


Meeting Date:	Thu, 06 May 2010 11:00	Proxy Deadline:	Tue, 04 May 2010	Type:	AGM	Issue date:	Thu, 22 Apr 2010
Meeting Location:	Edinburgh International Conference Centre, The Exchange, Edinburgh, EH3 8EE						
Current Indices:	FTSE 100	FTSE EuroFirst	MSCI Europe				
Sector:	Banks						

PROPOSALS	ADVICE
<p>1 Receive the Annual Report The company's Business Review meets ASB RS guidelines in our view. Adequate environmental and employment policies are in place and quantifiable environmental reporting is disclosed.</p>	For
<p>2 Approve the Remuneration Report The report is broadly compliant with Walker, but more clarification is needed in relation to the Integration Award LTIP. Disclosure at the company is mostly good – an exception to this rule is with regard to the company's Integration Award, a one-off share award made to executive directors in April 2009 relating to the acquisition of HBOS. There is no disclosure of award levels under this scheme, nor of precise targets. The company reported in more detail on this scheme in the 2008 Annual Report when the scheme was first proposed - however, the precise nature of targets was not included in the 2008 Annual Report, which the company explains as having been due to, at that stage, incomplete shareholder consultations. The company disclose that these targets were then put on the website in May 2009, but are no longer there.</p> <p>The remuneration committee contains six members, five non-executive directors and the chairman. The chairman's membership is not best practice in PIRC's view.</p> <p>For FY2009, bonuses received were between 150% and 185% of basic salary. These were 100% deferred. The Chief Executive Director again requested to waive his bonus. Awards were made under the LTIP scheme equal to approximately 80% of base salaries to all executives. The upper and lower EPS targets are considered sufficiently challenging given brokers' forecasts of limited growth. The Integration Award LTIP scheme, vests over three years, with performance against targets assessed annually. This award has not been put to a shareholder vote.</p> <p>We consider the combined level of performance-related pay excessive during the year under review. However we note that average salaries are below median for the sector. All executives are employed on one year rolling contracts, with mitigation applied.</p> <p>The PIRC Remuneration Rating is: CCB (Disclosure Rating of C; Reward Balance Rating of C; and Contracts Rating of B). Based on this rating we recommend shareholders abstain from supporting the remuneration report. Normally, we would abstain on this proposal. However, due to our concerns over the lack of a vote on the Integration Scheme, we recommend opposition.</p>	Oppose
<p>3a To elect Sir Winfried Bischoff Newly-appointed chairman. The process by which his appointment was made is clear and robust. Independent on appointment by PIRC.</p>	For
<p>3b To elect Mr G R Moreno Newly-appointed senior independent director. Independent by PIRC.</p>	For
<p>3c To elect Mr D L Roberts</p>	For

Newly-appointed non-executive director. Independent by PIRC.

4a To re-elect Dr W C G Berndt	Withdrawn
Retiring from the board at the AGM. Dr Berndt informed the board of his decision subsequent to the releasing of their notice of annual general meeting.	
4b To re-elect Mr J E Daniels	For
Chief executive. 12 months rolling contract.	
4c To re-elect Mrs H A Weir	For
Executive director. 12 months rolling contract.	
5 Appoint the auditors	Abstain
PricewaterhouseCoopers LLP proposed. Consultancy-related non-audit fees of GBP 10.2m are equivalent to approximately 40.48% of the audit fee during the year, and are greater than 25% of the audit fee on a three-year aggregate basis. This raises independence concerns over the external auditors.	
6 Allow the board to determine the auditors remuneration	For
Standard proposal.	
7 Issue shares with pre-emption rights	Abstain
General authority limited to one third of the issued share capital, and two thirds of the issued share capital if in connection with a pre-emptive rights issue. The requested authority follows the recent published guidance of the Rights Issue Review Group in connection with the ABI. We consider that there is sufficient independent supervision on the Board to monitor the use of the authority, however, the company has not made a commitment for all directors to seek re-election if the authority is used, as recommended by the published guidance. In light of this we recommend abstaining on this proposal.	
8* Issue shares for cash	For
Authority limited to 5% of the issued share capital and expires no later than the next AGM. Within recommended limits.	
9* Authorise purchase of ordinary shares	For
Authority limited to 10% of the issued share capital and expires no later than the next AGM. Within acceptable limits.	
10* Authorise purchase of preference shares	For
Authority is sought specifically for: 19% non-cumulative irredeemable preference shares; 22.025% non-cumulative preference shares; 31.4457% non-cumulative fixed to floating rate preference shares; 6.267% fixed to floating rate non-cumulative callable dollar preference shares; and GBP 600,000,000 non-cumulative fixed to floating rate callable preference shares. In total this is permission sought for all of the issued preference share capital and expires no later than the next AGM. The repurchase will aid Tier 1 Capital and increase cash as preference shares attract dividends at times when ordinary shares do not. Acceptable proposal.	
11* Notice of general meetings	For
The proposed article amendment reflects the implementation of the EU Shareholder Rights Directive into English law, which took place on 3 August 2009. Under the regulations, the minimum notice period for general meetings (other than Annual General Meetings) will increase to 21 days unless certain conditions are met, in which case it may be 14 days. We note that Class 1 transactions will still require more than 20 days notice as part of a separate piece of legislation.	
PIRC considers that all companies should aim to provide at least 20 working days notice for EGMs in order to give shareholders sufficient time to consider what are often complex issues; however, we recognise that the proposed change is permissible by the Companies Act and recommend support.	

* = **Special Resolution**

Directors

- Lloyds has not made the decision to require all of its directors to face re-election this year, only those required to under the articles of association. Given the record share issue which took place during the year, we would expect shareholders to be given the opportunity to vote on the re-election to the board of all directors.
- The process for the succession of the chairman is clearly disclosed. On 18 May 2009, following Sir Victor Blank's decision to step down from the board, a sub-committee of the nomination committee was established to oversee the chairman's succession. The committee was chaired by Sir Julian Horn-Smith. Membership was made-up entirely of independent non-executive directors, namely Dr Berndt, Mr Green, Sir David Manning and Mr Watson. There was an open invitation to other non-executive directors to attend meetings. Ms McCall was a regular attendee; Mr Ryan and Mr Scicluna also attended a number of meetings. As deputy chairman, Lord Leitch was kept advised of developments and, towards the latter end of the process, was invited to join meetings. The committee was advised by the group human resources director and the head of secretariat. Sir Victor Blank did not participate in any part of the process. Following a tender process, the committee appointed Jan Hall of JCA Group, as executive search advisor. The sub-committee met 10 times. Activities included agreeing the role specification and selection criteria; reviewing applicant profiles and agreeing short lists; reviewing shareholder feedback and ultimately recommending the appointment of Sir Winfried Bischoff to the board. In conjunction with the remuneration committee, the committee also proposed the terms and conditions of appointment for the new chairman. Between meetings, there were regular updates on progress. Short listed candidates were subject to an extensive interview process, initially by panels of committee members along with other directors. Ms McCall and Lord Leitch also participated in the interview process. All executive and non-executive directors were given the opportunity to meet the candidates prior to any decision being made. Detailed referencing and due diligence, both formal and informal, was also carried out. The appointment was subject to, and received, approval from the Financial Services Authority. The views of institutional shareholders including UKFI were sought prior to any decision being made. Those shareholders consulted confirmed that they were satisfied that the search and selection process had been robust and extensive.
- Dr Wolfgang Berndt, non-executive director, will retire from the board at the forthcoming AGM. Tony Watson will replace Dr Berndt as chairman of the remuneration committee. Glen Moreno, senior independent director, and David Roberts, non-executive director, joined the board on 1 March 2010. Carolyn McCall, non-executive director, retired from the Board on 31 December 2009. Sir David Manning, non-executive director, retired from the board on 3 November 2009. Philip Green, non-executive director, retired from the board on 23 October 2009. Sir Win Bischoff replaced Sir Victor Blank as chairman with effect from 15 September 2009. Ewan Brown, senior independent director, retired from the board at the conclusion of the last AGM.
- During the year, the board, supported by JCA Group, conducted a process of evaluating its effectiveness, and the effectiveness of its principal committees. The process included confidential, unattributable, one-on-one interviews with every board member and with UKFI and the Group's external auditors. The review covered corporate governance, board effectiveness, strategy development, risk management and board and committee organisation, composition, operation and dynamics. In addition, the review also considered the performance of the chairman, including the effectiveness of his relationships with the group chief executive and other members of the board. The outcomes of the review were subsequently discussed by the board as a whole.
- We consider there is be a sufficient number of non-executive directors on the Board, and that over 50% of the board, excluding the chairman, is independent. Nomination committee composition does not comply with PIRC guidelines as the Chairman is a member of the committee. PIRC believes that committees should be fully independent.

Remuneration

- There are additional issues with regards to the level of the Company's compliance with the recommendations presented within the Walker Review. A review of the Company's Walker Review compliance is provided in Section 4.5 of this report.
- In April 2009, a one-off share award was made to executive directors under the Integration Award scheme, relating to the acquisition of HBOS. The award vests over three years, with performance against targets assessed annually. Disclosure is sub-standard in relation to this scheme – awards made under this scheme do not appear to be disclosed. The company reported in more detail on this scheme in the 2008 Annual Report when the scheme was first proposed - however, the precise nature of targets was not included in the 2008 Annual Report, which the company explains as having been due to, at that stage, incomplete shareholder consultations. The company disclose that these targets were then put on the website in May 2009, but are no longer there. Targets relate to cost synergies achieved and to a balanced scorecard which incorporates non-financial metrics, although the precise nature of the latter is not disclosed. Furthermore, this award has not been put to a shareholder vote.

- Overall remuneration rating of CCB. Again this year, the overall disclosure at Lloyds is relatively good.
- The remuneration committee contains six members, five non-executive directors and the chairman, and met 15 times during the year. The chairman's membership is not best practice in PIRC's view.
- In total, awards were made under the LTIP scheme equal to approximately 200% of base salaries to all executives. The scheme allows for 400% of salary. FY2009 maximum: 200% of salary. FY2010 maximum: 275% of salary. In 2009, the upper and lower EPS targets are considered sufficiently challenging given brokers' forecasts of limited growth.
- For FY2009, bonuses received were: Mr Kane (150%); Mr Tate (175%); Mr Tookey (185%); and Mrs Weir (170%). These were 100% deferred. The Chief Executive Director again requested to waive his bonus, and therefore did not receive a cash or deferred bonus this year.
- Although cash bonuses were not paid, and without figures relating to the Integration Awards made, we still consider the combined level of performance-related pay excessive during the year under review. However we note that average salaries are below median for the sector.
- All executives are employed on one year rolling contracts. Compensation is limited to salary and earned bonuses, and will be paid on a phased basis and mitigated in the event that alternative employment is secured.

Audit and reporting

- The audit committee contains five members and is fully independent in our view. There is no quantified detail of the company's non-audit policy, with no reference to either fee limits or excluded services.
- Consultancy-related non-audit fees of GBP 10.2m are equivalent to approximately 40.5% of the audit fee during the year, raising concerns over their independence.
- The Company do not rotate their auditors, PricewaterhouseCoopers.

Share capital and shareholder relations

- The Government, via UKFI owns 41.3% of the company.
- During the year, an EGM presented to shareholders the largest rights issue in history. The capital raising was made up of two elements, a £13.5 billion (£13 billion net of the expenses of the Proposals) ordinary share rights issue, and through an exchange offer that created approximately £7.5 billion in Core Tier 1 capital. The Group also sought and gained shareholder approval (excluding HM Treasury), to pay to HM Treasury a fee of £2.5 billion, as was required by the European Commission as part of the expected state aid remedies. PIRC supported all resolutions at the EGM, given the extraordinary financial circumstances at the time.
- The company has not declared a dividend for the year under review. The annual report states that the board intends to resume dividend payments on ordinary shares as soon as market conditions and the financial performance of the Group permit, subject to the expiry, in 2012, of the restrictions arising from the European Commission's remedies.

Company's Primary Objective and/or Strategy

- The company's vision is to be recognised as the 'best financial services organisation in the United Kingdom' by customers, colleagues and shareholders. The company's further strategy is focused on building strong customer franchises that are based on deep customer relationships, building a high performance organisation, and managing its most valuable resource, its people.

Key Performance Indicators

- A number of financial and non-financial KPI's are disclosed at both the group and divisional level. The group KPIs are all financial metrics: Statutory profit before tax, income and cost growth, earnings per share, profit/loss before tax, income ratio and core tier 1 capital ratio.
- Non-financial Performance indicators are noted at the divisional level. For example the Retail division notes customer deposits and loans and advances to customers as performance indicators.

PIRC Analysis

- PIRC believes that Lloyds meets best practice guidelines for its business review.
- The business review is forward looking and the company has clearly defined its vision, objectives and strategies.
- Main trends and factors affecting performance have been reported as well as risks and uncertainties that are present.

Environment

- The company has an environmental policy and reports on emissions, energy usage and land fill waste. In 2009 the company implemented an integrated group wide environmental risk policy.
- A new CR steering committee was also established to include senior executives from across the group. The committee is chaired by the Group Human Resources Director, Angie Risley, and reports to the CEO.
- Supplier relationships are governed by the Code of Purchasing Ethics. In 2008 the company chaired an initiative with Business in the Community and Cambridge Programme for Sustainability to create a guide for Carbon Management in the Supply chain.
- The company is a signatory to the Equator Principles, and implemented a harmonised groupwide approach to monitoring and reporting transactions under the framework during the year.

Employment

- The company is committed to employee training and development, and to the monitoring of its employment policies.
- In the annual report, the company specifically addresses human resource issues involved in the integration of HBOS employees in its reporting.

Community

- The company recognises its main contribution to the community via its business operations.
- The company gives details on donations to community projects taken during the year.
- The company made £33,477,000 in donation in 2009. This includes £28,228,000 which will be paid in deeds of covenant to the four Lloyds TSB Foundations during 2010.

Issue alert

- During the year the company worked to integrate HBOS. This involved cost cutting and role reduction of 11,500 with 3,500 more expected in 2010. On 2 March 2010 further job losses were announced. As reported in the NewScotsman.com, "The decision was condemned by union Unite who said that today's announcement means the banking giant has now cut over 15,000 jobs over the past 12 months. Unite said it was optimistic that the fresh cuts would be achieved through voluntary redundancies or transfers."

FINANCIAL PERFORMANCE

	2009 £	2008 £	2007 £
Year End	31 December	31 December	31 December
Earnings per share (p)	7.50	6.70	58.30
Dividend per ordinary share (p)	0.00	11.40	35.90

FINANCIAL ADVISORS & COMPANY CONTACT

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1.DIRECTORS

1.1 BOARD OF DIRECTORS

PIRC assesses a non-executive director's independence according to PIRC's shareholder guidelines. Comments represent PIRC's analysis based on information in the report and accounts. *A = audit committee, R = remuneration committee, N = nomination committee, C = CSR or Ethics Committee, * = committee chairman.*

Board changes during year (after previous AGM): Dr Wolfgang Berndt, non-executive director, will retire from the board at the forthcoming AGM. Tony Watson will replace Dr Berndt as chairman of the remuneration committee. Glen Moreno, senior independent director, and David Roberts, non-executive director, joined the board on 1 March 2010. Carolyn McCall, non-executive director, retired from the Board on 31 December 2009. Sir David Manning, non-executive director, retired from the board on 3 November 2009. Philip Green, non-executive director, retired from the board on 23 October 2009. Sir Win Bischoff replaced Sir Victor Blank as chairman with effect from 15 September 2009. Ewan Brown, senior independent director, retired from the board at the conclusion of the last AGM.

Sir Winfried Bischoff		Chairman	
Age:	68	Date Appointed:	2009
Shares:		Options:	
Severance Entitlement		LTIP:	
Other Positions:	Eli-Lily and Company [NED], The McGraw Hill Companies Inc [NED], UK Career Academy Foundation [Ch], ex-Citigroup Inc. [Ch and acting CEO], ex-Schroders [CEO, Ch]		
Comment:	Independent on appointment by PIRC.		

Eric Daniels		Chief Executive	
Age:	58	Date Appointed:	2001
Shares:	2557816	Options:	568937
Severance Entitlement	12 months rolling	LTIP:	5540205
Other Positions:	BT Group [NED], ex-Citibank Consumer Bank [COO], ex-Travelers Life and Annuity [Ch and CEO], ex-Zona Financiera [Ch and CEO]		
Comment:	LTIP figure include bonus and performance shares held under the Lloyds TSB performance share plan.		

Tim J.W. Tookey		Finance Director	
Age:	47	Date Appointed:	2008
Shares:	98294	Options:	6906
Severance Entitlement	12 month	LTIP:	2331846
Other Positions:	ex-Prudential UK & Europe [FD], ex-Heath Lambert Group Ltd [FD], ex-KPMG		
Comment:			

Archie G Kane		Executive Director	
Age:	57	Date Appointed:	2000
Shares:	1225527	Options:	439438
LTIP:		LTIP:	3075318

Severance Entitlement 12 months rolling

Other Positions: Association of British Insurers [NED], The Takeover Panel [member], ex-General Telephone & Electronics Corporation [FD]

Comment:

G Truett Tate		Executive Director		
Age:	59	Date Appointed:	2004	Committees:
Shares:	526629	Options:	346554	LTIP: 3430473
Severance Entitlement	12 months rolling			
Other Positions:	British American Business Inc. [NED], Business in the Community [dir], In Kind Director [dir & trustee], Arora Holdings [Ch], ex-Chase Cost Management Inc [Co Founder], ex-charge Corporation [Pres, CEO], ex-Citigroup			
Comment:				

Helen A. Weir		Executive Director		
Age:	47	Date Appointed:	2004	Committees:
Shares:	425729	Options:	332665	LTIP: 3342100
Severance Entitlement	12 months rolling			
Other Positions:	Said Business School [Advisory Board member], Financial Services Practitioner Panel [mem], British Bankers' Association Retail Committee [Ch], Chartered Institute of Management Accountants [Fellow], ex-Accounting Standards Board [mem], ex-Kingfisher [FD], ex-B&Q [FD], ex-McKinsey & Co, ex-Unilever			
Comment:	LTIP figure include bonus and performance shares held under the Lloyds TSB performance share plan.			

Glen Moreno		Senior Independent Director		
Age:	66	Date Appointed:	2010	Committees: R
Shares:	0	Options:	0	LTIP: 0
Severance Entitlement				
Other Positions:	Pearson [Ch], Fidelity International [Dir, ex-CE], ex-Man Group plc [SID], ex-UKFI [acting Ch], ex-Citigroup [GroupExec]			
Comment:	Independent by the company, independent by PIRC.			

Sir Julian Horn-Smith		Non-Executive Director		
Age:	61	Date Appointed:	2005	Committees: R, N
Shares:	27890	Options:	0	LTIP: 0
Severance Entitlement				
Other Positions:	De La Rue plc [NED], Digicel Group [NED], Emobile (Japan) [NED], Sky Malta [Dir], Altimo International advisory board [mem], UBS [senior advisor], CVC Capital Partners [senior advisor], University of Bath [Pro vice-chancellor], ex-Sage Group plc [Ch], ex-Mars GB, ex-Vodafone Group plc [Group COO, DepCEO], ex-Philips			
Comment:	Independent by the company, independent by PIRC. We have concerns over his aggregate time commitments.			

Lord Leitch		Non-Executive Director		
Age:	62	Date Appointed:	2005	Committees: A, R, N

David Roberts		Non-Executive Director			
Age:	47	Date Appointed:	2010	Committees:	A, R
Shares:	0	Options:	0	LTIP:	0
Severance Entitlement					
Other Positions:	Henley Business School [member of the strategy board], The Mind Gym Limited [Ch], Champion Willcocks Limited [NED], ex-Barclays PLC [Exec, member of the Group Executive Committee, CE-International Retail and Commercial Banking, CE-Personal Financial Services, CE-Business Banking], ex-BAA PLC [NED], ex-Absa Group Limited [NED], ex-BAWAG P.S.K. AG [Ch, CE]				
Comment:	Independent by the company, independent by PIRC.				

T Timothy Ryan Jr		Non-Executive Director			
Age:	64	Date Appointed:	2009	Committees:	A
Shares:	63451	Options:	0	LTIP:	0
Severance Entitlement					
Other Positions:	Securities Industry and Financial Markets Association [Pres, CE], US-Japan Foundation [dir], Global Markets Advisory Committee for National Intelligence Council [mem], Great-West Life Annuity Insurance Co. [dir], Putnam Investments [dir], ex-JP Morgan Chase [VCh-financial institutions and governments], ex-International Foundation of Electoral Systems [dir], ex-Office of Thrift Supervision, US Department of the Treasury [dir], ex-Koram Bank [dir], ex-International Foundation of Election Systems [dir]				
Comment:	Independent by company, independent by PIRC. UKFI was consulted in the process of electing Mr Ryan, however we do not believe there to be a link between him and the significant shareholder that would compromise his independence.				

Martin Scicluna		Non-Executive Director			
Age:	59	Date Appointed:	2008	Committees:	A
Shares:	56226	Options:	0	LTIP:	0
Severance Entitlement					
Other Positions:	Great Portland Estates [Ch], Leeds University Council [mem], Berkhamsted School [governor], ex-Deloitte UK [Ch, Partner], ex-Deloitte Touche Tohmatsu [Dir]				
Comment:	Independent by company, independent by PIRC.				

Anthony Watson CBE		Non-Executive Director			
Age:	64	Date Appointed:	2009	Committees:	A, R*
Shares:	51357	Options:	0	LTIP:	0
Severance Entitlement					
Other Positions:	Hammerson [NED], Vodafone [NED], Witan Investment Trust [NED], Marks and Spencer Pension Trust [Ch], Asian Infrastructure Fund [Ch], Lincoln's Inn investment committee [Ch], Norges Bank Investment Management advisory board [mem], ex-Hermes Pensions Management [CE], ex-AMP Asset Management, ex-Strategic Investment Board (Northern Ireland) [Ch], ex-MEPC [Ch], ex-Financial Reporting Council [mem]				
Comment:	Independent by company, independent by PIRC. UKFI was consulted in the process of electing Mr Watson, however we do not believe there to be a link between him and the				

significant shareholder. We do, however, have concerns over his aggregate time commitments that would compromise his independence.

1.2 Board Composition (after AGM)

Directors	Number	% of board
Executive Directors	5	38.46
Independent NEDs	7	53.85
'Connected' NEDs	0	0.00
Other	1	7.69
Total	13	100.00

1.3 BOARD COMMITTEES (AFTER AGM)

	Number of members	% indp Co. View	% indp PIRC View	Meetings last year
Whole Board	13	53.85	53.85	28.00
Audit	5	100.00	100.00	8.00
Remuneration	6	83.33	83.33	13.00
Nomination	3	66.67	66.67	2.00

Number of NED-only meetings in year: n/d

1.4 Best Practice

This table sets out PIRC's assessment of the company's compliance with standards of best practice as set out in PIRC's Shareholder Voting Guidelines. n/d = Not Disclosed.

BEST PRACTICE PRINCIPLE AND CRITERIA: DIRECTORS	ANALYSIS
<p>A. There should be a clear division of responsibilities at the head of the company</p> <p>a) There is a separate chairman and chief executive</p> <p>b) The chairman has not previously been chief executive</p> <p>c) There is a senior independent director</p>	<p>Yes</p> <p>Yes</p> <p>Yes</p>
<p>B. The board should contain sufficient numbers of independent non-executives</p> <p>d) There are at least three non-executives on the board</p> <p>e) At least a third of the board is independent by PIRC guidelines</p> <p>f) At least 50% of the board excluding the chairman are independent</p>	<p>Yes</p> <p>Yes</p> <p>Yes</p>
<p>C. All directors should be accountable to shareholders by facing regular re-election</p> <p>g) All directors are required to seek regular re-election</p> <p>h) All directors face election every year</p>	<p>Yes</p> <p>No</p>
<p>D. There should be an independent and transparent appointments and review process</p> <p>i) Nomination committee composition complies with PIRC guidelines</p> <p>j) Recruitment practices for new directors are transparent</p> <p>k) There is evidence that a process for succession planning exists and is regularly reviewed.</p> <p>l) Process for regular board and individual appraisals and outcome is disclosed</p> <p>m) NEDs should annually appraise the chairman's performance</p> <p>n) Individual director's attendance at board and committee meetings is disclosed</p> <p>o) There is evidence that training needs for the board are regularly reviewed and acted upon</p>	<p>No</p> <p>Yes</p> <p>Yes</p> <p>Yes</p> <p>n/d</p> <p>Yes</p> <p>Yes</p>

1.5 Board Analysis

Comments on principle A

There should be a clear division of responsibilities at the head of the company between the running of the board and the executive responsibility for the running of the company's business. No one individual should have unfettered powers of decision.

There is a clear and robust separation of powers at the head of the company.

Comments on principle B

Non-executives are central to an effective and accountable board structure. They should meet at least once a year without executives present (A.1.3) and the annual report should include reference to the number of such meetings. Shareholders may benefit from non-executives serving on the board who can add value whilst not having an outsider's independent perspective. However, such appointments need to be assessed as part of the board's evaluation of its own requirements. PIRC places great importance on there being sufficient number of independent Non-Executive Directors (NEDs) to be able to effectively counterbalance the executive element.

We consider there is be a sufficient number of non-executive directors on the Board, and that over 50% of the board, excluding the chairman, is independent.

Comments on principle C

It is fundamental to good corporate governance that all directors are required to seek regular re-election by shareholders. The Combined Code provides that: All directors should be subject to election by shareholders at the first annual general meeting after their appointment, and to re-election thereafter at intervals of no more than three years. (A.7.1) PIRC considers annual re-election for each director to be best practice. In the absence of annual election, we believe that shareholders should have the opportunity for an earlier vote where there is a significant change in an existing director's role. We define this as: the chairman or chief executive stepping down from the role but remaining on the board; and an existing director becoming chairman or chief executive.

Lloyds has not made the decision to require all of its directors to face re-election this year, only those required to under the articles of association. Given the record share issue which took place during the year, we would expect shareholders to be given the opportunity to vote on the re-election to the board of all directors.

It is important that the process of board appointments is fully described, in order to demonstrate that appointments have been made on merit and against objective criteria. Boards should look to provide a balanced, meaningful report, bearing in mind the different skills, knowledge and experience the directors bring to the board. The appraisal process should be described for both nonexecutives and executives, including the criteria used and minimum requirements set. Appraisals should be undertaken in relation to individual directors, committees and the board as a whole, and general outcomes should be disclosed. The director or committee responsible for the process should be identified. Companies should consider the appointment of an independent third-party to conduct the review.

During the year, the board, supported by JCA Group, conducted a process of evaluating its effectiveness, and the effectiveness of its principal committees. The process included confidential, unattributable, one-on-one interviews with every board member and with UKFI and the Group's external auditors. The review covered corporate governance, board effectiveness, strategy development, risk management and board and committee organisation, composition, operation and dynamics. In addition, the review also considered the performance of the chairman, including the effectiveness of his relationships with the group chief executive and other members of the board. The outcomes of the review were subsequently discussed by the board as a whole.

Nomination committee composition does not comply with PIRC guidelines as the Chairman is a member of the committee. PIRC believes that committees should be fully independent.

Comments on principle D

The process for the succession of the chairman is clearly disclosed. On 18 May 2009, following Sir Victor Blank's decision to step down from the board, a sub-committee of the nomination committee was established to oversee the chairman's succession. The committee was chaired by Sir Julian Horn-Smith. Membership was made-up entirely of independent non-executive directors, namely Dr Berndt, Mr Green, Sir David Manning and Mr Watson. There was an open invitation to other non-executive directors to attend meetings. Ms McCall was a regular attendee; Mr Ryan and Mr Scicluna also attended a number of meetings. As deputy chairman, Lord Leitch was kept advised of developments and, towards the latter end of the process, was invited to join meetings. The committee was advised by the group human resources director and the head of secretariat. Sir Victor Blank did not participate in any part of the process. Following a tender process, the committee appointed Jan Hall of JCA Group, as executive search advisor. The sub-committee met 10 times. Activities included agreeing the role specification and selection criteria; reviewing applicant profiles and agreeing short lists; reviewing shareholder feedback and ultimately recommending the appointment of Sir Winfried Bischoff to the board. In conjunction with the remuneration committee, the committee also proposed the terms and conditions of appointment for the new chairman. Between meetings, there were regular updates on progress. Short listed candidates were subject to an extensive interview process, initially by panels of committee members along with other directors. Ms McCall and Lord Leitch also participated in the interview process. All executive and non-executive directors were given the opportunity to meet the candidates prior to any decision being made. Detailed referencing and due diligence, both formal and informal, was also carried out. The appointment was subject to, and received, approval from the Financial Services Authority. The views of institutional shareholders including UKFI were sought prior to any decision being made. Those shareholders consulted confirmed that they were satisfied that the search and selection process had been robust and extensive.

2. DIRECTORS REMUNERATION

2.1 Board Remuneration

	2009		2008		2007
Non-executive directors		% change		% change	
Fees	1,900,217.00	29.00	1,462,000.00	10.00	1,326,000.00
Others	47,000.00	62.00	29,000.00	-52.00	61,000.00
Non-executives' total	1,947,217.00	30.00	1,491,000.00	7.00	1,387,000.00
Executive directors					
Salaries	3,490,000.00	-4.00	3,649,000.00	-6.00	3,910,000.00
Annual Bonus	4,177,000.00		0.00	-100.00	6,124,000.00
Other Performance Related					
Other Emoluments	287,000.00	-40.00	483,000.00	-23.00	634,000.00
Executives' total cash	7,954,000.00	92.00	4,132,000.00	-61.00	10,668,000.00
Defined contribution and defined benefit	1,068,000.00	-42.00	1,847,000.00	-13.00	2,124,710.00
Share Option Gains					
LTIP Gains	6,979,996.04				
Compensation Payments					
TOTAL EXECUTIVES	16,001,996.04	167.00	5,979,000.00	-53.00	12,792,710.00

HIGHEST PAID DIRECTOR	2009 Mr Daniels		2008 Mr Daniels		2007 Mr Daniels
Salary	1,035,000.00	0.00	1,035,000.00	7.00	960,000.00
Annual Bonus			0.00	-100.00	1,811,000.00
Other Performance-Related					
Other Emoluments	86,000.00	-25.00	116,000.00	2.00	113,000.00
Total Cash	1,121,000.00	-2.00	1,151,000.00	-60.00	2,884,000.00
Share option gains					
LTIP gains					
Pension increase	340,000.00	-39.00	560,000.00	3.00	540,000.00
TOTAL	1,461,000.00	-14.00	1,711,000.00	-50.00	3,424,000.00

Average Executive Director (annualised)	2009 of 5.0		2008 of 5.14		2007 of 6.0
Salary	698,000.00	-1.00	709,922.00	8.00	651,667.00
Total Emoluments	1,590,800.00	97.00	803,891.00	-54.00	1,778,000.00

Comparative salary ranking

Highest paid director:	4th out of 5
Average executive:	4th out of 5
Comparator used:	FTSE 100, Banks

2.2 Executives' incentive bonus structure

Remuneration Advisers: Towers Perrin, Hewitt New Bridge Street, Kepler Associates

Scheme	Annual Incentive Scheme
Maximum Award	200% of salary, 225% for chief executive.
Performance Conditions	Performance based half and half on corporate performance and divisional achievement as a proxy for individual performance. An amount equal to 50 per cent of this element of the incentive is available on the achievement of the stretching corporate target. No payment under the corporate half of the bonus is payable if less than 90% of the stretching budget target is achieved. Any payments under the plan are deferred 100 per cent in shares until June 2012 and subject to claw back.
Comment	For FY2009, bonuses received were: Mr Kane (150%); Mr Tate (175%); Mr Tookey (185%); and Mrs Weir (170%). The Chief Executive Director again requested to waive his bonus, and therefore did not receive a cash or deferred bonus this year. Bonuses are deferred and paid over three equal tranches, and may be subject to claw-back if the performance on which the incentive is based is found not to be sustainable.

Scheme	LTIP 2006
Maximum Award	The scheme allows for 400% of salary. FY2009 maximum: 200% of salary. FY2010 maximum: 275% of salary.
Performance Conditions	<p>FY 2010: 100% EPS (25% vesting at 158% and 100% at 180%, straight line vesting in between), 100% economic profit (25% at 57%pa CAGR in EP and 100% at 77%pa CAGR, straight line vesting in between), 75% for absolute share price growth (0% at 75p absolute share price achieved and 100% at 114p, straight line vesting in between).</p> <p>FY 2009: 60% EPS, 60% economic profit, 40% 'synergy targets', 40% balanced score card (including risk, customer, people and build business).</p> <p>FY 2008: 50% of award based on TSR: full vesting if TSR growth exceeds the median by 7.5% (the company has previously explained that this is equivalent to upper quintile). 17.5% of the shares will vest where TSR is equal to median of the group. Straight line basis between these points. 50% of award based on EPS: full vesting if EPS growth exceeds RPI by 6% and 17.5% of the shares will vest where EPS growth exceeds RPI by 3%. Straight line basis between these points.</p>
Comment	In total, awards were made under this LTIP scheme equal to approximately 120% of base salaries to all executives - the breakdown between this scheme and the Integration Award was provided to us by the company on request.

Scheme	April 2009 Integration Award
Maximum Award	One-off award made in April 2009
Performance Conditions	<p>Two tranches to this one-off award:</p> <p>Synergy Savings: The release of 50 per cent of the shares will be dependent on the achievement of target run-rate synergy savings in 2009 and 2010 as well as the achievement of sustainable synergy savings of at least £1.5 billion by the end of 2011. The award will be broken down into three equally weighted annual tranches. Performance will be assessed at the end of each year against annual performance targets based on a trajectory to meet the 2011 target. The extent to which targets have been achieved will determine the proportion of shares to be banked each year. Any release of shares will be subject to the remuneration committee judging the overall success of the delivery of the integration programme.</p> <p>Integration Balanced Scorecard: The release of the remaining 50 per cent of the shares will be dependent on the outcome of a Balanced Scorecard of non-financial measures of the success of the integration in each of 2009, 2010 and 2011. The Balanced Scorecard element will be broken down into three equally weighted tranches. The tranches will be crystallised and banked for each year of the performance cycle subject to separate annual performance targets across the four measurement categories of Building the Business, Customer, Risk and People and Organisation Development.</p>

Comment	This related to the acquisition of HBOS. The company reports that performance against the first year of the award has been assessed and all targets have been met or exceeded. Awards made under this scheme are not disclosed in the 2009 Annual Report. In total, awards were made under this LTIP scheme equal to approximately 80% of base salaries to all executives - the breakdown between this scheme and the main LTIP scheme was provided to us by the company on request. This scheme was first described in the 2008 Annual Report - however, the award was made during FY 2009 and therefore we are reporting on it via our report this year. The company reported in more detail on this scheme in the 2008 Annual Report when the scheme was first proposed - however, the precise nature of targets was not included in the 2008 Annual Report, which the company explains as having been due to, at that stage, incompleting shareholder consultations. The company disclose that these targets were then put on the website in May 2009, but are no longer there.
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Scheme	Executive Share Option Scheme (amended 2001)
Maximum Award	300% of salary, 400% in exceptional circumstances
Performance Conditions	For minimum vesting of 30% of award, the Group must achieve a TSR ranking of eighth against a comparator group of fourteen other companies over a period of three years. The full award vests if the company ranks fourth against the comparator group. Between these two points a sliding vesting scale operates.
Comment	Mr Tookey was granted an option under this plan to acquire 35,305 ordinary shares in Lloyds TSB Group plc, which does not have any performance conditions attached other than continued appointment until 19 April 2009. We note that this award was made prior to his appointment as an executive director.

Scheme	Lloyds TSB Performance Share Plan
Maximum Award	50% of the annual bonus must be deferred into bonus shares. The maximum match will be 2 performance shares for every bonus share. Overall maximum award for the chief executive is 175% of salary, and 150% of salary for the other executives.
Performance Conditions	Dependent upon performance, the bonus shares will be matched by the company with performance shares. The maximum match will be awarded provided that the company's TSR over the performance period is first in a comparator group of UK financial services companies. One performance share will be awarded for every bonus share if the company is placed fifth and one performance share for every two bonus shares if the company is placed eighth (i.e. median). No performance shares will be acquired if the company is placed below median. Sliding scales will apply.
Comment	From 2006, the PSP has been discontinued.

2.3 Best Practice

This table sets out PIRC's assessment of the company's compliance with standards of best practice as set out in PIRC's Shareholder Voting Guidelines. It is based on disclosure in the report and accounts. n/d = not disclosed.

BEST PRACTICE PRINCIPLE AND CRITERIA: REMUNERATION	ANALYSIS
<p>Executive remuneration should be determined by a formal and independent procedure</p> <p>1) Remuneration committee membership meets PIRC guidelines</p> <p>2) Where remuneration consultants are appointed, a statement should be made available of whether they have any other connections with the company.</p>	<p>No</p> <p>No</p>
<p>There should be full and transparent disclosure of remuneration</p> <p>3) Are executive share schemes' long term performance measures linked to non-financial KPIs?</p> <p>4) Pay elsewhere in the company is considered in determining directors' pay</p> <p>5) The intended balance of the pay package is fully described</p> <p>6) Duration of contracts and company liabilities on termination are given</p> <p>7) Compensation payments or significant changes in policy are fully explained</p> <p>8) Takeover provisions attached to share schemes disclosed</p>	<p>Yes</p> <p>Yes</p> <p>Yes</p> <p>Yes</p> <p>Yes</p> <p>Yes</p> <p>n/d</p>
<p>Longer term incentives should provide rewards scaled towards superior performance</p> <p>9) Maximum vesting targets are challenging relative to performance required</p> <p>10) Minimum vesting targets are challenging relative to performance required</p> <p>11) Vesting scales are sufficiently broad and geared towards better performance</p> <p>12) There are at least two concurrent performance criteria one of which uses a comparator group or index</p> <p>13) Remuneration committee cannot amend share schemes without prior shareholder approval</p> <p>14) Remuneration committee has no discretion to determine payouts on a takeover</p>	<p>Yes</p> <p>Yes</p> <p>Yes</p> <p>No</p> <p>No</p> <p>n/d</p>
<p>Remuneration structure as a whole should not be excessive</p> <p>15) Total potential rewards under all incentive schemes are not excessive</p> <p>16) Directors are required to build up a significant shareholding</p> <p>17) Schemes available to enable all employees to benefit from business success</p> <p>18) Other remuneration practices do not raise concerns</p> <p>19) Performance Period is 5 years or more</p> <p>20) If performance period is 4 years or less there is an additional holding period applied</p>	<p>No</p> <p>Yes</p> <p>Yes</p> <p>No</p> <p>No</p> <p>No</p>
<p>Contracts policy should balance potential costs to the company with directors' interests</p> <p>21) No current directors have rolling contracts in excess of one year</p> <p>22) Contracts do not provide for liquidated damages in excess of one year's salary in any circumstances</p> <p>23) Future bonuses are not taken into account in determining compensation</p>	<p>Yes</p> <p>Yes</p> <p>Yes</p>

2.4 Analysis

Background data

Brokers consensus on future performance

Base EPS:-23.38

Year 2: 5.85p (-125.02%)

Average growth per annum over two years:-62.51%

Average real growth per annum over two years (assumes RPI@3.5%):-66.01%

Disclosure

Figures

Disclosure of cash remuneration and share options is clear, although expected values are not given for outstanding share options. Under the LTIP, it is not made clear which awards were made under the April 2009 Integration Scheme. The company have disclosed to us that 40% of the overall LTIP award (which was equal to 200% of basic salary) related to the Integration Scheme. Pension arrangements are described in full.

Policy

Last year we noted that Lloyds had gone far beyond its normal bounds in preparing and presenting its remuneration report, that there was significantly increased disclosure regarding the Group's remuneration policy which was explained in detail within the context of the company's position as well as its future strategy, and that further reference was given to below Board remuneration, the integration of risk management, and non-financial performance measures, all of which we welcomed. Similarly, this year, we welcome the level of disclosure on policy. Long-term incentive arrangements will take further consideration of non-financial performance targets, and economic profit, which is considered to involve a better integration of risk in valuing profits. In addition the company has committed itself to freezing salaries for 2010, as they did for 2009, and the level of grant under the LTIP is increased again but remains under the 2008 level and significantly below the maximum permissible under the scheme rules. There is evidence that pay elsewhere in the company is taken into consideration when determining directors' pay.

With regard to the one-off April 2009 Integration Award, we welcome the use of a Balanced Scorecard of non-financial measures applied to part of the award. However, in general, and taking into account the special circumstances of the HBOS acquisition to which this applies, we believe that completing mergers and acquisitions and implementing their successful integration is part and parcel of an executive director's duties and should not attract additional remuneration. The company reported in more detail on this scheme in the 2008 Annual Report when the scheme was first proposed - however, the precise nature of targets was not included in the 2008 Annual Report, which the company explains as having been due to, at that stage, incompleting shareholder consultations. The company disclose that these targets were then put on the website in May 2009, but are no longer there. It is unclear why shareholder approval was not sought for this scheme.

Performance targets

The maximum awards, performance conditions and the vesting scale attached to the company's Executive Share Option Scheme and Performance Share Plan are clearly disclosed. The maximum award for the annual bonus scheme has also been disclosed, although the future or past performance targets for the annual bonus scheme are not specified. The company has previously informed us that these have not been specified as the actual levels of profit are commercially sensitive.

Disclosure rating: C

Balance of incentive and reward

Long term incentives

Regarding the LTIP grant in 2009 the upper and lower EPS targets are considered sufficiently challenging given brokers' forecasts of limited growth, and we consider the EPS vesting scale to be broad enough to encourage out performance. Two performance measures are used, however they are not utilised concurrently, which we consider to be best practice. The second target relates to the economic profit at the company - it is difficult to assess the appropriateness of these targets without historical justification and market views on a company's future CAGR in this area. We are unable to properly assess the challenging nature of the Integration Award. Although the specific level relating to the synergy savings targets applying to half of the award are given, there is no quantitative disclosure relating to the balance scorecard which

incorporates non-financial metrics.

Excessiveness

The combined level of performance-related pay was excessive during the year under review, especially in light of the additional long-term awards made under the Integration Plan. However we note that average salaries are below median for the sector. The company operates an all employee share incentive plan which awards free shares. The directors are required to build up a shareholding in the company equivalent to one and a half times salary over a period of four years (two times salary for the chief executive).

Incentive/reward rating: C

Contracts

All directors are retained on one year rolling contracts. When compensation is payable it is restricted to salary and earned bonuses. Payments will be made on a phased basis and mitigated in the event that alternative employment is secured.

Contracts rating: B

Overall rating for remuneration report: CCB

3.1 Auditor's Remuneration

Auditors: PricewaterhouseCoopers LLP

Date appointed:

Audit partner: n/d

Responsible since:

	2009	2008	2007
Statutory audit fee	25.20	12.60	9.30
Non-audit work undertaken by the auditors - PIRC category 1			
Audit-related, mandatory or regulatory	5.30	5.30	3.80
Tax compliance			
Other non-audit work undertaken by the auditors - PIRC category 2			
Other tax services	1.00	0.50	0.70
Acquisition-related	0.30	0.40	0.70
Other services	8.90	0.70	0.10
Total non-audit fees (ex. category 1 work)	10.20	1.60	1.50
Total PIRC category 2 non-audit as percent of Statutory audit fee	40.48%	12.70%	16.13%

3.2 Best Practice

This table sets out PIRC's assessment of the company's compliance with standards of best practice as set out in PIRC's shareholder voting guidelines. n/d = not disclosed.

BEST PRACTICE PRINCIPLE AND CRITERIA: AUDIT	ANALYSIS
A. The auditors should be independent of the company and management	
a) No directors have a significant connection with the auditors	Yes
b) Audit firm is subject to regular fixed-term rotation	No
B. Non-audit fees should be disclosed and should not potentially affect independence	
c) An adequate breakdown of the nature of non-audit fees is provided	No
d) Level of non-audit fees do not raise independence concerns	No
C. Independent audit committee demonstrates accountability and expertise	
e) A fully independent audit committee exists comprising at least three members	Yes
f) Audit committee includes at least one member with significant financial experience	Yes
g) The audit committee report on its activities complies with PIRC guidelines	Yes
h) Audit committee's policy on awarding non-audit work is fully described	Yes
i) The audit committee should review "whistleblowing" arrangements	n/d
D. Effective Internal Controls	
j) There has been a review of the effectiveness of the internal audit arrangements	Yes

3.3 Audit and Reporting Analysis

Comments on principle A

PIRC believes there is a risk that over time an auditor's familiarity with the audit client's affairs may result in excessive trust. If the same firm continues to hold the position of auditor for many years, then previous judgements are not subject to outside scrutiny. We do not consider that rotation of the audit partner, within the same firm, is sufficient. We continue to maintain that rotation of the audit firm after a period of five years is best practice.

Comments on principle B

Concerning non-audit fees we continue to disagree with the view that audit firms can be employed to provide consultancy services to the management at the same time as undertaking a statutory audit on behalf of the shareholders. PIRC firmly believes that other commercial interests can compromise auditors in their ability to confront directors on difficult issues. We do however operate a materiality threshold for non-audit fees when one of the big four audit companies are engaged, and only when this threshold is exceeded will we make an assessment as to the excessiveness of non-audit work in relation to audit work.

PIRC considers that companies should breakdown the nature of tax services between those that are advisory related and those that are consultancy related. There is some breakdown but given the comparatively high amounts involved, we believe payments incurred should be quantified for each of the non-audit services, including venture capital transactions and other assurance and advisory services. Consultancy-related non-audit fees of GBP 10.2m are equivalent to approximately 40.5% of the audit fee during the year. Therefore, we have concerns over the independence of the auditors.

Comments on principle C

The Code requires that the committee should be provided with sufficient resources, that its activities should be reported in a separate section of the directors' report (within the annual report) and that the chairman of the committee should be present to answer questions at the AGM. PIRC believes that the audit committee's report is a cornerstone of good governance and that its approval should become a regular agenda item at the AGM of companies. When constructing the report, the board should be aware of the guidance provided in the Smith Report PIRC believes such a report should cover the issues dealt with by the committee in the year under review rather than merely describing the duties of the committee.

The Committee's actions during the year are described, however there is no quantified detail of the company's non-audit policy, with no reference to either fee limits or excluded services.

Comments on principle D

The effectiveness of the internal control system is reviewed regularly by the board and the audit committee, which also receives reports of reviews undertaken around Lloyds Banking Group by group risk and group audit. The audit committee receives reports from the Company's auditors, PricewaterhouseCoopers LLP (which include details of significant internal control matters that they have identified), and has a discussion with the auditors at least once a year without executives present, to ensure that there are no unresolved issues of concern.

4. SHARE CAPITAL & SHAREHOLDER RELATIONS

4.1 AGM Control Structure

Type	Nominal Currency	Issued (millions)	Authorised (millions)	Par value
Ordinary shares	GBP	63,774.50		0.10
Limited voting ord shares	GBP			
Non-voting ord shares	GBP			
Preference shares	GBP			

Significant changes in issued capital:

4.2 Disclosed Ordinary Shareholdings (at 25 February 2010)

Directors' interests	0.0%
The Solicitor for the Affairs of Her Majesty's Treasury	41.3%

4.3 Best Practice

This table sets out PIRC's assessment of the company's compliance with standards of best practice as set out in PIRC's shareholder voting guidelines. n/d = not disclosed.

BEST PRACTICE PRINCIPLE AND CRITERIA: SHAREHOLDERS	ANALYSIS
A. Shareholders have an opportunity to vote on dividend policy	
a) Declared dividend or policy is put to the vote	No
B. Shareholders should have adequate information and access to all directors	
b) Sufficient biographical information on all directors is disclosed	Yes
c) Justification for new director appointments is provided	No
d) Meetings between NEDs and shareholders are reported	No
C. All ordinary shares should have equal rights	
e) Each ordinary share has equal voting rights	Yes
f) There is no controlling shareholder	No
g) No persons have the right to designate directors to the board	Yes
D. Voting by shareholders should be democratic and transparent	
h) All voting is conducted by poll	Yes
i) The levels of proxy votes have been disclosed	Yes
j) Steps taken in understanding of the views of major shareholders	Yes

4.4 Share Capital and Shareholder Relations Analysis

The Board has not declared a dividend for the year under review.

Comments on principle A

The company reports that, during the last few months of 2009 the Group, together with HM Treasury, concluded negotiations with the European Commission on a restructuring plan required as a result of the state aid received by the Group. As part of this, they will dispose of a retail banking business with at least 600 branches, a 4.6 per cent market share of the personal current account market in the UK and approximately 19 per cent of the Group's mortgage assets, along with a number of behavioural remedies. The board is confident that the plan will not have a materially negative impact on the Group. One of the behavioural commitments we entered into as part of the plan is not to make coupon payments or to exercise voluntary call options on certain securities from 31 January 2010 until 31 January 2012. This also prevents the payment of dividends on ordinary shares for the same duration. The Annual Report and Accounts states: "We fully understand the hardship that the lack of dividend and coupon payments has caused many of our shareholders and stakeholders, and we are working diligently to restore the ability to pay dividends and create shareholder value. The board intends to resume dividend payments on ordinary shares as soon as market conditions and the financial performance of the Group permit, subject to the expiry, in 2012, of the restrictions arising from the European Commission's remedies."

Comments on principle B

PIRC believes that shareholders should be prepared to engage with companies where they have concerns or where an issue is unclear, in order to convey their opinions and raise the quality of debate. In the same way, companies should welcome the opportunity to engage with shareholders and prospective investors.

We consider that sufficient biographical information on all directors is disclosed, enabling shareholders to properly judge their competence and independence. We consider that given the importance of the role of both executive and non-executive directors, further unique justification should be provided.

Comments on principle C

Following the government funding provided to Lloyds TSB and HBOS in Q4 2008, followed by the subsequent acquisition of the HBOS by Lloyds, HM Treasury now controls 43.38% of the company's ordinary share capital. This could be increased to 65.1% if no other shareholders taken up their rights at the forthcoming open offer and placing. The holding is monitored and controlled by UK Financial Investments Limited (UKFI), which intends to act as an 'engaged, active investor'.

Although UKFI were involved in the process of electing Messrs Ryan and Watson to the Board as non-executive directors, we do not consider them to have been appointed by UKFI, and consider them to be independent from the significant shareholder.

Comments on principle D

PIRC considers poll voting to be the most appropriate way for listed companies to undertake business at general meetings. Insertion of a provision in company Articles mandating poll voting on all resolutions at general meetings will avoid the need for a chairman to decide on use of his powers to call a poll in the event that those present at a meeting deciding on a different voting outcome to that suggested by the postal proxy vote.

4.5 Comment on AGM resolutions

Resolution 2: Approve the Remuneration Report

Remuneration policies for banking and other financial institutions (BOFIs) will be under greater shareholder scrutiny in 2010. The latest annual reports reveal the extent to which remuneration committees have incorporated the new proposals from the FSA Remuneration Code as well as the Walker Review. Both are designed to combat inappropriate risk taking and promote financial stability. We believe it would be prudent for firms to comply with the emerging regulations and requirements. These should be regarded as a benchmark for good practice and provide greater transparency, particularly in the current climate of a backlash against excessive bankers' pay.

To complement our research on remuneration analysis against PIRC's best practice, we have adopted a number of additional key principles and recommendations from FSA and the Walker Review. We consider these to be most important to shareholders in judging the risk elements attached when voting on remuneration reports.

Below we examine the remuneration policies detailed in Lloyds Banking Group's 2009 annual report. The new regulations require disclosure for board and executive directors, managing directors and "high end" employees who have a significant impact on the company's risk profile.

"We have thought carefully and responsibly about the design of our remuneration schemes and have been engaged in discussions with and listened to the views of a broad group of our shareholders on the remuneration of senior management. We are committed to maintaining the right balance between reward, risk management, and performance and will continue to emphasise the balance". Chairman's statement, Lloyds Banking Group Annual Report and Accounts 2009.

1. FSA Principles 6.

Non-financial performance metrics should form a significant part of the performance assessment process.

Full compliance from 1 January 2010

What Lloyds says

Performance measure for one half of the annual incentive is based on a balanced scorecard system. The five elements of the scorecard are: Financial; franchise growth; customer service; risk and people development. Non-financial measures are not used in LTIP but 50 per cent of the shares released from the Integration award, introduced in April 2009, will depend on the outcome of non-financial measures contained in a separate balanced scorecard (see page 125).

PIRC's Response

There are numerous references to the use of non-financial performance measures (see pages 107, 109, 110,112,114,125). We take on board that non-financial measures are employed in the Integration plan but to adequately judge whether this forms a substantial part of the total performance assessment would require further disclosure in Lloyds' remuneration report. Whilst we can interpret customer service and people development as non- financial indicators, we cannot be certain about risk and franchise growth. We also need information on the weights placed on each of the elements contained within the balanced scorecard. For example, are there more emphasis on the financial aspect and less on people development?

Going forward to 2010, Lloyds does not commit itself to any use of non-financial instruments, beyond the vesting of the second tranche of the one-off award made under the Integration Award, and which can also be extended to the LTIP. Moreover, we need Lloyds to provide further information on senior employees who have a significant impact on the company's risk profile.

We expect Lloyds to reveal:

- The proportion of non-financial metrics used in the total performance assessment.
- Information on the use of non-financial performance measures for high end employees.

FSA Principles 7.

The measurement of performance for long-term incentive plans, including those based on the performance of shares, should be risk-adjusted.

Full compliance from 1 January 2010

What Lloyds says

Economic profit has been redefined to include the level of capital required to generate profits for its LTIP award. The company has proposed the introduction of a new performance measure based on absolute share price growth on top of EPS.

PIRC's response

Lloyds provides a good explanation of the newly defined economic profit and we welcome the introduction of an adjusted economic profit which factor in default rates. This will help to regulate excessive risk taking. The vesting scales in the EPS measure are also acceptable to PIRC. However, these form part of the total LTIP award and we have strong reservations about the introduction of the new performance measure based on absolute share price growth. Shareholders realise that such performance measures depend predominantly

on the general stock market or sectoral movements and bear little direct relationship to executive performance. We feel this weakens the LTIP on risk adjustments required by FSA and PIRC would like to see this replaced with a stronger measure which takes proper account of risk.

In our analysis of Lloyds' remuneration report in Section Two, we have noted that disclosure relating to the Integration award is poor. As a result we are unable to comment on whether this award, based on the merger of Lloyds TSB and HBOS, is properly risk adjusted and we do not know the number of shares released in the first instalment or calculate the payment. We do not know if the LTIP and/or the Integration award were applicable to high end employees.

We require Lloyds to:

- Revisit the new measure in the LTIP to appropriately reflect risk.
- Give proper disclosure on the Integration award.
- Provide information on high end employees.

3. Walker recommendation 30

To be implemented in the Financial Services Bill

Enhancing external reporting of the process for setting the performance objectives for "high end" employees. The committee should confirm that it is satisfied with the performance objectives and risk adjustments to compensation of such employees and explain the principles underlying the differences between them and board executives. Will be implemented in the Financial Services Bill.

What Lloyds says

The remuneration committee has delegated powers to look at the remuneration policy and philosophy of the top management group who perform significant influence functions for the Group. These employees could have a material impact on the Group's risk profile. It also has the remit to review the remuneration of employees whose salaries exceed a specified amount, currently standing at £350,000 and/or whose short-term incentive opportunity exceeds £250,000.

PIRC's response

Despite these statements, there are no disclosures relating to high end employees and we do not know if the annual incentive, LTIP and the Integration award apply to this group.

- Lloyds does not comply with this regulation and shareholders require information on high end employees and explain remuneration difference between high end employees and board executives.

4. Walker Recommendation 33

Incorporated in the FSA Remuneration Code

Deferral of long term incentive payments and short term bonus awards and the use of clawback provisions to be used as the means to reclaim amounts if misstatement and misconduct arise:

- Short term bonus awards should be paid over 3 year period with no more than one-third in the first year.
- Long-term incentive scheme with vesting subject to performance condition where half of the reward vesting after not less than 3 years and the remainder after 5 years .

What Lloyds says

The annual incentive for 2009 was deferred and released in tranches over a three year period. The deferred incentive will be subject to 100 per cent clawback if the performance that generated the incentive is found to be unsustainable. In relation to the 2010 package which is designed to encourage a long-term and risk based focus, all incentives will be paid on a deferred basis at the end of three years (see page 107).

PIRC's response

The deferral of the short term bonus award implies that Lloyds partly meets this recommendation. It is not clear whether the incentives will be released in three equal tranches as the recommendation requires. If it does not then Lloyds fails to comply. In relation to its LTIP, Lloyds does not meet this condition since all of the award can be vested after a three year period if conditions are satisfied. The Integration award however, does comply with this recommendation. Going forward, Lloyds' policy on long-term incentives in 2010 is confusing. It is not apparent from the statement made on page 107 whether "all incentives" refers to the LTIP as well as the annual bonus scheme.

Lloyds needs to clarify whether:

- Deferred bonus will be paid in three equal tranches.
- Deferral in 2010 will include LTIP in the form required by Walker recommendation 33.

5. Walker Recommendation 37

To be implemented in the Financial Services Bill

Remuneration report should state if executive board members or “high end” employees have the right or opportunity to receive enhanced benefits whether in employment, termination, resignation, retirement or the wake of any other event such as a change of control beyond those already disclosed in the directors’ remuneration report and whether the committee has exercised its discretion during the year to enhance such benefits either generally or for any member of this group.”

There are no references to enhanced benefits in the current remuneration report and we require Lloyds to disclose any enhanced benefits paid or a confirmation from the company that no such payments were made under the circumstances described in Walker recommendation 37.

5. OPERATING AND FINANCIAL REVIEW OR BUSINESS REVIEW

5.1 Best Practice

This provides our interpretation of compliance with key guidelines on best practice as set out in ASB Reporting Statement: Operating and Financial Review (January 2006). N.B. Only information in the company's OFR or Business Review is taken into account below except in interpreting guidelines (vii) and (ix) where information elsewhere in the annual report is also considered

BEST PRACTICE FRAMEWORK AND CRITERIA: OFR	ANALYSIS
A. Overview	
i) Does the company have an OFR or Business Review?	Yes
ii) Does the OFR/Business Review have a forward-looking orientation?	Yes
B. Business Nature, Objectives and Strategies	
iii) Does the company explain the market or regulatory environment in which it operates?	Yes
iv) Does the company explain its objectives and/or strategies?	Yes
v) Are the company's objectives and strategies linked to social, environmental or ethical (SEE) matters?	Yes
C. Analysis of Development and Performance	
vi) Does the company report main trends and factors affecting performance in the year under review AND future prospects?	Yes
vii) Does the company report on risks and uncertainties affecting long-term value?	Yes
viii) Does the OFR contain sufficient disclosure of material issues concerning stakeholders (apart from shareholders) that may affect performance?	Yes
D. Key Performance Indicators	
ix) Does the company disclose both financial and, where appropriate, non-financial key performance indicators in support of its analysis of past and future performance?	Yes

5.2 Analysis

iv) The company's vision is to be recognised as the 'best financial services organisation in the United Kingdom' by customers, employees and shareholders. The company's further strategy is focused on building strong customer franchises that are based on deep customer relationships, building a high performance organisation, and managing its most valuable resource, its people. The Business Review breaks these strategies down further by division.

vi) The company discusses the challenging environment in which it worked to integrate HBOS during the year. The chairman's report noted key achievements in capital raising and restructuring, noting future plans to re-instate dividends for ordinary shareholders as soon as possible. The company also looks forward to 2010 with expectations of a significant reduction in the groups' impairment and delivery of significantly improving combined business financial performance in 2010.

vii) A comprehensive section on risk is contained in the annual report and contains information regarding the risk management framework, risk drivers and principle risks. There is also significant detail on the groups governance of risks facing the group.

The principle risk drivers are: business risk, credit risk, market risk, insurance risk, operation risk and financial soundness. Each of these is described with the groups' action to manage and mitigate it.

viii) There is relevant information about relationship with stakeholders, apart from shareholder, which may affect the performance of the company. Such information is included for employees, the environment, customers and the community.

6. CORPORATE SOCIAL RESPONSIBILITY

6.1 Environmental Best Practice

This table sets out PIRC's assessment of the company's compliance with standards of best practice as set out in PIRC's shareholder voting guidelines. n/d = not disclosed.

BEST PRACTICE PRINCIPLE AND CRITERIA: ENVIRONMENT	ANALYSIS
A. There should be a comprehensive, published policy a) Group-wide environmental policy published	Yes
B. There should be clear lines of accountability and management b) Is there board-level responsibility for environmental issues either in the form of a CR committee or a specific director bearing responsibility?	No
C. Procedures for stakeholder engagement should be evident c) Environmental standards required of suppliers d) Evidence of structured consultation process to gauge stakeholder views	Yes Yes
D. Companies should report fully on performance e) Target setting disclosed f) Performance evaluated against targets	n/d Yes
E. Audits, external standards and independent verification should be used g) Formal procedures in place for monitoring performance and evaluating outcomes h) Environmental reporting is externally verified	Yes Yes

6.2 Analysis

Comments on principle A	<p>PIRC expects every listed company to publish a comprehensive environmental policy. Publishing a policy provides a clear message both internally and externally. Such policy documents should be formal statements describing the group's approach to dealing with environmental issues in its operations.</p> <p>A good policy statement should acknowledge the board's responsibilities on environmental issues; cover all group companies; include a commitment to appropriate reporting; and set out the board's objectives in addressing their main environmental impacts, particularly direct and indirect greenhouse gas emissions, energy use, water consumption and waste production.</p> <p>It is clear from the company's disclosure that such a policy exists. The company first established its environmental policy in 1996, which is based upon the ISO 14001 standard. In addition the company discloses a policy on climate change. In 2009 the company implemented an integrated group wide environmental risk policy.</p>
Comments on principle B	<p>The board considers CR issues throughout the year. In 2009, a new CR steering committee was established to include senior executives from across the group. The committee is chaired by the Group Human Resources Director, Angie Risley. This committee reports to the CEO.</p>

As part of ensuring stakeholder accountability, boards should have a structured process of consultation and engagement to gauge and respond to a variety of stakeholder views. Once opinions have been canvassed, they should form part of the review process for policy and objectives

Comments on principle C This is the case at Lloyds. Supplier relationships are governed by the Code of Purchasing Ethics. In 2008 the company chaired an initiative with Business in the Community and Cambridge Programme for Sustainability to create a guide for Carbon Management in the Supply chain. It is not clear what environmental requirements are expected from the groups supply chain.

Previously the company aimed to reduce CO2 emissions by 30% (from 2004 levels) by 2012. In the 2008 CR report, the company indicates it reduced emissions by 31% since 2007. It is not clear what the revised targets are.

Comments on principle D Having reached its prior commitment to becoming carbon neutral by offsetting emissions by buying carbon trading credits the company has indicated it will stop purchasing credits in 2009 and focus on cutting emission directly. We welcome this change and would also like to see disclosed targets.

Comments on principle E Centre for Sustainability and Excellence (CSE) provides independent assurance of the groups 2008 CR report which was published in August 2009. We note that the annual report and CR data are not produced in conjunction.

6.3 Performance Indicators - Environment

	Unit of measurement	2009	2008	2007	KPI in business review	Target set
a) Greenhouse Gas Emissions - Direct	ghg - metric ton CO2e	580703.0	155652.0	161201.0	No	No
b) Greenhouse Gas Emissions - Indirect	ghg - metric ton CO2e	n/d			No	No
c) Water Consumption	water - m3	n/d			No	No
d) Landfill	landfill - Metric Tonnes	19244.0			No	No

a) The company reports Emissions figures including green energy used (as a negative figure). This has been omitted from the total.

6.4 Employment Best Practice

This table sets out PIRC's assessment of the company's compliance with standards of best practice as set out in PIRC's shareholder voting guidelines. n/d = not disclosed.

BEST PRACTICE PRINCIPLE AND CRITERIA: EMPLOYMENT AND HUMAN RIGHTS	ANALYSIS
<p>A. There should be a comprehensive, published policy</p> <p>a) Group-wide employment policy published</p> <p>b) Health and safety policy published</p> <p>c) Policy includes a commitment to equal employment opportunities so as to encourage diversity in the workforce</p>	<p>Yes</p> <p>Yes</p> <p>Yes</p>
<p>B. There should be clear lines of accountability and management</p> <p>d) Board level responsibility for human resource issues identified</p>	<p>No</p>
<p>C. Procedures for stakeholder engagement should be evident</p> <p>e) Trade union negotiating framework, works councils or similar strategic-level procedures for information and consultation</p> <p>f) Company undertakes regular employee satisfaction surveys</p>	<p>Yes</p> <p>Yes</p>
<p>D. Companies should report fully on performance</p> <p>g) Employment performance indicators are disclosed</p> <p>h) Target setting disclosed</p>	<p>Yes</p> <p>No</p>
<p>E. Audits, external standards and independent verification should be used</p> <p>i) Performance evaluated against targets</p>	<p>Yes</p>

6.5 Analysis

Comments on principle A	<p>PIRC expects every listed company to publish a comprehensive employment policy. Publishing a policy provides a clear message to both internal and external stakeholders. Such policy documents should be formal statements describing the group's approach to dealing with employment issues in its operations.</p> <p>A formal employment policy statement should cover all group companies, acknowledge the board's responsibilities on employment issues, include a commitment to or evidence of appropriate reporting; and set out the board's objectives for addressing their main employment impacts</p> <p>It is clear from the company's disclosure that such a policy exists. The company is committed to employee training and development, and to the monitoring of its employment policies. Additionally, in the year under review, the company specifically addresses integration of HBOS employees in its reporting.</p>
Comments on principle B	<p>The board considers CR issues throughout the year. In 2009 a new CR steering committee was established to include senior executives from across the group. The committee is chaired by the Group Human Resources Director, Angie Risley. This committee reports to the CEO.</p>

As part of ensuring stakeholder accountability, boards should have a structured process of consultation and engagement to gauge and respond to a variety of stakeholder views. Once opinions have been canvassed, they should form part of the review process for policy and objectives

Comments on principle C

The company recognises the need to consult employees on all issues and changes concerning them. Internal communications are well established and regular meetings with trade unions also take place. The company conducts regular employee surveys, the results of which are labelled as a key performance indicator by the company.

The company notes its belief that a strong working relationship with recognised unions supports a good employee relationship throughout the business.

Comments on principle D

Performance indicators include diversity, employee engagement, accident rate and training days. Targets are not disclosed.

Comments on principle E

Centre for Sustainability and Excellence (CSE) provides independent assurance of the groups 2008 CR report which was published in August 2008. We note that the annual report and CR data are not produced in conjunction.

6.6 Performance Indicators - Employment

	Unit of measurement	2009	2008	2007	KPI in business review	Target set
a) Workforce Fatalities	total fatalities	n/d			No	N
b) Company Spending on Employees' Training	total in meeting currency	n/d			No	N
c) Employee Turnover	percent	n/d			No	N

a In its 2008 CR report the company includes total accidents as 1,839 for the year under review at Lloyds and 1,154 at HBOS.

b The company reports details on the number of training days per full time equivalent as 2.9 for 2009.

6.7 Community Investment Best Practice

This table sets out PIRC's assessment of the company's compliance with standards of best practice as set out in PIRC's shareholder voting guidelines. n/d = not disclosed.

BEST PRACTICE PRINCIPLE AND CRITERIA: COMMUNITY INVESTMENT	ANALYSIS
<p>A. There should be a comprehensive, published policy</p> <p>a) Group-wide community policy published</p>	<p>Yes</p>
<p>B. There should be clear lines of accountability and management</p> <p>b) Is there board-level responsibility for community issues either in the form of a CR committee or a specific director bearing responsibility?</p>	<p>No</p>
<p>C. Procedures for stakeholder engagement should be evident</p> <p>c) There is evidence that the company is forming partnerships with external bodies</p> <p>d) There is evidence that the company uses feedback to develop appropriate procedures</p>	<p>Yes</p> <p>Yes</p>
<p>D. Audits, external standards and independent verification should be used</p> <p>e) Company reporting is in accordance with GRI or has had external review</p>	<p>Yes</p>

6.8 Analysis

<p>Comments on principle A</p>	<p>The company should have a community investment policy in the form of a formal statement outlining the company's position on community involvement. Such a policy should include identification of the company's responsibilities to community stakeholders, the role the company plays in wider society and a description of the company's charitable and community investment objectives.</p> <p>The company should demonstrate it has: informed investors of relevant responsibilities for such issues within the company; established partnerships, where appropriate, with external bodies that may include charities, voluntary organisations, trusts, community support groups or local authorities; and set up a reporting framework to ensure that feedback from community stakeholders is used to develop future policy and procedures.</p> <p>It is clear from the company's disclosure that such a policy exists. The company recognises its main contribution to the community via its business operations. However, it is clear that the company takes community investment seriously as it gives details on donations in community projects made during the year.</p> <p>The company made £33,477,000 in donation in 2009. This includes £28,228,000 which will be paid in deeds of covenant to the four Lloyds TSB Foundations during 2010.</p>
<p>Comments on principle B</p>	<p>The board considers CR issues throughout the year. In 2009 a new CR steering committee was established to include senior executives from across the group. The committee is chaired by the Group Human Resources Director, Angie Risley. This committee reports to the CEO.</p>

Comments on principle C

As part of ensuring stakeholder accountability, boards should have a structured process of consultation and engagement to gauge and respond to a variety of stakeholder views. Once opinions have been canvassed, they should form part of the review process for policy and objectives

In particular, this year the company implemented consistent customer advocacy metrics across the group. Additionally, the company has in place a confidential on-line engagement survey for employees which is monitored quarterly.

Comments on principle D

Centre for Sustainability and Excellence (CSE) provides independent assurance of the groups 2008 CR report which was published in August 2008. We note that the annual report and CR data are not produced in conjunction.

6.9 Performance indicators - Community Investment

	Unit of measurement	2009	2008	2007
a) Cash Donations (UK)	total in meeting currency	n/d		
b) Cash Donations (Global)	total in meeting currency	33477000.0	28997000.0	37183000.0
c) Other Company Giving (in kind)	total in meeting currency	n/d		
d) Political Donations (Europe)	total in meeting currency	n/d		
e) Political Donations (outside EU)	total in meeting currency	n/d		

APPENDIX: COMPLIANCE WITH COMBINED CODE OF BEST PRACTICE 2006

Under the listing rules, UK companies are required to make the following disclosures. This table is PIRC's assessment of the company's statements.

Listing rule compliance

Listing Rule		
	a) There is a statement of how the company has applied the Combined Code's principles	Yes
	b) There is a compliance statement; specifying the code provisions with which the company has not complied, if any.	Yes
	c) The board considers that the company complied with the code in full for the whole period	Yes
	d) Is combined code compliance statement complete?	Yes

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