

LLOYDS  
BANKING  
GROUP



# BECOMING THE BEST BANK FOR CUSTOMERS

Lloyds Banking Group  
Performance Summary

**2014**



Financial performance and strategic progress

I am writing with an overview of our 2014 financial performance, a summary of how the delivery of our 2011 strategy has transformed the business as well as an overview of the next phase of our strategy and an update on our Helping Britain Prosper Plan.

I am pleased with the progress we have made which has enabled us to recommence dividend payments.

**António Horta-Osório**  
Group Chief Executive



UNDERLYING PROFIT

**£7.8bn**  
**+26%**

Underlying profit increased 26 per cent to £7,756 million

DIVIDEND

**0.75p**

Delivery of strategy and increased profitability has enabled resumption of dividend

SIMPLIFY

**51%**

Market leading cost:income ratio

INVEST

Over **£1bn**

Additional strategic investment over the last three years



RESHAPE

**£17bn**

Run-off portfolio reduced by more than £140 billion to £17 billion

STRENGTHEN

**12.8%** CET1 ratio

**4.9%** Leverage ratio

STATUTORY PROFIT

**£1.8bn**

Statutory profit before tax of £1,762 million, despite legacy items including £2,200 million of PPI charges





### RETAIL

#### UNDERLYING PROFIT

**£3,228m**

Our Retail division is a leading provider of current accounts, savings, loans and mortgages to personal and small business customers in the UK.

**1 in 4**

First-time buyers helped by us to buy their first home

**£286bn**

Retail deposit balances



### COMMERCIAL BANKING

#### UNDERLYING PROFIT

**£2,206m**

Our Commercial Banking division has a rich heritage of supporting UK businesses from SMEs to large corporates and financial institutions.

**5%**

Growth in SME lending in 2014

**17%**

Our share of mid-market banking relationships



### CONSUMER FINANCE

#### UNDERLYING PROFIT

**£1,010m**

Our Consumer Finance division provides asset finance solutions and credit cards to consumer and commercial customers.

**17%**

Growth in UK consumer finance lending in 2014

**15%**

Our share of credit card balances



### INSURANCE

#### UNDERLYING PROFIT

**£922m**

Our Insurance division provides customers with long-term savings, investment and protection products and general insurance.

**3.7m**

Home insurance customers

**10%**

Our share of the life and pensions market



**António Horta-Osório**  
Group Chief Executive

### ► Dear shareholder

2014 was a year of continued delivery for Lloyds Banking Group. The achievement of the objectives set out in our 2011 strategic plan has brought about a significant transformation of the business and considerable improvements in financial performance.

We are now a low risk bank with a strong balance sheet and funding position, and industry cost leadership, all of which provides us with competitive differentiation.

### 2014 highlights

- We announced the resumption of dividend payments, with the Board recommending a payment of 0.75 pence per share, a testament to the transformation of the business.
- We delivered a substantial increase in profitability and returns. Underlying profit increased by 26 per cent to £7,756 million, driven by increased income, reduced costs and impairments. Return on risk-weighted assets increased to 3.02 per cent with improvements in all banking divisions. Statutory profit before tax was £1,762 million despite £2,200 million of charges in respect of Payment Protection Insurance (PPI).
- The UK government continued to reduce its shareholding, making further progress in returning the Group to full private ownership.

- We sold a total of 50 per cent of TSB, keeping us on track to meet our European Commission State Aid commitments.

### Helping Britain prosper

As a UK focused retail and commercial bank, our future is inextricably linked to the health of the UK economy and we are committed to helping the households, businesses and communities of Britain. These commitments are outlined in our Helping Britain Prosper Plan, about which you can read more on page 5.

In line with these commitments:

- We provided £11.9 billion of lending to more than 89,000 first-time buyers in 2014 as well as 1 in 5 of all mortgage loans to customers buying their home in the UK, with total gross mortgage lending of £40 billion.
- Our lending to small and medium-sized companies grew by 5 per cent – the fourth consecutive year of growth versus a market that has contracted in each year.
- Our lending to Mid Market corporates also grew, by 2 per cent, in a market that contracted by 3 per cent.
- We committed more than £15.5 billion of eligible lending through the UK government's Funding for Lending scheme and £1 billion to UK manufacturing.

### Delivering for shareholders and customers

We have made significant financial improvements for our shareholders over the past three years while at the same time strengthening the balance sheet and reducing risk.

Underlying performance has improved from a loss of £0.9 billion in 2010 to a profit of £7.8 billion, driven by lower impairment charges and reductions in our cost base of more than £2 billion.

Our statutory result also increased over the period, although it has continued to be impacted by PPI and other regulatory provisions as well as other costs including TSB and our Simplification programme. Although regulatory and conduct risks remain, we expect statutory performance to be less impacted by such issues going forward which will lead to a greater proportion

of underlying performance flowing through to shareholder returns over time.

Other financial progress includes a cost:income ratio of 51 per cent which is now the lowest among our major UK banking peers, and a common equity tier 1 ratio of 12.8 per cent which is one of the strongest capital ratios in the banking sector worldwide, reflecting the strength of our balance sheet and funding position and placing us well in an evolving regulatory environment.

Being the best bank for customers is at the heart of our strategy and in support of this we have continued to invest in our product offerings as well as our branches and digital and telephony channels. Our digital channel is a key area of growth and investment. At the end of 2014 we had an active online user base of more than 10.4 million

customers, of which more than 5 million were active mobile users.

We continue to transform our corporate culture and have overhauled the performance and reward framework for customer-facing colleagues so that they are now predominantly assessed on customer feedback.

Improvements in customer experiences have been reflected in our net promoter scores, which have increased by 50 per cent since 2010 and Group reportable banking complaints (excluding PPI), which have reduced significantly over the same period and are now approximately 50 per cent lower than the average of our major banking peers. Rebuilding customer trust is imperative and while we have made improvements, we recognise there is more to do and that we continue to have legacy issues to work through.

## ► STRATEGY 2011-2014

## ► KEY ACHIEVEMENTS

### RESHAPE

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

- Non-core assets reduced by more than £140 billion to £17 billion
- International presence reduced from more than 30 countries to six
- Asset quality ratio of 24 basis points, significantly ahead of original guidance of 50-60 basis points

### STRENGTHEN

the Group's balance sheet and liquidity position

- Capital position improved with a fully loaded common equity tier 1 ratio of 12.8 per cent
- Reliance on wholesale funding reduced by more than £180 billion
- Loan to deposit ratio improved from 154 per cent to 107 per cent

### SIMPLIFY

the Group to improve agility and efficiency

- Simplification programme delivered £2 billion per annum of cost savings, £300 million ahead of original target
- Cost leadership position created

### INVEST

to be the best bank for customers

- Over £1 billion of strategic investment in the last three years

## Group Chief Executive's letter continued

### ► STRATEGY 2015-2017

#### CREATING THE BEST CUSTOMER EXPERIENCE

- Seamless multi-channel distribution across branch, online, mobile and telephony
- Tailor product propositions to meet customer needs more effectively
- Commitment to conduct and investment in service

#### BECOMING SIMPLER AND MORE EFFICIENT

- Re-engineer and simplify processes to deliver efficiency in a digital world
- Reduce third party spend
- Increase investment in IT efficiency and resilience

#### DELIVERING SUSTAINABLE GROWTH

- Maintain market leading position in key retail business lines
- Leverage Group strengths to capture growth in underrepresented areas

### ► INITIATIVES

### ► EXPECTED OUTCOMES

- Improved customer experience through enhanced digital offering
- Retain convenience and reach of the leading branch network
- Improvement in customer satisfaction and lower complaints

- Increased automation of end-to-end customer journeys
- More efficient change capability
- Resilient systems and processes
- Continuation of Simplification programme
- Maintain cost leadership position

- Growth in line with the market in current accounts and mortgages
- Growth above market in underrepresented areas
- Net lending growth of >£1 billion annually in both SME and Mid Markets
- Consumer Finance to increase UK customer assets by over £6 billion from 2015 to 2017
- Support our customers in retirement planning, increasing customer assets by over £10 billion

### Strategic update

In October we announced the next phase of our strategy and highlighted three priorities to help us deliver value and high quality experiences for customers, alongside strong and sustainable financial performance for our shareholders.

We expect the UK financial services industry to undergo an unprecedented rate of change over this period, driven by technology, changing customer behaviour and increasing regulatory requirements.

The delivery of our strategic priorities over the next three years will ensure we are well placed to anticipate and react to these changes, enabling us to retain our leading position in the UK market while delivering value to our customers and shareholders. Our three strategic priorities, the initiatives we will implement and their expected outcomes are highlighted above.

### Outlook

We are entering the next phase of our strategy from a position of strength. While we recognise we still have a lot to do, these strong foundations give us confidence in our prospects and our ability to achieve our strategic objectives over the next three years, despite uncertainties with regards to the political, regulatory, economic and competitive environment. We are therefore well positioned to continue to progress towards being the best bank for customers while delivering strong and sustainable returns for our shareholders and supporting the UK economic recovery.



**António Horta-Osório**  
Group Chief Executive



People across Britain are facing some big issues. We're using our influence and expertise to help them tackle these issues through our Helping Britain Prosper Plan.

### Our commitments

Playing an active role in helping people address some of the big social and economic issues they face today sows the seeds of a better future for us all. We recognise that when the customers and communities we serve prosper, then we do too.

The Helping Britain Prosper Plan complements our ambition to become the best bank for households, businesses and communities. It is fundamental in rebuilding trust with those we serve and also to make Lloyds Banking Group a business that colleagues are proud to work for.

### 2014 overview

Reviewing the Plan as a whole, it's clear that it has achieved a 'first' for the Group and for the UK banking sector: a framework that we can use to demonstrate to colleagues and external stakeholders the positive impact that our operations have across our seven commitments. We set some challenging targets in the Plan to push ourselves, and we know we need to do more work to meet some commitments in the future. The areas we need to focus on are: supporting colleagues; apprenticeships; and continuing to pay our suppliers on time.

### Looking ahead

We've always intended to develop the Plan in line with the next phase of our Group Strategy, announced in 2014, and any relevant market changes. We have updated the Plan for 2015 to keep it relevant to our business and our stakeholders. It now includes 28 metrics (with updated targets for 2015 and beyond) including new metrics focused on: supporting smaller house builders' projects; digital skills; international trade; and infrastructure and investment.

### HELPING BRITAIN PROSPER PLAN

#### COMMITMENT

- 1 We'll help more customers get on the housing ladder – and more customers climb up it
- 2 We'll help our customers plan and save for later life
- 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
- 4 We'll help UK businesses to start up, scale up, and trade internationally to support the long-term strength of the UK economy
- 5 We'll help businesses and individuals succeed with expert mentoring and training
- 6 We'll be the banking Group that brings communities together to help them thrive
- 7 We'll better represent the diversity of our customer base and our communities at all levels of the Group

You can read more about our 2014 performance and new 2015 metrics in our Helping Britain Prosper Plan Update online.

For more information on how we are helping Britain prosper go to [www.lloydsbankinggroup.com](http://www.lloydsbankinggroup.com)



## Annual General Meeting (AGM) information

**Date:** Thursday 14 May 2015  
**Time:** 11.00 am  
**Venue:** Edinburgh International Conference Centre,  
The Exchange,  
Edinburgh EH3 8EE

The AGM is an opportunity for shareholders to express their views directly with the Board, either by attending the meeting itself or submitting their votes in advance.

### Webcast

The AGM will be broadcast live by webcast on Thursday 14 May 2015 from 11.00 am at  
[www.lloydsbankinggroupagm.com](http://www.lloydsbankinggroupagm.com)

### Online availability

Shareholders can access the biographies of the Directors on our website at  
[www.lloydsbankinggroup.com](http://www.lloydsbankinggroup.com):

– **Notice of AGM**, including details of the resolutions being proposed, the biographies of the Directors and AGM arrangements

– **Annual Report and Accounts** for the year ending 2014

– **Annual Review** for the year ending 2014

### Voting recommendation

The Board considers that all of the resolutions being proposed are in the best interests of Lloyds Banking Group and shareholders as a whole and recommends that you vote in favour of them.

### Submitting your vote

See the reverse of the enclosed Proxy Card/Voting Form for instructions on how to vote.

### Voting at the AGM

The resolutions proposed in the Notice of AGM will be decided on a poll to ensure that all shareholders who are either in attendance, or have submitted their instructions in advance of the AGM, have their votes taken into account according to the number of shares they hold.

### Results

The results of the poll will be announced as soon as possible after the AGM through the London Stock Exchange information service and will appear on our website at  
[www.lloydsbankinggroup.com](http://www.lloydsbankinggroup.com)

### Questions

Those shareholders entitled to attend the AGM will have the opportunity to ask questions relating to the business of the AGM. You may wish to register these in advance by email at  
[agmquestions@lloydsbanking.com](mailto:agmquestions@lloydsbanking.com)

### Dividend Re-investment Plan (DRIP)

The Company will be offering a share alternative to a cash dividend through the re-launch of its DRIP which was suspended in 2014. Shareholders can find further information about choosing how to receive their dividend entitlements, including how to join or cancel their participation in the DRIP, enclosed within the 2015 AGM mailing.

Shareholders receiving communications from the Company via our website, [www.lloydsbankinggroup.com](http://www.lloydsbankinggroup.com), can read the Chairman's letter, the 'Your Dividend – Your Choice' guide and the DRIP terms and conditions online. Each of these documents should be read by shareholders before making any decision regarding the DRIP.

## Shareholder information

### KEY CONTACT INFORMATION

If you are a shareholder or member of the Lloyds Banking Group Shareholder Account and have a query about your shareholding, please contact Equiniti using the details below:



#### Registrar

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



#### Shareholder helpline

0871 384 2990\*  
from within the UK,  
0871 384 2255 Textphone  
+44 121 415 7066  
from outside the UK

\*Lines are open 8.30 am to 5.30 pm, Monday to Friday.  
Calls cost 8p per minute plus network extras.  
Calls to +44 121 415 7066 from outside the UK are charged at applicable international rates.



#### Shareholder information

[www.shareview.co.uk](http://www.shareview.co.uk)  
[help.shareview.co.uk](http://help.shareview.co.uk)

#### Company information

[www.lloydsbankinggroup.com](http://www.lloydsbankinggroup.com)

If you hold shares in the Lloyds Banking Group Share ISA and have a query about your shareholding, please contact:

Halifax Investment Services Limited  
BNY Mellon House, Ingrave Road,  
Brentwood, Essex CM15 8TG

For a large print, audio or Braille version of this document, please contact Equiniti Limited at the above address.

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**Forward looking statements:** This Performance Summary 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 events and depend on 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 this document as a result of a variety of economic, commercial, legal and regulatory risks, uncertainties and other factors, including, without limitation, those set out in the Group's 2014 Annual Report and Accounts. Please also refer to the Group's 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. Except as required by any applicable law or regulation, the forward looking statements contained in this Performance Summary are made as at the date of this Performance Summary and the Group undertakes no obligation to update any of its forward looking statements. This Performance Summary is extracted (without material adjustment) from, and should be read in conjunction with, Lloyds Banking Group's 2014 Annual Report and Accounts. The Performance Summary is provided for information only, and is not intended to be a substitute for reading the Annual Report and Accounts. In particular, the Performance Summary does not constitute Summary Financial Statements and does not contain sufficient information to allow for a full understanding of the results of the Group. Shareholders may view a copy of the Annual Report and Accounts on [www.lloydsbankinggroup.com](http://www.lloydsbankinggroup.com) or obtain a hard copy, free of charge, by contacting our Registrar. If you have sold or transferred all your ordinary shares in Lloyds Banking Group plc, please give this and the accompanying documents to the purchaser or transferee, or to the stockbroker, bank or other agent through whom the sale or transfer was made.