ANNUAL REVIEW 2010

LLOYDS BANKING GROUP

CREATING THE UK'S BEST FINANCIAL SERVICES PROVIDER

We have a great platform for the future and have established a strong financial and operational trajectory.

Corporate responsibility and our people are integral to our business strategy.

We are constantly striving to build, deep, lasting customer relationships, that will create value for our customers and subsequently value for us as a business.

GROUP PROFILE

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.

OUR GROUP

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 over 30 countries.

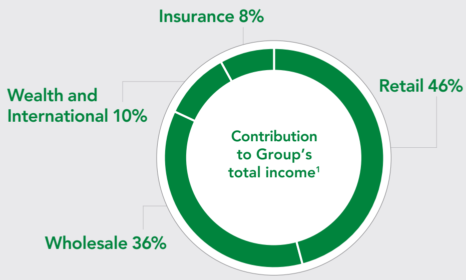
The Group is the UK's largest retail bank and has a large and diversified customer base. Services are offered through a number of well recognised brands including Lloyds TSB, Halifax, Bank of Scotland, Scottish Widows, Clerical Medical and Cheltenham & Gloucester, and a range of distribution channels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

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 DIVISIONS

There are four primary operating divisions within the Group: Retail, Wholesale, Wealth and International, and Insurance.

Their relative contribution to the Group's total income is presented below and a more detailed analysis of their strategy, business and performance can be found on pages 8 to 15.



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

[1]Excludes Group Operations, Central items and insurance claims

STRATEGY AND PERFORMANCE

KEY HIGHLIGHTS

The Group returned to profitability on a combined businesses basis with profit before tax of £2,212 million (2009: £6,300 million loss).

Statutory profit before tax was £281 million (2009: £1,042 million, including an £11,173 million gain on the acquisition of HBOS); after charging integration costs of £1,653 million and other adjusting net charges of £278 million including a loss on disposal of businesses of £365 million.

Loss attributable to equity shareholders was £320 million (2009: profit of £2,827 million); equivalent to a loss per share of 0.5 pence (2009: earnings per share of 7.5 pence), after a charge for taxation of £539 million (2009: credit of £1,911 million) and a charge for profit attributable to non-controlling interests of £62 million (2009: £126 million).

Good trading performance against the backdrop of modest growth in UK economy.

Continued active support for the UK's economic recovery by providing £30 billion of gross mortgage lending (including remortgages) and £49 billion of committed gross lending to businesses, of which £11 billion for SMEs.

Underlying total income increased by 3 per cent to £23,641 million, including core business income growth of 7 per cent.

Banking net interest margin improved to 2.10 per cent (2009: 1.77 per cent) with the majority of the gain achieved in the first half of the year.

Significant reduction in the impairment charge. Impairment charge was 45 per cent lower at £13,181 million (2009: £23,988 million).

Strong cost performance with a 6 per cent reduction in operating expenses to £10,928 million. Further improvement in the underlying cost:income ratio to 46.2 per cent (2009: 50.7 per cent).

Continued strong progress with the integration programme delivering annual run-rate savings of £1,379 million. Confident of delivering a run-rate of £2 billion per annum by the end of 2011.

Good progress on balance sheet reduction with cumulative non-core asset reduction of £105 billion. On track to meet target of £200 billion over the next three years.

Capital position significantly improved with core tier 1 ratio increased to 10.2 per cent, primarily reflecting a reduction in risk weighted assets by 18 per cent to £406.4 billion.

Excellent progress against term funding objectives with £50 billion of wholesale term issuance in the year.

Customer relationship deposits increased by 3 per cent reflecting good growth in Retail and in Wealth and International.

Reduction in liquidity support from government and central bank facilities of £61 billion to £97 billion.

Given the flexibility and capacity we have for core business growth, we continue to believe that the Group has strong medium-term prospects, notwithstanding the economic and regulatory headwinds that we face in 2011.

OUR CORPORATE STRATEGY

The Group's business model is focused on the development of customer relationships, which are central to the strategy. We are constantly striving to build deep, lasting customer relationships, that will create value for our customers and subsequently value for us as a business. Customer leadership driven by superior customer insight, tailored products, better service and relationship focus, supported by industry leading efficiency and effectiveness and a prudent 'through the cycle' approach to risk is core to our strategy. It is this that will enable us to deliver on our vision of being recognised as the best financial services company in the UK by customers, colleagues and shareholders.

Our corporate strategy identifies the key strategic deliverables required to implement the business model effectively and deliver our Group vision.

The strategy is focused on being a more conservative, 'through the cycle' relationship based business. The key objectives of our strategy are as follows.

- **Building a high performance organisation**
  In delivering a high performance organisation the Group is focused on improving our cost efficiency and utilising our capital more effectively whilst maintaining a prudent approach to risk.
- **Developing strong customer franchises that are based on deep customer relationships**
  All our core businesses are focused on extending our customer relationships, whilst enhancing product capabilities to build competitive advantage. Ensuring we understand and effectively meet the needs of our customers from basic banking products to the more specialist services such as insurance, wealth management or corporate banking is at the heart of our business. It is also fundamental to ensuring we are developing long lasting customer relationships.
- **Managing our most valuable resource, our people**
  Executing our strategy effectively will only be possible if we ensure deliverables are effectively aligned with our corporate strategy and we manage our most valuable resource, our people, well. Our people have the skills and capabilities to deliver the strategy but in driving performance it is important to ensure we encourage, manage and develop our staff whilst creating a great place to work.

The main focus for the Group remains the financial services markets in the UK and our strategic position was strengthened through the acquisition of HBOS in January 2009. We are a well diversified UK financial services group and the largest retail financial services provider in the UK. We have leading positions in many of the markets in which we participate, a comprehensive distribution capability, well recognised brands and a large customer base. We continue to invest in products and services, systems and training that combined offer unparalleled choice and service to our customers.

We see corporate responsibility as being integral to our business strategy. We need to demonstrate that we are running our business in a responsible way; and are making a sustained, positive contribution to the economy and to society; by playing our part in the UK's economic recovery and by investing in the communities of which we are a part.

CHAIRMAN'S STATEMENT

"We have a great platform for the future and have established a strong financial and operational trajectory. I am confident that we will be able to grow the business further over the coming years."

My second annual statement as Chairman of Lloyds Banking Group comes to you at the end of another challenging year, a year in which we have turned the corner to profitability. In doing so, we made substantial progress towards creating a strong and stable bank, one better able to serve our customers. Only by focusing on their needs and offering them products and services that address those needs, can we expect to be successful and deliver benefit to you our shareholders and to our stakeholders at large.

Supporting the UK's economic recovery

Although 2010 brought some increase in global confidence and stability, the banking industry continued to operate amidst challenging conditions.

As we emerge from the financial crisis and the economic downturn, we recognise the public concern surrounding the banking industry and know we have much work to do as an industry to rebuild trust and understanding. We also acknowledge the role that we at Lloyds Banking Group must play in that process. We can only earn that trust by addressing the fundamentals, for all our stakeholders, and by being open, transparent and engaged in the broader debate about the role of banking in the UK. We need to demonstrate that we are meeting our obligations to customers and society by proactively – and responsibly – channelling the deposits we gather into productive enterprises and households.

Banks have a central role in promoting and fuelling the economic recovery. We will continue to play our part in supporting UK growth by extending a significant amount of new lending to businesses and households. We have provided nearly £80 billion of gross lending to UK homeowners and businesses in 2010 and, as part of our SME charter, the Group is committed to helping 300,000 new start-up businesses by the end of 2012. We have already helped over 100,000 such enterprises during 2010. For the year ended 28 February 2011 we will exceed the mortgage and business lending commitments made by the Group to the UK Government.

We have also recently announced, along with four other major UK banks (and in the context of an agreement with the UK Government), our intent to help support the UK economic recovery by jointly providing the capacity to support gross new lending of £190 billion to creditworthy UK businesses (including £76 billion to small and medium sized businesses). As the largest UK focused bank, we are determined to play a full role in supporting investment by UK businesses and households. Lending is one of our core business functions and it is in our interest and that of our shareholders that we make access to responsible credit as easy as possible.

At the same time, as a responsible lender, we will seek to ensure that we lend to customers who can afford to repay their borrowing and to businesses that have a fundamentally sound business model. These are principles to which we must adhere.

Regulation

The level of industry regulation and its speed of change has never been greater. Shareholders will be aware of a number of strategic initiatives which are likely to change the shape of our industry, including the changes to capital requirements arising from Basel III and the fundamental changes to the regulatory environment in the UK, to highlight just a couple. Robust and stable regulation will be an important component in rebuilding confidence and trust and creating a healthy and sound financial system. However, we need to ensure that banks are allowed to fulfil their core purpose in delivering a smooth flow of credit to the economy. That means meeting banks' obligations to businesses, by helping them to invest, expand, export, innovate, up-skill their workforce, win new contracts and diversify their business models. For individuals, it means supporting their financial needs over their lifetime.

In 2010, the UK Government appointed The Independent Commission on Banking (ICB) to review structural measures to reform the banking system and promote stability and competition. The ICB is not expected to publish its final report until September 2011 although an important precursor of that will be the interim report expected to be published in April. It would be premature for me to seek to predict the outcome of the enquiry; however, discussions between ourselves and the ICB have been collaborative and constructive and we will welcome the increased certainty that the report's recommendations should bring.

Our community

Through the financial services we provide to our customers and the support we give to the businesses that people work for, Lloyds Banking Group plays a role in the lives of nearly everyone in the UK.

Our main contribution to society is the direct economic impact on the economy we have as a major employer and purchaser of goods and services. This economic contribution is supported by our active investment in communities across the country and our community giving programme. We invested £148 million in communities across the UK in 2010 including support for financial inclusion, sponsorship of sports for young people and donations through the Group's charitable foundations.

Our partnership of the London 2012 Olympic and Paralympic Games will bring the Games to life in the heart of communities all over Britain and 2011 will be an exciting year in the countdown to 2012. Since the launch of our Local Heroes programme we have supported 600 athletes. We have also pledged £1 billion of funding to help businesses benefit from London 2012 Games associated opportunities. In this way we have supported one in three of all businesses who have won London 2012 Olympic Games related contracts.

Performance

As an organisation, we have made considerable progress in 2010, delivering good growth in our core business, returning to profitability and reducing the risk in the business. The integration of the HBOS business continues to progress well and we remain confident of achieving our target of run-rate synergy benefits of £2 billion per annum by the end of 2011, a substantial achievement.

In working diligently to create long term sustainable shareholder value we aim to restore our ability to pay dividends on ordinary shares as soon as market conditions and the financial performance of the Group permit. As you know this intention is subject to the expiry in 2012 of the restrictions arising from the European Commission's remedies.

Following the recapitalisation of the banking sector, HM Treasury now holds approximately 40.6 per cent of the equity capital of the Group. We are grateful and appreciative for the valuable support we have received from Government and through it the taxpayer, but our objective remains for the Group over time to operate as a wholly privately owned self-supporting commercial enterprise.

People

I have enjoyed meeting many colleagues in various visits to our operations all over the country over the past year. Gaining an on-the-spot insight into how they work to serve our stakeholders by building long term relationships with our customers and by supporting businesses has been invaluable. I must tell you that I have been impressed by their desire to work together to ensure the success of our integration, by their discipline and focus and by their commitment to their customers. It is clear that in our large and occasionally complex Group, teamwork combined with commitment, professionalism and hard work is the key to realising our promises to stakeholders.

Our people have faced a difficult year with great commitment and purpose. It is not easy or pleasant to work for a group which is continuously in the media headlines. All the more so when the delivery of our day-to-day banking and personal financial services are, in numerous surveys of our customers, judged to be at the very top or near it. On behalf of the Board I thank our colleagues for their significant achievements in 2010, which from letters and emails I receive, are as much appreciated by our shareholders as our customers.

Remuneration

Following on from the unprecedented turmoil across the sector in 2008 and 2009, the increased focus on remuneration has continued into 2010. In the context of the evolving economic environment and regulatory changes, the Remuneration Committee undertook a further review of executive remuneration in 2010. We firmly believe that remuneration policy needs to incentivise executives to continue strong, sustainable growth and delivery of value to shareholders, in light of one of the biggest integrations ever undertaken in the sector. The Committee equally however is mindful of the continued heightened awareness in the public domain around executive remuneration. Both these considerations informed the Committee's decisions on remuneration this year and that for António Horta-Osório, our new Group Chief Executive.

The Group is primarily a retail and commercial bank. This means that the payout under our Group bonus schemes for 2010 is a small percentage of overall revenues. Though profitability increased substantially our total compensation for 2010 is lower than that for 2009.

Group Chief Executive

On 28 February 2011, Eric Daniels will retire as Group Chief Executive and Director of Lloyds Banking Group plc and, in line with his contractual commitments, will retire from the Group in September 2011. His knowledge of the Group and our customers will, I am pleased to say, remain available to the Board and myself as required until then.

The Board and I are grateful to Eric Daniels for his leadership since June 2003, particularly since the announcement of the acquisition of HBOS in September 2008. The successful integration of the two companies and the sooner than expected return to profitability of the enlarged Lloyds Banking Group are testament to his leadership during a time of unprecedented financial turmoil. It is to Eric's credit that the Group is in a strong position for the next phase of its development. I personally have valued greatly the considerable management, banking and organisational expertise Eric has brought to Lloyds Banking Group as Group Chief Executive.

In November we announced the appointment of António Horta-Osório as the next Group Chief Executive. He brings with him deep experience in, and understanding of, the UK retail and commercial banking industry, as well as a track record of integrating three well respected UK retail banking franchises. António joined us in January 2011 and took over as Group Chief Executive on 1 March 2011. The Board and I look forward to working with him to ensure the success of the next stage of development of the Group, and I hope many of you will be able personally to meet him at our annual general meeting in Glasgow on Wednesday 18 May 2011.

Changes to the Board

In addition to the changes previously outlined during the year we have continued to strengthen the Board both in terms of in-depth banking experience and broader business perspectives. On 1 March 2010, two new Non-Executive Directors were appointed, Glen Moreno and David Roberts, and Anita Frew joined the Board on 1 December 2010.

We are delighted that these three outstanding individuals have agreed to contribute their judgement and varied expertise to our Board. On a personal front I am also pleased that we have expanded the proportion of women on the Board and I expect that process to continue.

Dr Wolfgang Berndt retired at the annual general meeting in May 2010, having joined the Board in 2003. I would like to thank him for his significant contribution to the Group.

Our most senior management including our Executive Directors, have made extraordinary efforts both in terms of their time, involvement and personal contribution in achieving these results. I thank all of them for their loyalty in difficult circumstances.

The full particulars and background of all our Directors are set out on pages 22 and 23.

Outlook

The successful execution of our strategy demands from us focus on core markets, on customer engagement, on cost leadership, on capital efficiency and on a prudent risk and funding profile. Carried out well these attributes should enable the Group to deliver earnings growth and shareholder value whilst achieving our aim of becoming recognised as the best financial services company in the UK.

We have a great platform for the future and have established a strong financial and operational trajectory. I am confident that we will be able to grow the business further over the coming years with António Horta-Osório at the helm leading our 112,000 colleagues – a dedicated workforce and an experienced management team.

Sir Winfried Bischoff
Chairman

GROUP CHIEF EXECUTIVE'S REVIEW

"We achieved a step change in our financial performance despite slow economic growth, returning the Group to profitability while absorbing the substantial costs of reducing risk in the business."

Summary

2010 was a good year for the Group, in which we made significant progress, delivering a strong operating performance, while strengthening the business for the future.

We achieved a step change in our financial performance despite modest economic growth, returning the Group to profitability while absorbing the substantial costs of reducing risk in the business. While the significant decrease in impairments was a key driver in our return to profitability, we also saw a good performance in the core business where underlying income grew 7 per cent.

We delivered good momentum across our core businesses through the continued development of our customer relationship strategy, attracting new customers to the Group and broadening and deepening our relationships with existing customers.

We also realised substantial cost savings, and we are on track to deliver our target of £2 billion of run-rate cost synergies from the integration of HBOS by the end of 2011.

We made considerable progress during the year in reducing the Group's risk. The application of our prudent approach to restructuring of the existing book and our risk standards to all new business is being reflected in the more predictable performance of these portfolios. We also made good progress in reducing the size of our balance sheet and substantially strengthened both our capital and funding positions.

As a result of the significant progress we have made in 2010, Lloyds Banking Group is now a much stronger business and is well positioned to realise the potential within its franchise.

Results overview

On a combined businesses basis, the Group reported a £2.2 billion profit in 2010, compared to a £6.3 billion loss before tax in 2009. Underlying income grew by 3 per cent to £23.6 billion, reflecting good underlying income growth of 7 per cent in our core business, partially offset by a reduction of 9 per cent in our non-core business as a result of planned asset reductions. Operating expenses fell by 6 per cent, resulting in an improvement in our underlying cost:income ratio of 4.5 percentage points to 46.2 per cent.

On a statutory basis, the Group delivered a profit before tax of £0.3 billion in 2010. This compared to a profit of £1 billion in 2009, which benefited from an £11.2 billion negative goodwill gain associated with the purchase of HBOS.

A significant reduction in the impairment charge

We achieved a significant reduction in the impairment charge, which fell 45 per cent, with the deterioration in some of our International businesses more than offset by a substantial improvement in the rest of the Group, notably in the Wholesale division.

The considerable reductions in the Retail and Wholesale impairment charges reflect the benefit of the actions we have taken over the past two years and our ongoing effective risk management, as well as the slowly improving economic environment. While we were disappointed by the increases in the International portfolios, these reflect specific economic challenges facing Ireland, and to some degree Australia, which we are managing closely.

Good franchise momentum in 2010

We have seen good momentum across our core business franchise in 2010, supported by the extension of our relationship strategy across the Group, in what remain highly competitive markets.

In Retail, our strategy is to develop deep and enduring customer relationships through offering a broad range of products addressing customers' needs, alongside superior service and advice. We opened 1.9 million current accounts, and over 5 million new savings accounts, and increased customer deposits by 5 per cent in the year.

In Wholesale, our commitment to supporting our customers through the cycle was equally successful, and we attracted over 100,000 new start-up customers and our achievements were recognised in the marketplace by the receipt of a number of awards.

We see strong growth opportunities in Wealth, through deepening relationships with existing Group customers and through the targeted acquisition of new customers. In 2010, we saw encouraging early results from the development of our customer offerings, and we grew our UK relationship customer base by 12 per cent.

In Insurance our focus on sustainable and profitable growth led to a 13 per cent increase in profit before tax. While this strategy led to a reduction in overall sales volumes in our UK Life, Pensions and Investments business, as we stopped selling a number of low return heritage HBOS products, this resulted in a substantial increase in new business margin.

Supporting the UK's economic recovery

During 2010 the Group continued to support the UK's economic recovery through new lending to our mortgage and business customers. The Group extended £30 billion of gross mortgage lending (including remortgages) to UK homeowners and supported over 50,000 first time buyers.

We also provided £49 billion of committed gross lending to UK businesses in 2010, of which £11 billion was for SMEs. As part of our SME Charter, the Group has committed to helping 300,000 new start-up businesses by the end of 2012, and has already helped in excess of 100,000 such enterprises during 2010. We continue to approve over 80 per cent of lending applications from SME customers. Despite the uncertain economic environment, the Group has successfully grown net lending to its core SME customers by 2.1 per cent, which compares favourably with the industry-wide reduction in SME lending reported in the latest available market statistics.

As a result of our focus, we will exceed the mortgage and business lending commitments made by the Group to the UK government for the year ended 28 February 2011.

We have recently announced, along with four other major UK banks and in the context of an agreement with the UK Government, our intent to help support the UK economic recovery by jointly providing the capacity to support gross new lending of £190 billion to creditworthy UK businesses (including £76 billion to small and medium sized businesses). We are determined to play a full role in supporting investment by UK businesses and households.

Integration programme on track

We continued to make good progress on the integration of Lloyds TSB and HBOS, one of the largest and most complex programmes undertaken in the UK, exiting the year with run-rate cost synergies of £1.4 billion, as expected. We achieved savings across a wide range of Group activities, including implementing improved processes which are now being used on a harmonised basis across the Group, and driving savings in property and procurement. As part of the integration, we have also commenced the implementation of a number of major systems changes, which will complete in 2011.

Our progress in 2010 underpins our confidence that we will deliver our target of £2 billion of annual run-rate cost synergies by the end of 2011.

Further progress in balance sheet reductions

We are pleased with the progress we have made in reducing the size of the Group's balance sheet, with over half of our five year reduction plan achieved in the first two years. Although this has had an adverse effect on income, it has resulted in a material reduction in the Group's risk profile, and a smaller balance sheet which brings associated funding benefits.

We have now achieved asset reductions totalling £105 billion in the two years since the inception of the programme, against our target of a £200 billion reduction.

Excellent progress on funding and liquidity

We made excellent progress in enhancing our funding and liquidity position in 2010, thereby further reducing the Group's risk, albeit at some incremental cost.

We increased our deposit base by 3 per cent, which, together with the reduction in the size of our balance sheet, resulted in an improvement in our loan to deposit ratio to 154 per cent at the end of 2010 from 169 per cent at the 2009 year end.

In addition, we substantially exceeded our guidance for term wholesale funding issuance, achieving £50 billion of issuance in the year. We also continued to broaden the range of our funding sources, and maintained the proportion of our wholesale funding with a maturity of more than one year at 50 per cent.

Term issuance during the year enabled us to materially reduce the liquidity we receive from government and central bank sources, by £61 billion to £97 billion at the year end and we have made further progress since then.

Capital position further strengthened

We considerably strengthened our capital position in the year, positioning us well ahead of the implementation of the Basel Committee on Banking Supervision's so called 'Basel III' capital reforms, and changes expected to a number of accounting practices.

Our core tier 1 ratio increased to 10.2 per cent, from 8.1 per cent at the end of 2009, substantially in excess of regulatory requirements. We also restructured the capital within our insurance subsidiaries, which will deliver substantial benefits under the Basel III reforms. At the year end, our tier 1 ratio was 11.6 per cent, and our total capital ratio was 15.2 per cent.

Regulatory environment

We operate in a demanding and evolving regulatory environment, and have continued to engage actively with our regulators during the year on a number of proposed reforms, ensuring we have a strong and stable banking system, which will also be able to support and serve its customers and the wider economy.

Following extensive scrutiny of the Payment Protection Insurance (PPI) market in recent years, the Financial Services Authority issued its final policy statement on PPI complaints handling in August 2010. The application of this policy, which has been challenged by the British Bankers' Association in a judicial review, could in extremis have a material effect on the Group's financial position.

Our people

I am proud of the high levels of support and service our staff have continued to deliver to our customers over the past year, in what remains a challenging environment, and in the context of the considerable changes to the Group arising from the integration.

Their dedication is reflected in our significant achievements in 2010, and the Board and I are very appreciative of their contribution.

Well positioned for future success

It has been a tremendous honour and a privilege to lead our many talented and dedicated people over the last eight years, and I would like to thank my colleagues and the Board for their support over this time. I am grateful to have been given the opportunity to create the new Group. The significant progress we have made in 2010 positions the Group well for the future to meet our objective of becoming the best bank for all our stakeholders, including our customers, shareholders and employees.

J Eric Daniels
Group Chief Executive

ADDRESSING THE KEY ISSUES

The Government's shareholding

As a result of the recapitalisation of the banking sector which included the capital raisings, the Government now holds a significant stake in Lloyds Banking Group. As at the date these accounts were approved the Government's shareholding in Lloyds Banking Group was approximately 40.6 per cent. This holding is managed by United Kingdom Financial Investments (UKFI) on behalf of HM Treasury.

Information on key areas such as when the Government may reduce their holding, how the relationship with UKFI operates and the impact of the holding on our strategy is outlined below.

Share disposal

The timing of any share disposal will be at the Government's discretion, acting on the advice of UKFI.

However, within the publication 'An Introduction: Who We Are, What We Do and the Framework Document Which Governs the Relationship Between UKFI and HM Treasury', it is stated that UKFI is to 'develop and execute an investment strategy for disposing of the investments in the banks in an orderly and active way through sale, redemption, buy-back or other means within the context of an overarching objective of protecting and creating value for the taxpayer as shareholder, paying due regard to the maintenance of financial stability and to acting in a way that promotes competition'.

Working relationship with UKFI

We have a very good working relationship with UKFI who act like any value orientated shareholder with regard to the strategic development and financial performance of the Group, providing significant constructive challenge where they see fit.

The Government has made it very clear that UK financial institutions in which it holds substantial stakes will continue to operate as separate economic units with independent powers of decision and will continue to have their own independent Boards and management teams, determining their own strategies and commercial policies (including business plans and budgets).

The future

Going forward the Group is focused on delivering strategy and subsequently value to all our shareholders. The Government holding does not affect this management focus and we remain committed to operating as a wholly privately owned, self supporting, dividend paying, commercial enterprise over time.

State aid

The European Commission required the Group to agree a restructuring plan as a result of the investment in the Group by HM Treasury. The final approval of the UK Government's state aid measures, including the terms of the final restructuring plan, was agreed by the College of Commissioners in November 2009. The plan consists of the following principal elements:

– The disposal of a retail banking business with at least 600 branches, a 4.6 per cent share of the personal current accounts market in the UK and approximately 19 per cent of the Group's mortgage assets. The business consists of: the TSB brand; the branches, savings accounts and branch based mortgages of Cheltenham & Gloucester; the branches and branch based customers of Lloyds TSB Scotland and a related banking licence; additional Lloyds TSB branches in England and Wales, with branch based customers; and, Intelligent Finance. These disposals need to be made within four years of the date of State Aid approval, so by November 2013.

– An asset reduction programme to achieve a £181 billion reduction in a specified pool of end 2008 assets by 31 December 2014; and

– Behavioural commitments, including commitments; not to make certain acquisitions for approximately three to four years; and not to make discretionary payments of coupons or to exercise voluntary call options on hybrid securities from 31 January 2010 until 31 January 2012, which will also prevent the Group from paying dividends on its ordinary shares for the same duration.

We are making good progress against the agreed asset reduction programme and continue to make good progress in preparing for the disposal of the agreed retail banking business. The final cost of disposal will depend on the buyer and the extent to which substantial IT system and infrastructure development will be necessary. Therefore the total cost is hard to predict but is likely to be substantial.

The assets and liabilities, and associated income and expenses, of the business to be divested (referred to above) cannot be determined with precision until nearer the date of sale.

Lending to aid the economic recovery

During 2010 the Group continued its policy of actively supporting the UK's economic recovery through gross new lending to our mortgage and business customers.

During the year, the Group extended £30 billion of gross mortgage lending (including remortgages) to UK homeowners (including £5 billion in new lending to first-time buyers) and £49 billion of committed gross lending to UK businesses (of which £11 billion was for SMEs). As part of our SME Charter, the Group has committed to helping 300,000 start-ups by 2012, and has already helped in excess of 100,000 new start up businesses during 2010. We continue to approve over 80 per cent of lending applications from SME customers.

As a result of our focus, these actions have allowed us to remain ahead of the mortgage and business lending commitments made by the Group to the Government for the year ended 28 February 2011.

Group integration

We have now completed the second year of our three year integration programme following the acquisition of HBOS and remain on target to deliver annualised cost savings from synergies and other operating efficiencies of £2 billion by the end of 2011. Substantial wide-ranging progress has been made during 2010, including:

Rollout of the Lloyds TSB branch counter system and processes to the Halifax and Bank of Scotland branches – completes March 2011.

Migration of 3,700 Halifax and Bank of Scotland ATMs to the Lloyds TSB platform – completes April 2011.

Implementation of a single mortgage sales platform across core mortgage brands underway.

Development and implementation of a fully scaled single IT platform which will support the Group.

Single bancassurance sales system and unified set of products delivered.

Bank of Scotland and Lloyds TSB wealth management functions brought together to form one wealth management team.

Contract Hire fleet businesses are being brought together onto a single platform.

Following a review of the business, we completed our strategic exit from Ireland by the end of 2010, including the closure of 44 Bank of Scotland Ireland branches.

Completion of the legal transfer of our businesses in Spain to form one integrated business serving both local and international communities.

Wholesale Markets Corporate business now trading under the Lloyds Bank brand.

Procurement benefits of £236 million achieved in year. Over 90 per cent of Group expenditure consolidated within our top 1,000 suppliers.

79 non-branch properties exited, bringing the total to 162 since the start of the programme.

Independent Commission on Banking

The Independent Commission on Banking (ICB) was established by the Government in June 2010 to examine the banking sector and to make recommendations on structural and related non-structural measures to promote stability and competition in the banking sector.

The Commission will make recommendations covering both:

- Structural measures to reform the banking system and promote stability and competition, including the complex issue of separating retail and investment banking functions; and
- Related non-structural measures to promote stability and competition in banking for the benefit of consumers and businesses.

In considering these measures the Commission will have regard to the legal and operational requirements of implementing the options under consideration, and the importance of generating practical recommendations. It will also take into account the findings of ongoing EU and international work, and inform the UK Government's approach to international discussions on the financial system.

The Commission will also have regard to the Government's wider goals of financial stability and creating an efficient, open, robust and diverse banking sector, with specific attention paid to the potential impact of its recommendations on:

- Financial stability;
- Lending to UK consumers and businesses and the pace of economic recovery;
- Consumer choice;
- The competitiveness of the UK financial and professional services sectors and the wider UK economy; and
- Risks to the fiscal position of the Government

The Commission will produce a final report for the Cabinet Committee on Banking, by the end of September 2011, having completed its evidence gathering phase at the end of January 2011. The written responses which the ICB have received at this stage have been published on its website. The Group's response can also be found on our website, www.lloydsbankinggroup.com.

We believe the Group's 'through the cycle' relationship based strategy is consistent with the aims of the Commission but at this time it is not possible to gauge the impact of the review on the Group. We have cooperated fully with the ICB to date and are expecting their 'options paper', which will set out their initial thoughts on potential reform, during April 2011. Following its publication, there will be a further period of consultation during which the Group will continue to be at the forefront of the debate with the ICB.

Dividend payments to shareholders

The recent financial position of the Group along with the behavioural commitments we entered into as part of the State Aid Restructuring Plan have prevented us paying dividends on our ordinary shares.

We fully understand the hardship that the lack of dividend has caused many of our shareholders, and we are working diligently to restore the ability to pay dividends and create shareholder value.

The Board intends to resume dividend payments on ordinary shares as soon as market conditions and the financial performance of the Group permit, subject to the expiry, in 2012, of the restrictions on paying dividends arising from the European Commission's remedies.

DIVISIONAL REVIEW
RETAIL

Performance overview 24 →

PROFILE

Retail operates the largest retail bank in the UK and is the leading provider of current accounts, savings, personal loans, credit cards and mortgages. With its strong stable of brands including Lloyds TSB, Halifax, Bank of Scotland and Cheltenham & Gloucester, it serves over 30 million customers through one of the largest branch and fee free ATM networks in the UK.

Retail is focused on effectively meeting the needs of its customers. The division has over 22 million current account customers and provides social banking to over four million people through basic banking or social banking accounts. It is also the largest provider of personal loans in the UK, as well as being the UK's leading credit card issuer. Retail provides over one in five new residential mortgages making it one of the leading UK mortgage lenders and provided over 50,000 mortgages to help first time buyers in 2010. Retail is the largest private sector savings provider in the UK. It is also a major general insurance and bancassurance distributor, offering a wide range of long-term savings, investment and general insurance products.

STRATEGY SUMMARY

Retail's goal is to be recognised by customers as the UK's best bank. This will be achieved by building deep and enduring customer relationships which deliver real value to customers. Retail believes this strategy will drive sustainable long term value for all stakeholders. A deep understanding of customers and their needs combined with highly efficient and effective processes will allow more investment in products and services that customers really value. Retail is increasing its capabilities through the integration of Lloyds TSB and HBOS which presents a great opportunity to use the best from each heritage and significantly improve systems and processes. This includes extending Lloyds TSB's strong customer insight capabilities to Halifax and Bank of Scotland. Success for Retail will be reflected in enhanced customer service resulting in strong customer advocacy which in turn leads to lower customer acquisition costs, increased share of wallet and improved customer retention.

2010 HIGHLIGHTS

Profit before tax increased to £4,716 million.

Profit before tax and fair value unwind increased to £3,611 million, driven by good income growth, tight cost control and a significantly lower impairment charge.

Net interest income increased by 18 per cent to £9,378 million, largely as a result of the continuing re-pricing of risk, mortgage customers moving onto standard variable rates and a decrease in the LIBOR to Base Rate spread.

Other income decreased by £197 million or 11 per cent to £1,607 million, relating particularly to changes to current account overdraft structures.

Operating expenses remain tightly controlled, increasing by only 2 per cent to £4,644 million, and benefited from continuing cost control as well as integration synergies.

The impairment charge reduced significantly to £2,747 million, down by 35 per cent, supported by prudent risk management, a stabilising economy, broadly stable house prices and low interest rates.

Loans and advances to customers decreased by £7.4 billion, or 2 per cent to £363.7 billion, as customers continued to reduce their personal indebtedness, particularly unsecured debt. While mortgage balances declined by £3.8 billion, Retail continued to support first time buyers and home movers with gross mortgage lending of £30 billion.

Customer deposits increased by £11.5 billion, or 5 per cent, to £235.6 billion, predominantly from instant access and tax free ISA accounts rather than more expensive term deposits.

Retail continues to work at responding rapidly to customer demands.

For example, during the disruption from the volcanic ash clouds, Retail took a series of actions to help customers who had been affected. This included extending overdrafts and credit card limits to enable customers to make alternative travel arrangements as well as waiving the fees for credit and debit card customers who went over their limit due to the disruption.

In addition cover on a range of insurance policies was extended and in the space of 48 hours, 6 million text messages were sent to insurance customers to advise them of the help Retail could provide.

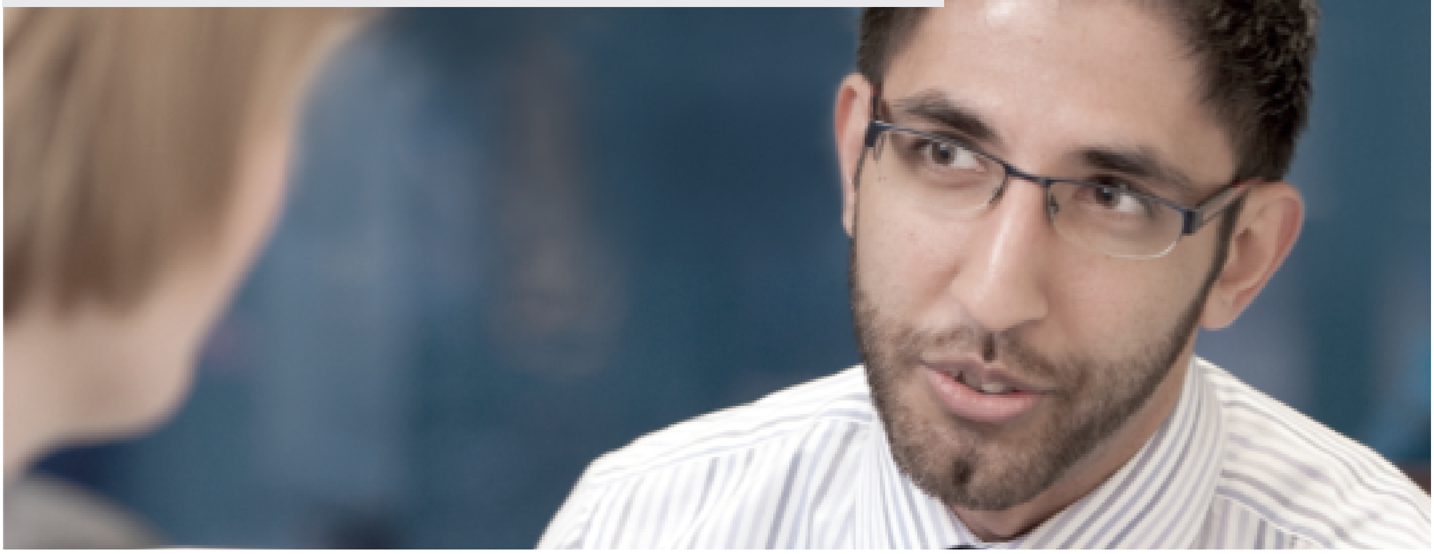
OPERATING BRANDS

Lloyds TSB · HALIFAX · BANK OF SCOTLAND · C&G Cheltenham & Gloucester · BM BIRMINGHAM MIDSHIRES · INTELLIGENT FINANCE®

Retail continues to work to deliver products and services that address customer needs.

An example of this is the recently launched Halifax Cash ISA Promise. In the month following the launch in October 2010 the ISA business performed significantly ahead of expectations with 44,000 accounts transferred, despite the launch being outside of the traditional ISA season. This industry leading promise addresses the poor transfer times between ISA providers, by promising to pay interest on new cash ISAs from the completed application date rather than when funds are transferred into the account, often weeks later.

The other parts of the promise are increased information on cash ISA interest rates and an assurance that all cash ISAs are open to both new and existing customers.



Retail has been playing an active role in the community as part of its preparations for London 2012.

During National School Sport Week in 2010, 5 million children at 14,000 schools participated supported by 1,000 colleague volunteers.

Retail has also played an active role in developing future stars of Team GB and ParalympicsGB with the ‘Local Heroes’ programme. By 2012 the programme will have supported more than 1,000 emerging athletes on their journey to London 2012 and beyond.

Left: Olympic Gold medallist Denise Lewis takes to the water with Cardiff schoolchildren during Lloyds TSB National School Sport Week 2010.

DIVISIONAL REVIEW
WHOLESALE

Performance overview 24 →

PROFILE

The Wholesale division serves in excess of a million businesses, ranging from start-ups and small enterprises to global corporations, with a range of propositions fully segmented according to customer need. The division comprises Corporate Markets, Treasury and Trading and Asset Finance.

Corporate Markets comprises Commercial, Corporate, Wholesale Markets, Wholesale Equity and Corporate Real Estate Business Support Unit. Commercial and Corporate provide relationship-based banking, risk management and advisory services to business customers, principally in the UK. Wholesale Markets provides risk management solutions, specialised lending, access to capital markets and multi-product financing solutions to its customers, whilst managing the Group's own portfolio of structured credit investments and treasury assets. Wholesale Equity manages the division's equity investment holdings (including Lloyds Development Capital). Corporate Real Estate Business Support Unit manages relationships with commercial real estate customers facing financial difficulties.

Treasury and Trading's role is to provide access to financial markets in order to meet the Group's balance sheet management requirements, and provides trading infrastructure to support execution of customer-driven risk management transactions, whilst operating within a well controlled and conservative risk appetite.

Asset Finance consists of a number of leasing and speciality lending businesses including Contract Hire (Lex Autolease and Hill Hire) and Consumer Finance (Black Horse Motor and Personal Finance).

STRATEGY SUMMARY

Wholesale's strategic goal is to be recognised as the UK's leading, through-the-cycle, relationship-focused wholesale bank.
The mission is to retain and deepen recurring, multi-product customer relationships building on deep insight into customer needs to provide a broad range of banking, risk management and capital market products.

2010 HIGHLIGHTS

Profit before tax was £3,257 million.

Profit before tax and fair value unwind was £127 million, a £11,727 million improvement on 2009, primarily reflecting the significant decrease in the level of impairment charge.

Net interest income decreased by 6 per cent to £4,426 million. This decrease reflected the lower interest earning asset balances, in-line with targeted balance sheet reductions and lower net interest income in Treasury and Trading.

Other income decreased marginally to £4,136 million.

Operating expenses decreased 9 per cent, reflecting reduced levels of operating lease depreciation and further cost savings achieved from the integration programme.

Impairment charges on financial assets decreased significantly to £4,446 million. The total impairment charge continues to be driven from the HBOS heritage real estate and real estate related asset portfolios.

Assets decreased by 14 per cent. The decrease reflects the targeted reduction in the balance sheet, mainly in loans and advances to customers and banks in non-core business and through reductions in debt securities and available-for-sale positions.

Customer deposits decreased 3 per cent to £114.1 billion due to a reduction in short-term deposits in Treasury and Trading.

Actively helping our customers to recognise the risks and to seize the opportunities from a low carbon, more resource efficient economy.

We know climate change regulation, commodity prices, supply chain greening and operational efficiency (to name a few) are important issues to our customers, who are increasingly seeing the impact themselves and developing sustainable business models.

We are training our customer-facing areas of Wholesale and now boast a network of over 400 skilled partners trained in the science, policy, business risks and opportunities associated with the emerging green economy.

We are also a leading provider in the renewable energy sector, having been involved in the arranging and underwriting of eight transactions with a combined value of £1.25 billion of which we provided £275 million during 2010.

OPERATING BRANDS

Lloyds TSB | LLOYDS BANK CORPORATE MARKETS | BANK OF SCOTLAND | blackhorse | Lex Autolease

Working closely with, and building stronger links with business in the community organisations

The relationship between Business in the Community, Scottish Business in the Community and the Group's Wholesale division has gone from strength to strength since its creation in early 2010.

Our 'Day to Make A Difference' programme gives all staff the chance to spend one day in the year volunteering for a charity or local community project of their choice. As a result of this, since April 2010 we have seen 18 per cent (3,200) of Wholesale colleagues invest 2,800 days (19,000 hours) through their engagement and support of over 110 local community groups throughout 25 regions in the UK.

Left: Colleagues from our Wholesale division used their volunteering day to carry out essential maintenance work at Oasis Children's Venture in London, October 2010.

Continuing to provide support to SMEs through our award-winning SME Charter.

During 2010 we delivered over 250 events to provide expert guidance for SMEs – the backbone of the UK economic recovery – on starting up, employment law, exporting, bidding for London 2012 contracts, sustainability and finance.

The Group has committed to helping 300,000 new businesses by 2012 and supported more than 100,000 start-ups in 2010.

We have a strong focus on lending in deprived areas and are supporting over 28,000 small business customers in the 5 per cent of the UK classified as 'most deprived'.

These are all reasons that contributed to the Bank being named 'Bank of the Year 2010' for the sixth year running at the FD's Excellence Awards.

DIVISIONAL REVIEW
WEALTH AND INTERNATIONAL

Performance overview 24 →

PROFILE

Wealth and International was formed in 2009 to give increased focus and momentum to the private banking and asset management businesses and to manage the Group's international businesses.

The Wealth business comprises private banking, wealth management and asset management. Wealth's global private banking and wealth management operations cater to the full range of wealth clients from affluent to Ultra High Net Worth within the UK, Channel Islands and Isle of Man, and internationally. Our private banking and wealth management business operates under the Lloyds TSB and Bank of Scotland brands. Our asset management business, Scottish Widows Investment Partnership, has a broad client base, managing assets for Lloyds Banking Group customers as well as a wide range of clients including pension funds, charities, local authorities, Discretionary Managers and Financial Advisers. In addition, the Group holds a 60 per cent stake in St James's Place, the UK's largest independent listed wealth manager and a 55 per cent stake in Invista Real Estate.

The International business comprises the Group's other international banking businesses outside the UK, with the exception of corporate business in North America which is managed through the Group's Wholesale division. These largely comprise corporate, commercial and asset finance business in Australia, Ireland and Continental Europe and retail businesses in Germany and the Netherlands.

STRATEGY SUMMARY

Wealth provides strong growth opportunities for the Group and, through deepening the relationships with existing Group clients alongside targeted external customer acquisition, Wealth's goal is to be recognised as the trusted adviser to expatriate and private banking clients both in the UK and selected international markets. Wealth's initial focus in the UK is to increase the penetration of its offering into the Group's existing customer base by the referral of wealthier customers to its private banking businesses where their wider financial needs can be more effectively met. Outside the UK, Wealth will be building on the strengths of its brand portfolio and existing expatriate, wealth management and private banking propositions.

In the International businesses, the priority is to maximise value in the medium term. International's immediate focus is on close management of the lending portfolio, particularly in the Irish business, and re-pricing assets where appropriate. At the same time International is delivering operational efficiencies, reshaping its business models and rightsizing the balance sheet to reflect the ongoing environment.

2010 HIGHLIGHTS

Loss before tax increased to £4,824 million.

Loss before tax and fair value unwind increased to £5,196 million, due to a higher impairment charge, predominantly in Ireland.

In Wealth, profit before tax increased by 36 per cent to £269 million. However, this was more than offset by the International loss.

Net interest income decreased by 3 per cent to £1,176 million.

Operating expenses decreased by 1 per cent to £1,536 million.

The impairment charge amounted to £5,988 million, reflecting the material deterioration in the economic environment in Ireland in the last quarter of 2010.

Loans and advances to customers decreased by £8.2 billion, to £55.3 billion, reflecting net repayments of £4.1 billion, and additional impairment provisions in the International businesses.

Customer deposits increased by 13 per cent, to £32.8 billion, due to strong inflows in UK Private Banking and Bank of Scotland Germany, partly offset by outflows in Ireland following the closure of the Irish retail branch network.

Offering our clients a wealth of specialised solutions.

A key focus for Wealth and International is to ensure our customers across the Group have the opportunity to talk to us about their financial needs beyond everyday banking services – including the range of Wealth and Private Banking solutions we offer in Lloyds Banking Group.

'Referrals' from Corporate Banking to our Wealth businesses increased by 39 per cent in 2010 compared with the same period the year before. And those clients are investing more with us with assets under supervision from these clients increasing by 970 per cent in the same period.

OPERATING BRANDS

LOOK AT THINGS DIFFERENTLY BANK OF SCOTLAND

SWIP continues its focus on sustainability

As one of the largest institutional investors in the UK, SWIP is continuing to develop its approach to sustainability across all areas of investment. One area where this can be demonstrated is in SWIP's Real Estate business.

SWIP's Real Estate team manages over £6 billion in property assets and believes delivering superior investment returns is entirely compatible with managing real estate in a sustainable, environmentally and socially responsible manner.

It is SWIP's intention to reduce landlord-controlled energy use by 10 per cent and water by 6 per cent, between 2009 and 2012. An example of this in action is a recently completed central London SWIP development that put sustainability at the forefront of its design. Not only did sustainability determine the design, procurement, construction and future maintenance of the building, but it also means the building boasts a bio-diversity roof complete with nesting boxes for swifts, redstarts and bats.

Supporting our international communities

Over and above supporting the Group's charity partnership, businesses across Wealth and International are also committed to supporting charities within the local international communities we operate in.

In Australia, we established the Black Horse Foundation in 2006, an independent company working with charitable and not-for-profit organisations across the country and focused on three 'giving' activities – grants, fundraising and volunteering. In Geneva, we work closely with the Smiling Children Foundation, in Dubai the team spent time in 2010 raising funds for the Dubai Autism Centre and, in the Isle of Man, Breakthrough Breast Cancer was a real focus for colleague fundraising, among other charitable organisations.

Left: Colleagues volunteer their time at a women and children's homeless shelter in Australia.

DIVISIONAL REVIEW
INSURANCE

Performance overview 24

PROFILE

The Insurance division provides long term savings, protection and investment products and general insurance products to customers in the UK and Europe and consists of three business units:

Life, Pensions and Investments UK (LP&I UK): The UK Life, Pensions and Investments business is the leading bancassurance provider in the UK and has one of the largest intermediary channels in the industry. The business provides long-term savings, protection and investment products distributed through the bancassurance, intermediary and direct channels through the Lloyds TSB, Halifax, Bank of Scotland and Scottish Widows brands.

Life, Pensions and Investments Europe: The European Life, Pensions and Investments business distributes products primarily in the German market under the Heidelberger Leben and Clerical Medical brands.

General Insurance: The General Insurance business is a leading distributor of home insurance in the UK, with products sold through the branch network, direct channels and strategic corporate partners. The business also has significant brokerage operations for personal and commercial insurances. It operates primarily under the Lloyds TSB, Halifax and Bank of Scotland brands.

STRATEGY SUMMARY

The Insurance division's strategic vision is to be recognised as the leading insurance business by its customers, the Group's shareholders and staff.

The division has four strategic objectives to achieve its vision: complete the integration of its businesses; continue to strengthen its leading brands and grow sales profitably in its targeted markets; enhance the capital management and operational efficiency of existing and future business; and utilise the Group's strengths in distribution and asset management.

2010 HIGHLIGHTS

Profit before tax increased by 13 per cent to £1,102 million.

Profit before tax and fair value unwind increased by 19 per cent, to £1,215 million.

Total income, net of insurance claims decreased by £11 million to £2,009 million, primarily reflecting lower PPI income and claims arising from the freeze events in 2010, which are offset by reduced payment protection insurance claims and improved investment markets.

Operating expenses decreased by 12 per cent to £854 million due to a continued focus on cost management and delivery of integration synergies.

Good progress continues to be made on integration, including the launch of a single bancassurance proposition in June 2010.

LP&I UK sales of £10,316 million (PVNBP) reduced by 20 per cent largely due to the withdrawal of certain lower return HBOS legacy products as the business continued to focus on value over volume and a change in mix towards protection products.

LP&I UK margins increased to 3.7 per cent from 2.6 per cent in 2009. The improved margin reflects strategic choices made in respect of product and channel propositions as the legacy businesses are integrated in order to focus on value.

General Insurance profits increased by 1 per cent to £372 million.

An award-winning Life, Pensions & Investments provider

Scottish Widows won or was commended for its performance in no fewer than 17 prestigious awards throughout 2010.

Key accolades included Five Star ratings in the Life & Pension and Investment categories in the 2010 Financial Adviser Service Awards.

OPERATING BRANDS

Lloyds TSB · HALIFAX · BANK OF SCOTLAND · SCOTTISH WIDOWS · clerical medical

The Official Pensions and Investment Provider of the London 2012 Games.

As one of UK's leading financial organisations, at Scottish Widows, we have been helping customers prepare for the future since 1815. We understand the sacrifice young athletes have to make to realise their potential to become the best. We also understand that no athlete can stand behind the start line at a London 2012 Games final if they aren't prepared.

As part of the Scottish Widows Golden Hopefuls Programme, we are helping to prepare four of Britain's up and coming athletes – Ali Jawad, Toni Prince, James McLean and Callum Skinner – for the next two years on their journey to the London 2012 Olympic and Paralympic Games.

Right: Picture includes Scottish Widows Ambassadors for the London 2012 Games Roger Black MBE and Sarah Storey OBE.

Supporting our customers when they need it most

Halifax Home Insurance is one of just a few insurers who have in-house Personal Claims Consultants. This approach has proven so successful it has also been rolled out across Lloyds TSB Home Insurance in 2010.

Over 100 of our customers were forced to abandon their homes following the Cockermouth flooding disaster which hit Cumbria at the end of 2009. Thanks to our Personal Claims Consultants we had all of our customers back in their homes within 12 months.

OUR PEOPLE

Building long lasting relationships through people

Lloyds Banking Group's continued success depends on our people. Our employees are focused on providing our customers with great service – they know that successful relationships are at the heart of how we do business and how we support our customers through the cycle. We are creating an organisation that attracts, retains and develops the best talent in the industry. We want to be recognised as a great place to work.

In 2010 we harmonised Terms and Conditions for most employees in the Group. Over 87,000 employees selected benefits through our Flexible Benefits plan. Over 52,000 showed their confidence in the Group by participating in Sharesave. Our new pension scheme, 'Your Tomorrow', was awarded the Pension Quality Mark Plus - the highest quality mark available from the National Association of Pension Funds.

We are committed to professional development and creating outstanding learning opportunities that allow people to reach their full potential. Learning @ Lloyds Banking Group is one of the largest corporate learning facilities in Europe.

Our sponsorship of London 2012 offers employees a unique opportunity to be involved both in the Games and the legacy they leave.

Integration

2010 was significant in relation to people integration. By 1st December 85 per cent of eligible colleagues were on the newly harmonised Terms and Conditions.

Inevitably in bringing the two organisations together, there has been an opportunity to rationalise and this has led to a reduction in roles. Our aim has always been, where possible, to either redeploy people to other areas of the Group or reduce numbers through natural attrition. Compulsory redundancies are always a last resort.

We implemented a number of integrated Lloyds Banking Group platforms for colleagues in 2010.

We launched 'Your Performance' providing a Group-wide online performance management system, and 'Your Learning', an integrated tool helping colleagues develop learning plans. 'Your Tomorrow', the first Group Defined Contribution pension scheme launched in 2010. We also completed development of an integrated Pay & Bonus tool, aligned directly with Performance Management. The Resourcing Candidate Management System provides the Group with one internal recruitment tool and one external careers website.

Colleague engagement

In 2010, we achieved record response rates of 83 per cent in our quarterly colleague engagement survey, regarded as 'best in class'. The Engagement Index finished the year at 80 index points, an increase of 8 points on 2009. Our level of engagement now exceeds all external benchmarks.

Talent, recruitment and retention

A major focus in 2010 has been recruiting, retaining and developing talented people to support our strategy. Through detailed talent reviews, succession planning, internal promotion and attracting new talent, we have improved the talent profile and succession pipeline.

In 2010 we recruited 147 people into our Graduate Leadership Programme, the strength of which has been acknowledged with The Times rating us in the Top 30 UK Graduate Employers.

Performance and reward

Effective performance management is critical in building a high performance culture and developing our colleagues to build long term partnerships with customers. Every colleague has a Balanced Scorecard comprising of five measures: building the business, customer, risk, people and finance. Objectives are aligned to our broader strategy and how well a colleague meets these objectives results in an individual performance rating. This rating links directly to how a colleague is rewarded.

In 2010 we launched a single approach to performance management across Lloyds Banking Group, the success of which was acknowledged at the 2010 Personnel Today Awards at which we received the top award for Managing Change.

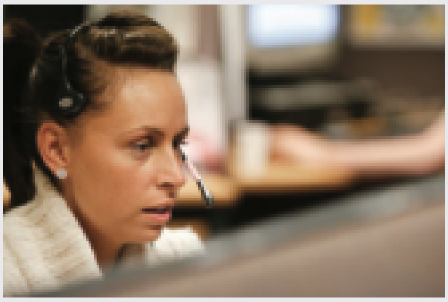
Learning and development

In 2010 we continued to invest in the development of colleagues across the organisation providing an average of 5.4 days formal learning per full time equivalent (FTE).

Our learning strategy is aligned to our goal of outperformance through cost and customer leadership. We aim to drive high performance, achieve greater productivity and deep lasting customer relationships by encouraging the development of highly engaged and skilled colleagues.

We continued to employ our Academies approach supported by a redesigned Learning @ Lloyds Banking Group website, attracting around 1.7 million visits per month.

Retail Customer Service Training



A key focus for training across Retail has been the transformation of our approach in handling customer complaints. This has resulted in over 30,000 customer facing colleagues receiving training across Lloyds TSB, Halifax and Bank of Scotland Branch Networks. The key purpose of this training was to improve the experience for customers when advising us of a complaint – this included colleagues taking ownership of each complaint at first point of contact, accurate recording and effective and timely resolution. A blend of training approaches was adopted including e-learning, testing, validation and face to face sessions supported by comprehensive Senior Manager engagement. This programme has resulted in a significant improvement in the number of complaints resolved at first point of contact and is having a positive impact on our Customer Service measures.

Diversity and inclusion

2010 saw the launch of the new Diversity and Inclusion strategy. We made significant progress through the appointment of five executive director sponsors covering gender and work life balance, ethnic diversity, sexual orientation, disability and generational diversity. In reviewing our resourcing, work life balance and leadership development practices, we attract, recruit and retain talented colleagues from diverse backgrounds. In 2010 our employees had the opportunity to learn more about our progress through our first national Diversity and Inclusion Week.

HR people risk

In 2010 we established a People Risk function within Group HR, with the aim of ensuring that the management of people risks are central to the development and delivery of the Group's business strategy. We have built people risk management into our overall accountability framework including our Group Risk Appetite and People Strategy. An early priority of the People Risk function has been to provide guidance on moderation of pay and bonuses in compliance with the FSA's Remuneration Code.

As we enter the final year of our integration programme, we continue to make excellent progress towards becoming 'One Bank'. We will go on building a diverse, talented and engaged workforce and equipping it with the skills it needs to provide the best customer service.

CORPORATE RESPONSIBILITY

Supporting our business strategy

Our business strategy is to be recognised as the UK's best financial services company. Trust in the banking industry has been eroded over the past few years. Rebuilding stakeholders' trust in financial institutions will be central to us achieving our goal.

Corporate responsibility is integral to our business strategy. We need to ensure that we are running our business in a responsible way. We need to demonstrate that we are making a sustained, positive contribution to the economy and to society. As a relationship-led business, we need to focus on building deep and lasting relationships with our stakeholders; by engaging with them, listening to their needs and, if appropriate, making changes to the way we do business.

Responsible business management

Corporate responsibility governance

We strengthened our governance framework in 2010, establishing Board representatives for key strands of our corporate responsibility agenda: Sir Winfried Bischoff for Corporate Responsibility; Helen Weir for Financial Inclusion and Truett Tate for Climate Change and Environmental Issues. We also established new Financial Inclusion and Environmental Steering Groups to drive our strategic approach.

Responsible lending, advice and support

As a responsible lender, we aim to ensure customers only borrow what they can afford to repay. We only offer loans and credit cards after carefully assessing customers' financial circumstances and regularly check that their borrowing remains suitable to their circumstances. We speak to more than 300,000 customers a month to assess their financial health and find ways to help. We have trained over 7,000 financial health specialists to help customers in our branches. We also contributed £12.5 million in 2010 to the financial advice sector.

Environmental management

We believe that we have an important role to play in facilitating and financing the transition to a low carbon, resource efficient economy. We were rated the top UK bank in the new FTSE CDP Carbon Strategy Index Series in 2010, recognising our performance in managing climate risks and grasping emerging opportunities.

In 2010, we launched Smart and Responsible, our new targeted environmental action plan which aims to deliver significant environmental and cost savings.

We also registered for the Carbon Reduction Commitment Energy Efficiency Scheme and will now be required to purchase allowances for each tonne of energy-related CO_2 we emit, providing a further incentive to reduce our carbon emissions.

Our economic and social impact

Supporting the UK's economic recovery

As a UK-focused bank, we have an important role to play in supporting the UK's economic recovery. In 2010, we extended £79 billion of new lending to homeowners and businesses. The vast majority of this lending was conducted in the UK.

We extended £30 billion of gross mortgage lending to homeowners, including more than £5 billion in new lending to first time buyers. We also extended £49 billion of committed gross lending to UK businesses. We approve over 80 per cent of lending applications from small and medium sized enterprises (SMEs), and helped more than 100,000 new business start ups last year.

We actively participate in all the main Government financial initiatives aimed at helping customers enter the housing market, and helping small businesses access finance. We are one of the most active lenders under the Government's Enterprise Finance Guarantee Scheme, offering 30 per cent of total loans granted.

Financial inclusion & capability

We have dedicated products and services that address financial exclusion. With over four million accounts, we are the UK's biggest provider of social bank accounts. We are also the only major UK bank to offer social banking customers a bespoke Christmas savings account, the Halifax Christmas Saver.

We launched 'Money for Life' in 2010, our new £4 million financial capability programme for the further education sector. The programme aims to develop the capacity of the sector to improve the financial capability and personal money management skills of the 3 million people it serves.

Community investment

Our economic contribution to society is supported by our active investment in the communities in which we operate. We invested £148 million in communities across the UK in 2010, including support for financial inclusion and social banking, sponsorship of sports for young people and donations through the Group's charitable Foundations.

In 2010, the Foundations received more than £29 million to distribute to charities across the UK. In the current economic climate, when charities are finding it difficult to attract funding, the Foundations are helping many charities to survive. We raised over £3.4 million for the British Heart Foundation, our Charity of the Year from July 2008 to December 2010. Colleagues voted for Save the Children as our Charity of the Year for 2011.

Save the Children – our Charity of the Year

Lloyds Banking Group's Charity of the Year for 2011 is Save the Children. Working together we aim to raise at least £1 million to fund 52 Save the Children Families and Schools Together (FAST) projects in some of the UK's most disadvantaged communities. FAST is a unique programme that works with three- to-five year olds and their families to ensure that children get the best possible start to their school life.

Building relationships

As a bank, we have long term, sometimes lifelong, relationships with our customers. Ensuring we maintain and build customers' trust is core to the sustainability of our business.

Listening to our customers

Every month we contact 75,000 customers as part of a systematic customer-feedback process. We listen carefully to what our customers tell us, both good and bad, and use this to make changes where necessary. Often, we learn about the small things that cause irritation to customers. By listening to customers, we can quickly put things right.

Addressing customers' complaints

The vast majority of our customers are happy with the service we provide. When we do receive complaints, we ensure that they are dealt with fairly, quickly and consistently. We now resolve 90 per cent of complaints at first touch with the support of our new 'Phone a Friend' complaints resolution team. However, we know we have to work hard to reduce the number of complaints we receive in the first place.

Delivering innovative products and services

We work hard to introduce new and innovative products that respond to customers' evolving needs. We launched a number of market-leading products in 2010, including the Halifax Cash ISA Promise which enables all customers switching their existing cash ISA to Halifax, to earn interest from the first day that we receive their completed transfer form.

Summary

We realise that it will take time to rebuild trust in the sector and we are committed to leading the way. We need to continue to engage in open conversations with our key stakeholders and demonstrate how we are listening to their needs. Over time, we believe that this will enable us to deliver superior, more sustainable shareholder value.

SUMMARY CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2010	2010 £ million	2009 £ million
Net interest income	**12,546**	9,026
Other income	**30,921**	36,271
Total income	**43,467**	45,297
Insurance claims	**(18,511)**	(22,019)
Total income, net of insurance claims	**24,956**	23,278
Operating expenses	**(13,270)**	(15,984)
Trading surplus	**11,686**	7,294
Impairment	**(10,952)**	(16,673)
Share of results of joint ventures and associates	**(88)**	(752)
Gain on acquisition	**–**	11,173
Loss on disposal of businesses	**(365)**	–
Profit before tax	**281**	1,042
Taxation	**(539)**	1,911
(Loss) profit for the year	**(258)**	2,953
Profit attributable to non-controlling interests	**62**	126
(Loss) profit attributable to equity shareholders	**(320)**	2,827
(Loss) profit for the year	**(258)**	2,953
Basic earnings per share	**(0.5)p**	7.5p
Diluted earnings per share	**(0.5)p**	7.5p
Total dividend per share for the year	**–**	–
Total dividend for the year	**–**	–
	£000	**£000**
Directors' emoluments	**10,641**	9,900

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 over the long term.

SUMMARY CONSOLIDATED BALANCE SHEET

At 31 December 2010	2010 £ million	2009 £ million
Assets		
Cash and balances at central banks	**38,115**	38,994
Derivatives, trading and other financial assets at fair value through profit and loss	**206,968**	199,939
Loans and receivables:		
Loans and advances to customers	**592,597**	626,969
Loans and advances to banks	**30,272**	35,361
Debt securities	**25,735**	32,652
	648,604	694,982
Available-for-sale financial assets	**42,955**	46,602
Held-to-maturity investments	**7,905**	–
Investment properties	**5,997**	4,757
Intangible assets, including goodwill, and the value of in-force business	**12,879**	12,788
Tangible fixed assets	**8,190**	9,224
Retirement benefit assets	**736**	–
Other assets	**19,225**	19,969
Total assets	**991,574**	1,027,255
Liabilities		
Deposits from banks	**50,363**	82,452
Customer deposits	**393,633**	406,741
Derivatives, trading and other financial liabilities at fair value through profit or loss	**68,920**	68,756
Debt securities in issue	**228,866**	233,502
Insurance liabilities	**81,372**	77,261
Liabilities to customers under non-participating investment contracts	**51,363**	46,348
Other liabilities	**33,500**	32,581
Retirement benefit obligations	**423**	780
Subordinated liabilities	**36,232**	34,727
Total liabilities	**944,672**	983,148
Shareholders' equity	**46,061**	43,278
Non-controlling interests	**841**	829
Total equity	**46,902**	44,107
Total equity and liabilities	**991,574**	1,027,255

The summary financial statement, comprising the summary consolidated income statement on page 18, the summary consolidated balance sheet on page 19 and the directors' remuneration commentary on page 21 was approved by the directors on 24 February 2011.

Sir Winfried Bischoff
Chairman

J Eric Daniels
Group Chief Executive

Tim J W Tookey
Group Finance Director

REPORTS ON THE ACCOUNTS

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 18, the summary consolidated balance sheet on page 19, the summary directors' report on page 20 and the directors' remuneration commentary on page 21.

Respective responsibilities of Directors and Auditors

The Directors are responsible for preparing the annual review in accordance with applicable United Kingdom 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, the directors' report, and the directors' remuneration report, and its compliance with the relevant requirements of section 428 of the Companies Act 2006 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 and the corporate governance statement and the other items listed on the contents page.

This statement, including the opinion, has been prepared for and only for the Company's members as a body in accordance with section 428 of the Companies Act 2006 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.

We conducted our work in accordance with Bulletin 2008/3 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, the directors' report and the directors' remuneration report.

Opinion

In our opinion the summary financial statement is consistent with the full annual financial statements, the directors' report and the directors' remuneration report of Lloyds Banking Group plc for the year ended 31 December 2010 and complies with the applicable requirements of section 428 of the Companies Act 2006, and the regulations made thereunder.

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Edinburgh
24 February 2011

a) The maintenance and integrity of the Lloyds Banking Group website is the responsibility of the Directors; the work carried out by the Auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occured to the full annual financial statements or the summary financial statement since they were initially presented on the website.

b) Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

AUDITORS' REPORT ON FULL ACCOUNTS

The auditors' reports on the full accounts for the year ended 31 December 2010 were unqualified and did not include a statement under sections 498(2) (accounting records or returns inadequate or accounts not agreeing with records and returns) or 498(3) (failure to obtain necessary information and explanations) of the UK Companies Act 2006. In addition, the auditors' statement under section 496 was unqualified.

SUMMARY DIRECTORS' REPORT

The Company is a holding company and its subsidiary undertakings 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 the inside front cover, page 1 and pages 8 to 15.

Biographical details of Directors are shown on pages 22 and 23.

Changes to the composition of the Board since 1 January 2010 are shown below:

Dr W C G Berndt retired from the Board on 6 May 2010. Mr G R Moreno and Mr D L Roberts joined the Board on 1 March 2010 and Ms A M Frew joined the Board on 1 December 2010.

Mr A Horta-Osório joined the Board on 17 January 2011. Mr J E Daniels will retire from the Board on 28 February 2011 and will be succeeded as Group Chief Executive by Mr A Horta-Osório on 1 March 2011.

Ms A M Frew and Mr A Horta-Osório were appointed to the Board after the annual general meeting held in 2010 and will therefore stand for election at the forthcoming annual general meeting.

Under the articles of association, Sir Julian Horn-Smith and Mr G T Tate are required to retire from the Board at the annual general meeting. However, in the interests of good corporate governance and in accordance with the provision's of the UK Corporate Governance Code, effective from 2012, the Board has decided that all of the Directors will retire voluntarily and submit themselves for re-election at the annual general meeting.

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.

GOVERNANCE

DIRECTORS' REMUNERATION

Full details of the Group's remuneration policy for directors as well as details of their remuneration in 2010 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.

The Group has made significant progress during the year. It has reduced the level of risk in the business in reaction to the economic events that had a particularly deep impact on the banking sector and the Group is endeavouring, as a business, to continue to support the UK's economic recovery.

The Group's decision making has focussed on balancing shareholders' views on remuneration with the need to attract, incentivise and retain the right people, in light of this improved business performance. The Group is proposing increases to Executive Director base salaries for 2011, in line with those for the wider workforce. This will be the first increase since 2008. The annual incentive opportunity for 2011 will stay the same as in previous years. The bonus will continue to be based on a combination of Group financial measures and a balanced scorecard of business financial and non-financial measures, including customers, people and risk. Awards under the Long Term Incentive Plan (LTIP) remain below 2008 levels and will be limited to 300 per cent of salary (420 per cent for António Horta-Osório). The Group believes that the performance measures for the 2011 LTIP award for the Group Executive Committee should be Economic Profit, Earnings per share and absolute Total Shareholder Return.

At this time the Group is not in a position to determine the metrics that will attach to these performance measures as the new Group Chief Executive is completing a strategic review of the business. The Group believes it is critical to ensure that the 2011 LTIP is aligned with the new strategic direction of the Company. Therefore the Group has decided to consult with shareholders on the metrics during the summer prior to communicating them to participants.

Executive Directors remain expected to build a shareholding in the Group equivalent to 1.5 times (2 times for the Group Chief Executive) gross basic salary.

The Group is proposing a change to the delivery of remuneration for Executive Directors and other employees. Shareholders will be asked at the annual general meeting to approve a resolution to use newly issued shares to settle deferred bonus and LTIP awards, rather than market purchased shares.

The Group believes that these arrangements are well aligned with the Financial Service Authority's Code of Practice on Remuneration.

The Board has appointed António Horta-Osório as its Group Chief Executive with effect from 1 March 2011. He will be undertaking a review of strategy. When this is complete the Group will review the remuneration arrangements for Executive Directors to ensure they remain consistent with the strategy and if appropriate will consult with shareholders on any changes needed.

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 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.

The Chairman's salary remains unchanged at £700,000 per annum.

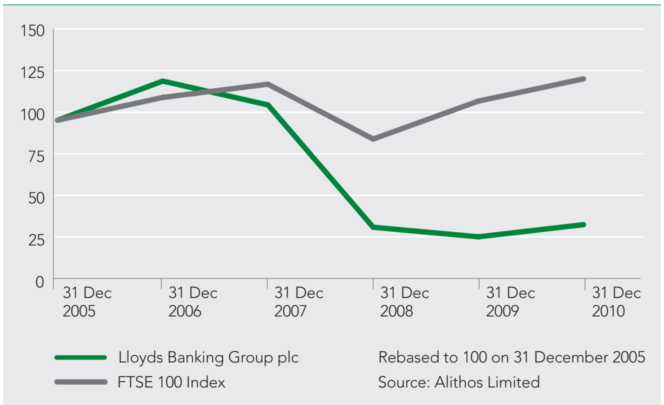
SUMMARY OF EMOLUMENTS PAID TO DIRECTORS

	2010 £000	2009 £000
Aggregate emoluments paid to Directors	**10,641**	9,900
Aggregate gains made by Directors on exercise of share options	**–**	–
Aggregate value of assets receivable under long-term incentive schemes	**39**	–
Aggregate company contributions in respect of Directors to defined contribution pension schemes	**435**	428
Number of Directors with retirement benefits accruing under:		
– defined contribution schemes	**3**	3
– defined benefit schemes	**2**	2

PERFORMANCE 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.

TOTAL SHAREHOLDER RETURN – FTSE 100 INDEX



THE BOARD

NON-EXECUTIVE DIRECTORS

Sir Winfried Bischoff
NG Re Ri

Chairman

Joined the Board and was appointed Chairman in September 2009. Previously Chairman of Citigroup Inc. from December 2007 to February 2009. He joined J Henry Schroder & Co in January 1966 and became Managing Director of Schroders Asia in 1971, Group Chief Executive of Schroders in 1984 and Chairman in 1995. Following the acquisition of Schroders' investment banking business by Citigroup in 2000, became Chairman of Citigroup Europe before being appointed acting Chief Executive Officer of Citigroup in 2007 and subsequently as Chairman in the same year. A Non-Executive Director of Eli Lilly and Company, and The McGraw Hill Companies Inc. in the United States. He is a member of the National Advisory Board of UK Career Academy Foundation (Chairman until October 2010) and a member of the Akbank International Advisory Board. Chairman of the Advisory Council of TheCityUK. Aged 69.

Lord Leitch
A NG Re

Deputy Chairman
Independent Director

Joined the Board in 2005 and was appointed Deputy Chairman in May 2009. 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. Chancellor of Carnegie College. Former Chairman of the National Employment Panel and of the ABI. Aged 63.

Anita M Frew
A Ri

Independent Diector

Joined the Board on 1 December 2010. Chairman of Victrex, the FTSE 250 global manufacturer of high performance polymers, having previously been the Senior Independent Director. Since 2000, she has held a portfolio of Non-Executive Directorships, currently holding positions as Senior Non-Executive Director of Aberdeen Asset Management and as Non-Executive Director of IMI and Northumbrian Water. Prior to this she was Executive Director of Abbott Mead Vickers, Director of Corporate Development at WPP Group, and has held various investment and marketing roles at Scottish Provident and the Royal Bank of Scotland. Aged 53.

Sir Julian Horn-Smith
NG Re Ri

Independent Director

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, Group Chief Operating Officer from 2001 and Deputy Chief Executive Officer from 2005. Previously held positions in Philips from 1978 to 1982 and Mars GB from 1982 to 1984. A Non-Executive Director of De La Rue, Digicel Group and Emobile (Japan), a Director of Sky Malta, a member of the Altimo International Advisory Board and a senior adviser to UBS and CVC Capital Partners in relation to the global telecommunications sector. Deputy Chairman of Vallar plc. Pro Vice-Chancellor of University of Bath. A former Chairman of The Sage Group. Aged 62.

Glen R Moreno
NG

Senior Independent Director

Joined the Board on 1 March 2010. Chairman of Pearson, the media group, since October 2005. A Director of Fidelity International, one of the world's largest fund management companies, and Chairman of its Audit Committee. Deputy Chairman of The Financial Reporting Council. From 1987 to 1991 was Chief Executive of Fidelity International. Until mid 2009, was a Non-Executive Director and Senior Independent Director of Man Group, the FTSE 100 financial services group, and acting Chairman of UKFI. Former Group Executive of Citigroup from 1969 to 1987 and he held a number of senior positions at the bank in Europe and Asia. Aged 67.

David L Roberts
A NG Ri Re

Independent Director

Joined the Board on 1 March 2010. Executive Director, member of the Group Executive Committee and Chief Executive, International Retail and Commercial Banking at Barclays until December 2006. Joined Barclays in 1983 and held various senior management positions, including Chief Executive, Personal Financial Services and Chief Executive, Business Banking. Was also a Non-Executive Director of BAA until June 2006 and a Non-Executive Director of Absa Group Limited, one of South Africa's largest financial services groups, until October 2006. From 2007 to 2009 he was also the Chairman and Chief Executive of BAWAG P.S.K. AG, the second largest retail bank in Austria. Non-Executive Chairman of The Mind Gym. Aged 48.

T Timothy Ryan, Jr
A Re Ri

Independent Director

Joined the Board in 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, Great-West Life Annuity Insurance Co. and Putnam Investments and a member of the Global Markets Advisory Committee for the National Intelligence Council. A former Director in the Office of Thrift Supervison, US Department of the Treasury and Koram Bank and the International Foundation of Election Systems. Aged 65.

Martin A Scicluna
A NG Ri

Independent Director

Joined the Board in 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. Chairman of Great Portland Estates. A member of the council of Leeds University and a Governor of Berkhamsted School. Aged 60.

Anthony Watson CBE
A NG Re

Independent Director

Joined the Board in April 2009. Previously Chief Executive of Hermes Pensions Management. Held a number of senior appointments in AMP Asset Management from 1991 to 1998. A Non-Executive Director of Hammerson, Vodafone and Witan Investment Trust, a member of the Norges Bank Investment Management Advisory Board and Chairman of Marks and Spencer Pension Trust and Lincoln's Inn Investment Committee. A former Chairman of MEPC, the Asian Infrastructure Fund and of the Strategic Investment Board (Northern Ireland) and a former member of the Financial Reporting Council. Aged 65.

EXECUTIVE DIRECTORS

J Eric Daniels
Group Chief Executive
(*Until 28 February 2011*)

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. A Non-Executive Director of BT Group. Aged 59.

António Horta-Osório
Group Chief Executive
(*from 1 March 2011*)

Joined the Board on 17 January 2011 as an Executive Director and will become Group Chief Executive on 1 March 2011. Started his career at Citibank Portugal where he was head of capital markets. At the same time, was an assistant professor at Universidade Catolica Portuguesa. Then worked for Goldman Sachs in New York and London. In 1993, joined Grupo Santander as Chief Executive of Banco Santander de Negocios Portugal and then became Chief Executive Officer of Banco Santander Brazil. In 2000, became Chief Executive Officer of Santander Totta, and Chairman from 2006 until 2011, as well as Executive Vice President of Grupo Santander and a member of its Management Committee. He joined Santander UK, as a Non-Executive Director in November 2004 and from August 2006 until November 2010, was its Chief Executive. He is also a Non-Executive Director of the Court of the Bank of England until 28 February 2011. Aged 47.

Archie G Kane
Group Executive Director, Insurance
(Board Representative for Scotland)

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. ABI Board member (and former ABI Chairman, 2007-10). Member of TheCityUK Advisory Council and Scottish Government's Financial Services Advisory Board. Aged 58.

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 and AFME. Chairman of Arora Holdings and a Director of Business in the Community and a Director and Trustee of In Kind Direct. Aged 60.

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. A member of the British Bankers' Association and Chairman of its Audit Committee and Remuneration Committee. Fellow of the Institute of Chartered Accountants in England and Wales. Aged 48.

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, having joined that company in 1995, from McKinsey & Co where she was a senior manager. Began her career at Unilever. Member of the Financial Services Practitioner Panel and the Said Business School Advisory Council. Chair of the British Bankers' Association Retail Committee. A former member of the Accounting Standards Board. Fellow of the Chartered Institute of Management Accountants. Aged 48.

Harry F Baines
Company Secretary

COMMITTEE ROLES AND RESPONSIBILITIES

A

Audit Committee
To monitor and review the formal arrangements established by the Board in respect of the financial statements and reporting of the Group; internal controls and the Risk Management Framework; internal audit; and the Group's relationship with its external auditors.

NG

Nomination & Governance Committee
To keep the Board's governance arrangements under review and make appropriate recommendations to the Board to ensure that the Company's arrangements are consistent with best practice corporate governance standards.

Re

Remuneration Committee
To set the principles and parameters of remuneration policy for the Group, and to oversee remuneration policy and outcomes for those colleagues covered by the scope of the Committee.

Ri

Risk Committee
To review and report its conclusions to the Board on the Group's risk appetite and Risk Management Framework. The Committee has a forward looking perspective, anticipating changes in business conditions.

● Chairman of Committee

PERFORMANCE OVERVIEW

GROUP

Combined businesses – results summary

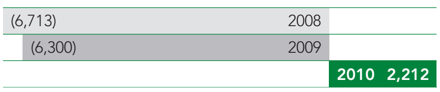
	2010 £m	2009 £m
Net interest income	**13,822**	12,726
Other income	**10,164**	11,875
Total income	**23,986**	24,601
Insurance claims	**(542)**	(637)
Total income, net of insurance claims	**23,444**	23,964
Costs:		
Operating expenses	**(10,928)**	(11,609)
Impairment of tangible fixed assets	**(150)**	–
	(11,078)	(11,609)
Trading surplus	**12,366**	12,355
Impairment	**(13,181)**	(23,988)
Share of results of joint ventures and associates	**(91)**	(767)
Loss before tax and fair value unwind	**(906)**	(12,400)
Fair value unwind	**3,118**	6,100
Profit (loss) before tax – combined businesses	**2,212**	(6,300)

Reconciliation of combined businesses profit (loss) before tax to statutory profit before tax

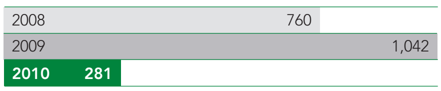
	2010 £m	2009 £m
Profit (loss) before tax – combined businesses	**2,212**	(6,300)
Integration costs	**(1,653)**	(1,096)
Volatility arising in insurance businesses	**306**	478
Government Asset Protection Scheme fee	**–**	(2,500)
Negative goodwill credit	**–**	11,173
Amortisation of purchased intangibles and goodwill impairment	**(629)**	(993)
Pension curtailment gain	**910**	–
Pre-acquisition results of HBOS plc	**–**	280
Customer goodwill payments provision	**(500)**	–
Loss on disposal of businesses	**(365)**	–
Profit before tax – statutory	**281**	1,042

PERFORMANCE INDICATORS

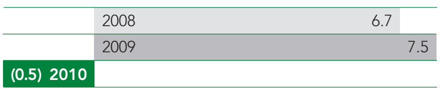
Profit (loss) before tax (Combined businesses basis) £m



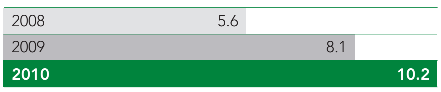
Statutory profit before tax £m



Earnings per share pence



Core tier 1 ratio %



PRESENTATION OF INFORMATION

In order to reflect the impact of the acquisition of HBOS, provide more relevant and meaningful comparatives and better present the underlying business performance, the results of the Group and divisions are presented on a combined businesses basis. The key principles adopted in the preparation of the combined businesses basis of reporting are described below.

In order to reflect the impact of the acquisition of HBOS, the following adjustments have been made:
– the 2009 results assume HBOS had been owned throughout the year;
– the gain on acquisition of HBOS (in 2009) and amortisation of purchased intangible assets have been excluded; and
– the unwind of acquisition-related fair value adjustments is shown as one line in the combined businesses income statement.

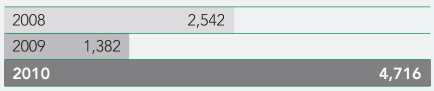
In order to better present the underlying business performance the following items, not related to acquisition accounting, have also been excluded:
– integration costs;
– insurance and policyholder interests volatility;
– the Government Asset Protection Scheme (GAPS) fee paid in 2009;
– goodwill impairment;
– the curtailment gain in respect of the Group's defined benefit pension schemes;
– the customer goodwill payments provision; and
– loss on disposal of businesses.

RETAIL

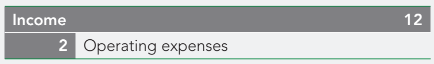
Performance summary

	2010 £m	2009 £m	Change %
Net interest income	**9,378**	7,970	18
Other income	**1,607**	1,804	(11)
Total income	**10,985**	9,774	12
Operating expenses	**(4,644)**	(4,566)	(2)
Trading surplus	**6,341**	5,208	22
Impairment	**(2,747)**	(4,227)	35
Share of results of joint ventures and associates	**17**	(6)	
Profit before tax and fair value unwind	**3,611**	975	
Fair value unwind	**1,105**	407	
Profit before tax	**4,716**	1,382	
Banking net interest margin	**2.46%**	1.97%	
Banking asset margin	**1.93%**	1.18%	
Banking liability margin	**0.87%**	1.41%	
Cost:income ratio	**42.3%**	46.7%	
Impairment as a % of average advances	**0.74%**	1.11%	

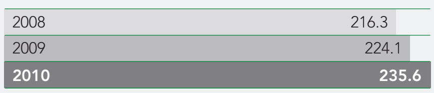
Profit before tax £m



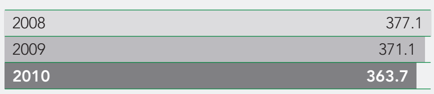
Income and operating expenses growth %



Customer deposits £bn



Loans and advances to customers £bn

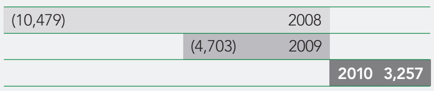


WHOLESALE

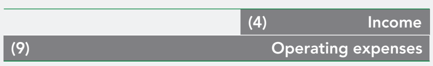
Performance summary

	2010 £m	2009 £m	Change %
Net interest income	**4,426**	4,710	(6)
Other income	**4,136**	4,199	(2)
Total income	**8,562**	8,909	(4)
Costs:			
Operating expenses	**(3,744)**	(4,106)	9
Impairment of tangible fixed assets	**(150)**	–	
	(3,894)	(4,106)	5
Trading surplus	**4,668**	4,803	(3)
Impairment	**(4,446)**	(15,683)	72
Share of results of joint ventures and associates	**(95)**	(720)	87
Loss before tax and fair value unwind	**127**	(11,600)	
Fair value unwind	**3,130**	6,897	(55)
Profit (loss) before tax	**3,257**	(4,703)	
Corporate Markets	**(697)**	(11,736)	94
Treasury and Trading	**428**	595	(28)
Asset Finance	**396**	(459)	
Loss before tax and fair value unwind	**127**	(11,600)	
Banking net interest margin	**1.88%**	1.52%	
Banking asset margin	**1.28%**	1.02%	
Banking liability margin	**1.29%**	1.16%	
Cost:income ratio (excl. impairment of tangible fixed assets)	**43.7%**	46.1%	
Impairment as a % of average advances	**2.08%**	5.92%	

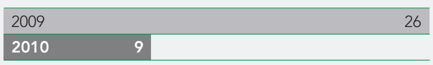
Profit (loss) before tax £m



Income and operating expenses growth %



Growth in cross-selling income %



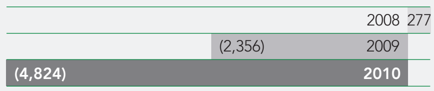
Committed gross lending £bn

WEALTH AND INTERNATIONAL

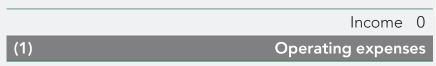
Performance summary

	2010 £m	2009 £m	Change %
Net interest income	**1,176**	1,217	(3)
Other income	**1,160**	1,128	3
Total income	**2,336**	2,345	
Operating expenses	**(1,536)**	(1,544)	1
Trading surplus	**800**	801	
Impairment	**(5,988)**	(4,078)	(47)
Share of results of joint ventures and associates	**(8)**	(21)	62
Loss before tax and fair value unwind	**(5,196)**	(3,298)	(58)
Fair value unwind	**372**	942	(61)
Loss before tax	**(4,824)**	(2,356)	
Wealth	**269**	198	36
International	**(5,465)**	(3,496)	(56)
Loss before tax and fair value unwind	**(5,196)**	(3,298)	(58)
Banking net interest margin	**1.63%**	1.71%	
Banking asset margin	**1.22%**	1.26%	
Banking liability margin	**0.83%**	0.82%	
Cost:income ratio	**65.8%**	65.8%	
Impairment as a % of average advances	**8.90%**	6.04%	

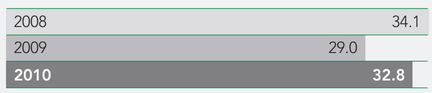
Profit (loss) before tax £m



Income and operating expenses growth %



Customer deposits £bn



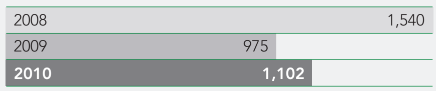
Wealth relationship clients

INSURANCE

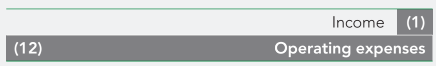
Performance summary

	2010 £m	2009 £m	Change %
Net interest income	**(263)**	(287)	8
Other income	**2,814**	2,944	(4)
Total income	**2,551**	2,657	(4)
Insurance claims	**(542)**	(637)	15
Total income, net of insurance claims	**2,009**	2,020	(1)
Operating expenses	**(854)**	(974)	12
Share of results of joint ventures and associates	**(10)**	(22)	55
Profit before tax and fair value unwind	**1,145**	1,024	12
Fair value unwind	**(43)**	(49)	12
Profit before tax	**1,102**	975	13
Profit before tax and fair value unwind – before impact of PPI new business closure	**1,215**	1,024	19
Other income – impact of PPI new business closure	**(70)**	–	
Profit before tax and fair value unwind	**1,145**	1,024	12
Profit before tax and fair value unwind by business unit			
Life, Pensions and Investments:			
Before impact of PPI new business closure	**753**	617	22
PPI new business closure	**(70)**	–	
UK business	**683**	617	11
European business	**110**	75	47
General Insurance	**372**	367	1
Other	**(20)**	(35)	43
Profit before tax and fair value unwind	**1,145**	1,024	12

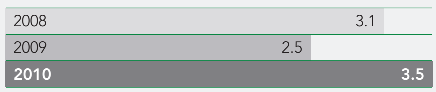
Profit before tax £m



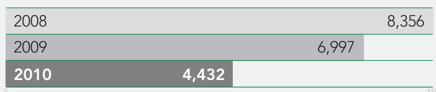
Income and operating expenses growth %



New business margin (EEV) LP&I UK %



LP&I UK bancassurance sales £m



SHAREHOLDER INFORMATION

Annual report and accounts

This annual review, including the summary financial statements and summary directors' report contained within, is only a summary of information derived from the Company's annual accounts and the directors' remuneration report and 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

Lloyds Banking Group offers shareholders a choice of two dealing services:

Lloyds TSB Share Dealing

- Internet dealing. Visit www.lloydstsbsharedealing.com
- Telephone dealing. Call 0845 60 60 560

Internet services are available 24/7 and telephone services are available between 8.00am and 6.00pm, 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. To open a Lloyds TSB Share Dealing Account you must be 18 years of age or over and be resident in the UK. You can apply online or by post.

Halifax Share Dealing

- Internet dealing. Visit www.halifaxsharedealing.co.uk
- Telephone dealing. Call 08457 22 55 25

Internet services are available 24/7 and telephone dealing services are available between 8.00am and 9.15pm, Monday to Friday, and 9.00am to 1pm, Saturday. To open a Halifax Share Dealing Account you must be 18 years of age or over and be resident in the UK, Jersey, Guernsey or the Isle of Man.

Shareholders in the Lloyds Banking Group Shareholder Account can only trade by telephone through the Halifax Share Dealing Service on 08705 711 117.

Shareholder enquiries

The Company's share register and the Lloyds Banking Group Shareholder Account are 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. You can change your address or bank details either by telephone or online. Additionally you can register proxy appointments and voting instructions on your shareholding online.
Visit www.shareview.co.uk for details.

Individual Savings Accounts (ISAs)

The Company provides a number of options for investing in Lloyds Banking Group shares through an ISA. For details contact: Lloyds TSB Share Dealing, Halifax Share Dealing or Equiniti Limited.

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: 1-866-259-0336 (US toll free), international callers: +1 201-680-6825. Alternatively visit www.adrbnymellon.com or email shrrelations@bnymellon.com

Annual general meeting

The annual general meeting will be held at 11.00am on Wednesday 18 May 2011 in Hall 5, at the Scottish Exhibition and Conference Centre in Glasgow.

Head office

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

Registered office

The Mound, Edinburgh EH1 1YZ
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

Calls to 09058 and 0871 numbers are charged at 55p and 8p per minute, respectively, from a BT landline. The price of calls from mobiles and other networks may vary. Calls from outside the United Kingdom are charged at applicable international rates. The call prices we have quoted were correct in February 2011.

Forward looking statements

This announcement contains forward looking statements with respect to the business, strategy and plans of the Lloyds Banking Group, its current goals and expectations relating to its future financial condition and performance. Statements that are not historical facts, including statements about the Group or the Group's management's beliefs and expectations, are forward looking statements. 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 business, strategy, plans and/or results may differ materially from those expressed or implied in these forward looking statements as a result of a variety of risks, uncertainties and other factors, including, without limitation, UK domestic and global economic and business conditions; the ability to derive cost savings and other benefits, as well as the ability to integrate successfully the acquisition of HBOS; the ability to access sufficient funding to meet the Group's liquidity needs; changes to the Group's credit ratings; risks concerning borrower or counterparty credit quality; market related trends and developments; changing demographic trends; changes in customer preferences; changes to regulation, accounting standards or taxation, including changes to regulatory capital or liquidity requirements; the policies and actions of governmental or regulatory authorities in the UK, the European Union, or jurisdictions outside the UK, including other European countries and the US; the ability to attract and retain senior management and other employees; requirements or limitations imposed on the Group as a result of HM Treasury's investment in the Group; the ability to complete satisfactorily the disposal of certain assets as part of the Group's EU state aid obligations; the extent of any future impairment charges or write-downs caused by depressed asset valuations; exposure to regulatory scrutiny, legal proceedings or complaints, actions of competitors 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 together with examples of forward looking statements. The forward looking statements contained in this announcement are made as at the date of this announcement, and the Group undertakes no obligation to update any of its forward looking statements.

official partner of the
Olympic and Paralympic Games