LLOYDS BANKING GROUP

ANNUAL REVIEW 2012

BECOMING THE BEST BANK FOR CUSTOMERS

INTRODUCTION

Contents

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.

Services are offered 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.

View our report
ONLINE

Our annual report and accounts and information relating to Lloyds Banking Group is available at:
www.lloydsbankinggroup.com

WE ARE CREATING A SIMPLER, MORE AGILE AND RESPONSIVE ORGANISATION AND ARE MAKING A BIG INVESTMENT IN PRODUCTS AND SERVICES.

BY BECOMING THE BEST BANK FOR CUSTOMERS WE BELIEVE WE CAN HELP BRITAIN PROSPER AND DELIVER STRONG, STABLE AND SUSTAINABLE RETURNS FOR OUR SHAREHOLDERS.

GROUP PERFORMANCE

The substantial progress we made in 2012 means that we are now ahead of our plan to transform the Group, and this was reflected in our stronger underlying financial performance in the year.

António Horta-Osório
Group Chief Executive

Significantly improved Group performance; continue to work through legacy issues

- Substantial increase in Group underlying profit from £638 million to £2,607 million
- Full year Group net interest margin of 1.93 per cent, in line with our guidance at the 2011 full year results
- Costs further reduced by 5 per cent to £10.1 billion, in line with strategic review target two years ahead of plan; Simplification run rate savings increased to £847 million
- Credit quality continues to improve; 42 per cent impairment reduction to £5.7 billion, significantly ahead of original guidance of £7.2 billion; impairment charge as a percentage of average advances improved to 1.02 per cent (2011: 1.62 per cent)
- Statutory loss of £570 million primarily due to PPI provisions of £3,575 million (including £1,500 million in the fourth quarter of 2012), and including £3,207 million of gains from sales of government securities

Confident in capital position; balance sheet further de-risked; funding position transformed

- Strong underlying capital generation with core tier 1 capital ratio increased to 12.0 per cent; on a pro forma fully loaded CRD IV basis the ratio is estimated at 8.1 per cent, including 0.3 per cent from expected CRD IV resolutions
- Continued capital-accretive non-core asset reduction of £42.3 billion, benefitting capital ratios, and exceeding initial 2012 guidance by £17 billion. Non-core portfolio now less than £100 billion, at £98.4 billion
- Deposit growth of 4 per cent; core loan to deposit ratio of 101 per cent, in line with long-term target of 100 per cent; Group loan to deposit ratio of 121 per cent, achieving target two years in advance
- Total wholesale funding reduced by £81.6 billion to £169.6 billion; maturity profile further improved with less than 30 per cent (2011: 45 per cent) of total wholesale funding with a maturity of less than one year

Core business increasingly well positioned for growth and delivering strong returns above cost of equity

- Core return on risk-weighted assets increased from 2.46 per cent to 2.56 per cent
- Underlying profit broadly stable at £6,154 million (2011: £6,196 million)
- Core net interest margin of 2.32 per cent; stable throughout 2012
- 5 per cent reduction in core costs to £9,212 million; 34 per cent reduction in core impairments to £1,919 million

Further improving products and services to support customers and the UK economic recovery

- UK's largest lender to first time buyers, helping over 55,000 customers, and exceeding £5 billion lending target for 2012
- SME net lending growth of 4 per cent, against a shrinking market; exceeded 2012 SME net lending commitment of £13 billion and three year target of assisting 300,000 new start-ups by the end of 2012
- First participant in Funding for Lending Scheme, further enabling us to support the UK economy; £11 billion committed
- Increased Net Promoter Score in all three brands and a further reduction in FSA reportable banking complaints (excluding PPI) to 1.1 per 1,000, more than halving complaints in two years

Further progress expected in 2013 and beyond; confident in meeting medium term guidance

- Expect Group net interest margin of around 1.98 per cent for full year 2013
- Targeting further reduction in total costs to around £9.8 billion in 2013
- Expect further improvement in portfolio quality, and a substantial reduction in the 2013 impairment charge, with a consequential increase in underlying profit before tax
- Targeting core loan growth in the second half of 2013
- Expect a further reduction of non-core assets of at least £20 billion in 2013; on track to achieve target of a non-core asset portfolio of £70 billion or less by the end of 2014, with more than 50 per cent in non-core retail assets

Consolidated income statement

	2012 £m	2011 £m
Net interest income	**10,335**	12,210
Other income	**8,416**	9,179
Insurance claims	**(365)**	(343)
Total underlying income, net of insurance claims	**18,386**	21,046
Total costs	**(10,082)**	(10,621)
Impairment	**(5,697)**	(9,787)
Underlying profit	**2,607**	638
Effects of asset sales, volatile items and liability management	**1,570**	841
Fair value unwind	**650**	1,206
Management profit	**4,827**	2,685
Simplification, EC mandated retail business disposal costs and integration costs	**(1,246)**	(1,452)
Payment protection insurance provision	**(3,575)**	(3,200)
Other regulatory provisions	**(650)**	(175)
Past service pensions credit	**250**	–
Amortisation of purchased intangibles	**(482)**	(562)
Volatility arising in insurance businesses	**306**	(838)
Loss before tax – statutory	**(570)**	(3,542)
Taxation	**(773)**	828
Loss for the year	**(1,343)**	(2,714)
Loss per share	**(2.0)p**	(4.1)p

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:

- Simplification, EC mandated retail business disposal costs and integration costs;
- payment protection insurance provision;
- other regulatory provisions;
- certain past service pension credits in respect of the Group's defined benefit pension schemes;
- amortisation of purchased intangibles;
- volatility arising in insurance businesses; and
- insurance gross up.

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

Customers are at the heart of the organisation and by leveraging our strategic assets and capabilities effectively in all of our divisions we believe we can help Britain prosper and deliver strong, stable and sustainable returns for shareholders.

Our business model

Lloyds Banking Group is a leading financial services group with a simple, lower risk, customer focused, UK retail and commercial banking business model.

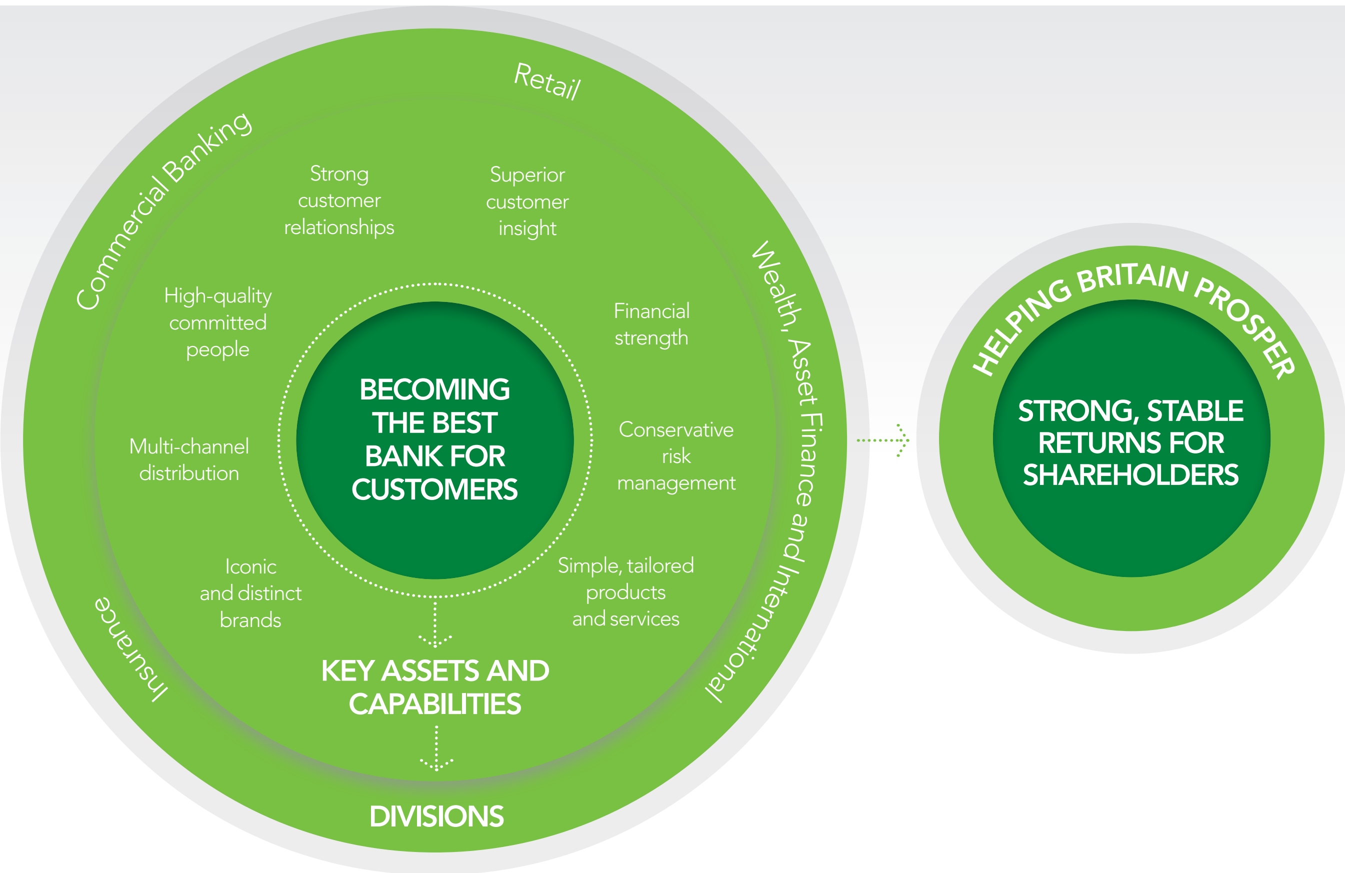
We provide a range of banking and financial services, primarily in the UK, to personal, commercial and corporate customers and have designed our business model around our distinctive assets and capabilities in serving customers effectively. By really focusing on the needs of customers, and operating sustainably and responsibly, we believe we will help Britain prosper and create value for shareholders.

Our iconic and distinct brands, our broad multi channel distribution network, our financial strength, conservative approach to risk management and our high quality, committed colleagues are the foundation for providing customers with effective service. Through distinctive strengths, in particular superior customer insight, simpler tailored products and relationship focus we want to meet the financial needs of our customers, whether that be through banking, insurance, investment, debt financing or risk management products, and help them succeed financially.

We also deliver value through a focus on increasing the efficiency of operations and processes across the value chain, simplifying the organisation and reducing costs. Creating a lower risk, more agile, efficient organisation enables us to more effectively address customer needs whilst reducing the cost base.

The UK financial services market remains one of the largest in the world and although our business model and strategy have been formulated in the context of a cautious outlook for the UK economy it remains appropriate for all stages of the economic cycle. Whilst providing real differentiation and positioning us well for future regulatory reform.

Ultimately as a simple, lower risk, customer focused UK retail and commercial bank, we can rebuild the trust of our customers and other stakeholders, help Britain prosper and deliver strong, stable and sustainable returns for shareholders.



Our strategy

The Group's strategy is built on being the best bank for customers, and creating value by investing where we can make a real difference for customers. Customer leadership driven by superior customer insight, simple tailored products, better service and relationship focus is the overriding priority. The customer is at the heart of everything we do, whether that be in our branches, our brands or our people. This commitment is supported by the Group values of putting customers first, keeping it simple and making a difference together.

We are creating a simpler, more agile, efficient and responsive customer focused organisation with a real focus on operating sustainably and responsibly and helping Britain prosper. We are reshaping and simplifying the business and investing a portion of the savings realised from our Simplification programme in customer related growth initiatives. Whilst focusing on core markets which offer strong returns and attractive growth we are maintaining a prudent approach to risk and further strengthening the Group's balance sheet and liquidity position.

We are reshaping our business portfolio to fit our assets, capabilities and risk appetite. We are strengthening the balance sheet through the continued reduction of our non-core assets and reducing the risk in the business through the application of a conservative approach to, and prudent appetite for risk. We are also reducing our international presence in order to focus on our core UK customers.

We believe we can unlock the potential in our franchise and deliver value to customers and shareholders by creating a simpler organisation. Opportunities exist to increase the efficiency of operations and processes and reduce costs whilst addressing changing customer needs and the external environment more effectively.

Our customer focus remains the key driver for strategy and business decision making and substantial customer related investment is planned. Our strategy reflects 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.

Our strategy is being delivered though a clear action plan focused on reshaping our business portfolio to fit our assets capabilities and risk appetite, strengthening the Group's balance sheet and liquidity position, simplifying the Group to improve agility and efficiency and investing to be the best bank for customers.

DELIVERING OUR ACTION PLAN

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

We continue to 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, our focus will be on reducing non-core assets, improving our asset quality and reducing our international presence.

STRENGTHEN
the Group's balance sheet and liquidity position.

We continue to strengthen the Group's balance sheet ensuring the financial strength and security of the Group. We are enhancing our capital ratios and ensuring we exceed regulatory liquidity requirements, whilst maintaining a stable funding base and ensuring loan to deposit ratios remain close to our long term target.

SIMPLIFY
the Group to improve agility and efficiency.

Our Simplification programme continues to focus on creating a more efficient, agile organisation, reducing costs in the business whilst improving the customer and colleague experience. As announced last year, we are now targeting £1.9 billion of cost savings in 2014 through a series of simplification initiatives. Savings will be realised by focusing on: operations and processes, channels and products, sourcing and creating a 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. This will result in an incremental investment of approximately £2 billion between 2011 and 2014. Our investment is subject to disciplined tests, including financial returns, 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 partner for our business customers and enhancing our insurance proposition.

CHAIRMAN'S STATEMENT

Sir Winfried Bischoff

"Another year of progress for the Group against a still challenging economic and regulatory backdrop."

Overview

2012 was a momentous year for the United Kingdom. We celebrated the Diamond Jubilee and the London 2012 Olympic and Paralympic Games. Lloyds Banking Group was appointed a National Partner to the Games in 2007, and in this role we helped fund emerging athletes, supply volunteers and, crucially, support local businesses to enable them to take full advantage of the available commercial opportunities. We are proud of the significant role the Group played and of our part in creating a lasting legacy.

It was also a year of progress for the Group against a still challenging economic and regulatory backdrop. We continued to implement our strategy and are now ahead of our plan to transform the Group and create an efficient, lower-risk retail and commercial bank, focused on being the best bank for customers. This was reflected in our share price, which rose 85 per cent in 2012, substantially outperforming the FTSE 350 banks index, which rose by 34 per cent, and making our shares the best performer in the FTSE 100 over the year. However, we need to continue to manage a number of legacy issues which have had an adverse impact on our financial performance.

To put this into figures: Even though the operating environment in the UK remained challenging, we delivered consistent underlying performance in our core business, demonstrating the strength of our strategy and management team. This resulted in an increase of our underlying profit before tax over that of 2011 from £638 million to £2,607 million. The statutory results, however, were impacted by a number of items including payment protection insurance, for which we took provisions totalling an additional £3,575 million in 2012, bringing the total amount provided to £6,775 million since 2011. Additionally we made a further provision in respect of possible claims arising from SME derivatives amounting to £400 million.

Supporting the UK Economic Recovery

We play an active part in supporting the UK economy, to which our success is inextricably linked, and in 2012 we confirmed our commitment to helping Britain prosper through a number of initiatives. These included leading the way in participating in the Government's Funding for Lending Scheme and growing our lending to small and medium-sized businesses against the backdrop of a contracting market. We made strong commitments to supporting sectors, such as manufacturing, that play a key role in economic recovery. We also underlined our support to the UK housing market by continuing to be the UK's largest mortgage provider to first time buyers, helping over 55,000 customers take their first steps onto the property ladder.

Regulation

The regulatory framework governing the UK banking industry continued to evolve in 2012, and whilst there was greater clarity, a considerable degree of uncertainty remains about the final outcome of the shape of our industry. We continue to implement regulatory changes alongside the current Basel 3 draft legislation and await its finalisation when we will be able fully to assess the changes required and their effect on the Group. The largest challenge for regulators remains to devise a regulatory framework that strikes the right balance between enhancing financial stability, and encouraging innovation, competition and growth.

We have been a consistent supporter of the proposals to ring-fence systemically important banking operations outlined by the Independent Commission on Banking (ICB), given their close alignment to our simple UK focused retail and commercial banking model. It is our intention, subject to discussions with the regulator and the interests of our shareholders, to become a ring-fenced bank ahead of the 2019 deadline. This will be a step-change for the UK banking industry that should reduce risk and ensure clear distinction between retail and commercial banks on the one hand, and investment banks on the other.

During 2012 we have made good progress regarding the EC mandated disposal, Project Verde. We have created Verde as a stand-alone bank, which from the summer 2013, will be operating as a separate business within the Group. We are well-positioned to divest the business either through a sale or an Initial Public Offering. Our discussions with The Co-operative Group plc continue towards signing a binding sale and purchase agreement. The formation of a new banking business, when completed, will be an effective challenger in the UK's retail banking market.

Dividends

We strengthened our capital position during 2012 despite provisions and charges for regulatory issues. As we stated in 2011, we remain committed to restarting dividend payments as soon as we are able, and fully understand the difficulties that their absence is causing our shareholders. Once regulatory requirements have been clearly defined and we have prudently met them, and the financial position of the Group and market conditions permits, it is our intention to recommence dividend payments.

Management and Staff

The Board is committed to achieving long-term success for the Group and generating strong, stable and sustainable returns for shareholders, and this is underpinned by our high standards of corporate governance. We have a strong executive management team, with deep experience and broad understanding of our business challenges. The team's aim is to be the best bank for customers, while acting as ambassadors in leading cultural change in the organisation. In this way I feel confident we will deliver the value which our shareholders expect and deserve.

It is vital to ensure our colleagues are fully engaged in meeting our business objectives and in making further progress. I thank all of them for their commitment. Delivering excellent service and simple customer focused products is at the heart of our strategy and we know we have to demonstrate this in all our actions. By acting in our customers' best interests in every contact we have with them, we will become the great business we aspire to be and a source of pride for our employees. This in turn will enable us to build sustainable returns for our shareholders.

Directors

We have strengthened and further diversified the knowledge and experience on our Board. On 31 May 2012, two new Non-Executive Directors were appointed, Carolyn Fairbairn and Lord Blackwell. Carolyn's background in strategy, public policy and regulation complements the experience of Lord Blackwell in banking, consulting and life insurance. These appointments add to the existing combination of skills, and banking and life insurance perspectives, already present on our Board and will contribute to the quality of decision making.

On 22 November 2012 we announced that Martin Scicluna, Audit Committee Chairman, will step down from the Board and leave the Group at the end of March 2013 following his appointment as Chairman of RSA plc. I thank him for the substantial contribution he has made as Audit Committee Chairman and for his constructive views on all aspects of our business. I am pleased Nicholas Luff has joined us and will be taking over as Audit Committee Chairman on 1 April 2013. He brings substantial financial and audit committee experience to that role and we look forward to working with him.

We also announced Timothy Ryan will retire from the Board in April 2013. Tim, too has made a substantial contribution to the Board over the last three years with his deep knowledge and understanding of the global financial services sector and the wider regulatory impact on our business.

I want to express my thanks to our Non-Executive Directors for their judgement, wisdom and commitment. They have spent substantial amounts of time – far more than expected – on our business over the last four years and have done so without any increase in their fees since January 2008. These fees are now significantly below those of every other major banking institution. We review fees annually and directors have decided once again to forego any increase in light of the fact that the Group in 2012 was still loss making at the statutory level.

I am pleased that we achieved our commitment of 25 per cent female representation on the Board three years ahead of the 2015 timeline mandated by the Lord Davies report. We believe that diversity in background and experience helps to enhance the quality of deliberations and decision making, and we will continue to promote it within the Board as an example to our entire organisation.

Community

We believe that businesses should support the communities where they operate. For Lloyds Banking Group, this not only strengthens and grows our business, but also helps to rebuild trust and confidence in the banking sector and the positive role banks should play in society as a whole.

Making a difference in communities by supporting education, employability and enterprise is central to the vision of the type of bank we want to be, a UK focused retail and commercial bank that exists to serve the needs of its customers. If we continue to focus on our Group values: putting customers first, keeping it simple and making a difference together we will build a strong and profitable Group, with a culture which reinforces these behavioural standards.

Following our strategic Review in 2011 we are committed to keeping our charitable and community investment at £85 million for the period of the strategic plan. This has meant thousands of colleagues have been able to volunteer in local community activities through our staff giving days. I am pleased that we raised over £3.6 million in charitable donations over the two years duration of our partnership with Save the Children as our 'Charity of the Year'. We are already actively supporting our new Charity of the Year: the Alzheimer's Society and Alzheimer Scotland, who have launched the *Live Well Campaign*, the first UK-wide dementia carers' programme. We also continue to run a number of charitable programmes using our business capabilities to support local communities, including our recognised *Lloyds Scholars* programme, *Money for Life* our financial capability programme, and *Business in the Community* of which we have been a supporter of for over 20 years.

This year we saw the culmination of our partnership with London 2012. The success of the Olympic and Paralympic Games reflected the dedication of so many of our colleagues who had supported the run-up to the Games over the past five years. The Games themselves continued the positive impact on our local communities, which is why we are delighted to be building on their legacy by developing our National School Sport Week and Local Heroes programmes.

£3.6 million

Charity of the year
During the two years of our partnership with Save the Children this sum was raised to support the work of the charity.

25%

Board representation
Three years ahead of the mandated timeline we have 25 per cent female representation.

CHAIRMAN'S STATEMENT

"We remain committed to operating as a privately owned Group, which is profitable, self supporting and dividend paying."

Culture

We believe culture is values brought to life and is the consequential outgrowth of the strategy of a bank. Ours is to place the customer first. Just as with strategy, the Board has a major role in shaping culture and in setting out principles and values that will drive long-term success. In addition we believe it is the duty of the Board to ensure that these common objectives of management and Board are implemented throughout the institution. In banking there is a place for re-balancing the priorities between shareholders and customers. When customers come first, shareholders will naturally be rewarded.

Within Lloyds Banking Group we recognise the value of diversity in our colleagues from a broad and representative mix of backgrounds and experiences: different perspectives allow us to see and develop new opportunities. We promote internal initiatives to support diversity and inclusion within the Group and I was pleased to see our achievements also being recognised at the Business Disability Forum. We can only achieve our customer-focused strategy by building a sound reputation founded on the highest standards of responsible behaviour. In 2012 we launched the Codes of Responsibility to guide our decision making and help us put into practice our commitment to strive always to do the right thing.

Remuneration

The Remuneration Committee undertook a further review of remuneration and executive remuneration in 2011. Anthony Watson, the chairman of the Remuneration Committee, provides his usual review of our approach elsewhere in the report but due to the importance of remuneration to our stakeholders and the Group, as Chairman, I also want to provide some context to the decisions we have taken.

We continue to believe that the remuneration policy at all levels, including for senior executives, needs to incentivise staff to deliver strong, sustainable growth whilst reflecting the work required to reshape and transform the Group. We have a strong conviction to align reward to the longer term, sustainable success of our business and through this the return of value to shareholders. We are also mindful however both of the economic outlook and the views of our stakeholders.

We have therefore focused on the need to manage aggregate variable pay and the overall size of the bonus pool. The total bonus pool has been reduced by approximately 3 per cent to £365 million with the greater impact being applied to more senior staff and managed in the context of business and individual performance. As we are primarily a retail and commercial bank the awards under our Group bonus scheme remain a very small percentage of revenues at approximately 2 per cent, and represent approximately 7 per cent of pre-bonus management profit before tax, compared to 12.5 per cent in 2011. Cash bonuses are capped at £2,000 with additional amounts paid in shares and subject to deferral and performance adjustment. The average value of bonuses paid per employee, will remain similar to 2011 at less than £3,900.

With regard to executive remuneration we feel it is appropriate that the fixed elements of Directors' pay should remain unchanged for a further year, recognising the continued economic climate and the need to evidence sustained returns for shareholders. Our 2012 bonus awards have been determined conservatively against robust financial performance measures, and these awards will continue to be deferred into shares, until at least 2015.

In recognition of the Group's performance in 2012, the Remuneration Committee has decided to make an annual performance award to António Horta-Osório of £1,485,000 deferred in shares. The deferral period for this award will be extended to 5 years, and so will not be released until 2018, and will be subject to additional conditions related to the share price at which the UK Government invested. António has led the Group through a strong year that has put us ahead in the implementation of our strategic plan. I believe this, in part, is a reason for the Group being the best performing stock in the FTSE 100 in 2012.

With respect to the Long-Term Incentive Plan (LTIP), as key targets for the 2010 LTIP were not met awards made under this plan will not be paid. This means that LTIP awards have not been made for Executive Directors in any of the last four years. The LTIP however remains a core part of our reward strategy and we hope that the performance conditions attached to the plan which ensure alignment with the Group's strategic objectives and timeline of our medium term plan, will be met in 2013.

Outlook

We have a strong foundation on which to build our strategy to be the best bank for customers to the benefit of our shareholders. As I have indicated in the past, the first task of the Board was to strengthen the Balance Sheet and to have a robust funding profile. Now that the Balance Sheet has been substantially strengthened and all of the liquidity support received from the UK Government has been repaid, our focus is on increasing profitability and returns to shareholders. Over time, this should in turn allow the government the opportunity to commence the sale of its shareholding, which currently stands at approximately 39.2 per cent. We remain committed to operating as a wholly privately owned Group, which is profitable, self supporting and dividend paying. 2012 has been a year in which that possibility has been enhanced. As for the immediate future I believe that, with a reasonably positive development of the UK economy, we are well positioned for growth.

I am encouraged by and grateful for the ongoing support of all of our shareholders as we implement our strategy. We have many strengths, including iconic brands, strong heritages and great people. Consequently, we are well positioned to realise the Group's full potential for growth, help Britain prosper and deliver sustainable returns for our shareholders.

Sir Winfried Bischoff
Chairman

A COMMITMENT TO GOOD GOVERNANCE

Governance

The Board is committed to achieving long-term success for the Group, and governance plays an integral part in ensuring consistency and rigour in decision making to allow us to maximise shareholder value over time. This remains uppermost in our minds when applying the principles described in relevant provisions relating to the combined code on corporate governance published by the Financial Reporting Council. The Board aims to exceed these requirements as we believe that good governance is a key contributor to the Group's long term success.

Our Board

The Board has seen a number of changes this year, and in line with the provisions of the UK Corporate Governance Code and the interests of good corporate governance, all Directors are required to submit themselves for re-election on an annual basis. We are committed to ensuring we have the right balance of skills and experience within the Board, and we annually review its composition, and the diversity of backgrounds of its members.

Executive Remuneration

As a Group we are aware of the views of our various stakeholders on executive remuneration. We seek to motivate, incentivise and retain our talent whilst remaining mindful of the current economic outlook. As examples of the justified restraint in the current circumstances we have made no changes for 2013 in senior executives' pay (with one exception) and our incentive compensation for 2012 in absolute amount and as a percentage of revenues (less than 2 per cent) is lower than that of any other major banking institution in the United Kingdom.

Additionally the Board is committed to maintaining alignment between our senior executives and shareholders and we continue to operate a stringent deferral policy to ensure individual reward is aligned with the Group's performance, the interests of its shareholders, and a prudent approach to risk management allowing where necessary for appropriate adjustment of incentive compensation to reflect malus. In March 2012, the Group announced that it had applied a performance adjustment to the deferred bonuses of certain directors and senior managers in relation to PPI. The Long Term Incentive Plan remains a core element of our reward package, although this did not pay out for four years to 2012.

Board oversight – key topics

Throughout 2012 the Board has continued to review the corporate strategy, the operation of the business and our results within a framework of prudent and effective controls, including the assessment and management of risks. This framework has allowed us to deal with key issues arising throughout the year, including:

- the Group Chief Executive's return to work in January 2012 following a short leave of absence. Having ensured that he was medically fit to return, the Board has assisted Antonio in making appropriate adjustments to his reporting line and corporate support. It is clear from his energy and commitment to the role that he has made a full recovery
- ongoing review of board composition including a number of new appointments
- oversight and challenge of the strategy and five year operating plan. This included a two day strategy offsite for the Board and executive team. Insurance and Commercial Banking have been a particular focus for the year
- following the appointment of Lord Blackwell, changes have been made to the governance and oversight of the Insurance board to ensure closer alignment with the Group Board
- monitoring of the progress of Project Verde, the EU mandated divestment of branches
- oversight of conduct issues with emphasis on embedding a culture of 'doing the right thing'
- an ongoing review of the adequacy of provisions, most recently in relation to legacy conduct issues such as PPI and SME derivatives
- establishment of a board committee chaired by David Roberts, the Chairman of our Risk Committee, to oversee the Group's handling of the process and issues arising from the industry investigation into LIBOR setting. This also included implementation of the Wheatley Review to ensure robust processes going forward
- close scrutiny and control over executive remuneration arrangements including open and effective engagement with shareholders on a range of remuneration matters. The Board through the Risk and Remuneration Committees has been particularly anxious to ensure appropriate risk adjustment. At the Annual General Meeting in May 2012 the Group achieved over 97 per cent of votes in favour of its Directors' Remuneration Report

GROUP CHIEF EXECUTIVE'S REVIEW

António Horta-Osório

"Significantly improved Group performance with core business increasingly well positioned for growth."

Summary

In 2012, we accelerated the delivery of our strategic initiatives and are now ahead of our plan to transform the Group, despite the challenging economic environment and continued regulatory uncertainty. As a result of our actions, the Group is now in a far stronger position, with capital ratios further improved, our funding position transformed, a significant and capital-accretive reduction in non-core assets achieved, costs reduced in absolute terms and asset quality further improved. While legacy issues, notably payment protection insurance (PPI), resulted in the Group still reporting a loss at the statutory level, our achievements resulted in a significant improvement in both Group underlying and statutory performance, and continued strong returns, above our cost of equity, being delivered in our core business.

We are a UK focused retail and commercial bank, and our aim, as defined in our Strategic Review in June 2011 is to build a strong competitive advantage in terms of operational efficiency and risk premium, that will allow us to become the best bank for customers.

Our drive to enhance operational efficiency and improve service continued at a pace in 2012, notably through the successful execution of our Simplification programme. Due to the progress made, we are now very close to achieving our original target of around £10 billion of total costs, two years ahead of plan. We are now targeting a further reduction in Group total costs to around £9.8 billion in 2013.

At the same time as achieving this further absolute reduction in costs, we have re-invested a third of our Simplification savings and we are continuing to strengthen our core business by directing this investment to products and channels which better meet the needs of our customers. The provision of simpler and more transparent products and services to our customers, built around their needs and delivered efficiently, is a key part of regaining their trust. The speed of our progression towards becoming the best bank for customers is clearly demonstrated by increasing customer advocacy and steadily falling levels of banking complaints (excluding PPI).

In addition to investing for sustainable growth and returns in our core business, we are reducing risk through substantial reductions in our non-core asset portfolios and a sustainable approach to risk in our core business, which together have resulted in a significant reduction in the impairment charge. We are also continuing to reduce risk and strengthen the balance sheet by reducing wholesale funding, lowering operational leverage and building higher capital ratios. We expect these initiatives, together with our focus on lower-volatility retail and commercial banking, to lower our risk premium over time, and give us a significant competitive advantage.

2012 results overview

We delivered Group underlying profit before tax of £2,607 million in 2012, a substantial increase of approximately £2 billion when compared to 2011 reflecting a significant reduction in losses in our non-core business and stable profitability in the core business. Income fell by 13 per cent to £18,386 million as a result of customer deleveraging and lower margins in the core business, and the substantial £42.3 billion reduction in the non-core portfolio. However, this was more than offset by our actions to significantly reduce costs, which fell 5 per cent to £10,082 million, and by further improvements in asset quality, which resulted in a 42 per cent reduction in the impairment charge to £5,697 million.

On a statutory basis, the Group reported a loss before tax of £570 million, with the principal reconciling items with underlying profit being provisions taken during the year in relation to the legacy issues of payment protection insurance and interest rate hedging products (IRHP) sold to small and medium-sized businesses (SMEs) of £3,575 million and £400 million respectively, a profit from asset sales of £2,547 million, and Simplification and EC mandated retail business disposal costs together amounting to £1,246 million. Other reconciling items resulted in a net charge of £503 million. The statutory loss before tax of £570 million represented a significant improvement on last year's statutory loss of £3,542 million.

The core business continues to deliver strong and stable returns above our cost of equity, with a return on risk-weighted assets of 2.56 per cent achieved in 2012, an increase of 10 basis points when compared to 2011 despite the challenging environment, with a small reduction in underlying profit of £42 million to £6,154 million being more than offset by a reduction of £6.1 billion in core risk-weighted assets. We continued to reduce costs in the core business, where they fell 5 per cent to £9,212 million, while the continued application of our conservative risk appetite meant that asset quality remained good, and the core impairment charge reduced by £968 million to £1,919 million.

We made substantial progress in reshaping the Group and strengthening the balance sheet. We have proactively managed the run-down of our non-core assets, reducing the portfolio by almost a third in 12 months to £98.4 billion, ahead of plan, and we have continued to do so in a capital-accretive way. We have transformed our funding structure with our use of wholesale funding reduced by £81.6 billion in the year, and the average maturity profile of the remaining wholesale funding further improved, with less than 30 per cent now having a maturity of under one year. The non-core reduction, together with above market deposit growth of 4 per cent, resulted in the Group's loan to deposit ratio reducing to 121 per cent, with the core loan to deposit ratio at 101 per cent, in line with our core long-term target of 100 per cent.

We further strengthened our capital ratios in 2012, with the Group core tier 1 capital ratio increasing by 1.2 per cent to 12.0 per cent and our total capital ratio increasing by 1.7 per cent to 17.3 per cent, which is already in excess of the ICB's primary loss-absorbing capacity (PLAC) recommendations. On an estimated pro forma CRD IV fully loaded basis the Group's common equity tier 1 capital ratio would have been 8.1 per cent, including the successful resolution of two CRD IV items now likely to happen. Given our strongly capital generative core business and continued progress in simultaneously releasing capital and reducing risk through non-core asset disposals, we continue to be confident in our capital position.

The substantial progress we are delivering in reducing risk and delivering on our strategic initiatives was reflected in the outcome of Moody's Investor Service rating review of 114 financial institutions, where we received only a single notch downgrade on Lloyds TSB Bank plc's longer-term senior debt and deposit ratings, and retained our short-term Prime-1 rating in June 2012.

Accelerated delivery of strategic initiatives

In addition to further ***strengthening*** our balance sheet, we have made substantial progress in the execution of the other elements of our strategic plan to be the best bank for our customers, through reshaping and simplifying our business and investing in our core franchise.

As we ***reshaped*** our business portfolio, we delivered improving credit quality trends in all divisions thanks to the rigorous application of risk controls on all new business and the further de-risking of existing portfolios. As a result, we achieved a further reduction in the Group impairment charge of 42 per cent to £5,697 million, significantly ahead of our expectation at the beginning of 2012. The improving quality of our portfolios and their decreasing risk profile was also reflected in a 12 per cent decrease in risk-weighted assets when compared to December 2011, principally driven by the reduction in non-core assets.

In line with our UK-focused strategy, we have made further progress in reducing our international presence, and have now completed or announced our exit from twelve countries or overseas branches, as well as announcing a reduced presence in a further four locations.

Our ***Simplification*** programme is central to the successful delivery of our strategy and we continue to make significant progress in driving further cost savings and efficiencies throughout the business. We have reviewed our organisational structures, increasing average spans of control and reducing the average number of management layers, while our Cost Board continued to drive a focus on cost efficiency by business line and by functional category. The success of this approach is evidenced by our achievement of run rate cost savings from the programme of £847 million at the end of 2012, ahead of plan, an achievement which gives us confidence in reaching our run rate cost savings target of £1.9 billion by the end of 2014.

5%

Total costs
Total costs reduced to £10.1 billion, in line with strategic review target two years ahead of plan.

£98.4 billion

Non-core assets
We have proactively managed the run-down of our non-core assets by almost a third in the year.

The benefits of the Simplification programme extend far beyond cost reductions. Customers and staff are already benefiting from faster, more automated and less complex processes: for example, in Commercial Banking we improved the lending process allowing businesses to receive their funds in almost half the time, while mobile and voice recognition technologies and simpler, faster processes in Retail and a quicker claims process in Insurance are further examples of how our actions are contributing to increased customer advocacy.

Reinvesting a proportion of the savings from the Simplification programme into our core franchise allows us to provide even greater levels of support and service to our customers.

In Retail, investment in our digital distribution capabilities continues to be rewarded with the number of active internet customers increasing by 1.2 million in 2012 to 9.5 million, whilst our mobile banking apps, which were launched in October 2011, now have 3.3 million users. We also achieved a major milestone of over a billion customer logons for the year. Alongside our digital services we are committed to investing in our branch network and refurbished 421 branches in 2012 and extended our opening hours. In recognition of our ongoing commitment to customers we received a number of external awards including 'Best Overall Lender' at the Your Mortgage Awards for the eleventh consecutive year and a three star mark from the Fairbanking Foundation for the Lloyds TSB Classic Account.

As part of being the best bank for customers, and reflecting the fact that the re-focusing of our SME business on delivery for customers is well under way, we announced the creation of our 'Commercial Banking' division which brings together the Group's SME clients together with larger corporate UK and global clients under the leadership of Andrew Bester who joined us in June 2012. The changes will allow us to transfer best practices from SMEs into mid-sized corporates and to deliver operational synergies between the different segments in order to become the best bank for our corporate and SME customers.

Across Commercial Banking, as part of our programme to enhance our capabilities in capital efficient products, we have continued to invest in the Transaction Banking platform, delivering new product propositions in Card Payments & Acceptance, Currencies and International Cash Management. We also continued to invest in enhancing our online capabilities, with the number of clients migrating to our foreign exchange and money market e-portal 'Arena' tripling in 2012. We also launched specialised products, including a deposit account tailored to the needs of businesses in the agricultural sector. We were voted 'Business Bank of the Year' for the eighth consecutive year at the Real FD/CBI Excellence awards, a testament to our support for British businesses.

Within the Wealth business we have continued to leverage our expertise to deepen customer insight and to invest in products and services that are tailored to meet the needs of our clients. In preparation for the implementation of the Retail Distribution Review (RDR) we invested in training our advisers to ensure that they are fully-qualified and best-positioned to continue to advise clients, and ensured that our systems and processes comply with new standards. In 2012, we also launched our private banking client centre which improved the 'on-boarding' experience for our UK Wealth clients, whilst making the referral process simpler for colleagues. We have a strong market position in Asset Finance and have continued to invest in our technology platform in 2012 to provide an improved, cost-effective customer experience.

GROUP CHIEF EXECUTIVE'S REVIEW

Mortgages

We provided £26.2 billion of gross new mortgage lending in 2012. This included supporting over 55,000 customers in buying their first home, equivalent to one in every four first time buyers.

In Insurance, we continued to invest in our core systems, products and processes in advance of RDR and the launch of pension auto-enrolment, to enable us to support both retail and commercial customers through this period of change. We have taken the first steps towards launching an enhanced annuities proposition, with full implementation into this growing market expected in mid-2013. We are pleased with the further progress in enhancing our proposition, with Scottish Widows being recognised for its products, service and quality, receiving a number of industry awards including 'Best Group Pension Provider' in the Corporate Adviser Awards 2012.

Further supporting our customers and the UK economy

Our future and that of the UK economy are inextricably linked, and as the largest UK retail and commercial bank we are aware of the importance of our role in helping Britain prosper and the mutual benefit of doing so. Our utilisation of the UK Government's Funding for Lending Scheme (FLS) underlined our support in 2012 for the UK economic recovery. We were the first bank to participate in the scheme and have committed in excess of £11 billion in gross funds to customers through the scheme since its launch in September, having only drawn £3 billion from the scheme so far. We are committed to passing the financial benefit of this low-cost funding on to our customers and to the areas that can be of the most economic benefit to the UK, including SMEs and first time home buyers.

SMEs play a key part in UK economic growth and we continued to actively support them in 2012. We exceeded our SME Charter lending commitment of £13 billion, having increased the original £12 billion target during the year, while also committing to lend an extra £1 billion to UK manufacturing businesses. In addition, we beat our three year target of assisting 300,000 new start-ups by the end of 2012, helping to stimulate economic output and improve business confidence. This support for UK SME customers is underlined by our net SME lending growth of 4 per cent in the year, for the second year running, compared to the market which saw a reduction in net lending to SMEs of 4 per cent.

Lloyds Banking Group is an important institution for the prosperity and growth of the UK and we are committed to nurturing UK business. The Lloyds TSB Enterprise Awards, now in their second year, celebrate innovation, drive and dedication within UK businesses and provided a number of winners with business support and a cash prize to invest in their business in 2012.

For our UK Retail customers, we provided £26.2 billion of gross new mortgage lending in 2012. This included supporting over 55,000 customers in buying their first home, equivalent to one in every four first time buyers. We also launched a number of innovative shared equity and shared ownership mortgage offers as well as supporting the Local Lend a Hand Scheme which has helped over 900 first time buyers to become homeowners.

Our customers must be the focus of everything we do, and getting customer service right is at the heart of our strategy. The further substantial improvement in our Net Promoter Scores in 2012 shows the progress we have made in rebuilding trust with our customers. We also delivered a substantial reduction in FSA reportable banking complaints, excluding PPI, ending 2012 with one of the best performances of UK banks with just 1.1 complaints per 1,000 accounts. We have now brought forward the 2014 complaint reduction target of 1.0 complaint per 1,000 accounts to 2013.

In 2012, and over the past five years, we have supported many of our customers in their involvement in, and initiatives relating to, London 2012. Through our partnership with the Olympic and Paralympic Games, we supported 1 in 3 of the 2,000 companies that won London 2012 contracts, and played our role in the unprecedented success of the Games for the UK.

Greater clarity emerging on UK regulatory framework

In October the Government published the draft Financial Services Bill, the first step in implementing the recommendations of the Independent Commission on Banking. We support the recommendation to ring-fence retail banking operations, and recent proposals to ensure its implementation, as we believe that it will result in a safer, more stable UK banking sector and economy, and will therefore require lower capital and liquidity requirements than would otherwise be necessary.

We agree with the Financial Policy Committee that banks need to focus on strengthening their balance sheets in order to become increasingly resilient and to support the economy, and this is entirely consistent with the Group's strategy and the progress we continue to deliver. Greater clarification from both the UK regulator and the European Union on rules surrounding capital, funding and liquidity is expected to be received in 2013.

Dividends

We remain committed to recommencing dividend payments when the financial position of the Group and market conditions permit and after regulatory capital requirements are clearly defined and prudently met. Although we made considerable progress in 2012, given regulatory uncertainty and the statutory loss in the year, a dividend payment has not been recommended this year.

EC mandated business disposal (Project Verde)

We continue to make good progress in the creation of Verde as a stand-alone bank which, as contemplated from the start of the process, will allow the Group to divest the business either through a sale or an Initial Public Offering. From the summer 2013, Verde will be operating as a separate business within the Lloyds Banking Group under the TSB brand. We reached an agreement on non-binding Heads of Terms with The Co-operative Group plc in July 2012 and continue to make progress with these discussions towards signing a binding sales purchase agreement. Our aim remains to obtain best value for our shareholders as well as certainty, also for our customers and colleagues, while complying with the EC requirement to divest the business by the end of November 2013.

Addressing legacy issues including payment protection insurance

The Group continues to address legacy issues, and remains committed to resolving them and treating our customers fairly. The Group has had further experience of PPI complaint volumes, uphold rates and operational and redress costs since our third quarter 2012 Interim Management Statement. As a consequence, we have made a further provision of £1,500 million in the fourth quarter, which brings the amount provided for PPI in 2012 to £3,575 million, and the total amount provided to £6,775 million. Total costs incurred to the end of 2012 were £4,344 million, including approximately £700 million of related administration costs.

Given the agreement with the FSA reached on 30 January 2013 following the outcome of a pilot review of IRHP sales to small and medium-sized businesses, the Group now believes it is appropriate to increase its provision for IRHP by £310 million in the fourth quarter, based on the revised estimates of redress and related administration costs. The provision in relation to IRHP redress is now £300 million, and we have also provided for £100 million of related administration costs, all of which was accounted for in 2012.

Our commitment to colleagues

The progress we continue to deliver and our achievements in 2012 are a product of the commitment, drive and performance of our colleagues, and we see a real opportunity to improve engagement across all parts of the Group.

The results of our colleague survey shows strong levels of engagement in some areas, such as using customer feedback to improve processes. However work still remains to ensure that Lloyds Banking Group is a great place to work. The current economic climate, and the constant focus on the financial services sector has undoubtedly affected colleague engagement, but we now have a real opportunity, through visible action, to improve engagement across the Group which in turn will continue to support the delivery of our strategy.

SME lending

We exceeded our 2012 SME Charter lending commitment of £13 billion, while also committing to lend an extra £1 billion to UK manufacturing businesses.

We aim to ensure that all of our colleagues uphold the highest ethical standards and have the right tools to do their jobs, and in part this will be achieved by creating a positive working environment. As part of this, we have continued to develop our internal programmes supporting diversity, enhancing our ability to retain and attract talent across the Group. In September 2012 we launched our Codes of Responsibility which define how we aspire to do business and which provide all our stakeholders – colleagues, customers, communities and suppliers – with clarity and transparency about what we stand for, helping us to rebuild our culture and reinforce our values.

Remuneration continues to be an important topic for the Group and for our stakeholders. We are actively working to ensure continued alignment between performance and reward, and that colleagues are appropriately incentivised, with variable pay reflecting effective risk controls and the best outcome for customers. Bonus awards are subject to deferral and adjustment, and in 2012 total discretionary awards were approximately 3 per cent lower than last year. Salary rewards have been limited, and frozen at more senior levels for the second year running, to reflect the continuing challenging economic environment.

Outlook

After a year of challenging economic conditions in 2012, we expect to see some economic growth in 2013, although this is expected to be below-trend, with the Bank of England base rate remaining at current levels. However, house prices are expected to rise slowly and the FLS should progressively have a further impact on lending. Some stabilisation in the Eurozone, combined with lower borrowing costs, should see investment start to contribute to the improving environment. Future economic developments do, however, remain dependent on progress in the Eurozone, and the impact of new banking regulation on the supply of credit to the economy.

In this context, and with continuing successful delivery against our strategic initiatives, we are targeting core loan growth in the second half of 2013 and an increase in the Group net interest margin to around 1.98 per cent for the full year. We anticipate a further improvement in asset quality, driving an expected substantial reduction in the 2013 impairment charge, with the correspondent increase in underlying profit before tax, while we also expect costs will continue to decrease with Group total costs reduced to around £9.8 billion in 2013. We also remain confident in meeting our medium-term guidance.

We expect to reduce the non-core asset portfolio at least by a further £20 billion in 2013, and we therefore remain on track to achieve a non-core asset portfolio of £70 billion or less by the end of 2014, with more than half of this amount in retail assets.

Conclusion

We have delivered a substantial transformation of Lloyds Banking Group in the first 18 months of delivery on our strategy, despite a challenging environment and the need to address legacy issues. We are now ahead of plan in creating a competitive advantage through a reduced risk premium and best-in-class efficiency. We are making significant investments in our simple, lower-risk, customer-focused UK retail and commercial banking model, thereby continuing to support our customers and helping Britain to prosper. We expect this to enable us to return to profitability and to grow our core business, to realise our full potential to deliver strong, stable and sustainable returns to shareholders, and to allow UK taxpayers' investment in the Group to be repaid.

António Horta-Osório
Group Chief Executive

GROUP KEY PERFORMANCE INDICATORS

MEASURING STRATEGIC PERFORMANCE

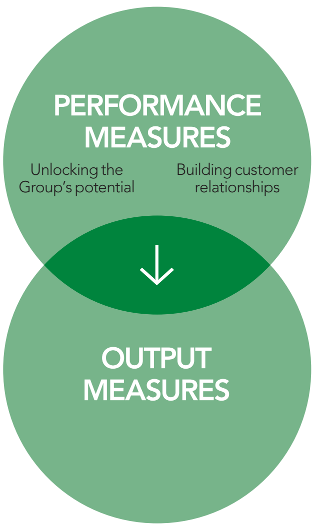
Our strategy

Lloyds Banking Group operates a simple, lower risk, customer focused UK retail and commercial banking business model. Our strategy is built around becoming the best bank for customers and creating value by investing in areas that make a real difference to these customers. Customer leadership driven by superior customer insight, tailored products, better service and relationship focus is the overriding priority. By leveraging these capabilities and our strategic assets we believe we can help Britain prosper and deliver strong, stable and sustainable returns for shareholders.

We have over 30 million customers, iconic brands, including Lloyds TSB, Halifax, Bank of Scotland and Scottish Widows, and high-quality, committed people. We are creating a simpler, more agile, efficient and responsive organisation with a real focus on operating sustainably and responsibly. We will focus on core markets which offer strong returns and attractive growth, while maintaining a prudent approach to risk and further strengthening the Group's balance sheet.

How we measure performance

We track our progress against our strategy to become the best bank for customers using a range of performance measures. Our progress in these areas is measured against a number of key financial indicators which are shown here.



Alignment of remuneration with performance

To help ensure individuals are acting in the best interest of customers and shareholders, remuneration at all levels of the organisation across the business is aligned to the strategic development and financial performance of the business. All staff, including Executive Directors, have a balanced scorecard which measures performance across five areas (customer, building the business, risk, people and finance) which is aligned to the Group's strategic priorities and reviewed on a regular basis. Executive remuneration, in particular bonuses and incentive plans, is also assessed against balanced scorecard measures which incorporate Group financial performance measures, notably profit before tax, economic profit, earnings per share and total shareholder return.

PERFORMANCE MEASURES

Unlocking the Group's potential

We are reshaping our business portfolio to fit our assets, capabilities and risk appetite, strengthening the Group's balance sheet and liquidity position, simplifying the Group to improve agility and efficiency and investing to be the best bank for customers. A comprehensive set of Key Performance Indicators (KPIs) has been developed to track progress in each of these areas and is outlined in the Strategy section.

4 → More on our strategy and KPIs

Building customer relationships

Customer relationships are key to our strategy and critical for all our businesses. The significant differences across the divisions means financial and non-financial strategic indicators for the development of customer relationships are generally tracked at a divisional level and commentary is included in the specific divisional commentaries.

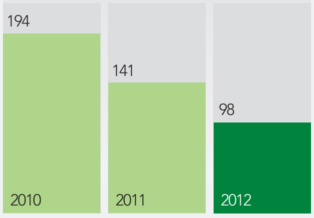
To assess progress in our aim of becoming the best bank for customers we measure customer satisfaction and are publically committed to reducing complaints. Our colleagues are a key differentiator and we use an engagement survey to assess individual motivation and organisational processes.

22 More on customer satisfaction and customer complaints
24 More on our staff engagement score →

OUTPUT MEASURES

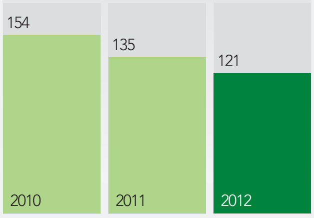
Significant progress has been made against our strategic priorities during 2012 which has been reflected in improved underlying profits and a stronger capital position. This was also reflected in an improved statutory performance despite a number of one off items including the £3.6 billion provision for PPI.

Balance sheet reduction (non-core assets) £bn



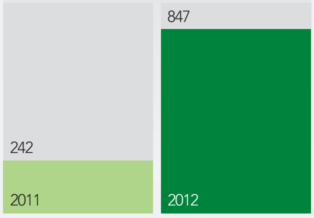
Excellent progress continues to be made in reshaping the business through the reduction of our non-core assets which now stand at £98 billion.

Loan to deposit ratio %



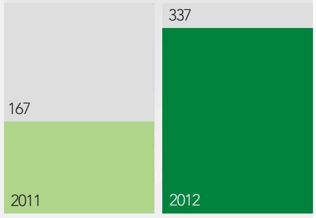
We have made good progress in reducing our loan to deposit ratio with the core loan to deposit ratio now at 101 per cent, very close to our core long-term target of 100 per cent, thereby strengthening our balance sheet.

Simplification cost savings (run rate) £m



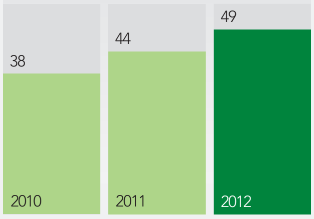
The Simplification programme has been running for 18 months and has maintained strong progress throughout the year, with over 200 initiatives underway across the Group.

Investment £m



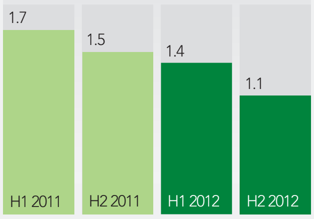
As Simplification benefits materialise we are looking to increase the investment in the business and have committed to invest £500 million pa by 2014 in addition to our business as usual investment programme.

Customer satisfaction (Net Promoter Score) %



We have developed a comprehensive customer experience programme measuring customer service at key touch points and their likelihood to recommend us. This is measured through the cross industry Net Promoter Score metric where we have seen continued progress.

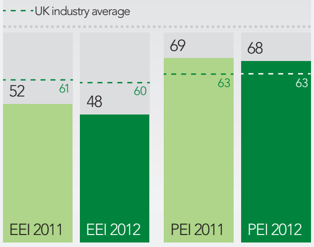
Customer complaints (FSA banking complaints* per 1,000 a/c)



Through our Simplification programme and continued focus on becoming the best bank for customers, our FSA reportable banking complaints continued to fall.

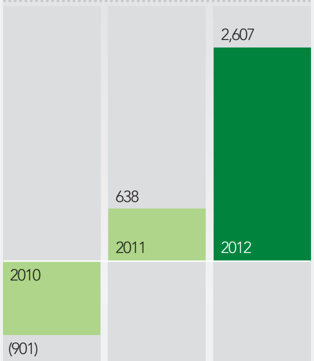
*Excluding PPI

Staff engagement score %

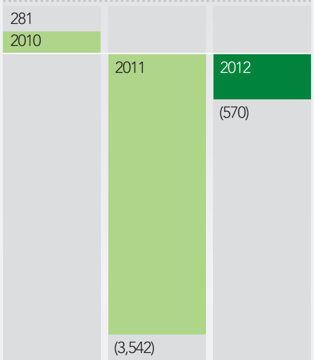


The Employee Engagement Index (EEI) measures the individual motiviation of colleagues whilst the Performance Excellence Index (PEI) measures how strongly colleagues believe the Group is committed to improving customer service.

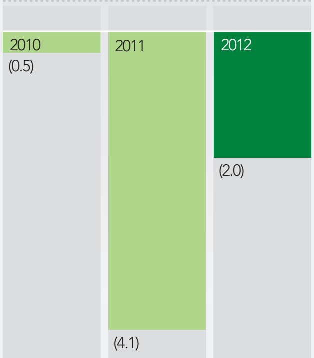
Underlying profit (loss) before tax £m



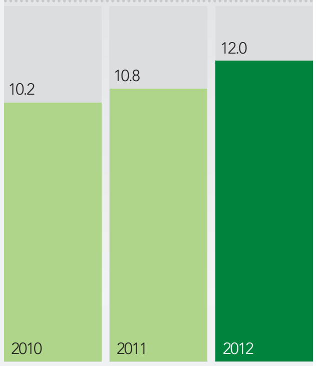
Statutory profit (loss) before tax £m



Earnings per share p



Core tier 1 capital ratio %



DIVISIONAL OVERVIEW AND KPIs

RETAIL

The Retail division operates the largest retail bank in the UK and is a leading provider of current accounts, savings, personal loans, credit cards and mortgages.

The division is focused on improving customer service and advocacy and becoming the best bank for customers. 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 and a comprehensive digital, telephony and mobile proposition.

In meeting the financial needs of its customers the division provides a comprehensive product range to ensure differing customer requirements can be effectively met. This includes a range of current accounts including packaged accounts and basic 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 and provided over 55,000 mortgages to help first time buyers in 2012, making it one of the leading UK mortgage lenders. 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.

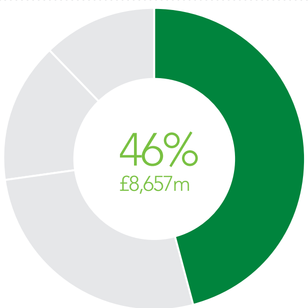
Key brands include:

Lloyds TSB, Halifax, Bank of Scotland, C&G Cheltenham & Gloucester, BM Savings, Intelligent Finance®

2012 highlights

- In 2012, Retail further increased its profits and returns, and made substantial progress towards its goal of being the best bank for customers.
- Underlying profit increased by 16 per cent, and core underlying profit by 21 per cent, driven by strong cost control and a significant reduction in impairment.
- Return on risk-weighted assets increased to 3.21 per cent from 2.56 per cent in 2011, driven primarily by the increase in profits.
- Retail has made continued progress in improving its customer service scores and saw a reduction in customer complaints (excluding PPI) of 28 per cent during 2012, both key indicators of customer advocacy. This has supported the strengthening of brand consideration to market leading levels.
- The Simplification programme has delivered significant improvements in customer experience, process efficiencies and reduced sourcing costs. This contributed to the strong cost performance delivered by Retail.
- We continued to support the first time buyer mortgage market, lending to one in four first time buyers. We also increased our commitment for lending to first time buyers during 2013. In addition, we continue to deliver strong growth in customer deposit balances attracting funds from almost one in every four savers.
- Retail continues to support local communities through its contribution to Group programmes and through direct commitments by Retail colleagues. In 2012 over 8,500 colleagues in Retail used their 'Day to Make a Difference' in local communities, including supporting National School Sports Week.

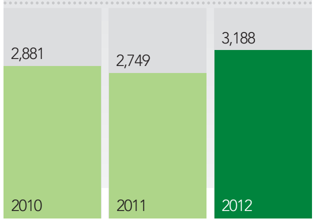
Contribution towards total Group income[1]



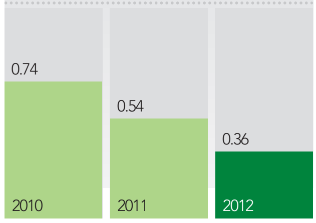
[1]Excludes Group Operations, Central items and insurance claims.

Performance indicators

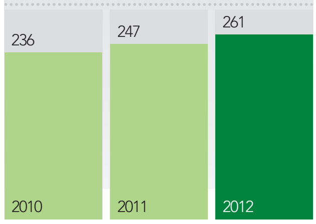
Underlying profit before tax £m



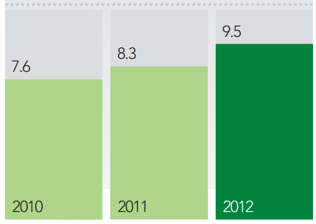
Impairment as a percentage of average advances %



Customer deposits (excluding repos) £bn



Active online customers million



COMMERCIAL BANKING

The Commercial Banking division supports our business clients from small businesses to large corporates.

The division operates a client-centric approach, primarily focused on UK businesses and businesses with strong links to the UK, with coverage comprising SMEs, Mid Markets, Global Corporates and Financial Institutions. Strong local knowledge, a real client focus and a comprehensive product range enables us to quickly provide clients with tailored solutions and an effective service.

Commercial Banking provides support to corporate clients through the provision of core banking products, such as lending, deposits and transaction banking services whilst also offering clients expertise in capital markets (private placements, bonds and syndicated loans), financial markets (foreign exchange, interest rate management, money market and credit) and private equity. This enables us to meet the varying and sometimes complex needs of corporate clients whilst ensuring capital efficiency.

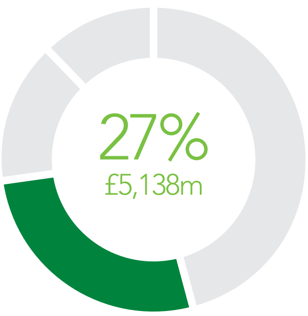
Key brands include:

Lloyds TSB · Bank of Scotland · Lloyds Bank · AMC

2012 highlights

- Commercial Banking was created in the fourth quarter of 2012 bringing Small and Medium-sized Enterprises (SME) together with larger corporate UK and global clients to ensure consistent and effective client coverage. The former Wholesale division has been combined with the Australian and European corporate businesses previously reported in the International segment of Wealth, International and Asset Finance.
- We continued to deepen our relationships with core clients through our investment in new products and capabilities to drive capital efficiency and through our lending commitments to support the UK economy and SMEs, including our involvement in the UK Government's National Loan Guarantee and the Funding for Lending Scheme (FLS).
- Underlying loss reduced by 60 per cent due to a 30 per cent reduction in impairments, which more than offset the reduction in total underlying income.
- Core underlying profit increased by 1 per cent to £1,748 million, driven by reduced impairments and improved other income from resilient performances in Capital Markets, Financial Markets and LDC. This was offset by lower net interest income, return on risk-weighted assets increased to 1.36 per cent from 1.32 per cent.
- Underlying loss in the former Wholesale business reduced by 36 per cent due to a 31 per cent reduction in impairments and improved other income. This more than offset lower net interest income, resulting from our strategic non-core asset reduction and increased wholesale funding costs.
- Underlying profit in the former Commercial business increased by 10 per cent, driven by reduced impairments and costs partly offset by lower underlying income. Core net lending grew by 4 per cent against market contraction of 4 per cent and we assisted in excess of 120,000 SMEs to start up in 2012.

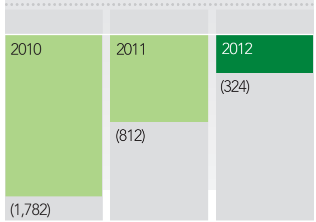
Contribution towards total Group income[1]



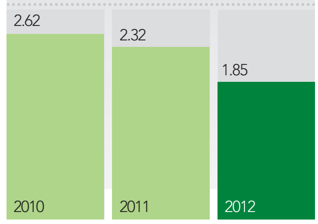
[1]Excludes Group Operations, Central items and insurance claims.

Performance indicators

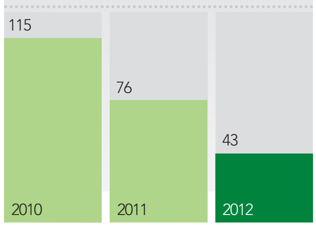
Underlying loss before tax £m



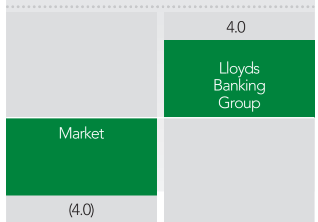
Impairment as a percentage of average advances %



Non-core assets £bn



Commercial net lending growth 2012 (core) %



DIVISIONAL OVERVIEW AND KPIs

WEALTH, ASSET FINANCE AND INTERNATIONAL

Wealth, Asset Finance and International comprises our UK and international wealth businesses, our UK and international asset finance and online deposit businesses along with our international retail 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. Scottish Widows Investment Partnership (SWIP) provides asset management services to both internal and external clients.

Asset Finance consists of a number of leasing and speciality lending businesses in the UK including Lex Autolease and Black Horse Motor and Personal Finance along with our leasing and speciality lending businesses in Australia and our European online deposit business.

The international business comprises the Group's non-core banking business outside the UK, with the exception of corporate business written through the Commercial Banking division. This primarily comprises Ireland, Retail Europe and Asia.

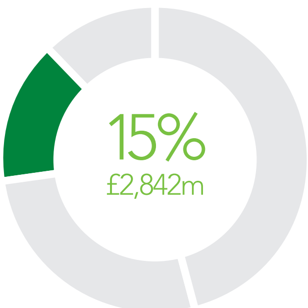
Key brands include:

BANK OF SCOTLAND
SCOTTISH WIDOWS INVESTMENT PARTNERSHIP
Lloyds TSB | International
blackhorse
Lex Autolease

2012 highlights

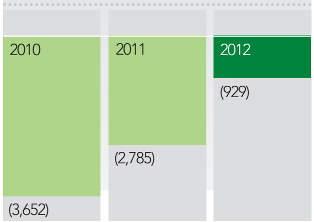
- In 2012 we achieved strong profitable growth in our Wealth and Asset Finance businesses while simultaneously making progress in strengthening our balance sheet, simplifying our international operating model and investing in building capability for the future.
- Divisional performance improved in 2012 with losses reducing by 67 per cent to £929 million primarily driven by lower impairments, mainly in Ireland. Profits in the core business increased by 27 per cent, to £459 million driven by strong performance in the Wealth and Asset Finance businesses.
- Core return on risk-weighted assets increased from 3.62 per cent to 5.07 per cent.
- The balance sheet has been further strengthened through 24 per cent growth in customer deposits and a reduction in non-core assets of a further 20 per cent, including a £3.7 billion reduction in our Irish portfolio.
- We achieved cost savings of 5 per cent through further progress on Simplification initiatives which in turn enabled further investment in the core businesses to improve the customer experience.
- We continue to reshape our operations by further streamlining our international footprint through the announced exits from five countries (following seven exits last year) and a significantly reduced presence in a further four.

Contribution towards total Group income[1]

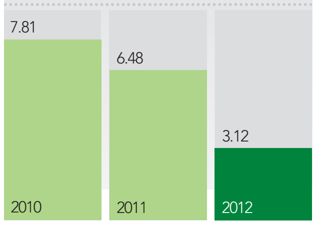


Performance indicators

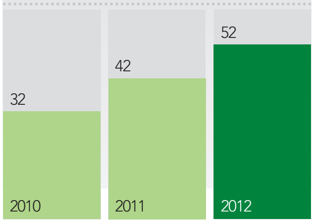
Underlying loss before tax £m



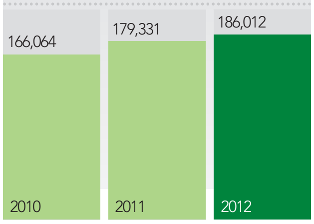
Impairment as a percentage of average advances %



Customer deposits (excluding repos) £bn



UK wealth relationships Clients



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

INSURANCE

The Insurance division provides long-term savings, protection and investment products and general insurance products to customers in the UK and Europe.

The UK Life, Pensions and Investments business provides long-term savings, protection and investment products distributed through the bancassurance, intermediary and direct channels of the Lloyds TSB, Halifax, Bank of Scotland and Scottish Widows brands. The European Life, Pensions and Investments business distributes products primarily in the German market under the Heidelberger Leben and Clerical Medical brands.

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. It operates primarily under the Lloyds TSB, Halifax and Bank of Scotland brands.

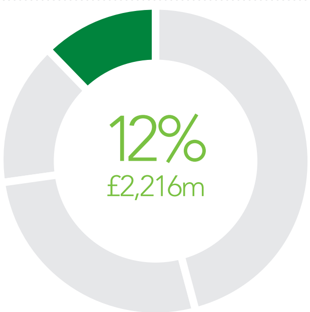
Key brands include:

BANK OF SCOTLAND HALIFAX
Lloyds TSB SCOTTISH WIDOWS

2012 highlights

- In 2012 we combined our UK Life Pensions and Investments and General Insurance businesses and restructured our operation to enable greater customer and market focus which contributed to an 8 per cent decrease in costs and leaves us well placed to realise benefits from risk diversification.
- Total underlying profit reduced by 24 per cent and core underlying profit by 21 per cent, primarily reflecting a reduction in total underlying income, largely due to the subdued economic climate and increased weather related claims, partly offset by an 8 per cent decrease in costs.
- We have invested in extending our life insurance proposition with a new earnings protection offer which has simpler application and claims processes.
- We have further enhanced our Corporate Pensions proposition, with the addition of AssistMe, an auto-enrolment tool that complements our MyMoneyWorks corporate pension platform. The strength of our proposition, combined with strong activity in the run up to implementation of the Retail Distribution Review (RDR), has driven 23 per cent growth in corporate pensions.
- Our recent enhanced annuities pilot has been an important step towards further strengthening our overall retirement savings business.
- Our focus on putting customers first has led us to improve our home insurance claims management processes which has enabled us to get our customers back into their homes more quickly following the extreme weather events throughout 2012, helping improve customer satisfaction and contain claims costs.
- We have delivered balance sheet initiatives that have strengthened the Group's balance sheet, providing £1.4 billion liquidity and have now mitigated £5.3 billion of the potential impact of CRD IV, whilst improving Insurance returns.

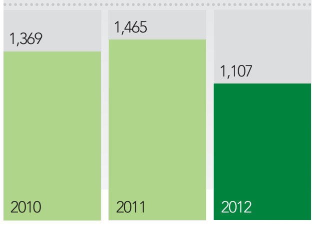
Contribution towards total Group income[1]



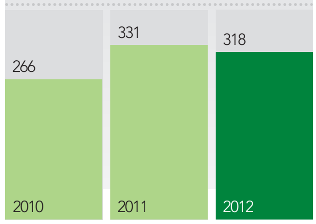
[1]Excludes Group Operations, Central items and insurance claims.

Performance indicators

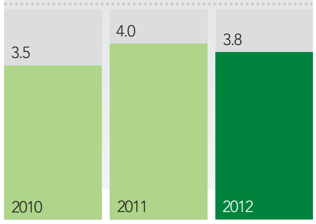
Underlying profit before tax £m



LP&I new business profit £m



LP&I new business margin (EEV) %



LP&I (PVNBP) sales £m

BUILDING VALUABLE RELATIONSHIPS

THE SUCCESSFUL DELIVERY OF OUR STRATEGY AND FOCUS ON HELPING BRITAIN PROSPER WILL BE DRIVEN BY THE RELATIONSHIPS WE DEVELOP

With over 30 million personal and business customers and a presence in communities across the country, we are very well placed to help unlock the potential of families, businesses and communities we serve, and make a significant contribution to the future strength and prosperity of the UK. Being the best bank for customers, alongside a focus on operating sustainably and responsibly, underpins our approach to business.

In order to meet our ambitions to be the best bank for customers and to help Britain prosper we need strong relationships with our customers as well as our colleagues and communities. This section of our report explains why and how we nurture these relationships.

At Lloyds Banking Group, we see ourselves as having a clear role to play in helping Britain prosper. As the UK's largest retail and commercial bank, we are already doing more than our peers to help people manage their finances.

Lloyds Banking Group brands offer essential services to our customers – helping people to buy their first homes, offering SMEs support, and using our people's skills to give UK communities access to appropriate financial products. But with faith in the sector at a low level, we recognise the need to rebuild trust with our customers.

Rebuilding trust

Recent external research undertaken by Ipsos MORI[1] on behalf of Lloyds Banking Group showed that, through the eyes of our customers and potential customers, relationships and responsibility are inseparable.

When it comes to responsible banking, our customers don't just think of the areas covered by a traditional 'corporate responsibility' programme. For them, taking responsibility more seriously means being a bank that:

- is offering better service
- looks after the financial interests of customers
- responds to customer needs, e.g. offering longer opening hours in branches, enhancing access through a range of channels including the internet
- provides clear communication
- has policies in place on environmental protection
- has policies in place on human rights and ethics
- invests in communities

Alongside these findings, Ipsos MORI's Issues Index shows that the state of the UK economy remained the primary concern of the British public throughout 2012.

Operating responsibly whist improving customer service and helping Britain prosper are fundamental components of our Group strategy. We can only achieve our customer focused strategy by building a sound reputation founded on the highest standards of corporate behaviour.

Relationships and responsibility

The Group considers the three stakeholder groups of Customers, Colleagues and Communities as key – crucially recognising their interdependence as we realise our vision of being the best bank for customers.

Meeting customers needs by developing appropriate products can only be achieved through the commitment and applied skills of our colleagues. Equally, we recognise the role our people play in helping communities to thrive through the services and advice we give to UK business, and through the programmes that promote financial capability and inclusion.

[1]The full research findings for the Ipsos MORI research are available at www.ipsos-mori.com

Corporate Responsibility

Ensuring the business is run sustainably and responsibly is a priority for the Group. Our responsible business strategy, focused around working with households, businesses and communities, is aligned to our overall business strategy and our aim to help Britain prosper.

Our approach to Corporate Responsibility, along with current priorities is developed by our Responsible Business Steering Group (RBSG), which reports directly to the Group Board. The RBSG develops principles and priorities from a top-level perspective and ensures they are embedded throughout our operations. The RBSG is chaired by Anita Frew, Non-Executive Director of Lloyds Banking Group, and includes senior representation from across Lloyds Banking Group.

The RBSG also guides and focuses the areas that are most material to our business. The top priorities at present are: customer care; supporting financial inclusion; and helping UK business and households. The Steering Group will continue to review areas of focus in 2013, with a particular view to integrating stakeholder interests on material issues.

In addition to this internal committee we have also established a high-level experts group, an external stakeholder panel and have created a colleague focus group to ensure the views of our stakeholders are considered and effectively addressed in our reporting and communications.

To ensure the highest standards of corporate behaviour in 2012 we launched the new Codes of Responsibility to guide our decision making. These Codes, governed by the RBSG, specifically outline the way we aspire to do business as individuals and as a corporation, and are based on five pillars of responsible business which include customers, colleagues and communities.

Lloyds Banking Group has retained our position in the FTSE4Good socially responsible investment index and our overall scores remained broadly stable in the Dow Jones Sustainability Index. In addition we maintained our position in the Carbon Disclosure Project and retained Platinum status in the Business in the Community CR Index. We are looking to build a leadership position in responsible business and developing a roadmap which will help us improve our performance and related rankings going forward.

We aspire to conduct business in a way that values and respects the human rights of our colleagues, customers and those of the communities in which we operate. We adhere to the principles of the United Nations Declaration of Human Rights, International Labour Organisation Fundamental Conventions and are signatories to the Equator Principles. Our Codes of Responsibility set standards of ethical behaviour for our colleagues. We also take into account social, ethical and environmental issues in our investment, lending and service operations.

The day-to-day implementation of our responsible business strategy is managed by the Group Community & Sustainable Business team. During 2012 we continued to develop our Community Strategy around the themes of Education, Employability and Enterprise. More detail on our approach to corporate responsibility and future plans will be described in our 2012 Responsible Business report which will be published in May 2013. Our 2011 report along with further information on our approach to corporate responsibility and our codes of responsibility can be found on our website at www.lloydsbankinggroup-cr.com

In line with the Group's values of putting customers first, keeping it simple, and making a difference together we are looking to build a strong and profitable Group, with a culture which reinforces stringent behavioural standards and ensures we are operating sustainably and responsibly, both inside and outside of the organisation.

RELATIONSHIPS AND RESPONSIBILITY

BE THE BEST FOR OUR CUSTOMERS…

SMEs and fast growing enterprises play a vital role in creating jobs and generating growth in the UK. We demonstrated our support for SME customers with gross lending of £13.2 billion in 2012, delivering year on year net lending growth of 4 per cent in this business area. This was in contrast to a decline in the stock of lending of 4 per cent across the industry.

CUSTOMERS

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

Helping Britain prosper

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 customers. The customer is at the heart of everything we do, whether that be in our branches, our brands or our people. This commitment is supported by the Group values of putting customers first, keeping it simple and making a difference together.

We are committed to supporting the UK housing market and first time buyers in particular, writing one in four of all first time buyer mortgage loans completed in the UK for the fourth consecutive year, helping over 55,000 customers own their own homes. We have committed publicly to lending £6.5 billion to 60,000 first time buyers in 2013, the UK's biggest-ever commitment to support first time buyers.

During 2012 we underlined our commitment to SME and Mid Markets lending by successfully participating in both the National Loans Guarantee Scheme (NLGS), and the Government's Funding for Lending (FLS) initiative. We have issued our full funding allocation of £1.4 billion under NLGS, as well as becoming the first bank to participate in the scheme and have committed in excess of £11 billion in gross funds.

As further evidence of the long-term assistance that we offer to enterprise, at the start of 2010 we launched our SME Charter. Within this we pledged to support 300,000 new businesses set up by the end of 2012. We are delighted to say that this target was exceeded with 350,000 such businesses being helped across the three year period. In cases where businesses have experienced financial difficulties, our Business Support Unit is specifically tasked with providing help. Since 2009 the BSU has restructured facilities for around 10,000 businesses and has protected more than 250,000 UK jobs.

Complaint handling

As part of our strategy to become the best bank for customers we publicly committed to reduce the level of FSA reportable banking complaints, excluding PPI, we receive by 20 per cent year on year. We achieved a reduction from 1.5 complaints per 1,000 accounts in the second half of 2011 to 1.1 in the second half of 2012. We aim to reduce this further in 2013 to 1.0 complaint per 1,000 accounts. This has been accomplished through the ongoing success of our phone-a-friend service, a dedicated team which branch and call centre staff can refer to for specialist support with complaint handling, and the training we provide to our front line colleagues. As a result we are now resolving over 90 per cent of complaints at first touch. In addition, we offer a 24 hours a day, 7 days a week service, helping colleagues to resolve complaints around the clock, ensuring customers get the right outcome faster.

Simple, tailored 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. We have worked hard to ensure we are offering products and services that respond to customers evolving needs and as a result a number of new and innovative products have been launched in 2012.

We have extended the innovative Lloyds TSB Lend a Hand Mortgage to help customers purchase a home with the help of their local authority. We also launched our Best for Business campaign and reaffirmed our continued support for the SME Charter to respond to 90 per cent of lending appeals within 15 working days, which will exceed the industry standard of 30 days. In our Retail division, the Halifax Savers Prize Draw continues to be popular, with over 1 million customers subscribing. We also developed new ways to support our customer's savings requirements including the Junior ISA that allows young people to start to build a tax free savings pot.

In meeting the needs of our customers, we have also made strong progress this year on improving the products and services we offer customers with disabilities. The progress to date has been accomplished through many initiatives and our ongoing work under the Prime Ministers' challenge on dementia and working with Disability Rights UK. The Business Disability Forum ranked Lloyds Banking Group joint second in the Disability Standard 2011/12 and this activity will continue into 2013 with the introduction of additional services to improve our accessibility to customers with a wide range of disabilities.

Customer service and simplification

In line with our strategy to become the best bank for customers, customer needs remain at the heart of how we reshape our businesses. Through our Simplification programme we have continued to enhance and streamline customer processes, with significant improvements being made during the year such as the re-design of our account switching and closure processes, improvements to our Cash ISA transfer process, enhancements to our end-to-end bereavement process, and the streamlining of our Commercial lending process. We have also introduced Interactive Voice Response technology, which guides customer calls accurately and promptly to the right service.

Customer satisfaction is assessed through the Net Promoter Score (NPS), which measures the likelihood of customers recommending us to others. Our high street brands made significant headway in 2012, achieving their highest ever NPS scores, with the Group wide score rising from 44 in 2011 to 49 at the end of 2012.

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. 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 are the UK's biggest provider of basic bank accounts, currently providing over 3 million such accounts and in 2012 opened around 225,000 new accounts. In 2012 we also helped over 100,000 customers move to a full facility current account, alongside making a number of improvements to make it easier for basic bank account customers to upgrade.

RELATIONSHIPS AND RESPONSIBILITY

COLLEAGUES WHO PUT CUSTOMERS FIRST…

With colleagues who put customers first, keep it simple and make a difference together, we will deliver the service that makes us the best bank for customers.

COLLEAGUES

Our colleagues will deliver the service that makes us the best bank for customers.

Aim

Our ambition is to be a bank where our colleagues give their best and want to build their career. Our people are at the heart of our business and are critical in ensuring that we deliver our strategy to be the best bank for customers and through this, help Britain prosper.

Each colleague should have access to the training and development opportunities that enable them to do their role well. This should also ensure that we are able to grow talent internally, to drive our business in a sustainable way.

Having a diverse workforce is also a priority for us. At Lloyds Banking Group, we want the diversity of our employee base to reflect the population of the UK and who our customers are: the better we reflect our marketplace the better we can serve it.

We also aim to encourage our colleagues to work closely with the community to build lasting relationships that are the foundation for our business in the future.

Living through our Values

To unlock the great potential in our business, all colleagues focus on our three values: putting customers first, keeping it simple and making a difference together.

Putting customers first means thinking about what's best for customers in everything we do. That means understanding and anticipating customers' needs, delivering on our promises and taking ownership to get things right for every customer. We need to ensure that what we are doing enables our customers to get the most from their money; living this value will enable colleagues to deliver our strategy to be the best bank for customers.

Keeping it simple means making ourselves easy to do business with, and communicating clearly and openly. Our colleagues are continually identifying opportunities to simplify the things we do and work hard to get things right first time every time.

Making a difference together means working together to deliver for customers, listening to how we can improve what we do; treating all people fairly and acting responsibly at all times; and contributing to the communities we serve. We see our involvement in the work we do in fundraising for charity as an important part of our contribution. Colleagues have raised £3.6 million for Save the Children since the beginning of 2011.

Colleague engagement

Our annual Colleague Engagement Survey is an important way for us to find out how we are working together and how well we are building a high performance culture. The outputs provide two separate and measurable scores, the Employee Engagement Index (EEI), which measures the individual motivation of colleagues, and the Performance Excellence Index (PEI), measuring how strongly colleagues believe the Group is committed to improving customer service.

The most recent results highlight strong levels of engagement in some areas such as using customer feedback to improve processes and providing colleagues with appropriate training to keep up with customer demands. Our PEI scores indicate that our colleagues are committed to the Group's strategy of becoming the best bank for customers. Our EEI results show that we need to do more to engender trust in the organisation and in its future. The current economic climate, the constant focus on the financial services sector and banks have undoubtedly contributed to a lack of confidence and trust in the organisation.

Learning and Development

Learning and development supports our colleagues to be the best they can be to help us be the best bank for customers. We have continued to deliver Group wide leadership programmes to accelerate the development of the most effective leaders and to strengthen our overall leadership capability.

The Group's focus on its Emerging Talent programmes significantly increased in 2012. It saw the launch of two new Group wide programmes our Apprentice Scheme and Future Executives Programme.

Significant progress has been made on improving both the efficiency and effectiveness of the learning offered to colleagues. It has moved more classroom training to e-Learning, and maintained the average amount of training received to a level above industry benchmarks.

The Group wide Academies have now been fully implemented, providing a clear path to learning for all 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.

Reflecting the regulatory environment, continued good progress has been made in the strengthening of reward governance, particularly incentives, and the alignment of long term incentives with our strategic goals. The performance management process continues to deploy a robust moderation process to assess risk stewardship by all our senior executives.

Diversity and Inclusion

A key element of achieving our vision is having a diverse and inclusive workforce; and we have made progress during 2012.

Our gender programme has made strong progress with the Group two years ahead of its target of 25 per cent female representation on the Board by 2015, with 27 per cent female representation on the board by 2015. We also launched a role model programme across the Group. Footprints in the Snow showcases the career paths of the Group's most senior women, providing footprints and stepping stones for other women to follow, be inspired by and succeed.

The Stonewall 2012 Top 100 Employers for lesbian, gay and bisexual people placed the Group in the top 20 organisations and was named Top Welsh Private Sector Employer and 2nd best Scottish Employer. Our Rainbow Network was also given 'star performer' status.

Our disability programme was ranked joint 2nd, achieving 'Gold Standard' and named 'Best Private Sector Employer' by the Business Disability Forum.

In our ethnic diversity strategy, we delivered ten Career Development Programme courses to over 120 colleagues. The programme is aimed at colleagues who are looking to achieve their first management or senior management position and supports participants to achieve their full potential.

To ensure that we continue to provide one of the best packages for working parents in the UK we introduced a number of improvements, which included, better advice and guidance for colleagues and line managers, e-Learning modules to support new parents, and a parents forum where colleagues can connect and share experiences around working parent issues.

These activities are showing positive outcomes, with higher engagement scores for female and ethnic minority colleagues, and some steady progress in closing the gap for lesbian, gay, transgender and bisexual colleagues. We will continue to build upon our progress during 2013 to ensure we reflect the diverse needs of our customers, colleagues and communities.

RELATIONSHIPS AND RESPONSIBILITY

Our 2013/14 Charity of the Year is supporting Alzheimer's Society and Alzheimer Scotland's Live Well Campaign.

HOW WE ARE DOING MORE…

We recognise that if we are to be the best bank for our customers, we must also aim to be the best bank for communities. By doing more to be a responsible business we are able to make a sustainable contribution to help Britain prosper.

COMMUNITIES

One of the ways Lloyds Banking Group helps Britain prosper is by contributing positively to the communities we serve. Our scale and reach through our brands and branches means we are doing more to help communities across the UK.

Aim

The aim of our community strategy is to help the UK's most disadvantaged communities prosper as a result of our financial and colleagues' commitment.

Last year the Group invested £85 million aligned to a range of flagship programmes and initiatives. Despite the challenging economic environment the Group committed to keep our investment at this level for the period of its strategic plan.

Community Programmes

We want to build thriving communities in the UK, both with direct investment and by encouraging our colleagues to support communities with their skills and knowledge. This aim is supported by our community programmes themed around Education, Employability and Enterprise.

Education

We take seriously our responsibility to do more to raise levels of general financial capability amongst the communities we serve. *Money for Life*, is an award-winning personal money management programme, targeted at young people and adults in the wider Further Education, work-based learning and community learning sectors. The Group has invested £4 million in the programme since 2009 and has committed a further £4 million over the next two years. The programme provides accredited training to enable organisations ranging from Citizens Advice Bureau to Housing Associations, charities and colleges to embed money management skills at a local level. We trained 1,400 people to run money management sessions in communities in 2012, as well as continuing the Money for Life Challenge, a national competition providing 110 grants in 2012 to 16-24 year olds to run a money management project in their communities.

Employability

Lloyds Scholars, our social mobility programme aimed at UK students, was established in 2011. In partnership with six leading universities across the UK we offer students from lower income households a complete support package, helping them manage the financial strain of university whilst improving their employability. Scholars receive a unique combination of financial support, a Lloyds Banking Group mentor, sessions to develop their skills and the opportunity to gain valuable work experience through paid internships. In return we ask that they volunteer for local causes, enabling them to enhance their CV whilst giving back to the community. Lloyds Scholars was named Corporate Responsibility Project of the year at the 2012 Charity Times Award.

Enterprises

In January 2012 the School of Social Entrepreneurs and the bank launched the Lloyds Banking Group *Social Entrepreneurs programme*. Supporting this programme demonstrates Lloyds Banking Group's commitment to aiding the UK's economic recovery by enabling social entrepreneurs to realise their ambitions and thereby supporting enterprise and strengthening communities.

The aim over the next five years is to help over 1,300 social entrepreneurs to start up or scale up their social enterprise, creating jobs across the UK and helping local communities to help themselves. The programme offers grants of between £4,000 - £25,000 as well as a Lloyds Banking Group mentor to help them be sustainable and successful in their ideas. Additional funding for this project is provided by the Big Lottery.

We are a major sponsor of the *Business Connectors programme* in partnership with Business in the Community, a Prince of Wales Charity. In 2012 we made a commitment to second up to 20 senior managers per year to become Business Connectors working in their local communities to help broker relationships between charities, community groups and local business, with the goal of helping to build thriving communities across the UK.

Community volunteering

Empowering our people to participate in activities that benefit their local communities during work time, helps to build pride in the bank. Our *Day to Make a Difference* volunteering programme enables colleagues to spend one day a year volunteering for a charity or community project of their choice. Over 32,000 of our colleagues registered to use their day to volunteer in 2012. We are also the largest participant in Business in the Community's *Give & Gain day*; in 2012 more than 4,500 colleagues took part, doubling the engagement seen in 2011.

Our vision for London 2012 was to inspire and support young people, communities and business all over Britain. Part of this vision was running *National School Sport Week*, a week long sporting celebration for schools. Over 2,500 volunteered, helping to bring the excitement of London 2012 to their local communities.

Funding grassroots charities

Much of our charitable giving is through the *Lloyds TSB and Bank of Scotland Foundations*. During 2012 the Group donated more than £29 million to the Foundations enabling them to make grants to local, regional and national charities across the UK.

Funding local organisations

The 2012 *Community Fund* provided grants to local community groups that inspire and support young people. Nominated by our colleagues, 132 local organisations across the UK have won a Community Fund award worth £5,000 totalling £660,000.

Fundraising

Colleagues from across the Group raised over £3.6 million, including matched giving for our 2011/12 Charity of the Year, Save the Children. The funds raised will help over 12,000 children through the Families & Schools Together (FAST) programme. We are already actively supporting our new Charity of the Year: the Alzheimer's Society and Alzheimer Scotland. This campaign will launch the first UK wide dementia carers programme, which will give 9,000 carers the information and the skills they need to support their loved ones.

Reducing our environmental impact

As a responsible business, we are working to reduce our own environmental footprint and support the UK Government's move towards a low-carbon economy. Our Environmental Action Plan incorporates programmes to reduce our impacts in the areas of energy, paper, business travel, waste and water. Specific initiatives include 'no travel' weeks, embedding an enhanced dry mixed recycling process and optimisation of our building controls to reduce the energy we use.

All programmes are on track to meet their 2020 targets with some delivering early.

Supporting the Green Economy

As one of the most active participants in the Project Finance market, Lloyds Banking Group is playing a key role in finding solutions to current and future funding requirements. We currently have commitments to renewable energy projects in the UK with capacity totalling over 1800MW. More detail will be available in the 2012 Responsible Business Report.

EFFECTIVE RISK MANAGEMENT AND CONTROL

Aim

Managing risk effectively is important for any bank and fundamental to our strategy. We are looking to create a more efficient, lower risk, UK focused retail and commercial bank. In doing this we maintain a conservative business model embodied by a risk culture founded on a prudent appetite for risk.

The Group's approach to risk is founded on an effective control framework and a strong risk management culture which guides the way all employees approach their work, the way they behave and the decisions they make. The amount and type of risk that the organisation is prepared to seek, accept or tolerate, otherwise known as risk appetite, is driven by our strategy and approved by the Board. This risk appetite is then embedded within policies, authorities and limits across the Group.

Risk as a strategic differentiator

The Group strategy and risk appetite were developed together to ensure one informed the other in creating a strategy that delivers on becoming the best bank for our customers whilst helping Britain prosper and creating sustainable growth over time.

We believe effective risk management can be a strategic differentiator, in particular:

- **Conservative approach to risk:** The Group has a fully embedded conservative approach to, and prudent appetite for risk with risk culture and appetite driven from the top.
- **Strong control framework:** The Group has a strong risk control framework which is the foundation for the delivery of effective risk management. This framework ensures appropriate engagement in developing risk appetite whilst also ensuring business units operate within approved parameters.
- **Effective risk analysis, management and reporting:** Effective risk analysis ensures the identification of opportunities as well as risks and ensures risks are managed appropriately and consistently with strategy. The Group's key risks and performance against risk appetite are monitored and reported regularly to senior management using quantitative and qualitative analysis and are subject to relevant stress testing. This ensures we fully understand the risk in the business at both an individual risk type and aggregate portfolio level. The key risks to the Group are outlined on the next page.
- **Business focus and accountability:** Managing risk effectively is a key focus for the Group and is one of the five principal criteria within the Group Balanced Scorecard on which business areas and individual performance are judged. The Group's approach to risk means that businesses remain accountable for risk but a strong and independent risk function also helps ensure adherence to the Group's risk and control frameworks. Continued investment in risk systems and processes will also help differentiate our risk management approach.

Risk achievements in 2012

Significant progress has been made in reducing the risk in the business in 2012 through the consistent application of our prudent approach to risk. Key deliverables have been aligned to the delivery of our customer focused strategy and the four pillars of our action plan.

We have made good progress in reshaping the business portfolio to fit our resources, capabilities and risk appetite. A conservative approach to, and prudent appetite for risk is fully embedded across the organisation and effective controls over the risk profile of all new business are in place. We have continued to take a disciplined approach to the management and reduction of our non-core assets, which reduced by £42.3 billion in the year, ahead of plan, whilst also being capital generative. Asset sales in total were within impairment provisions demonstrating the prudence of our approach to credit risk management and the adequacy of our provisioning. The reduction of non core assets and prudent management of risk have led to significantly lower impairment, down 42 per cent, and the core Asset Quality Ratio, (impairment as a percentage of average advances), at 0.44 per cent is already in line with target.

We have continued to strengthen and de-risk the Group's balance sheet by improving our capital ratios and funding and liquidity position. The Group's funding position has now been transformed with wholesale funding of £170 billion reduced by £81 billion in the year. At the same time we have reduced the level of short term wholesale funding which at £51 billion now accounts for less than 30 per cent of total wholesale funding. Our liquidity position also continued to improve and our liquidity is now greater than wholesale funding and covers short term funding by more than four times. Our core tier 1 capital ratio further increased to 12.0 per cent in the year and we remain confident in our capital position.

The complaints process has been simplified and as a result we have seen a further reduction in FSA reportable banking complaints to 1.1 per 1,000 accounts, the lowest level of any major UK bank. This is aligned to our customer focused strategy and reduced conduct risk.

We have also continued to invest, with our Risk Transformation having delivered improved analytics and enhanced customer support for our Retail customers as well as simplified processes for rating the risk of Commercial customers. This investment has also driven reductions in the Group's impairments and risk-weighted assets. Further investment during 2012 has allowed us to keep pace with the growing range of regulatory demands, and prepare for future changes required under the Banking Reform Bill including Ring Fencing and Recovery and Resolution planning.

Priorities for 2013

- Continue to support delivery of the Group's customer focused strategic plan within risk appetite
- Continue programme of investment in the Group's risk systems
- Maintain and strengthen the Group's strong risk culture by managing performance to ensure risk based behaviours
- Deliver against new regulatory requirements
- Continue to attract, retain and develop high quality people

PRINCIPAL RISKS AND UNCERTAINTIES

The most significant risks faced by the Group are detailed below.

Credit risk

Arising in the Retail, Commercial Banking, and Wealth, Asset Finance and International divisions, reflecting the risks inherent in the Group's lending activities and, to a lesser extent in the Insurance division in respect of investment holdings and exposures to reinsurers. Adverse changes in the credit quality of the Group's UK and/or international borrowers and counterparties, or in their behaviour, would be expected to reduce the value of the Group's assets and materially increase the Group's allowances for impairment losses.

Conduct risk

Conduct risk and how the Group manages its customer relationships affect all aspects of the Group's operations and our management of this risk is closely aligned with achievement of the Group's strategic vision to be the best bank for customers. As a provider of a wide range of financial services products across different brands and distribution channels to an extremely broad and varied customer base, and as a participant in market activities, the Group faces significant conduct risks, which could result in selling products to customers which do not meet their needs; failure to deal with a customer's complaint effectively where the Group has got it wrong and not met customer expectations; and behaviours which do not meet market standards.

Market risk

Market risk comprises of three principal risks. Interest rate risk – This risk to the Group's banking income arises from competitive pressures on product terms in existing loans and deposits, which can restrict the Group in its ability to change interest rates applying to customers in response to changes in interbank and central bank rates. Equity risk – This risk arises from movements in equity market prices. The main equity market risks arise in the insurance business companies and defined benefit pension schemes; Credit spread risk – This risk arises when the market perception of the creditworthiness of a particular counterparty changes. The main credit spread exposure arises in the insurance business, defined benefit pension schemes and banking businesses.

Operational risk

The principal operational risks currently facing the Group are: Information Security – The risk of information leakage, loss or theft. The threat profile relating to this is rapidly changing; with increasingly sophisticated attacks by cybercrime groups; IT Systems – The risk of loss resulting from the failure to develop, deliver or maintain effective IT solutions; and Customer Process – The risk of process weaknesses and control deficiencies within the Group's customer facing processes as the business continues to evolve.

People risk

The Group has a strategic aim to be the best bank for customers. It is committed to addressing issues within the business that could contribute to customers receiving unfair outcomes. The Group believes the quality, values and engagement of its people are fundamental to successful delivery of this strategy. This belief coincides with our regulators' increasing focus on the culture which underpins the performance and behaviour of employees in the development and delivery of fair outcomes to customers.

Liquidity and funding risk

Liquidity and funding continue to remain a key area of focus for the Group and the industry as a whole. Like all major banks, the Group is dependent on confidence in the short and long term wholesale funding markets and deposit markets. Should the Group, due to exceptional circumstances, be unable to continue to source sustainable funding, its ability to fund its financial obligations and meet its commitments as they fall due could be impacted.

Insurance risk

The major sources of insurance risk are within the Insurance business and the Group's defined benefit pension schemes. Insurance risk is inherent in the Insurance business and can be affected by demographic trends and customer behaviour. Insurance risks accepted relate primarily to mortality, longevity, morbidity, persistency, property and unemployment. The primary insurance risk of the Group's defined benefit pension schemes is related to longevity. Insurance risk has the potential to significantly impact the earnings and capital position of the Insurance business of the Group. For the Group's defined benefit pension schemes, insurance risk could significantly increase the cost of pension provision and impact the balance sheet of the Group.

State Funding and State Aid

On behalf of HM Treasury the Treasury solicitor holds 39.2 per cent of the Group's share capital. HM Treasury's shareholding continues to be managed without interference in day to day management decisions however there is a risk that a change in Government priorities could result in the framework agreement currently in place being replaced leading to interference in the operations of the Group. The Group also continues to make good progress in meeting its EU State Aid commitments arising from the original provision of Government support although failure to meet EU State Aid commitments could lead to sanctions.

A further reduction in FSA reportable banking complaints (excluding PPI) to 1.1 per 1,000 accounts, a strong performance relative to our peers.

Prudent risk appetite and strong risk management resulted in a reduction of 42 per cent in the Group's impairment charge.

Non-core assets reduced by £42.3 billion and our international presence was reduced in line with the Group's strategy to focus on UK customers.

SUMMARY CONSOLIDATED INCOME STATEMENT

For the year ended 31 December	2012 £ million	2011 £ million
Net interest income[1]	9,075	12,698
Other income[1]	29,831	14,145
Total income	38,906	26,843
Insurance claims[1]	(18,396)	(6,041)
Total income, net of insurance claims	20,510	20,802
Operating expenses	(15,931)	(16,250)
Trading surplus	4,579	4,552
Impairment	(5,149)	(8,094)
Loss before tax	(570)	(3,542)
Taxation	(773)	828
Loss for the year	(1,343)	(2,714)
Profit attributable to non-controlling interests	84	73
Loss attributable to equity shareholders	(1,427)	(2,787)
Loss for the year	(1,343)	(2,714)
Basic loss per share	(2.0)p	(4.1)p
Diluted loss per share	(2.0)p	(4.1)p
	£000	£000
Directors' emoluments	7,172	8,147

[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.

SUMMARY CONSOLIDATED BALANCE SHEET

At 31 December	2012 £ million	2011 £ million
Assets		
Cash and balances at central banks	**80,298**	60,722
Derivatives, trading and other financial assets at fair value through profit and loss	**210,540**	205,523
Loans and receivables:		
Loans and advances to customers	**517,225**	565,638
Loans and advances to banks	**29,417**	32,606
Debt securities	**5,273**	12,470
	551,915	610,714
Available-for-sale financial assets	**31,374**	37,406
Held-to-maturity investments	**–**	8,098
Investment properties	**5,405**	6,122
Intangible assets, including goodwill, and the value of in-force business	**11,608**	11,850
Tangible fixed assets	**7,342**	7,673
Retirement benefit assets	**1,867**	1,338
Other assets	**24,203**	21,100
Total assets	**924,552**	970,546
Liabilities		
Deposits from banks	**38,405**	39,810
Customer deposits	**426,912**	413,906
Derivatives, trading and other financial liabilities at fair value through profit or loss	**84,637**	83,167
Debt securities in issue	**117,369**	185,059
Insurance liabilities	**83,220**	79,291
Liabilities to customers under non-participating investment contracts	**54,372**	49,636
Other liabilities	**40,561**	37,613
Retirement benefit obligations	**300**	381
Subordinated liabilities	**34,092**	35,089
Total liabilities	**879,868**	923,952
Shareholders' equity	**43,999**	45,920
Non-controlling interests	**685**	674
Total equity	**44,684**	46,594
Total equity and liabilities	**924,552**	970,546

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 1 March 2013.

Sir Winfried Bischoff
Chairman

António Horta-Osório
Group Chief Executive

George Culmer
Group Finance Director

AUDITORS' STATEMENT AND SUMMARY DIRECTORS' REPORT

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 laws of the 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 2012 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
1 March 2013

Auditors' report on full accounts

The auditors' reports on the full accounts for the year ended 31 December 2012 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 pages 4 to 19. Biographical details of Directors are shown on pages 33 and 34.

Changes to the composition of the Board since 1 January 2012 up to the date of this annual review are shown below:

	Joined the Board	Retired from the Board
S V Weller	1 February 2012	
G T Tate		6 February 2012
T J W Tookey		24 February 2012
Lord Leitch		29 February 2012
M G Culmer	16 May 2012	
Sir Julian Horn-Smith		17 May 2012
G R Moreno		17 May 2012
Lord Blackwell	1 June 2012	
C J Fairbairn	1 June 2012	

M A Scicluna and T T Ryan, Jr will retire from the Board on 31 March 2013 and 18 April 2013, respectively.

N L Luff will be appointed to the Board on 5 March 2013.

Lord Blackwell, C J Fairbairn and N L Luff were, or will be, appointed to the Board since the annual general meeting held in 2012 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, all of the other Directors will retire and those willing to serve again will submit themselves for re-election at the forthcoming 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.

[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.

DIRECTORS' REMUNERATION

Full details of the Group's remuneration policy for directors as well as details of their remuneration in 2012 appear in the Directors' remuneration report in the full report and accounts. This may be seen in the 'Investors' section of the Group's website at www.lloydsbankinggroup.com

The ongoing economic challenges currently encountered in our industry and across all aspects of life naturally lead to continuing attention being placed on executive remuneration. As a Group we have a strong belief in aligning the pay delivered to our executives with the successful performance of the business and, through this, the return of value to our shareholders as set out in our 2011 Strategic Review. To this end, we have continued to develop our performance management process, with the close participation of our Risk team, to embed meaningful challenging but responsible performance measures across our reward structure, which reflect Group and divisional achievement in addition to personal contribution. In order to further align reward to the longer-term, sustainable success of the business we plan to introduce changes to our annual incentive scheme from 2014 to better connect the interests of colleagues with shareholders and to ensure a fair distribution between all stakeholders of the benefits which result from the Group meeting its performance targets.

In setting our reward policy we endeavour to keep the structure as simple as possible and to clearly communicate the aims of the policy to our colleagues and our shareholders. We believe that transparency around our policy and the basis for our performance measures is critical to rebuilding trust with our employees and our numerous stakeholders. This has been evident in the annual disclosures we make to explain our policy approach to remuneration and the actions we undertake to implement this. We support the new proposals made by the Department for Business, Innovation and Skills (BIS) to codify and standardise additional reporting expectations in this area.

Central to the BIS proposals is the active engagement of shareholders to approve the remuneration policy applied by the Group. We maintain an open and transparent exchange of information and feedback with our shareholders and acknowledge the weight of their judgment in setting our policies.

The Group firmly believes that fixed pay should be positioned competitively but conservatively against the market and that the variable pay offered to our executives should be directly aligned to the delivery of value to our shareholders. Although shareholder return and operational effectiveness have been very positive over the course of the year, it is appropriate that the fixed pay elements for our Directors should remain unchanged for a further twelve months in recognition of the continuing economic climate and the need to deliver further, sustained economic growth to our shareholders.

In addition, bonus awards across the Group in respect of the 2012 year have been determined conservatively against the robust performance measures set. The awards will be deferred into shares for varying periods according to the seniority or role of the individual with attached malus provisions to enable adjustment where such awards are subsequently considered not to appropriately reflect performance in the period to which they relate. The assessment of the value of bonus pool to be made available has been undertaken in consideration of our relative, risk-adjusted performance for the year and with a focus on ensuring that the reward is weighted towards our more junior staff to recognise their contribution towards the Group achieving success against our strategic goals.

Our Long Term Incentive Plan retains its importance in aligning our reward strategy to the performance of the business. Through the application of carefully considered, stretching target measures, we are able to ensure that awards are forfeited or restricted where performance does not meet the desired level. We also require executives to retain the net shares (ie. after the deduction of tax) awarded under the LTIP for a minimum period following receipt. This directly connects the financial reward for the executive and senior management team with the growth and prosperity of the Company and motivates them to demonstrate appropriate behaviours across all areas of the business.

As a Group we continually review our policy approach to explore ways in which we may strengthen and simplify the alignment of the Group's remuneration package with the Company's business performance and relative value to shareholders. Over recent years we have introduced to our bonus scheme a mandatory deferral into shares for awards made to our Executive Directors and for any awards in excess of a specific threshold made to other staff. From 2014 we aim to implement a restructure of our package to more effectively recognise the connection between the impact of short-term and long-term goals in driving forward our business and to further facilitate the adjustment of awards for malus.

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 shareholding guidelines have been updated in 2012 and we are considering extending these to a broader population in the future.

The fees of the independent Non-Executive Directors are set 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

	2012 £000	2011 £000
Aggregate emoluments paid to Directors	**7,172**	8,147
Aggregate gains made by directors on exercise of share options	–	342
Aggregate value of assets receivable under long-term incentive schemes	–	46
Aggregate company contributions in respect of directors to defined contribution pension schemes	**23**	167
Number of directors with retirement benefits accruing under:		
– defined contribution schemes	**2**	4
– defined benefit schemes	–	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

Chairman of the Nomination & Governance Committee. Member of the Remuneration Committee and the Risk Committee

Joined the Board in September 2009

Age: 71

Skills and experience: Sir Winfried has substantial experience of leading complex international boards in the UK, Asia and the US. His background spans a range of sectors, including banking and capital markets, finance and government regulation and public policy. Sir Winfried is a highly respected leader with the proven experience and judgement to lead the Board of Lloyds Banking Group.

External appointments: Sir Winfried is a Non-Executive Director of Eli Lilly and Company and The McGraw Hill Companies Inc. He is Chairman of the Advisory Council of TheCityUK and a Member of the Akbank International Advisory Board.

Former appointments: Sir Winfried was appointed Chairman of Citigroup Europe in 2000. He became the acting Chief Executive Officer of Citigroup Inc. in 2007 and was subsequently appointed as Chairman in the same year until his retirement in February 2009. Prior to this, he was the Group Chief Executive and then Chairman of Schroders.

David Roberts
Deputy Chairman
Independent Director

Chairman of the Risk Committee. Member of the Audit Committee, the Remuneration Committee and the Nomination & Governance Committee

Joined the Board in March 2010

Age: 50

Skills and experience: David has many years experience at board and executive management level in retail and commercial banking in the UK and internationally. As Chair of the Risk Committee, he has a deep understanding of risk management, underpinned by recent, in-depth knowledge of all aspects of banking operations. David's valuable contributions to the deliberations of the Board and Committee meetings, combined with natural leadership qualities, make David an effective Deputy Chairman.

External appointments: David is the Non-executive Chairman of The Mind Gym.

Former appointments: David joined Barclays in 1983 and held various senior management positions culminating in Executive Director, member of the Group Executive Committee and Chief Executive, International Retail and Commercial Banking, a position which he held until December 2006. He is a former Non-Executive Director of BAA and Absa Group and was Chairman and Chief Executive of BAWAG P.S.K. AG.

Lord Blackwell
Independent Director

Member of the Audit Committee and the Risk Committee
Chairman of Scottish Widows Group

Joined the Board on 1 June 2012

Age: 60

Skills and experience: Lord Blackwell has in-depth insurance, banking, regulatory and public policy experience gained from senior positions in a wide range of industries. He has the knowledge and experience to contribute effectively as a Non-Executive Director and lead the Board of Scottish Widows Group.

External appointments: Lord Blackwell is the Chairman of Interserve plc. He is a Non-Executive Director of Ofcom and Halma plc and a member of the Board of the Centre for Policy Studies.

Former appointments: Lord Blackwell is a former Senior Independent Director of Standard Life and Chaired their UK Life and Pensions Board. He was a Non-Executive Director of Dixons Group and SEGRO and a Non-Executive Member of the Office of Fair Trading. He was a partner of McKinsey & Co. and a Director of Group Development at NatWest Group. From 1995 to 1997, Lord Blackwell was Head of the Prime Minister's Policy Unit and was appointed a Life Peer in 1997.

Carolyn Fairbairn
Independent Director

Member of the Audit Committee and the Remuneration Committee

Joined the Board on 1 June 2012

Age: 52

Skills and experience: Carolyn has extensive digital and on-line, Government and regulatory experience gained across a range of sectors including media and financial services. With her broad experience and strong analytical mind, Carolyn plays an active part in reviewing the strategy of the Board and contributing to the debate at Board and Committee meetings.

External appointments: Carolyn is a Non-Executive Director of The Vitec Group and a member of its Audit, Nominations and Remuneration Committees. In January 2012, she was appointed a trustee of Marie Curie Cancer Care.

Former appointments: Carolyn was a Non-Executive Director of the Financial Services Authority and chaired their Risk Committee, a Director of Group Development and Strategy at ITV plc and Director of Strategy and a member of the Executive Board at the BBC. She is a former partner of McKinsey & Co. and was a policy adviser in the Prime Minister's Policy Unit. Carolyn began her career as an Economist at the World Bank.

Anita Frew
Independent Director

Member of the Audit Committee and the Risk Committee

Joined the Board in December 2010

Age: 55

Skills and experience: Anita has extensive board, financial and general management experience across a range of sectors, including banking, asset management, manufacturing and utilities. Her breadth of experience and strong leadership qualities make her an effective Non-Executive Director.

External appointments: Anita is the Chairman of Victrex plc, having previously been its Senior Independent Director, and is the Senior Independent Director of Aberdeen Asset Management. She is a Non-Executive Director of IMI.

Former appointments: Anita was an Executive Director of Abbott Mead Vickers, Director of Corporate Development at WPP Group and a Non-Executive Director of Northumbrian Water. She has held various investment and marketing roles at Scottish Provident and the Royal Bank of Scotland.

Nicholas Luff
Independent Director

Member of the Audit Committee and Risk Committee (with effect from 5 March 2013). Chairman of the Audit Committee (with effect from 1 April 2013)

Joining the Board on 5 March 2013

Age: 45

Skills and experience: Nick has significant financial experience in the UK listed environment having served in a number of senior finance positions within a range of sectors. His background and experience enables him to fulfil the role of Audit Committee Chair and for SEC purposes the role of Audit Committee Financial Expert.

External appointments: Nick is the Group Finance Director of Centrica.

Former appointments: Nick was previously the Finance Director of The Peninsular & Oriental Steam Navigation Company and Chief Financial Officer of P&O Princess Cruises plc. Until December 2010, he served as a Non-Executive Director and was the Audit Committee Chair of QinetiQ Group. Nick started his career with KPMG where he qualified as a chartered accountant in 1991.

T Timothy Ryan, Jr
Independent Director
(Until 18 April 2013)

Member of the Remuneration Committee and the Risk Committee

Joined the Board in March 2009

Age: 67

Skills and experience: Tim is a senior investment banker with international board and management experience and a strong background in the US government sector. Tim brings an international perspective to the Board with a strong focus on financial markets and securities, government relations and international emerging best practice.

External appointments: Tim is the Global Head of Regulatory Strategy and Policy at JP Morgan. He is a director of the Great-West Life Insurance Co., Power Corporation of Canada and Power Financial Corp.

Former appointments: Tim was the President and Chief Executive of the Securities Industry and Financial Markets Association and a Director in the Office of Thrift Supervision, US Department of the Treasury. He is a former Director of Koram Bank, the International Foundation of Election Systems and the US-Japan Foundation. He held a number of senior appointments in JP Morgan Chase including Vice Chairman, Financial Institutions and Governments. Tim was also a member of the Global Markets Advisory Committee for the National Intelligence Council.

Martin Scicluna
Independent Director
(Until 31 March 2013)

Chairman of the Audit Committee. Member of the Risk Committee and Nomination & Governance Committee

Joined the Board in September 2008

Age: 62

Skills and experience: Martin has significant finance experience. He was with Deloitte for 34 years including 26 years as an Audit Partner serving a number of FTSE100 companies. His background and experience enables him to fulfil the role of Audit Committee Chair and for SEC purposes the role of Audit Committee Financial Expert.

External appointments: Martin is the Chairman of RSA Insurance Group and Great Portland Estates and a Governor of Berkhamsted School.

Former appointments: Martin was a member of the Board of Partners of Deloitte UK from 1991 to 2007 and served as its Chairman from 1995. He joined the firm in 1973 and was a partner from 1982 until he retired in 2008. Martin was a member of the Board of Directors of Deloitte Touche Tohmatsu from 1999 to 2007.

Anthony Watson, CBE
Senior Independent Director

Chairman of the Remuneration Committee. Member of the Audit Committee, the Risk Committee and the Nomination & Governance Committee

Joined the Board in April 2009

Age: 67

Skills and experience: Tony has over 40 years' experience in the investment management industry and related sectors. As Senior Independent Director and Chair of the Remuneration Committee, he ensures close and regular dialogue with shareholders with the aim of better aligning executive reward with shareholder interests. His former experience as Chief Executive of Hermes Pensions Management places him in an ideal position to carry out these roles.

External appointments: Tony is a Non-Executive Director of Vodafone Group. He is the Senior Independent Director of Hammerson and Witan Investment Trust and Chairman of the Lincoln's Inn Investment Committee and Marks & Spencer Trustees.

Former appointments: Tony is the former Chief Executive of Hermes Pensions Management. He was also formerly Chairman of the Asian Infrastructure Fund, MEPC and of the Strategic Investment Board (Northern Ireland). He was a member of the Financial Reporting Council and a member of the Norges Bank Investment Management Advisory Board.

Sara Weller
Independent Director

Member of the Remuneration Committee and the Risk Committee

Joined the Board on 1 February 2012

Age: 51

Skills and experience: With a background in retail and associated sectors, including financial services, Sara brings a broad perspective to the Board. She is a strong advocate of customers and of the application of new technology, both of which directly support Lloyds Banking Group's strategy. Sara has considerable experience of boards at both executive and non-executive level.

External appointments: Sara is a Non-Executive Director of United Utilities Group and Chair of their Remuneration Committee.

Former appointments: Sara is the former Managing Director of Argos. She held various senior positions at J Sainsbury including Deputy Managing Director and served on its Board between January 2002 and May 2004. She was a Non-Executive Director of Mitchells & Butler and also held senior management roles for Abbey National and Mars Confectionery.

EXECUTIVE DIRECTORS

António Horta-Osório
Group Chief Executive

Appointed Group Chief Executive in March 2011

Joined the Board in January 2011

Age: 49

Skills and experience: António brings extensive experience in, and understanding of, both retail and commercial banking. This has been built over a period of more than 25 years, working both internationally as well as in the UK. António's drive, enthusiasm and commitment to customers, along with his proven ability to build and lead strong management teams, brings significant value to all stakeholders of Lloyds Banking Group.

External appointments: António is a Non-Executive Director of Fundação Champalimaud and Sociedade Francisco Manuel dos Santos in Portugal and a Governor of the London Business School.

Former appointments: António joined Grupo Santander in 1993 and held various senior management positions culminating in Executive Vice President of Grupo Santander and a member of its Management Committee. In November 2004 he was appointed as a Non-Executive Director of Santander UK and from August 2006 until November 2010, served as its Chief Executive. António is also a former Non-Executive Director of the Court of the Bank of England.

George Culmer
Group Finance Director

Joined the Board on 16 May 2012

Age: 50

Skills and experience: George has deep operational and financial expertise including strategic and financial planning and control. He has worked in financial services in the UK and overseas for over 20 years. With a strong background in insurance and shareholder advocacy, his skills and experience enhance the Board and strengthen further the senior management team.

External appointments: None.

Former appointments: George was an Executive Director and Chief Financial Officer of RSA Insurance Group. He is also the former Head of Capital Management of Zurich Financial Services and Chief Financial Officer of its UK operations. George previously held various senior management positions at Prudential.

Claire A Davies
Company Secretary

SUMMARY OF GROUP RESULTS

Management basis segmental analysis

2012	Retail £m	Commercial Banking £m	Wealth, Asset Finance and International £m	Insurance £m	Group Operations and Central items £m	Group £m
Net interest income	7,195	2,206	799	(78)	213	10,335
Other income	1,462	2,932	2,043	2,294	(315)	8,416
Insurance claims	–	–	–	(365)	–	(365)
Total underlying income, net of insurance claims	8,657	5,138	2,842	1,851	(102)	18,386
Total costs	(4,199)	(2,516)	(2,291)	(744)	(332)	(10,082)
Impairment	(1,270)	(2,946)	(1,480)	–	(1)	(5,697)
Underlying profit (loss)	3,188	(324)	(929)	1,107	(435)	2,607
Asset sales	–	(464)	(196)	–	3,207	2,547
Volatile items	–	138	–	–	(886)	(748)
Liability management	–	–	–	–	(229)	(229)
Fair value unwind	482	888	(51)	(42)	(627)	650
Management profit (loss)	3,670	238	(1,176)	1,065	1,030	4,827
Banking net interest margin	2.08%	1.58%	1.65%			1.93%
Impairment as a percentage of average advances	0.36%	1.85%	3.12%			1.02%
Return on risk-weighted assets	3.21%	(0.18)%	(2.31)%			0.78%
Key balance sheet items At 31 December 2012	£bn	£bn	£bn	£bn	£bn	£bn
Loans and advances to customers excluding reverse repos	343.3	134.7	33.4		0.7	512.1
Customer deposits excluding repos	260.8	109.7	51.9		0.1	422.5
Total customer balances	604.1	244.4	85.3		0.8	934.6
Risk-weighted assets	95.5	165.2	36.2		13.4	310.3

2011	Retail £m	Commercial Banking £m	Wealth, Asset Finance and International £m	Insurance £m	Group Operations and Central items £m	Group £m
Net interest income	7,497	3,192	1,003	(67)	585	12,210
Other income	1,660	2,806	2,230	2,687	(204)	9,179
Insurance claims	–	–	–	(343)	–	(343)
Total underlying income, net of insurance claims	9,157	5,998	3,233	2,277	381	21,046
Total costs	(4,438)	(2,600)	(2,414)	(812)	(357)	(10,621)
Impairment	(1,970)	(4,210)	(3,604)	–	(3)	(9,787)
Underlying profit (loss)	2,749	(812)	(2,785)	1,465	21	638
Asset sales	48	61	(21)	–	196	284
Volatile items	–	(736)	–	–	(2)	(738)
Liability management	–	–	–	–	1,295	1,295
Fair value unwind	839	1,562	122	(43)	(1,274)	1,206
Management profit (loss)	3,636	75	(2,684)	1,422	236	2,685
Banking net interest margin	2.09%	1.86%	1.72%			2.07%
Impairment as a percentage of average advances	0.54%	2.32%	6.48%			1.62%
Return on risk-weighted assets	2.56%	(0.39)%	(5.82)%			0.17%
Key balance sheet items At 31 December 2011	£bn	£bn	£bn	£bn	£bn	£bn
Loans and advances to customers excluding reverse repos	352.8	155.7	40.2		0.1	548.8
Customer deposits excluding repos	247.1	116.7	41.7		0.4	405.9
Total customer balances	599.9	272.4	81.9		0.5	954.7
Risk-weighted assets	103.2	192.9	43.6		12.6	352.3

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 Lloyds Banking Group 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 11.00 am on Thursday 16 May 2013 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; and
- 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
Textphone 0871 384 2255
Overseas +44 (0)121 415 7066

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

Calls to 0871 numbers are charged at 8p per minute plus network extras. Calls from outside the United Kingdom are charged at applicable international rates. The call prices we have quoted were correct in February 2013.

Online portfolio management and enquiries

Equiniti operates a web based enquiry and portfolio management service. Visit www.shareview.co.uk for details on how to register to access the following facilities:

- register your preferred format for receiving Company communications;
- register your proxy appointment or voting instructions;
- update your address details directly; and
- choose your preferred contact methods – via email, phone or in writing.

You may also visit help.shareview.co.uk where you can register an enquiry via email, find answers to frequently asked questions and access useful fact sheets, guidance notes and downloadable forms.

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 three dealing services:

Bank of Scotland Share Dealing

- Internet dealing. Visit www.bankofscotlandsharedealing.co.uk
- Telephone dealing. Call 0845 606 1188

Halifax Share Dealing

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

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

Bank of Scotland Share Dealing and Halifax Share Dealing internet services are available 24/7 and telephone services are available between 8.00 am and 9.15 pm, Monday to Friday and 9.00 am to 1.00 pm on Saturday. To open a share dealing account with either of these services, you must be 18 years of age or over and be resident in the UK, Jersey, Guernsey or the Isle of Man.

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 8.00 am and 6.00 pm, 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.

Individual Savings Accounts (ISAs)

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

American Depositary Receipts (ADRs)

Lloyds Banking Group shares are traded in the USA through a New York Stock Exchange-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:

BNY Mellon Depositary Receipts, PO Box 43006
Providence, RI 02940-3006
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 has 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:

- 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 non-existent 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.

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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 and 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 its directors' and/or 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 upon circumstances that will or may 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 and the impact of any sovereign credit rating downgrade or other sovereign financial issues; market related risks including, without limitation, changes in interest rates and exchange rates; changing demographic and market related trends; changes in customer preferences; changes to laws, 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 implementation of the draft EU crisis management framework directive and banking reform following the recommendations made by the Independent Commission on Banking; 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 EC state aid obligations; the extent of any future impairment charges or write-downs caused by depressed asset valuations, market disruptions and illiquid markets; exposure to regulatory scrutiny, legal proceedings, regulatory investigations or complaints, the effects of competition and the actions of competitors, including non-bank financial services and lending companies, 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 annual review, and the Group undertakes no obligation to update any of its forward looking statements.