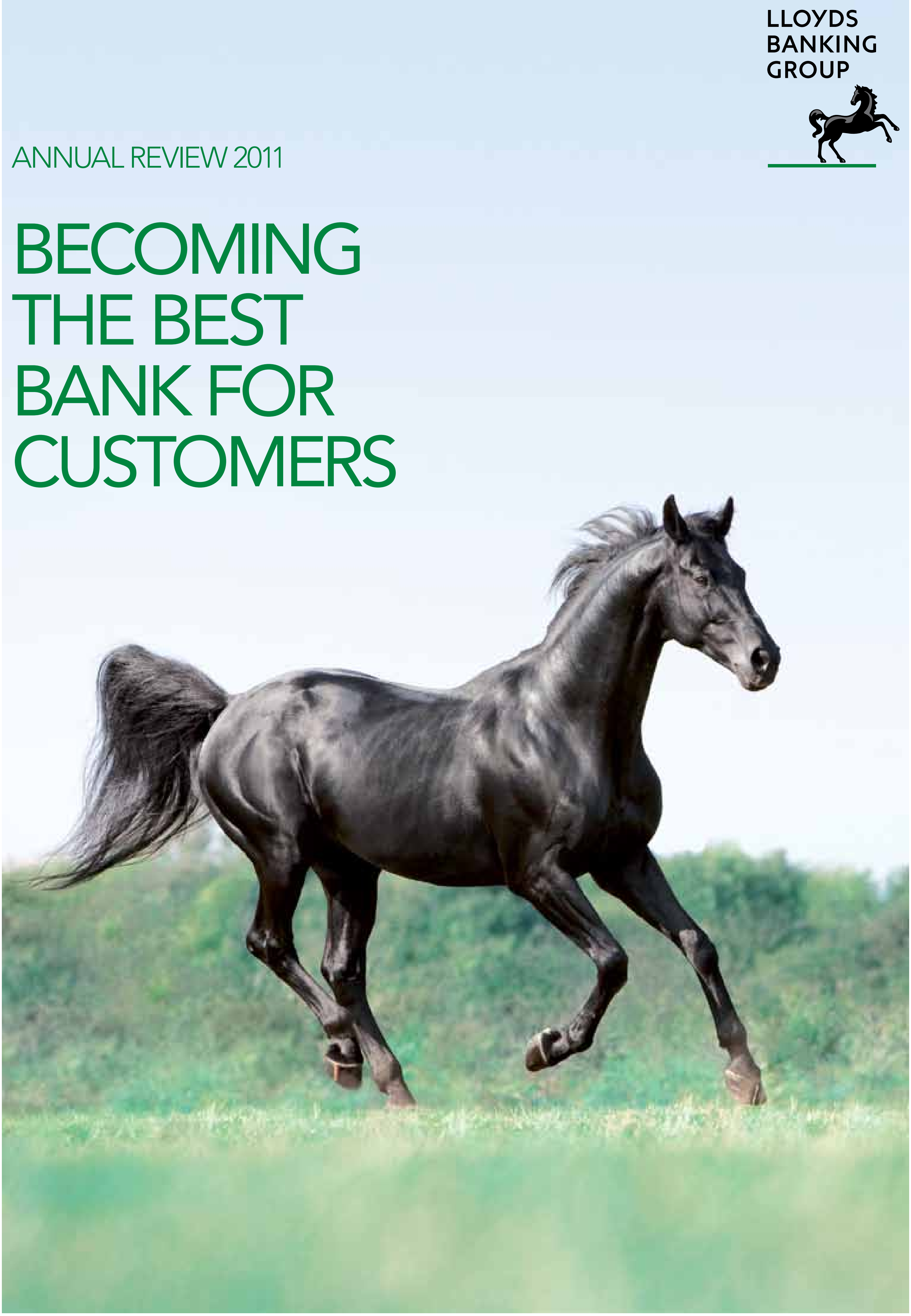
LLOYDS BANKING GROUP

ANNUAL REVIEW 2011

BECOMING THE BEST BANK FOR CUSTOMERS



OUR AIM IS TO BECOME THE BEST BANK FOR CUSTOMERS

We are creating a simpler, more agile and responsive organisation, and are making a big investment in products and services.

This will offer more to our customers, as well as delivering strong, stable and sustainable returns for our shareholders.

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.

The main business activities are retail, commercial and corporate banking, general insurance, and life, pensions and investment provision. The Group operates the UK's largest retail bank and has a large and diversified customer base.

The Group operates through five key customer-focused operating divisions: Retail, Wholesale, Commercial, Wealth and International, and Insurance. These divisions provide services to customers through a number of well recognised brands including Lloyds TSB, Halifax, Bank of Scotland, and Scottish Widows, 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 corporate strategy

Our strategy is built around becoming the best bank for individual, commercial and corporate customers across the UK and creating value by investing in areas that make a real difference to these customers.

We are looking to create a more agile, efficient and responsive customer focused organisation with a real focus on operating sustainably and responsibly. Our strategy will create shareholder value through reshaping and simplifying the business and investing a proportion of the savings realised from this simplification in customer related growth initiatives. Whilst focusing on core markets which offer strong returns and attractive growth, we will maintain a conservative approach to, and prudent appetite for, risk and further strengthen the Group's balance sheet.

Fundamentally we remain a more conservative, through the cycle, relationship focused business and with a stronger balance sheet, a simpler more efficient structure and the renewed customer focus we believe we can deliver strong, stable and sustainable returns for shareholders over time.

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

Through investing in our branches, such as the Lloyds TSB branch in Stratford, East London, we are reinvigorating our brands and enabling better customer service.

GROUP PERFORMANCE

DELIVERING RESILIENT PERFORMANCE

"In 2011, we established our longer term strategy for the Group, acted quickly and decisively to mitigate the effects of a challenging environment and put in place the right foundations to deliver on our objectives over the next 3-5 years. We delivered a resilient performance and made good progress against the key elements of our strategic plan to become the best bank for our customers."

António Horta-Osório
Group Chief Executive

Key highlights

Good progress against strategy creating new opportunities for growth

→ **Balance sheet further strengthened**

- Capital position strengthened: Core tier 1 capital ratio of 10.8 per cent, improved by 60 basis points
- Strong deposit growth: customer deposits (excluding repos) increased 6 per cent to £406 billion
- Funding position significantly improved: wholesale funding reduced to £251 billion, down 16 per cent
- Strong progress against term funding objectives with £35 billion of wholesale term issuance
- Loan to deposit ratio substantially improved to 135 per cent (31 December 2010: 154 per cent)

→ **Reshaping our business portfolio:** reducing risk, focusing on the core, and exiting non-core areas

- Substantial non-core asset reduction of £53 billion to £141 billion
- Conservative approach to, and prudent appetite for, risk fully embedded across the business
- Increased focus on the core business, while substantially decreasing non-core assets
- Announced exit from operations in seven overseas countries

→ **Simplifying the Group:** reducing costs and creating a new operational model

- Integration successfully executed, realising annual run-rate savings of more than £2 billion
- Strong initial progress on delivery of simplification initiatives, using our proven capabilities from Integration
- Simplification run-rate cost savings of £242 million at end 2011

→ **Invest to be the best bank for our customers:** creating new opportunities for growth

- Successful launch of multi-brand strategy, including relaunch of Halifax as a challenger brand
- Support for Small and Medium-sized Enterprises (SMEs) strengthened: Merlin commitments exceeded, and Commercial loan growth of 3 per cent against UK market, down 6 per cent
- Good Bancassurance progress with Retail and Commercial (SME) customers
- Increased market shares in key, capital-light Wholesale products, facilitated by Arena platform
- New Wealth propositions developed covering 80 per cent of customers, and processes simplified

GROUP PERFORMANCE

Key highlights (continued)

Resilient underlying trading performance in 2011, in line with expectations

→ Growth initiatives, cost and impairment reductions, and funding mix improvements mitigated the effects of a subdued UK economy, risk and asset reductions, and higher wholesale funding costs

- Combined businesses profit before tax increased 21 per cent to £2,685 million in 2011
- Core combined businesses profit before tax increased 3 per cent to £6,349 million
- Statutory loss before tax was £3,542 million (2010: profit of £281 million), and includes a £3.2 billion non-recurring provision for Payment Protection Insurance (PPI) contact and redress costs

→ Income decreased 10 per cent to £21,123 million, reflecting subdued lending demand and continued customer deleveraging in the core, a smaller non-core portfolio, and a lower margin

→ Banking net interest margin reduced by 14 basis points to 2.07 per cent, in line with expectations, with increased funding costs partially offset by the benefits of asset repricing and funding mix; core net interest margin declined only 6 basis points to 2.42 per cent given the better funding mix in the core business

→ Total costs fell 4 per cent, primarily driven by Integration and Simplification related savings and lower bonus accruals, partially offset by inflationary pressures and UK bank levy and FSCS costs

→ The impairment charge reduced significantly, by 26 per cent to £9,787 million, with improvements seen across all divisions, reflecting improving portfolio credit quality

Outlook and financial guidance

→ Expect the external environment to remain challenging in 2012

→ Remain confident that our medium-term financial targets, as set out in our June 2011 Strategic Review are achievable over time

- As anticipated in our Q3 2011 Interim Management Statement, now expect the attainment of income related targets, including for other operating income, to be delayed beyond 2014 as a result of the weaker than expected economic outlook
- As a consequence, also expect the attainment of our return on equity target to be delayed beyond 2014
- Continue to expect to deliver our balance sheet, cost and impairment targets in 2014, and in some cases sooner
- In-year cost savings target for 2014 increased by £200 million to £1.7 billion; end 2014 run-rate target increased to £1.9 billion
- Given expectation of further deposit growth, expect to reach medium-term Group loan-to-deposit ratio target of 130 per cent or below by the end of 2012, two years ahead of plan

→ In 2012, on a combined businesses basis, we expect:

- Income to be lower than in 2011 given the economic outlook, further non-core asset reductions, subdued demand in the core loan book, higher wholesale funding costs, and interest rates likely to remain at low levels for longer
- Full year banking net interest margin to be below 2 per cent in 2012, falling year-on-year by approximately the same amount in 2012 as in 2011, primarily driven by continuing high wholesale funding costs
- A further reduction in costs, and a similar percentage reduction in Group impairment as seen in 2011, with the largest improvement coming from International
- The benefit from fair value unwind to reduce to approximately £0.5 billion
- To continue to strengthen our balance sheet through: non-core asset reduction of approximately £25 billion, further deposit growth, at least in line with the market, and strengthening our funding position and our core tier 1 ratio

Combined businesses – results summary

	2011 £m	2010 £m
Net interest income	12,233	14,143
Other income	9,307	9,936
Effects of liability management gains, volatile items and asset sales[1]	(74)	(93)
Total income	21,466	23,986
Insurance claims	(343)	(542)
Total income, net of insurance claims	21,123	23,444
Costs:		
Operating expenses	(10,253)	(10,882)
Other costs[2]	(368)	(196)
	(10,621)	(11,078)
Trading surplus	10,502	12,366
Impairment	(9,787)	(13,181)
Share of results of joint ventures and associates	27	(91)
Profit (loss) before tax and fair value unwind	742	(906)
Fair value unwind	1,943	3,118
Profit before tax – combined businesses	2,685	2,212

[1] Includes the gains from liability management exercises, the net effect of banking volatility, changes in the fair valuation of the equity conversion feature of the Group's Enhanced Capital Notes, net derivative valuation adjustments and gains or losses on disposals of assets which are not part of normal business operations.

[2] Other costs include FSCS costs and UK bank levy in 2011, and FSCS costs and impairment of tangible fixed assets in 2010.

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

	2011 £m	2010 £m
Profit before tax – combined businesses	2,685	2,212
Integration, simplification and EC mandated retail business disposal costs	(1,452)	(1,653)
Volatility arising in insurance businesses	(838)	306
Amortisation of purchased intangibles	(562)	(629)
Provision in relation to German insurance business litigation	(175)	–
Payment protection insurance provision	(3,200)	–
Customer goodwill payments provision	–	(500)
Pension curtailment gain	–	910
Loss on disposal of businesses	–	(365)
(Loss) profit before tax – statutory	(3,542)	281

Presentation of information

In order to provide more meaningful and relevant comparatives, 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 amortisation of purchased intangible assets has 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 business performance the effects of liability management, volatile items and asset sales are shown on a separate line in the combined businesses income statement and the following items, not related to acquisition accounting, have also been excluded:

– integration, simplification and EC mandated retail business disposal costs;

– volatility arising in insurance businesses;

– insurance gross up;

– provision in relation to German insurance business litigation;

– payment protection insurance provision;

– customer goodwill payments provision;

– curtailment gains and losses in respect of the Group's defined benefit pension schemes; and

– loss on disposal of businesses.

To enable a better understanding of the Group's core business trends and outlook, certain income statement, balance sheet and regulatory capital information is analysed between core and non-core portfolios. The non-core portfolios consist of businesses which deliver below-hurdle returns, which are outside the Group's risk appetite or may be distressed, are subscale or have an unclear value proposition, or have a poor fit with the Group's customer strategy. The EC mandated retail business disposal (Project Verde) is included in core portfolios.

BUSINESS MODEL AND STRATEGY

UNLOCKING THE GROUP'S POTENTIAL

Our business model

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, commercial and corporate customers.

Our business model is designed around our distinctive capabilities in serving personal, commercial and corporate customers across the UK, with a focused range of banking, insurance, investment, debt financing and risk management products to meet customer needs.

In delivering these products to our customers we capitalise on our strong customer relationships, our iconic and distinct brands, our broad multi channel distribution and our customer focused people.

We have over 30 million customers and customer leadership driven by superior customer insight, tailored products, better service and relationship focus is the overriding priority. We want to meet all the financial needs of our customers and help them succeed financially. Only by successfully focusing on the needs of customers can we deliver sustainable value to our shareholders.

Though the UK financial services market remains one of the largest in the world our business model and strategy has been formulated in the context of a cautious outlook for the UK economy.

Our strategy

A UK focused strategy to be the best bank for customers, which will deliver strong, stable and sustainable returns for our shareholders.

We are looking to create a more agile, efficient and responsive customer focused organisation with a real focus on operating sustainably and responsibly. We will reshape and simplify the business and invest a portion of the savings realised from the simplification initiatives in customer related growth initiatives. Whilst focusing on core markets which offer strong returns and attractive growth we will maintain a prudent approach to risk and further strengthen the Group's balance sheet and liquidity position.

We intend to reshape our business portfolio to fit our assets, capabilities and risk appetite. We will further reduce the balance sheet through the continued reduction of our non-core assets and reduce the risk in the business through the application of a conservative approach to, and prudent appetite for risk. We will also reduce our international presence.

We believe we can unlock the potential in the franchise and deliver value to customers and shareholders by creating a simpler, more agile and responsive organisation. Opportunities exist to increase the efficiency of operations and processes and reduce costs whilst still addressing customer needs more effectively. The creation of a simpler, more agile organisation will enable the Group to adapt more effectively to the external environment whilst addressing the changing needs of the customer base more effectively.

Our customer focus remains the key driver for strategy and business decision making and substantial customer related investment is planned. Our strategy recognises our customers' needs for product simplicity and transparency, access to credit, help in planning and saving for retirement, demands for access through multiple channels, value for money products and services and the importance of our staff in managing customer relationships.

Halifax is being repositioned as a leading challenger brand in UK retail banking, with a value for money proposition and innovative products.

DELIVERING OUR ACTION PLAN

RESHAPE…

our business portfolio to fit our assets, capabilities and risk appetite.

We will focus on attractive UK customer segments and their product needs, to target a sustainable statutory return on equity of between 12.5 and 14.5 per cent.

We will invest behind core areas which offer strong returns and attractive growth: these are businesses which are capital and liquidity efficient, with sustainable competitive advantage, and which are central to our core customer strategy.

In reshaping our business, we have identified the following areas of focus:

- → **Continued reduction in non-core assets**
- → **A prudent appetite for risk**
- → **Streamlining our international presence**

SIMPLIFY…

the Group to improve agility and efficiency.

We are targeting cost saving and investment initiatives to attain a cost:income ratio of 42–44 per cent.

Our integration programme was substantially completed in 2011, delivering a single banking platform and a run-rate of £2 billion per annum in cost synergies and other operating efficiencies.

We are now targeting a further £1.7 billion of cost savings in 2014 through a series of simplification initiatives. Savings will be realised by focusing on the four areas below:

- → **Operations and processes**
- → **Sourcing**
- → **Channels and products**
- → **More agile organisation**

INVEST…

to be the best bank for customers.

We intend to invest approximately £500 million annually by 2014, equivalent to approximately one-third of the savings from our simplification initiatives, to grow our core income, with approximately £2 billion invested between 2011 and 2014.

This is in addition to our business-as-usual investment programme and is expected to result in core income growth above UK GDP growth, primarily driven by growth in other operating income.

Our investment will be subject to disciplined tests, including the financial returns, the fit to our risk appetite and alignment with our strategy to be the best bank for customers. The investment will primarily be focused on:

- → **Becoming the best bank for personal customers**
- → **Becoming the best through-the-cycle partner for our business customers**
- → **Maintain bancassurance as a core element of our proposition**

STRENGTHEN…

the Group's balance sheet and liquidity position.

We will continue to strengthen the Group's balance sheet and liquidity position to ensure a robust core tier 1 capital ratio and stable funding base by:

- → **Targeting a robust core tier 1 capital ratio, prudently in excess of 10 per cent**
- → **Exceeding regulatory liquidity requirements**
- → **Maintaining a stable funding base**
- → **Improving the Group loan to deposit ratio to 130 per cent or below**

CHAIRMAN'S STATEMENT
Sir Winfried Bischoff

A YEAR OF CHANGE AND ENCOURAGING PROGRESS

Overview

2011 was a year of low economic growth and challenging markets in many parts of the world, which resulted in a difficult year for the banking industry as a whole. The UK sector in particular was affected by a weakening UK economic environment, continuing regulatory uncertainty and the impact of the Euro crisis.

Despite this environment, we made progress against our objective of being the best bank for customers and on the key actions we are taking to deliver strong, stable and sustainable returns for shareholders over time. We created a new management team, presented our new strategy and are refocusing the business to meet our customers' needs. We also delivered a resilient performance in the core business, and made good progress on the reduction of non-core assets.

Having successfully completed one of the biggest integrations ever undertaken in banking, we are now working hard against a demanding set of targets to simplify the Group to improve our agility and efficiency, thereby realising cost savings which we will invest to enhance our service to customers. By delivering against this plan, we will seek to unlock the potential in our franchise and deliver increased value to our shareholders.

We accelerated the EC mandated disposal, the transaction known as 'Verde', and made significant progress in strengthening the balance sheet and our funding position whilst delivering a resilient underlying trading performance. We took responsible position on Payment Protection Insurance (PPI), continue to improve switching for current accounts and have made excellent progress, with more to come, in reducing the number of complaints. As a result we believe the Group is in a stronger position as we move into 2012.

Despite the progress made there were a number of challenges. In particular our share price performance, down 61 per cent over the year, although partially due to external factors, is not acceptable. This decline compares with a fall of 30 per cent of an index of UK banks and of 38 per cent of European banks. Nor are the financial results satisfactory, particularly given a number of one off items, including the £3.2 billion provision for PPI. This provision has had a significant impact on our statutory results but the decision to take this approach reflects the Bank's desire to do the right thing for customers.

Supporting the UK economic recovery

Lloyds Banking Group plays a vital role in supporting a substantial number of corporates and smaller and medium-sized businesses, helping them to weather the economic uncertainty and build for the future. In doing so we play an active part in supporting the strength and prosperity of the UK, given that, as a largely domestic institution, our success is inextricably linked to the health of the UK: as the nation recovers we can thrive.

For this reason I am pleased to note that our involvement in Project Merlin has been successful: We met and continue to exceed our agreed lending levels. We provided £45.3 billion of committed gross lending to UK businesses in 2011, and helped 124,000 new start up businesses. All of this has been achieved while acting as a responsible lender. We have more than delivered on our promise to provide gross new lending for credit-worthy UK businesses and have pledged yet more lending for the UK economy in 2012.

At the same time, our Insurance business, including Scottish Widows, has continued to perform well through its established value rather than volume strategy and through its focus on customers. Our Bancassurance business continues to highlight the importance of meeting our customers' protection needs and has had a successful year doing so.

We are also well aware of the public concern around the banking industry and recognise that further progress needs to be made in rebuilding public trust industry-wide. We can only earn that trust by addressing the fundamental requirements of all our stakeholders, and by being open, transparent and engaged in the broader debate about the role of banking in the UK. We will continue to demonstrate that we are meeting our obligations to customers and society in a responsible and appropriate way. At the same time we believe, whatever the sector's shortcomings, the debate about the banking industry has become one-sided which is unhelpful in achieving what those both inside and outside the banking industry want: a growing, strong economy supported by a strong banking sector.

Remuneration

The Remuneration Committee undertook a further review of executive remuneration in 2011. Anthony Watson, the chairman of the Remuneration Committee, comments on detailed aspects of our remuneration policy elsewhere in this Report. I want to give shareholders some additional explanation of our philosophy and the deliberations underlying incentive compensation for 2011 and for the 2009-2011 Long-Term Incentive Plan.

Remuneration remains an important issue for our stakeholders and the Group. As we are primarily a retail and commercial bank the awards under our Group bonus schemes in 2011 are a very small percentage of our revenues at less than 2 per cent, and at less than 12.5 per cent of the profits before tax and bonus on a Combined Businesses basis. Additionally, compensation fell this year in total and average terms. The bonuses paid, greater than half in shares, averaged less than £3,900 per employee. We firmly believe that remuneration policy at all levels, including senior executives, needs to incentivise staff to deliver strong, sustainable growth whilst reflecting the work required to reshape the business to fit the new, challenging environment. We also need, however to be mindful of public concerns about equality and that remuneration reflects financial results. In asking not to be considered for a bonus in 2011, António made a principled decision with regard to his remuneration, a decision the Board fully supported.

We believe that it is fair and reasonable that the activities which led to the PPI provision are reflected in the Long-Term Incentive Plan (LTIP) for the years 2009 to 2011 in spite of the longer term nature of the issue. Our current shareholders who may not have been shareholders at the time the income on PPI arose have been affected by the impact of the provision in 2011 and therefore the Board, on the recommendation of the Remuneration Committee, decided that the provision should also impact the awards to our senior executives.

With respect to the LTIP, Shareholders will recall that awards for Executive Directors have not paid out in any of the past three years. The annual pay-out of the LTIP, averaged over the last four years, is under 0.2 per cent of total pay, in stark contrast to what is the general perception.

Regulation

The level of regulatory scrutiny across all areas of the business remains high, but there is some expectation that in 2012 we will start to see more clarity in a number of the key areas which will shape the industry's future. I believe robust and stable regulation of the sector is an important component in rebuilding confidence and creating a healthy and sound financial system. Changes to the regulatory framework are necessary in the wake of the financial crisis. The reforms proposed by the Vickers Commission in its Independent Commission on Banking (ICB) report are an important step towards a safer and stronger sector. Further clarity is still required on some of the specific detail, and implementation will have many challenges. However I remain hopeful that the proposed changes will strengthen the banking sector and safeguard the interests of individuals and institutions. At the same time we forget at our peril the importance of financial services in all parts of the UK to our economy.

In December we were pleased to announce that the Co-operative Group is our preferred bidder for the EC mandated disposal (Project Verde). The acquisition will significantly enhance their banking operations, producing a new and effective competitor in the market, as the EC mandate envisaged. This transaction combined with complementary measures to improve current account switching and actions taken to improve the transparency and comparability of retail products will, I believe, further enhance the UK's competitive retail banking market.

Equity Dividends

The European Commission's restriction on dividend payments was, initially placed on us as part of the State Aid restructuring plan which expired in early 2012. We understand that the absence of dividends has created difficulties for many of our shareholders and we remain committed to recommencing progressive dividend payments as soon as we are able.

It is our intention to do so when the financial position of the Group and market conditions permit and after regulatory capital requirements are defined and prudently met. At this time those requirements remain unclear and although we have made good progress against our strategic priorities during the year we are not yet able to forecast when we will be able to resume dividend payments.

CHAIRMAN'S STATEMENT

Management and Board

The year has seen significant management change within the Group as we enter the next stage of our development. We have a strong and experienced management team, which proved its effectiveness throughout the year.

António Horta-Osório started as Group Chief Executive on 1 March 2011 and we were pleased to recruit someone with his knowledge and experience of financial services, particularly in the retail and commercial area. The actions taken by him have already had a positive impact on the Group. António took a two month leave of absence at the end of last year and the Board was pleased that he was able to return to his role on 9 January 2012. In conjunction with the Board, António has implemented a number of changes to the structure of the management team since his return to ensure that the most important aspects of our business are prioritised and the responsibility of managing our Group is effectively shared.

We announced in September 2011 that Tim Tookey, our Group Finance Director, would leave the organisation at the end of February 2012. Tim has been an important member of our Board since October 2008 and helped guide us through the largest merger in UK banking history and subsequent capital raisings. I thank Tim for his commitment throughout that time, not least in the last two months of 2011, when he took on the role of Group Chief Executive on an interim basis in addition to his responsibilities as Group Finance Director.

I am pleased that we were able to announce that George Culmer will join us as our new Group Finance Director in time for the annual general meeting on 17 May 2012 His knowledge and experience of insurance and his track record as a highly regarded FTSE 100 Finance Director will be of great value to us.

I would also like to thank Helen Weir and Archie Kane, who left the Group in 2011, for their significant contribution to the Group over many years. Helen was Group Finance Director and then led our Retail business. Archie was the Group Executive Director of our successful Insurance business, Scottish Widows.

Since the year end a number of additional changes have been announced. Lord Leitch will relinquish his role as Deputy Chairman at the end of February 2012 to focus on his other commitments. His wise counsel to the Board and his empathy and involvement with colleagues across the business will be missed. I am pleased he has agreed to continue as an advisor to the Boards of Scottish Widows and of Lloyds Banking Group until the end of 2012.

Sara Weller joined as a Non-Executive Director on 1 February 2012. Her background in retail and in the application of new technology such as the internet directly support our strategy.

Sir Julian Horn-Smith, Independent Director since 2005 will not be standing for re-election at the annual general meeting. His counsel and advice on aspects of technology, marketing and customers will be much missed.

Glen Moreno, our Senior Independent Director and Deputy Chairman, will not be seeking re-election at the annual general meeting. He has been a tower of strength on our Board and his wide knowledge of banking and financial services developed over many years in senior executive positions has been of great benefit to our strategy and operations. His constructive and informed contribution will be missed by all.

The Board has appointed Anthony Watson as Senior Independent Director and David Roberts as Deputy Chairman with effect from the annual general meeting.

Finally, Truett Tate, Executive Director for Wholesale, has retired from the Group. He made a major contribution in a number of senior roles since joining the Group in 2003. He is the quintessential client advocate and in addition he was a great ambassador for many of our corporate responsibility and charitable programmes. I enjoyed working with him and we wish him well for the future.

As a Board and throughout the organisation we continue to focus on our commitment to meeting the targets set by the Review on Gender Diversity on Boards by Lord Davies, and are working proactively to promote diversity in ethnicity, gender and skills.

People

We employ over 100,000 people. Our colleagues have performed well in a year which was characterised by much change and a difficult economic environment for both customers and themselves. Customer service is at the heart of our activities and I applaud their efforts to reduce complaints, evidenced by the data for 2011 which show a 24 per cent reduction in year over year FSA reportable banking complaints excluding PPI. Our colleagues share the Board's view that more needs to be done and I feel confident that 2012 will bring further progress in this area.

More generally, I would like to thank them for their commitment and loyalty in what were challenging circumstances and in a climate of unfavourable public commentary on their work and livelihood. We are all determined to demonstrate the utility and usefulness of banking, specifically our type of banking, concentrated as it is on the UK and within that on retail and commercial banking.

Community

The principal means by which Lloyds Banking Group can benefit society and the communities where we operate is to be a successful business. Lloyds Banking Group plays a part in the lives of nearly everyone in the UK, as a supplier of financial services, a major employer, and a customer. We look after the financial needs of over 30 million retail and business customers. In addition we employ 100,000 people and are a significant buyer of goods and services to support our business. We therefore have a relationship with nearly every home and with many businesses in the UK. We have a presence in most communities and our brands are well recognised across the country. At a time when the banking sector is under increased public scrutiny, we acknowledge our responsibility to provide the proper flow of credit to the economy by delivering simple products, great customer service and secure banking every day. We do this for more customers and businesses than any other bank in the UK.

We also continue to invest actively in the communities where we operate both directly through our community giving programme, and indirectly through our charity activities and staff giving days. In 2011, we invested £85 million in local communities, including support for financial inclusion and donations through the Group's charitable foundations. Over the last 25 years, the Group has contributed in excess of £510 million through its Foundations. Our new programmes supporting financial literacy, *Money for Life*, and our funding of university places through *Lloyds Scholars* show our continued commitment to support our communities.

We are excited to be the Official Banking and Insurance Partner of the London 2012 Olympic and Paralympic Games. We have played a key role in bringing London 2012 to communities across the UK, by inspiring children to do more sport through National School Sport Week, by giving our customers the chance to take part in the Olympic Torch Relay and by funding and mentoring future stars of Team GB and

ParalympicsGB through our Local Heroes programme. We have also supported one in three of all businesses who have won London 2012 Games related contracts. We are now entering the final few months before the Games start and I fully expect that the country at large will enjoy this historic event, be inspired by its achievements and benefit from the legacy of this once-in-a-lifetime event.

Outlook

Lloyds Banking Group has made significant structural and strategic progress during 2011 but there remains much to be done against the background of the current economic and regulatory environment.

It remains our intention over time to operate as a wholly privately owned, self-supporting, dividend paying, commercial enterprise. I believe our approach of focusing on customers in the UK whilst capitalising on our strong relationships, on our iconic and distinct brands, on our broad multi-channel distribution and on the clear operating model we have created is the right one. We saw the early benefits of this approach in 2011 through the resilient performance of our core business and the good progress in reducing our non-core assets.

Our support for the wider economy and the communities where we operate, in conjunction with our prudent risk appetite, a strengthened balance sheet and integrated systems are a sound platform for a positive financial trajectory.

Our Board is grateful for the support of our shareholders in 2011 and is very conscious that they – including most of our staff who themselves are shareholders – have suffered through the decline of the share price and the absence of a dividend. We have the right strategy in place and given our significant assets, our committed leadership team and the skill of our dedicated workforce we are well positioned over time to deliver sound performance for our customers, shareholders, colleagues and communities.

Sir Winfried Bischoff
Chairman

A commitment to good Governance

The Board and I place great importance on Corporate Governance. Not just because of increasing focus on this area, but because good governance is in the best interests of the company. The Board is ultimately responsible for the Group's success through setting strategy, devising sound governance arrangements, and establishing the values and standards of the Group. Throughout the year ending 31 December 2011, the Group complied with all relevant provisions of the Financial Reporting Council's UK Corporate Governance Code. This is an important base level but in undertaking its responsibilities the Board seeks to exceed these minimum standards, as we believe that good governance is a key contributor to the Group's long term success.

Our Board

There have been significant changes to the composition of the Board this year. Though experience and a detailed understanding of financial services will remain important attributes for Board members, a broader mix of skills is key to the overall effectiveness of the Board. I believe that the current Board provides the Group with a good balance of skills and experience, which helps the quality of our decision-making. We remain committed to keeping this balance right as we respond to further Board changes in 2012. I continue to ensure that the majority of Directors are independent and that sufficient emphasis is placed on ensuring that the Board's membership reflects appropriate diversity. In the interests of good governance, all directors now retire voluntarily each year and submit themselves for re-election at every AGM.

Board oversight in 2011

The Board's governance processes have placed us in a good position to deal with key issues which arose during the course of the year, including with respect to:

- → the review and approval of the Group's new strategy;
- → the change of Group Chief Executive and other significant management changes;
- → the short leave of absence for António Horta-Osório, including ensuring that effective interim arrangements were in place and that a rigorous process was followed with respect to his return to work; and
- → the decision to take a significant provision with respect to PPI.

Ensuring that the right mechanisms are in place at the time of change is critical and I believe that the decisions made in these areas, and others, have helped ensure that the Group is effectively positioned to deliver sound performance for all of the Group's stakeholders over time.

Executive Remuneration

As I have already referenced in my statement, remuneration remains an important issue for shareholders, and other key stakeholders. This is a sensitive area, but the Board is committed to ensuring that the right balance is struck between the need to incentivise staff, at all levels of the organisation, to deliver strong, sustainable growth, whilst reflecting the work required to reshape the business, and broader concerns about fairness.

As a Group we are committed to meeting the regulatory and other requirements that apply to this topic, including the FSA Code, and more generally improving the transparency of remuneration disclosure. We always look to align reward with the Group's long term performance and the interests of its shareholders. We fully endorse a stringent deferral process, as an important element of this alignment. We maintain an open dialogue with our major shareholders to help ensure appropriate remuneration policies are developed, and that shareholder concerns are taken into account.

During 2011 we have continued to be mindful of the need to exercise restraint as part of the effective governance of executive pay and as a result a number of actions have been taken, including not increasing fixed pay for Directors.

GROUP CHIEF EXECUTIVE'S REVIEW

António Horta-Osório

BECOMING THE BEST BANK FOR CUSTOMERS

"In 2011, we delivered a resilient performance and made good progress against the key elements of our strategic plan to become the best bank for customers."

Summary

In 2011, we established our longer term strategy for the Group, acted quickly and decisively to mitigate the effects of a challenging environment and put in place the right foundations to deliver on our objectives over the next 3-5 years, whilst continuing to support the UK economy. Using the framework set out in our Strategic Review, we accelerated strengthening our balance sheet, decreasing risk and reducing costs. The investments we made behind our brands, distribution, customer relationships and people have strengthened our franchise, and created new opportunities which will enable us to realise over time the Group's full potential for growth. We also made good progress on the EC mandated business disposal (Project Verde), and saw greater clarity emerge on the future UK regulatory framework following the publication of the Independent Commission on Banking's (ICB's) final report and the Government's response on 19 December 2011.

As a result, in 2011, we delivered a resilient performance and made good progress against the key elements of our strategic plan to become the best bank for our customers, despite a weakening UK economy, ongoing financial market volatility, continued high levels of regulatory scrutiny and competitive markets. We are now better positioned to adapt to the changing economic environment and to realise over time the full potential of our franchise, brands and capabilities, and therefore to deliver strong, stable and sustainable returns for our shareholders.

2011 results overview

The results reflect our focus on rapidly improving the Group's risk profile and further strengthening the balance sheet, through improving the Group's capital and funding position and making substantial progress on non-core asset reductions, deposit growth, and our funding programme.

While this means that we now have a much more resilient balance sheet, our income performance was affected by these risk and asset reductions, as well as by the subdued UK economic environment. On a statutory basis, our results were affected by, amongst other things, the responsible position we took on Payment Protection Insurance (PPI) , which resulted in a £3.2 billion provision. In addition, with over £2 billion of run-rate cost savings now realised from integration, we have now commenced the simplification initiatives which will significantly improve our efficiency and are allowing us to invest in growing our core customer business.

In reducing risk and strengthening the balance sheet, our proactive management of the non-core portfolio and of our funding position meant that we reduced non-core assets by £53 billion to £141 billion, against a commitment to decrease the non-core portfolio to less than £90 billion by the end of 2014, and significantly strengthened our funding position, raising £35 billion of total term wholesale funding, around £10 billion more than initially budgeted.

The new pricing management of savings products we introduced in the year and our multi-brand strategy resulted in customer deposit growth (excluding repos) of 6 per cent, significantly above market growth, and without leading the market on rates. We had a particularly strong performance in our Halifax challenger brand as a result of innovative products launched in the year. As a consequence of our actions in reducing non-core loans and increasing deposits, we substantially improved our loan to deposit ratio, by 19 percentage points to 135 per cent.

Deposit growth and our progress in funding and non-core asset reductions facilitated further substantial pay-down of government and central bank facilities from £97 billion at the 2010 year end to £24 billion at the end of 2011 (with nothing outstanding under the UK Special Liquidity Scheme). Non-core asset reductions, which were made broadly in line with book value, were a substantial driver behind the improvement in our core tier 1 capital ratio from 10.2 per cent at the 2010 year end to 10.8 per cent, notwithstanding the impact of the PPI provision of around 60 basis points.

The Group reported a combined businesses profit before tax of £2,685 million in 2011 (2010: £2,212 million), and excluding the effects of liability management, volatile items and asset sales, profit before tax was £2,022 million (2010: £1,651 million). The core business delivered a resilient performance, with profit before tax of £6,349 million (2010: £6,152 million), and excluding volatile items, liability management effects and asset sales profit before tax was £5,746 million (2010: £6,101 million). On a statutory basis, the Group reported a loss before tax of £3,542 million in the year, which includes the PPI related provision.

Subdued markets in the core business and the effect of non-core asset reductions resulted in a reduction in income (excluding volatile items, liability management effects and asset sales, and net of insurance claims) of 10 per cent to £21,197 million. This was partly offset by a 6 per cent reduction in operating expenses, despite the headwinds of inflation and higher taxes, as a result of the management actions we took during the year, and a 26 per cent reduction in the impairment charge, reflecting improving credit quality in our portfolios.

The benefits from the improvements we achieved in the Group's funding mix, increasing deposit balances and reducing the proportion of wholesale funding, were most clearly evident in our core net interest margin. This declined by only 6 basis points to 2.42 per cent, despite the impact of higher funding costs, the effect of refinancing a significant amount of government and central bank facilities and lower interest rates in general. However, our Group net interest margin declined by 14 basis points to 2.07 per cent, in line with guidance, given that it reflected the full impact of these effects on our predominantly wholesale funded non-core business.

Our strategy and action plan to deliver for customers and shareholders

Our strategy, which we set out on 30 June 2011 following an extensive and detailed review of the business, is focused on the UK, where we have distinctive assets and capabilities including our valuable customer franchise and market position, and multiple strong brands.

It is built on being the best bank for our personal, commercial and corporate customers, creating value by investing in initiatives where we can make a real difference for them, and focusing on operating sustainably and responsibly with the objective of delivering strong, stable and sustainable returns for shareholders over time.

While our focus is on restoring the Group to sustainable profitability and delivering returns for all shareholders, we expect the delivery of our strategic targets to provide, over time, an opportunity for the UK Government to dispose of its shareholding in the Group in an orderly manner, and deliver value for taxpayers.

Our strategy will create shareholder value through simplifying processes, systems and products and policies, and investing a proportion of the savings realised from this simplification in growth initiatives targeted at high-return areas of our business, and by ensuring that capital is primarily allocated to core growth businesses.

The four elements of our action plan to deliver our strategy are to:

- → **Strengthen** our balance sheet and liquidity position
- → **Reshape** our business portfolio to fit our assets, capabilities and risk appetite
- → **Simplify** the Group to improve agility, service and efficiency
- → **Invest** to be the best bank for our customers and to grow our core customer businesses

Good progress against strategic initiatives

We are already making good progress against the key initiatives set out in our strategy.

In reshaping our business portfolio, we have fully embedded across the business a conservative approach to, and prudent appetite for, risk. We have in place rigorous controls over the risk profile of all new business, as evidenced, for example, in the Retail mortgage book where we have seen impaired loans decreasing but where our coverage ratio has increased, and are managing and successfully reducing our non-core assets in a disciplined manner and broadly in line with book value. In the core business, the improving quality of our portfolios and their decreasing risk profile, has been reflected in a 7 per cent decrease in risk-weighted assets. We have also reviewed our existing portfolios and confirmed them as adequately provisioned.

Given our UK-focused strategy to capitalise on the strength of our capabilities in the UK, we have also committed to reduce our international presence from 30 countries to less than 15 by 2014. To date we have announced the exit from operations in seven countries.

GROUP CHIEF EXECUTIVE'S REVIEW

Delivering our vision – managing a more agile organisation

The Group benefits from the depth and diversity of experience within the management team. The complementary skill sets across the team strengthens the Group's ability to effectively adjust to changing market environments, deliver on our strategic plan and become the best bank for customers. Brief biographies of the management team are outlined below:

Standing L to R:

David Nicholson
Group Director, Halifax Community Bank

David joined Halifax in 1995, and has over 25 years experience in Retail financial services. Having developed his career inside the Group, he now has responsibility for the Halifax Community Bank. He is also a director of Sainsburys' bank and Chairman of the 'Your Tomorrow' pension fund trustees.

Alison Brittain
Group Director, Retail

Alison joined the Group in September 2011. Alison has 25 years Retail and Commercial Banking experience, having previously been Executive Director for Retail Distribution at Santander and prior to that worked at Barclays in senior management roles across a variety of business areas and functions.

Mark Fisher
Director, Group Operations

Mark joined the Group in March 2009 as Director, Group Operations and Integration. He is a career banker having started his career in 1981 with NatWest. Over the past 15 years, Mark has run scale banking and technology operations, including complex change programmes.

Antonio Lorenzo
Group Director, Wealth & International and Group Strategy

Antonio joined the Group in March 2011. Previously at Santander, Antonio was CFO for the UK business and managed the Wealth and Intermediaries businesses, and performed in several other international roles since joining Santander in 1998. Prior to this Antonio worked for Arthur Andersen in the financial sector whilst he was also a Professor at the Universidad Europea de Madrid.

Matthew Young
Group Corporate Affairs Director

Matthew joined the Group in February 2011, having previously been Communications Director at Santander UK. Matt has worked in a variety of senior management roles within the industry, including Abbey National and NatWest.

Angie Risley
Group HR Director

Angie joined in May 2007 and outside of Lloyds Banking Group is also a Non-Executive Director of Serco Group plc and a member of the government's Employment Engagement Task-Force. Before joining the Group, Angie was Group HR Director and an Executive Director on the board for Whitbread Plc.

Tim Tookey
Group Finance Director

Tim 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. Tim left the Group on 24 February 2012.

Seated L to R:

Juan Colombás
Chief Risk Officer

Juan joined the Group in January 2011 having previously been Chief Risk Officer at Santander UK. Juan has over 25 years of banking experience, with Risk, Control and Business Management roles across Corporate, Investment, Retail and Risk divisions.

António Horta-Osório
Group Chief Executive

António joined the Board in January 2011 as an Executive Director and became Group Chief Executive in March 2011. Further details can be found on page 35.

John Maltby
Group Director, Commercial

John joined Lloyds TSB in 2007 as Managing Director, Commercial and was appointed to the Group Executive Committee in September 2011. He has over 20 years experience of delivering business growth, transformation, IPOs, acquisitions and divestments in multi-national and specialist Financial Services organisations and was previously CEO Kensington Group Plc.

Toby Strauss
Group Director, Insurance

Toby joined the Group in October 2011 having previously been UK Life CEO at Aviva, joining them in 2008. He has a range of experiences in financial services and technology sectors, with much time spent at McKinsey.

Our integration programme has now delivered single platforms supporting the Halifax, Bank of Scotland and Lloyds TSB brands and, by the end of 2011, had achieved more than £2 billion per annum of run-rate cost synergies and other operating efficiencies.

Simplifying the Group is a cornerstone of our strategy, not only in its delivery of cost savings, but also importantly in simplifying our products and services from the customer's point of view, and allowing us to increase investment in our franchise. We have now commenced the delivery of the simplification initiatives set out in our strategy, and by the end of 2011 had achieved initial run rate savings of £242 million in the first six months of the programme. We have also greatly improved our cost management through instituting a rigorous process overseen by a Cost Board, which has helped the Group drive significant reductions in our operating expenses.

A portion of the savings realised from our simplification programme will allow us to further invest to be the best bank for our customers, and to grow our core customer businesses which is at the heart of our strategy. We commenced the implementation of a number of key initiatives in 2011, with the revitalisation of the Halifax brand and strengthening our support for Small and Medium-sized Enterprises both resulting in a significant outperformance of those business areas against market trends.

We have also begun to invest behind increasing our share of capital-light business in our corporate and commercial businesses. Key successes included the launch of 'Arena', our online foreign exchange and money market deposit platform and our UK government bond market making operation in our Wholesale business. In Insurance, our focus on UK customer needs delivered a 23 per cent increase in LP&I UK protection sales (PVNBP), which now account for 22 per cent (2010: 13 per cent) of bancassurance sales.

Further details on the good progress we have made against our strategic initiatives in each business are given in each of the divisional reviews in this document.

Management team changes

On 1 February 2012, we announced changes to the Group's senior management team to ensure we have the right organisational structure to deliver on our strategy and move to the next phase of the Group's transformation. As a result, five business lines, Retail, Wholesale, Commercial, Wealth and International, and Insurance, now report directly to me and, further to the centralisation of all control functions as part of the Strategic Review, five control and support functions also report to me, namely Group Corporate Functions (into which Human Resources, Legal and Secretariat and Group Audit report), Risk, Finance, Operations, and Corporate Affairs.

Supporting our customers and the UK economy

As part of our strategy to be the best bank for customers, and as a leading financial services provider in the UK, we continue to actively support sustainable growth in the UK economy through the focused range of products and services we provide to our business and personal customers, as well as through partnerships we have built with industry and Government.

The banking industry has faced much criticism in recent years and we recognise that significant work is required to rebuild trust with customers and other stakeholders. The financial services sector does however have a fundamental role to play in society in supporting both individuals and businesses through the provision of financial and payment services, and can be instrumental in helping the economy prosper and grow. The industry can help ensure the future strength and economic well being of the UK and its people and given our strategic assets we aim to play an important part in this.

I am pleased to report that during 2011, despite the challenging economic climate, the Group exceeded its full year contribution to the 'Merlin' lending commitments which were agreed in February with the UK Government, both for SMEs and in total. In the full year we provided £45 billion of committed gross lending to UK businesses, of which £12.5 billion was to SMEs. In the same period, the Group supported the start-up of 124,000 new SME businesses. For 2012, we have relaunched our SME Charter in which we have pledged to make at least £12 billion of gross new lending available to SMEs.

SMEs are a particularly important source of job creation and growth in the UK. Our core Commercial business is focused on serving these customers, and we demonstrated our support for SME customers in 2011 with year on year net lending growth of 3 per cent in this business area. This compared favourably with the negative growth in SME lending across the industry reported in the latest available market statistics from the Bank of England. In 2012, we have pledged to make at least £12 billion of gross new lending available to SMEs, with a further pledge to deliver positive net lending growth, to help stimulate economic output and improve confidence in the sector. As a member of the Business Finance Taskforce, we have led work to improve SME customer relationships through mentoring and a right to appeal and have agreed to contribute £300 million to the Business Growth Fund to provide better access to equity finance.

For our Retail customers, the Group completed £28 billion of new mortgage business in 2011, achieving a market share of approximately 20 per cent of gross new residential mortgage lending. We are committed to supporting the UK housing market and first-time buyers in particular. We advanced more than £5.6 billion of new lending to first-time buyers in 2011, helping over 52,000 customers own their first homes. Our market share of new first-time buyer business was approximately 24 per cent by value in 2011. In total, we advanced more than £15.5 billion of new mortgages to over 124,000 customers buying their home in the UK in 2011. Our Halifax brand is a leading lender in the affordable housing sector, with a dedicated product range designed for borrowers seeking shared equity or shared ownership schemes.

Looking forward, as part of our commitment to customers, we will keep the same net number of branches in our network for the next three years, excluding Verde, and we will not close a branch if it is the last one in a community.

We also committed to reduce the level of FSA reportable complaints we receive, excluding PPI complaints, by 20 per cent in 2011 compared to 2010. We achieved a 24 per cent reduction, and reduced our banking complaints per 1,000 accounts to 1.5. We achieved this through initiatives such as our Phone a Friend service, training of our 40,000 front line colleagues, and the roll out in the second half of an externally accredited complaint handling qualification. This makes us the first financial services organisation to have professionally qualified complaint handlers. To enable our customers get the right outcome faster, we are extending the opening hours of our specialist complaints teams to 24 hours a day, 7 days a week. As a result of these initiatives, we are now resolving over 90 per cent of complaints at first touch. In 2012, we have committed to improving this performance further, by reducing banking complaints to just 1.3 per 1,000 current accounts, and in 2014 to 1.0 per 1,000 current accounts,.

GROUP CHIEF EXECUTIVE'S REVIEW

Meeting our customers' needs with successful new products and services

Our strategy recognises our customers' needs for product simplicity and transparency, access through multiple channels, and value-for-money products and services. I am therefore pleased at the success of the new products and services launched in 2011, and the widespread recognition and broad range of external awards achieved across the Group. In Retail, notable product successes included a number of innovative Halifax savings products, which while not rate-leading, delivered strong deposit growth. These included, in the first half, the ISA Promise which saw our cash ISA balances grow significantly above our historic share, and, in the second half, the Savers Prize Draw which saw over 450,000 customers registered for the first draw.

We also received a number of external awards recognising the quality and consistency of delivery to our customers. Within Wholesale, our Corporate Markets area won the Best Bank of the Year award for the seventh consecutive year at the Real FD/CBI Excellence awards, while in Retail we were named 'Best Overall Mortgage Lender' for the tenth year running in the Your Mortgage Magazine Awards and in Insurance we were named as Britain's most popular home insurance provider by the independent market researchers GFK NOP for the tenth year in a row. In responding to our customers' need for access through multiple channels, in Retail, we launched a suite of Mobile Banking apps, and have now recorded one and a half million downloads.

Our commitment to our employees

Our success depends on our employees, the service they provide for our customers, and the long-term partnerships they build with them. We are committed to attracting, retaining and developing our people, and in 2011 launched a number of initiatives to identify and develop our future leaders, to simplify the link between performance and reward, and to ensure colleagues have the capabilities to deliver excellent service through learning and development resources such as our Learning Academies, through supporting external qualifications, and by introducing development and review programmes.

While the results of the colleague engagement survey we conducted in the second half of the year reflected both the challenging external environment and the work that remains to be done in ensuring Lloyds Banking Group is a great place to work, the progress we have made during the year reflects the strong capabilities and dedication of our people which will continue to support the delivery of our strategy.

Remuneration is an important issue for our stakeholders and the Group. We are keen to ensure we recruit and retain the right employees to drive our business forward and deliver on our strategy while ensuring that there is alignment between remuneration and results. Variable pay is reflective of the performance of the business and total discretionary bonus awards are approximately 30 per cent lower than last year with bonuses above £2,000 subject to deferral and adjustment. In addition, given the continued challenging economic conditions salary awards have been limited, especially at more senior levels.

EC mandated business disposal ('Project Verde')

Following our decision early in 2011 to accelerate Project Verde, we have made good progress, and, having reviewed the formal offers for the Verde business, the preferred bidder for the business is The Co-operative Group. Any final transaction will be subject to regulatory approval and certain other conditions. The Group will continue to progress an IPO as an alternative to a direct sale. We remain on track to complete the transfer of the business before the end of 2013.

Equity dividends

The European Commission's restriction on equity dividend payments was part of the conditions of the State Aid restructuring plan which expired in early 2012. We understand that the absence of dividends has created difficulties for many of our shareholders and we remain committed to recommencing progressive dividend payments as soon as we are able.

It is our intention to do so when the financial position of the Group and market conditions permit, and after regulatory capital requirements are defined and prudently met. At this time those requirements remain unclear and although we have made good progress against our strategic priorities during the year we are not yet able to forecast when we will be able to resume dividend payments, although we continue to strive to recommence them as soon as possible.

Greater clarity emerging on UK regulatory framework

The publication of the ICB's final report in September and the Government's response to the report in December are significant steps in providing greater clarity on changes to the regulatory framework for the UK banking industry to secure greater financial stability.

On competition, we are pleased that the Verde sale is seen as creating an effective new challenger in our market, and that our proposals, developed with the Payments Council, to make it quicker and simpler for customers to switch accounts, were recommended by the ICB and backed by the Government.

We also welcome the Government's endorsement of the ICB's proposals to ring-fence retail banking operations as part of a wider regulatory framework including capital and liquidity and effective macro- and micro-prudential supervision, which should remove any implicit tax-payers' guarantee for the ring-fenced entities. Given that we are predominantly a retail and commercial bank, we would expect to be less affected by the implementation of a retail ring-fence, but believe it will be important for any transition period to be flexible in order to minimise any impact on economic growth, and for banks to implement the required structural changes.

The ICB also recommended that ring-fenced banks should hold a capital base of at least 10 per cent to absorb the impact of potential losses or financial crises. The Government's proposals on capital are consistent with the capital targets we set in our strategic review in 2011 and, although much work remains to be done on the detail of the implementation capital requirements, we are on track to achieve the capital levels the ICB recommends.

We expect the Government to provide further details of its plans in the spring of 2012 and to outline which of the proposals it intends to progress to legislation. We will continue to work with HM Treasury and our regulators in the coming months ahead of the publication of the final white paper.

Economic outlook

While the outlook for the UK economy remains uncertain, and vulnerable to developments in the Eurozone, we believe the most likely scenario is for further weakness in the first half of 2012 followed by a relatively modest recovery in the second half resulting in broadly flat real GDP for the year as a whole, with further modest recovery in 2013. As a result, we expect UK base rates to remain at current levels into 2013, and unemployment to rise from current levels to peak at around 9 per cent in 2013. However, we expect inflation (CPI) to fall from current high levels to below 3 per cent in 2012 and possibly below 2 per cent in 2013. UK property prices are likely to reflect the weak economic environment, with house prices remaining broadly flat in 2012 and 2013 and commercial property prices likely to be marginally weaker in 2012, and marginally stronger in 2013.

Outlook and financial guidance

We expect the external environment to remain challenging in 2012, with a subdued economy, continued high levels of regulatory scrutiny and political uncertainty relating to the banking sector, and the continued potential for downside effects from financial market volatility and instability in the Eurozone.

Nevertheless, we remain confident that our medium-term financial targets, as set out in our June 2011 Strategic Review are achievable over time, although, as we anticipated in our Q3 2011 Interim Management Statement, we now expect the attainment of our income related targets, including for Other Operating Income, to be delayed as a result of the weaker than expected economic outlook. As a consequence, we now also expect the attainment of our return on equity target to be delayed beyond 2014. On the other hand, we continue to expect to deliver our balance sheet, cost and impairment targets in 2014, and in some cases sooner, given the good progress made so far.

In relation to our balance sheet, this progress includes the £53 billion reduction in non-core assets achieved in the year and the 60 basis point increase in our core tier 1 ratio to 10.8 per cent. As regards our income targets, we have reduced our asset quality ratio (impairment as a percentage of average advances) by 39 basis points to 1.62 per cent, a significant step towards our target of 50 to 60 basis points. The positive strong momentum of our Simplification programme, with £242 million of run-rate cost savings already achieved at the end of 2011, means that we are now increasing our target cost savings from this programme by £200 million, to £1.9 billion (from £1.7 billion) by the end of 2014, and to £1.7 billion from £1.5 billion in 2014.

Given the economic outlook, in 2012, on a combined businesses basis, we expect income to be lower than in 2011, given further non-core asset reductions, subdued demand in the core business leading to a broadly stable core book, higher wholesale funding costs, and interest rates likely to remain at low levels for longer. We retain significant capacity to grow core assets subject to demand and to maintaining our prudent appetite for risk. Our banking net interest margin, as expected, was marginally below 2 per cent in the fourth quarter of 2011. We expect our full year banking net interest margin to be below 2 per cent in 2012, falling year-on-year by approximately the same amount in 2012 as in 2011, as a result of continued higher wholesale funding costs, the repricing of interest earning assets and higher costs from the spread between base rates and LIBOR. We expect the benefit from fair value unwind to reduce to approximately £0.5 billion in 2012. However, we expect a further reduction in costs, and a similar reduction in Group impairment in 2012 as seen in 2011, as a result of further asset quality improvements across the divisions, with the largest improvement coming from International.

We expect to continue to strengthen our balance sheet in 2012, by a further reduction in non-core assets of approximately £25 billion, through targeting further deposit growth of around 3 per cent (based on a continuation of current market conditions), by strengthening our funding position, with approximately 50 per cent of our term wholesale funding target for 2012 already completed, and by further improving our core tier 1 ratio. Growth in customer deposits remains a key part of our funding strategy, and, assuming a continuation of current trends, we would expect to reach our medium-term Group loan-to-deposit ratio target of 130 per cent or below by the end of 2012, two years ahead of plan.

While we remain mindful of the challenges of the external environment, Lloyds Banking Group is now in a significantly stronger position than it was twelve months ago, and I would like to thank all our people for their contribution to our progress in 2011. Given we are likely to have lower interest rates for longer and higher regulatory costs along with deleveraging in credit markets, it will be those banks who can create competitive advantage through a lower risk premium combined with best in class efficiency who will achieve superior returns and will capture the opportunities as economic conditions improve. Absent a material deterioration in the economic environment, we remain confident in our ability to continue to execute against our strategic plan, and therefore continue to believe we are well positioned to realise over time the full potential of our organisation, brands and capabilities, and to achieve strong, stable and sustainable returns for shareholders.

António Horta-Osório
Group Chief Executive

Lloyds Banking Group is proud to be the official banking and insurance partner for the London 2012 Olympic and Paralympic Games.

DIVISIONAL RESULTS

RETAIL

Retail operates the largest retail bank in the UK and is a 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 provides current accounts including packaged accounts and basic and 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 one in five new residential mortgages making it one of the leading UK mortgage lenders and provided over 52,000 mortgages to help first time buyers in 2011. 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.

36–37
For financial information see summary of Group results

Mobile Banking

We've now had over 1 million downloads of the Lloyds TSB app launched in October 2011, and 1.5 million across Lloyds TSB, Halifax and Bank of Scotland. The app allows customers to access their online accounts, transfer funds and make payments to new and existing recipients.

Halifax shakes up savings

Each month, our registered savings customers have the ability to win one of 3x £100,000, 100x £1,000 or 1,000x £100 prizes in our Savers Prize Draw. Over 450,000 customers registered for the first prize draw, which is the first of its kind, giving customers this chance in addition to their individual product's interest rate.

2011 highlights

- **Profit before tax decreased by 9 per cent to £3,636 million.**
- **Total income decreased by 10 per cent:**
  - **Net interest income was 13 per cent lower,** largely as a result of higher funding costs, muted demand for credit, and increased competition for deposits
  - **Other income increased by 3 per cent,** principally as a result of higher bancassurance income.
- **Operating expenses and other costs reduced by 4 per cent,** benefiting from cost savings from both our integration and simplification programmes partially offset by inflation.
- **The impairment charge reduced by 28 per cent,** primarily driven by a reduced unsecured charge which reflected our continued conservative approach to risk, effective portfolio management, and continued focus on existing customers.
- **Loans and advances to customers decreased by 3 per cent** as customers continued to reduce their personal indebtedness, and as we maintained a conservative risk appetite.
- **Customer deposit growth was 5 per cent,** against a market that experienced minimal growth, and was driven by strong tax-free cash ISA balance growth.
- **Against its strategic objectives,** Retail's strategy remains focused on building deeper customer relationships, driven by superior customer insight, and investment in its multi-brand strategy, new products, multiple channels, and in colleagues.

Key operating brands

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

WHOLESALE

The division comprises Wholesale Banking and Markets (WBM) and our Asset Finance business. The Wholesale Banking and Markets business serves corporates with turnover above £15 million, and financial institutions with a range of relationship focused propositions, segmented according to customer need.

Wholesale Banking and Markets businesses are grouped into three areas, coverage and product with a support function providing centralised coordination of critical business processes and activities.

Coverage comprises Corporate Banking, Mid Markets and Sales. Corporate Banking is responsible for the overall management of relationships with major corporate and institutional customers principally in the UK. Similarly Mid Markets manages the relationships with mid market corporates, which operate on a pan-UK basis. Sales provide customers with tailor-made risk management solutions through liability, foreign exchange, commodity and interest rate management products.

Product comprises Capital Markets, Portfolio Management, Trading, Structured Corporate Finance, Transaction Banking, Structured Transactions Group and Lloyds Development Capital. These product units work alongside the coverage teams to provide specialised lending, access to capital markets and multi product financing solutions to WBM's customers. In addition, these units provide access to financial markets in order to meet the Group's balance sheet management requirements, and provide trading infrastructure to support execution of customer driven risk management transactions.

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

36–37
For financial information see summary of Group results

Arena

Our Wholesale business has launched 'Arena' which is now fully operational. This online portal allows quick and easy access to foreign exchange and money market deposits, allowing our customers to ensure their business is suitably financed in a way that suits their needs.

Bank of the Year – 7 years running

We won Best Bank of the Year for the 7th consecutive year at the Real FD/CBI Excellence Awards. This highlights the consistent support we provide to businesses through the full course of the economic cycle.

2011 highlights

- → **Profit before tax was £828 million compared to £2,514 million in 2010,** with lower income as the balance sheet was materially strengthened through targeted asset reductions, Partially offset by reduced impairment and lower costs.
- → **Total income decreased 38 per cent:**
  - – **Net interest income decreased by 25 per cent,** principally reflecting the substantial reductions in non-core assets
  - – **Other income decreased by 16 per cent** principally reflecting reduced trading income and lower operating lease income.
- → **Operating expenses decreased by 9 per cent,** with further integration cost savings, reduced operating lease depreciation and lower bonus accruals.
- → **The impairment charge decreased by 29 per cent,** reflecting continued strong risk management and the low interest rate environment.
- → **Assets decreased by 18 per cent,** reflecting the targeted reduction in the non-core balance sheet by £35 billion.
- → **Against its strategic objectives,** Wholesale continued to deepen its customer relationships through a measured build out of products and capabilities. Alongside enhanced product capabilities in areas including debt capital markets, money markets, interest rate management and foreign exchange, a transaction banking transformation programme was initiated in the year, to build an enhanced cash management, payments and trade customer offering.

Key operating brands

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

DIVISIONAL RESULTS

COMMERCIAL

Commercial serves in excess of 1.1 million small and medium-sized enterprises and community organisations from start-up to those with a turnover of up to £15 million, as well as providing asset based finance to business of all sizes.

Commercial comprises Commercial Banking, Commercial Finance, providing invoice discounting and factoring, hire purchase and leasing and AMC the long term lender to the agricultural sector. The business has a 'through the cycle' customer relationship approach, drawing on a wide range of Group service in order to meet their needs through their business lifecycle – from start-up, through growth, to maturity and succession. Through the SME Charter, Commercial have committed to lend £12 billion gross and continue to deliver positive net lending in 2012 and to help 300,000 start ups in the three years to end 2012.

36–37
For financial information see summary of Group results

Flexible monthly price plan

Lloyds TSB was the first UK bank to offer a range of flexible Monthly PricePlans, which simplify charges and improve transparency for business banking customers. This innovative approach offers customers choice, flexibility and gives them greater control of their banking.

Supporting start-ups

Through our Relationship Manager network a new innovative company has been able to research and launch their range of umbrellas, where the material changes colour when wet. SquidLondon umbrellas are stocked in the Conran Store and the TATE.

2011 highlights

- **Profit before tax increased by 71 per cent,** due to higher income combined with a reduction in impairments and costs.
- **Total Income increased by 7 per cent:**
  - **Net interest income grew by 11 per cent,** due largely to the increase in deposit balances, and a higher net interest margin
  - **Other operating income decreased by 2 per cent,** reflecting subdued levels of business activity in the early part of the year and reduced levels of money transmission income.
- **Operating expenses reduced by 4 per cent,** primarily as a result of integration cost savings.
- **The impairment charge reduced by 21 per cent,** due to an overall improvement in the credit quality of the portfolio.
- **Loans and advances to core customers increased by 3 per cent against a contracting market.** This reflects the continuing support given to small and medium sized businesses.
- **Customer deposits grew 3 per cent,** reflecting our ongoing success in attracting deposits from new customers.
- **Risk-weighted assets decreased by 5 per cent,** reflecting the improved mix and risk profile of the portfolio.
- **Against its strategic objectives,** Commercial has focused on strengthening its customer relationships and supporting SMEs. This is demonstrated by sustainable franchise growth, supporting 124,000 start up businesses, and improving cross-sales of Wealth Management, Insurance, and Treasury.

Key operating brands

Lloyds TSB BANK OF SCOTLAND AMC

WEALTH AND INTERNATIONAL

Wealth and International combines the private banking and asset management businesses and the Group's international businesses.

The Wealth business comprises private banking and asset management. Wealth's private banking 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 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.

The International business comprises the Group's 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 and Continental Europe and retail businesses in Germany and the Netherlands.

36–37
For financial information see summary of Group results

Best UK Private Bank

At the Financial Times and Investors Chronicle Wealth Management Awards, Bank of Scotland Private Banking won Best UK Private Bank. Voted for by industry experts and readers of the FT, the award evidences the high quality service our private banking clients receive.

Developing employee capabilities

In 2011 we launched the Wealth Academy, a new learning and development initiative for our Wealth employees. The academy offers access to thousands of industry-leading learning solutions as well as a route to attaining professional qualifications.

So far the academy has helped over 1,400 of our employees develop their skills and deliver more for customers as a result.

2011 highlights

- **Loss before tax decreased by 20 per cent** with a fall in impairments partly offset by lower income, fair value unwind and higher operating expenses with the core business profit before tax and fair value unwind increased by 20 per cent.
- **Total income decreased by 8 per cent:**
  - **Net interest income was 21 per cent lower,** reflecting lower lending volumes and increased impaired assets
  - **Other income increased by 7 per cent,** with foreign exchange benefits in International, partly offset by the impact of lower funds under management in the wealth business.
- **Operating expenses increased by 1 per cent,** due to higher regulatory costs, investment in growth initiatives and the effect of stronger foreign currency rates.
- **The impairment charge reduced by 23 per cent** as the rate of impaired loan migration has slowed.
- **Net loans and advances to customers decreased by 21 per cent,** largely driven by de-risking of the balance sheet.
- **Customer deposits grew by 28 per cent,** primarily due to continued strong inflows in the on-line deposit business.
- **Against its strategic objectives,** Wealth demonstrated continued strength in client acquisition through the UK franchise with an 8 per cent increase in customer numbers. To date the division has announced the exit from seven countries and corporate leading has been refocused around selected customers aligned to UK product and sector plans and the Group's international risk appetite.

Key operating brands

DIVISIONAL RESULTS

INSURANCE

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 brokerage operations for personal and commercial insurances. It operates primarily under the Lloyds TSB, Halifax and Bank of Scotland brands.

36–37
For financial information see summary of Group results

defaqto
2011
★★★★★

5-star rated

Three of LP&I's flagship intermediary products, the retirement account, the investment bond and the global investor bond have received a Defaqto 5-star rating for the second year running.

Rapid Response

The Group's new Rapid Response Vehicle enables quicker service and greater support for General Insurance customers impacted by events affecting multiple households.

For example, more than 150 homes were flooded in Sutton Coldfield in Birmingham last November when a water main at nearby Barr Beacon reservoir burst.

The Rapid Response Vehicle was called to the scene and colleagues from Insurance used the van to co-ordinate customer visits, settle claims and assess the scope of repairs. Fortunately, we were able to reach a number of customers before they contacted us.

2011 highlights

- → **Profit before tax increased by 7 per cent.**
- → **Total income, net of insurance claims, increased by 2 per cent.** This is attributable to strong sales of corporate pensions through the intermediary channel and the continued change in new business mix within Life, Pensions and Investments UK (LP&I UK).
- → **Operating expenses and other costs decreased by 5 per cent** due mainly to a continued focus on cost management and delivery of integration cost savings.
- → **LP&I UK EEV new business margin increased to 4.2 per cent** from 3.7 per cent in 2010.
- → **LP&I UK sales of £10,219 million (PVNBP) reduced by 1 per cent,** partly reflecting the continuing change in mix towards protection products to meet customer protection needs.
- → **General Insurance profits increased by 21 per cent to £497 million** primarily due to lower freeze and unemployment claims.
- → **Capital management initiatives in 2011 have resulted in £2.3 billion** mitigation of the potential impact of Capital Requirements Directive IV.
- → **Against its strategic objectives,** Insurance has focused on removing duplication to simplify the business and is improving customer insight to support responsiveness to changing customer needs.

Key operating brands

SCOTTISH WIDOWS   Lloyds TSB   HALIFAX   BANK OF SCOTLAND

RELATIONSHIPS AND RESPONSIBILITY

BUILDING VALUABLE RELATIONSHIPS

The successful delivery of our strategy will be driven by the relationships we develop with our customers.

With over 30 million personal and business customers and a presence in communities across the country, we are uniquely placed to help unlock the potential of families, businesses and communities we serve, making a significant contribution to the future strength and prosperity of the UK. Our vision of being the best bank for customers along with our focus on operating sustainably and responsibly underpins our approach to business. Over the next few pages we set out our approach to:

CUSTOMERS…

COLLEAGUES…

COMMUNITIES…

Investing in communities

Lloyds Banking Group is the biggest corporate investor in UK communities, investing over £85 million last year in financial inclusion and financial capability, higher education and sports for young people and almost £30 million to support grassroots charities working with disadvantaged communities.

The Group's continued success depends on our colleagues and their ability to build strong and deep relationships with customers.

BUILDING VALUABLE RELATIONSHIPS

CUSTOMERS

Only by focusing on customers' needs and addressing those needs can we expect to deliver benefits to our stakeholders.

Aim

Our aim is to be the best bank for customers. Becoming the best bank for customers means being the best bank for families, for businesses and for our communities. We will achieve this by focusing on:

→ UK customers and those connected to the UK
→ Simplifying processes, policies and systems
→ Investment in growth initiatives
→ An appropriate risk appetite
→ Ensuring the business has the strength in funding and capital to meet the most challenging of headwinds

Summary

The strategy for the Group is built on being the best bank for customers, and to create value by investing where we can make a real difference for these customers. The Customer is therefore at the heart of everything we do, whether it be our branches, our brands or our people and is a key driver for our Group values.

We have around 30 million personal, commercial and corporate customers and operate the largest retail bank in the UK. In 2011 we made great progress towards our goal of being the best bank for customers with a number of notable product launches, a significant reduction in customer complaints, and numerous system and process improvements whilst continuing to support our customers and the UK economic recovery.

We also received a number of external awards recognising the quality and consistency of delivery to our customers. Our Corporate and Commercial businesses won the Best Bank of the Year award for the seventh consecutive year at the Real FD/CBI Excellence awards, while in Retail we were named 'Best Overall Mortgage Lender' for the tenth year running in the Your Mortgage Magazine Awards and in Insurance we were named as Britain's most popular home insurance provider by the independent market researchers GFK NOP for the tenth year in a row.

Our customer focus is increasingly driving key business decisions and the responsible position we took on PPI and our commitment to keep the branch network at the same level for the next three years (excluding Verde) and not to close a branch if it is the last in the community demonstrates our commitment to do the right thing for customers.

Supporting our customers and the UK economic recovery

As part of our strategy to be the best bank for customers, and as a leading financial services provider in the UK, Lloyds continues to actively support sustainable growth in the UK economy through the focused range of products and services we provide to our business and personal customers, as well as through partnerships we have built with industry and government.

Despite the challenging environment the Group exceeded its full year contribution to the 'Merlin' lending commitments, providing £45.3 billion of committed gross lending to UK businesses of which £12.5 billion was to Small and Medium Enterprise's (SME's) We also supported the start up of nearly 124,000 new SME businesses. SME lending growth of 3 per cent, year-on-year, compares favourably to negative growth across the industry that has been reported in the latest statistics from the Bank of England.

The Group completed £28 billion of new mortgage business in 2011, achieving a market share of approximately 20 per cent of gross new residential mortgage lending. We are committed to supporting the UK housing market and first-time buyers in particular. We advanced more than £5.6 billion of new lending to first-time buyers in 2011, helping over 52,000 customers own their own homes. Our market share of new first-time buyer business was approximately 24 per cent by value in 2011. In total, we advanced more than £15.5 billion of new mortgages to over 124,000 customers buying their home in the UK in 2011.

Complaint handling

Through introducing a group wide team that focuses on listening to customers and making improvements to remove the causes of complaints we have successfully reduced the level of FSA reportable complaints by 24 per cent. With the level of FSA reportable banking complaints falling from 2.1 complaint per 1,000 accounts in the second half of 2010 to 1.5 complaints per 1,000 accounts in the second half of 2011, we have further targeted this to fall to 1.3 and 1.0 per 1,000 accounts by the end of 2012 and 2014 respectively. Furthermore, following the introduction of dedicated, externally accredited, complaint handlers and training provided to front line colleagues, 90 per cent of complaints are resolved at first touch. Our specialist team's hours have also been extended so they can deal with complaints 24 hours a day, 7 days a week to help customers get the right outcome first time.

Delivering innovative products and services

Our strategy recognises our customers needs for product simplicity and transparency, access through multiple channels and value for money products and services. Through listening to customers and working hard to offer products and services that fit their needs we have developed a number of new and innovative products and services, including the Halifax Savers Prize Draw which gives registered customers the chance to win £100,000. In addition, customers told us they wanted better ways of managing their money, so we launched Lloyds TSB Money Manager, an easy-to-use Internet Banking service that helps customers understand how they are spending their money and using their account. We have also launched a range of banking apps so customers can manage their accounts on the move.

Customer service and simplification

By putting customers at the heart of our business, and listening to their needs we have managed to simplify and enhance our systems and processes to help serve our customers more quickly and efficiently. The Integration programme has given us a single set of integrated systems which provides a great base for further development but we have also rolled out a number of initiatives to help make banking quicker and easier for customers. Through the introduction of Immediate Deposit Machines, slip free transactions and by reviewing branch roles and opening times we are better able to meet our customers' needs at a time and in a style that suits them.

Customer satisfaction is assessed through the Net Promoter Score (NPS), which measures the likelihood of customers recommending us to others. All of our high street brands made significant headway in 2011, achieving their highest ever NPS scores, with the group wide score rising from 38 in 2010 to 44 in 2011. The Group monitors NPS across a range of touch points to ensure that the customer experience improves across the board. The process gives insight for; specific channels, such as a branch or telephony network, product experiences, such as opening a new account, and other key events such as handling of complaints. This insight allows us to adapt our colleague training and processes in order to give customers an increasing quality of service. Our Halifax brand also received the highly coveted 'Best Customer Service' award at the Consumer MoneyFacts awards 2012, evidencing the real progress that's being made.

Treating customers fairly

Central to our aim of building deep and lasting customer relationships is our determination to treat customers fairly and ensure we are transparent in dealings with them. We conduct regular monitoring to check that we are complying with our robust customer treatment policies and are achieving fair outcomes for customers, ensuring that we design, sell and service products in a manner appropriate for a given customer. Customer outcomes are an important component in colleague reward and remuneration.

Financial inclusion

We aim to lead the banking sector in reaching those who are financially excluded and equip them with the confidence and capability to manage their money effectively. We currently provide over 4.2 million such accounts and in 2011 opened around 250,000 new accounts. Almost as importantly, as customers improve their credit rating we can help them move to a full facility current account.

Colleagues are committed to making Lloyds Banking Group the Best Bank for Customers. The image shows how our customers are at the heart of everything we do in our retail business. The wheel brings together how we'll make the most of our brands, the investment we're making in our branch network, and what's needed from colleagues to bring this to life for our customers.

BUILDING VALUABLE RELATIONSHIPS

COLLEAGUES

Our colleagues deliver the experiences that will make us Britain's best bank for customers.

Aim

Our ambition is for a more diverse, better engaged and stimulated employee group to help us achieve our goals. At Lloyds Banking Group, we want the diversity of our employee base to more accurately reflect the diversity in our society; the better we reflect our marketplace the better we can serve it.

Growing talent is a key priority, we need to motivate and nurture a developing pool of talent that drives our business in a way that is sustainable and realistic in the current climate.

All of this goes hand in hand with enabling people to have equal access to a variety of opportunities and making our business work closely with our surrounding communities to build relationships and share skills.

Graduate Development Programme

Following the Graduate Development Programme, graduates are choosing branch roles as their career choice.

"Last year I secured the opportunity of Bank Manager at the new Lloyds TSB Olympic branch in Europe's largest shopping centre – Westfield Stratford City. With a successful opening in September I'm delighted that we managed to deliver outstanding performance whilst providing high quality customer service."

Jeff Wilkinson, Bank Manager
Lloyds TSB Stratford Westfield

Priorities

- → Making our customer-facing teams successful, by ensuring those colleagues who come into direct contact with our customers are equipped with the necessary skills and expertise to provide a positive customer experience
- → Growing great leaders
- → Simplifying the way we work

Building long lasting relationships through people

Lloyds Banking Group's continued success depends on our colleagues. Our colleagues aim to provide excellent service everyday and spend time listening to customers to understand what is important to them.

To make this happen our organisation aims to attract, retain and develop the best talent in the industry and embraces diversity. We are committed to making a significant investment in our people and creating outstanding learning opportunities that enable colleagues to reach their potential. Learning@LloydsBankingGroup is one of the largest corporate learning facilities in Europe. Our rewards and benefits packages are also specifically designed to reward performance and keep our employees motivated to deliver excellent customer service.

During 2011 we developed, in conjunction with our colleagues, the three values that will enable us to be the best bank for customers: Putting Customers first, Keeping it Simple, and Making a difference together. These values define what we stand for when we are at our best and are now being woven in to the way we do business across the Group.

Rainbow network – Making a milestone

Rainbow – the Group's network for lesbian, gay, bisexual and transgender (LGBT) colleagues – this year reached 1000 members, making it one of the largest employee networks of its kind in the UK.

Rainbow helps to engage and support LGBT colleagues promoting a positive working environment across the organisation.

Integration

Inevitably in bringing the two organisations together, there has been a requirement to rationalise and this has led to a reduction in roles. Where possible we have redeployed colleagues to other areas of the Group or reduced numbers through natural attrition. Where it has been necessary for colleagues to leave the organisation, this has been achieved by offering voluntary severance and using fewer contractors. Compulsory redundancies are always a last resort.

The focus has been on enabling the business to integrate while also building foundations for the future, and a key part of this was ensuring our colleagues had the skills to use our new integrated systems. Training was delivered to over 16,000 colleagues in our branches to enable this. People are at the heart of the change programme and a robust communications process has been followed to ensure all colleagues were aware of changes before they happened. We have four recognised Unions who have been consulted on all changes.

During the year we also delivered a significant milestone in our integration when we harmonised terms and conditions for most employees in the Group.

Colleague engagement

This year, we launched a new Colleague Survey across the Group. The outputs will be used to create national and local action plans that prioritise the things that will make the Group a better place to work.

The results highlight strong levels of engagement in areas such as performance management and learning and development reflecting our on-going commitment to provide all colleagues with a promising career at Lloyds Banking Group. Three quarters of colleagues believe their work gives them a sense of personal accomplishment and almost 9 out of 10 colleagues say they receive recognition for a job well done. The results show that we need to do more to engender trust in the leadership team and confidence in the future of the organisation.

We will demonstrate our commitment to colleagues by continuing to deliver on our Group Strategy to be the best bank for customers and colleagues, and rebuild confidence and trust by increasing the time leaders spend listening and talking to colleagues. Finally we will drive customer focus at all levels in our organisation to stimulate ongoing quality and improvement.

Talent, recruitment and retention

One of our uppermost priorities is recruiting, retaining and developing talented leaders. In 2011 we made significant progress and 60 per cent of all senior leader vacancies were filled internally.

Succession to the Group Executive Committee and divisional leadership teams has materially improved year-on-year with 92 per cent of roles having at least one identified successor.

We have launched a number of initiatives in 2011 including the MBA programme, Lloyds Scholars programme and a new development programme for emerging executives and middle managers. The strength of the Graduate Leadership Programme has been externally acknowledged and rated by The Times as one of the Top 30 UK organisations for graduate recruitment.

Retaining our talent through difficult times continues to be a priority and we have launched well-being initiatives across several teams this year which have proved popular and useful resources for colleagues.

Performance and reward

Managing performance plays a critical role in helping us to develop our colleagues to build long term partnerships with customers and strong relationships with each other. This year has seen clear steps taken to improve organisational performance.

Following the completion of the Group Strategic Review in June, we started to simplify and further integrate our approach by aligning performance and reward for all colleagues. Reflecting the new regulatory environment, 2011 also saw a strengthening of executive performance management with the introduction of a new moderation process to assess risk stewardship by all our senior executives.

Learning and development

Becoming the best bank for customers means all colleagues must have the capabilities to deliver excellent service. Nearly 100,000 colleagues now have access to a Learning Academy. These provide clarity on the technical and leadership capabilities required to be effective in role.

During 2011, we have delivered the high-profile executive leadership programme and a new group wide talent development programme. Our recently launched management licence programmes provide foundation line management and leadership skills to managers.

Colleagues each received an average of 6.9 days formal learning in 2011.

Diversity and inclusion

A key element to achieving our vision is having a diverse and inclusive workforce; an area in which we have made positive progress during 2011.

Our gender strategy is led by members of our Group Executive Committee and our Chairman, and supports the recommendations of the Lord Davies Review whereby we aim to increase our female representation on the board by 25 per cent by 2015. In December we launched Breakthrough; our new women's network which has over 600 members and we have established a series of development interventions.

The *Stonewall 2011 Top 100 Employers* for lesbian, gay and bisexual people, ranked Lloyds Banking Group as the top private sector employer in the UK and as Top Scottish employer by Stonewall Scotland.

We received a *technology4good* award for our workplace adjustments programme, improving the way we support colleagues with disabilities or long-term health conditions. We have launched a new online disability awareness programme to ensure colleagues and line managers have the support they need.

In our ethnic diversity strategy, we have launched a new career development programme for ethnic minority managers which discusses barriers to progression, how to overcome them and supports participants to achieve their full potential.

We will continue to build upon our progress during 2012 to ensure we reflect the diverse needs of our customers, colleagues and communities.

BUILDING VALUABLE RELATIONSHIPS

COMMUNITIES

By doing more through our responsible business strategy, we aim to help build thriving communities.

Aim

We have a presence in every community across the UK. We recognise that to be the best bank for customers, we must also be the best bank for communities.

In 2011 we developed a new responsible business strategy which aims to help build thriving communities, and, in so doing, rebuild trust and pride in the Group. Our vision is to be recognised by shareholders, customers and colleagues as making a real difference.

We are investing in financial inclusion and projects to improve consumers' financial capability; access to higher education for students from lower income families; sports for young people; and almost £30 million a year to the Group's charitable foundations to support grassroots charities working with disadvantaged communities. We are also working to reduce our environmental impact by reducing our use of resources such as energy, water and paper, by encouraging the companies we bank and invest in to do the same, and by investing in new sources of renewable energy.

Lloyds Scholars, our unique social mobility programme

"The National Union of Students has always been supportive of business contributing to the cost of higher education, so it's great to see Lloyds Banking Group starting the Lloyds Scholars scheme. Of course higher education is massively beneficial to the public, as well as to the student, but business also benefits from students who have a higher level of education and an enriched world-view."

"As well as widening participation to higher education, we're particularly pleased that this scheme seeks to deepen participation through volunteering at university, ensuring that students not only receive the appropriate support through their mentoring scheme but are given opportunities to get further involved in their free-time."

Liam Burns, National President
National Union of Students

Building thriving communities

We have a presence in every community across the UK. We recognise that to be the best bank for customers, we must also be the best bank for communities.

In 2011, we developed a new responsible business strategy which aims to help build thriving communities, and, in so doing, rebuild trust and pride in the Group. We want to be recognised by shareholders, customers and colleagues as making a positive difference to UK communities.

Embedding responsible business

We established a new Responsible Business Steering Group in 2011, to drive our new responsible business strategy. It comprises senior business leaders from across the Group and will report to the Board and Group Executive Committee twice a year. We are also setting up an independent panel of experts and opinion formers to provide thought leadership and challenge to the Group.

Community engagement

Lloyds Banking Group is the UK's biggest corporate investor in UK communities. Last year, we invested over £85 million in communities, including support for financial capability, higher education, sports for young people and support to the Group's charitable Foundations.

Charitable support

We donated almost £30 million in 2011 to the Lloyds TSB Foundations and the Bank of Scotland Foundation. The Foundations disburse grants to local, regional and national charities that help disadvantaged communities. During the last 25 years the Lloyds TSB Foundations and Bank of Scotland Foundation have invested more than £510 million supporting over 50,000 community based charities. The Foundations also support colleagues' fundraising and volunteering efforts by offering each colleague up to £1,000 in Matched Giving every year.

Our colleagues raised £1.4 million in 2011 for our Charity of the Year, Save the Children, which will fund 46 FAST programmes. FAST (Families and Schools Together) increases the life chances of children in the UK's most deprived areas by supporting parents to improve their children's learning and development so that they reach their full potential at school.

Over 16,000 colleagues volunteered during 2011 in their local communities. Through our 'Day to Make a Difference' programme all colleagues can spend one day a year volunteering during work time. In 2011, the Group was also the largest corporate participant in Business in the Community's Give & Gain Day – the UK's largest single day of volunteering.

We celebrate employees' contributions to communities through our annual Making a Difference Awards. In 2011, we received nominations for 1,164 colleagues who made a huge difference to communities. We donated £20 for every nomination to our Charity of the Year, totalling £23,280 for Save the Children.

Lloyds Scholars

Lloyds Scholars, the Group's flagship higher education programme, was launched in 2011 for thirty students attending the University of Sheffield and University of Bristol. It aims to support young people from families with below average income to attend some of Britain's top universities.

Lloyds Scholars provides students with support for their academic and vocational development, offering a complete financial and support package. This includes bursaries to help with living costs and study materials; performance-related cash awards for good grades; hands-on work experience through paid summer internships with the Group; and access to advice and support from a dedicated mentor. In return for these benefits, we ask scholars to champion the scheme to future applicants and take part in at least 100 hours volunteering each year. We are expanding the programme to six universities and 120 students for the next intake of students.

Financial wellbeing

We take seriously our responsibility to do more to raise levels of general financial capability amongst the communities we serve. We make a very significant investment in helping to bring those who are excluded into mainstream financial services.

Money for Life is Lloyds Banking Group's flagship £4 million financial capability and personal money skills programme, targeted at the Further Education, Adult and Community learning sector. We are providing tutors and support workers with the skills they need to teach money management to help their learners stay out of debt and save for the future. We are providing 1,400 free places on the Teach Me, Teach Others programme for colleges and community groups. In 2011, we also launched the Money for Life Challenge, a national competition providing small grants for 16-24 year olds to run a money management project in their communities.

Environmental responsibility

In 2011, we introduced a set of market leading, long-term environmental targets under our Environmental Action programme to significantly reduce our environmental footprint. By 2020, we aim to reduce paper, water and business travel by 20 per cent; send less than 20 per cent of waste to landfill; and reduce energy use by 30 per cent. Last year, we achieved the Carbon Trust Standard for our UK operations, which recognises our robust approach to measuring, managing and reducing our carbon emissions. We also reduced our use of energy by 1 per cent, our use of water by 3 per cent and paper use by 7 per cent in 2011 compared with 2010.

Over the last year we have been the UK's most active provider of finance to renewable energy projects, having lent over £413 million across 13 renewable energy projects in the UK, Germany and the US. Our asset management business, Scottish Widows Investment Partnership, launched a new sustainability strategy across its entire £8.5 billion property portfolio.

We are also encouraging businesses that bank with us to take action to address climate change. We have trained over 650 colleagues on our Business & Environment programme, to enable them to support our customers in recognising environmental risks and seizing the commercial opportunities.

Tracking progress

Independent consultants verify our performance every year. We also measure our performance against our peers through external benchmarks. In 2011, we were re-selected for the Dow Jones Sustainability Index. We were also ranked top UK bank in the FTSE4Good Index and were re-selected for the Carbon Disclosure Leadership Index. We have a Platinum ranking in Business in the Community's Corporate Responsibility Index and were awarded Business in the Community's CommunityMark, the national standard that publicly recognises excellence in community investment.

Looking to 2012

The Group's strategic vision recognises that being the best bank for customers also means being the best bank for communities. We believe that, over time, our new responsible business strategy will help us rebuild public trust and colleague pride in the Group by making a difference to the UK.

In 2012 we will explore opportunities to increase transparency around our management of environmental, social and governance risks. We also plan to launch a community fund that will enable colleagues to help their chosen community organisation with financial support; and a social entrepreneur programme that will support 500 entrepreneurs to create new social enterprises and hundreds of jobs across the UK.

Teaching others

Jeff McArthur, Regulatory and External Risk Manager at Lloyds TSB, is a graduate of the Money for Life Teach Others course. He has delivered financial capability workshops at Dress for Success, a charity offering employment-based services and workshops to help disadvantaged women become economically independent.

"Many of the women have recently returned to work after long-term unemployment and wanted to better manage their finances," Jeff explains.

"I provided advice on basic budgeting and explained how they could use banking products and services to help them manage their money."

OUR LONDON 2012 PARTNERSHIP

LONDON 2012

In 2011 we continued to bring the London 2012 Games closer to people and communities across the UK.

Background

Lloyds Banking Group is proud to be the official banking and insurance partner for the London 2012 Olympic and Paralympic Games, the biggest sporting event ever staged in the UK.

Our vision for our partnership, delivered through Lloyds TSB, Bank of Scotland and Scottish Widows, is to bring the Games even closer to communities and millions of people across the UK. In 2011 we continued to realise this vision with a programme of inclusive, inspirational and engaging activities, resulting in us being seen as the sponsor doing the most to support the Games.

Bringing the Games closer to communities

With Lloyds TSB and Bank of Scotland branches on nearly every UK high street we are in a unique position to bring the inspiration and excitement of the Games closer to communities across the country, through programmes like National School Sport Week and our Local Heroes programme, supporting the future of Team GB and ParalympicsGB.

Giving customers the chance to get involved

We are creating as many opportunities as possible for our customers and the communities we serve across the UK to get involved in the Games:

- → In 2011, more than 200,000 people signed up to Trackside, our customer exclusive programme. Trackside is just one of the ways we are giving customers the chance to win tickets to the London 2012 Olympic and Paralympic Games. Through Trackside, 1,500 personal banking customers will each win a pair of tickets to the Games. We are also giving customers chances to win exclusive experiences with Olympians and Paralympians.
- → Lloyds TSB is the only Presenting Partner of both the London 2012 Olympic and Paralympic Torch Relays and in 2011 we gave our customers and the wider public the chance to become Torchbearers and carry the Flame in the Relays.
- → As the Official Partner of the London 2012 Ticketing programme, we are helping to ensure customers and communities have access to information about tickets to the Olympic and Paralympic Games. Our Official London 2012 Ticket Guides were available in all of our branches.
- → Scottish Widows is Pensions and Investment Provider of the London 2012 Olympic and Paralympic Games and in 2011 we gave customers the chance to be at the Games – more than 60,000 entered our exclusive competition.

National School Sport Week – York High School

York High School held a number of events to celebrate National School Sport Week 2011, promoting the Olympic and Paralympic Values, boosting participation in physical activity and providing young people with leadership opportunities.

The week had a positive impact on the students' attitudes towards sport and many particularly enjoyed trying new sports. They developed team-working skills and created a great atmosphere around the school.

The students became accustomed to being physically active and made a pledge about their future level of physical activity, which will be monitored by the school's Young Ambassadors. And, links forged with community sports clubs should encourage a higher uptake of sports outside of school hours.

Helping businesses benefit from London 2012

We are focused on supporting our business customers to maximise the opportunities of the Games and ensure a lasting legacy for UK businesses. In 2011 we used the power of London 2012 to inspire businesses all over the UK:

- One in three of the £3 billion worth of London 2012 contracts have been awarded to our business customers with more contract opportunities still available along the supply chain.
- We developed a free, step-by-step guide, to help businesses understand the various ways in which they can prepare for the Games and seize the business opportunities.
- Our Pace & Power events brought together local business people with Olympians and Paralympians and Local Heroes, who shared their thoughts on sporting success and how this can be translated into the world of business.
- As the chosen bank to the Olympic Delivery Authority and LOCOG, we are proud of our role in supporting the development of the Olympic Park and other Games venues.

Activation Programmes

Olympic and Paralympic Torch Relays

In 2011 we ran public campaigns to find hundreds of people who have made a positive difference in their community to be Torchbearers and carry the Flame in the London 2012 Olympic Torch Relay or Paralympic Torch Relay. We received thousands of nominations from customers and the public across the UK, many of whom had uplifting and inspirational stories to share.

We developed the Lloyds TSB London 2012 Olympic Torch Tour, which travelled the UK during the summer of 2011. The Tour gave people the chance to get up close to the new Olympic Torch and learn more about the history and excitement of the Relay. The Tour visited 76 communities over 84 days, directly engaging 56,000 people with our London 2012 activity.

proud partner of the
Olympic and Paralympic Games

National School Sport Week

Delivered in partnership with the Youth Sport Trust, Lloyds TSB National School Sport Week (with Bank of Scotland and **sport**scotland in Scotland) uses the excitement of the London 2012 Games to inspire more young people to do more sport.

We provide resources to schools to help them plan activities leading up to and during the week and in 2011 over 4 million young people took part. 48% of secondary school pupils and 42% of primary school pupils said they have joined or would like to join a new sports team or club in school after taking part in National School Sport Week.

Local Heroes

The Local Heroes programme helps some of the most talented emerging athletes in the UK during one of the toughest stages of their career.

In partnership with SportsAid, the UK's leading charity for identifying and supporting young talented athletes, we committed to supporting more than 1,000 of these future stars of Team GB and ParalympicsGB by the time of the London 2012 Games.

2011 was the fourth year of the Local Heroes programme and we supported 324 athletes. Local Heroes also attended a variety of internal and customer-facing Group events and initiatives including sharing their experiences with young schoolchildren during National School Sport Week; attending events with Olympians and business customers on the parallels between high performance in business and sport; and visiting branches with the London 2012 Olympic Torch to engage with our colleagues, customers and their families.

London 2012 Trackside: Bringing London 2012 closer to our customers

Trackside, launched in February 2011, is a customer exclusive programme giving Lloyds TSB and Bank of Scotland personal customers chances to win tickets to the London 2012 Games and opportunities to meet Olympians and Paralympians, as well as ensuring customers are the first to hear about our latest London 2012 news and offers. Registered customers receive regular e-newsletters and in 2011 we gave away more than 1,100 pairs of tickets to the 2012 Games to these personal customers.

Golden Hopefuls

Through Scottish Widows Golden Hopefuls Programme we are helping four of Britain's new generation of world class sporting hopefuls who share the same goal of competing at London 2012.

Simon Brown – Olympic Torchbearer

Simon is 32 and from Morley, West Yorkshire. In 2006 he was shot in the face saving the lives of six of his colleagues in Iraq. Following months of rehabilitation and dozens of operations to rebuild his face Simon began to help young people come to terms with their own loss of sight at St Dunstan's charity in Sheffield.

His nominator and friend, Eleanor Noakes said, "Simon has not had an easy journey on his road to recovery and has battled with the impact of his injuries. He now uses those experiences to help others overcome their own difficulties and is a true inspiration to his community."

SUMMARY CONSOLIDATED INCOME STATEMENT

For the year ended 31 December	2011 £ million	2010 £ million
Net interest income[1]	12,698	12,546
Other income[1]	14,114	31,498
Total income	26,812	44,044
Insurance claims[1]	(6,041)	(19,088)
Total income, net of insurance claims	20,771	24,956
Operating expenses	(16,250)	(13,270)
Trading surplus	4,521	11,686
Impairment	(8,094)	(10,952)
Share of results of joint ventures and associates	31	(88)
Loss on disposal of businesses	–	(365)
Loss (profit) before tax	(3,542)	281
Taxation	828	(539)
Loss for the year	(2,714)	(258)
Profit attributable to non-controlling interests	73	62
Loss attributable to equity shareholders	(2,787)	(320)
Loss for the year	(2,714)	(258)
Basic loss per share	(4.1)p	(0.5)p
Diluted loss per share	(4.1)p	(0.5)p
	£000	£000
Directors' emoluments	8,147	10,641

[1]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. In previous years the Group has included annual management charges on non-participating investment contracts within insurance claims. In light of developing industry practice, these amounts (2011: £606 million; 2010: £577 million) are now included within net fee and commission income.

SUMMARY CONSOLIDATED BALANCE SHEET

At 31 December	2011 £ million	2010 £ million
Assets		
Cash and balances at central banks	60,722	38,115
Derivatives, trading and other financial assets at fair value through profit and loss	205,523	206,968
Loans and receivables:		
Loans and advances to customers	565,638	592,597
Loans and advances to banks	32,606	30,272
Debt securities	12,470	25,735
	610,714	648,604
Available-for-sale financial assets	37,406	42,955
Held-to-maturity investments	8,098	7,905
Investment properties	6,122	5,997
Intangible assets, including goodwill, and the value of in-force business	11,850	12,879
Tangible fixed assets	7,673	8,190
Retirement benefit assets	1,338	736
Other assets	21,100	19,225
Total assets	970,546	991,574
Liabilities		
Deposits from banks	39,810	50,363
Customer deposits	413,906	393,633
Derivatives, trading and other financial liabilities at fair value through profit or loss	83,167	68,920
Debt securities in issue	185,059	228,866
Insurance liabilities	79,291	81,372
Liabilities to customers under non-participating investment contracts	49,636	51,363
Other liabilities	37,613	33,500
Retirement benefit obligations	381	423
Subordinated liabilities	35,089	36,232
Total liabilities	923,952	944,672
Shareholders' equity	45,920	46,061
Non-controlling interests	674	841
Total equity	46,594	46,902
Total equity and liabilities	970,546	991,574

The summary financial statement, comprising the summary consolidated income statement on page 30, the summary consolidated balance sheet on page 31 and the directors' remuneration commentary on page 33 was approved by the directors on 27 February 2012.

Sir Winfried Bischoff
Chairman

António Horta-Osório
Group Chief Executive

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 30, the summary consolidated balance sheet on page 31, the summary directors' report on page 32 and the directors' remuneration commentary on page 33.

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.

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 2011 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
London
27 February 2012

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 occurred 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 2011 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 and pages 4 to 20. Biographical details of directors are shown on pages 34 and 35.

Changes to the composition of the Board since 1 January 2011 up to the date of this annual review are shown below:

	Joined the Board	Retired from the Board
Mr A Horta-Osório (became Group Chief Executive on 1 March 2011)	17 January 2011	
Mr J E Daniels		28 February 2011
Mr A G Kane		18 May 2011
Mrs H A Weir		18 May 2011
Ms S V Weller	1 February 2012	
Mr G T Tate		6 February 2012
Mr T J W Tookey		24 February 2012

Lord Leitch will retire from the board on 29 February 2012.

Sir Julian Horn-Smith and Mr Moreno will retire from the Board on 17 May 2012.

Ms S V Weller has been appointed to the Board since the annual general meeting held in 2011 and will therefore stand for election at the forthcoming annual general meeting.

In the interests of good corporate governance and in accordance with the provisions of the UK Corporate Governance Code, the Board has decided that all of the other Directors will retire voluntarily and those willing to serve again will 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 AND DIRECTORS' REMUNERATION

Directors' remuneration

Full details of the Group's remuneration policy for directors as well as details of their remuneration in 2011 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.

Once again, there has been considerable external focus and scrutiny of executive remuneration in the past 12 months. In light of this the Group has worked to ensure that it motivates, incentivises and retain its talent while continuing to be mindful both of the economic outlook and the views of its numerous stakeholders. During 2011, a thorough Strategic Review of the business was conducted by the Board, which is now in its implementation phase. Following this review, the Group has worked towards translating our new strategic objectives into meaningful metrics against which to measure performance.

While there have been no material changes to the overall structure of executive remuneration, the Group has continued to maintain an open and transparent dialogue with shareholders. The Group is, however, mindful of the need to exercise restraint as part of the effective governance of executive pay. This has been demonstrated through a number of decisions made in the last twelve months including not increasing fixed pay, as others in the market have done, and the decision by the Group Chief Executive not to be considered for a bonus for 2011.

Furthermore, the Committee has proactively taken the decision to adjust bonus awards made to Executive Directors and certain senior executives in respect of the performance year 2010 to reflect the PPI provision made in this year's accounts. While there is no suggestion of wrongdoing or culpability, the Committee has made the adjustment, known as malus, to reflect the provision that was made after the annual results and bonus awards were finalised in February 2011.

The Group carefully considered what size bonus pool would be appropriate to distribute across the Bank as a whole. In making their decision, the Group took into account the success of the integration programme, the Group's overall performance and the views of shareholders and the general public. As a result, the bonus pool was reduced by approximately 30 per cent with the greater reductions being applied to more senior staff.

Salary increases have also been restricted. Salaries as part of the annual review will increase by less than 2.5 per cent, with lower or zero increases at more senior levels. Annual incentives for Executive Directors and the Group Executive Committee are down approximately 50 per cent against 2010 on a like for like basis

The Long Term Incentive Plan remains a core part of the Group's reward strategy. The performance conditions have been changed to ensure alignment with the objectives and timeline of the Strategic Plan as well as to link to retaining our key employees and align with other elements of reward. The Group believes the LTIP will be more motivational by introducing measures with clear milestones and outcomes that can be communicated regularly, providing a sense of purpose and achievement throughout the life of the plan. The Group recognises that core financial measures remain an important element for top management to ensure alignment with shareholders. Accordingly, it is proposed that Economic Profit and Absolute Total Shareholder Return targets remain in place for Directors, but at a reduced level, with a significant percentage of LTIP based on balanced scorecard measures.

Despite the uncertain economic outlook, the market for talent is no less competitive and the Group must compete for this in the UK and overseas markets with varying levels of regulation and scrutiny. Nonetheless, the Group recognises the impact that recruitment premiums can have on the total pay bill, and has therefore continued to recruit successfully paying at appropriate market levels. Where possible, the Group also seeks to link recruitment awards to Company performance (as demonstrated by the share price targets applied to the Group Chief Executive's pension opportunity) and through a recently introduced process to carefully monitor new joiners' performance as they become established in their roles.

In the same way, for leavers the Group is conscious of the importance of mitigating the Company's costs and not paying more than is appropriate through previously agreed exit terms. Other than in exceptional circumstances the Group pays only that required under contractual entitlements.

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 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.

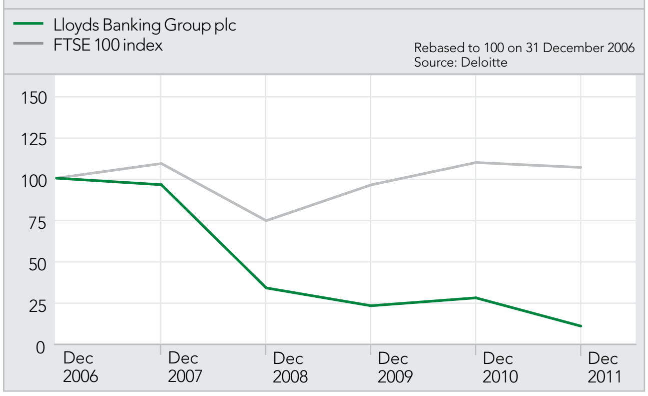
Summary of emoluments paid to Directors

	2011 £000	2010 £000
Aggregate emoluments paid to Directors	**8,147**	10,641
Aggregate gains made by directors on exercise of share options	**342**	–
Aggregate value of assets receivable under long-term incentive schemes	**46**	39
Aggregate company contributions in respect of directors to defined contribution pension schemes	**167**	435
Number of directors with retirement benefits accruing under:		
– defined contribution schemes	**4**	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



BOARD OF DIRECTORS

Non-Executive Directors

Sir Winfried Bischoff
Chairman

NG Re Ri

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 Akbank International Advisory Board and Chairman of the Advisory Council of TheCityUK. Aged 70.

Lord Leitch
Deputy Chairman
Independent Director
(Until 29 February 2012)

A NG Re

Joined the Board in October 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). Chairman of BUPA and Intrinsic Financial Services. Chairman of Medical Aid Films and Chancellor of Carnegie College. Former Chairman of the National Employment Panel and of the ABI. Aged 64.

Anita M Frew
Independent Director

A Ri

Joined the Board in 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. Prior to this she was Executive Director of Abbott Mead Vickers, Director of Corporate Development at WPP Group and a Non-Executive Director of Northumbrian Water and has held various investment and marketing roles at Scottish Provident and the Royal Bank of Scotland. Aged 54.

Sir Julian Horn-Smith
Independent Director
(Until 17 May 2012)

NG Re Ri

Joined the Board in January 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 Acer Incorporated (Taiwan), 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 BUMI. Pro Chancellor of University of Bath. A former Chairman of The Sage Group. Aged 63.

Glen R Moreno
Senior Independent Director
(until 17 May 2012)
(Deputy Chairman from
1 March 2012 to 17 May 2012)

NG

Joined the Board in March 2010. Chairman of Pearson, the media group, since October 2005. 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, a FTSE 100 financial services group, and acting Chairman of UKFI. Former Group Executive of Citigroup; from 1969 to 1987 he held a number of senior positions at the bank in Europe and Asia. Aged 68.

David L Roberts
Independent Director
(Deputy Chairman from 17 May 2012)

A NG Re Ri

Joined the Board in 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 49.

T Timothy Ryan, Jr
Independent Director

A Re Ri

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 Insurance Co., Power Corporation of Canada and Power Financial Corporation and a member of the Global Markets Advisory Committee for the National Intelligence Council. A former Director in the Office of Thrift Supervision, US Department of the Treasury and Koram Bank and the International Foundation of Election Systems. Aged 66.

Martin A Scicluna
Independent Director

A NG Ri

Joined the Board in September 2008. Chairman of Deloitte UK from 1995 to 2007 and a member of the Board from 1991 to 2007. Joined the firm in 1973 and was a partner from 1982 until he retired in 2008. A member of the Board of directors of Deloitte Touche Tohmatsu from 1999 to 2007. Chairman of Great Portland Estates. A Governor of Berkhamsted School. Aged 61.

Anthony Watson CBE
Independent Director
(Senior Independent Director from 17 May 2012)

A NG Re

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 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 66.

Sara V Weller
Independent Director

Re Ri

Joined the Board on 1 February 2012. Between 2004 and 2011, Managing Director of Argos, the second biggest internet retailer in the UK. From January 2000 to April 2004, Marketing Director for Sainsbury's Supermarkets, before being promoted to the position of Deputy Managing Director and serving on the Board of J Sainsbury from January 2003 to the end of March 2004. Retail Marketing Director for Abbey National from December 1996 to December 1999 and worked for Mars Confectionery from September 1983 to December 1996, rising to European Franchise Manager. Non-Executive Director of Mitchells & Butlers from April 2003 to January 2010. Non-Executive Director of United Utilities Group from March 2012. Aged 50.

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

Executive Directors

António Horta-Osório
Group Chief Executive

Joined the Board in January 2011 as an Executive Director and became Group Chief Executive in 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. Joined Santander UK, as a Non-Executive Director in November 2004 and from August 2006 until November 2010, was its Chief Executive. Formerly a Non-Executive Director of the Court of the Bank of England. A Non-Executive Director of Fundação Champalimaud in Portugal. Aged 48.

Harry F Baines
Company Secretary

SUMMARY OF GROUP RESULTS

Combined businesses segmental analysis

2011	Retail £m	Wholesale £m	Commercial £m	Wealth and International £m	Insurance £m	Group Operations and Central items £m	Group £m
Net interest income	7,497	2,139	1,251	828	(67)	585	12,233
Other income	1,649	3,335	446	1,197	2,687	(7)	9,307
Effects of liability management, volatile items and asset sales	48	(1,415)	–	–	–	1,293	(74)
Total income	9,194	4,059	1,697	2,025	2,620	1,871	21,466
Insurance claims	–	–	–	–	(343)	–	(343)
Total income, net of insurance claims	9,194	4,059	1,697	2,025	2,277	1,871	21,123
Costs:							
Operating expenses	(4,438)	(2,518)	(948)	(1,537)	(805)	(7)	(10,253)
Other costs[1]	–	–	–	(11)	(7)	(350)	(368)
	(4,438)	(2,518)	(948)	(1,548)	(812)	(357)	(10,621)
Trading surplus	4,756	1,541	749	477	1,465	1,514	10,502
Impairment	(1,970)	(2,901)	(303)	(4,610)	–	(3)	(9,787)
Share of results of joint ventures and associates	11	14	–	3	–	(1)	27
Profit (loss) before tax and fair value unwind	2,797	(1,346)	446	(4,130)	1,465	1,510	742
Fair value unwind[2]	839	2,174	53	194	(43)	(1,274)	1,943
Profit (loss) before tax	3,636	828	499	(3,936)	1,422	236	2,685
Banking net interest margin	2.09%	1.56%	4.21%	1.26%			2.07%
Cost:income ratio[3]	48.3%	62.0%	55.9%	76.4%	35.7%		50.3%
Impairment as a percentage of average advances[4]	0.54%	1.95%	1.06%	7.37%			1.62%
Key balance sheet and other items 31 December 2011	£bn	£bn	£bn	£bn	£bn	£bn	£bn
Loans and advances to customers, excluding reverse repos	352.8	123.3	28.8	43.8		0.1	548.8
Customer deposits, excluding repos	247.1	84.3	32.1	42.0		0.4	405.9
Risk-weighted assets	103.2	163.8	25.4	47.3		12.6	352.3

[1] Other costs include FSCS costs and UK bank levy.

[2] The net credit in 2011 of £1,943 million is mainly attributable to a reduction in the impairment charge of £1,693 million as losses reflected in the acquisition balance sheet valuations of the lending and securities portfolios have been incurred.

[3] Impairment on loans and advances to customers divided by average loans and advances to customers, excluding reverse repurchase transactions, gross of allowance for impairment losses.

[4] Operating expenses excluding impairment of tangible fixed assets divided by total income net of insurance claims.

Combined businesses segmental analysis (continued)

2010	Retail £m	Wholesale £m	Commercial £m	Wealth and International £m	Insurance £m	Group Operations and Central items £m	Group £m
Net interest income	8,648	2,847	1,127	1,050	(39)	510	14,143
Other income	1,607	3,974	457	1,123	2,799	(24)	9,936
Effects of liability management, volatile items and asset sales	–	(295)	–	37	15	150	(93)
Total income	10,255	6,526	1,584	2,210	2,775	636	23,986
Insurance claims	–	–	–	–	(542)	–	(542)
Total income, net of insurance claims	10,255	6,526	1,584	2,210	2,233	636	23,444
Costs:							
Operating expenses	(4,598)	(2,752)	(992)	(1,536)	(854)	(150)	(10,882)
Other costs[1]	(46)	(150)	–	–	–	–	(196)
	(4,644)	(2,902)	(992)	(1,536)	(854)	(150)	(11,078)
Trading surplus	5,611	3,624	592	674	1,379	486	12,366
Impairment	(2,747)	(4,064)	(382)	(5,988)	–	–	(13,181)
Share of results of joint ventures and associates	17	(95)	–	(8)	(10)	5	(91)
Profit (loss) before tax and fair value unwind	2,881	(535)	210	(5,322)	1,369	491	(906)
Fair value unwind	1,105	3,049	81	372	(43)	(1,446)	3,118
Profit (loss) before tax	3,986	2,514	291	(4,950)	1,326	(955)	2,212
Banking net interest margin	2.31%	1.59%	3.74%	1.46%			2.21%
Cost:income ratio	45.3%	42.2%	62.6%	69.5%	38.2%		46.6%
Impairment as a percentage of average advances	0.74%	2.23%	1.24%	8.90%			2.01%
Key balance sheet and other items 31 December 2010	£bn	£bn	£bn	£bn	£bn	£bn	£bn
Loans and advances to customers, excluding reverse repos	363.7	141.5	28.6	55.3		0.4	589.5
Customer deposits, excluding repos	235.6	82.8	31.3	32.8		–	382.5
Risk-weighted assets	109.3	196.1	26.6	58.7		15.7	406.4

[1]Other costs include FSCS costs and impairment of tangible fixed assets.

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 (see below). The report and accounts is also available on our website, www.lloydsbankinggroup.com

Annual general meeting

The annual general meeting will be held at 11.30am on Thursday 17 May 2012 at the Edinburgh International Conference Centre, The Exchange, Edinburgh, EH3 8EE. Further details about the meeting, including the proposed resolutions, can be found in our Notice of annual general meeting which is sent to all shareholders who have requested paper copy documents. It is also available on our website www.lloydsbankinggroup.com

Shareholder enquiries

The Company's share register and the Lloyds Banking Group Shareholder Account are maintained by Equiniti Limited. Contact them using the details below if you have enquiries about your shareholding, including:

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

Equiniti Limited
Aspect House, Spencer Road
Lancing, West Sussex BN99 6DA

Telephone 0871 384 2990[1]
Textphone 0871 384 2255
Overseas +44 (0)121 415 7066

Telephone lines are open 8.30am to 5.30pm, Monday to Friday.

[1] Calls to 0871 numbers are charged at 8p per minute 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 2012.

Equiniti operates a web based enquiry and portfolio management service for you to receive shareholder communications electronically and to register your proxy appointments or voting instructions online. You can also change your address or bank details either by telephone or online. Visit www.shareview.co.uk for details.

Share price information

Shareholders can access both the latest and historical share prices via our website, www.lloydsbankinggroup.com, as well as listings in most national newspapers. For a real time buying or selling price, you will need to contact a stockbroker or you can contact the sharedealing providers detailed below.

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, the Channel Islands or the Isle of Man. 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 services are available between 8.00am and 9.15pm, Monday to Friday, and 9.00am to 1.00pm, 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.

proud partner of the
Olympic and Paralympic Games

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.

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, 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

Share sale fraud

Lloyds Banking Group have been made aware of an increasing number of share sale frauds being reported by listed companies. This involves bogus stockbrokers, usually based overseas, cold calling people to:

- either pressure them into buying shares that promise high returns; or
- offer to buy their shares at an inflated price claiming that there is a 'secret' takeover or merger. This is followed by a request for an upfront cash bond to commit to the deal.

In reality, the shares or secret information are either worthless or nonexistent and if you receive such a call, we strongly recommend that you seek independent investment advice from an FSA authorised adviser before you take any action.

If you are concerned that you may have been targeted by such a scheme, please contact the FSA Consumer Helpline on 0845 606 1234, www.fsa.gov.uk or Action Fraud on 0300 123 2040, www.actionfraud.org.uk for further advice.

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

Forward looking statements

This annual review 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 including, without limitation, as a result of the integration of HBOS and the Group's simplification programme; 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; instability in the global financial markets including Eurozone instability; changing demographic and market related 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 certain factors together with examples of forward looking statements. The forward looking statements contained in this annual review are made as at the date of this announcement, and the Group undertakes no obligation to update any of its forward looking statements.