Lloyds Banking Group plc
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SECURITIES AND EXCHANGE COMMISSION
Washington, D.C.20549

FORM 6-K

Report of Foreign Private Issuer
Pursuant to Rule 13a-16 or 15d-16
of the Securities Exchange Act of 1934

01 March 2013

LLOYDS BANKING GROUP plc
(Translation of registrant's name into English)

5th Floor
25 Gresham Street
London
EC2V 7HN
United Kingdom

(Address of principal executive offices)

Indicate by check mark whether the registrant files or will file annual reports under cover Form 20-F or Form 40-F.

Form 20-F..X.. Form 40-F.....

Indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

Yes ..... No ..X..

If "Yes" is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b): 82- ________

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2012 Results
News Release

Lloyds Banking Group plc

1 March 2013

BASIS OF PRESENTATION

This report covers the results of Lloyds Banking Group plc (the Company) together with its subsidiaries (the Group) for the year ended 31 December 2012.

Statutory basis

Statutory results are set out on pages 132 to 165. However, a number of factors have had a significant effect on the comparability of the Group's financial position and results. As a result, comparison on a statutory basis of the 2012 results with 2011 is of limited benefit.

Management basis

In order to present a more meaningful view of underlying business performance, the results of the Group and divisions are presented on a management basis. The key principles adopted in the preparation of the management basis of reporting are described below.

· In order to reflect the impact of the acquisition of HBOS, the following adjustments have been made:

- the amortisation of purchased intangible assets has been excluded; and
- the unwind of acquisition-related fair value adjustments is shown on one line in the management basis income statement, other than unwind related to asset sales which is included within the effects of asset sales, volatile items and liability management.

· In order to better present the business performance the effects of asset sales, liability management and volatile items are shown on separate lines in the management basis consolidated income statement and 'underlying profit' is profit before taking into account these items and fair value unwind. Comparatives have been restated accordingly.

· The following items, not related to acquisition accounting, have also been excluded from management profit:

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

To enable a better understanding of the Group's core business trends and outlook, certain income statement, balance sheet and regulatory capital information is analysed between core and non-core portfolios. The non-core portfolios consist of businesses which deliver below-hurdle returns, which are outside the Group's risk appetite or may be distressed, are subscale or have an unclear value proposition, or have a poor fit with the Group's customer strategy. The EC mandated retail business disposal (Project Verde) is included in core portfolios.

The Group's core and non-core activities are not managed separately and the preparation of this information requires management to make estimates and assumptions that impact the reported income statements, balance sheet, regulatory capital related and risk amounts analysed as core and as non-core. The Group uses a methodology that categorises income and expenses as non-core only where management expect that the income or expense will cease to be earned or incurred when the associated asset or liability is divested or run-off, and allocates operational costs to the core portfolio unless they are directly related to non-core activities. This results in the reported operating costs for the non-core portfolios being less than would be required to manage these portfolios on a stand-alone basis. Due to the inherent uncertainty in making estimates, a different methodology or a different estimate of the allocation might result in a different proportion of the Group's income or expenses being allocated to the core and non-core portfolios, different assets and liabilities being deemed core or non-core and accordingly a different allocation of the regulatory effects.

Unless otherwise stated income statement commentaries throughout this document compare the year ended 31 December 2012 to the year ended 31 December 2011, and the balance sheet analysis compares the Group balance sheet as at 31 December 2012 to the Group balance sheet as at 31 December 2011.

FORWARD LOOKING STATEMENTS

This announcement contains forward looking statements with respect to the business, strategy and plans of the Lloyds Banking Group, 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 in the future. The Group's actual future business, strategy, plans and/or results may differ materially from those expressed or implied in these forward looking statements as a result of a variety of risks, uncertainties and other factors, including, but not limited to, UK domestic and global economic and business conditions; the ability to derive cost savings and other benefits, including as a result of the Group's Simplification programme; the ability to access sufficient funding to meet the Group's liquidity needs; changes to the Group's credit ratings; risks concerning borrower or counterparty credit quality; instability in the global financial markets, including Eurozone instability and the impact of any sovereign credit rating downgrade or other sovereign financial issues; market-related risks including, but not limited to, changes in interest rates and exchange rates; changing demographic and market-related trends; changes in customer preferences; changes to laws, regulation, accounting standards or taxation, including changes to regulatory capital or liquidity requirements; the policies and actions of governmental or regulatory authorities in the UK, the European Union, or jurisdictions outside the UK in which the Group operates, including other European countries and the US; the implementation of the draft EU crisis management framework directive and banking reform following the recommendations made by the Independent Commission on Banking; the ability to attract and retain senior management and other employees; requirements or limitations imposed on the Group as a result of HM Treasury's investment in the Group; the ability to complete satisfactorily the disposal of certain assets as part of the Group's EC state aid obligations; the extent of any future impairment charges or write-downs caused by depressed asset valuations, market disruptions and illiquid markets; the effects of competition and the actions of competitors, including non-bank financial services and lending companies; exposure to regulatory scrutiny, legal proceedings, regulatory investigations or complaints, and other factors. Please refer to the latest Annual Report on Form 20-F filed with the US Securities and Exchange Commission for a discussion of certain factors together with examples of forward looking statements. The forward looking statements contained in this announcement are made as at the date of this announcement, and the Group undertakes no obligation to update any of its forward looking statements.

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KEY HIGHLIGHTS

'AHEAD OF OUR PLAN TO TRANSFORM THE GROUP, DESPITE THE CHALLENGING ENVIRONMENT'

'The substantial progress we made in 2012 means that we are now ahead of our plan to transform the Group, and this was reflected in our stronger underlying financial performance in the year. Since setting out our strategy in June 2011, we have significantly strengthened the balance sheet, and substantially improved efficiency and focus, while continuing to work through legacy issues. We are investing in our simple, lower-risk, customer-focused UK retail and commercial banking model, and in value-for-money products and better capabilities to continue to support UK households, businesses and communities. We are creating a business of which customers and colleagues can be proud, and which I am confident will help Britain prosper, and deliver strong, stable returns to shareholders.'

António Horta-Osório,
Group Chief Executive

Significantly improved Group performance; continue to work through legacy issues

- Substantial increase in Group underlying profit from £638 million to £2,607 million

- Full year Group net interest margin of 1.93 per cent, in line with guidance

- Costs further reduced by 5 per cent to £10.1 billion, in line with strategic review target two years ahead of plan; Simplification run-rate savings increased to £847 million

- Credit quality continues to improve; 42 per cent impairment reduction to £5.7 billion, significantly ahead of original guidance; impairment charge as a percentage of average advances improved to 1.02 per cent (2011: 1.62 per cent)

- Statutory loss of £570 million primarily due to PPI provisions of £3,575 million (including £1,500 million in the fourth quarter of 2012), and including £3,207 million of gains from sales of government securities

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

- Strong underlying capital generation with core tier 1 capital ratio increased to 12.0 per cent; on a pro forma fully loaded CRD IV basis the ratio is estimated at 8.1 per cent, including 0.3 per cent from expected CRD IV resolutions

- Continued capital-accretive non-core asset reduction of £42.3 billion, benefiting capital ratios, and exceeding initial 2012 guidance by £17 billion. Non-core portfolio now less than £100 billion, at £98.4 billion

- Deposit growth of 4 per cent; core loan to deposit ratio of 101 per cent, in line with long-term target of 100 per cent; Group loan to deposit ratio of 121 per cent, achieving target two years in advance

- Total wholesale funding reduced by £81.6 billion to £169.6 billion; maturity profile further improved with less than 30 per cent (2011: 45 per cent) of total wholesale funding with a maturity of less than one year

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

- Core return on risk-weighted assets increased from 2.46 per cent to 2.56 per cent

- Underlying profit broadly stable at £6,154 million (2011: £6,196 million)

- Core net interest margin of 2.32 per cent; stable throughout 2012

- 5 per cent reduction in core costs to £9,212 million; 34 per cent reduction in core impairments to £1,919 million

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

- UK's largest lender to first-time buyers, helping over 55,000 customers, and exceeding £5 billion lending target for 2012

- SME net lending growth of 4 per cent, against a shrinking market; exceeded 2012 SME net lending commitment of £13 billion and three year target of assisting 300,000 new start-ups by the end of 2012

- First participant in Funding for Lending Scheme, further enabling us to support the UK economy; £11 billion committed

- Increased Net Promoter Score in all three brands and a further reduction in FSA reportable banking complaints (excluding PPI) to 1.1 per 1,000, more than halving complaints in two years

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

- Expect Group net interest margin of around 1.98 per cent for full year 2013

- Targeting further reduction in total costs to around £9.8 billion in 2013

- Expect further improvement in portfolio quality, and a substantial reduction in the 2013 impairment charge, with a consequential increase in underlying profit before tax

- Targeting core loan growth in the second half of 2013

- Expect a further reduction of non-core assets of at least £20 billion in 2013; on track to achieve target of a non-core asset portfolio of £70 billion or less by the end of 2014, with more than 50 per cent in non-core retail assets

SUMMARY OF RESULTS

Income statement	2012 £m	2011 £m	Change %
Group			
Total underlying income, net of insurance claims	18,386	21,046	(13)
Total costs	(10,082)	(10,621)	5
Impairment	(5,697)	(9,787)	42
Underlying profit	2,607	638	309
Banking net interest margin	1.93%	2.07%	(14)bp
Average interest-earning banking assets	£543.3bn	£585.4bn	(7)
Impairment charge as a % of average advances1	1.02%	1.62%	(60)bp
Return on risk-weighted assets2	0.78%	0.17%	61bp
Core			
Total underlying income, net of insurance claims	17,285	18,765	(8)
Total costs	(9,212)	(9,682)	5
Impairment	(1,919)	(2,887)	34
Underlying profit	6,154	6,196	(1)
Banking net interest margin	2.32%	2.42%	(10)bp
Average interest-earning banking assets	£423.7bn	£438.7bn	(3)
Impairment charge as a % of average advances1	0.44%	0.64%	(20)bp
Return on risk-weighted assets2	2.56%	2.46%	10bp
Statutory results			
Statutory loss before tax	(570)	(3,542)	
Statutory loss per share	(2.0)p	(4.1)p	

Capital and balance sheet	At 31 Dec 2012	At 31 Dec 2011	Change %
Loans and advances excluding reverse repos	£512.1bn	£548.8bn	(7)
Customer deposits excluding repos	£422.5bn	£405.9bn	4
Loan to deposit ratio3	121%	135%	(14)pp
Wholesale funding	£169.6bn	£251.2bn	(32)
Wholesale funding <1 year maturity	£50.6bn	£113.3bn	(55)
Wholesale funding <1 year maturity as a % of total wholesale funding	29.8%	45.1%	(15.3)pp
Primary liquid assets	£87.6bn	£94.8bn	(8)
Risk-weighted assets	£310.3bn	£352.3bn	(12)
Core tier 1 capital ratio	12.0%	10.8%	1.2pp
Pro forma fully loaded CRD IV core tier 1 capital ratio4	8.1%	7.1%	1.0pp
Net tangible assets per share	54.9p	58.6p	(3.7)p
Core/Non-core			
Core loans and advances to customers excluding reverse repos	£425.3bn	£437.0bn	(3)
Core loan to deposit ratio3	101%	109%	(8)pp
Core risk-weighted assets	£237.4bn	£243.5bn	(3)

Total non-core assets	£98.4bn	£140.7bn	(30)
Non-core risk-weighted assets	£72.9bn	£108.8bn	(33)

1 Impairment charge on loans and advances to customers divided by average loans and advances to customers, excluding reverse repos, gross of allowance for impairment losses.
2 Underlying profit divided by average risk-weighted assets.
3 Loans and advances to customers (excluding reverse repos) divided by customer deposits (excluding repos).
4 2012 ratio assumes successful resolution of two CRD IV items.

GROUP CHIEF EXECUTIVE'S STATEMENT

Summary

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

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

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

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

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

2012 results overview

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

On a statutory basis, the Group reported a loss before tax of £570 million, with the principal reconciling items with underlying profit being provisions taken during the year in relation to the legacy issues of Payment Protection Insurance (PPI) and interest rate hedging products (IRHP) sold to small and medium-sized businesses (SMEs) of £3,575 million and £400 million respectively, a profit from asset sales of £2,547 million, and Simplification and EC mandated retail business disposal costs together amounting to £1,246 million. Other reconciling items, which are detailed on pages 18 and 19 of this release in the Group Finance Director's Review, resulted in a net charge of £503 million. The statutory loss before tax of £570 million represented a significant improvement on last year's statutory loss of £3,542 million.

GROUP CHIEF EXECUTIVE'S STATEMENT (continued)

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

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

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

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

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

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

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

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

GROUP CHIEF EXECUTIVE'S STATEMENT (continued)

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

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

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

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

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

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

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

GROUP CHIEF EXECUTIVE'S STATEMENT (continued)

Further supporting our customers and the UK economy

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

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

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

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

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

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

Greater clarity emerging on UK regulatory framework

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

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

GROUP CHIEF EXECUTIVE'S STATEMENT (continued)

Dividends

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

EC mandated business disposal (Project Verde)

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

Addressing legacy issues including payment protection insurance

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

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

Our commitment to colleagues

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

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

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

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

GROUP CHIEF EXECUTIVE'S STATEMENT (continued)

Outlook

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

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

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

Conclusion

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

António Horta-Osório
Group Chief Executive

MANAGEMENT BASIS INFORMATION

The analysis and commentary set out on pages 10 to 63 is presented on a management basis as defined on the inside front cover. Within the management income statement the profit or loss arising from asset sales, volatile items, liability management actions and fair value unwind are each shown on one line. The accelerated unwind of fair value resulting from asset sales is included within the asset sales line. Comparatives have been restated accordingly.

MANAGEMENT BASIS CONSOLIDATED INCOME STATEMENT

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

	Core		Non-core	
	2012	2011	2012	2011
	£ million	£ million	£ million	£ million
Net interest income	9,868	10,893	467	1,317
Other income	7,782	8,215	634	964
Insurance claims	(365)	(343)	-	-
Total underlying income, net of insurance claims	17,285	18,765	1,101	2,281
Total costs	(9,212)	(9,682)	(870)	(939)
Impairment	(1,919)	(2,887)	(3,778)	(6,900)
Underlying profit	6,154	6,196	(3,547)	(5,558)
Effects of asset sales, volatile items and liability management	2,217	781	(647)	60
Fair value unwind	(229)	(628)	879	1,834
Management profit	8,142	6,349	(3,315)	(3,664)
Banking net interest margin	2.32%	2.42%	0.55%	1.01%
Impairment charge as a % of average advances	0.44%	0.64%	3.08%	4.60%
Return on risk-weighted assets	2.56%	2.46%		

The basis of preparation of the core and non-core income statements is set out on the inside front cover.

Non-core portfolios consist of non-relationship assets and liabilities together with assets and liabilities which are outside the Group's current risk appetite.

SUMMARY CONSOLIDATED BALANCE SHEET

	At 31 Dec 2012	At 31 Dec 2011
Assets	£ million	£ million
Cash and balances at central banks	80,298	60,722
Trading and other financial assets at fair value through profit or loss	153,990	139,510
Derivative financial instruments	56,550	66,013
Loans and receivables:		
Loans and advances to customers	517,225	565,638
Loans and advances to banks	29,417	32,606
Debt securities	5,273	12,470
	551,915	610,714
Available-for-sale financial assets	31,374	37,406
Held-to-maturity investments	-	8,098
Other assets	50,425	48,083

Total assets	924,552	970,546
Liabilities		
Deposits from banks	38,405	39,810
Customer deposits	426,912	413,906
Trading and other financial liabilities at fair value through profit or loss	35,972	24,955
Derivative financial instruments	48,665	58,212
Debt securities in issue	117,369	185,059
Liabilities arising from insurance and investment contracts	137,592	128,927
Subordinated liabilities	34,092	35,089
Other liabilities	40,861	37,994
Total liabilities	879,868	923,952
Total equity	44,684	46,594
Total liabilities and equity	924,552	970,546

GROUP FINANCE DIRECTOR'S REVIEW OF FINANCIAL PERFORMANCE

Overview

The Group delivered a significantly improved performance in 2012, in a continued challenging economic and regulatory environment. We have substantially increased Group underlying profit and delivered strong returns in excess of the cost of equity in the core business, while further strengthening our balance sheet and delivering significant reductions in costs and risk. Our statutory results for the year were however affected by further provisions for contact and redress costs in relation to legacy PPI business and IRHP sales to small and medium-sized businesses, and also included £3,207 million of gains from sales of government securities.

Significantly improved Group underlying profitability

We reported a Group underlying profit before tax of £2,607 million, an increase of £1,969 million, with another strong performance from the core business at £6,154 million (2011: £6,196 million) and a reduction of £2,011 million in non-core losses to £3,547 million. This was driven by continued improvement in asset quality and further progress on our Simplification programme, which resulted in, respectively, a substantial improvement in the impairment charge, down 42 per cent to £5,697 million, and a further reduction in total costs of 5 per cent to £10,082 million. These improvements more than offset an expected reduction in underlying income, down 13 per cent to £18,386 million, due mainly to a decline in net interest margin, further non-core asset reductions and continued subdued demand for lending and customer deleveraging.

Returns increased in the core business

In our core business, the return on risk-weighted assets improved 10 basis points to 2.56 per cent, and underlying profit was broadly stable at £6,154 million (2011: £6,196 million). Core total costs reduced 5 per cent to £9,212 million as a result of further Simplification savings, and the impairment charge decreased 34 per cent to £1,919 million driven primarily by continued improvement in the quality of our portfolios. These effects broadly offset a reduction of 8 per cent in underlying income which reflected expected continued subdued lending demand and customer deleveraging, as well as a decline in core net interest margin of 10 basis points year-on-year. This decline was mainly a result of higher wholesale funding costs, but was mitigated throughout the year by the benefit of repricing certain lending portfolios and further improvements to the funding mix.

Further substantial non-core asset reduction and lower non-core losses

We delivered a further substantial reduction in non-core assets of £42.3 billion (30 per cent) in 2012, significantly ahead of our original guidance for the year, resulting in a remaining non-core asset portfolio of £98.4 billion. The percentage reduction in risk weighted assets on the portfolio was in line with that of non-core assets. Continued high wholesale funding costs were the main driver behind a reduction in the non-core margin of 46 basis points to 0.55 per cent. Given a substantial improvement in the impairment charge, which reduced by 45 per cent to £3,778 million, and a further 7 per cent cost reduction, the non-core business delivered a reduced underlying loss of £3,547 million (2011: £5,558 million).

Management and statutory results

Management profit, which includes the effects of asset sales, liability management, volatile items and fair value unwind was £4,827 million, an increase of £2,142 million or 80 per cent compared to 2011. This included a profit on government bond sales of £3,207 million (2011: £196 million) as a result of our active management of our balance sheet in response to the low interest rate environment, and a positive fair value unwind of £650 million, partly offset by a loss on asset sales of £660 million, charges for own debt volatility of £270 million, and other volatility of £478 million.

The statutory loss before tax of £570million included provisions of £3,575 million in relation to legacy PPI business and £400 million in relation to IRHP sales to small and medium sized business. Charges relating to Simplification amounted to £676 million, while costs relating to the EC mandated retail business disposal (Verde) totalled £570 million. The loss after tax was £1,343 million, with a tax charge of £773 million. This tax charge reflects a policyholder tax charge arising from the revaluation of policyholder tax credits in the light of current economic forecasts and recent changes to the taxation of life insurance companies and the impact of the announced reduction in UK corporation tax rate to 23 per cent on the net deferred tax asset.

GROUP FINANCE DIRECTOR'S REVIEW OF FINANCIAL PERFORMANCE (continued)

Balance sheet further strengthened; remain confident in our capital position

We continue to make good progress in strengthening our balance sheet, further improving our core tier 1 capital ratio by 1.2 per cent to 12.0 per cent by the end of 2012. The total capital ratio improved from 15.6 per cent at the end of 2011 to 17.3 per cent, which already exceeds the Independent Commission on Banking's (ICB) primary loss-absorbing capacity (PLAC) recommendations. Our fully loaded core tier 1 ratio increased by 1 per cent to 8.1 per cent. We continued to reduce risk in the balance sheet, achieving a significant non-core asset reduction and completing the transformation of our funding position. We remain confident in our capital position given our strongly capital generative core business and the capital accretive non-core asset reduction achieved in the year.

The non-core asset reduction and further deposit growth of 4 per cent (excluding repos) also allowed us to further transform our funding position in 2012, with the core loan to deposit ratio of 101 per cent at the end of 2012 now very close to our long-term target of 100 per cent. The total amount of Group wholesale funding reduced by 32 per cent to £169.6 billion at the end of 2012 from £251.2 billion at the end of 2011, and its maturity profile was further improved, with wholesale funding with a maturity of less than one year reduced to less than 30 per cent of total wholesale funding at the end of 2012, down from 45 per cent at the end of 2011.

Our liquidity position remains strong, with a primary liquid asset portfolio of £87.6 billion. The total liquid asset portfolio of £205 billion represents approximately four times our wholesale funding with a maturity of less than one year at the end of 2012, providing a substantial buffer in the event of market dislocation.

Organisational and reporting changes

A number of alterations were made to the management and organisation of the Group during the year.

In the first half of 2012 the Asset Finance business, previously reported within Wholesale, was transferred to the Wealth, Asset Finance and International division. In the fourth quarter of 2012, the Group's Wholesale and Commercial divisions were combined to form the new Commercial Banking division. The Group's European and Australian wholesale business has also been transferred from Wealth, Asset Finance and International to Commercial Banking.

Comparative figures have been restated accordingly.

We continue to simplify our reporting and this is the last time we will report management profit as a separate item. Going forward our reporting will focus on underlying and statutory profit. In addition, impairment charges directly related to asset sales are now included in the asset sales line.

GROUP FINANCE DIRECTOR'S REVIEW OF FINANCIAL PERFORMANCE (continued)

Total underlying income

	Group			Core		
	2012	2011	Change	2012	2011	Change
	£m	£m	%	£m	£m	%
Net interest income	10,335	12,210	(15)	9,868	10,893	(9)
Other income	8,416	9,179	(8)	7,782	8,215	(5)
Insurance claims	(365)	(343)	(6)	(365)	(343)	(6)
Total underlying income	18,386	21,046	(13)	17,285	18,765	(8)
Banking net interest margin	1.93%	2.07%	(14)bp	2.32%	2.42%	(10)bp
Average interest-earning banking assets	£543.3bn	£585.4bn	(7)	£423.7bn	£438.7bn	(3)
Loan to deposit ratio	121%	135%	(14)pp	101%	109%	(8)pp

Total underlying income for the year decreased 13 per cent to £18,386 million, principally reflecting the effects on the core business of continued subdued lending and customer deleveraging, and further asset reductions in the non-core business.

Trends in total underlying income were more stable in the second half of the year, as the effect on non-core income from the reduction of non-core assets was broadly offset by core income growth which, having reduced by 5 per cent in the first half of 2012, increased by 2 per cent in the second half.

Group income

Group net interest income for the year fell by 15 per cent to £10,335 million due to lower asset balances and a decline in margin. Average interest-earning banking assets fell 7 per cent, mainly due to further non-core asset reductions, while the banking net interest margin reduced 14 basis points to 1.93 per cent, due to competitive deposit markets and higher wholesale funding costs continuing into 2012, with the average cost of new funding continuing to be higher than the average cost of maturing funds. These effects were partly mitigated by the benefits of re-pricing certain lending portfolios, an improving funding mix, and the reduction in lower margin non-core banking assets.

A reduction in other income of 8 per cent to £8,416 million was mainly driven by lower expected returns in the insurance business and low customer confidence affecting sales of insurance products. In addition, fee income in Asset Finance and International was lower, while managed reduction in the balance sheet also reduced fees and commissions.

Core income

The reduction in core net interest income of 9 per cent to £9,868 million reflected the 3 per cent decrease in core average interest-earning banking assets, and a 10 basis point decline in banking net interest margin which was a result of continued elevated funding costs. The decline in core assets slowed in the second half, with customer loans and advances down by £3.2 billion compared with a reduction of £8.5 billion in the first half. The core net interest margin was stable throughout the year. Core other income reduced by 5 per cent, reflecting lower expected returns in the Insurance business and reduced sales of insurance products.

GROUP FINANCE DIRECTOR'S REVIEW OF FINANCIAL PERFORMANCE (continued)

Total costs

	2012 £m	2011 £m	Change %
Core	9,212	9,682	5
Non-core	870	939	7
Total costs	10,082	10,621	5
Simplification savings annual run-rate	847	242	

Total costs decreased by 5 per cent compared to 2011, and are now close to our £10 billion target. This is two years ahead of the plan we set out in our 2011 Strategic Review and an absolute reduction in the cost base of around £1 billion since 2010, despite inflation and increased investment in the core business.

Core total costs reduced by 5 per cent driven by the benefits of our Simplification programme, partly offset by inflationary pressures and increased investment in the business, while in the non-core business, the reduction of 7 per cent was mainly a result of a smaller non-core portfolio.

The charge to the Group in respect of the Financial Services Compensation Scheme costs was £175 million (2011: £179 million). The Bank Levy was £179 million (2011: £189 million), in spite of an increase in the rate of the levy, as a consequence of the lower levels of wholesale funding a reduction in the Group's balance sheet and an increase in the proportion of funding with a maturity of greater than one year.

As at 31 December 2012, we had realised annual run-rate savings of £847 million from our initiatives to simplify the Group, an increase of £605 million since 31 December 2011, with the Simplification programme contributing in year cost savings of £774 million in 2012.

Since the start of the programme 18 months ago, we have made strong progress in our Simplification programme, with over 200 improvements delivered. We continue to simplify our business operations through streamlining and improving customer processes, reducing management layers and increasing spans of control as well as restructuring business units. The latter includes consolidation of back office operations sites, optimisation of our model for delivery of IT and outsourcing of our property facilities and asset management services. These improvements are also contributing to improved customer service and significant reductions in customer complaints (excluding PPI).

Given the good progress we have made in the delivery of the Simplification programme in restructuring, simplifying and improving processes, we remain on track to meet our increased run-rate target of £1.9 billion by the end of 2014. This compares with the original target of £1.7 billion announced in June 2011 as part of our Strategic Review. We are now also targeting a reduction in Group total costs to around £9.8 billion in 2013.

GROUP FINANCE DIRECTOR'S REVIEW OF FINANCIAL PERFORMANCE (continued)

Impairment

	Impairment charge			Impairment charge as a % of average advances	
	2012	2011	Change	2012	2011
	£m	£m	%	%	%
Core	1,919	2,887	34	0.44	0.64
Non-core	3,778	6,900	45	3.08	4.60
Total impairment	5,697	9,787	42	1.02	1.62

We continue to improve asset quality through the ongoing application of our conservative credit risk appetite, strong risk management controls and de-risking of our portfolios. This resulted in a reduction in the Group impairment charge of 42 per cent to £5,697 million. The overall performance of the portfolio continues to improve and benefits from low interest rates and broadly stable UK residential property prices, partly offset by the subdued UK economy, the weak commercial real estate market, and high, although reducing, unemployment.

Core impairment

The core impairment charge of £1,919 million was 34 per cent lower than the charge in 2011, primarily driven by better performance in Retail, which reduced by 34 per cent to £1,192 million, and Commercial Banking, which reduced by 33 per cent to £704 million. The reduction in Retail was mainly driven by a reduction in the unsecured charge driven by our sustainable approach to risk, reduced balances and effective portfolio management, while the secured portfolio saw a lower charge as a result of a fall in impaired loans. Within Commercial Banking the fall in core impairment charge was primarily attributable to lower impairments in some core portfolios, including Mid Markets, Corporate and SME. In Mid Markets and Corporate there were specific large impairments in these portfolios in 2011, which were not repeated in 2012. The core impairment charge as a percentage of average advances improved to 0.44 per cent, remaining better than our long-term target for the Group as a whole.

Non-core impairment

The non-core impairment charge of £3,778 million was 45 per cent lower than the charge in 2011, driven by material reductions of 29 per cent to £2,242 million in the Commercial Banking charge, and of 60 per cent to £1,321 million in the International charge. In Commercial Banking, non-core impairments decreased, particularly in the Australasian and Acquisition Finance portfolios, partly offset by further deterioration in the Shipping portfolio as a result of a weak market. In International, the impairment charge reduction was largely as a result of lower charges in the Irish business.

Non-core loans and advances to customers accounted for 72 per cent of the Group's impaired loans and had a coverage ratio of 51 per cent at 31 December 2012 (31 December 2011: 48 per cent).

GROUP FINANCE DIRECTOR'S REVIEW OF FINANCIAL PERFORMANCE (continued)

Management profit

Management profit was £4,827 million in 2012, an increase of £2,142 million when compared to 2011. This incorporates the effects of asset sales, liability management, volatile items and fair value unwind.

	2012 £m	2011 £m
Underlying profit	2,607	638
Asset sales1	2,547	284
Liability management	(229)	1,295
Own debt volatility	(270)	248
Other volatile items	(478)	(986)
Fair value unwind	650	1,206
Management profit	4,827	2,685

1 Net of associated fair value unwind of £689 million (2011: £737 million).

The Group's management profit has been affected by our active management of the balance sheet position in response to the low interest rate environment and the reduction in wholesale funding spreads seen in 2012.

The profit from asset sales of £2,547 million primarily relates to £3,207 million gains from sales of Government securities, as the Group has taken the opportunity afforded by the continuing low yields on these securities to rebalance and reduce the level of these holdings. Also included are losses from asset disposals of £1,349 million, principally relating to the run-down of the non-core portfolios, partially offset by a related fair value unwind of £689 million.

Liability management losses of £229 million arose on transactions undertaken as part of the Group's management of wholesale funding and capital, including a loss of £397 million in the second half resulting from debt repurchases and a gain of £168 million relating to the exchange of certain capital securities for other subordinated debt instruments in the first half.

Own debt volatility of £270 million is primarily driven by a charge relating to the change in fair value of the small proportion of the Group's wholesale funding which was designated at fair value at inception, and which reflects the tightening in credit spreads in the second half of 2012. This was partly offset by a positive impact relating to the change in fair value of the equity conversion feature of the Enhanced Capital Notes.

Other volatile items include the change in fair value of interest rate derivatives and foreign exchange hedges in the banking book not mitigated through hedge accounting, reflecting the volatile market conditions in the period, and a positive net derivative valuation adjustment.

Management profit also includes a gain of £650 million relating to an unwind of acquisition-related fair value adjustments.

GROUP FINANCE DIRECTOR'S REVIEW OF FINANCIAL PERFORMANCE (continued)

Statutory loss

Statutory loss before tax was £570 million in 2012. Management profit was offset by provisions relating to legacy PPI business totalling £3,575 million, other regulatory provisions of £650 million, and other charges totalling £1,172 million. Further detail on the reconciliation to management and statutory results is included on page 59.

	2012 £m	2011 £m
Management profit	4,827	2,685
Simplification, EC mandated retail business disposal and integration costs	(1,246)	(1,452)
Payment protection insurance provision	(3,575)	(3,200)
Other regulatory provisions	(650)	(175)
Past service pensions credit	250	-
Amortisation of purchased intangibles	(482)	(562)
Volatility arising in insurance businesses	306	(838)
Loss before tax - statutory	(570)	(3,542)
Taxation	(773)	828
Loss for the period	(1,343)	(2,714)
Loss per share	(2.0)p	(4.1)p

Simplification and EC mandated retail business disposal costs
The costs of the Simplification programme were £676 million in 2012, with a total of £861 million spent to date. These costs related to severance, IT and business costs of implementation. FTE role reductions of 4,892 were announced in 2012 taking the total to 6,990 since the start of the programme. Simplification of our business operations continues through reduction in management layers and increasing spans of control as well as restructuring business units. The latter includes consolidation of back office operations sites, optimisation of our IT delivery model and outsourcing of our property facilities and asset management services. Costs relating to the EC mandated business disposal in 2012 were £570 million and from inception to date total £782 million (costs in the year ended 31 December 2011: £170 million).

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

The net volume of PPI complaints and costs of contact and redress continue to trend downwards. Complaints received in the fourth quarter of 2012 were approximately 20 per cent lower than the preceding quarter, and around 30 per cent lower than the second quarter of 2012. The average monthly spend for the fourth quarter of 2012 was approximately £200 million, a reduction of approximately 25 per cent on the third quarter. While uncertainty remains, we expect the average monthly spend to reduce further in the first half of 2013, by broadly 20 per cent when compared to the fourth quarter of 2012, before further reducing in the second half of the year.

Other regulatory matters
In June 2012, a number of banks, including Lloyds Banking Group, reached agreement with the Financial Services Authority (FSA) to carry out a thorough assessment of IRHP sales made since 1 December 2001 to certain small and medium sized businesses. The Group agreed that, on conclusion of this review, it would provide redress to any of these customers where appropriate. At that time the total cost was not expected to be material.

GROUP FINANCE DIRECTOR'S REVIEW OF FINANCIAL PERFORMANCE (continued)

Given the agreement with the FSA reached on 30 January 2013 following the outcome of a pilot review of IRHP sales to small and medium-sized businesses, the Group now believes it is appropriate to increase its provision for IRHP by £310 million, based on revised estimates of redress and related administration costs. The provision in relation to IRHP now totals £300 million for the cost of redress and £100 million for related administration costs, all of which was accounted for in 2012. At the end of 2012, only £20 million of the original provision had been utilised.

We have received a number of claims in the German courts relating to policies issued by Clerical Medical Investment Group Limited, principally during the late 1990s and early 2000s, and recognised an additional provision of £150 million in respect of this litigation in the third quarter of 2012, taking the total provision to £325 million.

The Group has also taken a provision of £100 million for potential redress and other costs relating to UK Retail and other legacy conduct of business issues.

Further detail on these and other matters is contained in note 21 on pages 157 to 158 of this announcement.

Interbank offered rate setting investigations

We continue to co-operate with investigations by government agencies in the UK, US and overseas into submissions made to the bodies that set various interbank offered rates. In addition the Group, together with other panel banks, has been named in private lawsuits in the US including with regard to the setting of BBA London interbank offered rates. 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 private lawsuits on the Group.

Past service pensions credit

As previously disclosed at the 2012 Half-Year Results, following a review of policy in respect of discretionary pension increases in relation to the Group's defined benefit pension schemes, increases in certain schemes are now linked to the Consumer Price Index rather than the Retail Price Index. The effect of this change is a reduction in the Group's defined benefit obligation of £250 million, the benefit of which has been recognised in the Group's income statement in 2012.

Volatility arising in insurance businesses

The Group's statutory result before tax is affected by insurance volatility, caused by movements in financial markets, and policyholder interests volatility, which primarily reflects the gross up of policyholder tax included in the Group tax charge. In 2012 the Group's statutory result before tax included positive insurance and policyholder interests volatility totalling £306 million compared to negative volatility of £838 million in 2011. Further detail is given in note 3 on page 61.

Taxation

The tax charge for 2012 was £773 million. This represents a greater tax burden than that implied by the UK statutory rate. This is primarily due to a policyholder tax charge of £583 million arising from the revaluation of policyholder tax credits in the light of current economic forecasts and recent changes to the taxation of life insurance companies. An additional £308 million of the tax charge results from the impact of the announced reduction in UK corporation tax rate to 23 per cent on the net deferred tax asset.

GROUP FINANCE DIRECTOR'S REVIEW OF FINANCIAL PERFORMANCE (continued)

Balance sheet

Confident in Group's capital position: capital ratios further improved and substantial further progress on balance sheet reduction

We have a strong capital position, and increased our core tier 1 capital ratio to 12.0 per cent at the end of December 2012 (31 December 2011: 10.8 per cent). This increase was principally driven by a reduction in risk-weighted assets of £42.0 billion, mainly driven by the non-core asset reduction, and the contribution from management profit, partly offset by statutory items and tax costs. The total capital ratio at 31 December 2012 improved to 17.3 per cent (31 December 2011: 15.6 per cent), which is already in excess of the Independent Commission on Banking's (ICB) primary loss-absorbing capacity (PLAC) recommendations.

When applying the draft July 2011 CRD IV rules on both transitional and fully loaded bases, the Group's pro forma common equity tier 1 (CET1) capital ratios would have been 11.6 per cent and 8.1 per cent respectively as at 31 December 2012. The pro forma capital resources are based on our interpretation of the draft July 2011 CRD IV rules with risk-weighted assets estimates updated to reflect the Group's best expectation of how these rules will be amended for subsequent Basel announcements and EU discussions. Our calculation now includes a benefit of approximately 30 basis points from the expected favourable resolution of the definition of corporate exceptions from derivative valuation adjustments and of changes to the definition of default for retail mortgages. In addition, if the alternative treatment was allowed under CRD IV in relation to insurance holdings, we believe this would increase the fully loaded pro forma CRD IV CET1 ratio by approximately 1.0 per cent assuming application of the July 2011 text.

	At 31 Dec 2012	At 31 Dec 2011	Change %
Funded assets	£535.3bn	£587.7bn	(9)
Risk-weighted assets	£310.3bn	£352.3bn	(12)
Non-core assets	£98.4bn	£140.7bn	(30)
Non-core risk-weighted assets	£72.9bn	£108.8bn	(33)
Core tier 1 capital ratio	12.0%	10.8%	1.2pp
Tier 1 capital ratio	13.8%	12.5%	1.3pp
Total capital ratio	17.3%	15.6%	1.7pp
Pro forma fully loaded CRD IV core tier 1 capital ratio	8.1%	7.1%	1.0pp

We are pleased with the progress made on our balance sheet reduction plans, given challenging market conditions. In 2012, we achieved a substantial reduction of £42.3 billion in the non-core portfolio, resulting in the portfolio at 31 December 2012 amounting to £98.4 billion. The reduction continues to be managed in a capital efficient manner, and was capital accretive in 2012. It included reductions of £14 billion in treasury assets, £6 billion in UK commercial real estate and £9 billion in International assets of which £4 billion was in Ireland and £2 billion in Australasia.

The 33 per cent fall in non-core risk-weighted assets over the last year is in line with the 30 per cent of asset reductions achieved and reflects the substantial decrease in risk we have achieved over this period. We continue to expect our non-core assets to reduce to £70 billion or less by the end of 2014, at which point we expect more than 50 per cent to be retail assets.

The substantial reduction we have achieved in our non-core portfolio means we have now met our EC asset reduction commitment of £181 billion and we will now seek formal release from this commitment, substantially ahead of the deadline of 31 December 2014.

GROUP FINANCE DIRECTOR'S REVIEW OF FINANCIAL PERFORMANCE (continued)

The Financial Policy Committee (FPC) published its Financial Stability Report on 29 November 2012 recommending that the Financial Services Authority (FSA) takes action to ensure that the capital of UK banks and building societies reflects a proper valuation of their assets, a realistic assessment of future conduct costs and prudent calculation of risk weights. The Group has made significant progress and continues to deliver on its strategy of strengthening the balance sheet, including its capital position, to improve the resilience of the Group.

The Group has strong governance, processes and controls which, combined with the Group's proactive management of risk, result in an appropriate level of capital. This includes:

- Rigorous stress testing exercises where the results are shared with the FSA; and
- Prudent internal models, based on empirical data, that meet regulatory and stringent internal requirements

In the context of on-going macro prudential policy discussions the Board has decided to issue new Lloyds Banking Group ordinary shares to fund discretionary payments on tier 1 hybrid capital securities to be made during 2013. Such discretionary payments are estimated to amount to approximately £350 million and will be made subject to the terms and conditions of the tier 1 hybrid capital securities. Further detail is included on page 122.

Overall, given our strongly capital generative core business and the ongoing capital accretive non-core asset reduction, we remain confident in the Group's capital position.

Funding position transformed; liquidity coverage further increased

The Group has transformed its funding profile and by the end of 2012, the Group loan to deposit ratio had improved from 135 per cent at 31 December 2011 to 121 per cent. The core loan to deposit ratio improved to 101 per cent from 109 per cent at 31 December 2011.

	At 31 Dec 2012	At 31 Dec 2011	Change %
Customer deposits1	£422.5bn	£405.9bn	4
Wholesale funding	£169.6bn	£251.2bn	(32)
Wholesale funding <1 year maturity	£50.6bn	£113.3bn	(55)
Of which money market funding <1 year maturity	£31.0bn	£69.1bn	(55)
Wholesale funding <1 year maturity as a % of total wholesale funding	29.8%	45.1%	(15.3)pp
Loan to deposit ratio2	121%	135%	(14)pp
Core business loan to deposit ratio2	101%	109%	(8)pp
Government facilities	-	£23.5bn	
Primary liquid assets	£87.6bn	£94.8bn	(8)
Secondary liquidity	£117.1bn	£107.4bn	9

1 Excluding repos of £4.4 billion (31 December 2011: £8.0 billion).
2 Loans and advances to customers excluding reverse repos divided by customer deposits excluding repos.

We delivered customer deposit growth of 4 per cent, with good growth in both our Retail and Wealth, Asset Finance and International divisions.

Wholesale funding has reduced by 32 per cent since 31 December 2011 to £169.6 billion. Our short-term money-market funding reduced further by 55 per cent to £31.0 billion (2011: £69.1 billion). We have also improved the maturity profile of wholesale funding, with less than 30 per cent of wholesale funding having a maturity of less than one year at 31 December 2012, compared to 45 per cent at 31 December 2011.

We have also fully repaid all debt issued under the UK Government's Credit Guarantee Scheme, achieving a reduction of £23.5 billion in 2012.

GROUP FINANCE DIRECTOR'S REVIEW OF FINANCIAL PERFORMANCE (continued)

In the first quarter of 2012, we drew €13.5 billion (the Sterling equivalent at the date of drawdown was £11.2 billion) under the European Central Bank's Long-Term Refinancing Operation for an initial term of three years, to part fund a pool of non-core euro denominated assets. Since the year-end, the Group has repaid over £8 billion of these, a decision which demonstrates the Group's balance sheet strength and strong liquidity position. We will retain the remaining funds as a currency hedge against our European portfolio.

In August 2012, we announced our support for the UK Government's Funding for Lending Scheme. We were the first bank to draw on the scheme in September 2012, drawing down £1 billion, with a further £2 billion during the last quarter of 2012.

We continue to maintain a strong liquidity position. Our primary liquid asset portfolio at the year-end reduced to £87.6 billion (2011: £94.8 billion), reflecting a reduction in total assets, wholesale funding and regulatory liquidity requirements. This represents approximately three times our money market funding and is approximately one and half times our aggregate wholesale funding with a maturity of less than a year, providing a substantial buffer in the event of market dislocation. In addition to primary liquidity assets, we have significant secondary liquidity holdings of £117.1 billion. Our total liquid assets represent approximately four times our short-term wholesale funding.

Given the improvements we have made to the strength of our balance sheet, we have significantly greater balance sheet flexibility with a strong liquidity position and reduced funding requirements. We re-purchased over £15 billion of term wholesale funding in 2012, including £8.5 billion through two public tenders for senior funding. These tenders were undertaken to more effectively manage our overall wholesale funding profile and optimise our future interest expense, whilst maintaining a prudent approach to liquidity.

In January 2013, to promote short-term resilience of bank liquidity risk profiles, the Basel Committee amended the calculation of the Liquidity Coverage Ratio. This requirement has been relaxed to allow a wider pool of asset classes to be deemed to be liquid, and to lengthen the implementation timeframe and assumed cash outflows have been reduced. We await the FSA's interpretation as it applies to UK banks before we can assess the impact to our liquidity position.

Conclusion

In 2012 we delivered a significantly improved underlying performance with key metrics in line with or ahead of expectations and guidance. The core business continues to deliver strong and stable returns, above the cost of equity. In a challenging economic and regulatory environment we have further derisked the balance sheet, strengthened the capital position and transformed our funding profile, and as a result, we are now increasingly well positioned for growth.

George Culmer
Group Finance Director

MANAGEMENT BASIS SEGMENTAL ANALYSIS

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

MANAGEMENT BASIS SEGMENTAL ANALYSIS (continued)

2011	Retail £m	Commercial Banking1 £m	Wealth, Asset Finance and Int'l1 £m	Insurance £m	Group Operations and Central items £m	Group £m
Net interest income	7,497	3,192	1,003	(67)	585	12,210
Other income	1,660	2,806	2,230	2,687	(204)	9,179
Insurance claims	-	-	-	(343)	-	(343)
Total underlying income, net of insurance claims	9,157	5,998	3,233	2,277	381	21,046
Total costs	(4,438)	(2,600)	(2,414)	(812)	(357)	(10,621)
Impairment	(1,970)	(4,210)	(3,604)	-	(3)	(9,787)
Underlying profit (loss)	2,749	(812)	(2,785)	1,465	21	638
Asset sales	48	61	(21)	-	196	284
Volatile items	-	(736)	-	-	(2)	(738)
Liability management	-	-	-	-	1,295	1,295
Fair value unwind	839	1,562	122	(43)	(1,274)	1,206
Management profit (loss)	3,636	75	(2,684)	1,422	236	2,685
Banking net interest margin	2.09%	1.86%	1.72%			2.07%
Impairment charge as a % of average advances	0.54%	2.32%	6.48%			1.62%
Return on risk-weighted assets	2.56%	(0.39)%	(5.82)%			0.17%
Key balance sheet items At 31 December 2011	£bn	£bn	£bn	£bn	£bn	£bn
Loans and advances to customers excluding reverse repos	352.8					