Lloyds Banking Group plc
Form 6-K
February 27, 2015

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

27 February 2015

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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Lloyds Banking Group plc

2014 Full-Year Results

27 February 2015

BASIS OF PRESENTATION

This release covers the results of Lloyds Banking Group plc together with its subsidiaries (the Group) for the year ended 31 December 2014.

Statutory basis

Statutory information is set out on pages 67 to 113. 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 2014 results with 2013 is of limited benefit.

Underlying basis

In order to present a more meaningful view of business performance, the results are presented on an underlying basis excluding items that in management's view would distort the comparison of performance between periods. Based on this principle the following items are excluded from underlying profit:

– the amortisation of purchased intangible assets and the unwind of acquisition-related fair value adjustments;

– the effects of certain asset sales, the impact of liability management actions and the volatility relating to the Group's own debt and hedging arrangements as well as that arising in the insurance businesses and insurance gross up;

– Simplification costs, TSB build and dual running costs;

– payment protection insurance and other regulatory provisions; and

– certain past service pensions credits or charges in respect of the Group's defined benefit pension arrangements.

Unless otherwise stated, income statement commentaries throughout this document compare the year ended 31 December 2014 to the year ended 31 December 2013, and the balance sheet analysis compares the Group balance sheet as at 31 December 2014 to the Group balance sheet as at 31 December 2013.

Segment information and TSB

The segment results and balance sheet information have been restated to reflect the previously announced changes to the Group operating structure implemented from 1 January 2014. The Group's underlying profit and statutory results are unchanged as a result of these restatements. The Group's consolidated results and balance sheet include TSB. Any TSB disclosures in the document are presented on a Lloyds Banking Group basis and may differ to the equivalent figures disclosed in the TSB results release.

FORWARD LOOKING STATEMENTS

This document contains certain forward looking statements with respect to the business, strategy and plans of Lloyds Banking Group and its current goals and expectations relating to its future financial condition and performance. Statements that are not historical facts, including statements about Lloyds Banking Group's or its directors' and/or management's beliefs and expectations, are forward looking statements. By their nature, forward looking statements involve risk and uncertainty because they relate to events and depend upon circumstances that will or may occur in the future. Factors that could cause actual business, strategy, plans and/or results to differ materially from the plans, objectives, expectations, estimates and intentions expressed in such forward looking statements made by the Group or on its behalf include, but are not limited to: general economic and business conditions in the UK and internationally; market related trends and developments, fluctuations in exchange rates, stock markets and currencies; the ability to access sufficient sources of capital, liquidity and funding when required; changes to the Group's credit ratings; the ability to derive cost savings; changing customer behaviour including consumer spending, saving and borrowing habits; changes to borrower or counterparty credit quality; instability in the global financial markets, including Eurozone instability and the impact of any sovereign credit rating downgrade or other sovereign financial issues; technological changes and risks to cyber security; pandemic, natural and other disasters, adverse weather and similar contingencies outside the Group's control; inadequate or failed internal or external processes or systems; acts of war, other acts of hostility, terrorist acts and responses to those acts, geopolitical, pandemic or other such events; changes in laws, regulations, accounting standards or taxation, including as a result of further Scottish devolution; changes to regulatory capital or liquidity requirements and similar contingencies outside the Group's control; the policies, decisions and actions of governmental or regulatory authorities in the UK, the European Union (EU), the US or elsewhere including the implementation of key legislation and regulation; the ability to attract and retain senior management and other employees; requirements or limitations imposed on the Group as a result of HM Treasury's investment in the Group; actions or omissions by the Group's directors, management or employees including industrial action; changes to the Group's post-retirement defined benefit scheme obligations; the ability to complete satisfactorily the disposal of certain assets as part of the Group's EU State Aid obligations; the provision of banking operations services to TSB Banking Group plc; the extent of any future impairment charges or write-downs caused by, but not limited to, depressed asset valuations, market disruptions and illiquid markets; the value and effectiveness of any credit protection purchased by the Group; the inability to hedge certain risks economically; the adequacy of loss reserves; the actions of competitors, including non-bank financial services and lending companies; and exposure to regulatory or competition scrutiny, legal proceedings, regulatory or competition investigations or complaints. Please refer to the latest Annual Report on Form 20-F filed with the US Securities and Exchange Commission for a discussion of certain factors together with examples of forward looking statements. Except as required by any applicable law or regulation, the forward looking statements contained in this document are made as of today's date, and Lloyds Banking Group expressly disclaims any obligation or undertaking to release publicly any updates or revisions to any forward looking statements.

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RESULTS FOR THE FULL YEAR

Substantial strategic progress and improved performance

‘Over the last four years we have transformed Lloyds Banking Group into a low cost, low risk, UK focused retail and commercial bank. This has been made possible by the hard work of everyone at the Group.

Today’s results also demonstrate that our profitability and capital position have improved significantly, and this has enabled the Board, for the first time in over six years, to recommend we pay a dividend to our shareholders.

While we recognise we have more to do, we enter the next phase of our strategy from a position of strength. We will remain focused on our customers, embrace the digital age throughout the whole Group, continue our support for the UK economy and aim to deliver strong and sustainable returns for our shareholders.’

António Horta-Osório
Group Chief Executive

Delivery of 2011 strategic priorities has transformed the business; strategy updated in October

- Group has been reshaped with Run-off assets reduced to £16.9 billion (2013: £33.3 billion) and international presence reduced to six countries from 30 countries in 2010

- Strong balance sheet and liquidity position attained with, post dividend, a CET1 ratio of 12.8 per cent, a total capital ratio of 22.0 per cent and a leverage ratio of 4.9 per cent
- Cost leadership position achieved with cost:income ratio of 51 per cent
- Lending and deposit growth in key customer segments and relationship brands
- Strategy updated in October with focus on creating the best customer experience, becoming simpler and more efficient and delivering sustainable growth

Continue to support customers and the UK economy

- £11.9 billion of mortgage lending to over 89,000 first-time buyers and continued growth in SME lending, up 5 per cent
- Continued to support our communities with over 2,200 apprenticeship positions and over 940,000 paid volunteer hours

Substantial increase in underlying profit and returns

- Underlying profit increased 26 per cent to £7.8 billion (2013: £6.2 billion)
- Return on risk-weighted assets increased to 3.02 per cent (2013: 2.14 per cent)
- Income of £18.4 billion, up 1 per cent excluding St. James's Place effects in 2013
  - Net interest income up 8 per cent, driven by margin improvement to 2.45 per cent
  - Other income down 9 per cent reflecting disposals and a challenging operating environment
- Costs down 2 per cent to £9.4 billion (cost base of £9.0 billion excluding TSB)
- Impairment charge reduced 60 per cent to £1.2 billion; asset quality ratio improved 33 basis points to 0.24 per cent

Statutory profit before tax of £1.8 billion (2013: £0.4 billion) despite legacy items

- £2.2 billion provision for PPI in the year (2013: £3.1 billion) and a £0.9 billion provision for other regulatory items
- Statutory profit after tax of £1.5 billion (2013: loss of £0.8 billion)
- Tangible net assets per share increased to 54.9p (31 Dec 2013: 48.5p)

Guidance reflects confidence in the future

- 2015 full year net interest margin expected to be around 2.55 per cent
- 2015 full year asset quality ratio expected to be around 30 basis points

- Expect other income to be broadly stable in 2015
- Targeting cost:income ratio to exit 2017 at around 45 per cent, with reductions in each year
- Expect to generate between 1.5 and 2 percentage points of common equity tier 1 per annum (pre dividend)
- Expected return on required equity of 13.5-15 per cent by the end of the strategic plan period (2017)

Dividend

- Recommending a dividend of 0.75 pence per share in respect of 2014, amounting to £535 million

CONSOLIDATED INCOME STATEMENT – UNDERLYING BASIS

	2014 £ million	2013 £ million	Change %
Net interest income	11,761	10,885	8
Other income	6,607	7,920	(17)
Total income	18,368	18,805	(2)
Total costs	(9,412)	(9,635)	2
Impairment	(1,200)	(3,004)	60
Underlying profit	7,756	6,166	26
Asset sales and other items	(1,719)	(280)	
Simplification and TSB costs	(1,524)	(1,517)	
Payment Protection Insurance provision	(2,200)	(3,050)	
Other regulatory provisions	(925)	(405)	
Other items	374	(499)	
Profit before tax – statutory	1,762	415	
Taxation	(263)	(1,217)	
Profit (loss) for the year	1,499	(802)	
Underlying earnings per share1	8.1p	6.6p	1.5p
Earnings (loss) per share	1.7p	(1.2)p	2.9p
Banking net interest margin	2.45%	2.12%	33bp
Cost:income ratio2	51.2%	52.9%	(1.7)pp
Asset quality ratio	0.24%	0.57%	(33)bp
Return on risk-weighted assets3	3.02%	2.14%	88bp
Return on assets3	0.92%	0.70%	22bp
Underlying return on required equity4	13.6%	9.7%	3.9pp
Statutory return on required equity4	3.0%	(1.3)%	4.3pp

BALANCE SHEET AND KEY RATIOS

	At 31 Dec	At 31 Dec	Change %

	2014	2013	
Loans and advances to customers5	£478bn	£493bn	(3)
Loans and advances to customers excluding TSB,			
Run-off and other5,6	£406bn	£402bn	1
Customer deposits7	£447bn	£436bn	2
Loan to deposit ratio	107%	113%	(6)pp
Total assets	£855bn	£842bn	1
Run-off assets	£17bn	£33bn	(49)
Wholesale funding	£116bn	£138bn	(15)
Common equity tier 1 ratio8,9	12.8%	10.3%	2.5pp
Transitional total capital ratio8,9	22.0%	18.8%	3.2pp
Risk-weighted assets8,9	£240bn	£272bn	(12)
Leverage ratio9,10	4.9%	3.8%	1.1pp
Tangible net assets per share	54.9p	48.5p	6.4p

1 In calculating underlying earnings per share, tax has been assumed at the standard UK corporation tax rate for the year.
2 Excluding impact of St. James's Place.
3 Underlying profit before tax divided by average quarter end risk-weighted and total assets respectively.
4 See definition on page 13.
5 Excludes reverse repos of £5.1 billion (31 December 2013: £0.1 billion). Loans and advances comparative restated, see note 1, page 75.
6 Other includes the specialist mortgage book, Intelligent Finance and Dutch mortgages.
7 Excludes repos of £nil (31 December 2013: £3.0 billion). Customer deposits comparative restated, see note 1, page 75.
8 31 December 2013 comparatives reflect CRD IV rules as implemented by the PRA at 1 January 2014.
9 31 December 2013 comparatives are reported on a pro forma basis that includes the benefit of the sales of Heidelberger Leben, Scottish Widows Investment Partnership and the Group's 50 per cent stake in Sainsbury's Bank.
10 Following PRA guidance, calculated in accordance with the January 2014 revised Basel III leverage ratio framework.

SUMMARY CONSOLIDATED BALANCE SHEET

Assets	At 31 Dec 2014 £ million	At 31 Dec 2013 £ million
Cash and balances at central banks	50,492	49,915
Trading and other financial assets at fair value through profit or loss	151,931	142,683
Derivative financial instruments1	36,128	30,804
Loans and receivables:		
Loans and advances to customers1	482,704	492,952
Loans and advances to banks	26,155	25,365
Debt securities	1,213	1,355
	510,072	519,672

Available-for-sale financial assets	56,493	43,976
Other assets	49,780	55,330
Total assets	854,896	842,380

Liabilities		
Deposits from banks	10,887	13,982
Customer deposits1	447,067	439,467
Trading and other financial liabilities at fair value through profit or loss	62,102	43,625
Derivative financial instruments1	33,187	27,658
Debt securities in issue	76,233	87,102
Liabilities arising from insurance and investment contracts	114,486	110,758
Subordinated liabilities	26,042	32,312
Other liabilities	34,989	48,140
Total liabilities	804,993	803,044

Shareholders' equity	43,335	38,989
Other equity instruments	5,355	–
Non-controlling interests	1,213	347
Total equity	49,903	39,336
Total liabilities and equity	854,896	842,380

1 See note 1, page 75.

GROUP CHIEF EXECUTIVE'S STATEMENT

Highlights

2014 was a year of continued delivery for the Group, with the achievement of the key objectives set out in our 2011 strategic plan resulting in a significant transformation of the business and improvement in performance. Strategically, we are now a low risk bank, with a strong balance sheet and funding position and industry cost leadership, all of which provide competitive differentiation.

This delivery has, in turn, enabled the UK government to make further progress in returning the Group to full private ownership. In 2014 the UK government reduced its shareholding through the second successful sale of part of its stake in March and the launch of a pre-arranged trading plan in December which provides a means for an orderly sell down that will end no later than June 2015. On 20 February 2015, we were advised that UKFI's interest in the Group had reduced to 23.9 per cent. In the summer, we sold 38.5 per cent of TSB via a well-received Initial Public Offering, with this and the subsequent sale of a further 11.5 per cent stake in September resulting in us being firmly on track to meet our European Commission State Aid commitments.

The Board recognises the importance of sustainable and growing dividends to our shareholders and is today announcing the resumption of dividend payments, with a recommended dividend payment of 0.75 pence per share in respect of 2014. This is a symbolic development that bears testament to our successful transformation and improved risk profile of the business.

Given this strong strategic progress and the improvement in our financial performance and position, we have a firm foundation to deliver the new strategic priorities that we set out in October and we are well placed to continue to support and benefit from the strengthening UK economy and to be the best bank for our customers and shareholders.

Financial performance in 2014

We delivered a significant improvement in financial performance at both an underlying and statutory level. Underlying profit increased by 26 per cent to £7,756 million, with the Group's return on risk-weighted assets (RoRWA) improving by 88 basis points to 3.02 per cent. At a divisional level, all of our banking businesses delivered a robust performance with improvements in underlying profit and RoRWA in our Retail, Commercial Banking and Consumer Finance divisions after increased investment made to deliver growth. Underlying profit was lower in our Insurance division, reflecting the challenging market backdrop and regulatory and legislative changes that have similarly affected the wider industry.

Net interest income increased by 8 per cent, driven by a 33 basis point improvement in the net interest margin to 2.45 per cent and increased lending in our key customer segments. Other income excluding St. James's Place effects was 9 per cent lower, reflecting business disposals and a challenging operating environment. Underlying costs were reduced by 2 per cent, while the effective management of our lending portfolio, coupled with the benign economic and low interest rate environment, resulted in a substantial 60 per cent reduction in the impairment charge to £1,200 million.

On a statutory basis, the Group reported a profit before tax of £1,762 million compared to £415 million in 2013. This was after £2,200 million of charges in respect of PPI (2013: £3,050 million) and other regulatory provisions of £925 million (2013: £405 million).

Helping Britain Prosper and delivering growth in our key customer segments

As a UK centric retail and commercial bank, our future is inextricably linked to the health of the UK economy. In 2014 the UK economy continued to recover, with GDP growing robustly, unemployment falling, and both consumer and business confidence increasing. UK house prices have also continued to recover strongly, with an 8.4 per cent increase in the year. Against this, affordability measures remain good, with the recent calming of house price appreciation in London and the South East a welcome development.

GROUP CHIEF EXECUTIVE'S STATEMENT (continued)

We are committed to helping Britain and its communities and in March we launched our Helping Britain Prosper Plan. This initiative comprises a number of public commitments in areas where we can make the biggest difference and create value for our customers across households, businesses and our communities, in turn supporting our goal of being the best bank for customers. Since its launch, all of our divisions have made good progress in implementing this Plan, with the Group exceeding each of its lending commitments in 2014 while also delivering lending growth in our key customer segments.

In our Retail division, we provided £11.9 billion of lending to over 89,000 first-time buyers as well as 1 in 5 of all mortgage loans to customers buying their home in the UK in 2014, with total gross mortgage lending of £40 billion, 13 per cent higher than the prior year. We remain the largest participant in the UK government's Help to Buy mortgage guarantee scheme, lending £1.9 billion through this scheme in the year. In Retail Business Banking, we also supported over 100,000 new business start-ups.

The Commercial Banking division continued to take a leading role in supporting the UK economic recovery, with SME lending growing for the fourth consecutive year against a market that has contracted each year, increasing by 5 per cent in 2014. Lending to Mid Market corporates also increased by 2 per cent in a market that contracted by around 3 per cent. We remain firm supporters of the UK government's Funding for Lending scheme, committing over £15.5 billion of eligible lending and £1 billion to UK manufacturing during 2014.

In Consumer Finance, we achieved UK lending growth of 17 per cent to £16.0 billion, driven by 43 per cent growth in Asset Finance and a return to growth in our cards business following eight years of decline. New business growth was also strong, with a 48 per cent increase in Black Horse new business partly reflecting the launch of the Jaguar Land

Rover partnership, and Cards benefiting from a 15 per cent increase in balance transfer volumes from new and existing customers as well as a 4 per cent increase in new consumer credit card accounts opened.

In Insurance, we have seen good momentum in our corporate pensions business where we are a market leader, serving over 11,500 employers and 1.4 million employees who have invested a total of £27 billion of assets with us. In 2014, the number of employees covered by these schemes increased by 40 per cent, principally reflecting our ongoing support for employers through the auto-enrolment process.

Our support for our customers and communities does not just extend to the lending commitments we have made to our key customer groups. It also covers a number of other initiatives through the Helping Britain Prosper Plan. In 2014, we delivered against the majority of these major commitments, donating £16.5 million to the Bank's Foundations to help tackle disadvantage and now having trained over 1,300 colleagues as mentors to SMEs and social entrepreneurs and provided over 940,000 of paid volunteer hours to support community projects.

Delivering the best bank to our key stakeholders

Our strong performance in 2014 marks the culmination of four years of delivery against our strategic plan that has transformed the business for the benefit of our stakeholders.

For our shareholders, we have delivered a significant improvement in financial performance, while improving the risk profile of the bank and strengthening the balance sheet.

We have strengthened underlying performance from a loss of £0.9 billion in 2010 to a profit of £7.8 billion in 2014, driven by a combination of lower impairment charges and a reduction in the Group's cost base. While our statutory result has also increased significantly over this period, our pre-tax profit of £1.8 billion in 2014 continued to be affected by PPI and other regulatory provisions as well as costs associated with TSB, the Simplification programme and the ECN exchange.

Looking ahead, while regulatory and conduct risks remain, we believe that the Group's statutory performance will become significantly less impacted by such issues, resulting in a far greater proportion of our underlying financial performance flowing through to shareholder returns over time.

GROUP CHIEF EXECUTIVE'S STATEMENT (continued)

In 2014 we achieved our enhanced target of delivering £2 billion of annual run-rate savings through the first phase of our Simplification programme, resulting in a reduction in our cost base from over £11 billion in 2010 to £9.0 billion (excluding TSB). Our cost:income ratio of 51.2 per cent is now the lowest amongst our major UK banking peers, in turn delivering a cost leadership position as a strategic differentiator and source of competitive advantage.

Being a low risk bank is also central to our strategy and business model, while supporting our aim of being best bank for our shareholders by reducing earnings volatility. This is illustrated by our credit default swap (CDS) spread reducing from over 300 basis points (bps) at the end of 2011 to less than 50 bps at the end of 2014, which is one of the best in the banking sector worldwide. We have significantly reduced risk in our lending business through careful portfolio management, the centralisation of the risk division and the implementation of tighter underwriting standards and controls. As a consequence, non-performing loans have reduced from over 10 per cent of lending balances in 2010 to less than 3 per cent in 2014. Over the same period, we have successfully reshaped the Group, reducing our non-core portfolio from £194 billion, or 25 per cent of customer loans, by £148 billion in a capital accretive way. As of December 2014, we now have a remaining Run-off portfolio of £16.9 billion, with lending assets of £14.4 billion within this total representing 3 per cent of customer loans.

Our balance sheet and funding position have also been transformed, with our post dividend Common Equity Tier 1 (CET1) ratio strengthening to 12.8 per cent through a combination of earnings generation, a reduction in risk-weighted assets as we de-risk the business, and other management actions. Our CET1 ratio is now amongst the strongest within the banking sector worldwide, positioning us well against the backdrop of evolving regulatory requirements for capital and leverage. Most recently this has been demonstrated by the Group exceeding the minimum thresholds set in the recent stress tests conducted by the European Banking Authority (EBA) and the PRA, despite the heavy weighting of the stress parameters against a UK retail and commercial banking business model such as ours.

At the same time, we have significantly reduced our reliance on wholesale funding through the careful management of our lending portfolio and the growth in our relationship deposit base, with our loan to deposit ratio strengthening from 154 per cent in 2010 to 107 per cent. Our wholesale funding requirement at the end of 2014 of £116 billion compares to £298 billion at the end of 2010 and is broadly matched by our primary liquid asset portfolio of £109 billion.

Being the best bank for customers is at the heart of our strategy. In support of this, we have continued to invest in our product propositions as well as our branches, digital and telephony channels, with key customer benefits from this investment ranging from reduced processing times, improved ease of access and convenience, and greater efficiency. Digital remains a key area of growth and investment for the business and has now been expanded as a Group-wide division spanning across all business areas, reflecting our customers' evolving preferences in how they interact with us. At the end of 2014, our active online user base was over 10.4 million customers, within which our active mobile users were over 5 million: a 29 per cent increase compared to the end of 2013.

Our success in improving the customer experience has been reflected in net promoter scores (NPS), which have increased by 50 per cent since 2010, and Group reportable banking complaints (excluding PPI), which have reduced significantly over the same period and are now approximately 50 per cent lower than the average of our major banking peers.

Rebuilding customer trust remains a key imperative for the business. In support of this, we have continued to transform the corporate culture and have completely overhauled the performance and reward framework for our customer-facing colleagues, with performance now predominantly assessed on the basis of customer feedback.

We have also strengthened the control environment through changes to our organisational design and the introduction of standardised templates across the Group to assess and monitor our risk appetite. While these improvements have been essential in helping us to rebuild customer trust, we recognise there is more to do and that we still have legacy issues to work through.

GROUP CHIEF EXECUTIVE'S STATEMENT (continued)

Strategic update

In October 2014 we set out the next phase of our strategy, highlighting our key priorities for the next three years and how we intend to deliver value and high quality experiences for customers, alongside strong and sustainable financial performance for our shareholders within a prudent risk and conduct framework.

The first of our three strategic priorities is 'creating the best customer experience'. We will achieve this through our multi-brand, multi-channel approach by combining comprehensive online and mobile capabilities with face-to-face services delivered through our branch and relationship manager network. We will invest £1 billion over the next three years in digital capability across all business divisions, delivering better service with greater efficiency. This transformation will reflect our customers' changing preferences in how they choose to interact with us, providing seamless access through a secure and resilient digital infrastructure.

Secondly, we will create operational capability by 'becoming simpler and more efficient', enabling us to be more responsive to changing customer expectations and to maintain our cost leadership position amongst UK high street banks as a source of competitive advantage. Through the simplification and increased automation of key processes, the reduction in third party spend and changes to our organisational design, we expect to deliver a further £1 billion of annual run-rate savings by the end of 2017, creating value for customers and improving our long-term competitiveness.

Finally, we expect to 'deliver sustainable growth' by seeking Group-wide growth opportunities while maintaining our prudent risk appetite. We intend to maintain market leadership in our main retail business lines of mortgages and current accounts by growing in line with the market, making the most of our multi-brand, multi-channel strategy to meet customer needs. We have also identified a number of growth opportunities in segments and areas where we are currently underrepresented and will look to grow above the market, including business banking, financial planning and retirement, and unsecured consumer lending. Consequently, over the next three years we expect to grow net lending in our key customer segments by over £30 billion, comprising growth in line with the market in retail mortgages, coupled with increases in net lending of £3 billion in both our SME and Mid Markets segments, £4 billion growth in customer assets in Asset Finance and £2 billion in credit cards. We also expect to grow customer assets by over £10 billion in our Insurance division over this timeframe through supporting our retail and corporate customers in making long-term preparations for retirement.

Over the next three years, we expect the UK financial services industry to undergo an unprecedented rate of change, driven by technology, changing customer behaviour and increasing regulatory requirements at a time when traditional competitors' strategies converge and new entrants compete for customers. The successful delivery of our strategic priorities over the next three years will ensure that we are well placed to anticipate and react to these changes, in turn enabling us to retain our leading position in the UK market while delivering value to our customers and shareholders.

Outlook

Thanks to the hard work and commitment of our colleagues, we are entering the next three year phase of our strategy from a position of strength. Together we have delivered the strategic objectives we set out in 2011 resulting in a business that has been transformed, with a reshaped and lower risk portfolio focused on our core UK markets, a strengthened capital and funding position, and a more efficient cost base.

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

António Horta-Osório
Group Chief Executive

CHIEF FINANCIAL OFFICER'S REVIEW OF FINANCIAL PERFORMANCE

Overview: strong underlying profitability and balance sheet

The Group's underlying profit increased by 26 per cent in the year to £7,756 million, with a 2 per cent fall in income more than offset by a 2 per cent reduction in costs and a 60 per cent improvement in impairments. Excluding the effects of St. James's Place, which benefited the 2013 results, total underlying income was up 1 per cent, and expenses were down 2 per cent with underlying profit up 40 per cent.

Statutory profit before tax in 2014 was £1,762 million (2013: £415 million) after provisions for PPI of £2,200 million (2013: £3,050 million) and other regulatory matters of £925 million (2013: £405 million), liability management losses of £1,386 million (2013: £142 million), Simplification and TSB build and dual running costs of £1,524 million (2013: £1,517 million) and a pension credit of £710 million (2013: charge £104 million). The statutory profit after tax in 2014 was £1,499 million compared to a loss after tax of £802 million in 2013. In the 2014 half year results news release we stated that we expected the full year statutory profit to be significantly ahead of the first half. Statutory profit before tax in the year was £1,762 million compared with £863 million in the first half.

Total loans and advances to customers were £477.6 billion at 31 December 2014, 3 per cent lower than at 31 December 2013, with growth in the key customer segments of mortgages, SME lending, Mid Markets and UK Consumer Finance offset by reductions in balances in the Run-off portfolio and lending to Global Corporate customers. Customer deposits were £447.1 billion at 31 December 2014, an increase of £10.6 billion, or 2 per cent, since 31 December 2013 with growth of relationship deposits, partly offset by a reduction in tactical brands.

The Group’s risk-weighted assets have fallen by 12 per cent to £239.7 billion reflecting the reduction in Run-off assets, active portfolio management in Commercial Banking and the improving economic conditions.

The Group’s liquidity position continues to improve with increased primary liquidity up £20.0 billion to £109.3 billion. In addition, the Group has a further £99.2 billion of secondary liquid assets, a proportion of which are expected to be eligible for the Liquidity Coverage Ratio (LCR). Based on the Group’s current understanding of the LCR standards due to be implemented in October 2015, the Group believes that it met the upcoming requirements as at 31 December 2014.

The combination of strong underlying profitability and continued reduction in risk-weighted assets resulted in a further improvement in the Group’s common equity tier 1 ratio to 12.8 per cent at 31 December 2014 after the 0.2 per cent impact of the recommended dividend (31 December 2013: 10.3 per cent pro forma) and the leverage ratio to 4.9 per cent post dividend (31 December 2013: 3.8 per cent pro forma). The increase in the leverage ratio also reflects the issue of additional tier 1 securities (AT1) in the second quarter.

Total income

	2014 £ million	2013 £ million	Change %
Net interest income	11,761	10,884	8
Banking fees and commissions	2,775	2,987	(7)
Insurance income	1,944	2,234	(13)
Operating lease and other income	1,437	1,434	–
Run-off	451	604	(25)
Other income	6,607	7,259	(9)
Total underlying income	18,368	18,143	1
St. James’s Place	–	662	
Total income	18,368	18,805	(2)
Banking net interest margin	2.45%	2.12%	33bp
Banking net interest margin excluding TSB	2.40%	2.10%	30bp
Average interest-earning banking assets	£483.7bn	£510.9bn	(5)
Average interest-earning banking assets excluding TSB	£461.1bn	£486.7bn	(5)

CHIEF FINANCIAL OFFICER’S REVIEW OF FINANCIAL PERFORMANCE (continued)

Total income of £18,368 million was 2 per cent lower than in 2013, with strong growth in net interest income offset by lower other income. Adjusting for St. James's Place effects, total underlying income increased by 1 per cent.

Net interest income increased 8 per cent to £11,761 million, reflecting the continued improvement in net interest margin and loan growth in our key customer segments, partly offset by the effect of disposals and the reduced Run-off portfolio. Net interest margin increased to 2.45 per cent, up 33 basis points, benefiting from improved deposit pricing and lower funding costs (including approximately 7 basis points from the Enhanced Capital Notes (ECNs) exchange in the first half), partly offset by continued pressure on asset prices. The net interest margin in the fourth quarter was 2.47 per cent, 4 basis points lower than in the previous quarter as a result of a one-off charge to net interest income following the decision to simplify the range of savings products available to customers.

The Group expects the net interest margin for the 2015 full year will be around 2.55 per cent.

Excluding St. James's Place effects, other income in the year was 9 per cent lower at £6,607 million. The reduction was due to lower insurance income which was affected by changes in the pensions and annuities markets, the continued challenging market conditions experienced by the Debt Capital Markets and Financial Markets businesses and lower valuations in the private equity business within Commercial Banking, and the impact of business disposals and the smaller Run-off portfolio. The Group expects other income will be broadly stable in 2015 compared with 2014.

Total costs

	2014 £ million	2013 £ million	Change %
Total costs	9,412	9,635	2
Operating lease depreciation included in costs	720	746	3
Cost:income ratio1	51.2%	52.9%	(1.7)pp
Underlying cost:income ratio2	49.8%	49.8%	–
Simplification savings annual run-rate	2,042	1,457	40

1 Excluding income of £662 million and costs of £44 million relating to St. James's Place in 2013.

2 Excluding St. James's Place, operating lease depreciation deducted from income and costs and excluding TSB running costs.

Total costs of £9,412 million were 2 per cent lower than in 2013. The reduction was driven by incremental savings from the Simplification programme of £449 million and business disposals of £392 million, partly offset by pay and inflation of £116 million, and increased investment in the business. Total costs excluding TSB running costs in the year were £9,042 million (2013: £9,072 million). Costs in the fourth quarter included the Bank levy of £254 million (2013: £238 million).

The Simplification programme which began in 2011 is now delivering annual run-rate savings of £2 billion, meeting the increased target announced with the 2013 results. In October the Group announced the next phase of the programme and is targeting a cost:income ratio excluding TSB and adjusting for operating lease depreciation of around 45 per cent by the end of 2017 with annual improvements in the ratio in the intervening years.

Impairment

	2014 £ million	2013 £ million	Change %
Impairment charge excluding Run-off	997	1,615	38

Run-off impairment charge	203	1,389	85
Total impairment charge	1,200	3,004	60
Asset quality ratio	0.24%	0.57%	(33)bp
Impaired loans as a % of closing advances	2.9%	6.3%	(3.4)pp
Provisions as a % of impaired loans	56.4%	50.1%	6.3pp

CHIEF FINANCIAL OFFICER'S REVIEW OF FINANCIAL PERFORMANCE (continued)

The impairment charge was £1,200 million, 60 per cent lower than in 2013 as a result of a significant reduction in run-off business and improvements in all divisions. The improvement reflects lower levels of new impairment as a result of effective risk management, improving economic conditions and the continued low interest rate environment. The net charge has also benefited from significant provision releases but at lower levels than seen in 2013. The asset quality ratio in 2014 was 24 basis points. The impairment charge and asset quality ratio in the fourth quarter were £183 million and 15 basis points, respectively.

The Group expects the asset quality ratio for the 2015 full year will be around 30 basis points.

Impaired loans as a percentage of closing advances reduced from 6.3 per cent at the end of December 2013 to 2.9 per cent at the end of December 2014, driven by reductions within both the continuing and the Run-off portfolios. Provisions as a percentage of impaired loans increased from 50.1 per cent to 56.4 per cent.

Statutory profit

Statutory profit before tax was £1,762 million compared to a pre-tax profit of £415 million in 2013. Further information on the reconciliation of underlying to statutory results is included on page 29.

	2014 £ million	2013 £ million
Underlying profit	7,756	6,166
Asset sales and other items:		
Asset sales	138	(687)
Sale of government securities	–	787
Liability management	(1,386)	(142)
Own debt volatility	398	(221)
Other volatile items	(112)	(457)
Volatility arising in insurance businesses	(228)	668
Fair value unwind	(529)	(228)
	(1,719)	(280)
Simplification and TSB costs:		
Simplification costs	(966)	(830)
TSB build and dual running costs	(558)	(687)
	(1,524)	(1,517)
Payment Protection Insurance provision	(2,200)	(3,050)
Other regulatory provisions	(925)	(405)
Other items:		
Past service pensions credit (charge)	710	(104)
Amortisation of purchased intangibles	(336)	(395)
	374	(499)
Profit before tax – statutory	1,762	415

Taxation	(263)	(1,217)
Profit/(loss) for the year	1,499	(802)
Underlying earnings per share	8.1p	6.6p
Earnings per share	1.7p	(1.2)p

CHIEF FINANCIAL OFFICER'S REVIEW OF FINANCIAL PERFORMANCE (continued)

Asset sales and other items
The net gain from asset sales of £138 million included a gain of £122 million from the sale of Scottish Widows Investment Partnership. In 2013 there was a net loss from asset sales of £687 million and a £787 million gain on the sale of government securities.

The loss for liability management in 2014 of £1,386 million largely related to the Group's ECN exchange offers completed in the second quarter. This was partly offset by the credit from own debt volatility of £398 million which mainly reflected the change in value of the equity conversion feature of the ECNs.

There was a charge for other volatile items of £112 million (2013: charge of £457 million) relating to the change in fair value of interest rate derivatives and foreign exchange hedges in the banking book not mitigated through hedge accounting.

Negative volatility arising in insurance businesses was £228 million in 2014, principally reflecting lower than expected returns on equity markets and cash investments. This compared to positive insurance volatility of £668 million in 2013 driven by strong equity market performance.

The fair value unwind was a net charge of £529 million compared with a net charge of £228 million in 2013. The charge largely related to the amortisation of fair value adjustments relating to the subordinated debt acquired as part of the HBOS acquisition in 2009.

Simplification and TSB costs
Total Simplification costs in 2014 were £966 million (2013: £830 million). The total spent on Simplification to the end of December 2014 was £2.4 billion with a further £0.2 billion of redundancy costs in 2014 relating to the acceleration of the next phase of the programme. The original programme has delivered annual run-rate savings of £2.0 billion, meeting the increased target announced with the 2013 results. In the next phase of Simplification the Group is targeting a further £1 billion of annual run-rate savings by the end of 2017.

The Group holds 50 per cent of TSB's ordinary shares. TSB build and dual running costs in the year were £232 million and £326 million, respectively. In 2013 TSB build costs were £687 million.

PPI
The Group increased the provision for expected PPI costs by a further £700 million in the fourth quarter. This brings the amount provided in 2014 to £2,200 million (2013: £3,050 million), and the total amount provided to £12,025 million. Total costs incurred in the fourth quarter were £700 million and as at 31 December 2014, £2,549 million or 21 per cent of the total provision, remained unutilised.

The volume of reactive PPI complaints in 2014 fell by 22 per cent compared with 2013 and by 12 per cent in the fourth quarter. During 2014 there has been a more sustained level of Claims Management Company (CMC) activity and as a result the Group is forecasting a slower decline in future volumes than previously expected. The provision remaining at 31 December 2014 assumes that we will receive a further 0.6 million complaints. This revised forecast of complaint volumes accounts for £1,080 million, approximately half of the additional provision taken in the year and of which £300 million in the fourth quarter. However, the provisions remains sensitive to future trends; as an example, were reactive complaint levels in the first two quarters of 2015 to remain broadly in line with the fourth quarter of 2014 then the revised modelled total complaints and associated administration costs would increase the provision by approximately £700 million.

The Group has mailed the original Past Business Review (PBR) scope of 2.7 million policies as at 31 December 2014. During the year response rates to mailings have been slightly higher than expected, and some limited additional mailing has been added to the scope. This covers £300 million of the provision increase in the year and £45 million in the fourth quarter.

CHIEF FINANCIAL OFFICER’S REVIEW OF FINANCIAL PERFORMANCE (continued)

The Group has now commenced re-reviewing previously handled cases. During the course of the year the scope of remediation has increased, which combined with higher uphold rates following complaint handling policy changes, has resulted in an additional provision being required of £250 million for the year, of which £140 million was in the fourth quarter.

The Group has also revised its forecast for uphold rates and average redress and increased its estimate for the associated administrative expenses connected with the above which combined have resulted in an increase in the provision of £570 million, of which £215 million was in the fourth quarter.

The total amount provided for PPI represents our best estimate of the likely future costs. The run-rate of spend in the first quarter of 2015 is expected to increase as a result of cash payments for remediation and residual PBR responses. The run-rate of spend in the first half of 2015 overall however, is expected to remain broadly in line with the second half of 2014 as remediation spend reduces. These programmes will be largely complete by mid year, and as a result the Group expects a further reduction in cash outflow in the second half of 2015. However, a number of risks and uncertainties remain in particular in respect of complaint volumes, uphold rates, average redress costs, the cost of proactive mailings and remediation, and the outcome of the FCA Enforcement Team investigation. The cost of these factors could differ materially from our estimates, with the risk that a further provision could be required.

Other regulatory provisions

During 2014 the Group has charged £925 million (2013: £405 million) in respect of other regulatory and conduct related matters of which £425 million was charged in the fourth quarter.

In July 2014, the Group announced that it had reached settlements totalling £217 million (at 30 June 2014 exchange rate) with the UK Financial Conduct Authority, the United States Commodity Futures Trading Commission and the United States Department of Justice regarding the manipulation several years ago of submissions to the British Bankers’ Association London Interbank Offered Rate and Sterling Repo Rate between May 2006 and 2009, as well as the associated systems and control failings. In addition to these regulatory settlements, the Group paid nearly £8 million to the Bank of England to compensate for fees that were underpaid as a direct consequence of the manipulation of the Sterling Repo Rate in 2008 and 2009. These costs were recognised in the first half.

Further provisions of £150 million have been made relating to the past sale of interest rate hedging products (IRHPs) to certain small and medium-sized businesses of which £100 million was recognised in the fourth quarter. The further provision brings the total amount provided for redress and related administration costs for customers in scope of the agreement with the FCA to £680 million of which £109 million was unutilised at 31 December 2014.

Other provisions also included £120 million recognised in the fourth quarter given the emerging experience relative to expectations for claims relating to policies issued by Clerical Medical Investment Group Limited in Germany, bringing the total provision to £520 million of which £199 million was unutilised at 31 December 2014.

In the course of its business, the Group is engaged in discussions with the PRA, FCA and other UK and overseas regulators and other governmental authorities on a range of matters. The Group also receives complaints and claims from customers in connection with its past conduct, and where significant, provisions are held against the costs expected to be incurred as a result of the conclusions reached. In 2014, the Group made further provisions of £430 million in respect of a number of matters affecting the Retail, Commercial Banking and Consumer Finance divisions, including potential claims and remediation in respect of products sold through the branch network and continuing investigation of matters highlighted through industry wide regulatory reviews, as well as legacy product sales and historical systems and controls such as those governing legacy incentive schemes. Of the additional provision, £205 million was recognised in the fourth quarter. The increase reflected the Group's assessment of a limited number of matters under discussion, none of which are individually considered financially material in the context of the Group.

CHIEF FINANCIAL OFFICER'S REVIEW OF FINANCIAL PERFORMANCE (continued)

Other items
The Group made a number of changes to its defined benefit pension scheme arrangements in the first half of the year. These changes and other actions resulted in a £710 million net credit which was recognised in the second quarter.

Taxation
The tax charge for the year to 31 December 2014 was £263 million, representing an effective tax rate of 15 per cent.

The effective tax rate was lower than the UK corporation tax rate largely as a result of tax exempt gains on sales of businesses in the first half and a lower deferred tax liability in respect of the value of in-force assets for the life business partially offset by the effect of non-deductible expenses.

The high tax charge in 2013 was driven by the write down of deferred tax assets following the changes in corporation tax rates and the sale of the Australian business.

In December 2014 the Chancellor of the Exchequer announced proposals to restrict to 50 per cent the amount of banks' profits that can be offset by carried forward tax losses for the purposes of calculating corporation tax liabilities. These proposals are expected to be included in the Finance Bill 2015 and, if passed into law, will take effect in respect of profits arising after 1 April 2015. The Group estimates that these proposals will result in no change to the level of deferred tax recognition although it will increase the period over which it expects to fully utilise its tax losses from 2019 to 2025.

Return on required equity

	At 31 Dec 2014	At 31 Dec 2013	Change %
Underlying return on required equity	13.6%	9.7%	3.9pp
Statutory return on required equity	3.0%	(1.3)%	4.3pp

Underlying return on equity is calculated as the underlying profit after tax at the standard UK corporation tax rate less the post tax profit attributable to other equity holders divided by the average required equity in the year. Required equity is made up of shareholders' equity and non-controlling interests and is the amount required to achieve a common equity tier 1 ratio of 12.0 per cent after allowing for regulatory adjustments and deductions. An adjustment is also made to reflect the notional earnings on any excess or shortfall in equity.

Statutory return on required equity is calculated as the statutory profit after tax less the post tax profit attributable to other equity holders divided by the average required equity in the year. An adjustment is also made to reflect the notional earnings on any excess or shortfall in equity.

Both return measures have improved significantly in the year reflecting the strong growth in underlying profit and the return to statutory profit. The Group has a target statutory return on required equity of between 13.5 per cent and 15 per cent by the end of 2017.

CHIEF FINANCIAL OFFICER'S REVIEW OF FINANCIAL PERFORMANCE (continued)

Capital ratios and risk-weighted assets

	At 31 Dec 2014	At 31 Dec 2013	Change
Common equity tier 1 capital ratio1,3	12.8%	10.3%	2.5pp
Transitional tier 1 capital ratio1,3	16.5%	11.7%	4.8pp
Transitional total capital ratio1,3	22.0%	18.8%	3.2pp
Leverage ratio2,3	4.9%	3.8%	1.1pp
Risk-weighted assets1,3	£240bn	£272bn	(12)%
Shareholders' equity	£43bn	£39bn	11%

1 Common equity tier 1 ratio is the same on both fully loaded and transitional bases. 31 December 2013 comparatives reflect CRD IV rules as implemented by the PRA at 1 January 2014.

2 Calculated in accordance with the January 2014 revised Basel III leverage ratio framework.

3 31 December 2013 comparatives are reported on a pro forma basis that includes the benefit of the sales of Heidelberger Leben, Scottish Widows Investment Partnership and the Group's 50 per cent stake in Sainsbury's Bank.

The Group continued to strengthen its capital position, with the common equity tier 1 (CET1) ratio increasing to 12.8 per cent (31 December 2013: 10.3 per cent pro forma). The improvement was driven by a combination of underlying profit, further dividends from the Insurance business, changes to and improved valuations of the Group's defined benefit pension arrangements, and a reduction in risk-weighted assets. The positive effect of these items was partly offset by charges relating to legacy issues which reduced the CET1 ratio by 1.5 per cent, the ECN exchange and tender offers which reduced the ratio by 0.5 per cent and the recommended dividend which reduced the ratio by 0.2 per cent.

The regulatory framework in which the Group operates has continued to evolve following the implementation of the Capital Requirements Directive (CRD IV) on 1 January 2014. The Group's Pillar 2A requirement at 31 December 2014 was 3.8 per cent of risk-weighted assets of which 2.1 per cent must be covered by CET1 capital. This reflects a point in time estimate by the PRA, which may change over time, of the total capital that is needed in relation to risks that are not covered or fully covered by Pillar 1. The Group is now assuming a steady state CET1 ratio requirement of around 12 per cent.

Risk-weighted assets reduced by 12 per cent, or £32.2 billion, in the year, to £239.7 billion (31 December 2013: £271.9 billion pro forma), primarily due to asset reductions in the Run-off portfolio, active portfolio management in Commercial Banking and improvements in economic conditions.

The Group's leverage ratio increased to 4.9 per cent from 3.8 per cent (pro forma) in December 2013, with the AT1 issuance in the first half, where the Group repurchased the equivalent of £5 billion nominal (£4 billion regulatory value) of ECNs and issued £5.3 billion of new AT1 securities, accounting for 0.5 per cent of the increase.

The Group's leverage ratio exceeds the aggregate minimum levels proposed by the Financial Policy Committee (FPC) which require major domestic banks to meet a minimum ratio of 3 per cent, a supplementary systemic risk based buffer of up to 1.05 per cent (to apply from 2016 for G-SIBs and from 2019 for major domestic banks) and a time-varying countercyclical leverage buffer of up to 0.9 per cent (currently set at zero per cent).

CHIEF FINANCIAL OFFICER'S REVIEW OF FINANCIAL PERFORMANCE (continued)

Stress tests

During the year, the Group was subject to stress testing exercises carried out by both the European Banking Authority (EBA) and the PRA. As announced in October and December respectively, the Group exceeded the capital thresholds set for both these tests and was not required to take any action as a result of these exercises.

The remaining issued Enhanced Capital Notes (ECNs) were not taken into account for the purpose of core capital for the PRA stress test. A Capital Disqualification Event (CDE) occurred allowing the Group, under certain conditions, to redeem, with the permission of the PRA, any series of ECNs. The Group has also indicated its intention to redeem those series of ECNs listed in the announcement, resulting in a reduction in tier 2 capital resources of £0.5 billion.

Funding and liquidity

	At 31 Dec 2014	At 31 Dec 2013	Change %
Loans and advances to customers1	£478bn	£493bn	(3)
Loans and advances to customers excluding TSB, Run-off and other1	£406bn	£402bn	1
Run-off assets	£17bn	£33bn	(49)
Non-retail run-off assets	£11bn	£25bn	(57)
Funded assets	£493bn	£508bn	(3)
Customer deposits2	£447bn	£436bn	2
Wholesale funding	£116bn	£137bn	(15)
Wholesale funding <1 year maturity	£41bn	£44bn	(7)
Of which money-market funding <1 year maturity3	£19bn	£21bn	(11)
Loan to deposit ratio	107%	113%	(6)pp
Primary liquid assets4	£109bn	£89bn	22

1 Excludes reverse repos of £5.1 billion (31 December 2013: £0.1 billion). Loans and advances comparative restated, see note 1, page 75.

2 Excludes repos of £nil (31 December 2013: £3.0 billion). Deposits comparative restated, see note 1, page 75.

3 Excludes balances relating to margins of £2.8 billion (31 December 2013: £2.3 billion) and settlement accounts of £1.4 billion (31 December 2013: £1.3 billion).

4 Includes off-balance sheet liquid assets; includes TSB £4.5 billion (31 December 2013: £nil).

The Group increased its net lending in key customer segments by 1 per cent with growth of 2 per cent in mortgages (excluding books closed to new business), growth of 5 per cent and 2 per cent in SME and Mid Markets respectively and 17 per cent in the UK consumer finance business. Overall, loans and advances to customers have fallen by 3 per cent to £477.6 billion as the growth in key segments has been more than offset by a reduction in Run-off loans and advances. The Group reduced total Run-off assets by 49 per cent to £16.9 billion.

The growth in deposits, together with the reduction in total loans and advances, resulted in the loan to deposit ratio improving to 107 per cent from 113 per cent at the end of 2013, and has reduced the Group's wholesale funding requirement. Wholesale funding at 31 December 2014 was £116.5 billion, with 65 per cent having a maturity of greater than one year.

The Group's liquidity position remains strong, with primary liquid assets of £109.3 billion (31 December 2013: £89.3 billion). Primary liquid assets represent almost six times our money-market funding with a maturity of less than one year, and just under three times our total short-term wholesale funding, in turn providing a substantial buffer in the event of market dislocation. In addition to primary liquid assets, the Group has significant secondary liquidity holdings of £99.2 billion (31 December 2013: £105.4 billion). Total liquid assets represent approximately five times our short-term wholesale funding with primary liquid assets broadly equivalent to total wholesale funding.

Based on the Group's current understanding of the LCR standards due to be implemented in October 2015, the Group believes that it met the upcoming requirements as at 31 December 2014.

CHIEF FINANCIAL OFFICER'S REVIEW OF FINANCIAL PERFORMANCE (continued)

Dividend

The Board has recommended a dividend of 0.75 pence per ordinary share in respect of 2014, amounting to £535 million. The Group's aim is to have a progressive dividend policy, with dividends starting at a modest level and increasing over the medium term to a dividend payout ratio of at least 50 per cent of sustainable earnings. Subject to performance, the intention is to pay an interim and final dividend for 2015.

Conclusion

The Group has delivered a strong underlying performance and a statutory profit after tax of £1.5 billion in 2014 despite recognising further PPI and other regulatory provisions. At the same time, the Group has continued to reduce balance sheet risk, with significantly improved credit quality supported by a further £16 billion reduction in the Run-off portfolio. These achievements have helped strengthen the Group's funding position, key capital and leverage ratios and enabled the Board to recommend a dividend in respect of 2014.

George Culmer
Chief Financial Officer

UNDERLYING BASIS – SEGMENTAL ANALYSIS

2014	Retail	Commercial Banking	Consumer Finance	Insurance	Run-off and Central items	TSB1	Group
	£m	£m	£m	£m	£m	£m	£m
Net interest income	7,079	2,480	1,290	(131)	257	786	11,761
Other income	1,212	1,956	1,364	1,725	210	140	6,607
Total income	8,291	4,436	2,654	1,594	467	926	18,368
Total costs	(4,464)	(2,147)	(1,429)	(672)	(330)	(370)	(9,412)
Impairment	(599)	(83)	(215)	–	(205)	(98)	(1,200)

Underlying profit (loss)	3,228	2,206	1,010	922	(68)	458	7,756
Banking net interest margin	2.29%	2.67%	6.49%				2.45%
Asset quality ratio	0.19%	0.08%	1.05%				0.24%
Return on risk-weighted assets	4.60%	1.92%	4.87%				3.02%
Return on assets	1.02%	0.94%	4.02%				0.92%
Key balance sheet items at 31 December 2014	£bn	£bn	£bn		£bn	£bn	£bn
Loans and advances to customers	315.2	100.9	20.9		19.0	21.6	477.6
Customer deposits	285.5	119.9	15.0		2.1	24.6	447.1
Total customer balances[2]	600.7	220.8	39.0		21.1	46.2	927.8
Risk-weighted assets	67.7	106.2	20.9		39.7	5.2	239.7

2013[3]	£m	£m	£m	£m	£m	£m	£m
Net interest income	6,500	2,113	1,333	(107)	431	615	10,885
Other income	1,435	2,259	1,359	1,864	840	163	7,920
Total income	7,935	4,372	2,692	1,757	1,271	778	18,805
Total costs	(4,160)	(2,084)	(1,384)	(669)	(775)	(563)	(9,635)
Impairment	(760)	(398)	(343)	–	(1,394)	(109)	(3,004)
Underlying profit (loss)	3,015	1,890	965	1,088	(898)	106	6,166
Banking net interest margin	2.09%	2.21%	6.94%				2.12%
Asset quality ratio	0.24%	0.37%	1.76%				0.57%
Return on risk-weighted assets	3.81%	1.53%	4.51%				2.14%
Return on assets	0.95%	0.77%	3.90%				0.70%
Key balance sheet items at 31 December 2013	£bn	£bn	£bn		£bn	£bn	£bn
Loans and advances to customers	314.3	105.7	19.1		30.3	23.5	492.9
Customer deposits	283.2	108.7	18.7		2.8	23.1	436.5
Total customer balances[2]	597.5	214.4	40.6		33.1	46.6	932.2
Risk-weighted assets[4]	72.9	124.0	20.1		48.5	5.6	271.1

1 See note 5, page 82.
2 Total customer balances include loans and advances to customers, customer deposit balances and Consumer Finance operating lease assets.
3

Segment information has been restated to reflect the changes made to the Group's operating structure that came into effect from 1 January 2014. Loans and advances to customers and customer deposits have been restated, see note 1, page 75.

[4] 31 December 2013 comparatives reflect CRD IV rules on a fully loaded basis as implemented by the PRA at 1 January 2014.

UNDERLYING BASIS – QUARTERLY INFORMATION

	Quarter ended 31 Dec 2014 £m	Quarter ended 30 Sept 2014 £m	Quarter ended 30 June 2014 £m	Quarter ended 31 Mar 2014 £m
Net interest income	2,923	3,034	2,993	2,811
Other income	1,547	1,612	1,730	1,718
Total income	4,470	4,646	4,723	4,529
Total costs	(2,505)	(2,232)	(2,377)	(2,298)
Impairment	(183)	(259)	(327)	(431)
Underlying profit	1,782	2,155	2,019	1,800
Asset sales and other items	34	(186)	(1,687)	120
Simplification and TSB costs	(460)	(236)	(362)	(466)
PPI	(700)	(900)	(600)	–
Other regulatory provisions	(425)	–	(500)	–
Other items	(83)	(82)	624	(85)
Statutory profit (loss)	148	751	(506)	1,369
Banking net interest margin	2.47%	2.51%	2.48%	2.32%
Asset quality ratio	0.15%	0.20%	0.26%	0.35%
Cost:income ratio	56.0%	48.0%	50.3%	50.7%
Return on risk-weighted assets	2.89%	3.37%	3.09%	2.71%
Return on assets	0.83%	1.01%	0.97%	0.87%

	Quarter ended 31 Dec 2013 £m	Quarter ended 30 Sept 2013 £m	Quarter ended 30 June 2013 £m	Quarter ended 31 Mar 2013 £m
Net interest income	2,918	2,761	2,653	2,552
Other income	1,754	1,776	1,872	1,857
St. James's Place	114	18	50	480
Total income	4,786	4,555	4,575	4,889
Total costs	(2,525)	(2,361)	(2,341)	(2,408)
Impairment	(521)	(670)	(811)	(1,002)
Underlying profit	1,740	1,524	1,423	1,479
Asset sales and other items	(468)	(709)	(176)	1,073
Simplification and TSB costs	(323)	(408)	(377)	(409)
PPI	(1,800)	(750)	(500)	–
Other regulatory provisions	(330)	–	(75)	–

Other items	(98)	(97)	(201)	(103)
Statutory (loss) profit	(1,279)	(440)	94	2,040
Banking net interest margin	2.29%	2.17%	2.06%	1.96%
Asset quality ratio	0.40%	0.51%	0.57%	0.80%
Cost:income ratio1	54.0%	52.0%	51.7%	53.6%
Return on risk-weighted assets	2.55%	2.14%	1.93%	1.96%
Return on assets	0.81%	0.69%	0.65%	0.66%

1 Excluding impact of St. James's Place.

DIVISIONAL HIGHLIGHTS

RETAIL

Retail offers a broad range of financial service products, including current accounts, savings, personal loans and mortgages, to UK personal customers, including Wealth and small business customers. It is also a distributor of insurance, protection and credit cards, and a range of long-term savings and investment products. Retail's aim is to be the best bank for customers in the UK, by building deep and enduring relationships that deliver value to customers, and by providing them with greater choice and flexibility. Retail will maintain its multi-brand and multi-channel strategy, and continue to simplify the business and provide more transparent products, helping to improve service levels and reduce conduct risks.

Progress against strategic initiatives

- Continued development of its digital capability, with the launch of its new App and the optimisation of browser sites for mobile users. The online user base has increased to over 10.4 million customers, including more than 5 million active mobile users, an increase of 29 per cent from 2013.
- Increased Net Promoter Scores across all channels in 2014.
- Continued to attract new customers through positive switching activity, particularly through the Halifax challenger brand which has attracted around 250,000 customers in 2014.
- Launch of a number of new products, including the Club Lloyds current account proposition which has attracted over 600,000 customers since launch, and the Club Lloyds Saver and Monthly Saver Accounts.
- Launched two new unsecured lending products, enhancing account flexibility and online functionality.
- Announced the simplification of the existing savings products range, which will lead to the consolidation of 47 accounts into three standard products.
- Achieved £40 billion of gross new mortgage lending in 2014, providing 1 in 5 of all mortgage loans to customers buying their homes in the UK. Exceeded our lending commitment to first-time buyers, lending £11.9 billion to over 89,000 customers, providing 1 in 4 of all mortgages. Retail continues to be a leading supporter of the UK government's Help to Buy scheme, lending £1.9 billion in 2014.
- Improved proposition to small business customers through the launch of a new mobile App, online account opening and online lending and successfully transferred 120,000 customers onto a new multi-channel model in Retail. Exceeded its lending commitment by supporting over 100,000 new business start-ups.

Financial performance

- Underlying profit increased 7 per cent to £3,228 million.
- Net interest income increased 9 per cent. Margin increased 20 basis points to 2.29 per cent, driven by improved deposit mix and margin, more than offsetting reduced lending rates.
- Other income down 16 per cent, with lower protection income partly due to the decision to close the face-to-face advised protection role in branches, and lower wealth related income due to regulatory changes.
-

Total costs increased 7 per cent to £4,464 million, reflecting higher indirect overheads previously absorbed in the TSB segment and costs associated with ongoing investment in the business.

- Impairment reduced 21 per cent to £599 million, with unsecured charges decreasing consistent with lower impaired loan and arrears balances. Secured coverage strengthened to 37 per cent, resulting in a 13 per cent increase to the impairment charge.
- Return on risk-weighted assets increased 79 basis points driven by 7 per cent increase in underlying profit and reduced risk-weighted assets.

Balance sheet

- Loans and advances to customers increased slightly to £315.2 billion, with stronger growth of 2 per cent in the open mortgage book (excludes closed specialist book and Intelligent Finance).
- Customer deposits increased 1 per cent to £285.5 billion, with relationship balances (including Lloyds, Halifax and BoS) up 4 per cent year-on-year.
- Risk-weighted assets decreased by £5.2 billion to £67.7 billion driven by an improvement in the credit quality of retail assets and improving house prices.

RETAIL (continued)

	2014	20131	Change
	£m	£m	%
Net interest income	7,079	6,500	9
Other income	1,212	1,435	(16)
Total income	8,291	7,935	4
Total costs	(4,464)	(4,160)	(7)
Impairment	(599)	(760)	21
Underlying profit	3,228	3,015	7
Banking net interest margin	2.29%	2.09%	20bp
Asset quality ratio	0.19%	0.24%	(5)bp
Return on risk-weighted assets	4.60%	3.81%	79bp
Return on assets	1.02%	0.95%	7bp

Key balance sheet items	At 31 Dec 2014	At 31 Dec 2013	Change
	£bn	£bn	%
Loans and advances excluding closed portfolios	284.7	280.4	2
Closed portfolios	30.5	33.9	(10)
Loans and advances to customers	315.2	314.3	–
Relationship balances	247.9	238.4	4
Tactical balances	37.6	44.8	(16)
Customer deposits	285.5	283.2	1
Customer deposits	285.5	283.2	1
Total customer balances	600.7	597.5	1
Risk-weighted assets2	67.7	72.9	(7)

1 Restated to reflect the changes to the Group operating structure that came into effect from 1 January 2014.

2 31 December 2013 comparatives reflect CRD IV rules as implemented by the PRA at 1 January 2014.

COMMERCIAL BANKING

Commercial Banking supports UK businesses from SMEs to large corporates and financial institutions. It has a client led, low risk strategy targeting sustainable returns on risk-weighted assets above 2 per cent by the end of 2015 and 2.4 per cent by the end of 2017, whilst simplifying operating processes, building digital capability and maintaining capital discipline. Commercial Banking aims to be the best bank for clients delivering a through-the-cycle relationship approach that provides affordable, simple and transparent finance, as well as support for complex needs and access to Government funding schemes.

Progress against strategic initiatives

- Continued its support of SMEs, growing lending by 5 per cent in a contracting market. Its network of local and key markets relationship managers enables a quick response to the needs of the significant client base.
- Strengthened the capabilities and increased the number of relationship managers in Mid Markets, resulting in an increase in client numbers, particularly in the local authority, business services and education sectors.
- Enhanced returns in Global Corporates as a result of continued capital optimisation and increased profitability due to resilient income performance in challenging market conditions.
- Further developed the Financial Institutions franchise, meetin