

Lloyds Banking Group plc
Form 20-F
March 16, 2012

As filed with the Securities and Exchange Commission on 16 March 2012

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 20-F**

REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR 12(g) OF THE SECURITIES
EXCHANGE ACT OF 1934

OR

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF
1934

For the fiscal year ended 31 December 2011

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE
ACT OF 1934

OR

SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934

Commission file number 001-15246

LLOYDS BANKING GROUP plc

(previously Lloyds TSB Group plc)
(Exact name of Registrant as Specified in Its Charter)

Scotland

(Jurisdiction of Incorporation or Organization)

**25 Gresham Street
London EC2V 7HN
United Kingdom**

(Address of Principal Executive Offices)

**Harry Baines, Group Secretary
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(Name, telephone, e-mail and/or facsimile number and address of Company contact person)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

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Title of each class	Name of each exchange on which registered
Ordinary shares of nominal value 10 pence each, represented by American Depositary Shares	The New York Stock Exchange
7.75% Public Income Notes due 2050	The New York Stock Exchange
4.875% Senior Notes due 2016	The New York Stock Exchange
6.375% Senior Notes due 2021	The New York Stock Exchange
Floating Rate Notes due 2014	The New York Stock Exchange

Securities registered or to be registered pursuant to Section 12(g) of the Act:

None

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:

None

The number of outstanding shares of each of Lloyds Banking Group plc's classes of capital or common stock as of 31 December 2011 was:

Ordinary shares, nominal value 10 pence each	68,726,627,112
Limited voting shares, nominal value 10 pence each	80,921,051
Preference shares, nominal value 25 pence each	412,215,065
Preference shares, nominal value 25 cents each	1,917,280
Preference shares, nominal value 25 euro cents each	173,350

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Yes No

Note Checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 from their obligations under those Sections.

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-Accelerated filer

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements including in this filing:

U.S. GAAP International Financial Reporting Standards as issued by the International Accounting Standards Board Other

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If Other has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow:

Item 17 Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

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PRESENTATION OF INFORMATION

In this annual report, references to the Company are to Lloyds Banking Group plc; references to Lloyds Banking Group, Lloyds or the Group are to Lloyds Banking Group plc and its subsidiary and associated undertakings; references to Lloyds TSB Bank are to Lloyds TSB Bank plc; and references to the consolidated financial statements or financial statements are to Lloyds Banking Group's consolidated financial statements included in this annual report. References to the Financial Services Authority or FSA are to the United Kingdom (the UK) Financial Services Authority.

On 16 January 2009 the Company acquired 100 per cent of the ordinary share capital of HBOS plc and changed the Company's name to Lloyds Banking Group plc. Accordingly, where this annual report provides information for dates prior to 16 January 2009, unless otherwise indicated, such information relates to the Lloyds Banking Group prior to the acquisition of HBOS plc. References to HBOS or the HBOS Group are to HBOS plc and its subsidiary and associated undertakings.

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

In this annual report, amounts described as statutory refer to amounts included within the Group's consolidated financial statements.

Lloyds Banking Group publishes its consolidated financial statements expressed in British pounds (pounds sterling , sterling or £), the lawful currency of the UK. In this annual report, references to pence and p are to one-hundredth of one pound sterling; references to US dollars , US\$ or \$ are to the lawful currency of the United States (the US); references to cent or c are to one-hundredth of one US dollar; references to euro or e are to the lawful currency of the member states of the European Union that have adopted a single currency in accordance with the Treaty establishing the European Communities, as amended by the Treaty of European Union; references to euro cent are to one-hundredth of one euro; and references to Japanese yen , Japanese ¥ or ¥ are to the lawful currency of Japan. Solely for the convenience of the reader, this annual report contains translations of certain pounds sterling amounts into US dollars at specified rates. These translations should not be construed as representations by Lloyds Banking Group that the pounds sterling amounts actually represent such US dollar amounts or could be converted into US dollars at the rate indicated or at any other rate. Unless otherwise stated, the translations of pounds sterling into US dollars have been made at the noon buying rate in New York City for cable transfers in pounds sterling as certified for customs purposes by the Federal Reserve Bank of New York (the Noon Buying Rate) in effect on 31 December 2011, which was \$1.5537 = £1.00. The Noon

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Buying Rate on 31 December 2011 differs from certain of the actual rates used in the preparation of the consolidated financial statements, which are expressed in pounds sterling, and therefore US dollar amounts appearing in this annual report may differ significantly from actual US dollar amounts which were translated into pounds sterling in the preparation of the consolidated financial statements in accordance with IFRS.

BUSINESS OVERVIEW

Lloyds Banking Group is a leading UK based financial services group providing a wide range of banking and financial services, primarily in the UK, to personal and corporate customers. At 31 December 2011, total Lloyds Banking Group assets were £970,546 million and Lloyds Banking Group had some 98,538 employees (on a full-time equivalent basis). Lloyds Banking Group plc's market capitalisation at that date was some £17,825 million. The Group reported a loss before tax for the 12 months to 31 December 2011 of £342 million, and the capital ratios as at that date were 15.6 per cent for total capital, 12.5 per cent for tier 1 capital and 10.8 per cent for core tier 1 capital.

Set out below is the Group's summarised income statement for the last three years:

	2011 £m	2010 £m	2009 £m
Net interest income	12,698	12,546	9,026
Other income	14,114	31,498	36,745
Total income	26,812	44,044	45,771
Insurance claims	(6,041)	(19,088)	(22,493)
Total income, net of insurance claims	20,771	24,956	23,278
Operating expenses	(13,050)	(16,470)	(15,984)
Trading surplus	7,721	8,486	7,294
Impairment	(8,094)	(10,952)	(16,673)
Share of results of joint ventures and associates	31	(88)	(752)
Gain on acquisition			11,173
Loss on disposal of businesses		(365)	
(Loss) profit before tax	(342)	(2,919)	1,042

Lloyds Banking Group's main business activities are retail, commercial and corporate banking, general insurance, and life, pensions and investment provision. Services are offered through a number of well recognised brands including Lloyds TSB, Halifax, Bank of Scotland and Scottish Widows, and a range of distribution channels including the largest banking branch network in the UK.

The Group has five primary operating divisions, which constitute the Group's reporting segments: Retail, Wholesale, Commercial, Wealth and International, and Insurance. Retail provides banking, mortgages and other financial services to personal customers in the UK. Wholesale provides banking and related services for major UK and multinational corporates and financial institutions, with a turnover in excess of £15 million. Commercial services the needs of small and medium-size enterprises and community organisations with a turnover of up to £15 million. Wealth and International provides private banking and asset management in the UK and overseas and operates the Group's international business. Insurance offers life assurance, pensions and investment products in the UK and Europe and provides general insurance to personal customers in the UK.

The acquisition of HBOS plc on 16 January 2009 had a significant effect on the comparability of the Group's financial position and results with prior periods. Profit before tax is analysed further on pages 18 to 29 on a statutory basis and, in order to provide a more comparable representation of business performance of the Group's segments, on pages 32 to 51 on a combined businesses basis. The key principles adopted in the preparation of the combined businesses basis of reporting are described on page 32. The Group Executive Committee, which is the chief operating decision maker for the Group, reviews the Group's internal reporting based around these segments (which reflect the Group's organisational and management structures) in order to assess performance and allocate resources; this reporting is on a combined businesses basis, which the Group Executive Committee feel best represents the underlying performance of the Group. These combined businesses segmental results for 2011, 2010 and 2009 are therefore presented in compliance with IFRS 8 but the aggregated total of the combined businesses segmental profits and losses before tax constitutes a non-GAAP measure and a reconciliation of this aggregated total to the Group's statutory profit before tax is therefore provided on page 33. The following table shows the results of Lloyds Banking Group's Retail, Wholesale, Commercial, Wealth and International, and Insurance segments and Group Operations and Central items in the last three fiscal years, and their aggregation.

	2011 £m	2010 £m	2009 £m
Retail	3,636	3,986	955
Wholesale	828	2,514	(4,682)
Commercial	499	291	(200)
Wealth and International	(3,936)	(4,950)	(2,433)
Insurance	1,422	1,326	1,203
Group Operations and Central items:			

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Group Operations	(56)	(52)	(143)
Central items	292	(903)	(1,000)
	236	(955)	(1,143)
Profit (loss) before tax Combined businesses basis	2,685	2,212	(6,300)

Lloyds Banking Group plc was incorporated as a public limited company and registered in Scotland under the UK Companies Act 1985 on 21 October 1985 with the registered number 95000. Lloyds Banking Group plc's registered office is The Mound, Edinburgh EH1 1YZ, Scotland, and its principal executive offices in the UK are located at 25 Gresham Street, London EC2V 7HN, United Kingdom, telephone number + 44 (0) 20 7626 1500.

SELECTED CONSOLIDATED FINANCIAL DATA

The financial information set out in the tables below has been derived from the annual reports and accounts of Lloyds Banking Group plc for each of the past five years adjusted for subsequent changes in accounting policy and presentation. The financial statements for each of the years shown have been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm.

	2011	2010	2009	2008 ¹	2007 ¹
Income statement data for the year ended 31 December (£m)					
Total income, net of insurance claims	20,771	24,956	23,278	9,868	10,696
Operating expenses	(13,050)	(16,470)	(15,984)	(6,100)	(5,568)
Trading surplus	7,721	8,486	7,294	3,768	5,128
Impairment losses	(8,094)	(10,952)	(16,673)	(3,012)	(1,796)
Gain on acquisition			11,173		
(Loss) profit before tax	(342)	(2,919)	1,042	760	3,999
(Loss) profit for the year	(378)	(2,594)	2,953	798	3,320
(Loss) profit for the year attributable to equity shareholders	(451)	(2,656)	2,827	772	3,288
Total dividend for the year ²				648	2,026
Balance sheet data at 31 December (£m)					
Share capital	6,881	6,815	10,472	1,513	1,432
Shareholders' equity	45,920	43,725	43,278	9,393	12,141
Customer deposits	413,906	393,633	406,741	170,938	156,555
Subordinated liabilities	35,089	36,232	34,727	17,256	11,958
Loans and advances to customers	565,638	592,597	626,969	240,344	209,814
Total assets	970,546	992,438	1,027,255	436,033	353,346
Share information					
Basic earnings per ordinary share ³	(0.7)p	(4.0)p	7.5p	6.7p	28.9p
Diluted earnings per ordinary share ³	(0.7)p	(4.0)p	7.5p	6.6p	28.7p
Net asset value per ordinary share	67p	64p	68p	155p	212p
Total dividend per ordinary share ²				11.4p	35.9p
Equivalent cents per share ^{2,4}				20.3c	71.0c
Market price per ordinary share (year end)	25.9p	65.7p	50.7p	126.0p	472.0p
Number of shareholders (thousands)	2,770	2,798	2,834	824	814
Number of ordinary shares in issue (millions) ⁵	68,727	68,074	63,775	5,973	5,648
Financial ratios (%)⁶					
Dividend payout ratio				83.9	61.6
Post-tax return on average shareholders' equity	(1.0)	(5.8)	8.8	7.0	28.1
Post-tax return on average assets	(0.04)	(0.26)	0.28	0.21	0.94
Average shareholders' equity to average assets	4.5	4.6	3.1	2.9	3.3
Cost:income ratio ⁷	62.8	66.0	68.7	61.8	52.1
Capital ratios (%)^{8,9}					
Total capital	15.6	14.5	12.4	11.1	11.0
Tier 1 capital	12.5	11.0	9.6	7.9	8.1
Core tier 1 capital	10.8	9.6	8.1	5.5	7.4

¹ Restated in 2009 for IFRS 2 (Revised).

² Annual dividends comprise both interim and final dividend payments. The total dividend for the year represents the interim dividend paid during the year and the final dividend, which is paid and accounted for in the following year.

³ Earnings per share calculations for 2008 and earlier years have also been restated for the impact of the bonus element of the share issues in 2009.

⁴ Translated into US dollars at the Noon Buying Rate on the date each payment was made.

⁵ This figure excludes the limited voting ordinary shares owned by the Lloyds TSB Foundations.

⁶ Averages are calculated on a monthly basis from the consolidated financial data of Lloyds Banking Group.

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- 7 The cost:income ratio is calculated as total operating expenses as a percentage of total income (net of insurance claims).
- 8 Capital ratios are in accordance with Basel II requirements other than the ratios for 2007 which reflect Basel I.
- 9 Capital ratios for 2008 and 2009 were restated in 2010 to reflect a prior year adjustment to available-for-sale revaluation reserves.

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EXCHANGE RATES

In this annual report, unless otherwise indicated, all amounts are expressed in pounds sterling. For the months shown the US dollar high and low Noon Buying Rates per pound sterling were:

	2012 February	2012 January	2011 December	2011 November	2011 October	2011 September
US dollars per pound sterling:						
High	1.60	1.58	1.57	1.61	1.61	1.62
Low	1.57	1.53	1.54	1.55	1.54	1.54

For each of the years shown, the average of the US dollar Noon Buying Rates per pound sterling based on the last day of each month was:

	2011	2010	2009	2008	2007
US dollars per pound sterling:					
Average	1.61	1.54	1.57	1.84	2.01

On 9 March 2012, the latest practicable date, the US dollar Noon Buying Rate was \$1.5677 = £1.00. Lloyds Banking Group makes no representation that amounts in pounds sterling have been, could have been or could be converted into US dollars at that rate or at any of the above rates.

BUSINESS

HISTORY AND DEVELOPMENT OF LLOYDS BANKING GROUP

The history of the Group can be traced back to the 18th century when the banking partnership of Taylors and Lloyds was established in Birmingham, England. Lloyds Bank Plc was incorporated in 1865 and during the late 19th and early 20th centuries entered into a number of acquisitions and mergers, significantly increasing the number of banking offices in the UK. In 1995, it continued to expand with the acquisition of the Cheltenham and Gloucester Building Society (C&G).

TSB Group plc became operational in 1986 when, following UK Government legislation, the operations of four Trustee Savings Banks and other related companies were transferred to TSB Group plc and its new banking subsidiaries. By 1995, the TSB Group had, either through organic growth or acquisition, developed life and general insurance operations, investment management activities, and a motor vehicle hire purchase and leasing operation to supplement its retail banking activities.

In 1995, TSB Group plc merged with Lloyds Bank Plc. Under the terms of the merger, the TSB and Lloyds Bank groups were combined under TSB Group plc, which was re-named Lloyds TSB Group plc, with Lloyds Bank Plc, which was subsequently re-named Lloyds TSB Bank plc, the principal subsidiary. In 1999, the businesses, assets and liabilities of TSB Bank plc, the principal banking subsidiary of the TSB Group prior to the merger, and its subsidiary Hill Samuel Bank Limited were vested in Lloyds TSB Bank plc, and in 2000, Lloyds TSB Group acquired Scottish Widows. In addition to already being one of the leading providers of banking services in the UK, this transaction also positioned Lloyds TSB Group as one of the leading suppliers of long-term savings and protection products in the UK.

On 18 September 2008, with the support of the UK Government, the boards of Lloyds TSB Group plc and HBOS plc announced that they had reached agreement on the terms of a recommended acquisition by Lloyds TSB Group plc of HBOS plc. The shareholders of Lloyds TSB Group plc approved the acquisition at the Company's general meeting on 19 November 2008. On 16 January 2009, the acquisition was completed and Lloyds TSB Group plc changed its name to Lloyds Banking Group plc.

Pursuant to two placing and open offers which were completed by the Company in January and June 2009 and the Rights Issue completed in December 2009, the UK Government acquired 43.4 per cent of the Company's issued ordinary share capital. Following further issues of ordinary shares, the UK Government's holding has been reduced to approximately 40.1 per cent at 9 March 2012.

STRATEGY OF LLOYDS BANKING GROUP

The Group is a well diversified UK financial services group providing a wide range of banking and financial services to personal, commercial and corporate customers. The main focus of the Group remains the financial services markets in the UK and the Group

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has leading positions in many of the markets in which it participates, a comprehensive distribution capability, well recognised brands and a large customer base.

The Group's corporate strategy is built around becoming the best bank for individual, commercial and corporate customers across the UK and creating value by investing in areas that make a real difference to these customers. Customer leadership driven by superior customer insight, tailored products, better service and relationship focus is the overriding priority. There are a number of other key elements to the strategy announced in June 2011, including simplifying the business, improving its agility and efficiency, whilst focusing on core markets which offer strong returns and attractive growth, maintaining a prudent approach to risk and further strengthening the Group's balance sheet.

The four key elements of the action plan to deliver the strategy are:

RESHAPE THE BUSINESS PORTFOLIO TO FIT THE GROUP'S ASSETS, CAPABILITIES AND RISK APPETITE

The Group will invest in core areas which offer strong returns and attractive growth: these are businesses which are capital and liquidity efficient, with sustainable competitive advantages, and which are central to its core customer strategy.

In reshaping its business the Group is focusing on the continued reduction of assets outside of its risk appetite, the continued application of a conservative approach to, and a prudent appetite for, risk and the streamlining of its international presence.

BUSINESS

SIMPLIFY THE GROUP TO IMPROVE AGILITY AND EFFICIENCY

The HBOS integration programme was substantially completed in 2011, delivering a single IT platform and a run-rate of £2 billion per annum in cost synergies and other operating efficiencies. The Group is now targeting a further £1.7 billion of cost savings in 2014 through a series of simplification initiatives.

Savings will be released through a fundamental review of operations and processes, the creation of a more efficient distribution platform and increased use of digital channels, optimising sourcing and creating a more agile organisation through delayering the management structure, centralising control functions and simplifying the legal structures.

INVEST TO BE THE BEST BANK FOR CUSTOMERS

The Group intends to increase the investment in its business with a focus on becoming the best bank for customers, becoming the best through the cycle partner for its business customers and maintaining Bancassurance as a core element of this proposition.

STRENGTHEN THE GROUP'S BALANCE SHEET AND LIQUIDITY POSITION

The Group aims to continue to strengthen its balance sheet and liquidity position through:

- Targeting a core tier 1 capital ratio prudently in excess of 10 per cent

- Exceeding regulatory liquidity requirements

- Maintaining a stable funding base

- Improving the Group's loan to deposit ratio to 130 per cent or below by end 2014, although it now expects to attain this in 2012.

SUMMARY

The Group is looking to create a simpler, more agile, efficient and responsive organisation with a real focus on operating sustainably and responsibly. Whilst focusing on core markets, which offer strong returns and attractive growth, the Group will maintain a prudent approach to risk and further strengthen its balance sheet.

The Group believes that the successful execution of its strategy to be the best bank for customers will enable delivery of strong and sustainable returns for shareholders.

BUSINESS AND ACTIVITIES OF LLOYDS BANKING GROUP

The Group is organised into five segments: Retail; Wholesale; Commercial; Wealth and International; and Insurance; see note 4 to the consolidated financial statements.

Further information on the Group's segments is set out on pages 32 to 51.

MATERIAL CONTRACTS

The Company and its subsidiaries are party to various contracts in the ordinary course of business.

For information relating to the Company's relationship with the UK Government see *Major Shareholders and Related Party Transactions* and *Information about the Lloyds Banking Group's relationship with the UK Government*.

BUSINESS

ENVIRONMENTAL MATTERS

ENVIRONMENTAL RESPONSIBILITY

In 2011, the Group introduced a set of market leading long-term environmental targets under its Environmental Action programme to significantly reduce its environmental footprint. The Group aims to reduce paper, water and business travel by 20 per cent; ensure that less than 20 per cent of waste is sent to landfill; and reduce energy use by 30 per cent by 2020. The Group publishes a standalone, data-driven Climate and Environment Report on an annual basis which details progress it has made against its targets, and this is available from the Lloyds Banking Group website. Last year, the Group achieved the Carbon Trust Standard for its entire UK operations, which recognises its robust approach to measuring, managing and reducing its carbon emissions. The Group also reduced its use of energy by 1 per cent, its use of water by 3 per cent and paper use by 7 per cent in 2011 compared with 2010. Its overall carbon footprint reduced by 1 per cent in 2011 compared with 2010.

Over the last year the Group has been the UK's most active provider of finance to renewable energy projects, having lent over £413 million across 13 renewable energy projects in the UK, Germany and the US. The Group's approach to environmental risk management is covered on pages 123 and 124.

The Group is also encouraging businesses that bank with it to take action to address climate change. The Group has trained over 650 staff on its Business & Environment programme, to enable them to guide and support its customers in recognising environmental risks and seizing the opportunities. The Group is the only major UK bank to provide this kind of support to its business customers.

The Group recognises that its influence extends well beyond the size of its organisation. Its asset management business, Scottish Widows Investment Partnership (SWIP), has over £136 billion invested around the world and is committed to using its influence to encourage best practice in corporate governance and management of sustainability risks. SWIP has also launched a new sustainability strategy across its entire £8 billion property portfolio, including a target to reduce its energy consumption by 10 per cent by 2012 compared with 2009.

CO₂ Emissions (tonnes)

	2011	2010
Total UK CO ₂ emissions	421,568	425,996
Scope 1 emissions	52,179	60,302
Scope 2 emissions	321,698	324,007
Scope 3 emissions	42,691	41,687

The Group has improved the accuracy of energy data for the 2010 reporting years, replacing estimates with actual data. The Group has also changed its method for reporting car travel data in 2011 and have applied this method to historical data.

TRACKING PROGRESS

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

PROPERTIES

As at 31 December 2011, Lloyds Banking Group occupied 3,144 properties in the UK. Of these, 898 were held as freeholds and 2,246 as long-term leaseholds. The majority of these properties are retail branches, widely distributed throughout England, Scotland, Wales and Northern Ireland. Other buildings include the Lloyds Banking Group's head office in the City of London with other customer service and support centres located to suit business needs but clustered largely in eight core geographic conurbations – London, Edinburgh, Glasgow, Midlands (Birmingham), Northwest (Chester and Manchester), West Yorkshire (Halifax and Leeds), South (Brighton and Andover) and Southwest (Bristol and Cardiff).

In addition, there are 423 properties which are either sub-let or vacant. There are also a number of ATM units situated throughout the UK, the majority of which are held as leasehold. The Group also has business operations elsewhere in the world, primarily holding property on a leasehold basis, principally in North America, Europe and Asia.

LEGAL ACTIONS AND REGULATORY MATTERS

During the ordinary course of business the Group is subject to threatened or actual legal proceedings and regulatory challenge both in the UK and overseas.

INTERCHANGE FEES

The European Commission has adopted a formal decision finding that an infringement of European Commission competition laws has arisen from arrangements whereby MasterCard set a uniform Multilateral Interchange Fee (MIF) in respect of cross-border transactions in relation to the use of a MasterCard or Maestro branded payment card. The European Commission has required that the MIF be reduced to zero for relevant cross-border transactions within the European Economic Area. This decision has been appealed to the General Court of the European Union (the General Court). Lloyds TSB Bank plc and Bank of Scotland plc (along with certain other MasterCard issuers) have successfully applied to intervene in the appeal in support of MasterCard's position that the arrangements for the charging of the MIF are compatible with European Union competition laws. The UK Government has also intervened in the General Court appeal supporting the European Commission position. An oral hearing took place on 8 July 2011 and the judgement is expected on 24 May 2012. MasterCard has reached an understanding with the European Commission on a new methodology for calculating intra-European Economic Area MIF on an interim basis pending the outcome of the appeal.

Meanwhile, the European Commission is pursuing an investigation with a view to deciding whether arrangements adopted by visa for the levying of the MIF in respect of cross-border payment transactions also infringe European Union competition laws. In this regard visa reached an agreement with the European Commission to reduce the level of interchange for cross-border debit card transactions to the interim levels agreed by

BUSINESS

MasterCard. The UK's Office of Fair Trading has also commenced similar investigations relating to the MIF in respect of domestic transactions in relation to both the MasterCard and visa payment schemes. The ultimate impact of the investigations on the Group can only be known at the conclusion of these investigations and any relevant appeal proceedings.

PAYMENT PROTECTION INSURANCE

There has been extensive scrutiny of the Payment Protection Insurance (PPI) market in recent years.

In October 2010, the UK Competition Commission confirmed its decision to prohibit the active sale of PPI by a distributor to a customer within seven days of a sale of credit. This followed the completion of its formal investigation into the supply of PPI services (other than store card PPI) to non-business customers in the UK in January 2009 and a referral of the proposed prohibition to the Competition Appeal Tribunal. The Competition Commission consulted on the wording of a draft Order to implement its findings from October 2010, and published the final Order on 24 March 2011 which became effective on 6 April 2011. Following an earlier decision to stop selling single premium PPI products, the Group ceased to offer PPI products to its customers in July 2010.

On 29 September 2009 the FSA announced that several firms had agreed to carry out reviews of past sales of single premium loan protection insurance. Lloyds Banking Group agreed in principle that it would undertake a review in relation to sales of single premium loan protection insurance made through its branch network since 1 July 2007. That review now forms part of the ongoing PPI work referred to below.

On 1 July 2008, the Financial Ombudsman Service (FOS) referred concerns regarding the handling of PPI complaints to the Financial Services Authority (FSA) as an issue of wider implication. On 29 September 2009 and 9 March 2010, the FSA issued consultation papers on PPI complaints handling. The FSA published its Policy Statement on 10 August 2010, setting out evidential provisions and guidance on the fair assessment of a complaint and the calculation of redress, as well as a requirement for firms to reassess historically rejected complaints which had to be implemented by 1 December 2010.

On 8 October 2010, the British Bankers' Association (BBA), the principal trade association for the UK banking and financial services sector, filed an application for permission to seek judicial review against the FSA and the FOS. The BBA sought an order quashing the FSA Policy Statement and an order quashing the decision of the FOS to determine PPI sales in accordance with the guidance published on its website in November 2008.

The Judicial Review hearing was held in late January 2011 and on 20 April 2011 judgment was handed down by the High Court dismissing the BBA's application. On 9 May 2011, the BBA confirmed that the banks and the BBA did not intend to appeal the judgment.

After publication of the judgment, the Group entered into discussions with the FSA with a view to seeking clarity around the detailed implementation of the Policy Statement. As a result, and given the initial analysis that the Group has conducted of compliance with applicable sales standards, which is continuing, the Group concluded that there are certain circumstances where customer contact and/or redress will be appropriate. Accordingly the Group made a provision in its financial statements for the year ended 31 December 2010 of £3,200 million in respect of the anticipated costs of such contact and/or redress, including administration expenses. During 2011, the Group made redress payments of £1,045 million to customers. However, there are still a number of uncertainties as to the eventual costs from any such contact and/or redress given the inherent difficulties of assessing the impact of the detailed implementation of the Policy Statement for all PPI complaints, uncertainties around the ultimate emergence period for complaints, the availability of supporting evidence and the activities of claims management companies, all of which will significantly affect complaints volumes, uphold rates and redress costs.

INTERBANK OFFERED RATE SETTING INVESTIGATIONS

Several government agencies in the UK, US and overseas, including the US Commodity Futures Trading Commission, the US SEC, the US Department of Justice and the FSA, as well as the European Commission, are conducting investigations into submissions made by panel members to the bodies that set various interbank offered rates. The Group, and/or its subsidiaries, were (at the relevant time) and remain members of various panels that submit data to these bodies in a number of jurisdictions. The Group has received requests from some government agencies for information and is co-operating with their investigations. In addition the Group has been named in private purported class action suits in the US with regard to the setting of London interbank offered rates (LIBOR). It is currently not possible to predict the scope and ultimate outcome of the various regulatory investigations or private lawsuits, including the timing and scale of the potential impact of any investigations and lawsuits on the Group.

LITIGATION IN RELATION TO INSURANCE BRANCH BUSINESS IN GERMANY

Clerical Medical Investment Group Limited (CMIG) has received a number of claims in the German courts, relating to policies issued by CMIG but sold by independent intermediaries in Germany, principally during the late 1990s and early 2000s. CMIG has won the majority of decisions to date, although a small number of regional district and appeal courts have found against CMIG on specific grounds. CMIG's strategy includes defending claims robustly and appealing against adverse judgments. The ultimate financial effect, which could be significant, will only be known once all relevant claims have been resolved. However, consistent with this strategy, and having regard to the costs involved in managing these claims, and the inherent risks of litigation, the Group has recognised a provision of £175 million. Management believes this represents the most appropriate estimate of the financial impact, based upon a series of assumptions, including the number of claims received, the proportion upheld, and resulting legal and administration costs.

SHAREHOLDER COMPLAINTS

The Group and two former members of the Group's Board of Directors have been named as defendants in a purported securities class action pending in the United States District Court for the Southern District of New York. The complaint, dated 23 November 2011, asserts claims under the Securities Exchange Act of 1934 in connection with alleged material omissions from statements made in 2008 in connection with the acquisition of HBOS. No quantum is specified.

In addition, a UK-based shareholder action group has threatened multi-claimant claims on a similar basis against the Group and two former directors in the UK. No claim has yet been issued.

The Group considers that the claims are without merit and will defend them vigorously. The claims have not been quantified and it is not possible to estimate the ultimate financial impact on the Group at this early stage.

EMPLOYEE DISPUTES

The Group is aware that a union representing a number of the Group's employees is seeking to challenge the cap on pensionable pay introduced by the Group in 2011 on the grounds that it is unlawful. This challenge is at a very early stage. The Group will resist the challenge should it be pursued.

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The Group also faces a number of other threats of legal action from employees in relation to terms of employment including pay and bonuses. The Group considers that the complaints are without merit and, should proceedings be issued, they will be vigorously defended.

It is not possible to estimate the ultimate financial impact on the Group at this stage.

FSA INVESTIGATION INTO BANK OF SCOTLAND

In 2009 the FSA commenced a supervisory review into HBOS. The supervisory review was superseded when the FSA commenced an enforcement investigation into Bank of Scotland plc in relation to its Corporate Division between 2006 and 2008. These proceedings have now concluded. The FSA published its Final Notice on 9 March 2012. No financial penalty has been imposed on the Group or Bank of Scotland plc.

REGULATORY MATTERS

In the course of its business, the Group is engaged in discussions with the FSA in relation to a range of conduct of business matters including complaints handling, packaged bank accounts, savings accounts, product terms and conditions, interest only mortgages, sales processes and remuneration schemes. The Group is keen to ensure that any regulatory concerns are understood and addressed. The ultimate impact on the Group of these discussions can only be known at the conclusion of such discussions.

OTHER LEGAL ACTIONS AND REGULATORY MATTERS

In addition, during the ordinary course of business the Group is subject to other threatened and actual legal proceedings (which may include class action lawsuits brought on behalf of customers, shareholders or other third parties), regulatory investigations, regulatory challenges and enforcement actions, both in the UK and overseas. All such material matters are periodically reassessed, with the assistance of external professional advisers where appropriate, to determine the likelihood of the Group incurring a liability. In those instances where it is concluded that it is more likely than not that a payment will be made, a provision is established to management's best estimate of the amount required to settle the obligation at the relevant balance sheet date. In some cases it will not be possible to form a view, either because the facts are unclear or because further time is needed to assess properly the merits of the case and no provisions are held against such matters. However, the Group does not currently expect the final outcome of any such matter to have a material adverse effect on its financial position.

COMPETITIVE ENVIRONMENT

The Group provides financial services to personal and corporate customers, predominantly in the UK but also overseas. The main business activities of the Group are retail, commercial and corporate banking, general insurance, and life, pensions and investment provision.

In the retail banking market, the Group competes with banks and building societies, major retailers and internet-only providers. In the mortgage market, competitors include the traditional banks and building societies and specialist mortgage providers. The Group competes with both UK and foreign financial institutions in the wholesale banking markets and with bancassurance, life assurance and general insurance companies in the UK insurance market.

In the competitive open market in which the Group operates there is an increasing range of products and services available to customers and with the current public scrutiny of banks the expectations and demands of customers continue to increase.

See Risk Factors – Competition Related Risks – The Independent Commission on Banking and the UK Treasury Select Committee have reviewed competition in the UK retail banking industry. The potential impact of the recommendations is inherently uncertain and could have a material adverse effect on the interests of the Group and Business and Economic Risks – The Group's businesses are conducted in highly competitive environments and the Group's financial performance depends upon management's ability to respond effectively to competitive pressures.

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RECENT DEVELOPMENTS

PAYMENT OF ACCUMULATED INTEREST ON UPPER TIER TWO HYBRID CAPITAL SECURITIES ISSUED BY LLOYDS BANKING GROUP COMPANIES

The Group made the following announcement on 19 January 2012

Since 31 January 2010, the Group has been prohibited under the terms of an agreement with the European Commission from paying discretionary coupons and dividends on hybrid capital securities issued by the Company and certain of its subsidiaries. This prohibition ends on 31 January 2012.

The Group now confirms that it intends to pay on the upper tier two securities set out below which have cumulative deferrable coupon terms the relevant amount of Arrears of Interest (as defined therein).

ISIN	ISSUER	SECURITY
XS0083932144	Bank of Scotland plc	7.375% Subordinated Undated Instruments
GB0000395102	Bank of Scotland plc	8.750% Perpetual Subordinated Bonds
GB0000395094	Bank of Scotland plc	12.00% Perpetual Subordinated Bonds
GB0005242879	Bank of Scotland plc	9.375% Perpetual Subordinated Bonds
GB0000765403	Bank of Scotland plc	Undated Floating Rate Primary Capital Notes
XS0046690961	Bank of Scotland plc	8.625% Perpetual Subordinated Notes
XS0059171230	Bank of Scotland plc	10.25% Subordinated Undated Instruments
GB0000394915	Bank of Scotland plc	13.625% Perpetual Subordinated Bonds
XS0063730203	Bank of Scotland plc	Subordinated Undated Instruments due 2016
XS0188201536	HBOS plc	4.875% Undated Subordinated Fixed to Floating Rate Instruments
XS0188201619	HBOS plc	Floating Rate Undated Subordinated Instruments
US4041A3AF96 / US4041A2AG96	HBOS plc	5.375% Undated Fixed to Floating Rate Subordinated Notes
XS0177955381	HBOS plc	5.125% Undated Subordinated Fixed to Floating Rate Notes
XS0205326290	HBOS plc	5.625% Cumulative Callable Fixed to Floating Rate Undated Subordinated Notes
XS0145407507	Lloyds Banking Group plc	6.00% Undated Subordinated Guaranteed Bonds
GB0005224307	Lloyds TSB Bank plc	Primary Capital Undated Floating Rate Notes (Series 1)
XS0099508698	Lloyds TSB Bank plc	4.648% Undated Subordinated Step-up Notes
XS0099507534	Lloyds TSB Bank plc	6.50% Undated Subordinated Step-up Notes
XS0099507963	Lloyds TSB Bank plc	6.50% Undated Subordinated Step-up Notes
XS0079927850	Lloyds TSB Bank plc	8% Undated Subordinated Step-up Notes
GB0005232391	Lloyds TSB Bank plc	Primary Capital Undated Floating Rate Notes (Series 3)
GB0005205751	Lloyds TSB Bank plc	Primary Capital Undated Floating Rate Notes (Series 2)
XS0169667119	Lloyds TSB Bank plc	5.125% Upper Tier 2 Callable Perpetual Subordinated Notes
XS0056390007	Lloyds TSB Bank plc	5.57% Undated Subordinated Step Up Coupon Notes 2015

Such amounts will be calculated in accordance with the terms of such securities and will be paid on 9 February 2012 subject to, and in accordance with, the terms of those securities.

LLOYDS BANKING GROUP ANNOUNCES CHANGES TO ITS GROUP BOARD AND THE MANAGEMENT TEAM

The Group made the following announcement on 1 February 2012

Lloyds Banking Group has today announced changes to its Group Board and the management team.

The changes to the Board and the senior management organisational structure mean that there will be five business lines reporting directly to the Group Chief Executive as follows:

Alison Brittain will undertake the newly created role of Group Director of Retail with responsibility for our multi channel and multi brand strategy including Lloyds TSB, the Bank of Scotland and Halifax, retail products and marketing, as well as telephony and

digital banking.

Antonio Lorenzo, Group Director of Strategy and Wealth and International, will also undertake responsibility for Asset Finance which had formerly been a part of the Wholesale business.

Truett Tate, Group Executive Director for Wholesale has decided to retire from the Group during February and will not seek re-election at the Group's Annual General Meeting in May. As a result of Truett's departure Andrew Géczy, CEO of Wholesale Banking and Markets, will report on an interim basis to Group Chief Executive, António Horta-Osório.

The Group has begun a search internally and externally for a permanent Director of the Group's Wholesale Division.

John Maltby remains as Director of Commercial continuing with his responsibility for our SME businesses.

Toby Strauss' role also remains unchanged as Director of the Group's Insurance division.

Further to the centralisation of all control functions as part of the Group Strategic Review in 2011 there will now be five control and support functions as follows:

Risk led by our Chief Risk Officer Juan Colombas.

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Finance led by our Group Finance Director, George Culmer when he joins the Group.

Operations led by our Director of Group Operations, Mark Fisher.

Corporate Affairs led by our Group Corporate Affairs Director, Matt Young.

Group Corporate Functions Human Resources, Legal and Secretariat and Group Audit will now report to a newly-created position of Group Corporate Functions Director. The Group Corporate Functions Director will be a member of the Group Executive Committee and the Group is currently recruiting for the role.

LLOYDS BANKING GROUP: CHANGES TO BOARD

The Group made the following announcement on 1 February 2012

Lloyds Banking Group is pleased to announce the appointment of Sara Weller as a non-executive director. Ms Weller will join the Board with effect from 1 February 2012 and will serve as a member of the Remuneration and the Risk Committees.

Sir Julian Horn-Smith has informed the Group of his intention to retire from the Board at the Annual General Meeting in May 2012 and will therefore not stand for re-election as a Director.

Truett Tate, Executive Director for Wholesale, has decided to retire from the Group at the Annual General Meeting in May 2012 and will therefore not seek re-election.

LLOYDS BANKING GROUP PLC RESIGNATION OF DIRECTOR

The Group made the following announcement on 6 February 2012

Further to the Group's announcement on 1 February 2012, Truett Tate, Executive Director, Wholesale, has resigned from the Board of Lloyds Banking Group plc with immediate effect.

LLOYDS BANKING GROUP PLC MANAGEMENT CHANGE

The Group made the following announcement on 24 February 2012

Further to the Group's announcement on 19 September 2011, Tim Tookey, Group Finance Director, will stand down from the Board of Lloyds Banking Group at close of business today, 24 February 2012.

LLOYDS BANKING GROUP ANNOUNCES BOARD CHANGES

The Group made the following announcement on 27 February 2012

The Board of Lloyds Banking Group plc announces that Glen Moreno, its Deputy Chairman and Senior Independent Director, intends not to seek re-election at the Annual General Meeting on 17 May 2012 and will retire from the Board on that date.

The Board has decided to appoint Anthony Watson, Chairman of the Remuneration Committee, as its Senior Independent Director and David Roberts, Chairman of the Risk Committee, as Deputy Chairman both with effect from 17 May 2012.

LLOYDS BANKING GROUP PLC MANAGEMENT CHANGE

The Group made the following announcement on 1 March 2012

Lloyds Banking Group plc announces that George Culmer will be appointed as Group Finance Director of Lloyds Banking Group with effect from 16 May 2012.

George Culmer has been Chief Financial Officer of RSA Insurance Group plc since May 2004.

Biographical details of George Culmer

Between 2004 and 2012, George was a director and Chief Financial Officer of RSA Insurance Group plc. His previous roles included Head of Capital Management of Zurich Financial Services and Chief Financial Officer of its UK operations. Prior to that he held various senior management positions at Prudential. George began his career at Coopers & Lybrand in London and New Zealand and read History at Cambridge. Age 49.

Key compensation notes

Compensation arrangements include an annual salary of £720,000 and a discretionary annual bonus up to a maximum of 200 per cent of salary. It is intended to award a long term performance-based share incentive of up to 225 per cent of salary for 2012 which will only vest in full in three years if stretching performance targets are exceeded. Mr Culmer will receive an allowance to fund personal pension arrangements amounting to 25 per cent of his salary.

Mr Culmer has deferred awards and a cash bonus from RSA Insurance Group plc, which he forfeits as a result of leaving RSA Insurance Group plc. He will therefore be partially compensated in respect of these by receiving shares in Lloyds Banking Group worth £1.9 million which will vest in 2013 and 2014. The extent to which Mr Culmer will receive future awards depends on the performance of Lloyds Banking Group in the short, medium and longer term against stretching performance measures.

LLOYDS BANKING GROUP PLC (GROUP) NOTIFICATION OF TRANSACTIONS BY PERSONS DISCHARGING MANAGERIAL RESPONSIBILITIES IN ORDINARY SHARES OF THE GROUP OF 10P EACH (SHARES)

The Group made the following announcement on 9 March 2012

The following announcement sets out details of awards made today, 9 March 2012, under the Group's share plans to the Group Chief Executive and members of the Group Executive Committee.

Deferred bonus awards for 2011 performance

Conditional awards of shares were made today in respect of bonus awards for 2011 performance. Part of the 2011 bonus awards will be made in June 2012 based on the prevailing share price. These shares will be notified at that time. Awards vesting over the period September 2012 to

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September 2015 are based on a share price of 34.786 pence and are detailed below. Bonus awards are subject to performance adjustment in full or in part if the performance that generated the award is found not to be sustainable.

Name	Maximum number of shares awarded
A Brittain	2,414,764
J Colombás	1,782,326
M Fisher	2,069,798
A Lorenzo	1,782,326
J Maltby	728,741
D Nicholson	436,957
A Risley	577,818
T Strauss	451,330
M Young	929,971

Long term incentive plan 2012 awards

Conditional share awards were made today under the Group's Long Term Incentive Plan as detailed below. The shares under the awards will only vest in 2015 subject to the satisfaction of stretching performance conditions over a three year period. The awards are based on a share price of 34.786 pence.

Name	Maximum number of shares awarded
A Horta-Osório	9,644,684
A Brittain	4,527,683
J Colombás	4,146,064
M Fisher	4,876,961
A Lorenzo	4,243,086
J Maltby	2,910,653
D Nicholson	2,587,247
A Risley	2,587,247
T Strauss	3,395,762
M Young	2,587,247

Emoluments of the eight highest paid senior executives

The following table sets out the Emoluments of the eight highest paid senior executives in respect of the 2011 performance year. The disclosure is made on the same basis as the five highest paid senior executives for the 2010 performance year, as shown in the Annual Report and Accounts 2010.

	Employee							
	8	7	6	5	4	3	2	1
Fixed	£000	£000	£000	£000	£000	£000	£000	£000
Cash based	342	480	310	233	754	941	956	500
Total fixed	342	480	310	233	754	941	956	500
Variable¹								
Upfront cash	2	2	2	2	2	2	2	2
Deferred cash	0	0	0	0	0	0	0	0
Upfront shares ²	20	0	0	332	0	205	320	0
Deferred shares	478	498	793	1,048	898	773	773	1,998
Long term incentive plan ³	270	144	199	473	509	433	443	150
Total variable pay	770	644	994	1,855	1,409	1,413	1,538	2,150
Pension cost ⁴	85	120	44	58	189	160	164	125
Total remuneration	1,197	1,244	1,348	2,146	2,352	2,514	2,658	2,775

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- 1 Variable pay in respect of performance year 2011.
- 2 Award to compensate for loss of variable remuneration from previous employer which vested in 2011.
- 3 LTIP values shown are on an expected value basis.
- 4 Pension cost based on an average pension cost of 25 per cent of salary.

**LLOYDS BANKING GROUP PLC (GROUP) - NOTIFICATION OF TRANSACTIONS BY PERSONS DISCHARGING
MANAGERIAL RESPONSIBILITIES IN ORDINARY SHARES OF THE GROUP OF 10P EACH (SHARES)**

The Group made the following announcement on 15 March 2012

The Group announces that today, following the successful delivery of the integration programme, the 2009 LTIP Integration Awards vested for the individuals listed in the table below. They have received the number of Shares as set out by their name, after the appropriate number of Shares had been withheld to cover tax and national insurance contributions. The Shares were acquired for nil consideration.

Name	Shares
M Fisher	748,008
J Maltby	480,862
D Nicholson	400,717
A Risley	400,718

The Group further announces that today Mr Fisher exercised an option over 1,984,093 Shares under the Lloyds Banking Group plc Executive Share Plan 2003. The Shares were acquired for nil consideration.

Mr Fisher sold 2,482,101 Shares today at 35.6711 pence per Share, inclusive of the appropriate number of Shares to cover tax and national insurance contributions due on the exercise of his option. Following the above transactions, Mr Fisher's shareholding in the Group increased by 250,000 Shares bringing his total shareholding to 519,738 Shares.

OPERATING AND FINANCIAL REVIEW AND PROSPECTS

The results discussed below are not necessarily indicative of Lloyds Banking Group's results in future periods. The following information contains certain forward looking statements. For a discussion of certain cautionary statements relating to forward looking statements, see *Forward looking statements*.

The following discussion is based on and should be read in conjunction with the consolidated financial statements and the related notes thereto included elsewhere in this annual report. For a discussion of the accounting policies used in the preparation of the consolidated financial statements, see *Accounting policies* in note 2 to the consolidated financial statements.

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OPERATING AND FINANCIAL REVIEW AND PROSPECTS

OVERVIEW AND TREND INFORMATION

The external macro economic and regulatory environment in which the Group operates remains uncertain but the Group has endeavoured to outline below some of the key regulatory, economic and social factors impacting its markets.

REGULATION

The quantum of regulatory change remains high and the regulatory environment remains challenging but the Group is starting to see greater clarity in a number of areas. There are however a number of different issues that are likely to have a fundamental impact on the business going forward including the recommendations arising from the Independent Commission on Banking, future capital and liquidity requirements, and the changes to the UK banking supervisory structure:

Stringent UK capital and liquidity standards

More focus on consumer protection and transparency