ANNUAL REVIEW 2013

Becoming the best bank for customers

Contents

About us

Lloyds Banking Group is a leading UK based financial services group providing a wide range of services, mostly in the UK, to individual and business customers.

Our main business activities are retail and commercial banking, general insurance, and life, pensions and investments. We provide our services under a number of well recognised brands such as Lloyds Bank, Halifax, Bank of Scotland, TSB and Scottish Widows and through a range of distribution channels including the largest branch network in the UK.

The Group is quoted on the London Stock Exchange and the New York Stock Exchange and is one of the largest companies in the FTSE 100 index of leading UK companies.

View our report online

Our Annual Report and Accounts and other information about Lloyds Banking Group can be found at
www.lloydsbankinggroup.com

This Annual Review incorporates the Strategic Report from the 2013 Annual Report and Accounts along with some information about the Board of Directors, a summary of Group results and detail on remuneration as well as some general shareholder information.

On behalf of the Board

Sir Winfried Bischoff
Chairman
Lloyds Banking Group

5 March 2014

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

By becoming the best bank for customers we believe we can help Britain prosper and deliver strong and sustainable returns for our shareholders.

GROUP AT A GLANCE

A simple, low risk retail and commercial bank

focused on becoming the best bank for customers and helping Britain prosper.

80,000

We provided more than 80,000 mortgages to first-time buyers in 2013.

2013 highlights

£6.2bn

More than doubled underlying profit to £6.2bn

£415m

Returned to statutory profit before tax

-5%

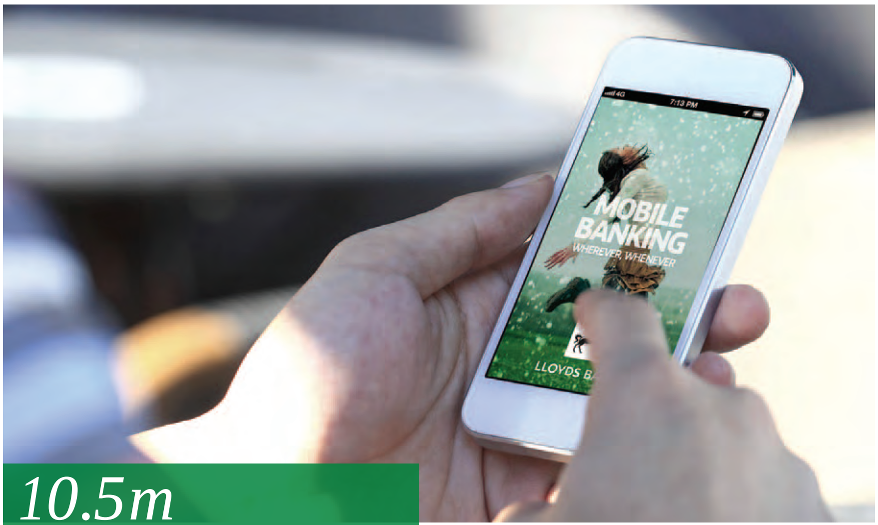
Reduced costs by 5% to £9.6bn

+2%

Grew underlying income to £18.8bn, up 2%

£85m

We are one of the largest community investors in the UK, providing £85 million per annum to worthy causes.



10.5m

We have a strong digital presence: over 10.5 million internet banking users and 1.2 billion log ons in 2013.

+6%

We grew net SME lending in a market that is contracting.

2013 highlights

+3%

Our core loan book grew across all divisions

-47%

We reduced the charge for impairment by 47%

-£35bn

We reduced non-core assets by a third, or £35 billion, to £64 billion

10.3%

We have a strong capital position, with our pro forma fully loaded common equity tier 1 ratio now increased to 10.3 per cent despite legacy charges

5

We have a multi-brand strategy with five major financial services brands serving the needs of customers in the UK market.

GROUP PERFORMANCE

Substantial strategic progress and improved performance

The significant progress we have made in improving our profitability and our capital position is testament to the strength of our business model and the commitment of our people.

António Horta-Osório
Group Chief Executive

Key highlights and outlook

In 2013, we made substantial progress on our strategy to become the best bank for customers and to create a customer focused, highly efficient, profitable and low risk bank:

- Grew lending in our core business by 3 per cent to support our customers and help Britain prosper
- Invested in our products and services for our customers, while further reducing costs and improving efficiency through our Simplification programme
- Significantly improved our financial performance, with Group underlying profit more than doubled to £6.2 billion, and a statutory profit before tax of £415 million
- Substantially strengthened our balance sheet, despite a charge for legacy business provisions totalling £3.5 billion, primarily relating to legacy Payment Protection Insurance business
- Lowered risk by reducing non-core assets and our international presence, and by growing our customer deposits and reducing our reliance on funding from the wholesale markets
- As a result, the UK government began reducing its stake in the Group in September

Looking ahead, we expect to make further progress on the execution of our strategic plan. We expect to:

- Increase lending to core customers: for retail customers, mortgage market net lending in 2014 expected to grow, supported by our target to lend around £10 billion to approximately 80,000 first-time buyers in 2014; for commercial customers, above market lending growth led by strong momentum in SME lending
- Invest in product propositions and digital capabilities across our brands and divisions, to deliver the products our customers need through the channels they prefer, while improving efficiency and customer service
- Grow our deposit base supported by our multi-brand strategy
- Achieve a low cost of equity and funds by further reducing costs and risk, resulting in a unique competitive position
- Generate, prior to any dividends, fully loaded common equity tier 1 capital of around 2.5 percentage points over the next two years, and thereafter 1.5-2 percentage points per annum
- Apply in the second half of 2014 to restart dividend payments, and to move to a dividend payout ratio of at least 50 per cent of sustainable earnings in the medium term

Results summary

Substantial progress on strategic plan, enhancing service for customers whilst helping Britain prosper

- Continue to support the UK economy through lending to SMEs and first-time buyers with active participation in the Funding for Lending Scheme and Help to Buy
- Core loan book now growing in all divisions; returned mortgage lending to growth in the third quarter
- Launched a rebranded, revitalised Lloyds Bank and returned TSB to the high street in September
- Further strong performance in customer service with Net Promoter Scores increasing by 11 per cent over the year
- Continued reduction in FCA reportable banking complaints (excluding PPI) to 1.0 per 1,000 accounts, the lowest of any major UK bank; Halifax now at 0.8 per 1,000 accounts

Balance sheet further strengthened and risk reduced as we simplify the Group

- Strong capital build despite legacy charges, with pro forma fully loaded CET1 ratio of 10.3 per cent and core tier 1 ratio of 14.0 per cent
- Group loan to deposit ratio improved to 113 per cent (31 December 2012: 121 per cent); core ratio improved to 100 per cent
- Non-core asset reduction of £34.9 billion during the year, to £63.5 billion, ahead of plan and £2.6 billion capital accretive overall. Non-retail non-core assets reduced to £24.7 billion
- Further progress in reducing our international presence with exit from 21 countries since June 2011 now completed or announced; target for international presence of 10 countries or fewer in 2014 already achieved
- Strong leverage ratios of 4.1 per cent (pro forma CRD IV basis) and 4.5 per cent (pro forma Basel III 2014 basis)

Group underlying profit[1] and returns substantially increased; core profit and returns further improved

- Underlying profit increased by 140 per cent to £6,166 million in 2013
- Return on risk-weighted assets increased to 2.14 per cent (2012: 0.77 per cent)
- Underlying income of £18,805 million, up 2 per cent
- Banking net interest margin increased 19 basis points to 2.12 per cent, and to 2.29 per cent in the fourth quarter
- Costs reduced by 5 per cent to £9,635 million
- Credit quality continues to improve: impairment charge reduced by 47 per cent to £3,004 million; impairment charge as a percentage of average advances improved to 0.57 per cent (2012: 1.02 per cent)
- Core underlying profit increased by 24 per cent to £7,574 million
- Core return on risk-weighted assets increased from 2.54 per cent in 2012 to 3.26 per cent in 2013

Statutory profit before tax of £415 million; tangible net asset value per share of 48.5p

- Statutory profit before tax of £415 million (2012: loss of £606 million) including charge for legacy PPI business of £3,050 million
- Tangible net asset value per share at 31 December 2013 of 48.5p (31 December 2012: 51.9p); includes loss on capital accretive non-core disposals, deferred tax write-offs, adverse reserve movements, and legacy charges

Guidance reflects confidence in the future

- 2014 full year Group net interest margin expected to stabilise at around the Q4 2013 level of 2.29 per cent, excluding impact of TSB disposal
- Costs for 2014 are expected to be around £9 billion, excluding TSB running costs
- Impairment charge as a percentage of average advances expected to reduce to around 50 basis points for 2014
- Run-off portfolio (non-core non-retail assets and certain non-core retail assets) expected to reduce to c.£23 billion and non-core non-retail assets to c.£15 billion by the end of 2014
- Expect, prior to any dividends, to generate fully loaded common equity tier 1 capital of around 2.5 percentage points over the next two years, and thereafter 1.5 – 2 percentage points per annum
- Expect to apply to the PRA in the second half of 2014 to restart dividend payments, commencing at a modest level
- Progressive dividend policy expected thereafter moving to a dividend payout ratio of at least 50 per cent of sustainable earnings in the medium term

[1] The underlying basis of presentation is defined on page 45.

GROUP KEY PERFORMANCE INDICATORS

Measuring strategic performance

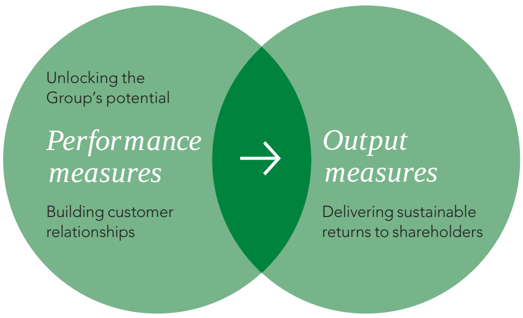
Our strategy

We operate a simple, low risk, customer focused UK retail and commercial banking and insurance business. Our aim is to become the best bank for customers and we'll do that by addressing our customers' needs through superior insight, tailored products, better service and our focus on building a long-term relationship with them. By leveraging our capabilities we believe we can help Britain prosper and deliver strong and sustainable returns for our shareholders.

We have more than 30 million customers and employ high quality, committed people across our iconic brands which include Lloyds Bank, Halifax, Bank of Scotland, TSB and Scottish Widows. We are creating a simpler, more agile, efficient and responsive organisation with a focus on operating sustainably and responsibly. We are focused on our core UK market which has attractive growth prospects, and where we can earn strong returns while maintaining a prudent approach to risk and a strong balance sheet.

How we measure performance

We use a range of performance measures to track progress on our strategy of becoming the best bank for customers. This progress is measured through a number of key performance indicators which are shown opposite.



Alignment of remuneration with performance

To ensure our employees act in the best interests of customers and shareholders, remuneration at all levels of the organisation is aligned to the strategic development and financial performance of the business and also takes into account specific risk management controls.

Variable remuneration including bonuses for all staff, including our Executive Directors, is based on the performance of the individual, the business area and the Group as a whole. Performance is assessed against a balanced scorecard of objectives, reviewed on a regular basis, across five areas (customer, building the business, risk, people and finance). Executive management are also eligible to participate in a Long-Term Incentive Plan, which encourages delivery on long-term financial objectives including total shareholder return and the Group's strategic objectives of becoming the best bank for customers and helping Britain prosper.

Performance measures

Unlocking the Group's potential

We are **reshaping** our business portfolio to fit our assets, capabilities and risk appetite; we are **strengthening** the Group's balance sheet and liquidity position; we are **simplifying** the Group to improve agility, efficiency and customer service; and we are **investing** to be the best bank for customers. A set of key performance indicators has been developed to track progress in each of these areas.

18 More on our strategy and KPIs

Building customer relationships

Customer relationships are key to our strategy and are critical for all our businesses. Significant differences across our four divisions mean the financial and non-financial strategic indicators for the development of customer relationships are generally tracked at a divisional level. Commentary on these is therefore included in the specific divisional sections of this report.

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

24 More on our divisions
30 More on customer satisfaction and customer complaints
34 More on staff engagement

Output measures

Delivering sustainable returns to shareholders

We have made significant progress against our strategic priorities in 2013. This is reflected in our improved underlying profit and stronger capital position as well as the improvement in statutory performance, despite legacy charges.

Further detail on these measures is contained in the following pages.

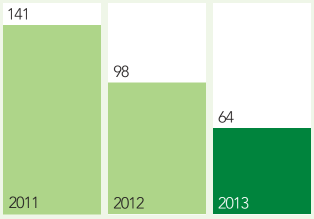
44 More on our Group results

Going forward, we will also track our performance against the commitments of our new Helping Britain Prosper Plan.

28 More on our Helping Britain Prosper Plan

Balance sheet reduction (non-core assets)

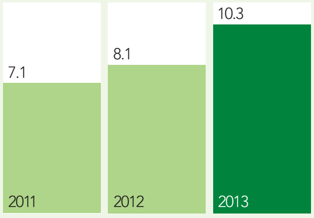
£bn



We continue to make excellent progress in reshaping the business through the reduction of our non-core assets which, having stood at £300 billion at the beginning of 2009, now stand at £64 billion.

Fully loaded common equity tier 1 ratio

%

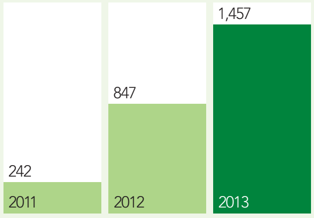


We continue to improve our common equity tier 1 ratio, which now stands at 10.3 per cent on a pro forma* fully loaded CRD IV basis.

*Including impact of announced disposals

Simplification cost savings (run rate)

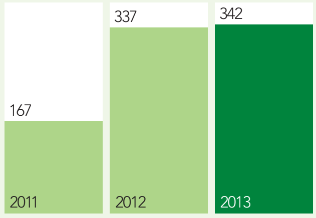
£m



We have continued to make strong progress on the Simplification programme, which is a key driver of creating a lower cost, more efficient business.

Strategic investment

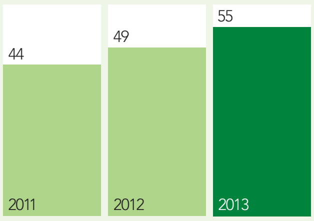
£m



As Simplification benefits materialise we are increasing the strategic investment in the business and have committed to invest approximately £500 million per annum by 2014 in addition to our business as usual investment programme.

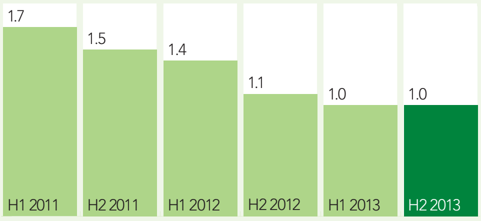
Customer satisfaction (net promoter score)

%



We have made continued progress in enhancing customer satisfaction, as measured through the cross industry net promoter score metric. This measures customer service at key touch points and the likelihood of customers recommending us.

Customer complaints (FCA banking complaints* per 1,000 accounts)

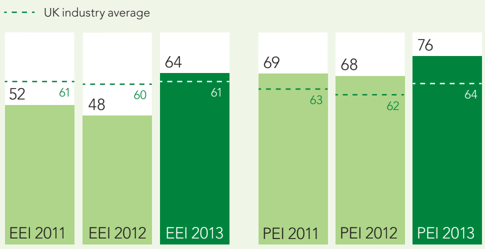


Through our Simplification programme and continued focus on becoming the best bank for customers, our FCA reportable banking complaints continued to fall. We now have a target of 0.9 banking complaints per 1,000 accounts.

*Excluding PPI

Staff engagement score

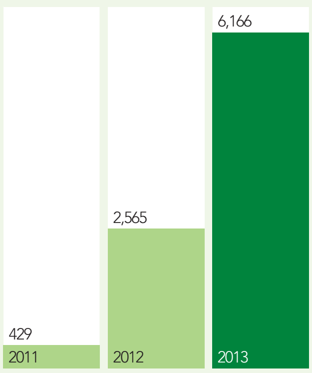
%



We made strong progress in 2013 in improving staff engagement with the Employee Engagement Index (EEI) and Performance Excellence Index (PEI). The EEI measures the individual motivation of colleagues whilst the PEI measures how strongly colleagues believe the Group is committed to improving customer service.

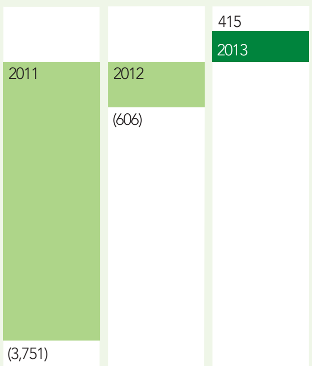
Underlying profit before tax

£m



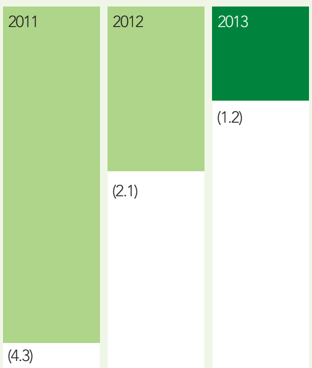
Statutory profit (loss) before tax

£m



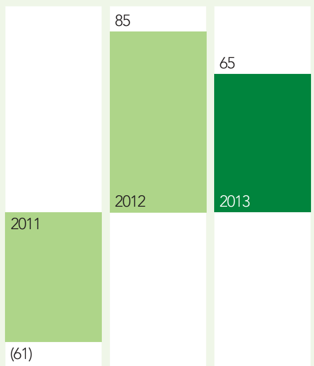
Earnings per share

p



Total shareholder return

%



CHAIRMAN'S STATEMENT

This was, is, and will continue to be, a bank focused on customers' needs and building lasting relationships.

Sir Winfried Bischoff
Chairman

Overview

2013 has been a significant year for Lloyds Banking Group, and in my last year-end statement as Chairman I would like to reflect not just on the year's performance, but also on the strong position the Group has built as a result of the significant progress we have made in the past four years.

When I became Chairman in September 2009, I knew we faced many challenges as a Group, not least from the integration of two large businesses during a challenging time for financial markets and the global economy. However, I was encouraged by the great potential I could see in the Group's combined franchise, in the strength of its brands, and in the commitment of colleagues to do the best for customers. This was, is, and will continue to be, a bank focused on customers' needs and building lasting relationships.

I believed we could overcome these challenges and begin the process of restoring our customers' trust in what is a great British institution, with a strong heritage. I was also determined that the positive role the Group has played in the UK economy in the past should once again be recognised, and that Lloyds Banking Group should be a company of which we can all be proud.

The Board has taken a number of important, and in many instances difficult, decisions as we have worked towards these goals. They have included the capital restructuring of the business, the appointment of a new management team and the development and oversight of our new strategy.

A key early decision was to issue new shares in the Group in December 2009 to ensure we avoided the need for the government to take a larger stake or for the Group to face substantial further capital headwinds. I acknowledge this was painful at the time for many existing shareholders but has subsequently proved to have been the right choice for shareholders financially, as well as ensuring strength and stability, and laying the foundations for subsequent progress.

Progress in 2013

In 2013, we accelerated the delivery of our strategy and made substantial progress in creating a simple, customer focused, low risk retail and commercial bank. We more than doubled our Group underlying profit to £6.2 billion and returned to modest statutory profitability at the pre-tax level, while further reducing the risk in the business and strengthening the balance sheet. Our pro forma fully loaded common equity tier 1 ratio is now 10.3 per cent.

The significant progress enabled the UK government to sell a 6 per cent stake in the Group in September 2013, thereby reducing its holding to 32.7 per cent. This was a major milestone in our recovery, and marks the start of the journey to full re-privatisation, a key priority for the Group. We have also commenced preparatory work including the preparation of certain documents required for a possible future sale of shares in Lloyds Banking Group to the public.

We were also pleased that the first phase of the European Commission mandated business disposal, Project Verde, was successfully completed in September 2013, with TSB Bank launched onto the UK high streets. We continue to target an Initial Public Offering (IPO) of TSB Bank in 2014.

Despite this progress we have continued to be affected by legacy issues, in particular Payment Protection Insurance for which we took additional provisions of £3,050 million in the year. Though very disappointing, I am confident that our customer focused strategy along with the new customer processes and reward structures we are implementing will prevent issues of this magnitude being repeated.

As a Group we are well positioned, having established a business model and strategy which is aligned with the economic and regulatory environment. We have a strong and experienced management team to lead the further development of the business. The Group is now profitable, with a strong balance sheet and solid prudential foundations on which to build sustainable growth by serving our customers well.

We are one of the largest community investors in the UK, providing £85 million per annum to worthy causes.

Supporting the UK economic recovery

Our simple, UK focused, low risk retail and commercial business plays a leading role in reshaping the banking industry and rebuilding the trust that is so vital in providing effective support for the economy. We are helping Britain prosper through our participation in UK government schemes such as Help To Buy and Funding for Lending, in the latter of which we have been the largest participant. I am particularly proud of our commitment to UK business since our performance is inextricably linked to that of the UK economy, and the companies that operate within it. Our SME lending grew 6 per cent in 2013 in a market that contracted, while we exceeded our target of lending £1 billion to UK manufacturing companies three months ahead of schedule, a commitment we made in recognition of the fundamental role the manufacturing sector plays in the economy.

Regulation

The regulation of the UK banking industry has changed significantly in my time as Chairman. Since the 2008 financial crisis, regulators have made great progress in enhancing the financial stability of the industry and the future regulatory framework is becoming clearer. However the challenge continues to be in striking the right balance between enhancing financial stability, and ensuring innovation, competition and growth.

The lower risk inherent in a focused retail and commercial banking model such as ours is now being recognised by regulators, as are the many changes we have implemented to achieve a strong capital, liquidity and funding position. We remain confident we will meet the latest regulatory capital requirements when finalised, including the adoption of CRD IV, and the Group is considering opportunities to raise new Additional Tier 1 capital. Discussions around the ring-fencing proposals for UK banks have continued to evolve through 2013, and although many details still remain unclear, our intention is to become a ring-fenced bank and meet the Independent Commission on Banking's 2019 deadline.

Dividends

We were pleased to announce earlier this year that given the progress the Group has made in substantially strengthening its capital position and improving its financial performance, that the PRA has now confirmed it will consider the Group's applications to make dividend payments in line with its normal procedures for other banks. In the light of this, and subject to a return to sustainable profitability and there being no major unexpected changes in the Group's business outlook or regulatory requirements, the Board expects that it will apply to the PRA in the second half of 2014 to restart dividend payments, commencing at a modest level. I fully understand the difficulties that the absence of dividends has caused our shareholders and I am particularly pleased we have now reached this position.

Directors

As announced in 2013, I will retire from the Group in April 2014. I am delighted Lord Blackwell has been chosen to succeed me as Chairman. He has an excellent understanding of the Group, having been a director of our Board and a member of the Group's Audit and Risk Committees since June 2012, and chairman of Scottish Widows plc from September 2012. He brings broad experience in banking, insurance and consultancy to the position. I am confident he will continue to take the Group forward successfully in the years ahead.

We were pleased to welcome Dyfrig John to the Board in January this year as an Independent Non-Executive Director. Dyfrig has significant banking experience in the UK and overseas, having served in a number of senior management and Board roles with HSBC and its subsidiaries, and given his position as the Chairman of Principality Building Society.

Juan Colombás was appointed to the Board in November 2013. Juan has been the Group's Chief Risk Officer and a member of the Group Executive Committee since January 2011. He is responsible for the management of risk across the Group and has over 25 years of banking experience. His appointment highlights the importance of risk management in the Group and reflects the significant work that Juan has done to reshape the risk function over the past three years.

As a Board we believe that diversity helps to improve the quality of decision making and I am pleased that we maintained at least 25 per cent female representation on the Board ahead of the 2015 deadline mandated by the Lord Davies report. I am confident that we will continue to promote diversity, both within the Board and the Group as a whole after my retirement.

One of the principal tasks of the Board is to develop a strategy which achieves long-term success and generates sustainable returns for shareholders. In turn, this needs to be underpinned by the high standards of corporate governance which are critical to the success of any business today. They must be driven by the Board, led by the Chairman, and be embedded in the thinking and processes of the business. As a Board, we are confident we have an excellent management team, and strong governance, to enable us to build a business that will deliver sustainable success in the future.

Community and culture

Lloyds Banking Group has a presence in practically every community across the UK. We attach great importance to supporting these communities, both locally and nationally. This not only strengthens our business, but also helps to rebuild trust and confidence in the banking sector and underlines the positive role banks should play in society as a whole. Our commitment to these communities is demonstrated through a variety of initiatives which continue to focus on our values of *putting customers first, keeping it simple* and *making a difference together.*

Actively supporting charitable causes has always been key to the Group and I am proud to say we have already exceeded our initial £2 million target of fundraising for our 'Charity of the Year' Alzheimer's Society and Alzheimer Scotland, one year into our two year partnership with the charity. This will allow the delivery of the first phase of the Live Well campaign, the first ever UK-wide dementia carers programme. Through our Community Fund, now in its second year, we are helping local people across the UK have a positive effect in their communities. In the past year the fund issued grants to over 1,500 local good causes in nearly 400 communities across the UK.

In addition to these areas of current focus, we are one of the largest community investors in the UK, providing £85 million per annum to worthy causes through various initiatives, including our charitable foundations.

We celebrated the graduation of our first cohort of Lloyds Scholars in the summer. The scheme is a key part of our investment in the long-term economic future of the UK and helps young people from lower income households take their first steps on the career ladder. We also encourage our Scholars to volunteer in their local communities during the academic year to add to the Group's wider support of communities.

Within Lloyds Banking Group we recognise the value of diversity in our colleagues. Having a broad and representative mix of backgrounds and experiences allows us to be more creative and maximise opportunities. The Group's diversity networks enjoyed a successful year in 2013 with more events, increased membership, and a wider awareness among colleagues. The Group's recent commitment to ensuring that women hold 40 per cent of our top jobs by 2020 further demonstrates the importance of diversity in the Group. The make-up of our workforce increasingly reflects the communities we serve, an important factor in helping the business to understand them better and help them to prosper.

CHAIRMAN'S STATEMENT

Corporate and social responsibility

Now more than ever, it is clear that doing business responsibly creates a more stable and successful future for the bank and for everyone it interacts with. During my years as Chairman, we have done a great deal to rebuild customer trust and colleague pride. Not only have we introduced more rigorous responsible business practices, but our renewed focus on helping Britain prosper has helped us to articulate how we contribute to the UK's long-term financial wellbeing.

We manage our business practices through our Responsible Business Committee (RBC), which reports to the Group Executive Committee on a quarterly basis, and to the Board via the RBC's Chair, Anita Frew, one of our Non-Executive Directors. In 2013, we continued to improve our governance structures, and now have all areas of the business represented on the RBC, to ensure effective management across the five pillars of our Codes of Responsible Business – customers, colleagues, communities, the environment, and relationships with our stakeholders. These developments will help to drive more positive outcomes, and move us closer to being the best bank for customers – which in turn will create sustainable value for shareholders.

The launch of our Helping Britain Prosper Plan in 2014 formalises our promise to make a difference in the areas where society's needs overlap most closely with our core business services. Through seven commitments, backed by over 20 specific targets, I believe we can lead the industry in creating change in a meaningful and measurable way.

Remuneration

The Remuneration Committee undertook a further review of colleague and executive remuneration in 2013. Anthony Watson, the Committee's Chairman, provides his annual review of our approach elsewhere in the report but, given the importance of remuneration to our stakeholders and the Group, I want as Chairman to give some context to the decisions we have taken.

We continue to believe that 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 strongly believe that we should align rewards to the longer term, sustainable success of our business and through this the delivery of value to shareholders.

In 2012, despite improved underlying performance, we took the decision to reduce the bonus pool significantly below on-target levels. This reflected the views of our stakeholders, the uncertain economic outlook and the statutory loss for that year. For 2013, underlying performance was stronger, the economy is recovering, and the Group returned to pre-tax profit on a statutory basis. This improved performance, as shareholders are well aware, has been reflected in our share price, which rose 65 per cent in 2013, building on the 85 per cent increase in 2012.

In the light of the better results in 2013, the total bonus pool for the year has been increased by approximately 8 per cent to £395 million. This once again is significantly below on-target levels, but recognises the efforts of our employees in transforming the Group to a lower risk business and returning it to statutory profit.

Group bonus scheme awards remain a very small percentage of revenues at approximately 2 per cent, and represent approximately 6 per cent of pre-bonus underlying profit before tax, compared to 12 per cent in 2012. 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 remains below £4,500.

We are beginning to regain the trust of our customers and the Group is increasingly seen as a leader in the banking industry.

Recent European legislation has introduced a cap on the variable element of remuneration at 100 per cent of fixed remuneration, rising to 200 per cent if shareholders provide their consent. To manage the impact of the legislation, we intend to make changes to our executive remuneration structure through the introduction of fixed share awards. The awards would be delivered over five years to support the alignment of executive and shareholder interests. These changes will be subject to appropriate shareholder approval at the 2014 AGM. There will be no increase to maximum remuneration at face value as a result of these changes.

The 2013 bonus awards for executives have been determined against robust financial performance measures, and will continue to be deferred into shares, not vesting before 2017. In recognition of the Group's performance in 2013, the Remuneration Committee has decided to make an annual performance award to António Horta-Osório, the Group's Chief Executive Officer, of £1.7 million, payable in shares, with a five year deferral period. The award is subject to an additional condition requiring the share price to remain above 73.6p on average for any 126 consecutive trading days in the five years following grant or the UK government selling at least 50 per cent of its shareholding during the three years following grant. The shares will not be released before 2019. António has led the Group through a strong year resulting in the Group having the best performing share price amongst the FTSE 100 banks in 2013.

I am pleased to note that after many years of not meeting the performance conditions under the Long Term Incentive Plan (LTIP), the strong performance on strategic and financial targets since 2011 resulted in the vesting of a portion of awards under the Plan. The LTIP remains a core part of our reward strategy and the alignment of performance conditions with the Group's strategic objectives ensures payouts, when they do occur as in this year, are aligned to shareholders' objectives.

Outlook

Investors have begun to value the simplicity and transparency of our UK focused retail and commercial banking business model, as set out in 2011. The perceptions of the Group among other influential stakeholders are also improving. Above all, despite some continuing setbacks, we are beginning to regain the trust of our customers and the Group is increasingly seen as a leader in the banking industry.

In closing I would like to thank my fellow Board members, the senior leadership team and all colleagues for everything we have accomplished together at Lloyds Banking Group in my years here. Throughout my time I have been deeply impressed by the collegiate approach taken by management and colleagues in delivering goals, and their desire to do the best for customers. They have executed our strategy with great commitment and enthusiasm. I have also had great support from our shareholders large and small and I am grateful to them for their advice.

The significant progress on our strategy is demonstrated by much improved financial results. However, we will always be mindful not to become complacent or let past success diminish our future efforts. In April I will hand over to Lord Blackwell a strong bank that is well-placed competitively and looks to the future with a good deal of confidence, which I share. I wish the Group another successful year in 2014 and prosperity for many years ahead.

Sir Winfried Bischoff
Chairman

A commitment to good 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 of the UK Corporate Governance Code published by the Financial Reporting Council. The Board aims to exceed these principles 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.

The Salz Review

The Salz Review was published in April 2013. Whilst the review focused on issues and cultural behaviours that are specific to Barclays, it contains important lessons for all banks, and raises the expectation that all banks will consider whether selected issues exist in their own organisations. With that in mind the Nomination & Governance Committee which is chaired by Sir Winfried Bischoff asked for a full analysis of the Group's performance against the 34 Salz recommendations.

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More information on corporate governance can be found in our 2013 Annual Report and Accounts.

Board oversight – key topics

Throughout 2013 the Board continued to review the Group's 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 allowed us to deal with key topics arising throughout the year, including:

- the establishment of a committee to oversee the search and selection of a new Chairman of the Board
- the ongoing review of Board composition, including a number of new appointments
- a full analysis of the Group's performance against the 34 Salz Review recommendations
- the ongoing review and challenge of the Group's strategy and long term objectives, and the approval of the five year operating plan and annual budget
- the ongoing review of the regulatory framework and the implementation of changes to achieve a strong capital, liquidity and funding position
- the launch of TSB bank, an independent banking operation with approximately 600 branches across Britain
- ongoing oversight of conduct issues with an emphasis on embedding a culture of 'doing the right thing'
- an ongoing review of the adequacy of provisions in relation to legacy conduct issues such as Payment Protection Insurance (PPI) and the sale of interest rate hedging products to certain small and medium-sized businesses
- continued close scrutiny and control over executive remuneration arrangements, including adapting the structure to the requirements of CRD IV. We continued to maintain open and effective engagement with shareholders on a range of remuneration matters
- a Board Effectiveness Review in which all board members participated, expressed their views, had individual meetings with the Chairman and collectively discussed at the Board the overall findings of 75 different assessments

GROUP CHIEF EXECUTIVE'S REVIEW

We have reshaped, strengthened and simplified our business to create a low risk, efficient retail and commercial bank that is focused on our customers and on helping Britain prosper.

António Horta-Osório
Group Chief Executive

Summary

In 2013 the Group delivered a strong performance, underpinned by the rapid progress we have made on our strategic objectives, many of which we have now delivered ahead of plan. Since we set these objectives in June 2011, we have substantially reduced costs and risk, strengthened our balance sheet and capital base and increased investment in our core franchise, creating a unique competitive position with a low cost of equity. We continue to be well placed to support our customers and the UK economic recovery and to deliver strong and sustainable returns to shareholders above our cost of equity. As a result of this progress, we have substantially improved our underlying performance, returned the Group to profitability in spite of additional legacy costs and in September the UK government began returning the Group to full private ownership. We have also confirmed that the Board expects that it will apply to the Prudential Regulatory Authority (PRA) in the second half of 2014 to restart dividend payments, commencing at a modest level.

Results overview

We delivered a substantially improved financial performance in 2013. Group underlying profit more than doubled to £6,166 million when compared to 2012, reflecting improved profitability in the core business and a significant reduction in non-core losses.

On an underlying basis, the Group net interest margin increased 19 basis points to 2.12 per cent, total costs reduced 5 per cent to £9,635 million and the impairment charge fell by 47 per cent to £3,004 million, more than offsetting a fall in other income, which was down 2 per cent, mainly driven by the non-core asset reductions made in the year, which overall were capital accretive. As a result, the Group return on risk-weighted assets improved 137 basis points to 2.14 per cent.

We made excellent progress in our core business, where we have returned lending to growth in all our banking divisions, and underlying profit rose 24 per cent to £7,574 million. This growth in profit was largely driven by an 8 per cent increase in net interest income, and a 21 per cent reduction in the impairment charge. The return on risk-weighted assets in the core business improved by 72 basis points to 3.26 per cent.

On a statutory basis, the Group reported a profit before tax of £415 million, compared to a pre-tax loss of £606 million in 2012. Strong performance in our core business and reduced non-core losses were the main drivers behind the improvement which, together with gains on the sale of government securities of £787 million, was partly offset by charges of £3,455 million for legacy issues, principally Payment Protection Insurance (PPI). Our statutory result also included the costs of our Simplification programme and preparations for the TSB disposal (together £1,517 million), and losses on asset sales, including those from capital accretive non-core asset disposals, of £687 million.

Strengthening the balance sheet

Over the course of 2013 we made further progress in strengthening the balance sheet and reducing risk, while continuing to manage down our wholesale funding.

We substantially strengthened our capital position, with our pro forma fully loaded common equity tier 1 ratio increasing by 2.2 percentage points to 10.3 per cent, despite the additional legacy charges during the year. This uplift was driven by capital generation in the core business, as well as management actions including the reshaping of our core business portfolio, the substantial reduction of non-core assets in a capital accretive manner and the payment of dividends of £2.2 billion to the Group by the Insurance business. We reduced non-core assets by £34.9 billion, while at the same time releasing approximately £2.6 billion of capital.

The Group's funding structure and liquidity position remain robust. We further reduced wholesale funding by £32.0 billion, representing a 19 per cent decrease in the year, with the proportion of funding with a maturity of less than a year at 32 per cent. We continue to maintain a strong liquidity position including £89.3 billion of cash and highly rated, low risk securities.

The 4 per cent increase in customer deposits, together with non-core asset reduction, drove a further improvement in the Group's loan to deposit ratio to 113 per cent at the end of 2013 from 121 per cent at the end of 2012, with the core loan to deposit ratio improving to 100 per cent by the end of 2013.

In acknowledgement of the significant progress we have made in improving the Group's capitalisation and transforming its financial profile, the rating agencies Fitch and Standard & Poor's upgraded Lloyds Bank's standalone rating to 'bbb+' in September and December 2013 respectively, and affirmed their long-term credit ratings on Lloyds Bank at 'A'.

Legacy

Our results and capital position reflect further provisions for legacy issues taken in 2013 totalling £3,455 million which had a material effect on our statutory performance. We remain committed to resolving these issues, while treating our customers fairly. Of these provisions, £3,050 million related to PPI and £130 million related to the sales of interest rate hedging products to certain small and medium-sized businesses.

We increased our provision for PPI by £1,800 million in the fourth quarter principally based on revised expectations for complaint volumes, uphold rates, and related administrative costs. Further detail on the provisions for legacy issues is given in the Summary of Group results section of our 2013 Annual Report and Accounts.

Reshaping the Group to increase our focus on the UK and our core customers

We made a number of asset disposals during 2013, including the sales of our shares in St. James's Place and the announced disposal of our German life insurance operation, Heidelberger Leben. We also continued to increase our focus on our core UK business and reduce our international presence, completing the sales of our Australian and Spanish banking businesses and have now exited, or announced the exit from, 21 countries or overseas branches since June 2011. Following completion of these exits, we will operate in nine countries, achieving our target of operating in 10 countries or fewer by the end of 2014.

In November 2013, we announced that we had agreed to sell our asset management business Scottish Widows Investment Partnership (SWIP) to Aberdeen Asset Management (Aberdeen) for a consideration valued at the time at up to £660 million. We also agreed to enter into a long-term strategic relationship with Aberdeen which is expected to result in a stronger asset management partner for the Group and its customers, combining Aberdeen's and SWIP's strengths across asset classes once the sale completes, which is expected in the first quarter of 2014.

We continue to refresh our operating structure and from the beginning of 2014 our unified Wealth business will be integrated into the Retail division. This will allow us to sharpen our focus on delivering value-added Wealth services to eligible retail customers and will represent a key growth opportunity. We have also moved our Business Banking unit, which services approximately one million small business customers with less complex needs, into Retail, allowing us to draw on the collective expertise of Retail and Commercial Banking colleagues to manage these customer relationships in a way which leverages existing Retail infrastructure, via branch, telephony and digital channels.

Our Asset Finance business is the foundation of a newly created Consumer Finance division, which will also include our consumer and corporate credit card business. Bringing these business units together will increase management focus and allow us to capitalise on growth opportunities, continuing our good momentum in asset-backed lending and with the aim of growing our market presence in credit cards. Consumer Finance will work in close partnership with Retail and Commercial Banking to ensure we continue to offer our customers excellent customer service.

5%
Reduction in costs

£6.2bn
Underlying profit

Substantial further progress in our Simplification programme

Our Simplification programme remains central to the successful delivery of our strategy, both in terms of realising further cost savings and efficiencies, and in improving the products and services we offer our customers. Through Simplification, we have made excellent progress in improving and rationalising processes, and reducing layers, suppliers and our non-branch property portfolio. The ongoing programme realised approximately £0.6 billion in further cost savings in 2013, generating a total of around £1.5 billion annual run-rate savings since inception and having identified further opportunities we are now increasing our target run-rate savings by a further £100 million to £2.0 billion by the end of 2014. The total spent on the programme to the end of 2013 was £1.7 billion.

We have now fully automated the collection of maturity instructions from term deposit customers, reducing completion time by approximately 85 per cent, substantially reducing error rates and have completed the transfer of 1.7 million mortgage accounts to a single mortgage platform. Similarly, we have made great strides in delayering the organisation, increasing spans of control and simplifying the Group so that 98 per cent of employees are now within seven layers. During 2013 we also made significant progress in reducing the number of legal entities, which are now down to 929, a reduction of over 40 per cent since the start of the Simplification programme in 2011, and the number of Group suppliers was further reduced by 14 per cent to 9,066 in 2013, to around half the level at the start. Meanwhile we exited 19 non-branch properties in 2013, reducing the overall total to 161.

All of these changes help to put us firmly on the path to being the best bank for customers, enabling better service by making day-to-day tasks easier and freeing up colleague time to focus on our customers' needs.

Investing in the business

We are reinvesting a significant proportion of the savings realised from Simplification to further improve processes and the quality of customer interaction through branches, via the telephone and digital channels.

In the second half of the year, we relaunched the Lloyds Bank brand, building on its 250-year heritage of serving the people and businesses of Britain, to take its place alongside our key high street banking brands, Halifax and Bank of Scotland. The relaunch of Lloyds Bank followed the separation of TSB, which has brought another new challenger to the high street. The Group has received an agreement in principle from the European Commission to pursue an Initial Public Offering of TSB as planned in 2014 and to extend the deadline for the completion of the TSB divestment to the end of 2015.

We are continuing to develop and grow our Halifax challenger brand, including extending its geographical reach into Scotland, and in 2013 Bank of Scotland began its first ever national campaign targeting lending to small and medium-sized enterprises (SMEs). In Insurance, 2014 has already seen us relaunch the Scottish Widows brand, refining its focus on providing a more secure financial future for our customers and demonstrating our continued commitment to be a leader in the life planning and retirement market.

GROUP CHIEF EXECUTIVE'S REVIEW

Our strong portfolio of differentiated brands underlines our commitment to service and to helping our customers with the things that really matter – planning for the future, enabling them to purchase their home and protecting their families – as well as supporting UK business. Brand revitalisation is being reinforced by an extensive programme of branch refurbishment and investment in telephony and digital channels. We have so far refurbished over 1,500 branches since the Strategic Review, creating bright, modern environments incorporating screenless counters. We have also introduced active management of our banking halls, increased colleague training and extended opening hours at selected branches, enhancing the overall branch banking experience for our customers. In turn, this has resulted in a further 11 per cent improvement in Net Promoter Scores and a fall in Group reportable banking complaints to 1.0 per 1,000 accounts (excluding PPI). This level of complaints represents the lowest of any major UK bank, with Halifax leading the way amongst our brands with 0.8 complaints per 1,000 accounts, and we expect to maintain this industry leading position.

In telephone banking, we launched a number of improvements to our automated Interactive Voice Recognition (IVR) system in 2013, incorporating the latest speech recognition software to get things right first time when customers call us. With simplified menu structures, increased service functionality and improved call routing, nearly two-thirds of all calls are fulfilled at point of IVR first contact.

Our digital channels go from strength to strength, with active internet banking users now increased to over 10.5 million and mobile banking users to more than four million, and over 1.2 billion log-ons in 2013. We have now created a new Digital, Marketing and Customer Development function to capitalise on our achievements to date, focusing our investment and ensuring our success in Retail is replicated by sharing digital product development across all divisions.

In Commercial Banking we continue to strengthen our capabilities and position ourselves for growth. In 2013, we launched a new Global Transaction Banking platform to support clients in payments, liquidity management and working capital financing, thereby deepening our client relationships by fulfilling a broader spectrum of their product needs.

In General Insurance, we have redesigned our claims process to make it more efficient and simpler and as a result, the majority of our Home Claims customers are receiving their settlements 30 per cent faster. Customers making a claim are now looked after by a dedicated advisor throughout the life of their claim and regular contact is maintained.

Supporting our customers and the economic recovery

Lloyds Banking Group is the UK's largest retail and commercial lender, and in 2013 we continued to deliver on our pledge to help Britain prosper and support sustainable economic recovery. We were the first bank to access funding from the government's Funding for Lending (FLS) scheme, and are its largest lender, having committed over £37 billion of gross new lending with net core growth of £13 billion since the start of the scheme. We remain committed to passing on the benefits of this low cost funding to our UK customers.

In Retail, we helped more than 80,000 new homeowners to purchase their first home, exceeding our target of 60,000 and advancing mortgages totalling over £9.7 billion. Through our participation in government schemes such as Help to Buy in the Halifax and Bank of Scotland brands (now also launched under the Lloyds Bank brand in 2014), we are providing strong support for the recovery in the housing market, by facilitating access to mortgage financing for creditworthy home buyers at up to 95 per cent of property purchase values.

6%
Increase in SME lending

80,000+
Mortgages provided to first-time buyers

September 2013 saw the introduction of a new industry-wide service to make it easier and quicker for customers to switch their current account. Key Lloyds Banking Group brands are taking part in this scheme, which allows customers to switch their accounts within seven working days. During the course of the year switch-ins have exceeded switch-outs by approximately 144,000, particularly driven by switching into our challenger brand, Halifax. This is testament to some of the product innovations we have implemented, including loyalty schemes such as Halifax's Cashback Extras, and Everyday Offers at Lloyds Bank and Bank of Scotland, recognising and rewarding the faith placed in us by our customers to provide a consistent, high quality service.

In Commercial Banking, we continue to strengthen our client relationships, supporting businesses of all sizes from SMEs to Global Corporates. We have demonstrated our focus to support clients consistently through the economic cycle with net lending to SMEs growing by 6 per cent in 2013 despite a market contraction of 3 per cent; committing over £1.3 billion to the UK manufacturing sector by the end of September, exceeding our £1 billion target three months early; and providing finance to approximately 120,000 start-up enterprises, beating our target by 20,000. In 2013 we continued to approve eight out of 10 business loan and overdraft applications from SMEs. Meanwhile the Hire Purchase and Leasing team within Commercial Finance achieved record monthly lending levels. We have further supported loan growth by launching a partnership to deliver mobile card payment solutions to small businesses which is cutting technology costs and opening up growth opportunities.

For the ninth year running we were awarded the title of 'Business Bank of the Year' at the FDs' Excellence Awards, which are supported by the Confederation of British Industry and the Institute of Chartered Accountants in England and Wales.

In Insurance, we have seen excellent growth in our Corporate Pensions area, stimulated by the market changes as a result of the Retail Distribution Review and the support we are giving to our customers in managing the transition to auto-enrolment. We also launched an enhanced annuity product in both the intermediary and direct channels, expanding our offering, while enabling our retail bank customers to secure a higher retirement income via a new online comparison tool. We continue to enhance our market-leading bancassurance protection proposition as we look to address the UK population's protection gap. In 2013, we addressed the protection needs of 200,000 new customers and paid out around £200 million in claims to existing customers. In General Insurance, in the aftermath of the October and December storms, our Home Claims teams worked hard to offer seamless service at a distressing time for many of our customers.

Within Asset Finance, we were pleased to announce a partnership between our Black Horse business and Jaguar Land Rover which will see us provide lending facilities to over 200 motor dealerships to cover vehicle stock and personal finance to customers seeking to purchase a car. Black Horse also enabled customers to make payments via mobile devices this year. Within Wealth, we also now provide better support and faster advice through a newly inaugurated Private Banking client centre while harnessing the latest customer relationship management technology, halving the time from initial contact to customer interview.

Regulation

2013 was an important year for the UK's supervisory framework for financial services companies, with two new bodies coming into existence in April, the Prudential Regulatory Authority and the Financial Conduct Authority, replacing the FSA. While uncertainty remains in relation to the impact of many reforms affecting our industry, both in the UK and from abroad, there is now greater clarity on regulatory capital requirements. Our simplified, low risk, UK focused model is closely aligned to the new regulatory landscape, and with the reshaping we have undertaken, we are better positioned than ever to adapt to the changes we may face in the future and conduct our day-to-day business in a way that puts our customers' needs first. We also continue to work with the relevant authorities on the evolution of regulation connected to the Financial Services (Banking Reform) Act, although we expect the majority of our operations to be within the ring-fence which this legislation will create when it comes into effect at the start of 2019.

Colleagues

Our success relies on the dedication of colleagues, the service they provide to our customers and the long-term partnerships they build with them. Our stated aim of becoming the best bank for customers would not be possible without their talent and hard work. I would like to personally thank all colleagues for their tremendous efforts that have enabled us to move further and faster towards our goals in 2013.

I would also like to take this opportunity to thank our Chairman, Sir Winfried Bischoff, who will retire from the Group in April 2014. His stewardship and guidance, in a challenging operating environment both from a regulatory and economic perspective, have been invaluable. I look forward to working closely with Lord Blackwell, who will take over as Chairman from April, on the next steps in the evolution of the Group.

We are committed to attracting, retaining and developing our people. Over 51,000 Lloyds Banking Group customer facing colleagues have achieved the Chartered Banker Foundation Standard for Professional Bankers. This Standard enables bankers to demonstrate to colleagues and customers that they have the knowledge and skills to perform their role, that they take responsibility for acting ethically and professionally, and that they adhere to the Chartered Banker Code of Professional Conduct to deliver the best outcomes for our customers.

Colleague feedback is highly valued and in 2013, Community Bank and Telephone Banking colleagues made almost 3,000 suggestions, contributing towards a culture of continuous improvement and innovation, enabling us to deliver more tangible enhancements to our customer offering than ever before. Also vital are our Back to the Floor days which take our senior leaders from the wider Group back into the branches and operational centres to experience our services and processes first hand, giving them important insights into how improvements are being implemented.

11%

Increase in customer service scores

40%

2020 target for senior roles held by women

Our 2013 Colleague Survey had the highest ever participation rate, reaching over 75 per cent. There were improvements in scores across all key categories and we compare favourably with other UK companies. Notably the Employee Engagement Index (EEI), which shows the extent to which colleagues feel motivated to contribute to the success of the Group, and are willing to apply discretionary effort to help the business succeed, rose to 64 per cent, 16 points higher than in 2012. Meanwhile, the Performance Excellence Index (PEI), which shows how strongly colleagues believe the Group is committed to delivering, and continuously improving, high quality products and services to customers, rose to 76 per cent, 8 points higher than in 2012. There are many factors that influence these scores; the ongoing delivery of our strategy, the achievement of key milestones, together with the recent start of our return to full private ownership, have all contributed to the improvement in engagement.

I am also delighted to have announced, as part of our Helping Britain Prosper Plan, that we are moving towards a target of 40 per cent of our most senior roles being held by women by 2020. We do recognise however, that there is more to be done on our journey to being the best bank for customers and amongst the best-rated companies in the UK by our colleagues.

I am proud that, amongst many other accolades received during the year, we were named 'Best Bank (UK)' at the 2013 Euromoney Awards and 'Bank of the Year' at The Banker's 2013 Awards. These awards reflect the strong capabilities and diligence of our people who continue to support the delivery of our strategy.

Dividends

In the second half of 2013, the Group commenced discussions with the PRA on the timetable and conditions for resuming dividend payments. Given the progress the Group has made in substantially strengthening its capital position and improving its financial performance, the PRA has now confirmed that it will consider the Group's applications to make dividend payments in line with its normal procedures for other banks.

In the light of this, and subject to a return to sustainable profitability and there being no major unexpected changes in the Group's business outlook or regulatory requirements, the Board expects that it will apply to the PRA in the second half of 2014 to restart dividend payments, commencing at a modest level. The Board expects thereafter to have a progressive dividend policy with the aim of moving, over the medium term, to a dividend payout ratio of at least 50 per cent of sustainable earnings.

Outlook

There is still a lot to do and we are not complacent, but we have made further substantial progress in 2013 on our strategy to be the best bank for customers. We delivered a significantly improved financial performance while increasing investment in our core franchise and people, strengthening our balance sheet and capital position, reducing costs and risk, and addressing legacy issues.

The progress we have made means we have a simpler, more efficient, lower risk business, which given the additional investments we are making, is well placed to serve our customers and to help Britain prosper. We therefore remain confident in the Group's prospects, despite continued regulatory uncertainty, and in our ability to generate strong and sustainable returns for our shareholders.

António Horta-Osório
Group Chief Executive

MARKET OVERVIEW

Given our UK focus, our financial performance is inextricably linked to the performance of the UK economy, its regulatory environment and the competitive environment.

UK economic trends

The UK economy started to grow again in 2013

As with many developed economies, the shift from rising debt in the pre-crisis decade to a period of debt repayment in recent years has proved a difficult transition for the UK economy. Many countries cutting back on private spending and government spending at the same time resulted in self-perpetuating cycles of weak growth and confidence, with exports unable to compensate for weak domestic demand.

However, progress on consumer and bank debt reduction has been greater in the UK than across much of Europe, and consequently UK economic growth picked up significantly in 2013, much more so than in the Eurozone. Business and consumer confidence increased as the Eurozone economy stabilised, following the European Central Bank's commitment to purchase government bonds of countries experiencing financing difficulties and from a slowdown in their mandated pace of government deficit reduction. UK consumers appear to have reduced their precautionary saving, and the appetite for unsecured credit, particularly for car purchase, increased, helping consumer spending growth to accelerate to 2.4 per cent in 2013, up from 1.5 per cent in 2012.

Government initiatives have supported recovery

A number of government initiatives have helped support recovery. The Bank of England initially introduced 'forward guidance' for Bank Rate, ruling out any increase until the unemployment rate had fallen significantly, hoping to limit concerns that interest rates might rise before the economy was much stronger, and although the guidance has since been updated, this helped provide reassurance. The government launched a two-pronged Help to Buy scheme to help first-time house buyers struggling to raise deposits as well as existing home-owners constrained by low levels of equity in their current properties. Alongside the improving economy, this contributed to a rise in house prices of 6 per cent in 2013 compared to 2 per cent in 2012. The Funding for Lending scheme, introduced in 2012, continued to support the economy with its beneficial impact on banks' funding costs and consequent lowering in interest rates on lending products, although its support for mortgage lending has now been withdrawn. Our participation in both of these schemes has not only been beneficial to the Group but also illustrates our commitment to and focus on supporting the UK economy and helping Britain prosper.

Recovery has so far been weak

Early estimates suggest that the UK economy grew by 1.8 per cent in 2013 compared to 0.3 per cent in 2012. However, given how much the economy shrank during the 2008-9 recession, recovery so far has been weak in a historical UK context and is only now outperforming the Eurozone. The weak Eurozone economy continues to drag on the UK – the UK's overseas trade balance remained close to 1.5 per cent of GDP in 2013, as in 2012, with export growth estimated at below 1 per cent in 2013. Further improvement in external trade is necessary if the economy is to make up some of the gap between current output and the pre-crisis trend, without increasing debt again.

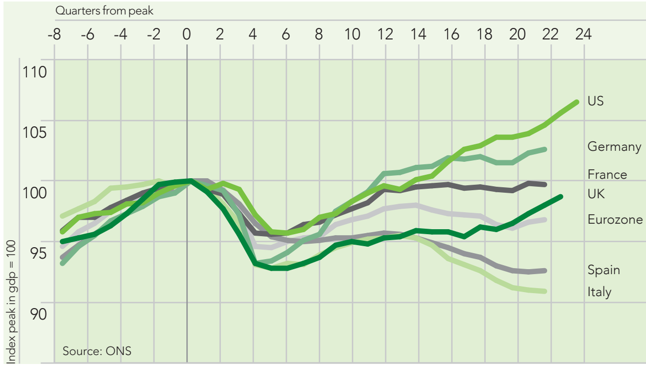
Unemployment, although still well above its pre-crisis level, fell relatively quickly through 2013 from 7.8 per cent at the end of 2012 to 7.2 per cent in the final quarter of 2013. Low interest rates have helped to keep company failures subdued, falling to just 0.6 per cent of active companies in 2013, close to its pre-crisis low.

Growth expected to improve

The most likely outlook is for continued recovery in 2014, with faster growth than in 2013. But the recovery will still be held back by consumers' subdued appetite to borrow and government deficit reduction in the UK and across much of the Eurozone. The current consensus for 2014 GDP growth is 2.7 per cent, close to the long-term average, and unemployment should continue to fall. However, with growth in wages and companies' unit labour costs remaining subdued, Bank Rate is expected to remain unchanged at 0.5 per cent through 2014.

Recovery compared to other countries

UK GDP, real terms



Risks to sustained recovery remain

Risks to this outlook are more evenly balanced than in recent years. In the short-term, the rise in confidence and the renewed buoyancy in house prices could lead growth to accelerate by more than expected. However, downside risks also remain, mainly from outside the UK. The Eurozone still doesn't have in place the full cross-country risk sharing necessary to ensure the long term stability of the Euro, so financial market turbulence remains a possibility if some countries' governments or banks are revealed to be less robust than they currently appear. In the US, the unsustainable long-term trajectory of government debt could still result in sharp spending cuts despite the recent bi-partisan agreement. Such scenarios would significantly impact the UK economy, which would, in turn, have a negative impact on the Group's income, funding costs and impairment charges.

The effect on our markets

The weak economic recovery has kept many of our markets subdued. Growth in UK households' deposits slowed to 3.7 per cent in 2013 from 5.7 per cent in 2012. Net new mortgage lending amounted to just 0.9 per cent of outstanding balances during 2013, the fifth consecutive year around 1 per cent or less. Unsecured consumer borrowing, net of repayments, increased by 4.7 per cent in 2013, the second consecutive year of positive net borrowing, but at less than 1 per cent of income this remains only one third of the level of the early 2000s. Non-financial company deposits with UK banks and building societies rose by 8.8 per cent in 2013, up from 4.9 per cent in 2012 while they reduced their borrowing from banks for the fifth consecutive year. Overall levels of corporate debt have however remained fairly flat relative to GDP in recent years, as large corporates have been refinancing bank debt in bond markets.

As the economic recovery continues, we expect demand for credit from households and small and medium-sized businesses to increase, but growth is likely to stay well below pre-crisis rates as the appetite to borrow remains constrained by recent experience. With Bank Rate not expected to rise until 2015, arrears are expected to continue to decline.

Regulation

The regulatory landscape is now clearer but significant change is still expected. In particular, within the UK over the next few years we will need to implement the recommendations relating to ring-fencing and culture established within the Banking Reform Act (2013). Key regulatory developments in 2013 are outlined below.

Financial Services (Banking Reform) Act 2013

The Financial Services (Banking Reform) Act gained Royal Assent on 18 December 2013. The Act implements the recommendations of the Independent Commission on Banking and the Parliamentary Commission on Banking Standards. It includes provisions for criminal sanctions and the new Senior Persons Regime. It also requires banks to ring-fence some retail and SME activities from investment banking activities and conform to additional capital requirements beyond those required by Basel III. Importantly for the Group, given we are primarily a UK focused retail and commercial bank, the majority of our operations are likely to be within the ring-fence.

Capital Requirements Directive IV (CRD IV)

Final rules following the outcome of the Prudential Regulatory Authority's consultation on future capital requirements were issued in December 2013, and have implemented the European Union's new capital requirements legislation, known as CRD IV, in the UK from 1 January 2014.

Recovery and resolution mechanisms

The European Commission published the Recovery and Resolution Directive on 6 June 2012. This should come in to force on 1 January 2015. The Directive requires all firms to develop a recovery plan and contribute to a resolution fund. It also proposes new early intervention powers for supervisors and introduces new powers for regulators at resolution stage. This was in line with the recommendations of the Financial Stability Board. The UK has pre-empted the European legislative process, with firms already required to prepare recovery plans.

UK supervisory structure

The Financial Services Act 2012 confirmed the responsibilities of the Financial Policy Committee for 'macro-prudential regulation' and formalised the replacement of the FSA with two new bodies for prudential and conduct regulation: the Prudential Regulation Authority and the Financial Conduct Authority. The new institutions came into being on 1 April 2013.

Other regulatory reforms

The Group is also implementing a broader range of regulatory changes, which includes accounting standards, the Dodd-Frank Act, Benchmarks, Foreign Account Tax Compliance Act (FATCA), the updated Markets in Financial Instruments Directive Review, and updates to the Deposit Guarantee Scheme, amongst others.

Customer drivers

In the competitive open markets in which we operate, customers are benefiting from an increasing range of products and services from a growing choice of providers. The expectations and demands of customers continue to rise.

Access to convenient branches remains important for many customers, but demand for a quality multi-channel banking proposition is now more prevalent. More customers expect to be able to manage their finances whenever and wherever is most convenient for them, whether by telephone, online, or using smart phones. Service remains one of the key drivers of customer satisfaction and customers are less accepting of poor service given the competitive nature of the market.

In the current low interest rate environment, many customers are motivated by their desire to achieve better value for money, but security and reputation remain important factors. Customers want clear and transparent products delivered with good service and access to helpful, relevant, expert advice when they need it. Product innovation is also important for some, whereas long-standing relationships remain important for others.

There are some clear customer trends emerging, but we recognise that every customer, whether an individual or an organisation, has particular needs and we must engage with them accordingly. Fundamentally, every customer has a choice and will select the provider that can most effectively fulfil their personal needs.

We are seeing a number of new or expanding players make an increasing impact into an already highly competitive sector and the TSB business, which we intend to float on the London Stock Exchange through an Initial Public Offering (IPO) in 2014, will have the capability of being another strong and effective challenger. An enhanced industry-wide switching service was launched in September 2013, giving customers increased confidence to change provider when dissatisfied or offered a better deal elsewhere.

Technological developments are already reshaping the banking industry and we expect this change to accelerate in the coming years. We anticipate an influx of new entrants, with business models that do not rely on expensive branch networks, offering innovative digital banking services. These new entrants are likely to have expertise and experience in digital product offerings, with strong funding positions, credible challenger brands, and in some cases pre-existing customer bases.

From a regulatory perspective, the new conduct regulator, the Financial Conduct Authority, has a competition duty giving it an explicit mandate to tackle competition issues, such as hurdles to switching or barriers to entry, swiftly and effectively.

Our strategy, as outlined on the next few pages, reflects these market conditions and the changing needs of customers. Above all it recognises that we operate in a competitive market where additional challengers continue to emerge and the only way of ensuring success is by focusing on the ever-changing needs of our customers.

Market trends

Key opportunities

- Economic environment: significant progress in reducing the Group's risk profile and strengthening the balance sheet along with strategic actions taken in the last couple of years means we are better positioned to benefit as the economy recovers.
- Customer requirements: our differentiated customer focused strategy along with our comprehensive multi-channel distribution network, well recognised brands and high quality people mean we are well positioned to address changing customer needs.
- Regulatory environment: greater clarity emerging on regulatory requirements.

Key challenges

- Economic environment: continuing economic uncertainty in the Eurozone.
- Regulatory environment: uncertainty remains around the implementation of key elements of the proposals on ring-fencing.
- Competition: it is likely that an increasingly competitive market for lending and deposits will require us to innovate and offer attractive new products.

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 we believe we can help Britain prosper and deliver strong and sustainable returns for our shareholders.

Our business model

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

We provide a range of services, primarily in the UK, to individuals and commercial customers and by focusing on the needs of customers and operating sustainably and responsibly, we believe we will help Britain prosper and create value for our shareholders.

The foundations for providing effective customer service are: our range of iconic and distinct brands, our broad multi-channel distribution network, our financial strength, our efficient systems and processes, our high quality, committed colleagues and our UK focus.

We want to meet our customers' financial needs, help them succeed and create value for them. We do this using our distinctive strengths, in particular our superior customer insight, simpler tailored products and relationship focus, whether that be through banking, insurance, investment, debt financing or risk management products.

Our focus on creating a simpler, more efficient and agile organisation is enabling us to provide a better product and service proposition at a fair price while delivering more efficient processes and reducing our 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, they remain appropriate for all stages of the economic cycle, whilst providing real differentiation and positioning us well for future regulatory reform.

Ultimately as a simple, low 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 and sustainable returns for our shareholders.

How we create value

A simple, low risk, customer focused UK banking model, delivering the right products with good service at a fair price.

Simple, tailored products addressing customer needs…

- Lending
- Deposit taking
- Insurance
- Investment
- Debt financing
- Risk management

…delivered through our four divisions.

Unique and effective service proposition…

- A range of iconic and distinctive brands
- Broad multi-channel distribution network: branch, telephone and digital
- High quality, committed colleagues
- Efficient systems and processes
- Financial strength
- UK focus

Creating distinctive value for customers through…

- Superior consumer insight
- Relationship focus
- Using our cost advantage for the benefit of customers

Enabling sustainable value creation.

Helping Britain prosper

Becoming the best bank for customers

Targeting strong, sustainable returns for our shareholders

Our vision

Our aim is to be the best bank for customers and to create value for them by investing where we can make a real difference.

Customers are at the heart of everything we do, whether that be through our distribution network, our brands or our people. This commitment is supported by our Group values of *putting customers first, keeping it simple* and *making a difference together.*

Our strategy

We are creating a simpler, more agile, efficient and responsive customer focused organisation concentrating on operating sustainably and responsibly and helping Britain prosper. We are reshaping and simplifying the business and investing a portion of the savings made from our Simplification programme in customer related growth initiatives.

We are reshaping our business portfolio to fit our assets, capabilities and risk appetite. We are strengthening our balance sheet by continuing to reduce our non-core assets and applying a conservative approach to, and prudent appetite for, risk. We have reduced our international presence in order to focus on our core UK customers.

We are unlocking the potential in our franchise and delivering 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 we are making substantial customer-related investment. Our strategy reflects our customers' needs for product simplicity and transparency, access to credit, demands for access through multiple channels, value for money products and services and the importance of our staff in managing customer relationships.

We are delivering our strategy though a clear action plan focused on **reshaping** our business portfolio to fit our assets, capabilities and risk appetite, **strengthening** our balance sheet and liquidity position, **simplifying** the Group to improve agility, efficiency and customer service and **investing** to be the best bank for customers. Our progress against this plan and the key priorities for 2014 are described on the next few pages.

Following the significant progress we have made against our original strategic plan, we expect to announce an update on our strategy in the second half of 2014 which will also incorporate the key elements of our new Helping Britain Prosper Plan.

28 More on our Helping Britain Prosper plan

Our action plan for success

We are making significant progress on all four key elements of our action plan to deliver our strategy. This is outlined in more detail on the next few pages:

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

20 More on Reshape

Strengthen *the Group's balance sheet and liquidity position.*

21 More on Strengthen

Simplify *the Group to improve agility, efficiency and customer service.*

22 More on Simplify

Invest *to be the best bank for customers.*

23 More on Invest

DELIVERING OUR ACTION PLAN

Reshape

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

Aim

We focus on attractive UK customer segments and their product needs to deliver a sustainable statutory return on equity of between 12.5 and 14.5 per cent. In order to reshape our business, we have been focusing on reducing non-core assets, improving our asset quality and reducing our international presence. We will invest in businesses which offer strong returns and attractive growth in line with our core customer strategy and within a conservative capital and liquidity framework.

Priorities for 2014

- Continue to reduce our non-core assets in a capital accretive manner with particular focus on non-retail non-core assets.
- Continue to improve our asset quality ratio towards our new Group target of around 50 basis points.

In addition, we continue to refresh our operating structure and, from 2014, our unified Wealth business will be integrated into the Retail division to allow us to sharpen our focus on delivering value-added Wealth services to eligible retail customers. We have also moved our Business Banking unit into Retail, allowing us to manage customer relationships in a way which leverages existing Retail infrastructure, via branch, telephony and digital channels. Our Asset Finance business is the foundation of a newly created Consumer Finance division, which will also include our consumer and corporate credit card business. Bringing these business units together will increase management focus and allow us to capitalise on growth opportunities, continuing our good momentum in asset-backed lending and with the aim of growing our market presence in credit cards. We have also created a new Digital, Marketing and Customer Development function focusing our investment and ensuring our success in Retail is replicated by sharing digital product development across all divisions.

Key initiatives and progress in 2013

We made significant progress in reshaping our business to become a simpler, low risk, customer focused organisation in 2013. As a result we have already achieved a number of our original targets in this area ahead of schedule.

Continued reduction in non-core assets

In 2013 we further reduced our assets, by £34.9 billion to £63.5 billion, significantly ahead of both our original £90 billion target and the revised £70 billion target, and ahead of the original 2014 target date. We have now reduced non-core assets by around £100 billion since the strategic review in June 2011, and these disposals continue to be capital accretive in aggregate.

Dealing with our non-core assets prudently and efficiently allows us to focus energy and resource on our core business. The accelerated reduction of our non-core assets has enabled us to accelerate the reduction in our wholesale funding to reshape the business portfolio to fit our assets and capabilities.

Due to the excellent progress in this area we will now report on a run-off portfolio comprising our non-core non-retail assets (c.£25 billion) and certain non-core retail assets including Ireland and Hong Kong (c.£8 billion).

A prudent appetite for risk

We have a conservative approach to risk across the business and disciplined controls are in place over the risk profile of all new business. We are comfortable that our existing portfolios are adequately provisioned.

The impairment charge continues to fall, and the overall quality of our portfolio continues to improve. As a result, our asset quality ratio at 0.57 per cent is now within our target range of 50-60 basis points, and we have now upgraded our target to around 50 basis points.

Reshaping our international presence

The strategic reshaping of our international footprint supports our ambition to help Britain prosper, as we focus on countries where we can service customers with ties to the UK. Following significant disposals in 2013 including Australia, we have now exited, or announced the exit from, 21 countries. In doing so, we have exceeded both our original target of less than 15 countries by the end of 2014 and our updated target of 10 countries or fewer by the end of 2014, more than a year ahead of plan, while retaining businesses that will benefit UK centric customers.

Performance against our targets

Return on equity

Target - - - -

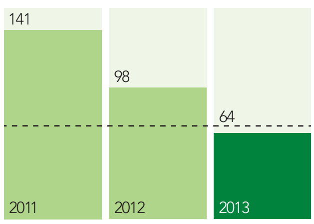
12.5-14.5%

We continue to expect our strategy will deliver a statutory return on equity of between 12.5 and 14.5 per cent in the medium term.

Non-core assets

2014 target - - - -

<£70bn

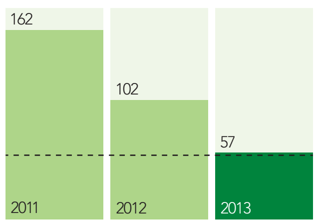


Excellent progress continues to be made in reshaping the business through the reduction of our non-core assets which, having stood at £300 billion in 2009, now stand at £64 billion.

Asset quality ratio (AQR)

2014 target - - - -

50-60 basis points

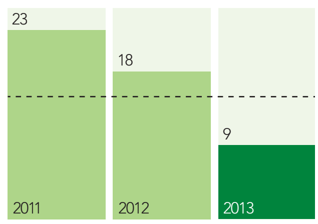


Having attained our original AQR guidance of 50-60 basis points in 2013, we are now targeting around 50 basis points.

International presence

2014 target - - - -

<15 countries



Our international target of fewer than 15 countries, subsequently updated to fewer than 10 countries, has now been achieved with 21 countries now exited, or exit announced.

Strengthen

the Group's balance sheet and liquidity position.

Aim

We continue to strengthen our balance sheet and liquidity position to ensure the financial stability of the Group. We will further increase our capital ratios and maintain a stable funding base whilst meeting our regulatory requirements.

Priorities for 2014

- Build on our strong capital position and further increase our capital ratios to support our dividend policy whilst ensuring evolving regulatory requirements are met.
- Continue to optimise our liquidity position in light of evolving regulatory policy.

Key initiatives and progress in 2013

We made excellent progress in further strengthening the balance sheet and reducing risk, whilst growing core lending in the year. The transformation of the Group's funding position is now substantially complete with wholesale funding reduced, customer deposits up and our loan to deposit ratio further improved. We have also achieved both a strong capital position and a strong liquidity position.

Strong capital position

We have significantly strengthened the Group's capital position and ratios during 2013, with the estimated pro forma fully loaded common equity tier 1 ratio improving by 2.2 per cent to 10.3 per cent.

This improvement was driven by:

- Capital generation in our core business
- A decrease in risk-weighted assets from non-core asset reductions
- Business disposals including the sale of St. James's Place and US residential mortgage-backed security portfolios
- Dividends totalling £2.2 billion paid by the insurance business to the Group
- Improving economic conditions

The pro forma fully loaded CRD IV leverage ratio was 4.1 per cent including tier 1 instruments and 3.4 per cent excluding tier 1 instruments. The Group's pro forma Basel III leverage ratio was 4.5 per cent including tier 1 capital and 3.8 per cent excluding tier 1 capital.

Maintaining a stable funding base

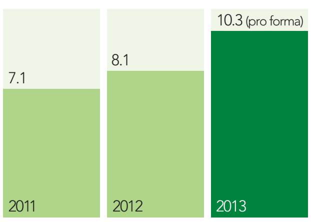
The transformation of the Group's funding position is now complete as we further improved our general funding, supported by a growing customer deposit base. The reduction in non-core assets, together with the continued growth in customer deposits this year, has reduced the Group's wholesale funding requirement by £32.0 billion, to £137.6 billion and our core loan to deposit ratio target of 100 per cent has now been met.

Continue to exceed regulatory liquidity requirements

Our liquidity position remains strong, with primary liquid assets of £89.3 billion. These represent 4.2 times our money-market funding with a maturity of less than one year and approximately two times our wholesale funding with a maturity of less than one year, providing a substantial buffer in the event of market dislocation. In addition to primary liquid assets, the Group has significant secondary liquidity holdings of £105.4 billion.

Performance against our targets

Fully loaded common equity tier 1 ratio

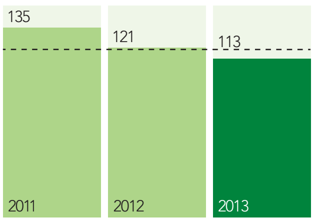


We have continued to improve our common equity tier 1 ratio, and expect to generate, prior to any dividends, fully loaded common equity tier 1 capital of around 2.5 percentage points over the next two years, and thereafter 1.5-2 percentage points per annum.

Group loan to deposit ratio

2014 target

120%

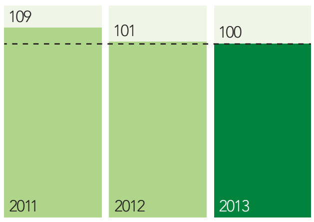


We have continued to improve our loan to deposit ratio which is now ahead of our target and we will look to further reduce it going forward.

Core loan to deposit ratio

2013 target

100%



We have now achieved our 100 per cent target for the core business.

DELIVERING OUR ACTION PLAN

Simplify

the Group to improve agility, efficiency and customer service.

Aim

We are targeting a leading cost position through the delivery of our Simplification programme, which continues to focus on creating a more efficient organisation, reducing costs in the business whilst improving the customer and colleague experience. Together with our low risk business model, UK focus and strong competitive position, we expect this to deliver a low cost of equity and, in turn, a sustainable competitive advantage.

The previous target of £1.9 billion of run rate savings by the end of 2014 has been further improved to £2.0 billion as the programme enters its final year. The savings are being achieved through a series of Simplification initiatives focused on operations and processes, sourcing, channels and products, and the creation of a more agile organisation.

Priorities for 2014

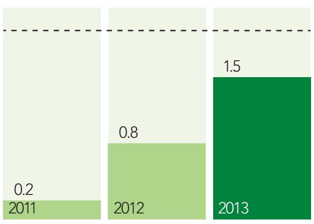
- Further automation to streamline our key processes and operations.
- Increased development and utilisation of digital distribution channels.
- Maintained focus on sourcing and further reduction in the number of suppliers.

Performance against our targets

Cost savings (Simplification run rate savings)

2014 target - - - -

£2.0bn

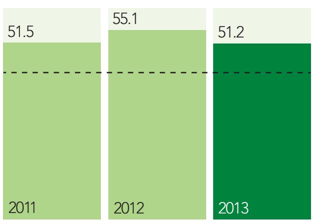


We have increased our Simplification programme run rate cost savings target from £1.9 billion to £2.0 billion, having delivered £1,457 million of run rate cost savings by the end of 2013.

Cost:income ratio

Target - - - -

42-44%



The cost:income ratio improved in 2013 and we continue to believe the cost savings we are already delivering along with investment initiatives will further reduce this ratio over time.

Key initiatives and progress in 2013

The Simplification programme is central to the successful delivery of our strategy and we continue to make good progress in driving further cost savings and efficiencies across the business whilst improving the customer experience. The success of this approach is evidenced in our achievement of run rate cost savings of £1,457 million at the end of 2013 which have also enabled us to improve our cost:income ratio in the year to 51.2 per cent. We have a strong pipeline of further initiatives underway and, given previous Integration and Simplification experience, are confident that we can meet our enhanced £2.0 billion run rate costs savings target by the end of 2014.

The benefits of the Simplification programme extend far beyond cost reduction. The changes we are making help to put us firmly on the path to being the best bank for customers, enabling better service by making day-to-day tasks easier and freeing up colleague time to focus on our customers' needs.

Our customer experience improvements continue to be reflected in falling complaint levels and improved customer advocacy scores. Our FCA reportable banking complaints (excluding PPI) are down to 1.0 per 1,000 accounts, 18 months ahead of our original target, giving us the lowest complaint level of any major UK bank at the end of 2013. Net Promoter customer advocacy scores continue their upwards trend across all three branded channels, and are now up a third since the start of Simplification.

Operations and processes

We have delivered over 300 process, policy and system improvements as part of our Simplification journey, improving the customer experience, increasing productivity, and reducing risk, errors, complexity and costs. Particular achievements in 2013 included automating our ISA transfer process so that 80 per cent of transfers are now completed at 'first point of contact', a reduction of 85 per cent in the time taken to process fixed rate deposit maturities, and the redesign of our General Insurance claims process with the majority of claims now being settled 30 per cent faster. We also completed the transfer of 1.7 million mortgage accounts so that all accounts for our core brands are now managed on a single mortgage system.

Channels and products

We continue to streamline and simplify our product suite, and migrate products and features to our digital and telephony distribution channels. We are the largest provider of digital banking services in the UK and saw a continued increase in internet and mobile customers during 2013.

Sourcing

Simplification in sourcing means transforming how we acquire goods and services to achieve cost savings across the Group, as well as providing a more straightforward experience for colleagues. Since the programme began we have halved our total number of suppliers, and almost 82 per cent of spend is now concentrated with our top 100 suppliers.

More agile organisation

We have made great strides in creating a more agile organisation through de-layering our management structure and increasing spans of control. We have also made significant progress in reducing the number of legal entities, which are now down to 929, a reduction of over 40 per cent since the start of the Simplification programme.

Invest

to be the best bank for customers.

Aim

As part of the strategic review we outlined our intention to increase our strategic investment by approximately £500 million annually by 2014, equivalent to approximately one third of the savings from our Simplification initiatives, to grow our core income.

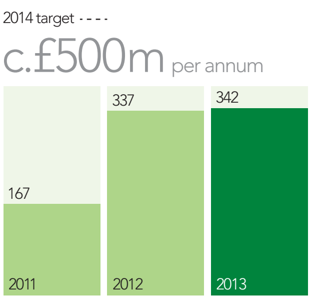
Our investment is subject to disciplined tests, including alignment with our strategy to be the best bank for customers, financial returns and fit to our risk appetite. The investment will primarily be focused on becoming the best bank for personal customers, becoming the best partner for our business customers and enhancing our insurance proposition.

Priorities for 2014

- Continued investment in our digital proposition to optimise service capability for individual and business customers.
- Revitalise Scottish Widows as a specialised retirement brand.
- Targeted investment in specific market segments including consumer lending, insurance and commercial.

Performance against our targets

Strategic investment



As Simplification benefits materialise we are increasing the strategic investment in the business and have committed to invest approximately £500 million per annum by 2014 in addition to our business as usual investment programme.

Key initiatives and progress in 2013

During 2013, we were able to invest a further £342 million due to the Simplification savings already made. This investment in the core franchise is allowing us to provide greater levels of service and support to customers.

Investing to be the best bank for personal customers

Retail continued to invest in customer initiatives, in particular product proposition and distribution channels. We relaunched the Lloyds Bank brand and continued to upgrade our branch networks, with over 1,500 refurbishments since the strategic review and our customers are also benefitting from extended opening hours and the installation of WiFi and tablets in a number of Lloyds Bank and Halifax branches.

At the same time, we are continuing to transform our digital proposition in line with customers' growing appetite and to support delivery of services to smart phones. Our Money Manager and International Payments services provide improved access and control for online users, whilst mobile banking enhancements have enabled over four million customers to regularly use these services. Our online customer base increased to over 10.5 million, with internet users initiating over 1.2 billion log ons in 2013.

In our Wealth business, we rolled out a new point of sale system and introduced a pilot of the improved Customer Relationship Management technology, while continuing to invest in products and propositions in the Asset Finance business, including new website functionality which allows customers to obtain car finance quotes online.

Investing to be the best partner for our business customers

As part of Commercial Banking's strategy to be the best bank for clients, we continued to invest in our core infrastructure, implementing upgrades to deliver scalability, reduced operational risk and enhanced functionality in our Transaction Banking and Markets business. We launched a new mobile card payment solution for our small business clients and further enhanced its currency functionality. We played a leading role in the development of the UK retail bond market and became a market maker on the London Stock Exchange for retail bond investors. We also continued to invest in enhancing our online capabilities.

Investing in the insurance proposition

Insurance is a core part of our customer proposition and we continue to invest in our core systems, products and processes for the integrated UK Life and Pensions and Investments and General Insurance businesses. Within the Life and Pensions business we are improving our market leading pensions and protection products, which help customers protect themselves today and prepare for a secure future. Supporting customers through auto-enrolment is driving growth and we have already supported over 300 major employers in this area. In addition, we completed the roll out of our enhanced annuities product in both the intermediary and direct channels as a key step to expanding our participation in the annuity market. We see enormous potential to serve the retirement needs of our retail bank customers and are addressing this by leveraging Group expertise and investing in the capability of the direct channel.

In General Insurance we are enhancing our systems capability to improve the competitiveness of our offering and investing in our home insurance proposition to improve the flexibility and customer focus of our products.

DIVISIONAL OVERVIEW

Retail

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

With its strong stable of brands including Lloyds Bank, Halifax, Bank of Scotland and TSB it serves over 30 million customers through the largest banking branch network in the UK and comprehensive digital, telephone and mobile services. Retail is also a major general insurance and bancassurance distributor, offering a wide range of long-term savings, protection and general insurance products.

From 2014, our Wealth business will move into the Retail division, ensuring we can better service the needs of our wealthier Retail customers. Retail Business Banking will also transfer to the Retail division as we work to be the Group's small business champion, by leveraging the Retail infrastructure. At the same time, Credit Cards will move out of the Retail division into the new Consumer Finance division to support this growth area.

Strategy

Retail's goal is to be the best bank for customers in the UK. We will do this by building deep and enduring relationships that deliver real value to our customers; by delivering greater choice and flexibility through our multiple brands and channels; by increasing our agility which will enable us to respond more quickly and better align our products and services to our customers' needs; and by continuing to improve customer service and reducing customer complaints. This will increase customer advocacy and deliver lower customer acquisition costs and improved customer retention.

Progress against strategic initiatives

- Significant progress made in our strategy to be the best bank for customers in the UK driven by continued investment in our products, services and distribution.
- Further enhancements delivered to simplify the business resulting in customer service scores improving 11 per cent and complaints (excluding PPI) decreasing to 1.0 per 1,000 accounts.
- The iconic Lloyds Bank brand relaunched and TSB created as a new challenger bank.
- Continued innovation and investment to refresh our core product range.
- New everyday banking propositions launched featuring cashback services to reward loyalty.
- Ongoing development of our multi-channel offering. Our active online customer base has increased to over 10.5 million and mobile users to over four million.
- Exceeded lending commitment to new-to-market buyers, helping one in four to buy their first home, exceeding our target of 60,000 by over 20,000 at year end.
- Core loan book returned to growth in the third quarter supported by strong performance in our mortgage portfolio.
- We continue to support local communities.

Performance summary

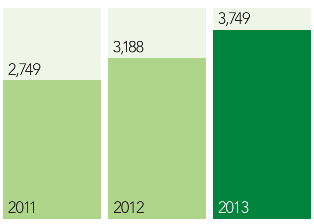
	2013 £m	2012 £m	Change %
Net interest income	**7,536**	7,195	5
Other income	**1,410**	1,462	(4)
Total underlying income	**8,946**	8,657	3
Total costs	**(4,096)**	(4,199)	2
Impairment	**(1,101)**	(1,270)	13
Underlying profit	**3,749**	3,188	18

2013 financial highlights

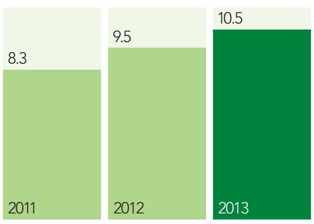
- Underlying profit increased 18 per cent to £3,749 million, driven by improved margins, reduced costs and favourable impairments.
- Return on risk-weighted assets increased to 4.11 per cent from 3.21 per cent in 2012, driven primarily by improved income and continuing effective credit risk management.
- Net interest income increased 5 per cent. Other income down 4 per cent. Total underlying income increased 3 per cent.
- Total costs down 2 per cent to £4,096 million, primarily as a result of the Simplification programme and ongoing cost management activity.
- Impairment reduced 13 per cent to £1,101 million, with unsecured remaining stable and secured charges decreasing.
- Loans and advances to customers were broadly in line with 2012 at £341.9 billion and gross new mortgage lending increased to £36.9 billion.
- Customer deposits increased 3 per cent driven by growth in relationship balances.

Performance indicators

Underlying profit before tax £m



Active online customers million



More financial information on our Retail division can be found in our 2013 Annual Report and Accounts.

Key brands

LLOYDS BANK HALIFAX BANK OF SCOTLAND TSB SCOTTISH WIDOWS

Commercial Banking

The Commercial Banking division supports our business clients from small businesses to large corporates, with a range of propositions fully segmented according to client needs.

The division operates a client centric approach, primarily focused on UK and UK-linked businesses, with client segments comprising Small and Medium-sized Enterprises (SME), Mid Markets, Global Corporates and Financial Institutions.

Strategy

Commercial Banking's strategy is to be the best bank for our clients. We have put clients at the centre of our business model and meet their needs with a suite of core banking products from Lending and Transaction Banking to Financial Markets and Capital Markets, delivering the full capability of the bank to our clients and serving their needs as they move up the value chain. Our strategy is driven by three guiding principles; to be client centric, UK focused and capital efficient with -a rigorous focus on executing our plans according to these core principles. This will be delivered through the formation of a simpler leaner organisation, sharper prioritisation of resources to support our core clients and focused investment in product capability to better serve our clients' needs. All of this will contribute to the delivery of strong and sustainable Commercial Banking returns over time.

Progress against strategic initiatives

- Continue to execute our strategy to be the best bank for clients.
- Reshaped our SME and Mid Markets segments to better serve clients and improved relationship returns in Global Corporates and Financial Institutions through continued focus on capital optimisation.
- Strengthened the balance sheet and funding position by increasing the volume and quality of deposits within Transaction Banking and by reducing non-core assets by 50 per cent and non-core risk-weighted assets by 59 per cent.
- Continued to invest in our core infrastructure, with ongoing benefits from the Simplification programme and tight cost management enabling significant upgrades to deliver scalability and functionality in our Transaction Banking and Markets businesses.
- Simplified our geographic footprint by exiting Spain and Australia and improved service delivery to frontline staff and end-to-end client support by streamlining infrastructure and processes.
- Played a prominent role in supporting the UK economy: net growth in SME lending of 6 per cent against market contraction of 3 per cent; 80 per cent acceptances on SME loan and overdraft applications; supported approximately 120,000 business start-ups; committed over £36 billion through Funding for Lending; and committed over £1.3 billion to UK manufacturing in the year to end September 2013.
- Played a leading role in the development of the UK retail bond market, becoming a market maker on the London Stock Exchange for retail bond investors, providing the market with continuous pricing in bonds and gilts.
- Awarded Business Bank of the Year at the FD's Excellence Awards for the ninth year in a row.

Performance summary

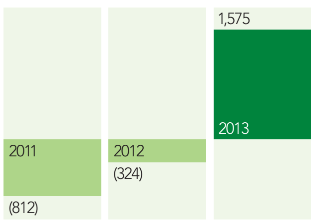
	2013 £m	2012 £m	Change %
Net interest income	**2,426**	2,206	10
Other income	**2,708**	2,932	(8)
Total underlying income	**5,134**	5,138	–
Total costs	**(2,392)**	(2,516)	5
Impairment	**(1,167)**	(2,946)	60
Underlying profit	**1,575**	(324)	

2013 highlights

- Returned to profitability with underlying profit of £1,575 million driven by reduction in impairments, increased core income, partially offset by lower non-core income from our capital accretive asset reduction strategy.
- Core underlying profit up by 25 per cent to £2,193 million due to increased income and lower impairment charges. Core return on risk-weighted assets increased by 38 basis points to 1.74 per cent.
- Core net interest margin increased 31 basis points through disciplined pricing of new business, in addition to reduced funding cost driven by increased high quality deposits contributing to a reduction in the Group's requirement for wholesale funding.
- Core lending increased by 7 per cent driven by strong performance in SME, Mid Markets and Global Corporates.
- Non-core loans and advances to customers decreased by £15.8 billion, as a result of the Group's asset reduction strategy.

Performance indicators

Underlying profit (loss) before tax £m



SME net lending growth 2013 (core) %

More financial information on our Commercial Banking division can be found in our 2013 Annual Report and Accounts.

Key brands

LLOYDS BANK BANK OF SCOTLAND SCOTTISH WIDOWS AMC LDC

DIVISIONAL OVERVIEW

Wealth, Asset Finance and International

Wealth, Asset Finance and International comprised our UK and international wealth businesses, our UK and international asset finance and online deposit businesses along with our international retail businesses.

With the reshaping of our international footprint and the move of Wealth into the Retail division, our Wealth, Asset Finance and International division will become Consumer Finance from 2014. This new division will include Credit Cards, Asset Finance and the European online deposit businesses.

Strategy

The UK Wealth business provides strong growth opportunities for the Group. Its goal is to be recognised as the wealth advisor of choice to appropriate Retail and Commercial Banking customers alongside targeted customer acquisition. We aim to grow the customer deposits and funds under management that we manage on behalf of franchise customers, whilst improving margins and operating efficiency. In Asset Finance, we have been refocusing the business into sectors which fit our risk appetite and are looking to deliver focused, profitable growth while completing the run-down or disposal of portfolios which are closed to new business. The addition of the credit card business to the new Consumer Finance division will provide significant growth opportunities.

Progress against strategic initiatives

- International presence reduced to nine countries, achieving our target of fewer than 10 by the end of 2014.
- Wealth improved client service and accessibility through a new Private Banking Client Centre and the roll out of a new point of sale system.
- Asset Finance continued to invest in infrastructure and growth initiatives, resulting in a 3.2 per cent fleet growth for Lex Autolease and a 28.6 per cent increase in new business volumes for Black Horse motor finance.
- Reinforced the focus on our banking businesses through the announced sale of Scottish Widows Investment Partnership and the sales of St. James's Place.
- Total cost reductions of 13 per cent driven by simplification initiatives and disposals enabled reinvestment for future growth opportunities.

Performance summary

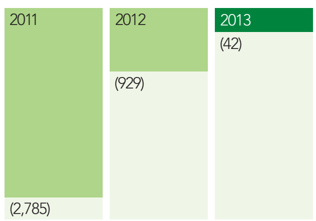
	2013 £m	2012 £m	Change %
Net interest income	**870**	799	9
Other income	**1,809**	2,043	(11)
Total underlying income	**2,679**	2,842	(6)
Total costs	**(1,991)**	(2,291)	13
Impairment	**(730)**	(1,480)	51
Underlying loss	**(42)**	(929)	95

2013 highlights

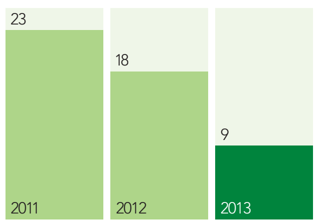
- Losses reduced by 95 per cent to £42 million driven by lower impairments in non-core, mainly in Ireland, and strong profitable growth in the core business.
- Core underlying profits increased by 38 per cent to £632 million (86 per cent excluding St. James's Place) driven by strong income growth in Wealth and Asset Finance, and cost savings.
- Core return on risk-weighted assets increased from 5.07 per cent to 6.67 per cent, largely as a result of repricing of liabilities.
- Net interest income in the core business increased by 84 per cent driven by strong and improving margins in Wealth and in the Online Deposits businesses within Asset Finance, and by growth in Black Horse motor finance volumes.
- Total cost reductions of 13 per cent driven by simplification initiatives and run-down of non core business.
- Impairment charges reduced by £750 million to £730 million, including a reduction of £637 million in the Irish portfolio.
- Core loans and advances to customers increased by 23 per cent driven by Asset Finance and primarily the UK motor finance business.
- Non-core assets reduced by 37 per cent following the sale of our Australian Asset Finance and Spanish retail businesses, and other reductions in our non-core portfolio mainly within Ireland.

Performance indicators

Underlying loss before tax £m



International presence (countries)



More financial information on our Wealth, Asset Finance and International division can be found in our 2013 Annual Report and Accounts.

Key brands

LLOYDS BANK TSB blackhorse BANK OF SCOTLAND Lex Autolease

Insurance

The Insurance division is one of the UK's largest insurers and 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 (UK LP&I) provides long-term savings, protection and investment products distributed through the bancassurance, intermediary and direct channels of the Lloyds Bank, Halifax, Bank of Scotland, TSB and Scottish Widows 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 Bank, Halifax, Bank of Scotland and TSB brands.

Strategy

The UK population is under protected and not saving enough for the future. Our Insurance division is focused on helping our customers to protect themselves today whilst preparing for a secure financial future. Our objective is to be the best insurance and retirement savings business for customers; providing simple, trusted, value for money products accessible through multiple channels.

Progress against strategic initiatives

- We focus on four key markets: Pensions, Protection, Annuities and Home Insurance, where we believe the division can leverage its position as part of the Group with over 30 million retail customers, rich customer transaction data, centres of best practice and top quality brands.
- In Pensions, where we have over 1 million individual and a significant number of corporate customers, we supported almost 300 major employers, through auto enrolment, including many of the 17 per cent of FTSE 350 companies who have their corporate pension arrangements with Scottish Widows.
- In Protection, we continued to progress development of our intermediary proposition, leveraging our platform and capabilities to extend this to our wealthier customers.
- In Annuities, we began the delivery of our enhanced annuity proposition and continued to support our annuity strategy with the acquisition of attractive, higher yielding assets to match long duration liabilities.
- In Home Insurance, we invested to improve customer focus. For instance, we introduced a dedicated claims advisor to each claimant resulting in significantly faster claims settlement.
- We increased the focus on our UK business following the agreed sale of our German life insurance business Heidelberger Leben.
- We relaunched the Scottish Widows brand, demonstrating our continued commitment to being a leader in the life planning and retirement market.

Performance summary

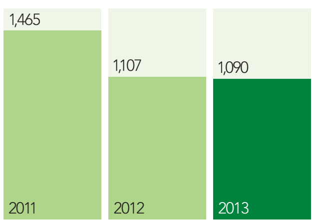
	2013 £m	2012 £m	Change %
Net interest income	**(103)**	(78)	(32)
Other income	**2,236**	2,294	(3)
Insurance claims	**(356)**	(365)	2
Total underlying income	**1,777**	1,851	(4)
Total costs	**(687)**	(744)	8
Underlying profit	**1,090**	1,107	(2)

2013 highlights

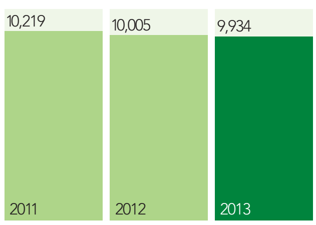
- Underlying profit down 2 per cent to £1,090 million, driven by changes in intra group commission arrangements and run-off legacy creditor books, partly offset by lower claims and costs. Return on required equity up from 12 per cent to 13 per cent.
- Costs improved by 8 per cent, reflecting the benefits of simplifying our business model and processes.
- Total UK LP&I sales down 1 per cent to £9,934 million primarily due to the Group's decision to stop providing investment advice to retail customers with savings below £100,000. Corporate pensions grew by 21 per cent, reflecting the strength of our proposition and the conversion of pipeline generated in the run up to implementation of the Retail Distribution Review.
- The strong underlying profitability and capitalisation of the Insurance business has enabled us to remit £2.2 billion of dividends to the Group during 2013 whilst maintaining a strong capital base.

Performance indicators

Underlying profit before tax £m



LP&I (UK) (PVNBP) sales £m



More financial information on our Insurance division can be found in our 2013 Annual Report and Accounts.

Key brands

LLOYDS BANK TSB SCOTTISH WIDOWS BANK OF SCOTLAND HALIFAX

RELATIONSHIPS AND RESPONSIBILITY

Building valuable relationships

We have one strategy for delivering sustainable success – being the best bank for customers – and doing business responsibly is inherent in this strategy. António Horta-Osório, Group Chief Executive

With over 30 million individual and business customers and a presence in communities across the country, we are very well placed to serve the country's households, businesses and communities, and to make a significant contribution to the future strength and prosperity of the UK. We have one strategy for delivering sustainable success – being the best bank for customers, and doing business responsibly is inherent in this strategy.

Being responsible enables us to build colleagues' pride in a business that does the right thing and helps to rebuild public trust in the banking industry. We recognise that the biggest shift we need to make is cultural; we need responsible business to become business as usual for colleagues. The shift in culture is already underway. We can only achieve our customer focused strategy by building a sound reputation founded on the highest standards of behaviour.

Being a responsible business

Our approach to responsible business is governed by our Responsible Business Committee (RBC). Chaired by Anita Frew, one of our Non-Executive Directors, who, in this capacity reports directly to the Group Board, the RBC develops our principles, sets priorities and ensures responsible business is embedded throughout our operations. The Group Responsible Business team manages our day-to-day responsible business activities. To help us decide what information to include in our responsible business reporting, we have engaged with a representative cross-section of our stakeholders (including colleagues and external parties) to review our approach to materiality and prioritise the issues. For 2013, we have reported against our five pillars of responsible business covering customers, colleagues, communities, other stakeholders and the environment. These five pillars encompass all of our most important relationships and are integral to our strategy to be the best bank for customers. We report here on our recent success and priorities in each of these areas.

To ensure the highest standards of responsible behaviour, all colleagues are required to work in accordance with our Code of Personal Responsibility and Code of Business Responsibility. These codes set out how we do business and what customers and stakeholders can expect. They are governed by the RBC. They cover the full breadth of our responsibilities, under the five pillars of responsible business and are aligned to our Group Values.

Our Codes of Responsibility underpin our Group Ethics Policy and set out clear guidelines for responsible behaviour across our business. We adhere to the principles of the United Nations Declaration of Human Rights and support the UN Guiding Principles on Business and Human Rights, and the International Labour Organisation Fundamental Conventions and this is outlined within our Code of Business Responsibility.

Certain sectors carry inherent social, ethical and environmental risks. Our policies and procedures support colleagues working in our relationship management and risk teams in understanding how to approach, assess and manage these risks. We are signatories to the Equator Principles, which provide a framework for determining, assessing and managing environmental and social risk in project finance transactions. Our Code of Business Responsibility states that we do not finance any activities prohibited by International conventions supported by the UK government. You can read about our approach to managing environmental risk and the Equator Principles in the risk management section of our 2013 Annual Report and Accounts.

Our focus on doing business responsibly is recognised by our continued presence in the FTSE4Good socially responsible investment index, our position in CDP (Carbon Disclosure Project) and our platinum status in the Business in the Community CR Index.

Our Responsible Business Report provides an update on our responsible business activities in 2013. You can read the full report on our website at www.lloydsbankinggroup-cr.com.

The Helping Britain Prosper Plan

We see ourselves as having a clear role to play in helping Britain prosper and, as a significant UK retail and commercial bank, we are already doing more than our peers to help people manage their finances. To demonstrate that responsible business is fully integrated into our broader business strategy, our management structures and the way we measure performance, we have launched a new Helping Britain Prosper Plan (see opposite page). This simple but ambitious Plan sets out seven long-term commitments and aspirations to help Britain prosper, covering the areas where we can make the biggest difference for our customers across households, businesses and communities.

People across Britain are facing some big issues – a lack of affordable housing, the challenge of finding a job or escaping the trap of financial exclusion, the health issues that arise as more of us live longer and the difficulties of starting or running a successful business in tough times. The Helping Britain Prosper Plan is our response to some of these big issues; the ones we're best placed to help our customers tackle.

We're the first UK bank to launch a plan like this. We're doing it because we're sure of our purpose: to be a responsible, sustainably successful business that helps Britain prosper. We also believe that the Helping Britain Prosper Plan is a way to rebuild trust with our customers by demonstrating that we're focused on the issues they face. Customers will be able to see from the Plan that their concerns are also our concerns. Other stakeholders will be able to benchmark our future performance against the Plan.

The Helping Britain Prosper Plan

1 We'll help more customers get on the housing ladder – and more customers climb up it

		2014 target	2017 target
1.1	Number of first-time buyers supported through delivering the most comprehensive mortgage proposition in the UK mortgage market	>80,000	1 in 4
1.2	Share of new build mortgages provided (for first-time buyers, second steppers and private rented)	1 in 4	1 in 4

2 We'll help our customers plan and save for later life

		2014 target	2017 target
2.1	Number of customers we help to plan for later life through company pension schemes	1.1m (cumulative)	1.3m (cumulative)
2.2	Number of customers we help post-retirement through providing a continuing annuity income	0.55m (cumulative)	0.6m (cumulative)

3 We'll take a lead in financial inclusion to enable all individuals to access, and benefit from, the products and services they need to make the most of their money

		2014 target	2017 target
3.1	Amount of additional funding provided to support Credit Unions per year	£1m	£1m
3.2	Share of social banking accounts we will support	1 in 4	1 in 4
3.3	Number of community support workers accredited to deliver financial education on the front line[1]	1,830 (cumulative)	4,000 (cumulative)
3.4	Maintain a category gold award with the Business Disability Forum (BDF) by achieving a high score across the 10 areas[2] that lead to a disability confident organisation	>90% score	>90% score

4 We'll help businesses to start up and scale up, and we will procure responsibly

		2014 target	2017 target
4.1	Increased amount of net lending to SMEs on an annual basis (total cumulative)	>£1bn (£28bn)	>£1bn (>£31bn)
4.2	Number of start-up businesses we will help get off the ground	>100k	1 in 5
4.3	Increased amount of new lending provided to support UK manufacturing businesses per year	£1bn	£4bn (cumulative)
4.4	Number of entrepreneurs supported through the Lloyds Bank and Bank of Scotland Social Entrepreneurs programmes	>750 (cumulative)	1,300 (cumulative)
4.5	% of supplier invoices paid within 30 days (% payment within 60 days)	95% (100%)	99% (100%)

5 We'll help businesses and individuals succeed with expert mentoring and training

		2014 target	2017 target
5.1	Number of colleagues trained to mentor SMEs & social entrepreneurs through the Business Finance Taskforce accredited scheme and the Lloyds Bank and Bank of Scotland Social Entrepreneurs programme	1,000 (cumulative)	1,700 (cumulative)
5.2	Number of new Lloyds Banking Group Apprenticeship positions created with permanent employment	2,450 (cumulative)	5,000 (cumulative)
5.3	% of Lloyds Banking Group Apprenticeships taken up by external candidates from the UK's most disadvantaged areas	N/A	30%
5.4	Number of undergraduates from low income families supported by the Lloyds Scholars programme	360 (cumulative)	720 (cumulative)
5.5	% of Lloyds Scholars (from low income families) who have secured a job within 6 months of graduating from University[3]	90%	90%

6 We'll be the banking Group that brings communities closer together to help them thrive

		2014 target	2020 target
6.1	Number of paid volunteer hours used by colleagues to support community projects	800,000 (cumulative)	>2.3 million (cumulative)
6.2	Number of community organisations supported by our volunteers or funding	6,500	10,000
6.3	£ donated to the Bank's Foundations to help tackle disadvantage	£16.5m	>£100m (cumulative)
6.4	£ raised by colleagues for our Charity of the Year (including Matched Giving) to support those in need in our communities	£1.7m	£12m (cumulative)

7 We'll better represent the diversity of our customer base and our communities at all levels of the Group

		2014 target	2020 target
7.1	% of senior roles[4] to be held by women	29%	40%
7.2	We will consistently increase the engagement levels of ethnic minority colleagues in all roles	66 (Colleague Survey score)	>70[5]
7.3	We will consistently increase the engagement levels of disabled colleagues in all roles	55 (Colleague Survey score)	>70[5]
7.4	We will consistently increase the engagement levels of LGBT colleagues in all roles	60 (Colleague Survey score)	>70[5]

[1] Through Money for Life's Teach Others and Money Mentors programmes
[2] Includes Commitment; Know-how; Adjustments; Recruitment; Retention; Products and Services; Suppliers and Partners; Communication; Premises; Information and Communication Technology
[3] This % is based on the number of Scholars who are actively seeking employment
[4] Senior roles refers to top 8,000 individuals
[5] UK High Performing norm – target will change if High Performing norm changes

N.B: All of these metrics are subject to review in the Autumn pending the outcomes of Group Strategic Review

For further details of the Plan, including how it was developed, please refer to our Responsible Business Report at www.lloydsbankinggroup-cr.com.

RELATIONSHIPS AND RESPONSIBILITY CUSTOMERS

Putting customers at the heart of our business

We focus on doing the best we can for all our customers, in branches, on the phone and via digital channels and living up to our values of *putting customers first, keeping it simple* and *making a difference together.*

Aim

Our aim is to be the best bank for customers. This means being the best bank for households, for businesses and for communities. We will achieve this by focusing on UK customers and those connected to the UK; delivering customer expectations; simplifying processes, policies and systems; investing in growth initiatives; maintaining an appropriate risk appetite that protects our customers; and ensuring the business has the strength of funding and capital to continue to make progress and to face challenges.

Priorities for 2014

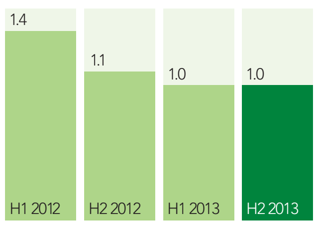
- Make sure all our colleague reward structures take customer service standards into account.
- Help more customers get on the housing ladder and more customers climb up it, including supporting more than 80,000 first-time buyers.
- Help customers secure new build mortgages.
- Help at least 100,000 SME start-ups.
- Increase our new lending support to UK manufacturing businesses by £1 billion.
- Reduce customer banking complaints to 0.9 per 1,000 accounts.
- Improve our systems, processes and products to keep it simple for customers.
- Help 45,000 customers post-retirement through providing a continuing annuity income.

Achievements in 2013

- Supported 120,000 SME start-ups.
- A 6 per cent year-on-year net increase in loans to SMEs compared with an industry net reduction of 3 per cent.
- Beat our commitment to lend £6.5 billion to 60,000 first-time buyers.
- The best customer satisfaction ratings our high street brands have ever achieved.

Performance in 2013

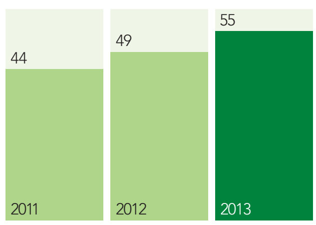
Customer complaints (FCA banking complaints* per 1,000 accounts)



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

*Excluding PPI

Customer satisfaction (net promoter score) %



We have developed a comprehensive customer experience programme measuring customer service and their likelihood to recommend us. This is measured through the cross industry net promoter score metric where we have seen continued progress.

Supporting our customers

We currently serve around 30 million individual and business customers. We want to provide them with the right products, setting the best service standards and achieving the best outcomes.

Supporting home buyers

In 2013, we lent £9.7 billion to help more than 80,000 first-time buyers get on the property ladder – accounting for one in four of all first-time buyer mortgages in Britain this year. Altogether we advanced £22.3 billion in new mortgage lending to customers buying homes, an increase of 37 per cent on 2012.

Supporting funding schemes

We were the first British bank to participate in the Funding for Lending Scheme. Since its launch in mid-2012 we have committed more than £37 billion to help customers, including lending to businesses and mortgages for personal customers. Through Halifax we provided one in three of all mortgages completed via the UK government's NewBuy scheme to support purchases of new build properties.

We also helped customers, particularly first-time buyers, who can only afford small deposits through Lloyds innovative Lend a Hand and Local Lend a Hand mortgage schemes. We accept deposits as low as 5 per cent if these are backed-up by a family member or friend's savings or secured by a Local Authority indemnity.

We are a leading supporter of the government's Help to Buy scheme. Lloyds Banking Group accounted for approximately 60 per cent of new Help to Buy mortgage lending under both the equity loan and mortgage guarantee elements of the scheme.

Supporting Britain's businesses

We serve hundreds of thousands of business customers. SMEs and Mid-market businesses are the life-blood of the British economy so we focus our attention on their needs, and we also serve many larger businesses and organisations.

Supporting SMEs

This year we've increased lending to SMEs by 6 per cent compared with 2012 (despite an industry-wide reduction in funding of 3 per cent). We've greatly simplified the lending process and reduced the time it takes SMEs to secure funds. This year we approved eight out of 10 business loan and overdraft requests, comparable with pre-2008 levels. We have committed to deliver £1.6 billion of new net lending to SMEs in 2014. We are a signatory to the Lending Code; a voluntary code covering dealings with consumers, micro-enterprises and charities with an income of less than £1 million.

Making a difference together

In addition to the Funding for Lending Scheme, we participate in several other joint schemes designed to help businesses access finance. These include the Enterprise Finance Guarantee Scheme (EFG), through which we have offered almost 6,000 loans to customers, worth a total of £480 million and 25 per cent of all EFG loans to date. We are providing £100 million to SMEs through the Regional Growth Fund and made significant investments in the Business Growth Fund, Scottish Investment Bank and Big Society Capital.

Exceeding our SME commitments

We launched our SME charter in 2010, pledging to support 300,000 new SMEs over three years to the end of 2012. We beat this target, helping 350,000 SMEs and pledged to help a further 100,000 new businesses start up in 2013. We again beat our target, by helping 120,000 new businesses.

We also met our pledge to respond to 90 per cent of lending appeals within 15 working days (rather than the industry standard of 30 working days).

Building our brands

In September 2013, we relaunched the Lloyds Bank brand and launched TSB as a new challenger to the high street. The creation of the two brands follows a ruling by the European Commission in 2009 requiring Lloyds Banking Group to divest part of its business. The flotation of TSB will further strengthen competition in our sector.

Encouraging enterprise and manufacturing

For the second consecutive year, we've run the Lloyds TSB Enterprise Awards, inviting entries from British businesses run by university students or recent graduates. This year, 484 businesses entered and a total of 28 were awarded cash prizes or mentoring support. We will host the Awards again in 2014.

In the third quarter of 2012 we launched our Manufacturing Commitment to provide £1 billion in new lending to SME and mid-sized manufacturing businesses by September 2013. We met our target three months ahead of schedule; by September 2013 we were 30 per cent above this target.

Supporting low carbon businesses

As a potential source of funds and support for low carbon businesses we continue to support the UK government's target to meet 15 per cent of the UK's energy demand from renewable sources by 2020. As an active participant in the Project Finance Market, at the end of 2013 we were involved in renewable energy projects across the UK with a combined capacity of 3580MW, enough to power 3.5 million homes.

Battling the elements

Throughout 2013, we went the extra mile to help insurance customers affected by floods, high winds and in one instance, a tornado. The Home Insurance team deployed rapid response units to the worst affected areas, so that customer claims could be assessed quickly and funds released to complete vital repairs. Following the major storm that hit Britain in October 2013 colleagues successfully handled more than 1,700 claims in a single day, 10 times higher than normal business levels. As of December 2013, we had helped over 215,000 customers by resolving their claim, including 38,000 escape of water claims, 35,000 storm claims, 25,000 theft claims and 3,500 fire claims.

Including all our customers

Being the best bank for customers means offering simple, relevant products to people at all levels of society. Not just those enjoying relative prosperity, but also those facing financial difficulties, coping with disabilities, striving to buy their first home or find their first job.

Our Financial Inclusion Steering Group

To help us become more integrated in the way we serve customers at risk of financial exclusion, early in 2013 we set up a Financial Inclusion Steering Group chaired by Sara Weller, Non-Executive Director. The Group brings together colleagues from all areas of the business to provide a single point of focus for financial inclusion.

Providing basic bank accounts and support to SMEs

This year, we provided over 280,000 new basic bank accounts and helped over 110,000 customers upgrade from basic to more mainstream accounts. As of December 2013 we had over 22,000 active small business customers in the most deprived areas of the UK. We increased the loan facilities available to SMEs in these prioritised areas from £524 million in 2012 to £633 million in 2013.

RELATIONSHIPS AND RESPONSIBILITY CUSTOMERS

Helping ex-offenders make a fresh start
In partnership with the National Offender Management Service, we offer more basic banking facilities to recent offenders and prisoners preparing for release, than any of our competitors. Basic accounts allow people in this situation to receive income payments, pay bills and purchase goods as they reintegrate back into society.

Helping customers in financial difficulty
Many of our customers need our help to get their finances back on track. This year we issued 60,000 credit cards to help customers who have very limited credit history gain access to credit facilities. Our Credit Operations team tailors solutions for customers to get their finances back on track. In 2013 they had 5.5 million customer conversations.

Helping customers with disabilities
To be the best bank for customers, our products and services need to be accessible to everyone, including people with physical disabilities. We set up a Disability Services Support Team in 2012 and became the first bank to introduce a British Sign Language video service for customers with hearing impairments. In 2013 we were shortlisted in the Organisational Achievement Category of the Signature Awards, which highlight 'excellence in communication with deaf people'.

This year, we introduced 'talking ATMs' to help customers who are visually or hearing impaired and we plan to roll these out to all our branches in time. We've also made the Lloyds Bank customer website more accessible to customers with a range of disabilities, including visual impairments and dyslexia. The Halifax and Bank of Scotland websites will be updated in 2014.

Leading our industry to help customers with Dementia
This year we worked with the Alzheimer's Society to create their Dementia-Friendly Financial Services Charter. We co-launched the Charter with the Alzheimer's Society on 30 October 2013. We led a steering group of 24 other financial services organisations, who have committed to improve dementia awareness amongst their employees. We have already started to implement some of its recommendations, including the creation of 'Dementia-Friends', in branches.

Improving the quality of our products and services
We need to keep pace with customers' changing needs by providing simple, tailored products and services that make a positive difference. Improving customer satisfaction is also the best way to reduce customer complaints and build trust in our brands.

Simplifying our products and services
We improved the way we use mobile interfaces and voice recognition technologies to make it easier for customers to reach us quickly and navigate to the right choices. We now have more than 10 million customers using our digital services, including four million mobile banking users.

We also simplified our telephone banking services, making it easier for colleagues to access customers' information and action their requests quickly. As a result, we reduced call times by up to three minutes. We also improved our service for general insurance customers by assigning a dedicated advisor to every claim. To date, 130,000 claims have been handled this way, delivering a 40 per cent reduction in follow up calls and on average, 30 per cent faster settlement times.

Tracking our brand and reputation
We use the 'Net Promoter Score' to track the reputation of our brands and overall customer satisfaction. NPS is a standard business metric based on the likelihood of customers recommending a brand to others. In 2013 our high street brands achieved an aggregate score of 55 per cent, an improvement from 49 per cent in 2012.

Customer complaints data for 2013
Our customer complaints fell year-on-year, with a 36 per cent reduction in complaints including PPI. We now receive fewer banking complaints per 1,000 accounts than any other major high street bank in Britain. In 2013, the Group received 1 complaint per 1,000 accounts (Halifax: 0.8, Lloyds TSB: 1.1, Bank of Scotland 0.9). This is a reduction of 33 per cent compared with the second half of 2011, when the Group figure was 1.5 complaints per 1,000 accounts. We aim to reduce this further to 0.9 in 2014.

Supporting our customers
In September 2013 we launched the revitalised Lloyds Bank across almost 1,300 high street branches, marking another milestone in its 250 year history. The launch of the brand reinforces our commitment to better serve our customers and deliver a stronger more competitive banking industry in the UK.

Welcome back to local banking

In September 2013 we launched TSB across 631 branches, bringing a credible, new competitor to the market. The flotation of TSB will further strengthen competition. At its launch TSB had around 4.5 million customers and will have 8,000 employees, including 4,500 branch staff.

Dealing with complaints more effectively

We have worked hard to improve the way we deal with customer complaints. We invested in our successful phone-a-friend service, providing 40,000 branch and call centre colleagues with instant access to a dedicated specialist advice team. We now resolve more than 90 per cent of all complaints at first contact and faster than ever before thanks to our 24 hour, seven days a week complaints handling service.

Getting to the root of the problem

This year our Root Cause Analysis team has carried out detailed analysis of the reasons why customers complain. The team contributed to a monthly reduction of around 1,555 complaints by talking with customers and colleagues, then making the appropriate changes in our processes and responses.

Shifting from avoidance to achievement

We have made a big shift in the way we define, measure, incentivise and reward colleagues in relation to customer satisfaction this year – moving from a focus on 'making the sale' towards a focus on improving service and achieving positive outcomes for customers. We believe customer complaints will reduce as a consequence of this shift.

Dealing with legacy issues

We still have some legacy issues, including the mis-selling of PPI, to deal with and we fully acknowledge that these are still a cause for concern amongst many customers and stakeholders. We were the first bank to offer redress to customers who were mis-sold PPI products and we're continuing to deal with every outstanding complaint to ensure a fair outcome. Just as importantly, we are implementing processes and procedures to prevent such events happening again.

Protecting our customers' best interests

Our customers need to be sure that their money and personal details are safe with us. As one of Britain's largest financial businesses we face hundreds, sometimes thousands, of cyber-threats every day. This is why we consistently invest in technology and colleague training to maximise security.

Combating cyber-crime

Since 2011, we have invested £248 million to improve the security of our IT infrastructure, including £138 million this year. Our Group-wide hub 'Prevent and Protect', provides a wealth of information to help colleagues stay aware of the threats and take appropriate action. Most of the work we do is invisible to customers, but it has contributed to a downward trend in levels of fraud across our online retail channels in 2013.

Combating financial crime and money laundering

We can identify unusual activity related to customers' accounts and have processes in place to check customers' identities. We have invested in advanced transaction monitoring technologies as part of our Group-wide Global Anti-Money Laundering Programme and have refreshed our Group-wide Fraud Prevention training module, rolling out an interactive version for all colleagues.

This year our whistleblowing service, a confidential service for colleagues worried about possible wrong-doing that may affect colleagues, customers or the Group, recorded 443 new contacts, compared with 532 last year. 53 per cent of these were resolved appropriately and advice was given to the remaining 47 per cent to raise concerns through other, more appropriate, routes.

RELATIONSHIPS AND RESPONSIBILITY COLLEAGUES

Building a company that's great to work for

We want colleagues to live our values, to work in line with our Codes of Responsibility and to feel pride in their contributions to a successful customer-focused business.

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 has access to the training and development opportunities that enable them to do their role well. This grows talent internally, to drive our business in a sustainable way.

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

Priorities for 2014

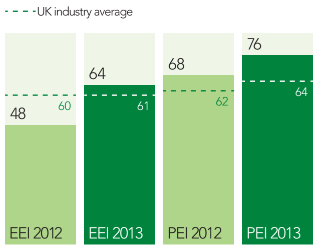
- Build colleagues' pride and trust in our Group.
- Help colleagues fulfil their potential through relevant learning and development.
- Do even more to build a diverse workforce and inclusive workplace.
- Put customers at the heart of our performance and reward structures.
- Nurture the next generation of leaders, strengthening our succession and talent pipeline.

Achievements in 2013

- Launched the Agile Future Forum, highlighting the benefits of agile working for businesses in the 21st century.
- Offered 1,000 apprenticeship places to young people, building on the success of our 2012 National Apprenticeship pilot.
- 76 per cent of all executive vacancies filled from within Lloyds Banking Group.
- More than 51,000 customer facing colleagues have now attained the Foundation Standard for Professional Bankers – the highest of any bank in Britain.
- Increased the percentage of women on our Board to 27 per cent.
- Invested in a new technology platform and content to enhance colleague development opportunities.

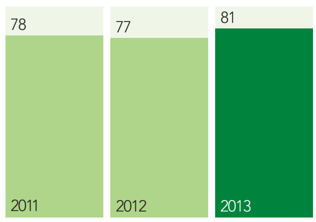
Performance in 2013

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.

Line management index %



The Line Management Index (LMI) shows how our colleagues feel about their individual Line Manager.

Engaging colleagues with our values

We ask colleagues to work in line with our three values: *putting customers first, keeping it simple* and *making a difference together.*

Embedding our values

In 2013, around 97 per cent of colleagues completed training on our Codes of Responsibility and we completed the first phase of a Group-wide cultural assessment.

Colleague survey

This year we received the highest response rate to date, with 76 per cent of colleagues participating, compared to 74 per cent in 2012.

- Our Performance Excellence Index score was 76 per cent (up on 2012 by 8 percentage points), 12 percentage points above the UK average
- Our Employee Engagement Index score was 64 per cent (up on 2012 by 16 percentage points), 3 percentage points above the UK average
- Our Line Management Index score was 81 per cent (up on 2012 by 4 percentage points), 14 percentage points above the UK average

In addition to these improved scores, the survey shows that participating colleagues' confidence and trust in our organisation and leadership improved by 22 percentage points compared with 2012, reaching 70 per cent which is 8 percentage points above the UK average.

Mobilising colleagues to build a diverse, inclusive business

We want to build a colleague team that truly reflects 21st century Britain, in which differences are welcomed and everyone is treated fairly and with dignity and respect.

Diversity and inclusion

Our 2013 Colleague Engagement Survey results showed significantly higher engagement scores for female colleagues and improvements in colleagues' perceptions of the Group's commitment to diversity and inclusion.

		2013		2012
Gender		**Number**	**%**	%
Board	Male	**8**	**73**	73
	Female	**3**	**27**	27
Senior managers	Male	**5,911**	**73**	74
	Female	**2,217**	**27**	26
Colleagues	Male	**38,860**	**41**	41
	Female	**55,150**	**59**	59

	2013	2012
Disability[1]		
% of colleagues who disclose they have a disability	**1.5%**	1.5%
Ethnic background[1]		
% of colleagues from an ethnic minority	**6%**	7%
Ethnic minority managers	**6%**	6%
Ethnic minority senior managers	**3%**	3%
Sexual orientation[1]		
% of colleagues who disclose they are lesbian, gay, bisexual or transgender	**1%**	1%

[1] Data source: HR system (HRIS). Apart from gender data, all diversity information is based on colleagues' voluntary self-declaration. As a result this data is not fully representative; our systems do not record any diversity data for the proportion of colleagues who have not declared this information.

Our diversity networks

We have four colleague diversity networks: Breakthrough – network for women; Access – disability network; GEM – Group ethnic minority network; and Rainbow – Lesbian, Gay, Bisexual and Transgender network. Our sexual orientation programme was rated in the top 20 of the Stonewall Workplace Equality index for the past two years with our Rainbow Network achieving 'Star Performer' status.

Commitment to gender equality

We want to improve gender diversity amongst our senior managers and achieved 27 per cent female representation at board level in 2013. We are focused on building a sustainable pipeline of talented women and were included in *The Times* Top 50 employers for women for the second year in succession.

Support for colleagues with disabilities

We are committed to being a disability confident organisation, which provides equal opportunities for people with disabilities. We plan to launch a work experience programme for disabled people in 2014, following a successful pilot in 2013.

Support for colleagues from ethnic minority backgrounds

This year we ran 10 Career Development Programme courses to support the career development of more than 100 talented colleagues from ethnic minority backgrounds. This year, 28 per cent of our new graduates joining us were from ethnic minorities.

Flexible working

We are committed to building a culture that encourages innovative agile working policies and practices.

Parents and carers

We provide one of the best packages for working parents and carers in the UK. This includes guidance for colleagues and line managers, e-learning modules for new parents and a parent's forum.

Empowering colleagues to do their very best

All colleagues can identify the training they need and access it through a new, more effective learning management system called Discover Learning, which we launched in July 2013.

Developing future leaders

In line with our commitment to bring in talented people, we've expanded the scope and scale of our Graduate Programme. We also doubled the number of colleagues participating in our Future Executives Programme.

Apprenticeships

Building on the success of our 2012 National Apprenticeship pilot, we set a target to offer 1,000 apprenticeship places by the end of 2013 and achieved it by November.

Supporting colleagues' wellbeing, health and safety

Colleagues who are healthy, happy and safe at work, with access to support when facing financial, physical or emotional issues, generally perform their best.

Wellbeing

We work closely with BUPA, Health Management Limited, Validium and other partners to promote and enable colleagues' general health and wellbeing. For example, Validium runs our successful Employee Assistance Programme.

Health and safety in the workplace

We have policies and standards in place to help colleagues work safely and responsibly at all times. Health and safety training is mandatory for all colleagues and we complete regular audits, inspections and maintenance programmes to help improve safety standards.

Reported accidents in 2013

We worked hard to improve safety across the Group and for the third year running achieved a reduction in the number of accidents. In 2013, accidents reduced by 10 per cent compared with 2012.

Rewarding and incentivising colleagues

We try to achieve the right balance on remuneration: recognising the need to manage the Group's finances prudently, but also to incentivise colleagues. We continue to evolve our reward structures, making them fairer for all colleagues and linked more directly with performance for customers.

Remuneration

We offer competitive salaries and aim to award competitive variable pay (bonus and incentives) relevant to particular roles.

RELATIONSHIPS AND RESPONSIBILITY COMMUNITIES

Investing in communities to help them prosper and grow

As Britain's largest retail and commercial bank, serving around 30 million customers, our brands are familiar on the high street and in almost every community. By supporting these communities, we can benefit many local people, build trust in our brands, and sow the seeds for future growth.

Aim

Our brands are familiar on the high street in almost every local community. Through our community-focused programmes and investment activity we can benefit many local people and build trust in our brands.

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

Priorities for 2014

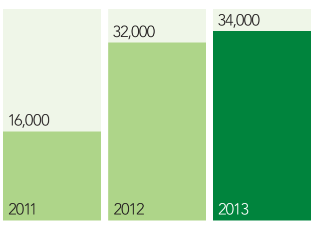
- Increase participation in, and impact of, our community programmes.
- Maintain momentum in colleague involvement in community volunteering with more emphasis on skills-based support.
- Meet our charitable fundraising targets and support for our Foundations.
- Support colleagues in their volunteering activity as we strive towards 2.3 million volunteering hours by 2020.

Achievements in 2013

- Invested £8 million in our Money for Life programme since its launch to help young people manage their finances better.
- Helped 154 social entrepreneurs through our Social Entrepreneurs programme.
- Raised £2.5 million for our charity of the year, Alzheimer's Society and Alzheimer Scotland, beating our year end target.
- 34,000 colleagues volunteered help local good causes through our Day to Make a Difference programme.
- Donated £29 million to the Lloyds Bank, Lloyds TSB and Bank of Scotland Foundations.

Performance in 2013

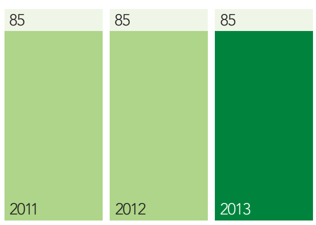
Colleague volunteers



In 2013, the Group supported over 34,000 colleagues in volunteering for charities and community groups. The Foundations also provided Matched Giving to some of these organisations for colleagues' time spent volunteering outside of working hours.

Total community investment

£m



Our Community Investment total includes support for financial inclusion, community initiatives, leveraged colleague fundraising, sponsorship and support for grass roots charities.

Developing our community investment programmes

Our community programmes are focused on the ways in which we believe we can make the greatest difference to local people and local communities. All of our programmes involve colleagues, offering them the opportunity to use their skills and expertise for the benefit of the local communities in which they work and live.

Our community programmes cover four key areas:

- Investing in education, employability and enterprise
- Supporting local communities
- Fundraising and community events
- Supporting colleagues to make a difference

You can read about all of our community investment programmes in detail in our 2013 Responsible Business Report at www.lloydsbankinggroup-cr.com

Investing in education, employability and enterprise

The ability to manage money well is essential in 21st century Britain, and there are calls from many quarters to make financial education compulsory in schools. Unfortunately many young adults lack the skills required to manage their money effectively. We're doing what we can to help address this issue.

Our Money for Life programme

In 2009, we launched Money for Life, our financial capability and personal money skills programme, aimed at improving the knowledge, confidence and skills of UK communities. Designed for people and adults in further education, and the work-based learning and community learning sectors, the programme enables and empowers participants to manage their money more effectively. We've invested £8 million in this award-winning programme since its launch.

Lloyds Scholars programme

The Lloyds Scholars programme offers students from lower income households a complete support package to help them meet the costs of a university education and improve their employment prospects. Working in partnership with eight leading universities, we supplement financial support with invaluable vocational support, provided by mentors from the business and through paid internships and development workshops. Since 2011, we've supported 240 students.

Social Entrepreneurs programme

In 2012, we partnered with the School of Entrepreneurs to launch our Lloyds Bank and Bank of Scotland Social Entrepreneurs programmes. These programmes help social entrepreneurs build businesses that support enterprise, create new jobs and have a positive social impact on their local communities. We aim to help more than 1,300 social entrepreneurs start-up or scale-up over the next five years of the programme, providing them with grants of between £4,000 to £25,000 and the support of a business mentor. This year 154 social entrepreneurs received grants through the programme. We will invest £5.9 million in the programme over five years, leveraged with £7 million of additional funding from the Big Lottery.

Supporting local communities

We invest in a number of local charities and community groups that work to bring communities closer together. We also use the Group's resources and colleagues' skills and expertise to help communities prosper.

Our Foundations

In 2013 we donated more than £29 million to the Lloyds Bank, Lloyds TSB and Bank of Scotland Foundations, enabling them to make grants to local, regional and national charities across the UK.

Community Fund

We support local organisations through our Community Fund. In 2013, colleagues nominated over 4,600 good causes for the Community Fund, from which, they shortlisted 1,568 organisations in 392 communities across Britain. Over 2.7 million votes were cast for local good causes – online, by SMS or in our Lloyds Bank and Bank of Scotland branches – with grants of either £300 or £3,000 awarded to those that received the most votes. More than 450,000 people across Britain will benefit as a consequence of the Community Fund awards.

Giving Extra Awards

This year we launched the Halifax Giving Extra Awards, to recognise and reward people who give extra in their local communities. We awarded vouchers, worth £250 to £5,000 to 67 winners. They can donate these vouchers to the good cause of their choice.

Fundraising and community events

Colleagues support and raise funds for local organisations in many different ways. They participate in national and local community events. They raise thousands of pounds for charities across Britain.

Charity of the year

Our Charity of the Year for 2013/14, chosen by colleagues, is Alzheimer's Society and Alzheimer Scotland. In 2013 we raised £2.5 million to support the first UK dementia carers programme.

Great Scottish Run and Cardiff Half Marathon

This year, colleagues participating in the 2013 Bank of Scotland Great Scottish Run and Lloyds Bank Cardiff Half Marathon raised over £44,000 for our Charity of the Year. More than 600 colleagues ran alongside thousands of other runners.

Supporting colleagues to make a difference

Colleagues can volunteer their time and skills through our Day to Make a Difference scheme. During 2013 we saw a marked increase in skill-based volunteering activities, with colleagues, including senior executives, involved in activities that included employability skills training for young adults, literacy and numeracy classes for school kids, mentoring for SMEs and business advice for local charities.

Over the past three years, colleagues have volunteered over 650,000 hours in their local communities and consequently we're on track to achieve our target of 1 million volunteering hours by 2015.

RELATIONSHIPS AND RESPONSIBILITY OTHER STAKEHOLDERS

We can't succeed without the trust and support of our stakeholders who include central and local government, suppliers, investors and non-governmental organisations (NGOs).

Aim

The Group is committed to working responsibly and acting professionally with all our external stakeholders. Our approach to stakeholders is set out in our Code of Business Responsibility.

Achievements in 2013

- Shared our views on culture, ethics and standards with the Parliamentary Commission on Banking Standards.
- Liaised with the Treasury Select Committee prior to the launch of TSB.
- Discussed the Current Account Switching Service and ring-fencing with HM Treasury and regulators.
- Shared our views about the future of care funding in Britain with the UK government.
- Launched a review of our approach to responsible business in our supply chain.
- Worked closely with our unions as we implement our ongoing change programmes.

Priorities for 2014

- Roll out our new Supplier Code of Conduct and auditing suppliers against it.
- Pay 95 per cent of our suppliers within 30 days.
- Presentations for shareholders to explain the Helping Britain Prosper Plan.
- Continue to work with the UK government in its efforts to improve standards in the banking sector.
- Continue to engage with equity and debt investors to ensure they are well briefed on our strategic and financial performance.

Government and regulators

We engage regularly with the UK government, the European Commission, the European Parliament and other bodies to assist in the formulation of public policy around consumer issues, financial inclusion, financial education and finance for the green economy. We also produce economic and social research that champions consumer interests, for example the Halifax House Price Index, which is frequently used to inform government policy.

As a responsible business we understand the importance of explaining our approach to paying and managing tax as clearly and transparently as possible. The Group's tax strategy and tax policy has been approved by the Group Board. We are consistently one of the UK's largest tax payers and in 2013 we paid a total of £1.7 billion in UK tax. We also collected a further £2.2 billion for the government (for example VAT and PAYE).

Suppliers

We want to source goods and services in ways that are responsible, sustainable and constitute best value for our customers and shareholders. We can also use our influence to help suppliers to match the same high standards.

Our Group Sourcing team has committed to make responsible business practices integral to our sourcing activities by the end of 2014. This year we've made significant progress towards achieving this goal, developing a coherent plan that covers all aspects of our sourcing activities. The plan, which evolves and expands our current approach, was approved by the Responsible Business Committee in June 2013. It addresses sourcing activities across the Group, using our existing Group Sourcing Policy as a starting point, along with supplier standards through the creation of a new Supplier Code of Conduct. This new Code will set minimum standards across six key dimensions: human rights, ethical standards, environmental standards, governance, health and safety, and community.

Investors and rating agencies

We regularly interact with our equity and debt investors through presentations, one-to-one and general meetings and undertook more than 650 investor meetings in 2013. We also manage relationships with the main rating agencies: Standard & Poor's, Fitch & Moody's.

Investor trust and their feedback are important considerations when formulating our ongoing strategy and a review of our investor interaction was undertaken in 2013 which provided positive feedback on our approach. Given the increasing focus within the business on operating sustainably and responsibly, we plan to deliver a series of investor presentations on our Helping Britain Prosper Plan in 2014.

RELATIONSHIPS AND RESPONSIBILITY ENVIRONMENT

Our ability to help Britain prosper in a sustainable way is inextricably linked to wider environmental issues. Man-made climate change and global trends such as resource scarcity, extreme weather and rising energy and commodity prices have an impact on our stakeholders and our own operations.

Aim

We aim to manage our own environmental impacts and support the drive towards a low carbon, more resource efficient economy.

Achievements in 2013

- Achieved a reduction in energy use of 12.7 per cent against our 2009 baseline, resulting in cost avoidance of £8.7 million in 2013 and cost avoidance of £22 million since 2010.
- Achieved a reduction in water consumption of 18 per cent against our 2009 baseline.
- Diverted 95 per cent of our operational waste from landfill – beating our 2020 target of 92 per cent.
- Engaged colleagues in our Environmental Action Plan through our Sustainability Network.
- Worked for positive environmental change through many different external bodies, including the Corporate Leaders Group for Climate Change, Climatewise, AIM4C and the Banking & Environment Initiative (BEI).

Priorities for 2014

- Invest £7 million in specific energy efficiency projects.
- Continue to engage SMEs to help them understand how to become more sustainable and realise the benefits to their businesses.
- Complete the environmental accreditation of even more of our property estate.

Managing our carbon emissions

Despite our continuing efforts throughout 2013 to move closer to our Environmental Action Plan (EAP) targets, our overall carbon emissions have increased slightly compared to 2012 by 1.2% (on a like-for-like basis). This has mainly been down to increased gas use during cold winter conditions, increased electricity use as a result of the hot conditions in summer 2013 and increased business travel. The underlying trend is that we continue to improve our efficiency and we remain committed to delivering our EAP.

Please refer to the Director's report in our 2013 Annual Report and Accounts for a comprehensive overview of our emissions reporting.

Using scarce resources more efficiently

During 2013, we've made progress against our EAP targets.

	2020 target	Progress to 2020 target	2012	**2013**
Energy	30% reduction in energy consumption*	42%	657Gwh	**678Gwh**
Paper	20% reduction in paper consumption	75%	26,565 tonnes	**27,220 tonnes**
Business travel	20% reduction in our business travel	95%	315m kms	**334m kms**
Waste	92% of waste diverted from landfill	>100%	94%	**95%**
Water	20% reduction in water consumption	90%	1,075,016 m^3	**1,059,999 m^3**
Buildings	20% of m^2 floor area environmentally accredited	23%	1.5%	**4.7%**

* Target excludes IT data centres and the use of oil as a fuel.

Supporting the green economy

We work together with government and others stakeholders to understand how we can help businesses that provide low carbon products and services or green technologies along with mainstream businesses who wish to do more in this emerging sector.

We work with SMEs to help them to understand and maximise the commercial benefits of sustainable business practices. Early in 2013, Lloyds Bank and Bank of Scotland both launched versions of our new online tool, REDUCE – a free resource that enables SMEs to create and implement their own sustainable business plan.

RISK OVERVIEW

Effective risk management, governance and control

Managing risk effectively is important for any bank and fundamental to our strategy. We are now a more efficient, low risk, UK focused retail and commercial bank. This has been achieved by maintaining a conservative business model which embodies a risk culture founded on a prudent appetite for risk.

Our approach to risk is founded on an effective control framework and a strong risk management culture which guides how our employees approach their work, the way they behave and the decisions they make. The amount and type of risk that we are prepared to seek, accept or tolerate, otherwise known as risk appetite, works in tandem with our strategy and is approved by the Board. Our 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.

Risks are identified, managed and mitigated using our Risk Management Framework. The principal risks we face, which could significantly impact the delivery of our strategy, are discussed further in our 2013 Annual Report and Accounts.

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

Sustainable growth
The role of risk is to support the business in delivering sustainable growth, which is achieved through informed risk decision making and superior risk and capital management, supported by a consistent risk-focused culture across the Group.

Conservative approach to risk
We have a fully embedded conservative approach to, and prudent appetite for, risk with risk culture and appetite driven from the top.

Strong control framework
This framework is the foundation for the delivery of effective risk management as it ensures appropriate engagement in developing risk appetite and that business units operate within approved parameters.

Effective risk analysis, management and reporting
This identifies opportunities as well as risks and ensures risks are managed appropriately and consistently with strategy. Our principal 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 enables us to understand the risk in the business at both an individual risk type and aggregate portfolio level.

Business focus and accountability
Managing risk effectively is a key focus and is one of the five criteria within the Group Balanced Scorecard on which business areas and individual performance are judged. Our 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.

More information on risk management can be found in our 2013 Annual Report and Accounts.

Achievements in 2013

Impairment
Our impairment charge improved by 47 per cent to £3,004 million, mainly driven by the reduction in non-core assets and the sustained improvement in Group asset quality.

Complaints
During 2013 banking complaints fell to 1.0 per 1,000 accounts (excluding PPI), compared with 1.5 at the end of 2011, and 2.4 at the start of 2010. Our 2014 reduction target was met and exceeded by September 2013.

Loan to deposit ratio
Our funding position remains strong with an improved loan to deposit ratio of 113 per cent, from 121 per cent at 31 December 2012. The core loan to deposit ratio fell to 100 per cent from 101 per cent at 31 December 2012.

Credit ratings
Credit ratings reflected the progress the Group had made on delivery of its strategy. During 2013 both Fitch and Standard & Poor's upgraded Lloyds Bank's standalone rating to bbb+, therefore affirming its long-term credit rating at A.

Improved capital position
Our common equity tier 1 (CET1) capital position has continued to build to 10.3 per cent on a pro forma fully loaded CRD IV basis, increasing by 2.2 per cent in the year, in line with our capital generative strategy.

Non-core asset reduction
We made substantial capital accretive non-core asset reductions during the year and, together with additional sales announced in October, our full year 2014 target of less than £70 billion of non-core assets was achieved by Q3 2013. Our year end position of £63.5 billion is ahead of plan.

State aid commitments
In line with strengthening the balance sheet, we continued our commitment to reduce our assets and met our target in December 2012, two years ahead of the mandated completion date. In May 2013, we received formal confirmation from the European Commission that we were released from this commitment.

Risk transformation
The Risk Transformation Programme has driven the clarity on where risk allocates transformational investment funding in order to deliver the most efficient and effective returns for the Group. This has ensured that the investments made deliver the benefits required and underpin the Group's targeted objective of sustainable growth.

Priorities for 2014

Deliver the strategic plan
Underpin the Group's strategy to be the best bank for customers and support sustainable growth in the UK economy.

Customer focus
Put our customers at the heart of our business through a clear conduct led approach and a strong understanding of all our stakeholders, supported by the codes of responsibility, applied to both current activities and historic legacy issues.

Operational agility
Evolve risk into an agile, flexible function that supports the business in its next phase of growth with effective working across the Group.

Risk governance

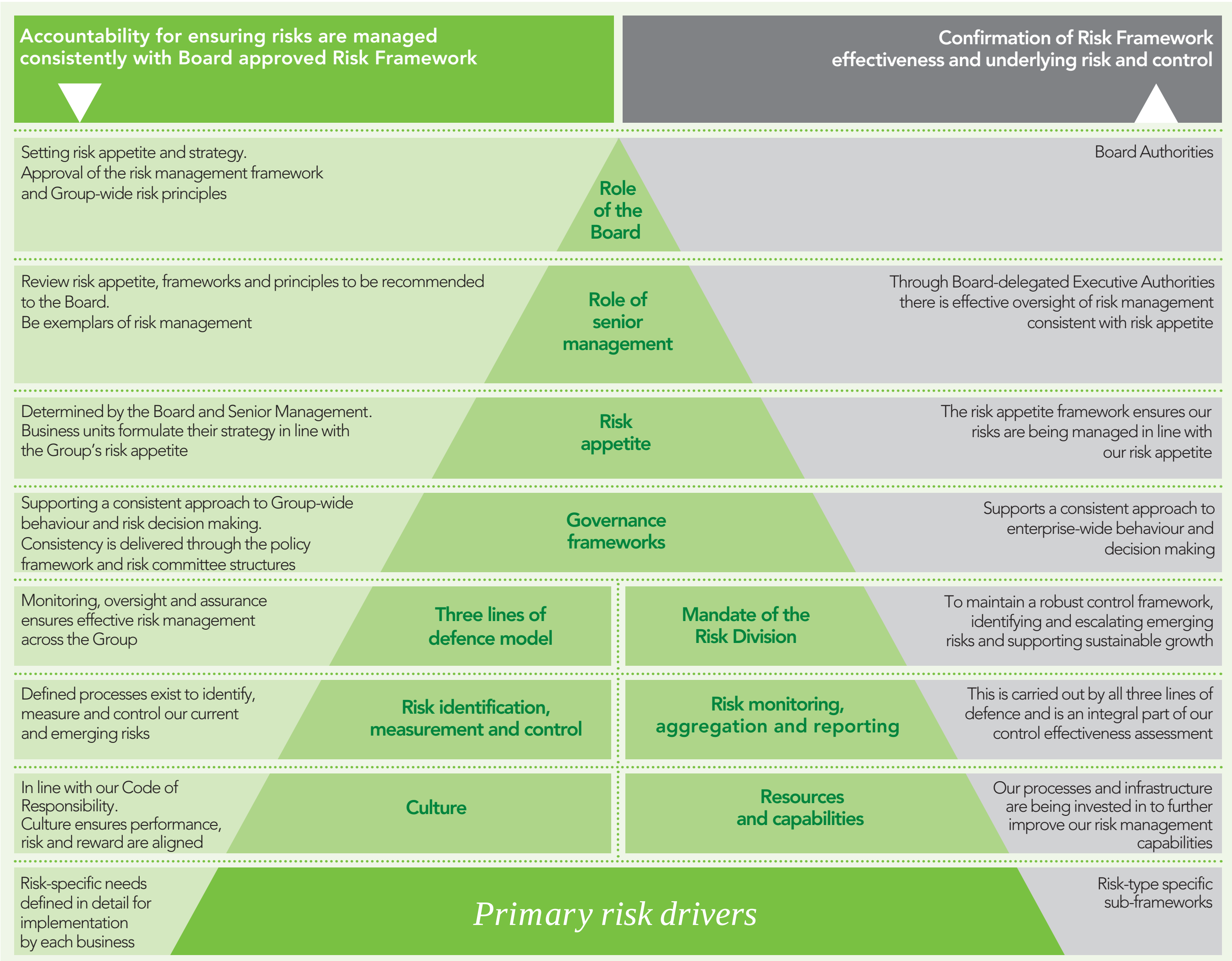
Risk management strategy and risk appetite are developed and reviewed in tandem with Group strategy. The Group uses an enterprise-wide risk management framework to ensure a robust and consistent approach to risk management is applied across all business areas and all risk types in order to drive improvements in its risk profile in line with risk appetite.

The framework articulates individual and collective accountabilities for risk management, risk oversight and risk assurance and supports the discharge of responsibilities to customers, shareholders and regulators. It establishes a common risk language which assigns risks to which the Group is exposed into categories which are used consistently to support risk aggregation and reporting. It will evolve and be periodically updated to reflect any changes in the nature of our business and the external environment.

The framework outlines the key risk management activities undertaken consistently across the Group for all types of risk.

Governance is maintained through delegation of authority from the Board, down through the management hierarchy, supported by a committee based structure designed to ensure that our risk appetite, policies, procedures, controls and reporting are fully in line with regulations, law, corporate governance and industry good-practice.

Our approach to risk is founded on a robust control framework and a strong risk management culture which ensures that business units remain accountable for risk and therefore guides the way all employees approach their work, behave and make decisions. Board-level engagement, coupled with the direct involvement of senior management in Group-wide risk issues at Group Executive Committee level, ensures that issues are promptly escalated and remediation plans are initiated where required. The interaction of the executive and non-executive governance structures relies upon a culture of transparency and openness that is encouraged by both the Board and senior management. A strong control framework remains a priority for the Group and is the foundation for the delivery of effective risk management. Performance is optimised by allowing business units to operate within approved parameters.



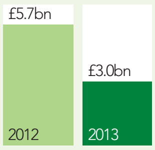
RISK OVERVIEW

The most significant risks faced by the Group which could impact on the success of delivering against the Group's strategic objectives together with key mitigating actions are outlined below. More information on each of these risks can be found in our 2013 Annual Report and Accounts.

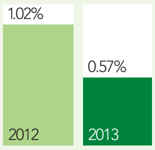
Principal risks	Key mitigating actions
Credit risk As a provider of credit facilities to personal and commercial customers, together with financial institutions and sovereigns, any adverse changes in the economic and market environment we operate in, or the credit quality and/or behaviour of our borrowers and counterparties would reduce the value of our assets and increase our write-downs and allowances for impairment losses, adversely impacting profitability.	• Credit policy incorporating prudent lending criteria aligned with the Board approved risk appetite to effectively manage credit risk. • Clearly defined levels of authority ensure we lend appropriately and responsibly with separation of origination and sanctioning activities. • Robust credit processes and controls including well-established committees to ensure distressed and impaired loans are identified, considered and controlled with independent credit risk assurance.
Conduct risk As a major financial services provider we face significant conduct risk, including selling products to customers which do not meet their needs; failing to deal with customers' complaints effectively; not meeting customers' expectations; and exhibiting behaviours which do not meet market or regulatory standards.	• Customer focused conduct strategy implemented to ensure customers are at the heart of everything we do. • Product approval, review processes and outcome testing supported by conduct management information. • Clearer customer accountabilities for colleagues, including rewards with customer-centric metrics. • Learn from past mistakes, including root cause analysis.
Market risk We face a number of key market risks including interest rate risk across the Banking and Insurance businesses. However, our most significant market risk is from the Defined Benefit Pension Schemes where asset and liability movements impact on our capital position.	• A rates hedging programme is in place to reduce liability risk. • Board approved pensions risk appetite covering interest rate, credit spreads and equity risks. • Credit assets and alternative assets are being purchased by the pension schemes as equities are sold. • Stress and scenario testing.
Operational risk We face a number of key operational risks including fraud losses and failings in our customer processes. The availability, resilience and security of our core IT systems is the most significant.	• Continually review IT system architecture to ensure systems are resilient, readily available for our customers and secure from cyber attack. • Implement actions from IT resilience review conducted in 2013 to reflect enhanced demands on IT, both in terms of customer and regulator expectations.
Funding and liquidity risk Our funding and liquidity position is supported by a significant and stable customer deposit base. However, a deterioration in either our or the UK's credit rating or a sudden and significant withdrawal of customer deposits would adversely impact our funding and liquidity position.	• Hold a large pool of liquid primary assets to meet cash and collateral outflows. • Maintain a further large pool of secondary assets which can be used to access Central Bank liquidity facilities. • Stress test the Group's liquidity position against a range of scenarios.
Capital risk Our future capital position is potentially at risk from adverse financial performance and the introduction of higher capital requirements for distinct risks, sectors or as a consequence of a specific UK regulatory requirement. For example in 2013, the PRA introduced significant additional capital requirements on an adjusted basis that major UK banks are required to meet.	• Close monitoring of actual capital ratios to ensure that we comply with current regulatory capital requirements and are well positioned to meet future requirements. • Internal stress testing results to evidence sufficient levels of capital adequacy for the Group under various scenarios. • We can accumulate additional capital in a variety of ways including raising equity via a rights issue or debt exchange and by raising tier 1 and tier 2 capital.
Regulatory risk Due to the nature of the industry we operate in we have to comply with a complex and demanding regulatory change agenda. Regulatory initiatives we have been working on in 2013 include CRD IV, Mortgage Market Review, Dodd-Frank and Foreign Account Tax Compliance Act 2010. The sanctions for failing to comply far outweigh the costs of implementation.	• The Legal, Regulatory and Mandatory Change Committee ensures we drive forward activity to develop plans for regulatory changes and track progress against those plans. • Continued investment in our people, processes and IT systems is enabling us to meet our regulatory commitments.
State aid HM Treasury currently holds 32.7 per cent of the Group's share capital. We continue to operate without government interference in day-to-day management decisions, however there is a risk that a change in government priorities could result in the current framework agreement being replaced, leading to interference in the operations of the Group. Failure to meet the EU State aid commitments arising from this government support could lead to sanctions.	• Most EU State aid commitments now met with the divestment of the rebranded (TSB) retail banking business outstanding. • Now progressing the divestment of TSB through an Initial Public Offering subject to regulatory and European Commission approval, to ensure best value for our shareholders and certainty for our customers and colleagues. • The divested business, rebranded TSB, has operated as a separate business within Lloyds Banking Group since September 2013.

Key risk indicators

Impairment charge



Asset quality ratio[1]



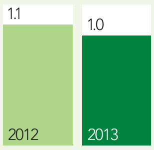
Commentary

Through non-core asset reduction and effective risk management of both existing and new business, we have seen sustained improvements in credit quality and reduction in impairments.

Future focus

- Continue to support the UK economy through appropriate lending to SMEs and first-time buyers.

Banking complaints per 1,000 accounts[1] (excl. PPI)



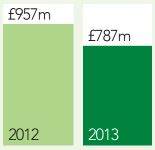
Commentary

We are continuing our journey to embed the conduct strategy and be the industry leader for complaints performance.

Future focus

- Continued reduction in complaint levels and improvements in complaints handling.

Pensions deficit



Commentary

Volatility in the Defined Benefit Pension Schemes is reducing as we target rates hedging and equity sales.

Future focus

- Continue to effectively manage the Defined Benefit Pension Scheme to secure pensions provisions to members and minimise the impact on the Group.

Availability of core systems

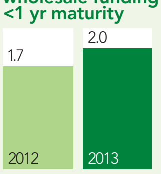
Commentary

Through effective control activities interruptions to customer service and operational losses for 2013 have remained within the Board approved appetite limits.

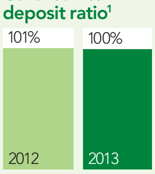
Future focus

- Increased investment in IT resilience.
- Risk appetite monitoring for critical business processes.

Primary liquidity/ wholesale funding <1 yr maturity



Core loan to deposit ratio[1]



Commentary

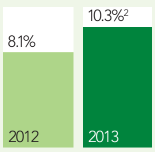
The primary and secondary liquidity assets provide a substantial buffer in the event of an extended market dislocation.

The Group is now in a position where the core loan book is fully funded by core deposits.

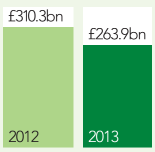
Future focus

- Continue to meet all current regulatory ratios and ensure we meet all future regulatory ratios.
- Further reduction of the loan to deposit ratio.

CRD IV fully loaded CET1 ratio[1]



Risk-weighted assets (prevailing rules)



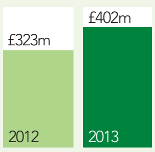
Commentary

Significant progress has been made in strengthening the balance sheet and capital position through our strongly capital generative strategy.

Future focus

- Implement remaining non-core run-off and disposals to be net capital accretive.
- Expect, prior to any dividend, to generate fully loaded CET1 capital of around 2.5 percentage points over the next 2 years.

Legal, regulatory and mandatory investment spend



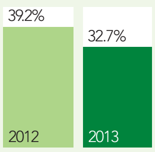
Commentary

We continue to build constructive relationships with our regulators in order to effectively manage the regulatory change agenda.

Future focus

- Ongoing constructive engagement with regulators.
- Continued compliance with the regulatory change agenda.

Government shareholding



Commentary

We continue to work closely with the European Commission, HM Treasury, PRA, FCA and the Monitoring Trustee appointed by the European Commission to ensure the successful implementation of the Restructuring Plan and mitigate customer impact.

Future focus

- TSB will be divested through an Initial Public Offering, subject to regulatory and European Commission approval.
- Continue to support the government in the process of returning the Group back to private ownership.

[1] These key risk indicators are also key performance indicators (KPIs).
[2] Pro forma basis.

SUMMARY OF GROUP RESULTS

Summary consolidated income statement

	2013 £ million	2012[1] £ million	Change %
Net interest income	**10,885**	10,335	*5*
Other income, net of insurance claims	**7,920**	8,051	*(2)*
Total underlying income	**18,805**	18,386	*2*
Total costs	**(9,635)**	(10,124)	*5*
Impairment	**(3,004)**	(5,697)	*47*
Underlying profit	**6,166**	2,565	*140*
Core	**7,574**	6,112	*24*
Non-core	**(1,408)**	(3,547)	*60*
Asset sales, liability management and volatile items	**(280)**	2,532	
Simplification and Verde costs	**(1,517)**	(1,246)	
Legacy items	**(3,455)**	(4,225)	
Other items	**(499)**	(232)	
Profit (loss) before tax – statutory	**415**	(606)	
Taxation	**(1,217)**	(781)	
Loss for the year	**(802)**	(1,387)	
Loss per share	**(1.2)p**	(2.1)p	*0.9p*
Banking net interest margin	**2.12%**	1.93%	*19bp*
Average interest-earning banking assets	**£510.9bn**	£543.3bn	*(6)*
Cost:income ratio (excluding St. James's Place)	**52.9%**	55.1%	*(2.2)pp*
Asset quality ratio[2]	**0.57%**	1.02%	*(45)bp*
Return on risk-weighted assets	**2.14%**	0.77%	*137bp*

Summary consolidated balance sheet

	At 31 Dec 2013 £ million	At 31 Dec 20121 £ million
Assets		
Cash and balances at central banks	**49,915**	80,298
Trading and other financial assets at fair value through profit or loss	**142,683**	160,620
Derivative financial instruments	**33,125**	56,557
Loans and receivables:		
Loans and advances to customers	**495,281**	517,225
Loans and advances to banks	**25,365**	32,757
Debt securities	**1,355**	5,273
	522,001	555,255
Available-for-sale financial assets	**43,976**	31,374
Other assets	**55,330**	50,117
Total assets	**847,030**	934,221
Liabilities		
Deposits from banks	**13,982**	38,405
Customer deposits	**441,311**	426,912
Trading and other financial liabilities at fair value through profit or loss	**43,625**	33,392
Derivative financial instruments	**30,464**	48,676
Debt securities in issue	**87,102**	117,253
Liabilities arising from insurance and investment contracts	**110,758**	137,592
Subordinated liabilities	**32,312**	34,092
Other liabilities	**48,140**	55,318
Total liabilities	**807,694**	891,640
Total equity	**39,336**	42,581
Total liabilities and equity	**847,030**	934,221

[1] Restated to reflect the implementation of IAS 19R and IFRS 10.

[2] Impairment charge as a percentage of average advances.

Underlying basis segmental analysis

2013	Retail £m	Commercial Banking £m	Wealth, Asset Finance and International £m	Insurance £m	Group operations and Central items £m	Group £m
Net interest income	**7,536**	**2,426**	**870**	**(103)**	**156**	**10,885**
Other income	**1,410**	**2,708**	**1,809**	**2,236**	**113**	**8,276**
Insurance claims	**–**	**–**	**–**	**(356)**	**–**	**(356)**
Total underlying income	**8,946**	**5,134**	**2,679**	**1,777**	**269**	**18,805**
Total costs	**(4,096)**	**(2,392)**	**(1,991)**	**(687)**	**(469)**	**(9,635)**
Impairment	**(1,101)**	**(1,167)**	**(730)**	**–**	**(6)**	**(3,004)**
Underlying profit (loss)	**3,749**	**1,575**	**(42)**	**1,090**	**(206)**	**6,166**
Banking net interest margin	**2.23%**	**1.95%**	**2.20%**			**2.12%**
Asset quality ratio	**0.32%**	**0.83%**	**1.79%**			**0.57%**
Return on risk-weighted assets	**4.11%**	**1.04%**	**(0.13)%**			**2.14%**
Key balance sheet items at 31 December 2013	**£bn**	**£bn**	**£bn**	**£bn**	**£bn**	**£bn**
Loans and advances to customers[1]	**341.9**	**126.4**	**24.2**		**2.7**	**495.2**
Customer deposits[2]	**269.0**	**123.5**	**45.8**		**–**	**438.3**
Total customer balances	**610.9**	**249.9**	**70.0**		**2.7**	**933.5**
Risk-weighted assets	**85.7**	**138.5**	**25.9**		**13.8**	**263.9**

2012	£m	£m	£m	£m	£m	£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	8,657	5,138	2,842	1,851	(102)	18,386
Total costs	(4,199)	(2,516)	(2,291)	(744)	(374)	(10,124)
Impairment	(1,270)	(2,946)	(1,480)	–	(1)	(5,697)
Underlying profit (loss)	3,188	(324)	(929)	1,107	(477)	2,565
Banking net interest margin	2.08%	1.58%	1.65%			1.93%
Asset quality ratio	0.36%	1.85%	3.12%			1.02%
Return on risk-weighted assets	3.21%	(0.18)%	(2.31)%			0.77%
Key balance sheet items at 31 December 2012	£bn	£bn	£bn	£bn	£bn	£bn
Loans and advances to customers[1]	343.3	134.7	33.4		0.7	512.1
Customer deposits[2]	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

[1] Excludes reverse repos of £0.1 billion (2012: £5.1 billion).

[2] Excludes repos of £3.0 billion (2012: £4.4 billion).

Underlying basis

In order to present a more meaningful view of business performance, the results of the Group and divisions are presented on an underlying basis. The key principles adopted in the preparation of the underlying basis of reporting are described below. In order to reflect the impact of the acquisition of HBOS, the amortisation of purchased intangible assets and the unwind of acquisition-related fair value adjustments have been excluded. The following items, not related to acquisition accounting, have also been excluded from underlying profit: the effects of certain asset sales, liability management and volatile items; volatility arising in insurance businesses; Simplification costs; Verde costs; payment protection insurance provision; insurance gross up; certain past service pensions items in respect of the Group's defined benefit pension schemes; and other regulatory provisions.

The financial statements have been restated following the implementation of IAS 19R Employee Benefits and IFRS 10 Consolidated Financial Statements with effect from 1 January 2013. 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.

Report of the Auditor

The auditor's report on the full accounts for the year ended 31 December 2013 was unqualified, and their statement under section 496 (whether the Strategic Report and the Directors' Report are consistent with the accounts) of the Companies Act 2006 was unqualified.

BOARD OF DIRECTORS

Non-Executive Directors

Sir Winfried Bischoff
Chairman
(retiring on 3 April 2014)

Joined the Board in September 2009

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

Skills and experience: Sir Winfried has substantial experience of leading complex international boards in the UK 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 who has led the Board of Lloyds Banking Group during a period of significant progress over the past four years. Sir Winfried has a BA in Commerce from the University of the Witwatersrand, a Doctorate in Science, Honoris Causa, from City University and was made a Johnson Honorary Fellow of the University of Oxford.

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, a Member of the Akbank International Advisory Board and from 1 May 2014, will be Chairman of the Financial Reporting Council.

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.

Lord Blackwell
Chairman (from 3 April 2014) and Independent Director

Joined the Board in June 2012

Chairman of Scottish Widows Group

Member of the Audit Committee, the Risk Committee and the Nomination & Governance Committee

Skills and experience: Lord Blackwell has extensive insurance, banking, regulatory and public policy experience gained from senior positions in a wide range of industries. Lord Blackwell's deep financial services knowledge and experience, leadership qualities and credibility with key stakeholders, made him the unanimous choice of the Board to succeed Sir Winfried as Chairman of Lloyds Banking Group. Lord Blackwell has an MA in Natural Sciences from the University of Cambridge, and a Ph.D in Finance and Economics and an MBA from the University of Pennsylvania.

External appointments: Lord Blackwell is the Chairman of Interserve plc. He is a Non-Executive Director of Ofcom (until the end of March 2014) and Halma plc.

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, a member of the Board of the Centre for Policy Studies 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.

David Roberts
Deputy Chairman and Independent Director

Joined the Board in March 2010

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

Skills and experience: David has many years of 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 him an effective Deputy Chairman. David has a Diploma in Marketing from the Chartered Institute of Marketing, a degree in Mathematics & Applications from Birmingham University and an MBA from the University of Reading.

External appointments: Member of the Strategy Board of Henley Business School.

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.

Carolyn Fairbairn
Independent Director

Joined the Board in June 2012

Member of the Audit Committee and the Remuneration Committee

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. Carolyn has a BA in Economics from the University of Cambridge, an MA in International Relations from the University of Pennsylvania and an MBA from INSEAD.

External appointments: Carolyn is a Non-Executive Director of The Vitec Group and is the Chairman of its Remuneration Committee. She is a trustee of Marie Curie and a Non-Executive Director of the Competition and Markets Authority and the UK Statistics Authority.

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

Joined the Board in December 2010

Member of the Audit Committee, the Risk Committee and the Nomination & Governance Committee

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. Anita is the Chairman of the Responsible Business Committee. She has a BA (Hons) in Business from the University of Strathclyde and a MRes in Humanities and Philosophy from the University of London.

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

Dyfrig John, CBE
Independent Director

Joined the Board on 1 January 2014

Member of the Audit Committee and the Risk Committee

Skills and experience: Dyfrig has spent his career in banking, principally at HSBC where he worked for 37 years. During that time he held a number of senior management and board positions in the UK and overseas including Chief Executive Officer of HSBC Bank PLC. He has the knowledge and experience to provide valuable insight and contribute effectively as a Non-Executive Director and Member of the Audit Committee and Risk Committee. Dyfrig has a Sloan Fellowship from the London Business School. He is also a fellow of the Chartered Institute of Bankers.

External appointments: Dyfrig is the Chairman of Principality Building Society and will step down from that position on 17 April 2014. He is a Member of the Welsh Rugby Union's Audit Committee.

Former appointments: Dyfrig was a Director of HSBC Bank PLC from 2003 to 2009, Chief Executive Officer from 2006 to 2009 and Deputy Chairman from 2008 to 2009. Prior to joining the Board of HSBC Bank PLC, he held a number of senior roles including Group Managing Director and member of the Group Management Board. Until recently he was a Board member of the Wales Millennium Centre.

Marc Boston
Company Secretary

Appointed January 2014

Marc joined the Group in February 2010. He is a qualified Company Secretary and solicitor with 20 years of experience in a broad range of listed entities within the financial services, retail and telecommunications sectors and with professional service firms.

Nick Luff
Independent Director

Joined the Board on 5 March 2013

Chairman of the Audit Committee
Member of the Risk Committee

Skills and experience: Nick is a chartered accountant and 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. Nick is a Mathematics graduate from the University of Oxford.

External appointments: Nick is currently the Group Finance Director of Centrica. He will step down from the Centrica Board before the end of 2014 to take up a new position as Chief Financial Officer of Reed Elsevier.

Former appointments: Nick was previously 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.

Anthony Watson, CBE
Senior Independent Director

Joined the Board in April 2009

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

Skills and experience: Tony is Senior Independent Director and Chair of the Remuneration Committee. He maintains close dialogue with shareholders with the aim of aligning executive reward with shareholder interests. With over 40 years of experience in the investment management industry and related sectors, he is well placed to carry out these roles. Tony is a Barrister at Law. He has a BSc (Hons) in Economics from the Queen's University Belfast, a Diploma in Security Analysis from the New York Institute of Finance and was called to the Bar of England and Wales.

External appointments: Tony is a Non-Executive Director of Vodafone Group, Senior Independent Director of Hammerson and Witan Investment Trust, Chairman of the Lincoln's Inn Investment Committee and a member of the Norges Bank Investment Management Corporate Governance Advisory Board.

Former appointments: Former Chief Executive of Hermes Pensions Management and formerly Chairman of the Asian Infrastructure Fund, MEPC and of the Strategic Investment Board (Northern Ireland). Member of the Financial Reporting Council and the Marks & Spencer Pension Trustees.

Sara Weller
Independent Director

Joined the Board in February 2012

Member of the Remuneration Committee and the Risk Committee

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. She has an MA in Chemistry from Oxford University.

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
Executive Director and Group Chief Executive

Joined the Board in January 2011

Appointed Group Chief Executive in March 2011

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. António has a Degree in Management & Business Administration from the Universidade Católica Portuguesa, an MBA from INSEAD and has completed the Advanced Management Program at Harvard Business School.

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

Former appointments: António joined Grupo Santander in 1993, having previously worked for Goldman Sachs and for Citibank, and held various senior management positions culminating in becoming 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
Executive Director and Chief Financial Officer

Joined the Board in May 2012

Skills and experience: George is a chartered accountant and 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. George is a chartered accountant and has a History degree from the University of Cambridge.

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.

Juan Colombás
Executive Director and Chief Risk Officer

Joined the Board on 29 November 2013

Skills and experience: Juan has significant banking and risk management experience, having spent 28 years working in these fields both internationally and in the UK. He has served as the Group's Chief Risk Officer and as a member of the Group Executive Committee since January 2011. Juan is responsible for developing the Group's risk framework, recommending its risk appetite and ensuring that all risks generated by the business are measured, reviewed and monitored on an ongoing basis. Juan has a BSc in Industrial Chemical Engineering from the Universidad Politécnica de Madrid, a Financial Management degree from ICADE School of Business and Economics and an MBA from the Institute de Empresa Business School.

External appointments: Member of the International Financial Risk Institute Executive Committee.

Former appointments: Juan was previously the Chief Risk Officer of Santander's UK business. Prior to this position, he held a number of senior risk, control and business management roles across the Corporate, Investment, Retail and Risk Divisions of the Santander Group.

REMUNERATION

Full details of the Group's remuneration policy for Executive Directors, as well as details of their remuneration in 2013, appear in the Directors' Remuneration Report in the full 2013 Annual Report and Accounts. This can be seen in the 'Investors' section of the Group's website at www.lloydsbankinggroup.com.

Remuneration policy

The Directors' Remuneration Policy is intended to ensure that our remuneration proposition is both cost effective and enables us to attract and retain executives of the highest calibre. The objective is to align individual reward with the Group's performance and the interests of our major stakeholders (customers, shareholders, employees and regulators).

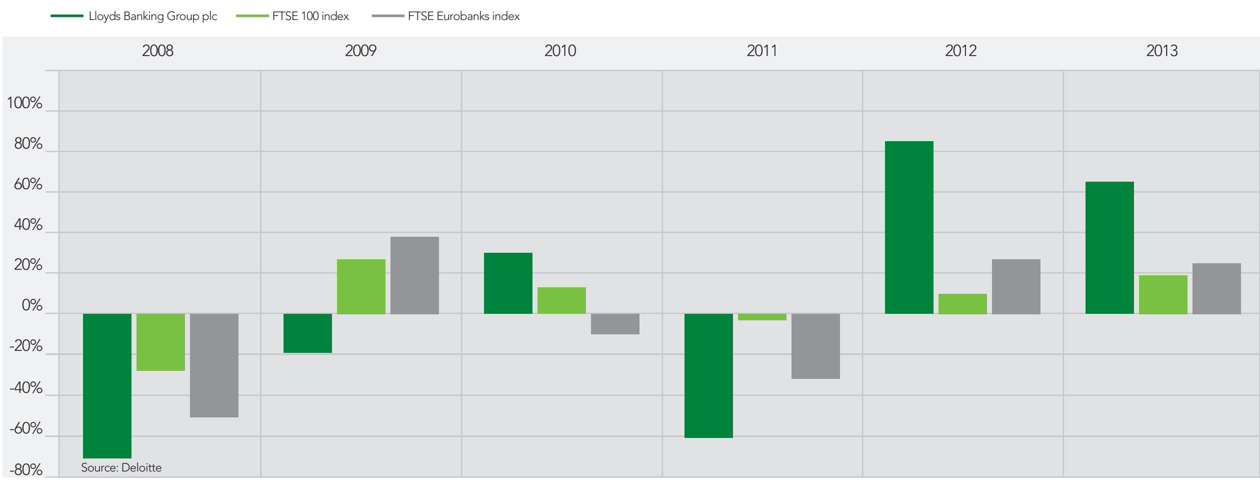
The policy is based on principles which are applicable to all employees within the Group, in particular the principle that the reward package should support the delivery of the strategic goal of being the 'Best Bank for Customers'. It embeds a performance-driven and meritocratic culture, encourages effective risk disciplines and is in line with relevant regulations and codes of best practice.

The link between remuneration and business strategy is evident within the variable pay plans:

- Annual bonus plan, which rewards for the delivery of financial targets (Economic Profit and Underlying Profit) and balanced scorecard objectives. These objectives are reviewed by the Committee annually to ensure alignment with the longer-term strategy. In determining awards, the Committee applies its judgement to adjust for any current or legacy issues. All awards for Executive Directors under the bonus plan are subject to deferral and may be adjusted prior to release if the Committee deems it appropriate.
- Long-term incentive plan, which is designed to support value creation for shareholders by measuring financial targets (currently Economic Profit and Total Shareholder Return) and strategic targets, which ensure a focus on strategic objectives, in particular those related to our customers. Performance is measured over three years and Executive Directors are required to hold the shares which vest for a further two years. This directly connects the financial reward for the executive and senior management team with the growth and prosperity of the Group and motivates them to demonstrate appropriate behaviours across all areas of the business.

1 year total shareholder return

To provide context of the Group's performance, the following chart shows Lloyds Banking Group's annual TSR change compared with the FTSE 100 and against a European Banking index calculated for each period since 1 January 2008. This highlights more clearly the positive impact of the current management team, which was formed in 2011.



Remuneration outcomes for the Group in 2013

The key challenges for the Remuneration Committee in 2013 have been to determine how to remunerate appropriately for the strong, underlying performance in 2013, whilst ensuring that adjustments are made for legacy issues, most notably the additional financial provision for PPI.

The Committee sought to achieve an appropriate balance by applying collective adjustments to the Group's bonus pool and individual adjustments to bonus awards where necessary. A number of legacy issues were taken into account – for example, the additional provision for PPI and the substantial fine levied by the Financial Conduct Authority in respect of controls around incentives. The Committee considered other factors, such as affordability in the context of the overall financial results. The impact of these considerations was to apply a significant reduction to what the overall bonus pool would have been. The Committee determined that a bonus pool of £395 million was appropriate, which represents 6 per cent of pre-bonus Underlying Profit (compared to 12 per cent in the prior year). The average value of bonus per employee is approximately £4,500.

Remuneration outcome for Executive Directors in 2013

Consistent with the aim of ensuring that short-term financial results are only rewarded if they promote sustainable growth, the 2013 annual bonus for Executive Directors is deferred into shares subject to performance adjustment (malus) until at least March 2016. The Committee reserves the right to exercise its discretion in reducing any payment that otherwise would have been earned, if deemed appropriate.

The Committee is committed to managing executive reward through the strict application of challenging performance targets. For long-term incentive plan (LTIP) awards made in 2011, the performance to the end of 2013 was creditable, but targets have not been fully met and therefore these awards will vest at a rate of 54 per cent for members of the Group Executive Committee, including the Executive Directors. These are the first LTIP awards to vest for some years and reflect the Group's return to profitability under the current management.

The following table summarises the total remuneration delivered during 2013 in relation to service as an Executive Director.

	António Horta-Osório Group Chief Executive (GCE)		George Culmer[f] Chief Financial Officer (CFO)		Juan Colombás[g] Chief Risk Officer (CRO)		Totals	
£000	2013	2012	2013	2012	2013	2012	2013	2012
Base salary	**1,061**	1,061	**720**	451	**58**	–	**1,839**	1,512
Benefits	**113**	113	**37**	17	**15**	–	**165**	130
Pension allowance[a]	**568**	568	**286**	–	**14**	–	**868**	568
Other remuneration[b]	**173**	171	**301**	–	**2**	–	**476**	171
Annual bonus[c]	**1,700**	1,485	**910**	700	**78**	–	**2,688**	2,185
Long term incentive[d]	**3,128**	–	**–**	–	**41**	–	**3,169**	–
Conditional pension buy-out[e]	**732**	–	**–**	–	**–**	–	**732**	–
Total remuneration	**7,475**	3,398	**2,254**	1,168	**208**	–	**9,937**	4,566
Less: Buy-out amounts	**(904)**	(171)	**(300)**	–	**(2)**	–	**(1,206)**	(171)
Total remuneration less buy-outs	**6,571**	3,227	**1,954**	1,168	**206**	–	**8,731**	4,395

[a] Following changes to the amount of tax relief available on pension contributions in each year, Directors may elect to receive some or all of their allowances as cash. The breakdown of payments made in cash and contributions into the pension scheme are shown below. Note that the amount for 2012 in respect of António Horta-Osório has been restated from £549,000 to include £18,170 of employer contributions to pension scheme. Note that the amount for 2013 in respect of George Culmer includes £106,000 carried over from 2012 and delivered in 2013.

[b] Other remuneration payments comprise contractual cash payments to António Horta-Osório, George Culmer and Juan Colombás as part of the buyout of their benefits from their previous employers in addition to income from all employee share plans of £960.

[c] In addition to deferral and performance adjustment, the GCE's bonus will only vest if the Group's share price remains above 73.6 pence on average for any 126 consecutive trading days in the five years following grant or the UK government sells at least 50 per cent of its shareholding (as at February 2014) in the Group at any time during the three years following grant. If either condition is met earlier than the third anniversary of grant, vesting will still only occur on the third anniversary. In this event, the award will be subject to a further two year holding period following vesting up to a maximum of five years in total.

[d] The long-term incentive vesting was confirmed by the Remuneration Committee at its meeting on 20 February 2014. The closing share price on that date of 81.13 pence has been used to calculate the value.

[e] The GCE has a conditional unfunded pension commitment, subject to share price performance. This was a partial buyout of a pension forfeited on joining from Santander. It is an unfunded unapproved retirement benefit scheme (UURBS). The UURBS provides benefits on a defined benefit basis at a normal retirement date of 65. The UURBS applies for a maximum of six years following the commencement of employment and the maximum allowance over that period is 26.5 per cent of the higher of the GCE's base salary and reference salary in the 12 months before retirement or leaving, subject to performance conditions. No additional benefit is due in the event of early retirement. The rate of pension accrual in each year depends on share price conditions being met. An annual pension entitlement of £36,600 was accrued in 2013.

[f] George Culmer joined the Group as an Executive Director on 16 May 2012. The 2012 figures therefore reflect a part-year.

[g] Amounts shown reflect the period from 29 November 2013 when Juan Colombás was appointed as an Executive Director. Total remuneration for 2013 was £3,193,000. Under terms agreed when joining the Group, the CRO is entitled to a conditional lump sum benefit of £718,996 either (i) on reaching normal retirement age unless the CRO voluntarily resigns or is dismissed for cause, or (ii) on leaving due to long-term sickness or death.

Key changes for Executive Directors in 2014

Recent European regulatory changes have introduced a cap on the variable element of remuneration at 100 per cent of fixed remuneration which may be increased to 200 per cent, but only with shareholder approval. The Remuneration Committee strongly believes in pay for performance, in providing a competitive package that allows us to attract and retain the key talent necessary to deliver the strategy set by the Board, and in ensuring that fixed costs are properly managed. The Group is, therefore, seeking shareholder approval to allow awards of variable remuneration up to a maximum of 200 per cent of fixed remuneration.

In addition, the Group is proposing to introduce a fixed share award for senior executives, made annually, which will deliver shares over a period of five years. This will enable the Group to comply with the regulations and maintain the competitiveness of the package and, in particular, the alignment with shareholders. Therefore, whilst the fixed element of the package will increase, over 75 per cent will remain aligned with shareholders' interests.

Non-Executive Directors

The Group Chief Executive and the Chairman are responsible for evaluating and making recommendations to the Board in relation to the fees of the Non-Executive Directors. Non-Executive Directors are paid a basic fee plus additional fees for the chairmanship/membership of committees. Additional fees are also paid to the senior independent director and to the deputy chairman to reflect additional responsibilities.

Considerations of stakeholders' views

The Committee is committed to maintaining regular dialogue with stakeholders and take careful consideration of their views when making remuneration decisions. During the year, several meetings took place with UK Financial Investments (UKFI) and a number of our other major shareholders. The Group's main regulators, the Financial Conduct Authority (FCA) and the Prudential Regulation Authority (PRA) were also consulted on remuneration matters.

The Committee continues to believe that the remuneration policies and practices fairly reward the Group's Directors and support the delivery of the strategy and shareholder value.

SHAREHOLDER INFORMATION

Annual report and accounts

This Annual Review, including the Strategic 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 the Edinburgh International Conference Centre, The Exchange, Edinburgh EH3 8EE on Thursday 15 May 2014 at 11.00 am. Further details about the meeting, including the proposed resolutions, can be found in our notice of annual general meeting which will be available shortly on our website www.lloydsbankinggroup.com

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www.lloydsbankinggroup.com

Shareholder enquiries including the Lloyds Banking Group Shareholder Account

For queries about your shareholding or to tell us about changes to your circumstances, please contact Equiniti Limited using the details shown below. Equiniti Limited maintain shareholder records on our behalf and deal with shareholder enquiries either in writing or by telephone:

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

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 quoted were correct at February 2014.

Digital communications – Shareview provided by Equiniti Limited

Shareview, the website provided by Equiniti, allows shareholders to sign up to receive email communications and also provides the opportunity to self-manage your shareholding online. Shareholders can also access frequently asked questions, useful fact sheets, guidance notes, downloadable forms and a secure messaging system.

See **www.shareview.co.uk** or **help.shareview.co.uk** for further details.

Share dealing facilities

We offer a choice of three share dealing services for our UK shareholders and customers. To see the full range of services available for each please use the contact details below:

Bank of Scotland Share Dealing – www.bankofscotlandsharedealing.co.uk – 0845 606 1188

Halifax Share Dealing – www.halifaxsharedealing.co.uk – 08457 22 55 25

Lloyds Bank Direct Investments – www.lloydsbank.com/shares – 0845 60 60 560

Note:
All internet services are available 24/7. Telephone dealing services are available between 8.00am and 9.15pm, Monday to Friday and 9.00am to 1.00pm on Saturday. To open a share dealing account with any 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.

Individual Savings Accounts (ISAs)

There are a number of options for investing in Lloyds Banking Group shares through an ISA. For details of services and products provided by us please contact: Bank of Scotland Share Dealing, Halifax Share Dealing or Lloyds Bank Direct Investments.

American Depositary Receipts (ADRs)

Our 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 30170,
College Station, TX 77842-3170.
Telephone: 1-866-259-0336 (US toll free), international callers:
+1 201-680-6825.
Alternatively visit www.adrbnymellon.com or
email shrrelations@cpushareownerservices.com

Share sale fraud and scams

Shareholders should exercise caution when unsolicited callers offer the chance to buy or sell shares with promises of huge returns. If it sounds too good to be true, it usually is.

Please take steps to protect yourself. We strongly recommend that you seek advice from an independent financial adviser authorised by the Financial Conduct Authority (FCA). If you are uncertain you can check if they are authorised via the Financial Services Register which is available at www.fca.org.uk.

If you are concerned that you may have been targeted by such a scheme, please contact the FCA Consumer Helpline on 0800 111 6768 or use the online 'Share Fraud Reporting Form' available from their website (see above). We would also recommend that you contact the Police through Action Fraud on 0300 123 2040 or see www.actionfraud.org.uk for further information.

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 the Group's management's beliefs and expectations, are forward looking statements. By their nature, forward looking statements involve risk and uncertainty because they relate to future events and circumstances that will or may occur. 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 factors, including, but not limited to, UK domestic and global economic and business conditions; the ability to derive cost savings and other benefits, including as a result of the Group's Simplification programme; and 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 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 other jurisdictions in which the Group operates, including the US; the implementation of Recovery and Resolution 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 satisfactorily dispose of certain assets or otherwise meet 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; the effects of competition and the actions of competitors, including non-bank financial services and lending companies; exposure to regulatory scrutiny, legal proceedings, regulatory investigations or complaints, 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 announcement are made as at the date of this announcement, and the Group undertakes no obligation to update any of its forward looking statements.