

LLOYDS
BANKING
GROUP



2014 RESULTS

Presentation to Analysts and Investors

27 February 2015



Delivering for our key stakeholders

António Horta-Osório
Group Chief Executive

Financial results

George Culmer
Chief Financial Officer

Achieving sustainable growth

António Horta-Osório
Group Chief Executive

2014 HIGHLIGHTS

Successful delivery of strategy has transformed the business, enabling a substantial increase in profitability and dividend resumption



- **Delivery of 2011 strategic priorities has transformed the business**
 - Lending and deposit growth in key customer segments and relationship brands
 - Group reshaped with run-off assets reduced by £148bn to £17bn and international presence reduced to 6 countries
 - Strong balance sheet attained with key capital ratios amongst the strongest in the banking industry worldwide (pre-dividend; CET1 ratio of 13.0%, total capital ratio of 22.2% and leverage ratio of 5.0%)
 - Wholesale funding reduced by 60%, loan to deposit ratio of 107%, and one of the lowest CDS spreads (45bps)
 - Cost leadership position achieved with cost base of £9.4bn (£9.0bn excluding TSB) and cost:income ratio of 51%
 - Substantial improvement in service quality across all brands
- **Substantial increase in profitability and returns**
 - Underlying profit up 26% to £7.8bn, driven by increased income, reduced costs and lower impairments
 - RoRWA of 3.02% with improvements in all banking divisions
 - Statutory PBT of £1.8bn, up from £0.4bn in 2013, despite legacy items including £2.2bn relating to PPI
- **Dividend of 0.75p per share recommended by the Board, amounting to £535m**

2011 STRATEGIC PLAN DELIVERED

Transforming the business for the benefit of our customers and shareholders



Reshape

- Delivered a low risk bank
- Business now focused on key customer segments in UK market

Strengthen

- Strong capital position
- Improved and stable funding base

Simplify

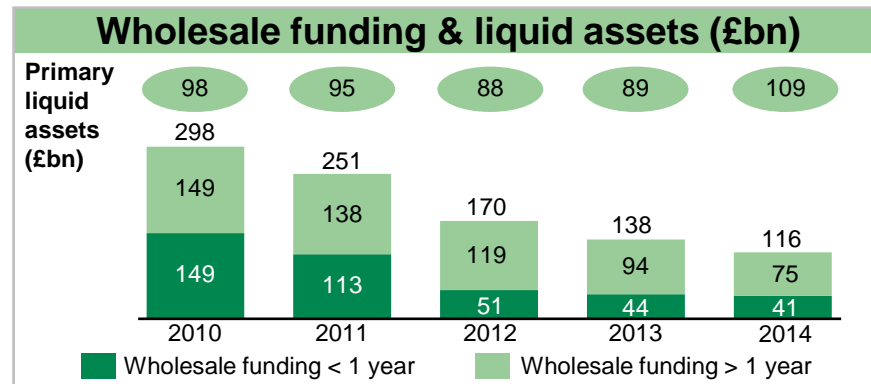
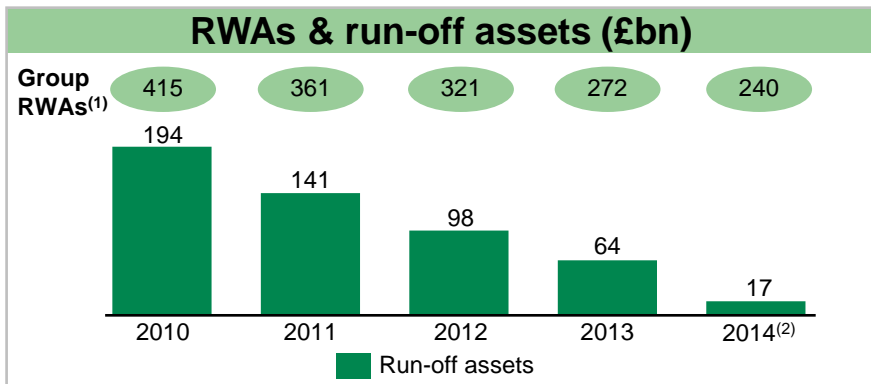
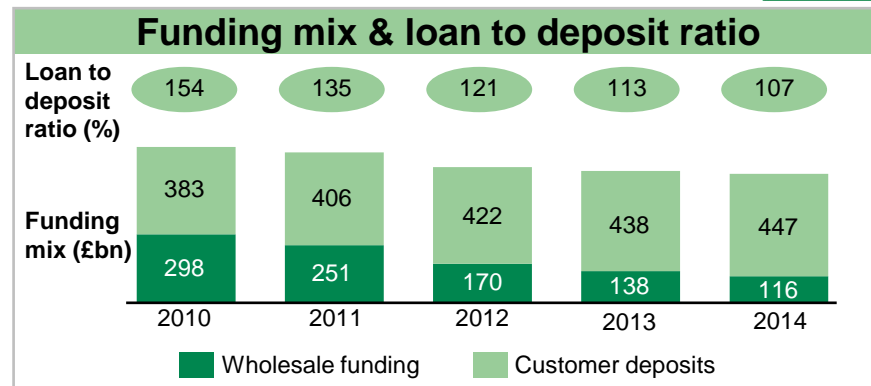
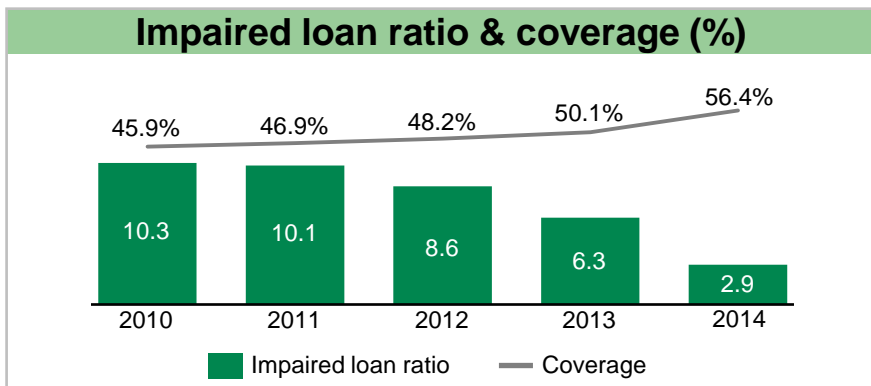
- Leading cost position
- Positive operating jaws

Invest

- Investment in customer focused initiatives
- Supporting the UK economic recovery

DELIVERING FOR OUR SHAREHOLDERS

We have delivered a low risk bank by reshaping and strengthening our balance sheet and funding position



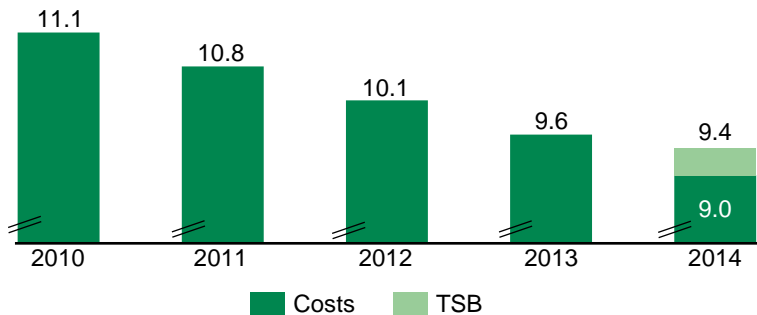
⁽¹⁾ RWAs for 2010 – 2013 reflect CRD IV rules as implemented by the PRA at 1 January 2014, on a fully loaded basis. ⁽²⁾ After re-classification of £28bn into core business.

DELIVERING FOR OUR SHAREHOLDERS

We have significantly improved our financial performance



Cost base (£bn)



- **Cost base reduced to £9.4bn (£9.0bn excluding TSB in line with guidance)**

- Costs reduced by £1.7bn since 2010
- Enhanced Simplification run rate savings target of £2bn delivered
- Market leading cost:income ratio of 51%

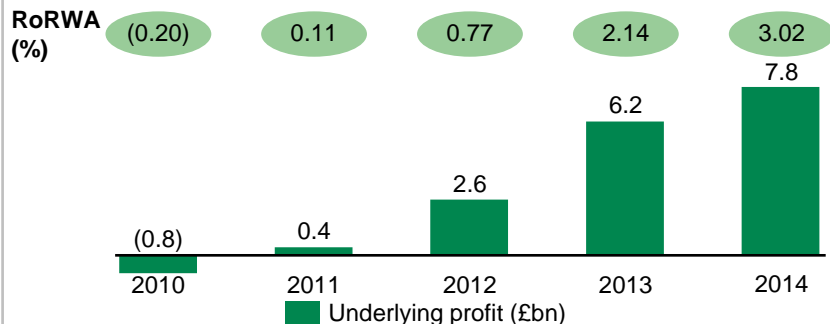
- **Underlying profit improved from a loss of £0.8bn to a profit of £7.8bn**

- Improvement in underlying profit driven by cost reductions and lower impairments
- Statutory PBT increased by £1.5bn since 2010 to £1.8bn, despite legacy items including PPI

- **322bps improvement in RoRWA since 2010 from a negative return of 0.20% to 3.02%**

- Driven by increased underlying profit and lower RWAs

Underlying profit & RoRWA

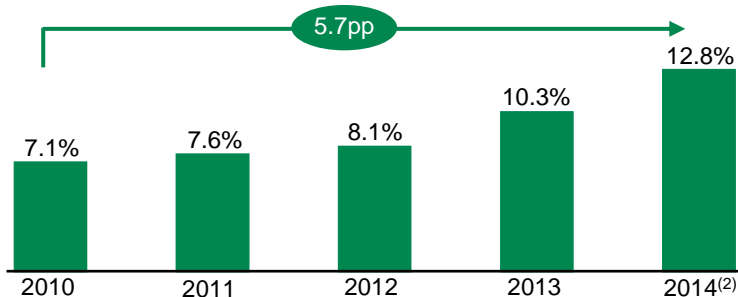


DELIVERING FOR OUR SHAREHOLDERS

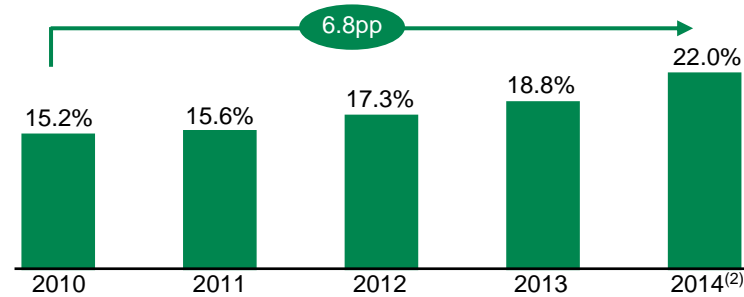
We have significantly strengthened our capital and leverage ratios



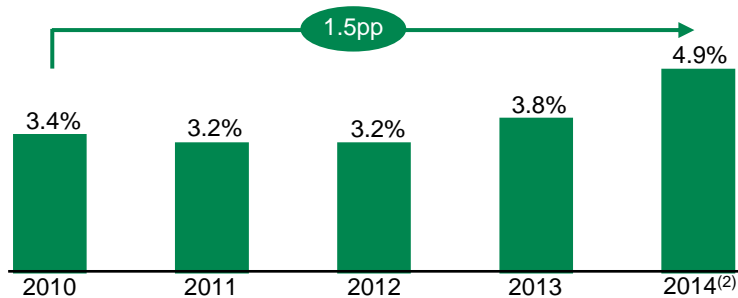
CET 1 ratio⁽¹⁾ (%)



Total capital ratio⁽¹⁾ (%)



Leverage ratio (%)



- **570bps increase in CET1 ratio since 2010, driven by**
 - Strong underlying financial performance
 - RWA reduction as the business has been re-shaped
 - Management actions, particularly non-core reductions and disposals, including SJP and SWIP
 - Partly offset by legacy items
- **Total capital ratio strengthened from 15.2% to 22.0%**
- **Leverage ratio of 4.9%, benefiting from AT1 issuance**

⁽¹⁾ Capital ratios on CRD IV basis, except total capital ratios for 2010 – 2012, which are as reported. ⁽²⁾ Post dividend.

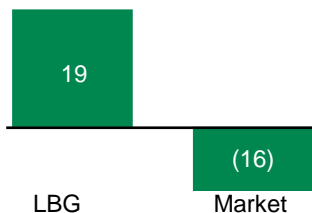
DELIVERING FOR OUR CUSTOMERS

We are helping Britain prosper

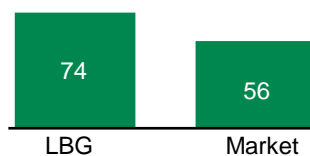


Lending to SMEs & first time buyers (%)

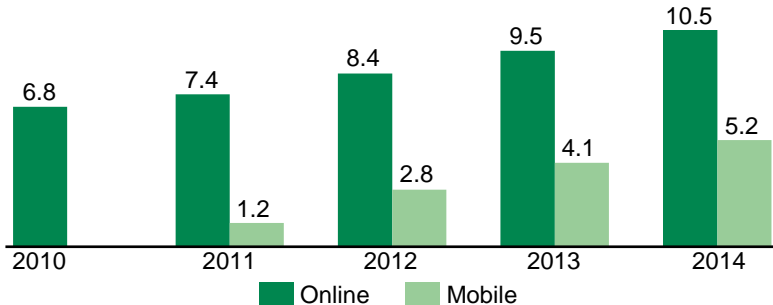
Net lending growth to
SMEs since 2010



FTB customer growth
since 2010



Active digital users⁽¹⁾ (m)



⁽¹⁾ 2013 and 2014 actuals excluding TSB, 2010 – 2012 shown net of estimated TSB component.

- **Supporting households, businesses and communities over the past 4 years in line with our Helping Britain Prosper plan**

- We have helped over 275,000 first time buyers to get onto the housing ladder
- Over 470,000 start-up businesses supported, and £5bn of net lending to SMEs

- **We are investing in our multi-channel customer proposition**

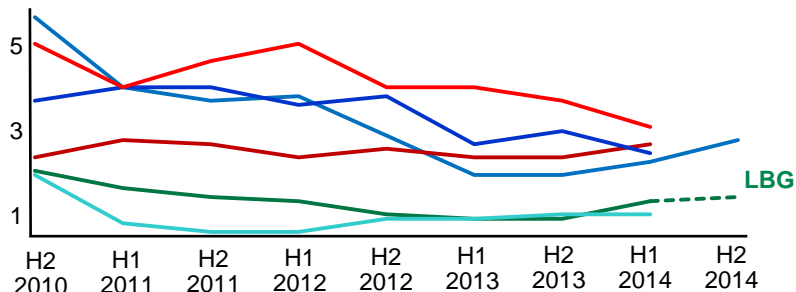
- 1/3 of Simplification savings reinvested into the business
- Customer benefits include convenience, efficiency and reduced processing times
- Digital prioritised to reflect customers' evolving preferences – 10.5m active online users and 5.2m mobile customers

DELIVERING FOR OUR CUSTOMERS

Customer service continues to improve as we transform our culture and control environment



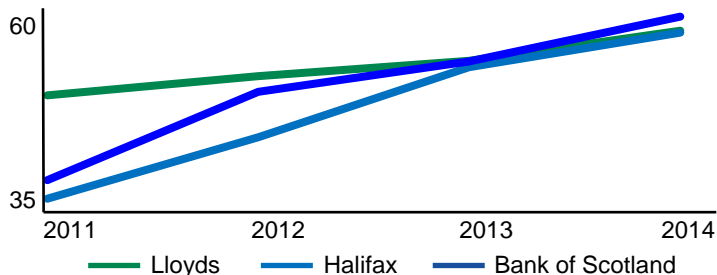
Lower complaints⁽¹⁾



• Customer service measures improved

- Complaints have fallen from 2.4 to 1.5 per 1,000 accounts, and are approximately 50% lower than the major banking peer average⁽²⁾
- FOS overturn levels best in class, falling from c.40% in 2011 to 28%⁽³⁾
- Improved customer satisfaction, with NPS higher across all banking brands

Increasing net promoter score (NPS)



• Transforming culture and strengthening the control environment

- Product governance embedded as a key control to identify and monitor risk
- Branch staff performance and reward schemes redesigned with focus on customer service
- A simpler and more transparent product range

⁽¹⁾ FCA reportable banking complaints per 1,000 accounts (excluding PPI). ⁽²⁾ Comparison at H1 2014. ⁽³⁾ Excluding PPI.



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FINANCIAL PERFORMANCE

Substantial increase in underlying profit



(£m)	2014	2013	Change
Net interest income	11,761	10,884	8%
Other income	6,607	7,259	(9)%
Underlying income	18,368	18,143	1%
SJP	–	662	
Income	18,368	18,805	(2)%
Costs	(9,412)	(9,635)	2%
Impairment	(1,200)	(3,004)	60%
Underlying profit	7,756	6,166	26%
Statutory profit before tax	1,762	415	325%
Statutory profit after tax	1,499	(802)	–

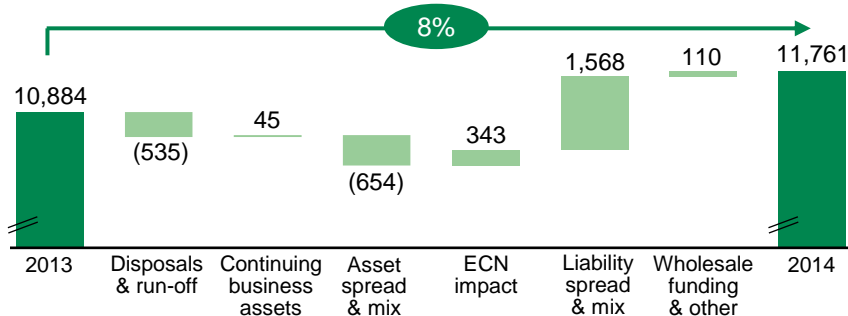
- **Underlying income (excluding SJP) up 1%**
 - Strong NII performance, up 8%, driven by higher margins
 - Reduction in other income reflects challenging environment and disposals
- **Continued progress on costs**
 - 2% reduction with enhanced Simplification target delivered
 - 3% underlying positive jaws, excluding SJP
- **Impairment down 60%, AQR of 24bps**
- **Underlying profit up 26%, and up 40% excluding SJP**
- **Statutory profit includes PPI and other regulatory provisions, ECN exchange and Simplification costs**

NET INTEREST INCOME

Strong net interest income performance driven by margin and loan growth in key segments



Net interest income⁽¹⁾ (£m)

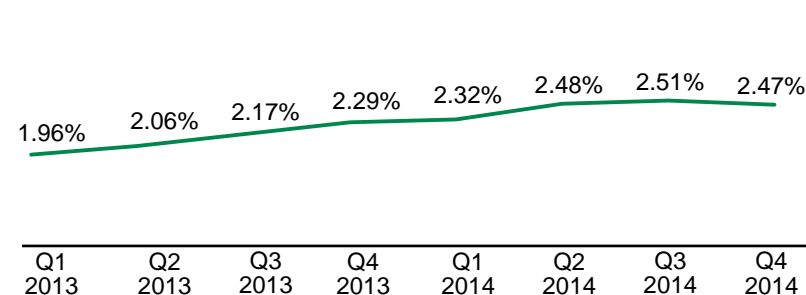


Net interest income⁽¹⁾ (£m)

	2014	2013	Change
Retail	7,079	6,500	9%
Commercial Banking	2,480	2,113	17%
Insurance	(131)	(107)	(22)%
Consumer Finance	1,290	1,333	(3)%
Run-off ⁽¹⁾	(116)	137	–
TSB	786	615	28%
Other	373	293	27%
Group	11,761	10,884	8%

⁽¹⁾ Excludes £1m relating to SJP in 2013.

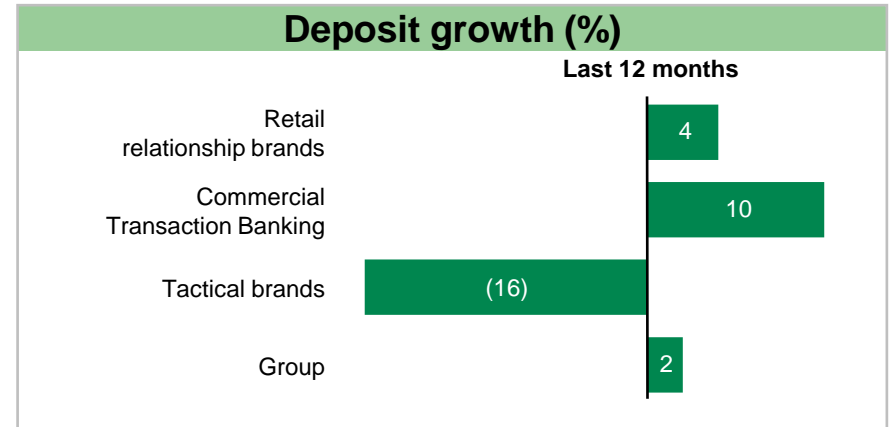
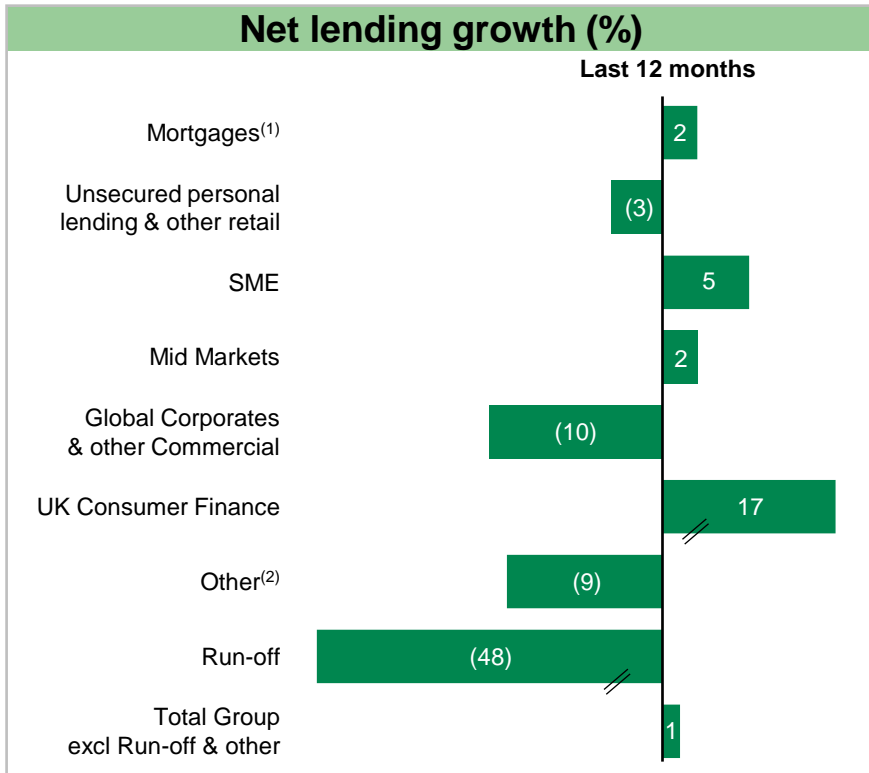
Net interest margin (%)



- 2014 full year NIM increased 33bps to 245bps, driven by improved deposit margin and lower funding costs, partly offset by pressure on asset pricing
- Reduction in Q4 reflects one-off adjustments (5bps) following consolidation of savings product range
- 2015 full year NIM expected to be around 2.55%
- Customer assets down 3%, primarily driven by further run-off reduction. Customer deposits up 2%

SUPPORTING OUR CUSTOMERS AND THE UK ECONOMY

Continued loan growth in key customer segments and deposit growth in relationship brands

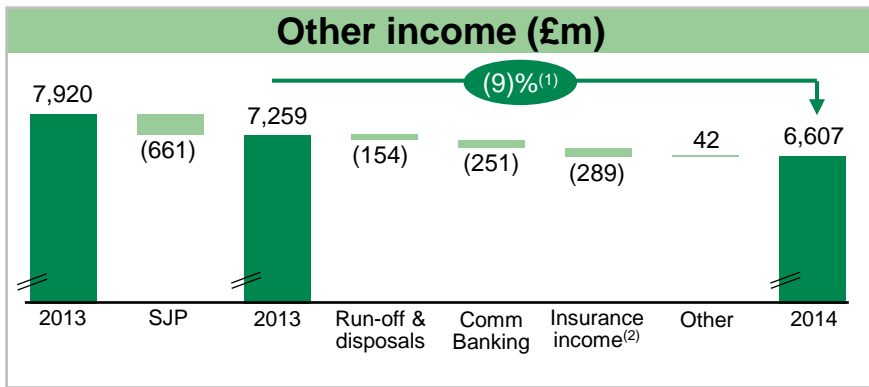


- **2% net mortgage growth in line with the market, with gross lending of £40bn**
- **SME and Mid Markets grew 5% and 2% respectively, with net lending balances up £2bn in total**
- **UK Consumer Finance driven by 43% net growth in Asset Finance and a return to growth in Cards**
- **Deposit mix change benefits NIM**

⁽¹⁾ Excludes TSB, specialist mortgage book, Intelligent Finance and Dutch mortgages. ⁽²⁾ Other includes TSB, specialist mortgage book, Intelligent Finance and Dutch mortgages.

OTHER INCOME

Performance reflects the ongoing challenging market environment



Divisional other income (£m)

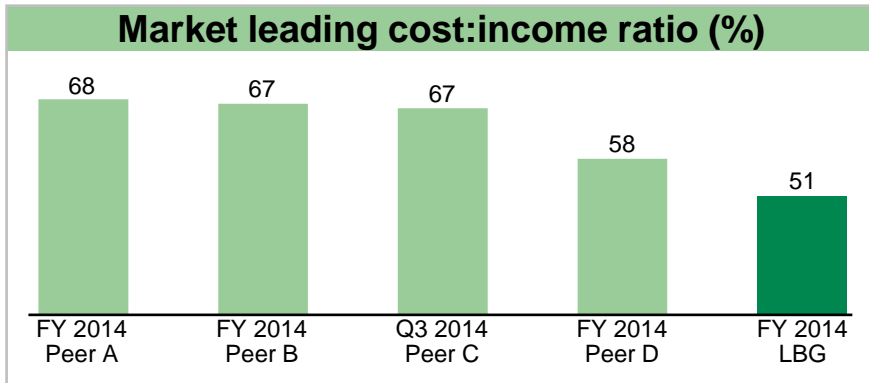
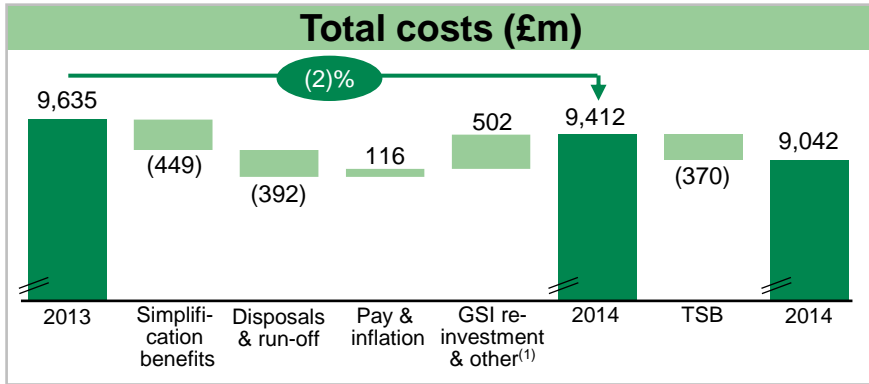
	2014	2013	Change
Retail	1,212	1,435	(16)%
Commercial Banking	1,956	2,259	(13)%
Insurance	1,725	1,864	(7)%
Consumer Finance	1,364	1,359	-
Run-off	451	605	(25)%
TSB	140	163	(14)%
Other	(241)	(426)	43%
	6,607	7,259	(9)%
SJP	-	661	
Other Income	6,607	7,920	(17)%

- **Other income down 9% (excluding SJP) in 2014 reflecting disposals and market environment**
 - Commercial Banking: challenging market conditions, particularly in Debt Capital Markets and Financial Markets and lower valuations in our private equity business
 - Insurance and Retail: market and regulatory changes impacting insurance related income; also lower fee income in Retail
 - Run-off: impact of business disposals and a smaller portfolio
- **Other income expected to be broadly stable in 2015**

⁽¹⁾ Excluding SJP. ⁽²⁾ Includes insurance related income reported by the Retail and Consumer Finance divisions.

COSTS

Market leading cost position with improvements in 2014 from Simplification, disposals and run-off reductions



- 2% reduction in cost base to £9.4bn, with guidance of £9.0bn excluding TSB achieved
- Enhanced Simplification cost reduction target achieved: £2bn of annual run rate savings, against original target of £1.7bn
- Market leading cost:income ratio of 51.2%
- 49.8% cost:income ratio excluding TSB and adjusted for operating lease depreciation (OLD)
- Targeting £1bn of additional run rate savings and cost:income ratio of around 45% exiting 2017 (excluding TSB and adjusted for OLD), with reductions every year

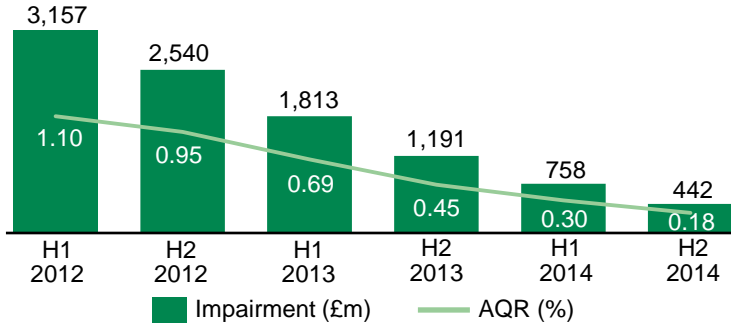
⁽¹⁾ GSI – Group Strategic Initiatives.

ASSET QUALITY

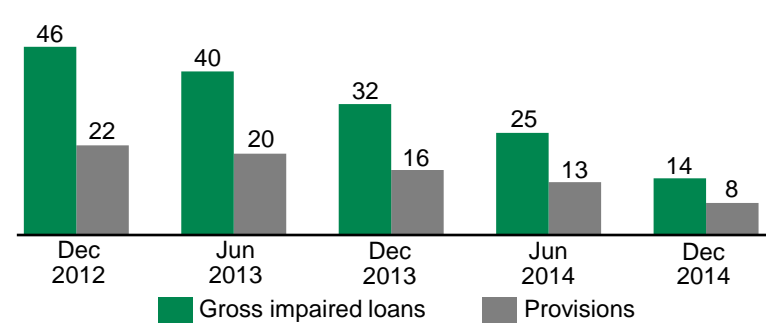
Further improvement reflecting a low risk business; AQR reduced to 24bps



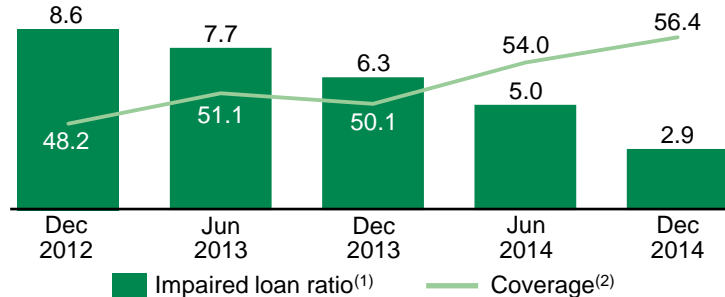
Impairment (£m) & AQR (%)



Gross impaired loans (£bn)



Impaired loan ratio & coverage (%)



- Impairment down 60% in 2014, with reductions in all divisions
- Full year AQR reduced by 33bps to 24bps, reflecting improved risk management and economic environment
- Significant reduction in impaired loan ratio from 6.3% to 2.9% – coverage strengthened from 50% to 56%
- 2015 full year AQR expected to be around 30bps

⁽¹⁾ Impaired loans as a percentage of closing advances. ⁽²⁾ Provisions as a percentage of impaired loans.

DIVISIONAL FINANCIAL PERFORMANCE

Significant improvement in profitability with increases in all banking divisions



(£m)	Underlying profit		
	2014	2013	Change
Retail	3,228	3,015	7%
Commercial Banking	2,206	1,890	17%
Insurance	922	1,088	(15)%
Consumer Finance	1,010	965	5%
Run-off	(176)	(1,329)	–
TSB	458	106	332%
Other	108	(187)	–
Group excl SJP	7,756	5,548	40%
SJP	–	618	–
Group	7,756	6,166	26%

- **Strong underlying profit growth in Retail and Commercial Banking, driven by income growth and reduced impairments**
- **Commercial Banking RoRWA continues to improve at 1.92%, against target of 2.00% by end 2015**
- **Insurance underlying profit impacted by market and regulatory changes**
- **Underlying profit growth in Consumer Finance after increased investment in growth**
- **Improved Run-off result reflects lower impairments**
- **TSB primarily driven by increased NII and reallocation of Group costs following creation of standalone business**
- **Increase in Other reflects reduced interest payable resulting from ECN exchange**

FINANCIAL PERFORMANCE

Statutory profit of £1.8bn after Simplification and legacy charges, significantly up on 2013



(£m)	2014	2013
Underlying profit	7,756	6,166
Asset sales & volatile items	(1,719)	(280)
Simplification costs	(966)	(830)
TSB costs	(558)	(687)
PPI	(2,200)	(3,050)
Other Legacy	(925)	(405)
Other statutory items	374	(499)
Statutory profit before tax	1,762	415
Tax	(263)	(1,217)
Statutory profit after tax	1,499	(802)

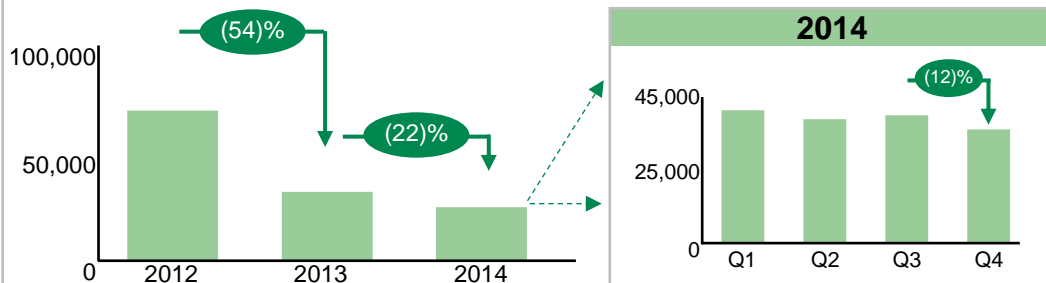
- **Asset sales and volatile items includes loss on ECN exchange; 2013 includes gain on sale of government bonds**
- **Simplification programme delivered, at a total cost of £2.4bn; with a further £0.2bn of redundancy costs in 2014 relating to next phase of Simplification**
- **Additional £0.7bn of PPI charges in Q4**
- **Other legacy includes LIBOR / repo settlement and other regulatory provisions**
- **Other statutory items include £710m net benefit from changes to pension arrangements and other actions**
- **Effective tax rate of 15% reflects tax-exempt gains on disposals in first quarter**

LEGACY ISSUES – PPI

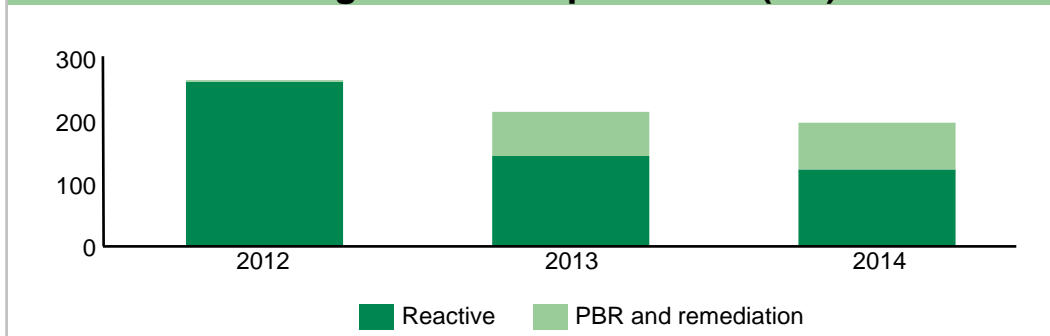
PPI provision of £2.2bn for 2014 compared with £3.1bn in 2013



Average complaint volumes per month⁽¹⁾



Average PPI costs per month (£m)



- **Additional charge of £0.7bn taken in Q4 driven by**
 - Higher than expected reactive complaints
 - Additional costs relating to remediation, increased uphold rates and higher average redress
- **Reactive complaints 22% lower in 2014, with Q4 12% lower than Q3**
- **Proactive past business review (PBR) mailings largely complete**
- **Cash spend of around £0.2bn per month expected to fall in H2 2015, as PBR and remediation activities complete**
- **£2.5bn of provision unutilised**
- **Risks and uncertainties remain**

⁽¹⁾ Excludes complaints where no PPI policy is held.

FURTHER STRENGTHENING THE BALANCE SHEET

Strong balance sheet. Run-off reduction ahead of expectations



(£bn)	Dec 2014	Dec 2013	Change	2014 Movements			
				(£bn)	H1	H2	Total
ASSETS				SOURCE OF FUNDS			
Loans and advances ⁽¹⁾	463	465	–	Deposit growth ⁽¹⁾	6	4	10
<i>Global Corporates</i>	30	38	(21)%	Global Corporates loans and advances	5	3	8
<i>TSB</i>	22	24	(8)%	Run-off asset reduction	8	8	16
<i>Other loans and advances</i>	411	403	2%				
Run-off assets	17	33	(49)%				
On BS primary liquid assets	96	88	9%		19	15	34
LIABILITIES				USE OF FUNDS			
Customer deposits ⁽¹⁾	447	437	2%	Other loans and advances	3	3	6
<i>TSB</i>	25	23	9%	On BS primary liquid assets	1	7	8
<i>Other</i>	422	414	2%	Reduced wholesale funding ⁽³⁾	13	4	17
Wholesale funding	116	138	(16)%	Other movement	2	1	3
Equity ⁽²⁾	50	39	28%		19	15	34

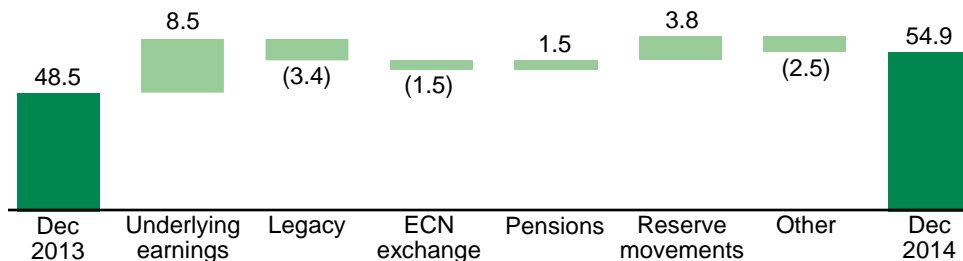
⁽¹⁾ Excludes run-off, reverse repos and repos. ⁽²⁾ Includes AT1 of £5.3bn at December 2014. ⁽³⁾ Excludes impact of ECN exchange.

TANGIBLE NET ASSETS

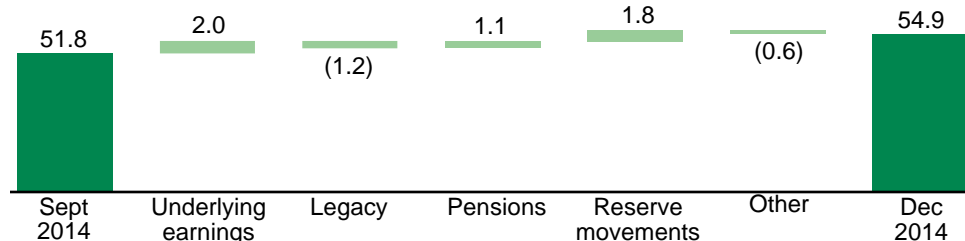
Further progression in TNAV to 54.9p



Tangible net assets per share (p) – Dec to Dec



Tangible net assets per share (p) – Sep to Dec



- **Increase in TNAV per share to 54.9p reflects**

- Strong underlying earnings
- Positive reserve movements
- Partly offset by legacy and ECN exchange

- **Pensions benefited from de-risking, including changes in asset mix and hedging of interest and inflation rates**

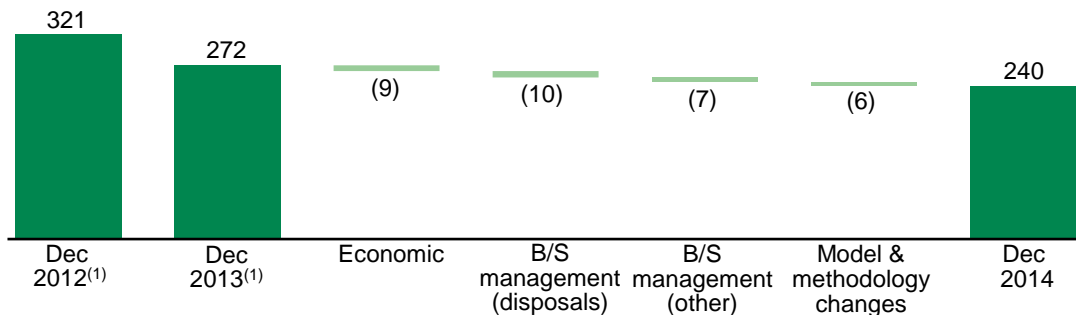
- **Reserve movements include impact of increase in cash flow hedge reserve and AFS reserve**

FURTHER STRENGTHENING THE BALANCE SHEET

Balance sheet substantially de-risked with significant reduction in risk weighted assets

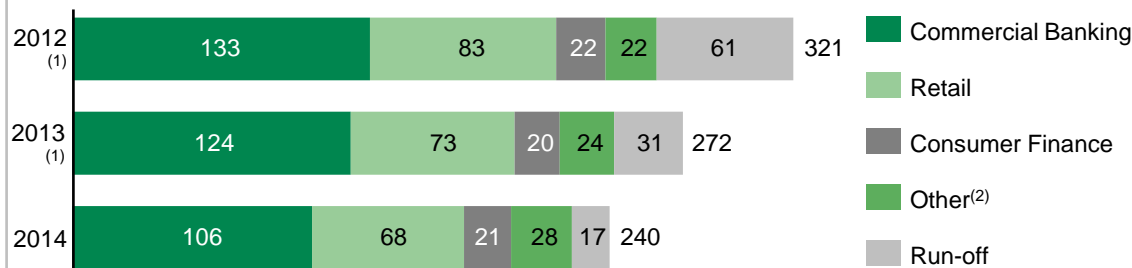


RWA reduction drivers (£bn)



- **RWAs reduced by £32bn to £240bn, primarily driven by**
 - Successful management of run-off
 - Improved economic conditions
 - Reductions in Commercial Banking

Divisional RWA reductions (£bn)



- **Commercial Banking reduction of £18bn reflects active portfolio management and market risk changes**
- **Retail reduction of £5bn reflects improved risk profile of mortgage portfolio**
- **Consumer Finance increase of £1bn driven by growth in Asset Finance and credit card balances**

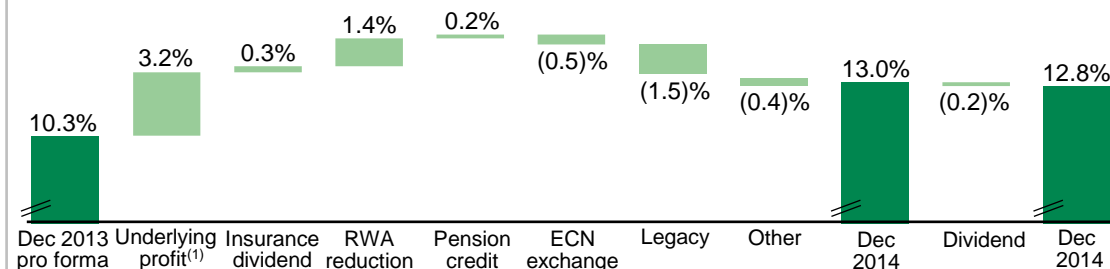
⁽¹⁾ RWAs reflect CRD IV rules as implemented by the PRA at 1 January 2014, on a fully loaded basis. ⁽²⁾ Other includes central items, TSB, threshold RWA movements and pro forma adjustments.

FURTHER STRENGTHENING THE BALANCE SHEET

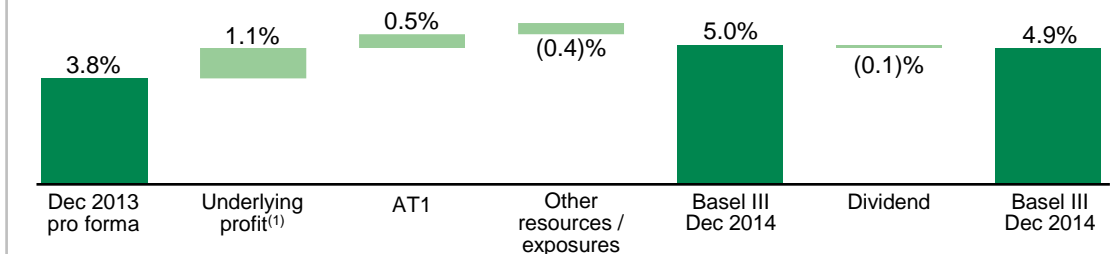
A strongly capital generative business



Common equity tier 1 ratio (%)



Leverage ratio⁽²⁾ (%)



- CET1 ratio strengthened to 12.8%
- Our Pillar 2A requirement equates to 3.8% of RWAs, of which 2.1% must be covered by CET1
- Steady state CET1 ratio requirement assumed to be around 12%, with RoRE target unchanged at 13.5 – 15.0%
- Expect to generate between 1.5-2.0% CET1 per annum (pre-dividend)
- Total capital ratio improved from 18.8% to 22.0%
 - Well positioned for regulatory requirements for loss absorbing capacity (TLAC/MREL)
- Leverage ratio improved to 4.9% through profitability and AT1 issuance

⁽¹⁾ Excluding profit in Insurance business. ⁽²⁾ As per January 2014 revised Basel III leverage ratio framework.

SUMMARY

Transformation of business through delivery of strategy underpins progressive dividend policy



- **Substantial increase in profitability and returns**
- **Strongly capital generative business**
- **Business substantially de-risked**
- **Strong balance sheet position**
- **Confidence in future prospects**



- **Dividend of 0.75p per share recommended by the Board in respect of 2014**
- **Progressive dividend policy with payout ratio to move to at least 50% of sustainable earnings over the medium term**
- **Intention to pay an interim and final dividend for 2015, subject to performance**



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STRATEGIC FOCUS

Strengthening our unique capabilities to respond to the changing external environment



OUR BUSINESS MODEL

Low cost, low risk, customer focused, UK retail and commercial bank

OUR STRATEGIC PRIORITIES

**Creating the
best customer
experience**

**Becoming
simpler and
more efficient**

**Delivering
sustainable
growth**

OUR AIM

Best bank for customers

Strong and sustainable shareholder returns

OUR COLLEAGUES

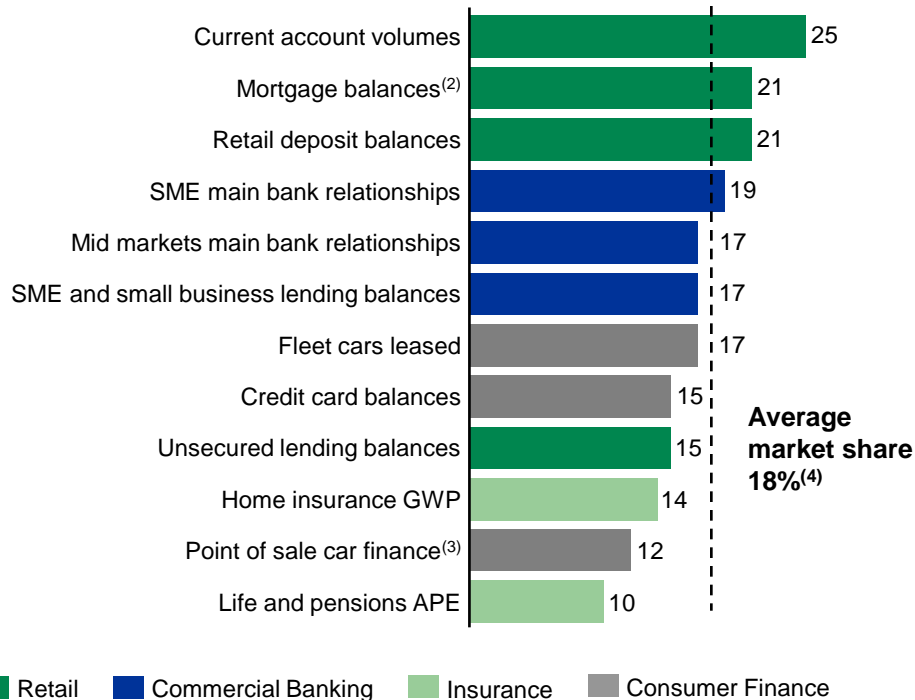
Engaged and customer focused colleagues

DELIVERING SUSTAINABLE GROWTH

Supporting UK economic growth – significant opportunities within our prudent risk appetite



LBG market share⁽¹⁾ (%)



- Targeting total growth of £30bn in net lending over the next 3 years
- We target to maintain market leadership in key retail business lines
 - Growing in line with the market in current accounts and mortgages
- We intend to grow above the market in areas where we are under represented
 - Increasing net lending by over £3bn in both SME and Mid Markets by 2017
 - Increasing UK customer assets in Consumer Finance by over £6bn by 2017
 - Supporting our customers in retirement planning, increasing customer assets by over £10bn

SUMMARY

Becoming the best bank for our customers and shareholders while supporting the UK economic recovery



- **Successful delivery of strategy has transformed the business, enabling dividend resumption**
- **The Group has a clear strategic focus and a differentiated business model**
- **Our strategic plan is expected to deliver sustainable growth and improved returns**
- **Well positioned for further progress in 2015**

Best bank for customers

- **Delivering the best customer experience**

Best bank for shareholders

- **Delivering strong and sustainable returns**

Helping Britain Prosper

- **Supporting and benefiting from UK economic recovery**

LLOYDS
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GROUP



APPENDIX

2014 FINANCIAL PERFORMANCE

Profit and returns substantially improved and balance sheet further strengthened



Income (excl SJP)	£18.4bn +1% ↑
Underlying profit	£7.8bn +26% ↑
Statutory profit before tax	£1.8bn +325% ↑
Return on RWAs	3.02% +88bps ↑
FL CET1 ratio⁽¹⁾	12.8% +2.5pp ↑
Leverage ratio⁽¹⁾	4.9% +1.1pp ↑

- **Income growth driven by 8% increase in net interest income**
 - Net interest margin of 2.45%, up 33bps
 - Loan growth in key customer segments
- **Underlying profit increased to £7.8bn**
 - Costs reduced by 2% with enhanced Simplification target delivered
 - 60% reduction in impairment; AQR of 24bps
- **Statutory profit before tax of £1.8bn, increased from £0.4bn in 2013**
- **RoRWA improvement driven by underlying profit and £32bn reduction in RWAs**
- **Fully loaded CET1 ratio improvement driven by underlying profit and lower RWAs**
- **Fully loaded leverage ratio increased to 4.9% from 3.8%, including successful AT1 issuance**

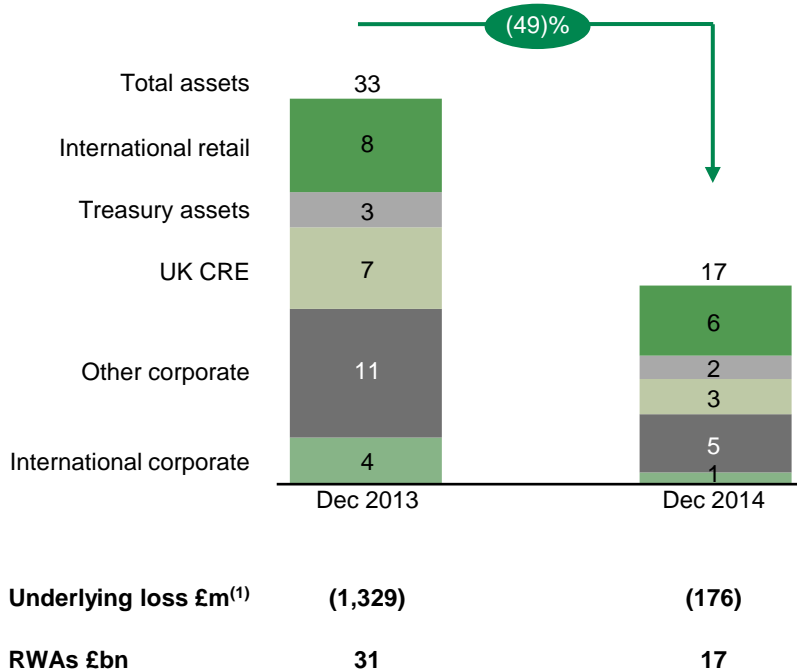
⁽¹⁾ Post dividend.

RUN-OFF PORTFOLIO

Assets reduced by £16bn in 2014



Run-off portfolio (£bn)

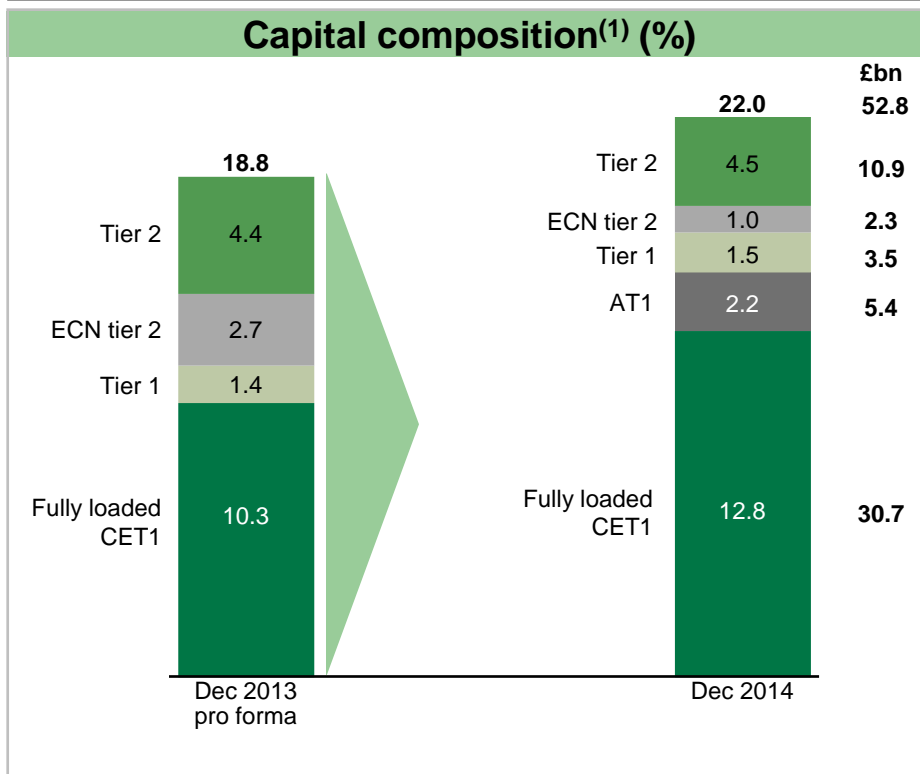


- Run-off assets almost halved to £17bn, with reductions across all asset segments
- Key reductions in the year include
 - £3.8bn of UK CRE
 - Over £3bn of Ireland retail and corporate
 - Disposal of over £2bn of shipping loans
- Underlying loss decreased to £176m
- Risk-weighted assets now £17bn

⁽¹⁾ Excludes SJP.

FURTHER STRENGTHENING THE BALANCE SHEET

Strong capital position with medium term AT1 requirements met through ECN exchange in H1

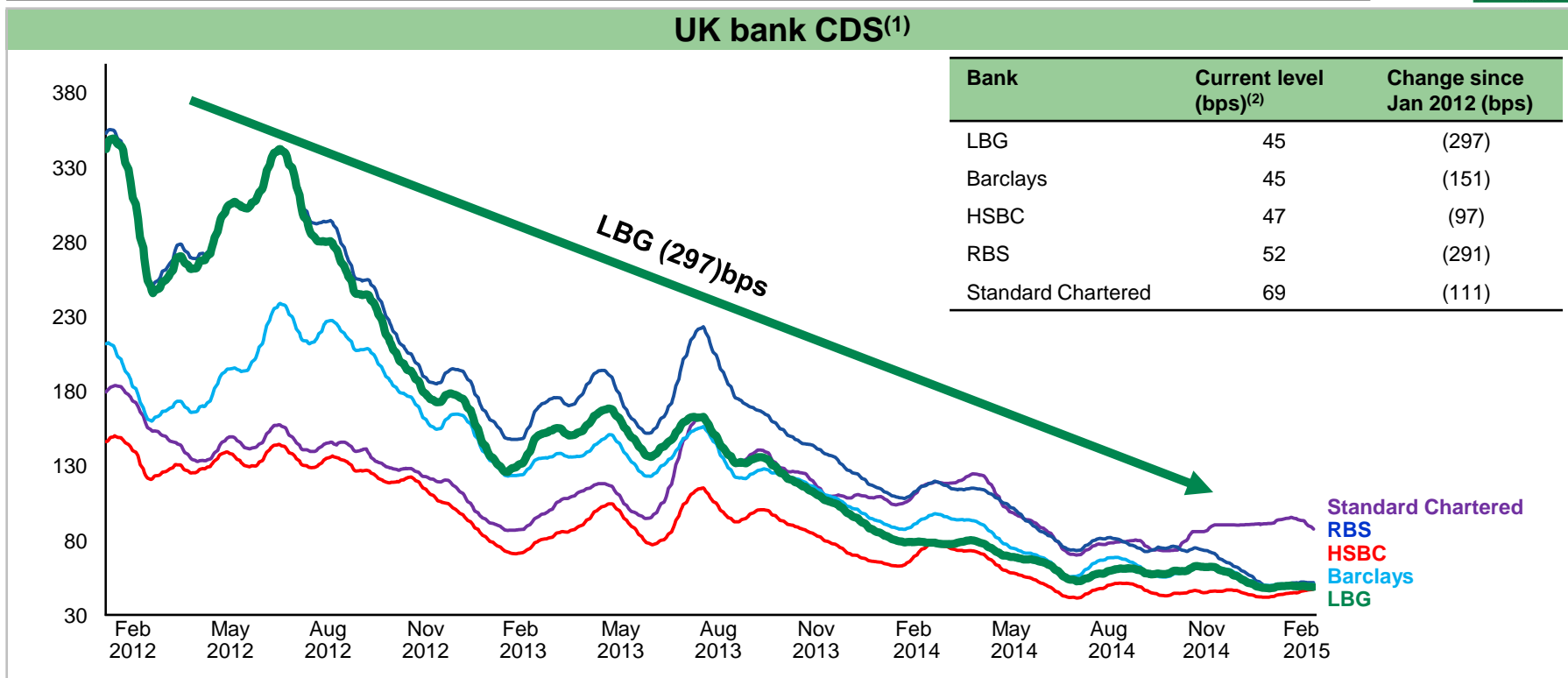


- **Strong total capital ratio of 22.0%**
- **Substantially improved quality of capital with c.£5.3bn of new AT1 (2.2% of RWAs)**
- **Improved leverage and rating agency capital measures**
- **Continue to review capital base in light of regulatory requirements and to optimise costs**
- **Well positioned for regulatory requirements for loss absorbing capacity (TLAC/MREL)**

⁽¹⁾ As a percentage of risk-weighted assets; includes grandfathered capital securities.

LOW RISK BUSINESS MODEL

Significant progress in strengthening and de-risking the balance sheet resulting in one of the lowest CDS spreads in the banking industry



⁽¹⁾ Source: Bloomberg 5-year senior mid (4 week rolling average). ⁽²⁾ As at 25 February 2015.

MORTGAGE PORTFOLIO LTVS

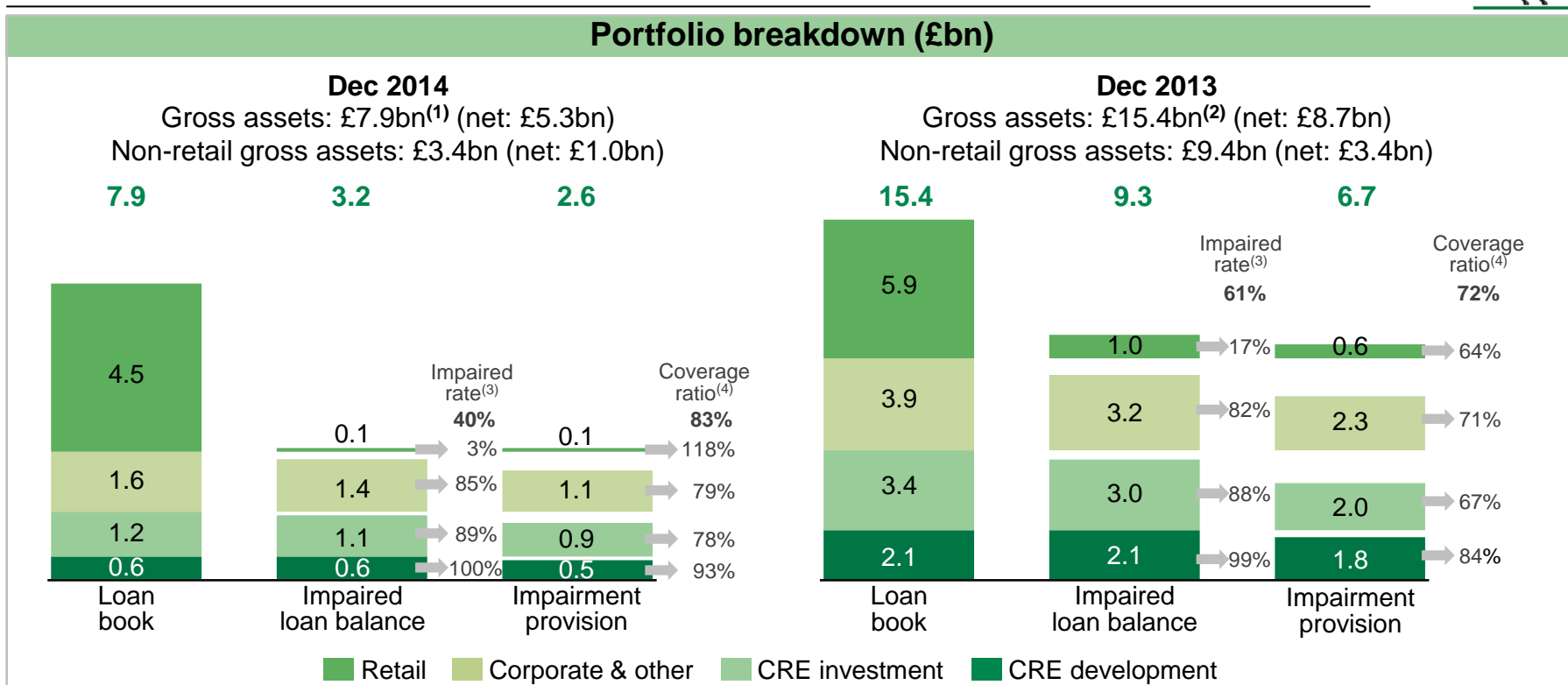
Further improvement with average LTV now below 50% and only 2% of the portfolio with an LTV greater than 100%



	Dec 2014				Dec 2013	Dec 2012
	Mainstream	Buy to let	Specialist	Total	Total	Total ⁽¹⁾
Average LTVs	46.3%	61.3%	59.2%	49.2%	53.3%	56.4%
New business LTVs	65.3%	62.7%	n/a	64.8%	64.0%	62.6%
≤80% LTV	83.0%	81.5%	70.7%	81.9%	70.4%	59.6%
>80–90% LTV	10.6%	9.4%	14.9%	10.7%	15.6%	16.8%
>90–100% LTV	4.5%	6.8%	8.7%	5.2%	8.6%	11.9%
>100% LTV	1.9%	2.3%	5.7%	2.2%	5.4%	11.7%
Value >100% LTV	£4.3bn	£1.2bn	£1.2bn	£6.7bn	£16.2bn	£37.8bn

IRISH PORTFOLIO

Significant reduction in last 12 months in a capital accretive manner



⁽¹⁾ €10.1bn in local currency. ⁽²⁾ €18.5bn in local currency. ⁽³⁾ Impaired loan balance / gross drawn assets. ⁽⁴⁾ Impairment provision / impaired loan balance. May not sum due to rounding.

GROUP DEFINED BENEFIT (DB) PENSION SCHEMES

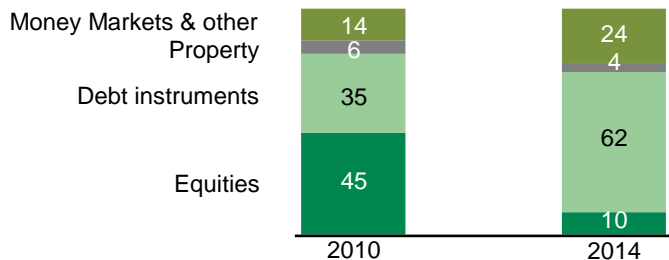
Significant de-risking of DB pension schemes



DB pension schemes balance sheet (£bn)

	2014	2013	Change
Aggregate balance sheet			
Assets	38.1	32.6	5.5
Liabilities	(37.4)	(33.6)	(3.8)
Net asset / (liability)	0.7	(1.0)	1.7

Mix of DB scheme assets (%)



- **Net balance sheet position improvement of £1.7bn to a surplus of £0.7bn in 2014 driven by**
 - Strong investment performance supported by large gains in H2 on interest rate hedges
 - Pensionable pay cap reduction announced in Q1
- **Significant de-risking of the DB pension schemes through asset mix and hedging. Material additional interest rate hedge executed in H1 2014**
 - Interest rate volatility 92% hedged (54% in 2013)
 - Inflation rate volatility 100% hedged (71% in 2013)
 - Change to asset mix: 8% moved from equities to debt instruments in 2014
- **Residual balance sheet sensitivity⁽¹⁾ at December 2014 to a 1bp reduction in rates**
 - Interest rates, £(7.3)m reduction in scheme net assets
 - Inflation, £2.3m increase in scheme net assets

⁽¹⁾ Sensitivity reflects impact on net assets of defined benefit pension schemes, inclusive of hedge.



FORWARD LOOKING STATEMENTS

This document contains certain forward looking statements with respect to the business, strategy and plans of 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 Lloyds Banking Group's or its directors' and/or management's beliefs and expectations, are forward looking statements. By their nature, forward looking statements involve risk and uncertainty because they relate to events and depend upon circumstances that will or may occur in the future. Factors that could cause actual business, strategy, plans and/or results to differ materially from the plans, objectives, expectations, estimates and intentions expressed in such forward looking statements made by the Group or on its behalf include, but are not limited to: general economic and business conditions in the UK and internationally; market related trends and developments, fluctuations in exchange rates, stock markets and currencies; the ability to access sufficient sources of capital, liquidity and funding when required; changes to the Group's credit ratings; the ability to derive cost savings; changing customer behaviour including consumer spending, saving and borrowing habits; changes to 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; technological changes and risks to cyber security; pandemic, natural and other disasters, adverse weather and similar contingencies outside the Group's control; inadequate or failed internal or external processes or systems; acts of war, other acts of hostility, terrorist acts and responses to those acts, geopolitical, pandemic or other such events; changes in laws, regulations, accounting standards or taxation, including as a result of further Scottish devolution; changes to regulatory capital or liquidity requirements and similar contingencies outside the Group's control; the policies, decisions and actions of governmental or regulatory authorities in the UK, the European Union (EU), the US or elsewhere including the implementation of key legislation and regulation; 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; actions or omissions by the Group's directors, management or employees including industrial action; changes to the Group's post-retirement defined benefit scheme obligations; the ability to complete satisfactorily the disposal of certain assets as part of the Group's EU State Aid obligations; the provision of banking operations services to TSB Banking Group plc; the extent of any future impairment charges or write-downs caused by, but not limited to, depressed asset valuations, market disruptions and illiquid markets; the value and effectiveness of any credit protection purchased by the Group; the inability to hedge certain risks economically; the adequacy of loss reserves; the actions of competitors, including non-bank financial services and lending companies; and exposure to regulatory or competition scrutiny, legal proceedings, regulatory or competition investigations or complaints. 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. Except as required by any applicable law or regulation, the forward looking statements contained in this document are made as of today's date, and Lloyds Banking Group expressly disclaims any obligation or undertaking to release publicly any updates or revisions to any forward looking statements.

BASIS OF PRESENTATION

The results of the Group and its business are presented in this presentation on a underlying basis. The principles adopted in the preparation of the underlying basis of reporting are set out on the inside front cover of the 2014 Full Year Results News Release.