LLOYDS BANKING GROUP

ANNUAL REVIEW 2008

CREATING THE UK'S LEADING FINANCIAL SERVICES PROVIDER

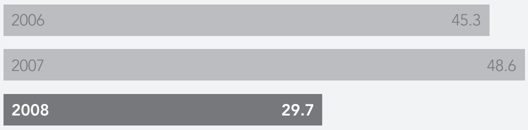
GROUP KEY PERFORMANCE INDICATORS – FINANCIAL

STATUTORY PROFIT BEFORE TAX
£m

(80%)

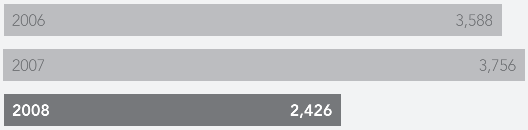
EARNINGS PER SHARE†
pence

(39%)

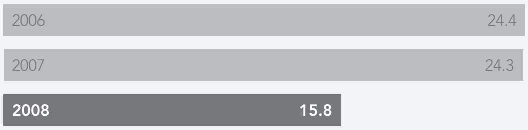


PROFIT BEFORE TAX†
£m

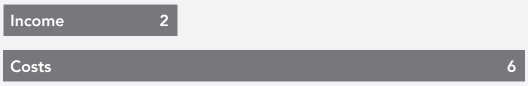
(35%)



RETURN ON EQUITY†
%



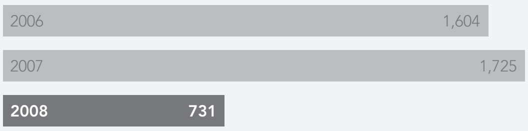
INCOME AND COST GROWTH 2008†
%



TOTAL SHAREHOLDER RETURN
%

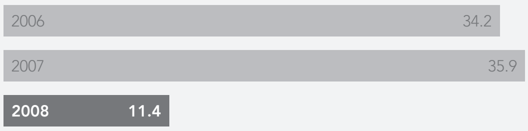
ECONOMIC PROFIT†
£m

(58%)



DIVIDEND
pence

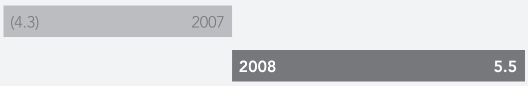
(68%)



GROUP KEY PERFORMANCE INDICATORS – NON-FINANCIAL

ENGAGEMENT INDEX††
%

NET PROMOTER SCORE†††



† Excluding volatility, a provision in respect of certain historic US dollar payments, a provision for the Financial Services Compensation Scheme levy, goodwill impairment; and, in 2007, results of discontinued businesses, profit on sale of businesses and the settlement of overdraft claims; and, in 2006, the pension scheme related credit.

†† Read more in Our People section (page 14).

††† Read more in Corporate Responsibility section (page 13).

VIEW OUR ANNUAL REPORT ONLINE

A full version of our Annual Report and Accounts and information relating to Lloyds Banking Group is available at www.lloydsbankinggroup.com

PRESENTATION OF INFORMATION

In order to provide a more comparable representation of underlying business performance in certain commentaries, insurance and policyholder interests volatility have been separately analysed for the Group's insurance businesses. In addition, a provision in respect of certain historic US dollar payments, a provision in respect of the Financial Services Compensation Scheme levy and goodwill impairment in 2008; and the profit on the sale of businesses, the results of discontinued businesses and the settlement of overdraft claims in 2007 have been separately analysed in the Group's results. A reconciliation of this basis of presentation to the statutory profit is shown on page 2. Certain commentaries also separately analyse the impact of market dislocation from the results for both years.

GROUP PROFILE

OUR GROUP

Lloyds Banking Group is a leading UK based financial services group providing a wide range of banking and financial services, primarily in the UK, to personal and corporate customers.

Lloyds Banking Group was formed in January 2009 following the acquisition of HBOS and our main business activities are retail, commercial and corporate banking, general insurance, and life, pensions and investment provision. The new Group also operates an international banking business with a global footprint in 40 countries.

The Group is the largest UK retail bank and has a large and diversified customer base. Services are offered through a number of well recognised brands including Lloyds TSB, Halifax, Bank of Scotland, Scottish Widows, Clerical Medical and Cheltenham & Gloucester, and via a unique distribution capability comprising the largest branch network in the UK and intermediary channels.

Lloyds Banking Group is quoted on both the London Stock Exchange and the New York Stock Exchange and is one of the largest companies within the FTSE 100.

OUR VISION

To be recognised as the best financial services organisation in the UK by customers, colleagues and shareholders.

OUR STRATEGY

Our corporate strategy supports this vision and is focused upon:

Building strong customer franchises that are based on deep customer relationships

– Extending reach and depth of customer relationships
– Enhancing product capabilities to build competitive advantage

Building a high performance organisation

– Improving processing efficiency
– Applying our more prudent 'through the cycle' approach to risk to the enlarged Group
– Working capital harder
– Delivering flawlessly for the customer

Managing our most valuable resource, our people

2008 HIGHLIGHTS

Statutory profit before tax reduced by 80 per cent to £807 million. A resilient underlying business performance was offset by the impact of market dislocation and adverse volatility relating to the Group's insurance businesses.

A resilient business performance. Profit before tax, on a continuing businesses basis, totalled £2,426 million, a decrease of 35 per cent which reflected the impact of £1,270 million of market dislocation and higher impairment levels.

Robust income performance. Income, excluding market dislocation, grew by nine per cent reflecting strong revenue growth from the Group's relationship banking businesses. On a statutory basis, income was eight per cent lower at £9,872 million.

Excellent cost management. The Group's cost:income ratio, excluding market dislocation, improved by 1.1 percentage points to 47.0 per cent.

In a difficult economic environment, asset quality remains satisfactory. Impairment losses increased by 68 per cent to £3,012 million, reflecting the impact of market dislocation, the slowdown in the UK economic environment and the impact of the falling house price index.

Robust capital ratios and a strong liquidity and funding position maintained throughout the recent turbulence in global financial markets.

GROUP RESULTS SUMMARY

	2008 £m	2007 £m
Net interest income	**7,709**	6,022
Other income	**521**	11,777
Total income	**8,230**	17,799
Insurance claims	**2,859**	(6,917)
Total income, net of insurance claims	**11,089**	10,882
Operating expenses	**(5,651)**	(5,330)
Trading surplus	**5,438**	5,552
Impairment	**(3,012)**	(1,796)
Profit before tax – continuing businesses*	**2,426**	3,756
Volatility		
– Insurance	**(746)**	(277)
– Policyholder interests	**(471)**	(222)
Discontinued businesses	**–**	162
Profit on sale of businesses	**–**	657
Provision in respect of certain historic US dollar payments	**(180)**	–
Provision for Financial Services Compensation Scheme levy	**(122)**	–
Goodwill impairment	**(100)**	–
Settlement of overdraft claims	**–**	(76)
Profit before tax – statutory	**807**	4,000

*Excluding volatility, a provision in respect of certain historic US dollar payments, a provision for the Financial Services Compensation Scheme levy, goodwill impairment; and, in 2007, results of discontinued businesses, profit on sale of businesses and the settlement of overdraft claims.

CHAIRMAN'S STATEMENT

Sir Victor Blank

2008 was a very difficult and challenging year for the banking industry, both in the UK and overseas. Asset values fell significantly in many developed markets. Wholesale funding contracted in a dramatic fashion as the expansionary credit conditions that had prevailed for some time ended abruptly. The UK Government had to intervene in the banking system by providing capital and liquidity where the markets had failed. In short, markets and economies behaved in ways which, I think it is fair to say, we have not seen in living memory.

At times of great economic and financial uncertainty, many apparently settled ideas come under great scrutiny. There is no doubt that there is a great deal of rethinking going on now and a new banking system will emerge both in this country and elsewhere in the coming years. Some certainties continue to prevail, however. For us, our emphasis on our relationship with our customers will remain very much at the core of how we do things as a business. Indeed, we believe this emphasis on customer relationships was a great asset to us last year and it will be at the core of how we develop our enlarged business in the future.

2008 was also, of course, the year when Lloyds TSB announced it was acquiring HBOS plc; the transaction was subsequently completed on 16 January 2009. It is this transaction to which I will now devote most of my attention in this review. I will also cover a number of other important issues, however, which I know shareholders would like me to discuss. They include the state sponsored banking recapitalisation last autumn and more recent significant Government measures, our dividend policy, our obligations to society, our corporate governance and the outlook for your company.

THE HBOS TRANSACTION

Lloyds TSB and HBOS had, on a number of occasions over the years, discussed the possibility of a combination. It was only the unique circumstances of last autumn, however, that enabled this transaction to happen. When we decided to acquire HBOS, we were doing so at a time when the economy was already deteriorating with the prospect of further declines to come. We were very mindful of the difficult economic backdrop to this transaction. We were also very aware, however, of the compelling logic of this transaction, including the substantial market positions we would secure and the significant synergies that would be generated. In short, we see the deal as being strategically imperative for us. The size and scale of the new group is very significant indeed and it offers opportunities for growth for the future which a stand-alone Lloyds TSB might not have been in a position to deliver to the same degree. Our senior management team, given its track record and strength in depth, is very well placed to exploit these opportunities on behalf of all our shareholders.

We believe that the HBOS transaction will prove to be very successful for our shareholders and our other stakeholders as well. Lloyds Banking Group is now the largest financial services franchise in the UK with a range of leading market positions in important product lines, such as savings, current accounts, mortgages, insurance and long-term savings. We are also a leading player in the Small and Medium Enterprise (SME) and wholesale banking sectors. The Group clearly has a very significant retail banking footprint and, with approximately 3,000 branches, is present in more UK locations than any other financial institution. We will also have the benefit of substantial synergies.

There is no doubt that the immediate outlook is challenging as indeed it is for most other banks in the UK and overseas. Lloyds TSB's trading performance in 2008 was by no means immune from the continued turbulence in the global financial markets which contributed to the decline in profit before tax to £807 million. HBOS was adversely affected by the challenging market conditions, a sharp decline in asset values and the dramatic contraction in the wholesale markets. Taking all these factors together, HBOS recorded a loss of £10.8 billion. Against this backdrop, it is unsurprising that questions have been asked about the HBOS transaction. I think it is important to remember, as I have already mentioned, that we purchased HBOS when the economic downturn was already well underway. In short, the opportunity to acquire HBOS only came about in the middle of great economic adversity and in conditions which are unlikely to be repeated.

In purchasing HBOS we acquired £17.9 billion of net asset value for £7.7 billion so, as a board, we remain very much convinced that this is the right transaction for your company. The short-term outlook is indeed difficult. Your board believes, however, that the earnings potential of Lloyds Banking Group will be significant in the longer term.

THE ROLE OF GOVERNMENT

A great deal has been said in recent months about the nature of the Government's involvement with the banking sector. We believe that most of the Government's initiatives have been positive and well considered. In particular, we very much welcome the Government's interventions to stabilise the banking system, provide liquidity and to encourage more lending. The dramatic unfolding of events across the world following the collapse of Lehman's meant that the Government needed to take swift and decisive action. It did so. That is why, despite Lloyds TSB's relative strength, in October 2008 we, together with other UK banks, were required by the UK Government to strengthen capital ratios as part of an industry wide initiative to reduce the systemic risk in the UK banking system. This led to us raising an additional £5.5 billion in capital, (£4.5 billion in ordinary shares and £1 billion in preference shares). HBOS were also required under the recapitalisation scheme to raise £11.5 billion, (£8.5 billion in ordinary shares and £3 billion in preference shares). The UK Government, as part of the capital raising process, has now become a 43.4 per cent shareholder in the Group.

DIVIDEND

As part of the HM Treasury recapitalisation scheme, the Group was required to suspend the payment of cash dividends to ordinary shareholders until the HM Treasury preference shares issued as part of the scheme are repaid. In the meantime, however, as we indicated in our shareholder circular last year, the board has approved a capitalisation issue of one for 40 ordinary shares held.

OUR ROLE IN SOCIETY

At a time when there is a great deal of public debate about the role of the banking system, I think it is important to reflect on the contribution that banks, and Lloyds Banking Group in particular, make to our society. Our company is the largest provider of social banking accounts in the UK. We provide four million of these accounts and are proud of the way in which we help our low income customers to access the banking system and, where appropriate, move up to a full service current account. We also have a substantial community investment programme through activities within the Company as well as the four Lloyds TSB Foundations. Our overall community investment programme is now somewhere in the region of £100 million a year and is, as a result, one of the most significant contributions by any major corporate to UK society. We are determined to continue to play an important role in the many communities in which we operate up and down the country.

Turning to broader societal issues, a great deal has been said in recent months about the role of bonuses in the banking system. We recognise the legitimate public interest in this subject. We have worked closely with the Government to devise a bonus system which is fair to our colleagues and sensitive to the wider needs of society as a whole. We do think that a necessary process is now underway to reassess the way in which some incentives in the banking system were structured and awarded – typically in areas in which we don't have a great deal of involvement. Specifically, we are very much a retail and commercial banking business with very little in the way of investment banking activity. We also recognise how important it is to align bonus and remuneration schemes with the interests of our shareholders, something we believe we have done over the years. From our perspective, it is particularly important that we retain our best talent both in the UK and overseas and we believe that it is an important factor that should also be taken into account when designing total reward systems.

OUR CORPORATE GOVERNANCE

We are committed to ensuring that the Group has a robust governance structure in place. Good corporate governance matters even more now than ever before. As we integrate HBOS we are now moving quickly to common governance standards. I believe this is important as there is a clear link between high quality governance and shareholder value creation.

During the year, we have continued the board's renewal process with the appointment of three new non-executive directors, each of whom brings a wealth of experience to the board. They are Carolyn McCall, Sir David Manning and Martin Scicluna and brief biographical details can be found on pages 21 and 22. In addition, Tim Ryan and Tony Watson will join us on 1 March and 2 April 2009, respectively. These appointments ensure that your board has a broad range of skills and senior experience, qualities which I believe are even more important now than they might have been before the economic turmoil began.

In October, Tim Tookey was appointed our new group finance director following Helen Weir's move from this role to become group executive director, UK Retail Banking after Terri Dial's decision to leave the Group. Mike Fairey, deputy group chief executive, retired in June following a 17 year career with the Group. On behalf of the board, I would like to thank Mike for his invaluable contribution to the Group over such a long period of time and wish Terri well in her new career.

OUTLOOK

The unprecedented market conditions which I sketched out at the start of this review have continued into 2009. At the same time, the economy is continuing to deteriorate; the debating point now is how deep the recession will be and how long will it take for it to end. One thing is certain – we are facing a prolonged period of economic difficulty for many households and companies up and down the country. As a bank with a strong focus on customer relationships, we are committed to helping our customers wherever possible to manage their way through these challenging times.

We know the short-term outlook for the enlarged Group is challenging. Whenever economic conditions do begin to normalise, however, we believe your company will be in a very strong position to reap the benefits. Our strong franchise across the whole range of product lines will enable us to do just that. In the meantime, our imperative is to manage your business as effectively as possible on your behalf during these challenging times. I believe we have the right people to do so.

One of the most important ways in which leading businesses differentiate themselves from their peers is through the quality of their people. I have no doubt that we at Lloyds Banking Group are very fortunate in having many of the best people in our industry working for us. The last 12 months, however, have been exceptionally difficult for many of our customers and colleagues alike. The unprecedented levels of market turbulence have meant that my colleagues have spent a great deal of time helping customers to understand what is happening and providing them with the necessary reassurance. The job that our colleagues do for our customers is very valuable and highly valued by us. I would therefore like to take this opportunity to thank them on our behalf for their outstanding contribution in 2008.

Sir Victor Blank
Chairman
26 February 2009

london
official partner

GROUP CHIEF EXECUTIVE'S REVIEW

J Eric Daniels

This has been an extraordinary year, by any measure and, as many commentators have observed, we are in the most severe global downturn since the 1930s. It was triggered by problems in the US housing markets, spread to the financial services industry and has now moved on to the broader economy. The UK has been profoundly impacted by the crisis and, as a bank that primarily does its business in the UK, Lloyds TSB has felt the impact. In a year when many financial institutions declared losses, Lloyds TSB did deliver profits, albeit lower than in previous years and I am very aware that, as with the rest of the industry, there has been a sharp reduction in our share price. The year also brought opportunities, and we began the process to acquire the HBOS business, which is probably the most far reaching event in our 243 year history.

Over the past five years, I have reported on our progress towards the aspiration of building the UK's best bank and our approach to developing deep, long-lasting customer relationships. Banking is fundamentally a risk business, and early on we took the decision to manage risk on a 'through the cycle' basis. This means the business will be less impacted by the extreme points in the cycle and that we can continue to support our customers through the changes in the economic climate. As a result, our rate of growth in earnings in prior periods did not always match those of our competitors but the quality of our earnings has been demonstrated in this past year.

In my review this year, I will cover three areas; first, the strategic rationale for the transaction and the benefits it will bring, second, the performance of Lloyds TSB in 2008, and third the outlook for Lloyds Banking Group.

THE HBOS ACQUISITION

Throughout the year, it became clear that there were a number of institutions facing significant challenges, both here in the UK and overseas. During the summer months there was a further collapse in confidence in the wholesale markets and, for all but the strongest, the pressures of funding reached crisis proportions. Lloyds TSB had pursued a very successful relationship-focused strategy that had delivered good results for all our stakeholders, and we were continuing to perform relatively well. However, as the financial crisis gathered pace and a number of competitors recognised that they could not survive on a standalone basis, it became clear that the industry would begin to consolidate around a smaller number of larger players. It was against this backdrop that we decided to revisit our earlier strategic thinking regarding HBOS.

The opportunity to acquire HBOS was considered against our other strategic options, and before deciding to proceed the board considered a number of alternatives which included continuing with our existing organic growth strategy, acquiring parts of HBOS and alternate acquisitions. After a thorough review, the board decided that the HBOS acquisition would offer the highest value-creating strategy for our shareholders and we announced the transaction on 18 September 2008.

We are acquiring £17.9 billion of tangible net asset value with consideration valued at £7.7 billion, even taking into account the losses HBOS announced for 2008. All in, we have acquired a franchise that brings extensive distribution, a large customer base, good people and excellent brands. HBOS had developed a number of specialist businesses that brought greater returns at greater risk, and these did not fit the Lloyds TSB risk appetite. We recognised this in our due diligence and this was reflected in the price we agreed to pay. We are buying the business in the down part of the economic cycle, at a significant discount to book value, which increases the likelihood of value creation, and we paid in shares rather than cash which in some part insulated the Lloyds TSB shareholders from market risk.

The transaction allows us immediately to gain scale in a consolidating market, and it profoundly changes the long-term trajectory for the Group. The acquisition allows us to occupy leading positions in current accounts, retail savings and insurance, mortgages, and personal lending, and will also provide substantial scale in our corporate and commercial businesses; something that would not have been possible through organic growth alone. There will clearly be revenue synergies arising from the acquisition, as we take the best of the relationship development skills from each business and apply them across the enlarged Group. Whilst these synergies are real, and we will report on them in future periods, they are always more difficult to measure and so we have not included any value for these benefits.

The transaction is essentially an in-market deal, which have historically proven to be amongst the most successful, given they allow greater cost synergies to be captured. We are targeting annualised savings in excess of £1.5 billion in 2011, which represents some 14 per cent of the combined cost base. Work is already underway, with early synergies starting to come from procurement benefits and the more efficient management of the property portfolio. Over £100 million of cost efficiencies have been identified immediately from ceasing projects that will no longer be required in the enlarged Group. Clearly, there will be some staffing reductions resulting from the broad range of programmes we will initiate, but we anticipate that we can accommodate the majority of any reductions through natural staff turnover or limited voluntary redundancy programmes.

The combination of the two businesses provides a strong platform for us to pursue our customer focused growth strategy, built around acquiring relationships and then deepening them. The scale we have now achieved will also allow us to be more efficient and to better leverage future investments.

Whilst it is still relatively early days in terms of the transaction, we have made considerable progress, with the senior 500 executives being appointed to run the new Group and we will quickly integrate the businesses. We are identifying those businesses that are priorities for future investment, those where we are adjusting the risk policies to reflect the current environment and those that will require significant change to meet our return hurdles and risk appetite. This is allowing us to focus on developing and growing those core business areas that fit with our relationship-based, lower-risk model, whilst we squarely address the issues that affect the higher-risk based portfolios.

In evaluating the HBOS portfolios last year, we had taken a more conservative forecast than the HBOS internal estimates, recognising they were subject to greater volatility in an economic downturn. Once we took control of HBOS in January, we analysed the portfolios into granular detail, updated our diligence and have begun to apply the Lloyds TSB operating model across the enlarged business. As we began to apply our more conservative provisioning methodologies to their portfolios, and took account of the economic deterioration in the final quarter of the year, the expected losses in that final quarter increased and were finally set at a level £1.6 billion higher than our initial estimate of £8 billion. Whilst this figure is higher than our earlier estimates, it does reflect the size and nature of the HBOS portfolios and the scale of the change in the economic environment.

In line with our plans, we have completed substantial further work to analyse the portfolios. We understand the challenges faced by these portfolios and are taking the necessary actions; for instance, we have reviewed the major exposures in key lines, identified the significant concentrations, revised the credit criteria for key products and withdrawn from certain business lines.

We are prudently managing the capital base, as has been a hallmark of Lloyds TSB. The enlarged Group retains a robust capital position, with an adjusted proforma core tier 1 capital ratio of 6.4 per cent as of 31 December 2008, which means we are well placed to withstand the impact of any slowdown in the economy.

THE LLOYDS TSB GROUP PERFORMANCE IN 2008

Let me now reflect on the performance of the Lloyds TSB Group in 2008. Whilst all the headlines this past year have been about the economy, the financial crisis and, for us, the HBOS transaction, it is easy to overlook the fact that the Group and our businesses have performed satisfactorily, delivering positive earnings despite the most difficult operating environment in many years.

Our results for the year show a decline in earnings, and on a statutory basis the Group's profit before tax fell by 80 per cent to £807 million. However, I believe a more appropriate way to view the results is to look at our performance on a continuing business basis, and taking this approach the Group profit before tax was £2,426 million, a reduction of 35 per cent.

On a continuing business basis we saw income rise by two per cent, as the ongoing market dislocation impacted on an otherwise good performance. Costs rose by five per cent, reflecting good cost control in our day-to-day operations which allowed us to further invest in our plans to support the growth of the franchise, with additional relationship staff and improvements to our systems and product range. Impairments were up 68 per cent, reflecting the general slowdown in the economy and a number of specific losses related to the financial crisis and economic downturn.

I would have liked to have delivered an even stronger performance for our shareholders, but in the context of the environment and when many organisations will be reporting losses, I do feel this is a reasonable out-turn. We again used the year well, strengthening the overall business franchise, with an improvement in efficiency, increases in market share, higher customer advocacy scores and we also added to the depth and experience of the management team. Our focus on developing strong franchises continues to offer a strong and sustainable platform for our future growth.

In building our business model, over this period, we have used a balanced scorecard approach throughout the organisation to measure our progress. The balanced scorecard contains five sections: financial performance, franchise growth, customer satisfaction, risk management and people development. As a result of managing each section of the scorecard assiduously, and focusing on a balanced approach to growth, your company was well positioned as the financial crisis struck the industry.

DIVIDEND

As part of the HM Treasury recapitalisation scheme, the Group was required to suspend the payment of cash dividends to ordinary shareholders until the HM Treasury preference shares issued as part of the scheme are repaid. In the meantime however, as we indicated in our shareholder circular last year, the board has approved a capitalisation issue of one for 40 ordinary shares held.

SUPPORTING OUR CUSTOMERS

There has been considerable comment about the performance of the financial services sector this last year and, in particular, support for customers seeking mortgages and the owners of small businesses. I am very proud of the way your company has maintained its support to customers, in line with our relationship-based strategy. Using Bank of England data for the year to December 2008, our lending to individuals grew by 10.7 per cent against the industry average of 5.4 per cent, whilst our lending to private non-financial corporates grew by 22.2 per cent against the industry average of 3.7 per cent. The commitment to our customers is critical to our business strategy, and will continue to be so in 2009.

OUTLOOK

Against a backdrop of recession and an ongoing global financial crisis, we expect 2009 to be another challenging year. Our revenues will be less impacted than many other institutions, as we have a much lower reliance on transactional income, but we will nevertheless be affected by factors such as lower margins driven by lower interest rates and the accounting impact of replacing our single premium payment protection insurance product with a new monthly premium product, as well as the general slowdown in the economy.

We will continue to manage expenses tightly, as you have come to expect of us, but we will incur some additional costs in order to realise the synergies we have announced. Impairments will continue to run at high levels, especially in the higher risk parts of the legacy HBOS portfolios.

Despite the outlook for 2009 being tough, we will use this year to make significant progress in our strategy and to build the UK's leading financial services company. Given the relationship nature of our business, the markets in which we operate, the focus on what I describe as the fundamentals of banking and the return to the more appropriate pricing of risk all play to our strengths and will support our longer-term growth. We are now focused on the integration of the two businesses, which will allow us to offer unparalleled choice and service to our customers, create the platform for the next stage of our growth and provide long-term value for our shareholders.

SUMMARY

Our key businesses have continued to grow, attracting new customers, improving the service to our customers and building our market share. As the crisis continued to impact the UK banking industry, we acquired HBOS in a deal that brought greater stability to the UK banking system and which has allowed Lloyds TSB to rapidly advance its strategic priorities.

The success of this organisation is built on the wonderful contributions of our thousands of colleagues, and I am very grateful for all they have achieved this last year in serving our customers and executing our plans. It is this consistent level of performance over the last few years which left us so well placed. The next year will be challenging but I am very confident we will make further substantial progress in building our business, as we begin to establish the UK's leading financial services company.

J Eric Daniels
Group Chief Executive
26 February 2009

GROUP CHIEF EXECUTIVE'S Q&A

ISSUE: **THE CHALLENGING MARKETPLACE**

THE GLOBAL FINANCIAL CRISIS THAT HAS RAGED OVER THE LAST 18 MONTHS HAS LED TO THE DEMISE OF MANY FINANCIAL SERVICES COMPANIES AROUND THE WORLD.
HOW HAS THE CRISIS AFFECTED THE GROUP?

Clearly the last 18 months have seen unprecedented change for the worldwide financial services sector and the UK sector has been no different. Within the UK we have seen the nationalisation of Northern Rock, the acquisition of Alliance & Leicester, the break up of Bradford & Bingley and the recapitalisation of the UK banking sector.

Lloyds Banking Group has not been immune from the market dislocation as even the safest banks like Lloyds TSB with strong capital bases and limited exposure to risky assets have been impacted. Like many other financial institutions the Lloyds TSB Corporate Markets business has been significantly affected by the market dislocation; however the relationship focus of our strategy has meant that the impact on the Group's profit before tax was comparatively limited to £1,270 million in 2008. Although significant in absolute terms, this remains relatively low compared to many of our global peers.

Importantly in the current turbulent markets, the enlarged Group has a robust capital position, continues to fund at competitive prices and has diverse funding capabilities. The Group continues to offer security through its relative credit strength and our strong credit ratings are representative of this position. The board remains convinced that the combination of Lloyds TSB and HBOS will bring long-term benefits for our shareholders.

The unprecedented turmoil in the global financial markets has also had a significant impact on bank share prices, many of which have fallen considerably. It is not easy to offer simple explanations as to why the stock market has marked down bank share prices to such a degree in recent months but clearly there are a number of factors at play including the current view of, and future projections for, the UK economy and its impact on future asset write downs and impairments. It is also undoubtedly the case that there is currently a great deal of nervousness in the markets which is reflected in volatile bank share prices.

We are living through difficult times but Lloyds Banking Group remains a strong institution focused on building deeper relationships with our customers and delivering long-term shareholder value.

ISSUE: **THE HBOS ACQUISITION**

THE ACQUISITION OF HBOS HAS CREATED THE UK'S LEADING FINANCIAL SERVICES GROUP.
HOW WILL THIS INFLUENCE THE GROUP'S STRATEGY?

The strategy for the new Lloyds Banking Group will be similar to that successfully adopted by Lloyds TSB. We will continue to implement our 'through the cycle' customer relationship based approach. The new enlarged entity has significant scale advantage and both organisations enjoy a terrific reputation for managing efficiency. We will adopt the more conservative Lloyds TSB risk disciplines, which have served us well, and we will embed them across the combined business. We will also maintain the economic profit disciplines we use to allocate capital efficiently. At the same time, we will continue to invest in people and systems to serve our customers better; and we will look to set customer and staff satisfaction standards that are unparalleled in the market.

The Lloyds TSB management team has a strong track record of delivery built up over the last five years as we have consistently executed against our strategy to attract more customers to our franchise business, to deepen relationships with these customers over time, to deliver sustainable cost and productivity improvements in our operations and to make the most effective use of all our resources. These skills will all remain important for Lloyds Banking Group.

The acquisition of HBOS provides a unique strategic opportunity to create the best financial services business in the United Kingdom. The combination of Lloyds TSB and HBOS creates a new stronger organisation and helps support the stability of the UK financial system. We are bringing together two of the most efficient customer franchises in the country and providing an unrivalled distribution network for our customers. The information advantage from the large customer base is a real differentiating edge, and the size of our operations gives us a clear opportunity for better productivity. We are targeting benefits in excess of £1.5 billion per annum through cost synergies, or some 14 per cent of the enlarged Group's cost base, by 2011. The enlarged Group has the capital strength and diverse funding capabilities which will enable us better to meet the current industry challenges and continue to lend to and support our customers. Despite our relative strength, the shape of the financial services markets is changing all the time and we will continue to operate in highly vibrant and competitive markets.

We believe we have a great case for value creation in the long-term, through building the largest financial services company in the UK, with the attendant benefits of a strong market position and large scale. All in, we believe this is a unique opportunity to create the UK's leading financial services company.

ISSUE: **THE GOVERNMENT SHAREHOLDING**

AS A RESULT OF THE RECAPITALISATION OF THE BANKING SECTOR AND THE ASSOCIATED PLACING AND OPEN OFFER, THE GOVERNMENT NOW HOLDS A SIGNIFICANT STAKE IN THE ENLARGED LLOYDS BANKING GROUP.
WHAT ARE THE IMPLICATIONS OF THIS AND HOW DOES THE GOVERNMENT'S SHARE OWNERSHIP IMPACT THE GROUP'S BUSINESS GOING FORWARD?

The Government's recapitalisation of the banking sector in October 2008 was necessary to restore confidence and stability to the financial services sector at that time, and although they now hold a significant stake in the organisation we are comfortable that the Government's investment was the right way of achieving that capital increase for our company.

It is important to note that the board believes that HM Treasury will act as a value-oriented shareholder with regard to the strategic development of the Group and the Government has stressed the importance of institutional and individual investors as well as HM Treasury.

A number of specific requirements stem from Government ownership which primarily relate to corporate governance and lending, as outlined below. Dividend restrictions, as outlined below, have been introduced due to the presence of the Government preference shares.

LENDING

We have a commitment to maintain the availability and active marketing of competitively priced mortgage lending and lending to Small and Medium Enterprises (SMEs) but do not expect any impact on our lending policies or on our conduct of business. As a major lender in the UK economy focused on developing enduring relationships with our customers we recognise that our success is based on a commitment to helping our customers throughout the economic cycle. We are able to do this because we have a robust capital position.

We remained open for business last year and grew our lending prudently. Lending to SMEs grew by 20 per cent at Lloyds TSB in 2008 and over 100,000 small businesses chose to bank with Lloyds TSB last year. Both Lloyds TSB and HBOS also launched charters setting out the practical steps they will take to support small businesses through the economic downturn. In addition, on the retail side, we are the biggest mortgage provider in the first time buyer market and more basic banking customers bank with Lloyds Banking Group than any other bank.

CORPORATE GOVERNANCE

The Government are also keen to see an enlarged board and we are appointing two new independent non-executive directors, in consultation with HM Treasury (see page 21). It is important to note that the new directors will have precisely the same role and responsibilities as any other director on the board.

DIVIDEND

As part of the HM Treasury recapitalisation scheme, the Group was required to suspend the payment of cash dividends to ordinary shareholders until the HM Treasury preference shares issued as part of the scheme are repaid. In the meantime however, as we indicated in our shareholder circular last year, the board has approved a capitalisation issue of one for 40 ordinary shares held.

ISSUE: **RISK MANAGEMENT**

LLOYDS TSB HAS TRADITIONALLY BEEN PERCEIVED AS HAVING A CONSERVATIVE RISK PROFILE.
DOES THE HBOS ACQUISITION SIGNAL ANY CHANGE IN THE GROUP'S RISK APPETITE?

No. Lloyds TSB has clearly demonstrated a strong track record of delivery with a prudent risk appetite and the new Lloyds Banking Group has no intention of changing this successful approach.

Lloyds Banking Group will continue to take a prudent approach to risk management and our philosophy remains to take a 'through the cycle' relationship based approach to lending. We are committed to this relationship approach, are focused on the needs of our customers and recognise that we have a role to play in helping our customers through the economic downturn, particularly when they face financial difficulty. The new Group has already exited a number of non core areas in which HBOS previously participated and will continue to assess participation in business areas on a conservative basis.

Our conservative approach to managing the Group's risk has meant that we remain well positioned to capture growth opportunities at a time when others have pulled back from the market. As a result, we have been able to capture market share in a number of key areas without impacting the overall quality of business.

SUMMARY OF GROUP RESULTS

OUR STRATEGY

The strategy for the enlarged Group remains to grow the business through developing long-term customer relationships and building our customer franchise. All our businesses are focused on extending the reach and depth of our customer relationships, whilst enhancing product capabilities to build competitive advantage. The prudent Lloyds TSB 'through the cycle' approach to risk will apply to the enlarged Group and will be increasingly important as we strive to improve our processing efficiency and make our working capital work harder. Executing the strategy effectively will only be possible if we manage our most valuable resource, our people, well. By successfully delivering these objectives we are likely to achieve our vision of being the best financial services provider in the United Kingdom.

The focus for the Group remains within the UK and our position was significantly strengthened through the acquisition of HBOS in January 2009. The effective integration of the two businesses will be a significant challenge over the next few years, but the combination of the two businesses provides a real opportunity to create the UK's leading financial services organisation.

During 2008 there were three primary operating divisions: UK Retail Banking; Insurance and Investments; and Wholesale and International Banking. The key product markets in which they participate and relative contribution to the Group is presented below and a more detailed analysis of their strategy, business and performance is outlined within the Business Review. Following the acquisition of HBOS these divisions will be restructured with elements from some existing businesses coming together to form another division. The new Wealth and International division has been created to focus on Wealth Management, Asset Management and International Banking.

KEY HIGHLIGHTS

Statutory profit before tax reduced by 80 per cent to £807 million. A resilient underlying business performance was offset by the impact of market dislocation and adverse volatility relating to the Group's insurance businesses.

A resilient business performance. Profit before tax, on a continuing businesses basis, totalled £2,426 million, a decrease of 35 per cent which reflected the impact of £1,270 million of market dislocation and higher impairment levels.

Robust income performance. Income, excluding market dislocation, grew by nine per cent reflecting strong revenue growth from the Group's relationship banking businesses. On a statutory basis, income was eight per cent lower at £9,872 million.

Excellent cost management. The Group's cost:income ratio, excluding market dislocation, improved by 1.1 percentage points to 47.0 per cent.

In a difficult economic environment, asset quality remains satisfactory. Impairment losses increased by 68 per cent to £3,012 million, reflecting the impact of market dislocation, the slowdown in the UK economic environment and the impact of the falling house price index.

Strong liquidity and funding position maintained throughout the recent turbulence in global financial markets.

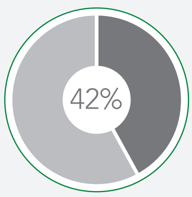
Robust capital ratios. Adjusting the year end capital ratios for the Government's recapitalisation of UK banks, completed in January 2009, and the estimated impact of the acquisition of HBOS, the enlarged Lloyds Banking Group's proforma core tier 1 capital ratio stands at 6.4 per cent, the tier 1 ratio at 9.8 per cent and the total capital ratio at 12.5 per cent.

OUR DIVISIONS

DIVISION OVERVIEW — **CONTRIBUTION TO GROUP***

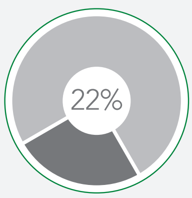
UK RETAIL BANKING

- Secured lending – mortgages
- Unsecured lending – credit cards, loans and overdrafts
- Internet and telephone banking
- Current accounts
- Savings accounts
- Wealth Management



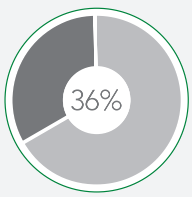
INSURANCE AND INVESTMENTS

- Life assurance, pensions and investments
- General Insurance
- Asset Management



WHOLESALE AND INTERNATIONAL BANKING

- Corporate Markets
- Commercial Banking
- Asset Finance
- International Banking



*Before impact of market dislocation and excluding volatility, a provision in respect of certain historic US dollar payments, a provision for the Financial Services Compensation Scheme levy and goodwill impairment. Also excludes Central group items.

PROFIT ANALYSIS BY DIVISION

	2008 £m	2007† £m	Change %
UK Retail Banking	**1,793**	1,720	4
Insurance and Investments	**911**	748	22
Wholesale and International Banking			
– Before impact of market dislocation	**1,544**	1,580	
– Impact of market dislocation	**(1,270)**	(280)	
	274	1,300	(79)
Central group items	**(552)**	(12)	
Profit before tax – continuing businesses††	**2,426**	3,756	(35)
Volatility			
– Insurance	**(746)**	(277)	
– Policyholder interests	**(471)**	(222)	
Discontinued businesses	**–**	162	
Profit on sale of businesses	**–**	657	
Provision in respect of certain historic US dollar payments, provision for Financial Services Compensation Scheme levy and goodwill impairment	**(402)**	–	
Settlement of overdraft claims	**–**	(76)	
Profit before tax – statutory	**807**	4,000	(80)
Earnings per share	**14.3p**	58.3p	(75)

† As part of Lloyds TSB Group's transition to Basel II on 1 January 2008, the Group has updated its capital and liquidity pricing methodology. The main difference in this approach is to allocate a greater share of certain funding costs, previously allocated to the central group items segment, to individual divisions. To enable a meaningful period-on-period comparison, the segmental analysis for the year ended 31 December 2007 has been restated to reflect these changes.

†† Excluding volatility, a provision in respect of certain historic US dollar payments, a provision for the Financial Services Compensation Scheme levy, goodwill impairment; and, in 2007, results of discontinued businesses, profit on sale of businesses and the settlement of overdraft claims.

DIVISIONAL RESULTS:
UK RETAIL BANKING

OUR BUSINESS

During 2008, UK Retail Banking provided a wide range of banking and financial services through our diversified, proprietary distribution network and highly recognised and well-regarded brands (Lloyds TSB, Cheltenham & Gloucester and Scottish Widows) to some 16 million personal customers through over 1,950 branches across the UK.

Following the acquisition of HBOS, the new 'Retail' division now includes the HBOS branch operations and is the largest retail bank in the UK. The Group is now the UK's leading provider of current accounts, savings, personal loans, credit cards and mortgages and has the largest branch network in the UK, with approximately 3,000 branches, and one of the largest fee free ATM networks in the UK with around 6,800 cash machines.

The new 'Retail' division has approximately 30 million customers. In addition to being the largest provider of current accounts in the UK with approximately 22 million current account customers, we are also the largest provider of social banking providing over four million basic bank or social banking accounts in the UK.

The new 'Retail' division operates a multi brand strategy with a range of highly recognised and well regarded brands including Lloyds TSB, Halifax, Bank of Scotland and Cheltenham & Gloucester.

Following the acquisition, the wealth management business is being transferred to the new 'Wealth and International' division.

OUR STRATEGY

'Retail's' strategic goal is to create Britain's best retail bank. This will be achieved by building deeper relationships with our customers through providing products that they need, at prices they can afford, as well as delivering a high quality service. At the same time, we will seek to improve the management of our costs and capital by continuing to apply a prudent approach to risk.

A major focus in the implementation of this strategy will be upon 'putting the relationship back into banking'. We will, through deeper customer insight, offer customers first class products backed by an effective and efficient service as well as strengthening our relationships which, in turn, will generate new sales. This is backed by our extensive multi channel distribution network providing our customers with a wide range of choice and added convenience. We will drive down operating costs by improving efficiency in our processes and effectively managing risk across the bank.

The integration of HBOS will give us additional opportunities to provide products and services to all of our customers whilst carefully managing risk and delivering cost synergies.

KEY HIGHLIGHTS

Good profit performance, against a backdrop of slowing economic activity. Profit before tax increased by four per cent to £1,793 million.

Strong income momentum maintained, up seven per cent, supported by overall sales growth of seven per cent.

Good growth in deposits resulted in a five per cent increase in overall deposit balances, with 12 per cent growth in bank savings, and 20 per cent growth in wealth management deposits.

Excellent market share of net new mortgage lending, at 27.5 per cent. Mortgage balances outstanding increased by 11 per cent to £112.9 billion.

Improved net interest margin, nine basis points higher than in 2007, reflecting improved key product margins, particularly in unsecured personal lending and new mortgages.

Continued effective cost management, with a clear focus on investing to improve service quality and processing efficiency. Operating expenses increased by only two per cent and there was an improvement in the cost:income ratio to 44.4 per cent.

Strong trading surplus performance, up 11 per cent to £3,265 million.

The quality of new lending continues to be good, reflecting continued strong credit criteria, although the fall in the house price index over the last 12 months has led to an increase of approximately £150 million in the secured impairment charge during the year.

DIVISIONAL PERFORMANCE

Continuing businesses

	2008 £m	2007† £m	Change %
Net interest income	**4,110**	3,695	11
Other income	**1,766**	1,797	(2)
Total income	**5,876**	5,492	7
Operating expenses	**(2,611)**	(2,548)	(2)
Trading surplus	**3,265**	2,944	11
Impairment	**(1,472)**	(1,224)	(20)
Profit before tax	**1,793**	1,720	4
Cost:income ratio	**44.4%**	46.4%	
	31 December 2008 £bn	31 December 2007 £bn	Change %
Total assets	**127.5**	115.0	11
Risk-weighted assets	**49.6**	44.8	11
Customer deposits	**85.9**	82.1	5

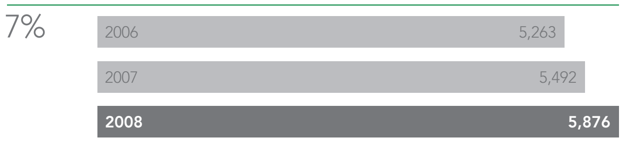
† Restated (see page 9).

KEY PERFORMANCE INDICATORS

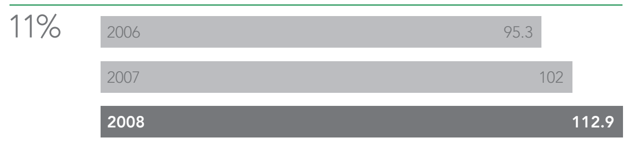
PROFIT BEFORE TAX† £m

CUSTOMER DEPOSITS £bn

INCOME† £m



GROUP UK MORTGAGE BALANCES £bn



† The 2007 figures have been restated (see page 9). The 2006 figures are as originally published.

DIVISIONAL RESULTS:
INSURANCE AND INVESTMENTS

OUR BUSINESS

The Insurance and Investments division offered life assurance, pensions and investment products, general insurance and fund management services during 2008. These products were delivered through a number of brands including Scottish Widows, Lloyds TSB General Insurance and Scottish Widows Investment Partnership.

The Scottish Widows brand was the main brand for new sales of Lloyds TSB Group's life, pension, Open Ended Investment Companies (OEICs) and other long-term savings products in 2008. Lloyds TSB General Insurance was the leading distributor of home insurance in Britain, with products distributed through Lloyds TSB branches and strategic corporate partners. Scottish Widows Investment Partnership (SWIP) managed funds for Lloyds TSB Group's retail life, pensions, and investment products and other clients. Retail and institutional SWIP had £83 billion of funds under management at the end of 2008.

Following the acquisition of HBOS, the Insurance and Investments division has been renamed 'Insurance' and now includes the Clerical Medical and HBOS General Insurance businesses which were previously part of the HBOS Insurance and Investments division. The investment management business, Scottish Widows Investment Partnership, is being transferred to the new Wealth and International division.

Lloyds Banking Group is now the major bancassurance provider in the UK and provides a full range of equity based long-term savings and investment products.

OUR STRATEGY

The strategic priorities for the new 'Insurance' division are: delivering profitable, market-led product propositions; increasing the proportion of business sold through the Lloyds Banking Group franchise whilst profitably growing independent financial adviser (IFA) sales; leveraging scale into new channels; improving service and operational efficiency; managing risk effectively and optimising capital management; and attracting, developing and retaining the best people.

Within the life assurance operations this will be achieved by developing strong and enduring relationships, developing market-led propositions and being easy to do business with. Scottish Widows products are distributed through the Lloyds TSB channels, independent financial advisers and other intermediaries, whilst Clerical Medical products are distributed through the HBOS channels, independent financial advisers and other intermediaries.

The General Insurance operations are targeting growing share in their chosen customer segments, developing key insurance partnerships, improving margins by better customer management and improving service and efficiency.

KEY HIGHLIGHTS

Strong profit performance. Profit before tax increased by 22 per cent to £911 million.

Good income growth and strong cost management. Income increased by three per cent, whilst operating expenses decreased by three per cent.

Robust sales performance, in a challenging market environment resulting in an increase in estimated market share. Scottish Widows' bancassurance sales increased by four per cent, whilst sales through the Independent Financial Adviser (IFA) distribution channel decreased by eight per cent.

Continued high returns. On a European Embedded Value (EEV) basis, the post-tax return on embedded value remained high at 11.4 per cent. New business margins remained resilient at 2.9 per cent.

Strong profit performance in General Insurance. Profits more than doubled in 2008 reflecting the absence of the severe weather related claims experienced in 2007, good increases in home insurance income and more efficient claims processing.

Resilient performance by Scottish Widows Investment Partnership, as profit before tax increased against the backdrop of a significant reduction in equity market levels.

DIVISIONAL PERFORMANCE

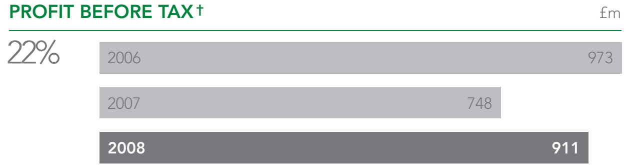
Continuing businesses

	2008 £m	2007† £m	Change %
Net interest income	**(62)**	(106)	42
Other income	**1,749**	1,741	–
Total income	**1,687**	1,635	3
Insurance claims	**(193)**	(302)	36
Total income, net of insurance claims	**1,494**	1,333	12
Operating expenses	**(591)**	(611)	3
Impairment	**(2)**	–	
Profit before tax, excluding insurance grossing	**901**	722	25
Insurance grossing adjustment	**10**	26	(62)
Profit before tax	**911**	748	22

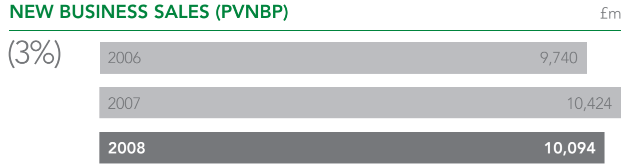
† Restated (see page 9).

KEY PERFORMANCE INDICATORS

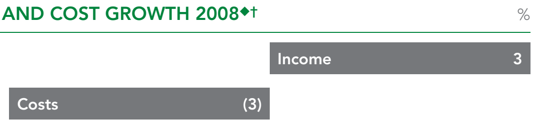
PROFIT BEFORE TAX†



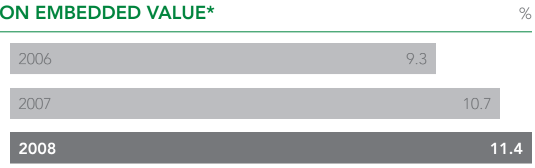
NEW BUSINESS SALES (PVNBP)



INCOME AND COST GROWTH 2008◆†



RETURN ON EMBEDDED VALUE*



† The 2007 figures have been restated (see page 9). The 2006 figures are as originally published.
* EEV basis.
◆ Excluding volatility and insurance grossing.

DIVISIONAL RESULTS: WHOLESALE AND INTERNATIONAL BANKING

OUR BUSINESS

During 2008, our businesses within the Wholesale and International Banking arena covered a broad scope, serving thousands of customers, ranging from start-ups and small enterprises to large organisations and global corporations.

Combining the respective strengths of some 3,000 people in Corporate Banking and Products & Markets, Corporate Markets plays an integral role in leveraging and expanding the customer franchise and building deep, long-lasting relationships with around 26,000 corporate customers.

Commercial Banking is a growing business with some 6,000 people serving nearly one million customers across the UK from one-person start-ups to large, established enterprises. Lloyds TSB has increased its lending to SMEs by nearly 20 per cent in 2008.

We also participate in specialist markets with a range of solutions including personal and international expatriate and private banking, motor and leisure finance and auto leasing.

Following the acquisition of HBOS, the Wholesale and International Banking division has been renamed 'Wholesale'. The Group's international businesses with the exception of corporate in North America (including Canada), will form part of the new Wealth and International division.

The new 'Wholesale' division operates a multi brand strategy primarily through the Lloyds TSB and Bank of Scotland brands but also trades through a number of more specialist brands including Lloyds TSB Development Capital and Black Horse.

OUR STRATEGY

The acquisition of the HBOS corporate and commercial customer base provides the new 'Wholesale' division with a significant and exciting opportunity to accelerate our relationship-led wholesale banking strategy.

Our strategic vision is to be recognised as the UK's leading, 'through the cycle', wholesale bank. As a relationship bank, we place our customers at the forefront of this vision and we strive to understand and meet their needs whilst maintaining satisfactory asset quality. The way we manage our customer relationships is the vital ingredient which differentiates us from our competition.

Making 'Wholesale' a great place for our customers to bank remains our number one priority and we seek to achieve this by deepening and maintaining profitable customer relationships. Building insight into customer needs and providing them with a broad range of banking and capital markets solutions will enable us to become our customers' first choice so we prosper together.

KEY HIGHLIGHTS

Resilient profit performance despite the turbulence in global financial markets. The division remained profitable even after absorbing the increased impact of its exposure to assets affected by current capital markets uncertainties and a significant rise in corporate impairments. The impact of recent market dislocation, however, has been to reduce profit before tax in 2008 by £1,270 million (2007: £280 million), to £274 million.

Continued strong relationship banking momentum. Excluding the impact of market dislocation, profit before tax decreased by two per cent, to £1,544 million, reflecting good levels of core business momentum which were offset by a significant increase in corporate impairment levels reflecting the challenging economic environment and additional write-offs relating to a number of high profile financial services company collapses.

Strong progress in expanding our Corporate Markets franchise, with a 34 per cent increase in Corporate Markets income, excluding market dislocation, supported by an 85 per cent increase in cross-selling income. This was largely offset however by the significant rise in impairments.

Good franchise growth in Commercial Banking, with a further increase in our market share of higher value customers supporting a seven per cent growth in income, which was partially offset by an £89 million increase in impairments.

Significant lending growth, as our Corporate Markets and Commercial Banking businesses continued to provide substantial support to our mid-corporate market and SME customers.

Our risk management remains strong with satisfactory asset quality, despite a rise of £936 million in impairment losses, largely as a result of the £253 million year-on-year impact of market dislocation, a number of high profile financial services company collapses and an increase in the level of impairments reflecting the economic slowdown in the UK.

DIVISIONAL PERFORMANCE

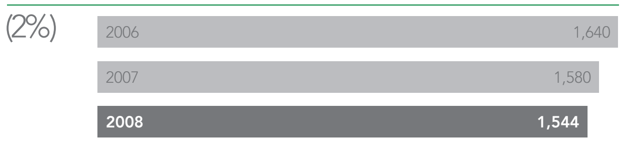
Continuing businesses

	2008 £m	2007† £m	Change %
Net interest income	3,303	2,380	39
Other income	829	1,644	(50)
Total income	4,132	4,024	3
Operating expenses	(2,350)	(2,152)	(9)
Trading surplus	1,782	1,872	(5)
Impairment	(1,508)	(572)	
Profit before tax	274	1,300	(79)

KEY PERFORMANCE INDICATORS

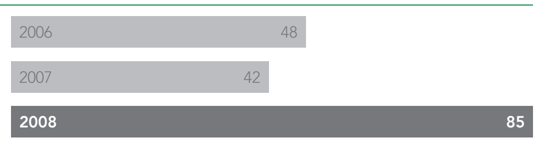
PROFIT BEFORE TAX †*

£m



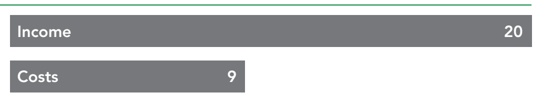
GROWTH IN CROSS-SELLING INCOME

%



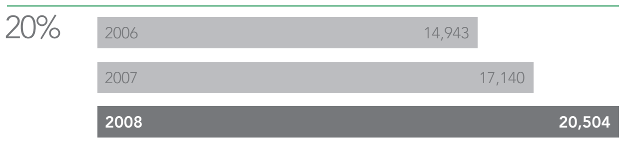
INCOME AND COST GROWTH 2008 †*

%



COMMERCIAL CUSTOMER LENDING BALANCES

£m



†The 2007 figures have been restated (see page 9). The 2006 figures are as originally published.
*Before impact of market dislocation.

CORPORATE RESPONSIBILITY

Lloyds Banking Group's strategy focuses on building deep, long-lasting relationships with our customers in order to deliver high quality, sustainable results over time. We believe that corporate responsibility, built around the creation of colleague motivation, customer satisfaction and brand loyalty, has a major part to play in supporting our business strategy.

Against the backdrop of unprecedented market turbulence, our reputation for effective risk management is widely recognised. In 2008, Lloyds TSB was rated the sixth safest bank in the world by Global Finance and awarded the Readers Digest readers' most trusted UK bank or building society for the eighth year running. Our commitment to corporate responsibility helps promote trust in our brand and reinforces customer loyalty and advocacy.

Lloyds Banking Group is rooted in local communities throughout the UK and we take our responsibilities to those communities very seriously. By investing in the communities where we operate we not only create economic value but we also make a positive social contribution.

Our approach to embedding corporate responsibility management over recent years has, we believe, helped us achieve competitive advantage.

All colleagues have a balanced scorecard of objectives that takes account of the needs of customers, colleagues and shareholders, rather than just pure financial measures.

OUR CUSTOMERS

We want to build a great organisation, which is recognised for operating to high standards and is built on strong customer relationships. We want to be the bank recommended most by customers and staff. We will monitor our progress using a Net Promoter Score†, which measures the customers' view of the Bank overall and their likelihood to recommend Lloyds Banking Group to a friend or colleague. Over 2008, the average score increased by 10 points.

In a poll of finance directors across the UK, Lloyds TSB Corporate was voted 'Bank of the Year' for the fourth year running at the Real Finance/Confederation of British Industry FD's Excellence Awards, in recognition of our quality of service and understanding of our customers' businesses.

Lloyds TSB has nearly 600,000 small business customers. They are an important part of our business and we are committed to supporting them in current economic conditions while seeking opportunities to grow our position in the market. Total lending to small businesses increased by 20 per cent over 2008.

PARTNERSHIPS

Continuing to grow a successful business is the best way for Lloyds Banking Group to create value for all its stakeholders. As a major employer, finance provider, and purchaser of goods and services, we are an important contributor to both national and local economies.

The majority of Lloyds Banking Group's charitable giving is channelled through the four Lloyds TSB Foundations, which cover England and Wales, Scotland, Northern Ireland and the Channel Islands. Through their shareholding in Lloyds Banking Group, the Lloyds TSB Foundations together received £37.1 million to support their work in 2008, bringing the total contributions since 1997 to over £360 million, making Lloyds Banking Group one of the largest charitable donors in the UK.

Our new Charity of the Year is the British Heart Foundation and we have extended our partnership to two years. Over £1.8 million was raised for the Lloyds TSB and Barnardo's 'Securing Futures' partnership in an extended 18 month partnership to June 2008.

Each year we buy over £2 billion worth of goods and services. Our suppliers are important to us and we want to ensure that we treat them fairly and pay them on time. Our supplier relationships are governed by a strict Code of Purchasing Ethics that defines the way we do business. In 2008, we updated the review process that allows us to consider our suppliers' social, ethical and environmental performance as part of the tendering process.

PAYMENT OF SUPPLIERS

	2008	2007	2006	2005
Number of payments	**335,713**	320,579	344,422	379,613
Value (£bn)	**2.67**	2.20	2.29	2.16
Average time to pay (days)	**26.03**	28.78	29.72	27.01
Number/amount of compensation payments for late settlement	**No payments**	No payments	No payments	No payments

THE ENVIRONMENT

Lloyds Banking Group has a long-standing commitment to managing its environmental impacts. We first introduced an environmental policy in 1996 and were also one of the first UK banks to develop an environmental risk assessment system for all our business lending. In 2007 we adopted the Equator Principles for project finance.

In 2007 we set a stretching target to reduce our CO_2 emissions by 30 per cent by 2012 based on 2002 levels. We are very pleased to report that by the end of 2008 we have achieved a 31 per cent reduction in CO_2, meeting our target four years ahead of schedule. We identified specific projects and prioritised investment to deliver significant CO_2 reductions. We have also purchased renewable electricity and electricity from combined heat and power (CHP) sources, which have a lower carbon footprint than standard grid electricity.

GREENHOUSE GAS EMISSIONS

Tonnes CO_2	**2008***	2007	2006	2002 Baseline
Property	**177,033**	180,526	181,086	198,950
Property renewable	**(19,037)**	(18,164)	(18,944)	n/a
Travel	**26,479**	30,474	29,705	26,333
Total	**184,475**	192,836	191,847	225,283
Combined heat and power	**(28,823)**	(31,635)	(30,945)	n/a
Net total	**155,652**	161,201	160,902	225,283

*In 2008 DEFRA introduced changes to the conversion factors to be used for calculating CO_2 emissions from energy consumption and travel. In addition, they introduced new guidelines for the treatment of 'renewable energy' in calculating total CO_2 emissions. The total CO_2 emissions reported above have been calculated using the old conversion factors to provide a more accurate like for like comparison against the baseline. Using the new guidelines, our total emissions for 2008 would increase to 245,385 tonnes. In 2009, a priority for Lloyds Banking Group will be to baseline our environmental impacts across the combined Group.

†See chart on page 1.

OUR PEOPLE

We are a business based on building strong and long lasting relationships through the efforts of our people. Managing our colleagues effectively is fundamental to the success of the business and achieving our vision of being recognised as the best financial services company by our customers, colleagues and shareholders.

Creating a great place to work is a core priority to enable the Group to be recognised, both within the financial services sector, but also more generally in the UK, as the best organisation to work for.

In creating a great place to work in this way, we believe we will attract the highest performing people to join us and secure the commitment of those who are the strongest performers and have the highest potential to stay.

We are building a high commitment, high performance organisation. We are clear about what we expect from our colleagues. Our values guide us in all our dealings with colleagues, customers and the wider community. In Lloyds Banking Group our values are that we: act wisely; take ownership; make it simple; stretch ourselves; and succeed together.

COLLEAGUE ENGAGEMENT

We believe that to create a high commitment, high performance organisation, we need to have high levels of colleague engagement. In order to do this, we listen to what our colleagues tell us through regular engagement surveys and act on the results.

Every quarter a comprehensive confidential colleague survey is undertaken to gauge colleagues' views on key issues. Over the last three years the overall engagement index† has consecutively increased to an average of 78.3 per cent in 2008, which is above both the Financial Services norm and the High Performance norm for the UK. In 2008, the response rate reached 79 per cent of colleagues participating across the Group. In addition, our approach to colleague engagement saw us recognised in the Sunday Times as 'One to Watch' within their annual Best Big Company survey and accreditation.

TALENT, RECRUITMENT AND RETENTION

One of the highest priorities for our leaders is the recruitment, retention and development of talented people. Top performers are attracted to join us because of our strong brand and values; together with top class development and career opportunities.

Developing existing colleagues and succession planning are equally important to support our growth strategy. We have strong succession and development plans for all our senior executives across the Group and we are retaining colleagues for an average tenure across our business of 13 years.

We run a wide range of generalist and specialist development programmes to support career progression into senior leadership roles. For example, in 2008, we recruited 125 people into our graduate trainee programme, offered 44 internships and 110 student placements.

PERFORMANCE MANAGEMENT

The Group uses a balanced scorecard approach to measure, manage and reward colleague performance. Translated from our business strategy, the scorecard takes into account the needs of customers, colleagues and shareholders and measures individual performance against a range of factors including: contribution to the long-term growth of the business; customer service; risk management; people related measures; as well as financial success. All colleagues receive formal reviews and feedback on performance at least twice a year.

Meeting our customers' needs is key to our business strategy. Our balanced scorecard aims to show colleagues how their actions impact their colleagues and customers and how this, in turn, translates into our overall performance.

† See chart on page 1.

REWARD AND RECOGNITION

We have taken a conservative approach to reward and we have differentiated for our highest performing colleagues through a number of performance measures, including the management of risk and other balanced scorecard objectives. We have worked with the UKFI, the body responsible for the government's shareholdings in UK banks, to undertake a review of our bonus arrangements for 2008 and an ongoing review for 2009.

Overall, through aligning reward to our balanced scorecard, our aim is to recognise performance against factors including how well our colleagues are managing risk and therefore the long term health of the business. We therefore differentiate our reward for colleagues who fulfil our commitment to building relationships for the long-term.

We also offer a flexible benefits package in which 68 per cent of colleagues participated in 2008. In addition in 2008, over 95 per cent of colleagues opted to participate in one of our various employee share plans. The vast majority of our colleagues are therefore shareholders and have a vested interest in our long term success.

During 2009, we will undertake a full review of our approach to total reward as part of the integration of Lloyds TSB and HBOS.

LEARNING AND DEVELOPMENT

We remain committed to investing in our colleagues through providing efficient and effective development that helps them to deliver great service to our customers and achieve great long term results for the business. Our focus remains on providing colleagues with the knowledge and skills they need for their jobs today such as financial, risk and relationship management, while continuing to develop the capabilities we will need to be successful in the future.

Our corporate university, one of the largest in Europe, delivers learning programmes through a range of media. This includes on-line modules and face to face workshops to support skills development. We now deliver an average of 2.9 days formal learning per full time equivalent, an increase of 26 per cent on 2007.

EQUALITY AND DIVERSITY

Equality and diversity is not just about complying with legislation. We believe that it is vital for achieving competitive advantage. We attract and retain talented colleagues from all the UK's diverse communities.

Over the last few years we have been working to increase the number of women and ethnic minority colleagues in management and senior management positions across the organisation. At the end of 2008, our group executive committee had one of the highest proportion of women for a FTSE 100 company, and 23.4 per cent of our senior managers were women. In 2008, Race for Opportunity* named us as top performer out of 85 organisations for our leading edge race programme. We became the first organisation in the campaign's history to be awarded Platinum status. Our disability programme has been ranked first out of 116 organisations by the Employers' Forum on Disability and we maintained sixth place in Stonewall's Index of the 100 best employers of lesbian, gay and bisexual people.

WORK ENVIRONMENT

Our objective is to provide great facilities and a safe environment for colleagues and customers, in all our business locations.

Flexible working is increasingly important in the competitive workplace and we have created a balanced environment where we offer a multitude of flexible working practices including: reduced hours, variable hours, job sharing, compressed hours, term-time working and tele-working.

* Race for Opportunity (RfO) is a national business network of over 150 UK organisations from the private and public sectors working on race and diversity as a business imperative.

SUMMARY CONSOLIDATED INCOME STATEMENT

for the year ended 31 December 2008

	2008 £ million	2007 £ million
Net interest income	7,718	6,099
Other income	(705)	12,129
Total income	7,013	18,228
Insurance claims	2,859	(7,522)
Total income, net of insurance claims	9,872	10,706
Operating expenses	(6,053)	(5,567)
Trading surplus	3,819	5,139
Impairment	(3,012)	(1,796)
Profit on sale of businesses	–	657
Profit before tax	807	4,000
Taxation	38	(679)
Profit for the year	845	3,321
Profit attributable to minority interests	26	32
Profit attributable to equity shareholders	819	3,289
Profit for the year	845	3,321
Basic earnings per share	14.3p	58.3p
Diluted earnings per share	14.2p	57.9p
Total dividend per share for the year*	11.4p	35.9p
Total dividend for the year*	£648m	£2,026m
	£000	£000
Directors' emoluments	5,623	12,055

*The dividend for the year represents the interim dividend for 2008 paid on 1 October 2008 (the dividend shown for 2007 represents the interim and final dividends for 2007 which were paid and accounted for on 3 October 2007 and 7 May 2008 respectively).

The Group's income statement includes substantial amounts of income and expenditure attributable to the policyholders of the Group's long-term assurance funds, which are consolidated in order to meet the requirements of accounting standards. These amounts are volatile and can cause significant variations in total income and insurance claims; however they have no overall effect upon profit attributable to equity shareholders.

SUMMARY CONSOLIDATED BALANCE SHEET

at 31 December 2008

	2008 £ million	2007 £ million
Assets		
Cash and balances at central banks	5,008	4,330
Derivatives, trading and other financial assets at fair value through profit and loss	73,948	66,570
Loans and advances to banks	40,758	34,845
Loans and advances to customers	242,735	209,814
Available-for-sale financial assets	55,707	20,196
Investment property	2,631	3,722
Intangible assets, including goodwill, and the value of in-force business	4,346	4,725
Tangible fixed assets	2,965	2,839
Other assets	7,935	6,305
Total assets	436,033	353,346
Liabilities		
Deposits from banks	66,514	39,091
Customer accounts	170,938	156,555
Derivative financial instruments, trading and other financial liabilities at fair value through profit or loss	33,646	10,788
Debt securities in issue	75,710	51,572
Insurance liabilities	34,062	38,617
Liabilities to customers under non-participating investment contracts	14,243	18,197
Retirement benefit obligations	1,771	2,144
Subordinated liabilities	17,256	11,958
Other liabilities	12,194	11,999
Total liabilities	426,334	340,921
Shareholders' equity	9,393	12,141
Minority interests	306	284
Total equity	9,699	12,425
Total equity and liabilities	436,033	353,346

The summary financial statement, comprising the summary consolidated income statement on page 15, the summary consolidated balance sheet on page 16 and the directors' remuneration commentary on pages 19 and 20, was approved by the directors on 26 February 2009.

Sir Victor Blank
Chairman

J Eric Daniels
Group Chief Executive

Tim J W Tookey
Group Finance Director

FIVE YEAR FINANCIAL SUMMARY

	2008	2007	2006	2005	2004
Statutory results £m					
Profit before tax	**807**	4,000	4,248	3,820	3,477
Profit for the year	**845**	3,321	2,907	2,555	2,459
Profit for the year attributable to equity shareholders	**819**	3,289	2,803	2,493	2,392
Share information					
Basic earnings per ordinary share	**14.3p**	58.3p	49.9p	44.6p	42.8p
Dividends per ordinary share (net)	**11.4p**	35.9p	34.2p	34.2p	34.2p
Market price (year end)	**126.0p**	472.0p	571.5p	488.5p	473p
Number of shareholders (thousands)	**824**	814	870	920	953
Number of ordinary shares in issue (millions)	**5,973**	5,648	5,638	5,603	5,596
Performance measures %					
Post-tax return on average shareholders' equity	**7.4**	28.2	26.6	25.6	22.8
Cost:income ratio*	**61.3**	52.0	47.7	51.9	54.8
	31 December 2008	31 December 2007	31 December 2006	31 December 2005	1 January 2005
Balance sheet					
Shareholders' equity (£m)	**9,393**	12,141	11,155	10,195	9,489
Net assets per share (pence)	**155p**	212p	195p	180p	167p
Total assets (£m)	**436,033**	353,346	343,598	309,754	292,854
Capital ratios: total capital (%)	**11.2**	11.0	10.7	10.9	10.1
tier 1 capital (%)	**8.0**	8.1	8.2	7.9	8.2

*The cost:income ratio is calculated as total operating expenses as a percentage of total income (net of insurance claims).

AUDITORS' REPORT

The auditors' reports on the full accounts for the year ended 31 December 2008 were unqualified and did not include a statement under sections 237(2) (accounting records or returns inadequate or accounts not agreeing with records and returns) or 237(3) (failure to obtain necessary information and explanations) of the UK Companies Act 1985.

INDEPENDENT AUDITORS' STATEMENT TO THE MEMBERS OF LLOYDS BANKING GROUP PLC

We have examined the summary financial statement, which comprises the summary consolidated income statement on page 15, the summary consolidated balance sheet on page 16 and the directors' remuneration commentary on pages 19 and 20.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The directors are responsible for preparing the annual review in accordance with applicable law. Our responsibility is to report to you our opinion on the consistency of the summary financial statement within the annual review with the annual financial statements, directors' report, and directors' remuneration report, and its compliance with the relevant requirements of section 251 of the UK Companies Act 1985 and the regulations made thereunder. We also read the other information contained in the annual review and consider the implications for our statement if we become aware of any apparent misstatements or material inconsistencies with the summary financial statement.

This statement, including the opinion, has been prepared for and only for the Company's members as a body in accordance with section 251 of the UK Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this statement is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

BASIS OF OPINION

We conducted our work in accordance with Bulletin 1999/6 'The auditors' statement on the summary financial statement ' issued by the Auditing Practices Board. Our reports on the Company's full annual financial statements describe the basis of our audit opinions on those financial statements and the directors remuneration report.

OPINION

In our opinion the summary financial statement is consistent with the annual financial statements, directors' report and directors' remuneration report of Lloyds Banking Group plc for the year ended 31 December 2008 and complies with the applicable requirements of section 251 of the UK Companies Act 1985, and the regulations made thereunder.

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors,
Southampton, England
26 February 2009

SUMMARY DIRECTORS' REPORT

An interim dividend of 11.4p per ordinary share was paid on 1 October 2008.

The Company is a holding company and its subsidiaries provide a wide range of banking and financial services through branches and offices in the UK and overseas.

A review of the business and an indication of future developments are given on pages 9 to 12.

It is intended to issue ordinary shares by way of a capitalisation issue in May 2009, at the rate of one share for every 40 shares held.

Biographical details of directors are shown on pages 21 and 22.

Sir David Manning, Mr M A Scicluna, Ms C J McCall and Mr T J W Tookey joined the board on 1 May 2008, 1 September 2008, 1 October 2008 and 30 October 2008, respectively, and Mr T T Ryan and Mr Anthony Watson have been appointed directors from 1 March 2009 and 2 April 2009, respectively. Ms T A Dial and Mr M E Fairey left the board on 18 April 2008 and 30 June 2008, respectively. Mr Ewan Brown will retire at the annual general meeting in 2009.

Particulars of the directors' interests in shares in the Company and detailed information about share capital and change of control are shown in the full report and accounts.

BASIS OF PREPARATION

During 2008, global financial markets experienced difficult conditions which have been characterised by a marked reduction in liquidity. As a consequence of this, Governments and central banks carried out a series of actions to address the lack of liquidity within their respective banking systems. In the UK these actions have included the introduction of the Bank of England's Special Liquidity Scheme whereby banks and building societies can exchange eligible securities for UK Treasury bills; and the creation of a credit guarantee scheme by HM Treasury, providing a government guarantee for certain short and medium term senior debt securities issued by eligible banks. During 2008 the Group has made use of these measures in order to maintain and improve a stable funding position. In the context of this continued turbulence and uncertainty in the financial markets, combined with a deteriorating global economic outlook, the Group has also taken steps to strengthen its capital position in order to provide a buffer against further shocks to the financial systems and to ensure that it remains competitive. In addition the economic conditions in the UK are deteriorating more quickly than previously anticipated placing greater strain on the Group's capital resources. The key dependencies on successfully funding the Group's balance sheet include the continued functioning of the money and capital markets at their current levels; the continued access of the Group to central bank and Government sponsored liquidity facilities including to HM Treasury's credit guarantee scheme and access to the Bank of England's various facilities; limited further deterioration in the Group's credit ratings; and no significant or sudden withdrawal of deposits resulting in increased reliance on money markets or Government support schemes. Based upon projections prepared by management which take into account the acquisition on 16 January 2009 of HBOS plc together with the Group's current ability to fund in the market and the assumption that the announced Government sponsored schemes will continue to be available, the directors are satisfied that the Company and the Group have adequate resources to continue in business for the foreseeable future. Accordingly, the summary financial statement of the Group have been prepared on a going concern basis.

GOVERNANCE

DIRECTORS' REMUNERATION

Full details of the Group's remuneration policy for directors as well as details of their remuneration in 2008 appear in the directors' remuneration report in the full report and accounts. This may be seen in the 'Investors' section of the Group's website at www.lloydsbankinggroup.com.

2008 was a year of unprecedented change and turmoil in financial services, in reality probably one of the most dramatic years that the sector has ever been through. The erosion of trust in the financial system, triggered by high profile failures both here and abroad, led to a change in business circumstances that no bank could escape. The problems in the financial sector have fed into the real economy and the Group now faces a severe recession. This has understandably led to public anger and to questions being raised about the role of banks in the financial crisis.

Deciding how executives should be paid in these extraordinary circumstances has been an immensely difficult task and it is appreciated that many of the Group's stakeholders will want to understand how any decisions were made. The Group recognises that its shareholders, customers, employees, and regulators are entitled to this information, given the current environment.

The Group's business strategy has been reflected in its approach to determining executive remuneration which is characteristically conservative. Base salaries and incentive levels are typically positioned at or below the levels offered by direct competitors or by other UK companies of a similar size. Additionally, the termination provisions within executive contracts are among the toughest in the FTSE 100, ensuring no payment for failure.

The targets used in incentive plans encourage the prudent management of risk. The economic profit measure used takes account of the capital needed to generate profits and the risk of the business undertaken. For a given level of profit higher risk and higher need for capital will result in lower levels of annual incentive payout for executives. Economic profit is measured on the performance of the business (and in particular default rates on loans) through an entire economic cycle. This discourages management from taking short-term risks that will have adverse long-term consequences.

The incentive plan structure also reflects the fact that a successful bank cannot be run entirely by focusing on financial performance. The plan includes measures relating to customer service, employee commitment and engagement, franchise growth and the management of risk. These factors have a direct and measurable impact on the future success of the business. This combination of financial and non-financial incentive targets reinforces to all executives the importance of doing business for the long-term, in a way that is sustainable. This also reflects the importance of the Group's commitment to building a business based on long-term relationships.

In October 2008 Lloyds TSB participated in a recapitalisation programme launched by the UK Government to ensure the stability of the UK banking system. Participation in this programme clearly impacted on the Group's remuneration approach and its commitment to comply with the Financial Services Authority's principles on remuneration. In the light of a review of the Group's remuneration policies earlier in 2008 and following consultation with the FSA in October, the Group developed an approach aligned to these principles. This approach will be under further detailed review to ensure compliance with the FSA's new draft Code of Practice.

Although the Group believes that its approach to remuneration has served the business well, it is recognised that it is now operating in an entirely different environment for banks and that this will need to be reflected in its remuneration approach.

In line with its prudent approach the Group has announced that for 2009 there will be no salary increases for the board and at their own request the executive directors will not be awarded any bonus for 2008. In addition long-term incentive awards for 2009 have been reduced by 175 per cent of salary. Certain changes to the performance measures on the long-term incentive plan are also being proposed. These changes have two objectives in mind. Firstly, to enhance further the extent to which pay-outs are based on risk-adjusted performance. Secondly to reflect the current situation by introducing some targets based on the successful integration of Lloyds TSB and HBOS to form the Lloyds Banking Group.

For 2009 the Group will be undertaking a further review of its remuneration policy and practices, mindful of the requirements of its shareholders and the regulators, whilst doing its utmost to ensure that it is not competitively disadvantaged against the market, particularly its ability to attract and retain the best talent available.

A key challenge for the Group will be how best to motivate and incentivise the management team to undertake the huge task ahead, while recognising that it is operating in a very difficult environment for banks generally. The extreme scrutiny that remuneration in the financial services sector is attracting and the current sentiment of shareholders is recognised. At the same time, the Group strongly believes that it has the executive management team required to take on the complexity of issues that the integration of HBOS will bring. This team is central to the future success of the bank and it is important that they are paid in a fair and responsible way.

In 2009 the remuneration package will continue to have the same main elements as for 2008:

- base salary
- annual incentive
- long-term incentive plan

In addition, executive directors participate in pension arrangements and receive benefits such as life assurance and medical insurance.

The following key decisions have been made for 2008/2009 remuneration:

- at their own request, the executive directors will not be awarded any bonus for 2008
- base salaries for executive directors frozen at 2008 levels
- reduced the maximum level of incentives from 2008 levels by 175 per cent of salary
- strengthened the role for non-financial measures, introducing a balanced scorecard into the long-term incentive plan focused on the HBOS integration
- increased the role of risk adjusted economic profit, by introducing it as a measure in the long-term incentive plan, in addition to its current use in the annual incentive
- changed the annual incentive plan so that payment is deferred over three years, and subject to claw back if the performance on which the incentive is based is found not to be sustainable
- determined that, from April 2012, executive directors will no longer participate in the final salary pension

GOVERNANCE continued

Executive directors also remain expected to build a shareholding in the Group equivalent to 1.5 times (2 times for the group chief executive) basic salary over a period of four years.

The fees of the independent non-executive directors are agreed within a total amount agreed by the shareholders. They may also receive fees, agreed by the board, for membership of board committees. The fees are designed to recognise the responsibilities of a non-executive's director's role and to attract individuals with relevant skills, knowledge and experience. The fees are neither performance related nor pensionable and are comparable with those paid by other companies.

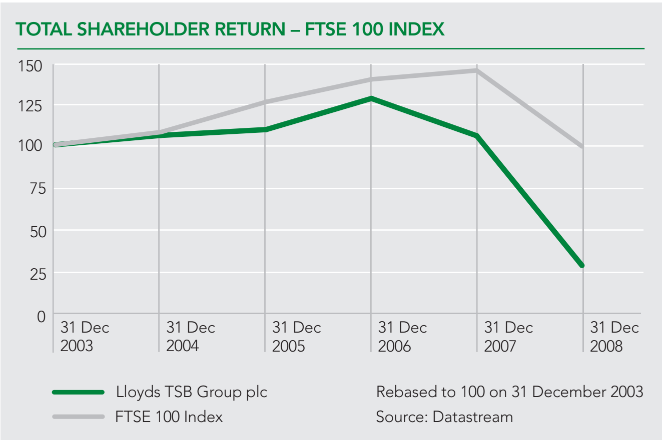
No adjustment has been made to the current fees paid to the non-executive directors. Similarly, the chairman's remuneration will remain unchanged.

SUMMARY OF EMOLUMENTS PAID TO DIRECTORS

	2008 £000	2007 £000
Aggregate emoluments paid to directors	**5,623**	12,055
Aggregate gains made by directors on exercise of share options	**2**	–
Aggregate value of assets receivable under long-term incentive schemes	**–**	–
Aggregate company contributions in respect of directors to defined contribution pension schemes	**207**	173
Number of directors with retirement benefits accruing under:		
– defined contribution schemes	**3**	2
– defined benefit schemes	**2**	3

PEFORMANCE GRAPH

The graph below illustrates the performance of the Group measured by TSR against a 'broad equity market index' over the past five years. The Group has been a constituent of the FTSE 100 index throughout this five year period.



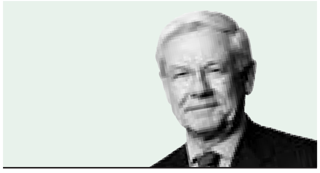
THE BOARD

NON-EXECUTIVE DIRECTORS

Sir Victor Blank
Chairman

Chairman of the nomination and risk oversight committees and a member of the remuneration committee

Joined the board in 2006 as deputy chairman and became chairman in May 2006. Former partner in Clifford-Turner (now Clifford Chance) from 1969 to 1981 and chairman and chief executive of Charterhouse until 1997. Director of The Royal Bank of Scotland from 1985 to 1993 and of GUS from 1993 to 2006 (chairman from 2000). Chairman of Trinity Mirror from 1999 to 2006. A member of the Financial Reporting Council from 2002 to 2007 and a member of the Council of Oxford University from 2000 to 2007. A senior adviser to the Texas Pacific Group and appointed by the Prime Minister as a Business ambassador. Chairs two charities, WellBeing of Women and UJS Hillel, as well as the Council of University College School. Aged 66



Wolfgang C G Berndt
Independent director

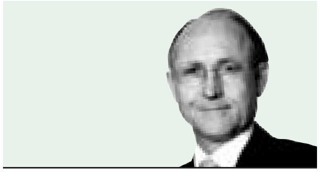
Member of the nomination committee and chairman of the remuneration committee

Joined the board in 2003. Joined Procter and Gamble in 1967 and held a number of senior and general management appointments in Europe, South America and North America, before retiring in 2001. A non-executive director of Cadbury, GfK AG and MIBA AG. Aged 66

Ewan Brown CBE FRSE
Senior Independent director (retiring at the AGM in 2009)

Member of the audit and risk oversight committees

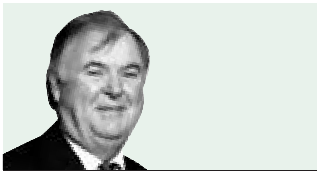
Joined the board in 1999 and was chairman of Lloyds TSB Scotland until May 2008. Joined Noble Grossart in 1969 and was an executive director of that company until December 2003. A non-executive director of Noble Grossart and Stagecoach Group, chairman of Creative Scotland 2009, senior governor of the Court of the University of St Andrews and vice chairman of the Edinburgh International Festival. A former chairman of tie and non-executive director of John Wood Group. Aged 66



Jan P du Plessis
Independent director

Chairman of the audit committee and a member of the nomination and risk oversight committees

Joined the board in 2005. Chairman of British American Tobacco. Held a number of senior and general management appointments in Rembrandt Group from 1981, before joining Compagnie Financière Richemont as group finance director in 1988, a position he held until 2004. A non-executive director of Rio Tinto and Marks and Spencer Group. A former chairman of RHM from 2005 to 2007 and group finance director of Rothmans International from 1990 to 1995. Aged 55



Sir Julian Horn-Smith
Independent director

Member of the nomination, remuneration and risk oversight committees

Joined the board in 2005. Held a number of senior and general management appointments in Vodafone from 1984 to 2006 including a directorship of that company from 1996 and deputy chief executive officer from 2005. Previously held positions in Rediffusion from 1972 to 1978, Philips from 1978 to 1982 and Mars GB from 1982 to 1984. A non-executive director of Digicel Group, a member of the Altimo International advisory board and a senior adviser to UBS in relation to the global telecommunications sector. A former chairman of The Sage Group. Aged 60

Lord Leitch
Independent director

Member of the audit, nomination and risk oversight committees

Joined the board in 2005. Appointed chairman of Scottish Widows in 2007. Held a number of senior and general management appointments in Allied Dunbar, Eagle Star and Threadneedle Asset Management before the merger of Zurich Group and British American Tobacco's financial services businesses in 1998. Subsequently served as chairman and chief executive officer of Zurich Financial Services United Kingdom, Ireland, Southern Africa and Asia Pacific, until his retirement in 2004. Chairman of the Government's Review of Skills (published in December 2006) and deputy chairman of the Commonwealth Education Fund. Chairman of BUPA and Intrinsic Financial Services and a non-executive director of Paternoster. Former chairman of the National Employment Panel. Aged 61

Sir David Manning GCMG CVO
Independent director

Member of the nomination, remuneration and risk oversight committees

Joined the board on 1 May 2008. Entered the Foreign and Commonwealth Office in 1972 and held senior appointments, including HM ambassador to Israel between 1995 and 1998, foreign policy adviser to the Prime Minister from 2001 to 2003 and HM ambassador to the USA from 2003 to 2007. A non-executive director of BG Group and Lockheed Martin UK Holdings. Aged 59

Carolyn J McCall OBE
Independent director

Member of the remuneration committee

Joined the board on 1 October 2008. Appointed group chief executive of Guardian Media Group in 2006 having joined that organisation in 1986 and held a number of senior and general management appointments before becoming a director in 2000. Chair of Opportunity Now and a director of Business in the Community. Aged 47

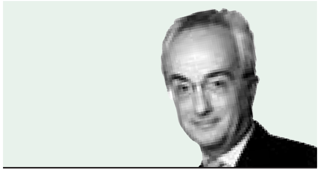
NON-EXECUTIVE DIRECTORS JOINING THE BOARD

T Timothy Ryan, Jr
Independent director and member of the audit and risk oversight committees (from 1 March 2009)

President and chief executive of the Securities Industry and Financial Markets Association. Held a number of senior appointments in JP Morgan Chase from 1993 to 2008 including vice chairman, financial institutions and governments, from 2005. A director of the US-Japan Foundation and the International Foundation of Electoral Systems and a member of the Global Markets Advisory Committee for the National Intelligence Council. A former director in the Office of Thrift Supervision, US Department of the Treasury and Koram Bank. Aged 63

Anthony Watson CBE
Independent director (from 2 April 2009)

Previously chief executive of Hermes Pensions Management. Held a number of senior appointments in AMP Asset Management from 1991 to 1998. Retiring as chairman of the Strategic Investment Board (Northern Ireland) at the end of March 2009. A non-executive director of Hammerson, Vodafone and Witan Investment Trust and chairman of Marks and Spencer Pension Trust, Asian Infrastructure Fund and Lincoln's Inn investment committee. A former chairman of MEPC and a former member of the Financial Reporting Council. Aged 63



Philip N Green
Independent director

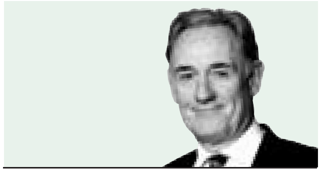
Member of the audit and remuneration committees

Joined the board in May 2007. Appointed chief executive of United Utilities in 2006. Former chief executive of Royal P&O Nedlloyd from 2003 to 2005. Previously held senior positions in DHL from 1990 to 1999, becoming chief operating officer for Europe and Africa in 1994, and the Reuters Group from 1999 to 2003, becoming chief operating officer in 2001. A director of Business in the Community and the UK Commission for Employment and Skills. A trustee of the Philharmonia Orchestra. Aged 55

EXECUTIVE DIRECTORS

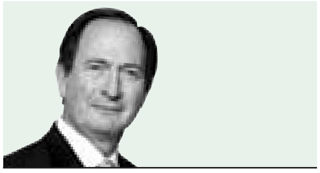
J Eric Daniels
Group Chief Executive

Joined the board in 2001 as group executive director, UK retail banking before his appointment as group chief executive in June 2003. Served with Citibank from 1975 and held a number of senior and general management appointments in the USA, South America and Europe before becoming chief operating officer of Citibank Consumer Bank in 1998. Following the Citibank/Travelers merger in 1998, he was chairman and chief executive officer of Travelers Life and Annuity until 2000. Chairman and chief executive officer of Zona Financiera from 2000 to 2001. A non-executive director of BT Group. Aged 57



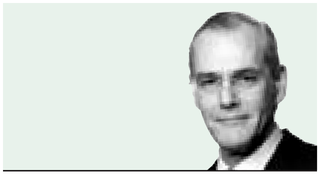
Archie G Kane
Group Executive Director
Insurance

Joined the Group in 1986 and held a number of senior and general management appointments before being appointed to the board in 2000, as group executive director, IT and operations. Appointed group executive director, insurance and investments in October 2003. After some 10 years in the accountancy profession, joined General Telephone & Electronics Corporation in 1980, serving as finance director in the UK from 1983 to 1985. Chairman of the Association of British Insurers and a member of the Chancellor's Financial Services Global Competitiveness Group, The Takeover Panel and the Chancellor's Insurance Industry Working Group. Aged 56



G Truett Tate
Group Executive Director
Wholesale

Joined the Group in 2003 as managing director, corporate banking before being appointed to the board in 2004. Served with Citigroup from 1972 to 1999, where he held a number of senior and general management appointments in the USA, South America, Asia and Europe. He was president and chief executive officer of eCharge Corporation from 1999 to 2001 and co-founder and vice chairman of the board of Chase Cost Management Inc from 1996 to 2003. A non-executive director of BritishAmerican Business Inc. A member of the fund-raising board of the National Society for the Prevention of Cruelty to Children, a director of Business in the Community and a director and trustee of In Kind Direct. Aged 58



Martin A Scicluna
Independent director

Member of the audit and risk oversight committees

Joined the board on 1 September 2008. Chairman of Deloitte UK from 1995 to 2007 and a member of the board from 1991 to 2007. Joined the firm in 1973 and was a partner from 1982 until he retired in 2008. A member of the board of directors of Deloitte Touche Tohmatsu from 1999 to 2007. A non-executive director of Great Portland Estates. A member of the council of Leeds University and a governor of Berkhamsted School. Aged 58

Tim J W Tookey
Group Finance Director

Joined the Group in 2006 as deputy group finance director, before being appointed acting group finance director in April 2008. Appointed to the board in October 2008 as group finance director. Previously finance director for the UK and Europe at Prudential from 2002 to 2006 and group finance director of Heath Lambert Group from 1996 to 2002. Prior to that, he spent 11 years at KPMG. Aged 46

Helen A Weir CBE
Group Executive Director
Retail

Joined the board in 2004 as group finance director. Appointed as group executive director, UK retail banking in April 2008. Group finance director of Kingfisher from 2000 to 2004. Previously finance director of B&Q from 1997, having joined that company in 1995, and held a senior position at McKinsey & Co from 1990 to 1995. Began her career at Unilever in 1983. A non-executive director of Royal Mail Holdings. A member of the Said Business School Advisory Board and a former member of the Accounting Standards Board. Aged 46

Harry F Baines
Company Secretary and
General Counsel

SHAREHOLDERS' INFORMATION

ANNUAL REPORT AND ACCOUNTS

This annual review, including the summary financial statements contained within, does not provide sufficient information to allow as full an understanding of the results and state of affairs of Lloyds Banking Group as would be provided by the full report and accounts. Shareholders who would like more detailed information may obtain a copy of the full report and accounts, and also elect to receive all future report and accounts, by contacting our registrars, Equiniti Limited on 0871 384 2990. The report and accounts is also available on our website, www.lloydsbankinggroup.com

SHARE PRICE INFORMATION

In addition to listings in the financial pages of the press, the latest price of Lloyds Banking Group shares on the London Stock Exchange can be obtained by telephoning 09058 890 190.

Visit www.londonstockexchange.com for details.

SHARE DEALING FACILITIES

A full range of dealing services is available as follows:

- Internet dealing. Log on to www.lloydstsbsharedealing.com
- Telephone dealing. Call 0845 606 0560
- Internet and telephone dealing services are available between 8.00am and 4.30pm, Monday to Friday.

Details of any dealing costs are available when you log on to the share dealing website or when you call the above number.

INDIVIDUAL SAVINGS ACCOUNTS (ISAs)

The Company provides a facility for investing in Lloyds Banking Group shares through an ISA. For details contact: Retail Investor Operations, Equiniti Limited, Aspect House, Spencer Road, Lancing, West Sussex BN99 6DA. Telephone 0871 384 2244.

SHAREHOLDER ENQUIRIES

The Company's share register is maintained by Equiniti Limited. Contact them if you have enquiries about your Lloyds Banking Group shareholding, including those concerning the following matters:

- change of name or address
- loss of share certificate
- dividend information, including loss of dividend warrant or tax voucher.

Equiniti operates a web based enquiry and portfolio management service for you to receive shareholder communications electronically. In addition, you can change your address or bank details and register proxy appointments and voting instructions on your shareholding online. Visit www.shareview.co.uk for details.

Computershare Investor Services continue to maintain the register of Lloyds Banking Group shareholder account holders (formerly the HBOS shareholder account). If you have any queries please either write to Computershare Investor Services PLC, PO Box 1910, Bristol BS99 7DS or call 0870 702 0102 or visit www.computershare.com

CORPORATE RESPONSIBILITY

A copy of the Group's corporate responsibility report may be obtained by writing to Corporate Responsibility, Lloyds Banking Group plc, 25 Gresham Street, London EC2V 7HN. This information together with the Group's code of business conduct is also available on the Group's website www.lloydsbankinggroup.com

AMERICAN DEPOSITARY RECEIPTS (ADRs)

Lloyds Banking Group shares are traded in the USA through an NYSE-listed sponsored ADR facility, with The Bank of New York Mellon as the depositary. The ADRs are traded on the New York Stock Exchange under the symbol LYG. The CUSIP number is 539439109 and the ratio of ADRs to ordinary shares is 1:4. For details contact:
The Bank of New York Mellon Shareowner Services, PO Box 358516, Pittsburgh, Pennsylvania 15252-8516. Telephone: 877-353-1154 (US toll free), international callers: +1 201-680-6825. Alternatively visit www.bnymellon.com or email shrrelations@bnymellon.com

FINANCIAL CALENDAR 2009

27 February	Results for 2008 announced
8 May	Record date for the capitalisation issue
11 May	Ex-date for the capitalisation issue and shares admitted to trading. CREST accounts credited
22 May	Latest date for the despatch of share certificates and Lloyds Banking Group shareholder account statements in respect of the capitalisation issue
5 August	Results for the half-year to 30 June 2009 announced

FORWARD LOOKING STATEMENTS

This document contains forward looking statements with respect to the business, strategy and plans of Lloyds Banking Group, its current goals and expectations relating to its future financial condition and performance. By their nature, forward looking statements involve risk and uncertainty because they relate to events and depend on circumstances that will occur in the future. The Group's actual future results may differ materially from the results expressed or implied in these forward looking statements as a result of a variety of factors, including UK domestic and global economic and business conditions, the ability to derive cost savings and other benefits as well as to mitigate exposures from the acquisition and integration of HBOS, risks concerning borrower credit quality, market related trends and developments, changing demographic trends, changes in customer preferences, changes to regulation, the policies and actions of Governmental and regulatory authorities in the UK or jurisdictions outside the UK, including other European countries and the US, exposure to regulatory scrutiny, legal proceedings or complaints, competition and other factors. Please refer to the latest Annual Report on Form 20-F filed with the US Securities and Exchange Commission for a discussion of such factors. The forward looking statements contained in this document are made as at the date of this document, and the Group undertakes no obligation to update any of its forward looking statements.

HEAD OFFICE

25 Gresham Street, London EC2V 7HN
Telephone +44 (0)20 7626 1500

REGISTERED OFFICE

Henry Duncan House
120 George Street, Edinburgh EH2 4LH
Registered in Scotland no 95000

INTERNET

www.lloydsbankinggroup.com

REGISTRAR

Equiniti Limited
Aspect House, Spencer Road, Lancing, West Sussex BN99 6DA
Telephone 0871 384 2990
Textphone 0871 384 2255
Overseas +44 (0)121 415 7066
www.equiniti.com

Daytime calls Monday to Friday from BT landlines to 0870 numbers will cost no more than 6p a minute plus an 8p connection fee. Calls to 09058, 0871 and 0845 numbers are charged at 55p, 8p and 5p per minute, respectively, from a BT landline. The price of calls from mobiles and other networks may vary. The call prices we have quoted were correct in February 2009.

Designed and produced by Radley Yeldar www.ry.com. Executive producer Lora Starling.
Front cover photography Mark Horn/gettyimages.

Printed in the UK by Royle Print, a Carbon Neutral printing company, on material which contains a minimum of 50% post consumer waste; the printer and paper manufacturing mill are both accredited with ISO 14001 Environmental Management systems standards and both are Forest Stewardship Council certified. When you have finished with this report, please dispose of it in your recycled waste stream.