

Lloyds Banking Group plc
Form 20-F
May 07, 2009

As filed with the Securities and Exchange Commission on 7 May 2009

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

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

OR

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended 31 December 2008

OR

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

OR

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

Commission file number 001-15246

LLOYDS BANKING GROUP plc

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

Scotland

(Jurisdiction of Incorporation or Organization)

25 Gresham Street

London EC2V 7HN

United Kingdom

(Address of Principal Executive Offices)

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

Title of each class

**Name of each exchange on which
registered**

Ordinary shares of nominal value 25 pence each, represented by American Depositary
Shares.

The New York Stock Exchange.

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

None

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

None

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The number of outstanding shares of each of Lloyds Banking Group plc's classes of capital or common stock as of 31 December 2008 was:

Ordinary shares, nominal value 25 pence each, as of 31 December 2008	5,972,855,669
Limited voting shares, nominal value 25 pence each, as of 31 December 2008	78,947,368
Preference shares, nominal value 25 pence each, as of 31 December 2008	600,400
Preference shares, nominal value 25 cents each, as of 31 December 2008	1,000,000
Preference shares, nominal value 25 euro cents each, as of 31 December 2008	0
Preference shares, nominal value Japanese ¥25 each, as of 31 December 2008	0

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

Yes No

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

Yes No

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

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

Yes No

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

Large accelerated filer Accelerated filer Non-Accelerated filer

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

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

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

Item 17 Item 18

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

Yes No

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PRESENTATION OF INFORMATION

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

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

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

Lloyds Banking Group publishes its consolidated financial statements expressed in British pounds (pounds sterling, sterling or £), the lawful currency of the UK. In this annual report, references to pence and p are to one-hundredth of one pound sterling; references to US dollars, US\$ or \$ are to the lawful currency of the United States (the US); references to cent or c are to one-hundredth of one US dollar; references to euro or e are to the lawful currency of the member states of the European Union that have adopted a single currency in accordance with the Treaty establishing the European Communities, as amended by the Treaty of European Union; references to euro cent are to one-hundredth of one euro; and references to Japanese yen Japanese ¥ or ¥ are to the lawful currency of Japan. Solely for the convenience of the reader, this annual report contains translations of certain pounds sterling amounts into US dollars at specified rates. These translations should not be construed as representations by Lloyds Banking Group that the pounds sterling amounts actually represent such US dollar amounts or could be converted into US dollars at the rate indicated or at any other rate. Unless otherwise stated, the translations of pounds sterling into US dollars have been made at the noon buying rate in New York City for cable transfers in pounds sterling as certified for customs purposes by the Federal Reserve Bank of New York (the Noon Buying Rate) in effect on 31 December 2008, which was \$1.4619 = £1.00. The Noon Buying Rate on 31 December 2008 differs from certain of the actual rates used in the preparation of the consolidated financial statements, which are expressed in pounds sterling, and therefore US dollar amounts appearing in this annual report may differ significantly from actual US dollar amounts which were translated into pounds sterling in the preparation of the consolidated financial statements in accordance with IFRS.

BUSINESS OVERVIEW

Lloyds Banking Group is a leading UK-based financial services group, whose businesses provide a wide range of banking and financial services in the UK and a limited number of locations overseas. At 31 December 2008, total Lloyds Banking Group assets were £436,033 million and Lloyds Banking Group had some 59,000 employees (on a full-time equivalent basis). Lloyds Banking Group plc's market capitalisation at that date was some £7,500 million. The profit before tax for the 12 months to 31 December 2008 was £807 million and the risk asset ratios as at that date were 11.2 per cent for total capital and 8.0 per cent for tier 1 capital.

In 2008, the operations of Lloyds Banking Group in the UK were conducted through over 1,950 branches of Lloyds TSB Bank, Lloyds TSB Scotland plc and Cheltenham & Gloucester plc. As described on page 6, Cheltenham & Gloucester plc (C&G) was the Group's specialist mortgage arranger. Following the transfer of its mortgage lending and deposits to Lloyds TSB Bank during 2007, C&G now arranges mortgages for Lloyds TSB Bank rather than for its own account. In 2008, international business was conducted mainly in the US and continental Europe, and the Group's services in these countries were offered largely through branches of Lloyds TSB Bank. Lloyds Banking Group also offered offshore banking facilities in a number of countries. For additional information see Regulation .

At 31 December 2008, Lloyds Banking Group's activities were organised into three divisions: UK Retail Banking, Insurance and Investments, and Wholesale and International Banking. Services provided by UK Retail Banking included the provision of banking and other financial services to personal customers, private banking and mortgages. Insurance and Investments offered life assurance, pensions and investment products, general insurance and fund management services. Wholesale and International Banking provided banking and related services for major UK and multinational corporates and financial institutions, and small and medium-sized UK businesses. It also provided asset finance to personal and corporate customers, managed Lloyds Banking Group's activities in financial markets through its treasury function and provided banking and financial services overseas.

The following table shows the results of Lloyds Banking Group's UK Retail Banking, Insurance and Investments and Wholesale and International Banking segments and Central group items in each of the last three fiscal years. In order to provide a more comparable representation of business performance volatility (see Operating and financial review and prospects Line of business information Volatility , for a description of volatility, its significant limitations and the processes put in place by management to compensate for these limitations) has been separately analysed from the results of the individual business units so that, where appropriate, information is presented both in accordance with applicable accounting standards (statutory) and on a basis which excludes volatility (excluding volatility).

	Profit before tax (statutory)			Profit before tax (excluding volatility)		
	2008 £m	2007# £m	2006# £m	2008 £m	2007# £m	2006# £m
UK Retail Banking	1,674	1,644	1,529	1,674	1,644	1,529
Insurance and Investments	(309)	655	1,194	908	1,155	784
Wholesale and International Banking	(6)	1,713	1,612	(6)	1,713	1,612
Central group items	(552)	(12)	(87)	(552)	(12)	(87)
Profit before tax, excluding volatility				2,024	4,500	3,838
Volatility*				(1,217)	(500)	410
Profit before tax	807	4,000	4,248	807	4,000	4,248

* Volatility relates to Insurance and Investments.

As part of Lloyds Banking Group's transition to Basel II on 1 January 2008, the Group has updated its capital and liquidity pricing methodology. The main difference in this approach is to allocate a greater share of certain funding costs, previously allocated to the Central group items segment, to the other divisions. To enable meaningful year-on-year comparisons, the segmental analyses for 2007 and 2006 have been restated to reflect these changes.

On 16 January 2009, Lloyds TSB Group plc acquired 100 per cent of the ordinary share capital of HBOS plc which, together with its subsidiaries and associated undertakings, undertakes banking, insurance and other financial services related activities. Following the acquisition, the Company changed its name to Lloyds Banking Group plc.

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On 7 March 2009, the Company announced that it intends to participate in the UK Government's Asset Protection Scheme (GAPS), with the intention of reducing its risk-weighted assets and strengthening the Group's capital position (see Recent Developments UK Government Asset Protection Scheme).

Lloyds Banking Group plc (previously Lloyds TSB Group plc) was incorporated as a public limited company and registered in Scotland under the UK Companies Act 1985 on 21 October 1985 with the registered number 95000. Lloyds Banking Group plc's registered office is Henry Duncan House, 120 George Street, Edinburgh EH2 4LH, Scotland, and its principal executive offices in the UK are located at 25 Gresham Street, London, EC2V 7HN, United Kingdom, telephone number + 44 (0) 20 7626 1500.

SELECTED CONSOLIDATED FINANCIAL DATA

The financial information set out in the tables below has been derived from the annual reports and accounts of Lloyds Banking Group plc for each of the past four years adjusted for subsequent changes in accounting policy and presentation. These tables have been prepared in accordance with IFRS. The financial statements for each of the years 2004 to 2008 have been audited by PricewaterhouseCoopers LLP, independent accountants.

	2008	2007	2006	2005	2004 ¹
Income statement data for the year ended 31 December (£m)					
Total income, net of insurance claims	9,872	10,706	11,104	10,540	9,661
Operating expenses	(6,053)	(5,567)	(5,301)	(5,471)	(5,297)
Trading surplus	3,819	5,139	5,803	5,069	4,364
Impairment losses	(3,012)	(1,796)	(1,555)	(1,299)	(866)
Profit before tax	807	4,000	4,248	3,820	3,477
Profit for the year	845	3,321	2,907	2,555	2,459
Profit for the year attributable to equity shareholders	819	3,289	2,803	2,493	2,392
Total dividend for the year ²	648	2,026	1,928	1,915	1,914
Balance sheet data at 31 December (£m)					
Share capital	1,513	1,432	1,429	1,420	1,419
Shareholders' equity	9,393	12,141	11,155	10,195	11,047
Customer accounts	170,938	156,555	139,342	131,070	119,811
Preferred securities	5,496	3,031	2,957	2,549	1,388
Undated subordinated liabilities	5,638	4,869	4,863	5,184	4,464
Dated subordinated liabilities	6,122	4,058	4,252	4,669	4,400
Loans and advances to customers	242,735	209,814	188,285	174,944	155,318
Total assets	436,033	353,346	343,598	309,754	284,422
Share information					
Basic earnings per ordinary share	14.3p	58.3p	49.9p	44.6p	42.8p
Diluted earnings per ordinary share	14.2p	57.9p	49.5p	44.2p	42.5p
Net asset value per ordinary share	155p	212p	195p	180p	195p
Total dividend per ordinary share ²	11.4p	35.9p	34.2p	34.2p	34.2p
Equivalent cents per share ^{2,3}	20.3c	71.0c	67.0c	62.2c	63.7c
Market price per ordinary share (year end)	126p	472p	571.5p	488.5p	473p
Number of shareholders (thousands)	824	814	870	920	953
Number of ordinary shares in issue (millions) ⁴	5,973	5,648	5,638	5,603	5,596
Financial ratios (%)⁵					
Dividend payout ratio	79.1	61.6	68.8	76.8	80.0
Post-tax return on average shareholders' equity	7.4	28.2	26.6	25.6	22.8
Post-tax return on average assets	0.22	0.94	0.88	0.84	0.92
Average shareholders' equity to average assets	2.9	3.3	3.2	3.2	3.9
Cost:income ratio ⁶	61.3	52.0	47.7	51.9	54.8
Capital ratios (%)⁷					
Total capital	11.2	11.0	10.7	10.9	10.1
Tier 1 capital	8.0	8.1	8.2	7.9	8.2

1 Except for capital ratios (see 7 below), comparative data for 2004 excludes the provisions of IAS 32, IAS 39 and IFRS 4, which were adopted with effect from 1 January 2005.

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

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

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- 4 This figure excludes the 79 million limited voting ordinary shares owned by the Lloyds TSB Foundations.
- 5 Averages are calculated on a monthly basis from the consolidated financial data of Lloyds Banking Group.
- 6 The cost:income ratio under IFRS is calculated as total operating expenses as a percentage of total income (net of insurance claims).
- 7 In order to provide a more meaningful comparison, capital ratios are shown at 1 January 2005, rather than 31 December 2004, in order to reflect the application of those accounting standards applied with effect from 1 January 2005. Capital ratios for 2008 are in accordance with Basel II requirements; ratios for 2007 and earlier years reflect Basel I.

EXCHANGE RATES

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

	2009 March	2009 February	2009 January	2008 December	2008 November	2008 October
US dollars per pound sterling:						
High	1.47	1.49	1.53	1.55	1.62	1.78
Low	1.38	1.42	1.37	1.44	1.48	1.55

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

	2008	2007	2006	2005	2004
US dollars per pound sterling:					
Average	1.84	2.01	1.86	1.81	1.84

On 17 April 2009, the latest practicable date, the US dollar Noon Buying Rate was \$1.4778 = £1.00. Lloyds Banking Group makes no representation that amounts in pounds sterling have been, could have been or could be converted into US dollars at that rate or at any of the above rates.

BUSINESS

HISTORY AND DEVELOPMENT OF LLOYDS BANKING GROUP

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

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

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

Since August 2007 and even more so since September 2008, global financial markets have experienced a period of significant turmoil, which, among other things, included the UK Government placing Northern Rock into temporary public ownership on 22 February 2008 and the announcement on 15 September 2008 by Lehman Brothers that it intended to file a Chapter 11 bankruptcy petition in the United States. On 18 September 2008, with the support of the UK Government, the boards of the Company and HBOS plc announced that they had reached agreement on the terms of a recommended acquisition by the Company of HBOS plc. The shareholders of the Company approved the acquisition at the Company's general meeting on 19 November 2008 and the acquisition was completed on 16 January 2009. Following the acquisition, the Company changed its name to Lloyds Banking Group plc and operates its business through two significant subsidiaries, Lloyds TSB Bank plc and HBOS plc.

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Pursuant to the placing and open offer by Lloyds Banking Group plc which was completed in January 2009 (and the concomitant placing and open offer by HBOS) and the acquisition of HBOS by Lloyds Banking Group plc completed on 16 January 2009, the UK Government acquir