Senior Management, Executive Directors, members/attendees of the GEC and their respective direct reports • Approved Persons performing SIFs and/or all colleagues performing a Senior Management Function • Other MRTs • Non-MRTs

1 Eligibility based on seniority, grade and role

Other remuneration disclosures continued

Group Ownership Share Plan	The Group Ownership Share (GOS) plan is a core part of the reward strategy and an important tool for aligning the Group's reward strategy to the long-term performance of the business. Through the application of carefully considered, stretching target measures, the Group can ensure that awards are forfeited or restricted where performance does not meet the desired level. The GOS pays out in shares based on performance against Group financial and other non-financial strategic targets measured over a three-year period. Shares are released over a minimum three to five-year period and are then subject to a holding period (MRTs only) in line with regulatory requirements and market practice. Further information on the GOS plan can be found on pages 98 and 99 of the DRR.	**Applies to:** • Senior Management, Executive Directors, members/attendees of the GEC and their respective direct reports • Approved Persons performing SIFs and/or all colleagues performing a Senior Management Function[1] • Other MRTs[1] • Non-MRTs[1]
Deferral, vesting and performance adjustment	At least 40 per cent of MRTs' variable remuneration above certain thresholds is deferred into Lloyds Banking Group Shares. For all MRTs, variable remuneration is deferred in line with the regulatory requirements for three, five or seven years, (depending on MRT category). At least 50 per cent of each release is subject to a 12 month holding period. For all colleagues, any deferred variable remuneration amount is subject to performance adjustment (malus) in accordance with the Group's Deferral and Performance Adjustment Policy.	MRTs' vested variable remuneration (including variable remuneration subject to a holding period) can be recovered from colleagues up to seven years after the date of award in the case of a material or severe risk event (clawback). This period may be extended to ten years where there is an ongoing internal or regulatory investigation. Clawback is used alongside other performance adjustment processes. Further information on deferral, vesting and performance adjustment can be found in the DRR on pages 94 and 99.
Guaranteed variable remuneration	Guarantees, such as sign-on awards, may only be offered in exceptional circumstances to new hires for the first year of service and in accordance with regulatory requirements. Any awards made to new hires to compensate them for unvested variable remuneration they forfeit on leaving their previous employment ('buy-out awards') will be subject to appropriate retention, deferral, performance and clawback arrangements in accordance with applicable regulatory requirements. Retention awards may be made to existing colleagues in limited circumstances and are subject to prior regulatory approval in line with applicable regulatory requirements.	**Applies to:** • Senior Management, Executive Directors, members/attendees of the GEC and their respective direct reports • Approved Persons performing SIFs and/or all colleagues performing a Senior Management Function • Other MRTs • Non-MRTs
Shareholding requirement	Executive Directors: see DRR page 91. All other MRTs and non-MRTs: 25 per cent to 100 per cent of the aggregate of base salary and fixed share award depending on grade.	**Applies to:** • Senior Management, Executive Directors, members/attendees of the GEC and their respective direct reports • Approved Persons performing SIFs and/or all colleagues performing a Senior Management Function[2] • Other MRTs[2] • Non-MRTs[2]
Termination payments	Executive Directors and GEC members: see page 96 of the 2016 DRR. All other termination payments comply with the Group's contractual, legal and regulatory requirements and are made in such a way as to ensure they do not reward failure or misconduct and reflect performance over time.	**Applies to:** • Senior Management, Executive Directors, members/attendees of the GEC and their respective direct reports • Approved Persons performing SIFs and/or all colleagues performing a Senior Management Function • Other MRTs • Non-MRTs

1 Eligibility based on seniority, grade and role

2 Requirement based on seniority and grade

Table 1 Analysis of high earners by band

Number of Material Risk Takers paid €1 million[1,2] or more	2018 Material Risk Takers[3,4]	2017 Material Risk Takers[4]
€1.0m – €1.5m	30	35
€1.5m – €2.0m	8	11
€2.0m – €2.5m	7	2
€2.5m – €3.0m	1	1
€3.0m – €3.5m	2	3
€3.5m – €4.0m	4	4
€4.0m – €4.5m	–	–
€4.5m – €5.0m	–	–
€5.0m – €6.0m	–	–
€6.0m – €7.0m	–	–
€7.0m – €8.0m	1	1

1 Converted to Euros using the exchange rate €1 = £0.89135 (average exchange rate 1 December 2018 – 31 December 2018 based on the European Commission Budget exchange rates). The exchange rate used for 2017 was €1 = £0.88293.

2 Value of LTIP/Group Ownership Share awards based on expected value at grant pre the application of the EBA discount factor.

3 Total number of Material Risk Takers earning more than €1m has decreased from 57 in 2017 to 53 in 2018.

4 2018 and 2017 data has been calculated using methodology consistent with EBA guidelines.

Table 2 Aggregate remuneration expenditure (Material Risk Takers)

Analysis of aggregate remuneration expenditure by division[1]

	Retail and Community Banking £m	Commercial Banking £m	Insurance & Wealth £m	Group Functions & Services[1] £m	Total £m
Aggregate remuneration expenditure	22.7	62.1	10.8	95.6	191.2

1 Chief Operating Office comprises People and Productivity, Group Transformation, Chief Information Office and Chief Security Office. Group Functions comprises Risk, Finance, Legal, Strategy, Group Corporate Affairs, Group Internal Audit, Company Secretariat and Responsible Business.

Table 3 Fixed and variable remuneration (Material Risk Takers)

Analysis of remuneration between fixed and variable amounts

	Remuneration £m	Awarded in relation to the 2018 performance year				
		Management body				
		Executive Directors	Non-Executive Directors	Senior Management[2]	Other MRTs	2018 Total
Fixed Remuneration £m	Number of employees	3	10	147	120	280
	Total fixed remuneration	5.8	–	61.6	36.0	103.4
	Of which: Cash based	3.9	–	54.6	34.4	92.9
	Of which: Shares[1]	1.9	–	7.0	1.6	10.5
Variable Remuneration £m	Total variable remuneration	6.0	–	57.0	24.7	87.7
	Of which: Upfront cash based	–	–	0.3	0.2	0.5
	Of which: Share based[3]	6.0	–	56.7	24.5	87.2
	Of which: Deferred					
	Vested	0.9	–	20.3	13.3	34.5
	Unvested	5.1	–	36.4	11.2	52.7
	Total remuneration	11.8	–	118.6	60.7	191.2

1 Released over a five year period.

2 Senior Management are defined as Group Executive Committee (GEC) members/attendees (excluding Group Executive Directors and Non-Executive Directors) and their direct reports (excluding those direct reports who do not materially influence the risk profile of any in-scope group firm).

3 Values for LTIP/Group Ownership Share awards based on expected value at the date of grant pre the application of the EBA discount factor.

Other remuneration disclosures continued

Table 4 Total outstanding deferred variable remuneration

	Remuneration £m	Total outstanding deferred variable remuneration at 31 December 2018				
		Management body				
		Executive Directors	Non-Executive Directors	Senior Management	Other MRTs	2018 Total
Variable Remuneration £m	Number of employees	3	10	147	120	280
	Total outstanding deferred variable remuneration	26.2	–	116.1	40.4	182.7
	Of which: Vested	5.9	–	16.7	7.4	30.0
	Of which: Unvested	20.3	–	99.4	33.0	152.7

Table 5 Other payments awarded in relation to the 2018 performance year

	Guaranteed bonuses		Sign-on awards		Severance payments	
	Number of awards made	Total £m	Number of awards made	Total £m	Number of awards made	Total £m
Management body	–	–	–	–	–	–
Senior management	–	–	–	–	–	–
Other Material Risk Takers	–	–	–	–	–	–

Table 6 Deferred remuneration

Analysis of deferred remuneration at 31 December 2018

Remuneration £m	Total amount of outstanding deferred[1] and retained[2] remuneration	Of which: Total amount of outstanding remuneration exposed to ex-post explicit and/or implicit adjustment	Total amount of amendment during the year due to ex-post explicit adjustments	Total amount of deferred remuneration paid out in the performance year
Management body[3]	26.2	26.2	–	1.7
Senior management	116.1	116.1	–	12.7
Other Material Risk Takers	40.4	40.4	–	9.6

1 Deferred in this context refers only to any unvested remuneration.

2 Retained refers to any variable remuneration for which the deferral period has ended but which is still subject to a holding period before release.

3 Reference to the 'Management Body' relates to Executive Directors only. Non-Executive Directors are not eligible to receive variable remuneration.