

LLOYDS
BANKING
GROUP



2016 RESULTS

Presentation to Fixed Income Investors

22 February 2017

HIGHLIGHTS

Strong financial performance demonstrating the strength of the business model

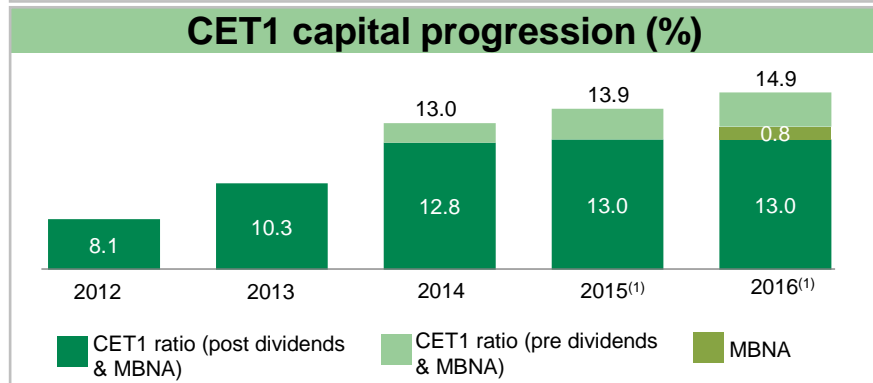
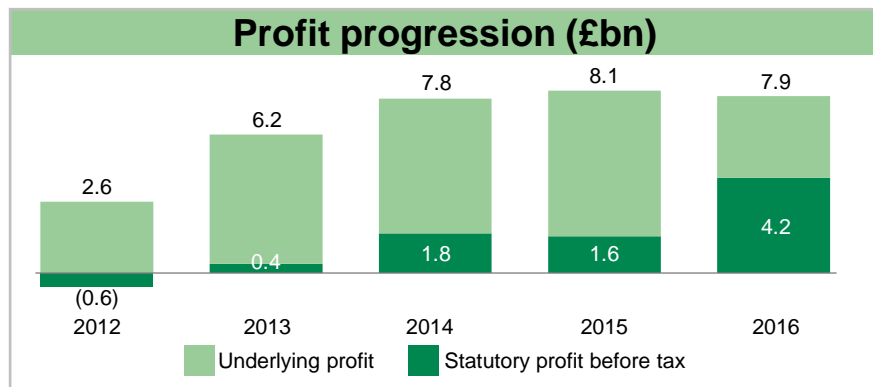


- **Good underlying performance with strong improvement in statutory profit**
 - Underlying profit of £7.9bn; statutory profit before tax more than doubled to £4.2bn
- **Strong capital generation of c.190bps in 2016 with balance sheet strength maintained**
 - CET1 ratio of 13.8%⁽¹⁾ post dividends with c.80bps retained for MBNA (14.9%⁽¹⁾ pre dividends); total capital ratio of 21.4%
- **Our differentiated UK focused business model continues to deliver for customers and shareholders**
 - Helping Britain prosper through continued support to SMEs and first-time buyers
 - Announced acquisition of MBNA's prime UK credit card business, in line with our strategy to grow in consumer finance
- **UKFI holding now below 5%; no longer the Group's largest shareholder**
- **Confidence in the Group's future prospects**
 - Total ordinary dividend of 2.55p per share, an increase of 13%, with a special dividend of 0.5p per share
 - Strong financial targets reflecting strength of business model

⁽¹⁾ Pro forma, including Insurance dividend relating to 2016, paid in 2017.

DIFFERENTIATED BUSINESS MODEL

Our simple, low risk, UK focused business model is now delivering increased statutory profit as well as strong capital generation



- Low risk and low cost business model provides competitive advantage
- Business delivering consistently good underlying profit
- Strong statutory profit and capital generation is now being delivered as the gap to underlying profit narrows
- Strong underlying RoRE of 13.2% and RoTE of 14.1%, with a statutory RoRE of 5.3% and RoTE of 6.6%
- PRA Buffer reduced reflecting de-risking of the Group; target CET1 ratio maintained at c.13%
- Expect ongoing CET1 capital generation of between 170 and 200bps per annum, pre dividend

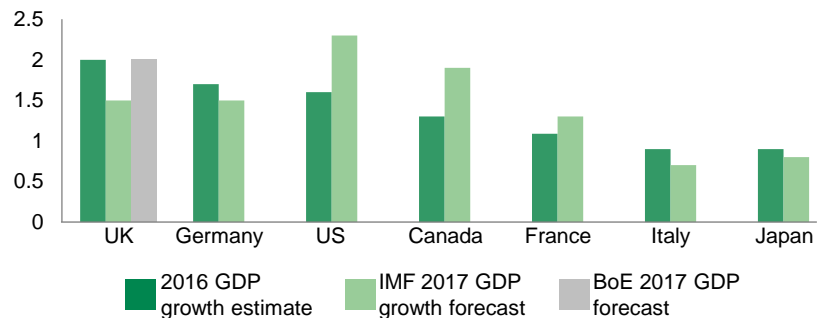
⁽¹⁾ Pro forma, including Insurance dividend.

UK ECONOMY

Resilient UK economic performance; UK economy enters 2017 from a position of strength



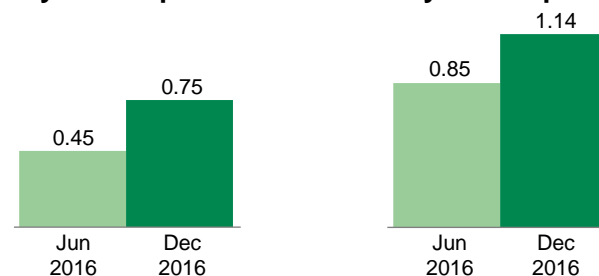
Real GDP growth⁽¹⁾ (%)



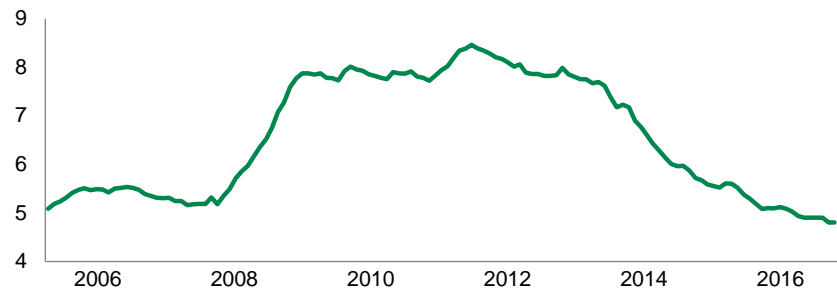
Market swap rates⁽³⁾ (%)

5 year swap rate

10 year swap rate



Unemployment rate⁽²⁾ (%)



- **2016 UK GDP growth has outperformed other major developed economies**
- **GDP forecast to continue its strong growth in 2017**
- **Unemployment of 4.8% at its lowest for over 10 years**
- **Inflation has been low, but is expected to rise in 2017**
- **Market swap rates have improved in H2**

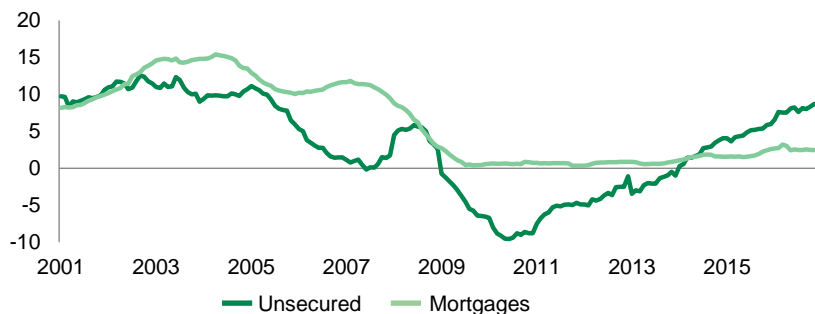
UK ECONOMY

UK unsecured lending has grown but affordability remains good and debt-to-GDP has been reducing

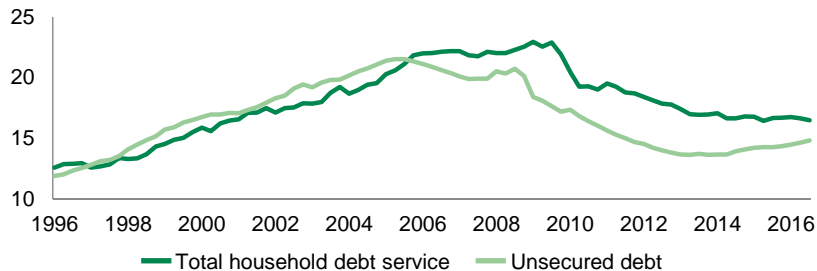


Unsecured lending (%)

Annual growth in UK lending balances⁽¹⁾

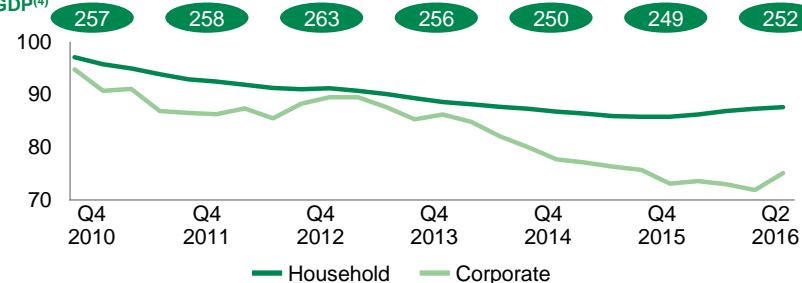


UK unsecured debt⁽²⁾ and households' total debt service⁽³⁾ as proportion of household disposable income



Debt to GDP (%)

Total UK debt to GDP⁽⁴⁾



- Unsecured lending has grown in recent years following a period of contraction post crisis
- Mortgage market balance growth remains low at c.2.5%
- Total household debt service to disposable income has fallen, while low interest rates leave debt service levels at its lowest in 15 years

⁽¹⁾ Source: Debt data from Bank of England and adjusted for reclassifications. ⁽²⁾ Source: Debt data from Bank of England and adjusted for reclassifications; income data from ONS.

⁽³⁾ Source: Debt service data calculated from Bank of England data; income data from ONS. ⁽⁴⁾ Total debt consists of government, household and non-financial corporate debt. Source: BIS.

UNDERLYING FINANCIAL PERFORMANCE

Good underlying performance



(£m)	2016	2015	Change
Net interest income	11,435	11,482	–
Other income	6,065	6,155	(1)%
Total income	17,500	17,637	(1)%
Operating lease depreciation	(895)	(764)	(17)%
Net income	16,605	16,873	(2)%
Operating costs	(8,093)	(8,311)	3%
Impairment	(645)	(568)	(14)%
TSB	–	118	
Underlying profit	7,867	8,112	(3)%
Net interest margin	2.71%	2.63%	8bps
Cost:income ratio	48.7%	49.3%	(0.6)pp
AQR	0.15%	0.14%	1bp

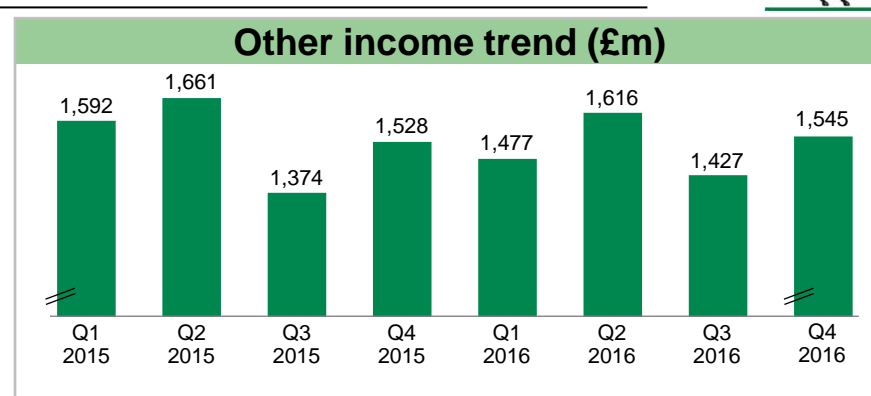
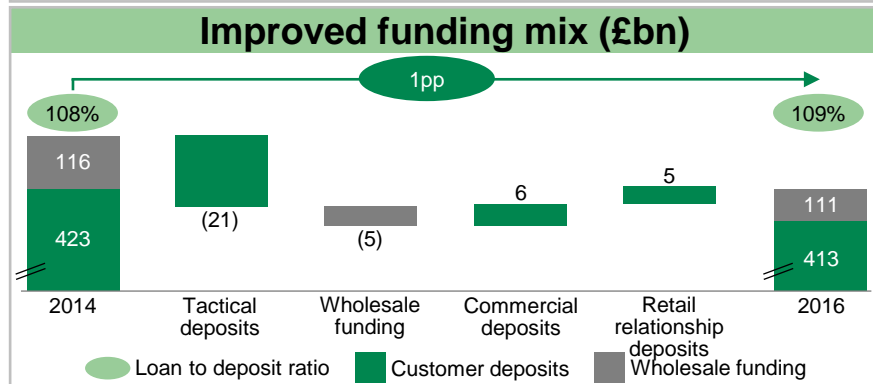
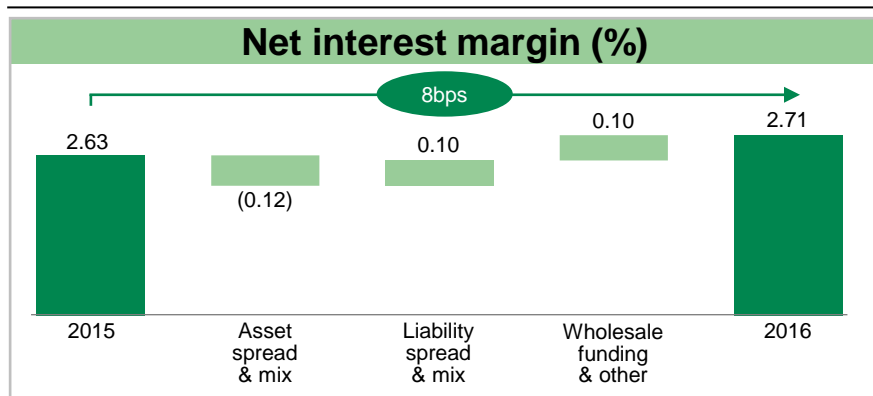
- **Good underlying profit of £7.9bn**

- Stable NII at £11.4bn with an increased margin of 2.71% offset by marginally lower average interest earning assets
- Resilient other income of £6.1bn with Q4 slightly ahead of prior year and Q3 2016
- Operating costs down 3%; actively responding to market conditions through accelerated delivery of cost initiatives
- Positive operating jaws of 1%, with our market leading cost:income ratio further improved to 48.7%
- Increase in impairment charge reflects lower releases and writebacks

- **Underlying RoRE of 13.2% and RoTE of 14.1%**

INCOME

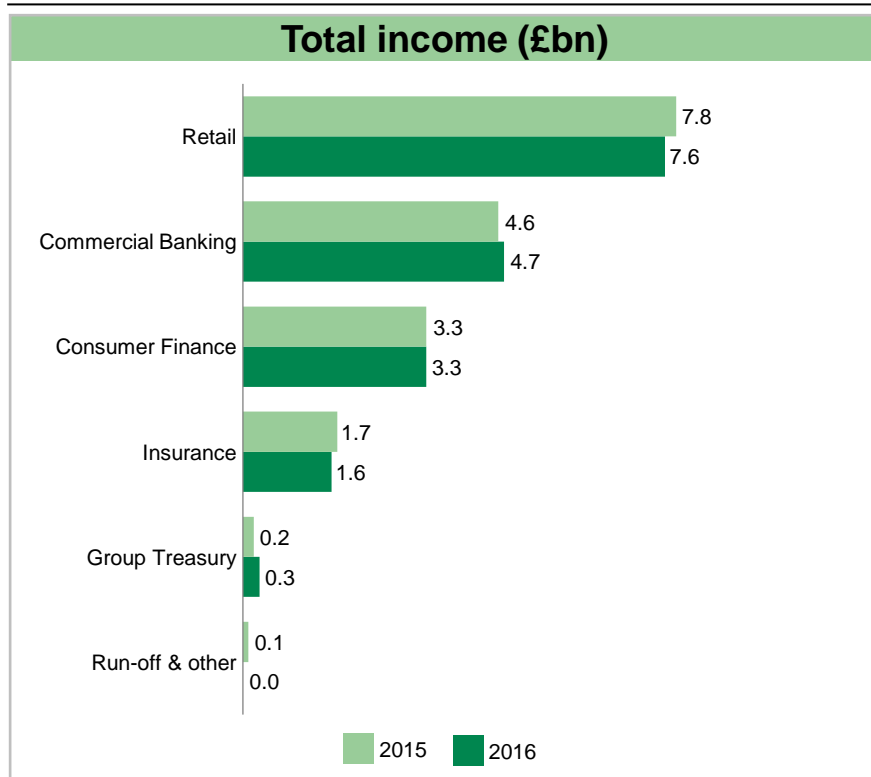
Total income of £17.5bn with stable NII and slightly lower other income



- **NII stable at £11.4bn with 8bps improvement in margin offset by 1% reduction in AIEAs**
 - Expect 2017 full year NIM of >2.70% (before MBNA)
- **Improved funding mix as expensive tactical deposits and wholesale funding are partly replaced by relationship Retail and Commercial deposits**
- **Other income of £6.1bn resilient with Q4 improved both quarter-on-quarter and year-on-year**

DIVISIONAL INCOME PERFORMANCE

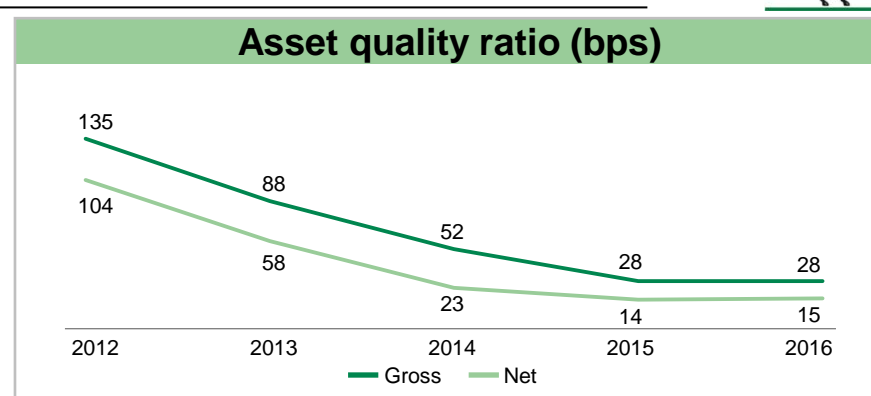
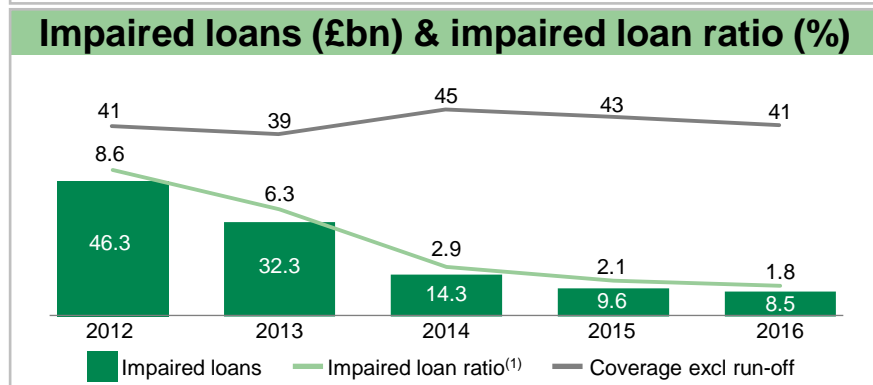
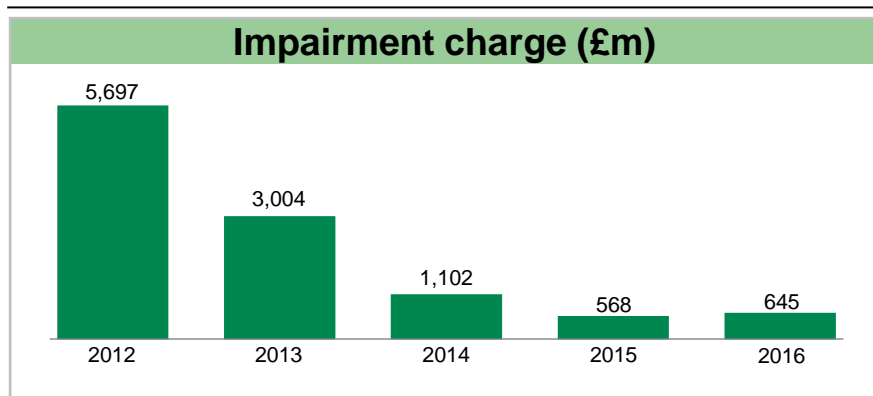
Resilient divisional income performance with trends in line with wider Group



- **Retail:** resilient margin and tactical deposit reduction; lower fees driven by ATM costs and packaged bank accounts
- **Commercial Banking:** growth due to increased NII supported by high quality deposit growth and disciplined balance sheet management
- **Consumer Finance:** NII reflects higher quality, lower margin new business; fee income impacted by interchange cap more than offsetting growth in operating lease income
- **Insurance:** 17% increase in new business income offset by impact of adverse economics on existing business
- **Group Treasury:** primarily gains from liquidity portfolio optimisation and timing of dividends from strategic investments

ASSET QUALITY

Credit quality remains strong with no signs of deterioration in the portfolio



- Impairment of £645m and AQR of 15bps increased slightly due to lower levels of releases and write backs
- Stable gross AQR of 28bps due to prudent risk appetite
- Impaired loans as a percentage of closing advances now 1.8% from 2.1% at the end of December 2015
- LTV profile continues to improve; 44% average LTV
- Expect 2017 AQR of around 25bps (excluding MBNA) reflecting a stable gross AQR

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

STATUTORY FINANCIAL PERFORMANCE

Significant increase in statutory profit primarily reflecting lower PPI provisions



(£m)	2016	2015
Underlying profit	7,867	8,112
ECNs	(790)	(101)
Market volatility and other items	(132)	(615)
Restructuring costs	(622)	(170)
PPI	(1,000)	(4,000)
Other conduct	(1,085)	(837)
TSB costs	–	(745)
Statutory profit before tax	4,238	1,644
Taxation	(1,724)	(688)
Statutory profit after tax	2,514	956

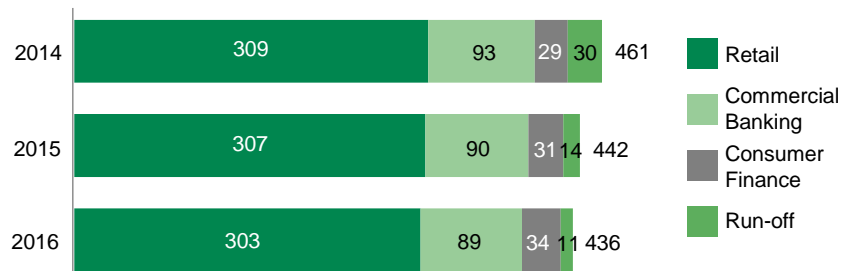
- **Market volatility includes a £484m gain on Visa sale, offset by FV unwind and amortisation of intangibles**
- **Restructuring costs include Simplification, non-branch property rationalisation and ring-fencing**
- **PPI provision of £1bn significantly lower than 2015; no further provision taken in Q4**
- **Other conduct of £1.1bn includes £0.3bn for packaged bank accounts and £0.3bn of arrears related activities**
- **Effective tax rate of 41% primarily due to banking surcharge, conduct, impact of tax changes on net DTA and insurance policyholder DTA effect**
 - Continue to expect a c.27% medium-term effective rate

BALANCE SHEET

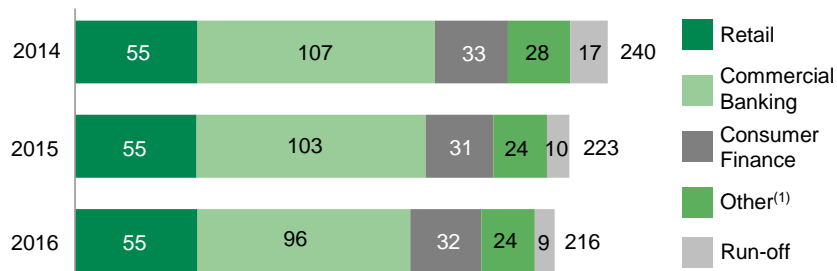
AIEAs down slightly primarily due to run-off; RWAs down c.£7bn due to balance sheet management actions



Divisional AIEAs (£bn)



Divisional RWAs (£bn)



⁽¹⁾ Other includes central items, threshold RWAs, TSB (2014 only).

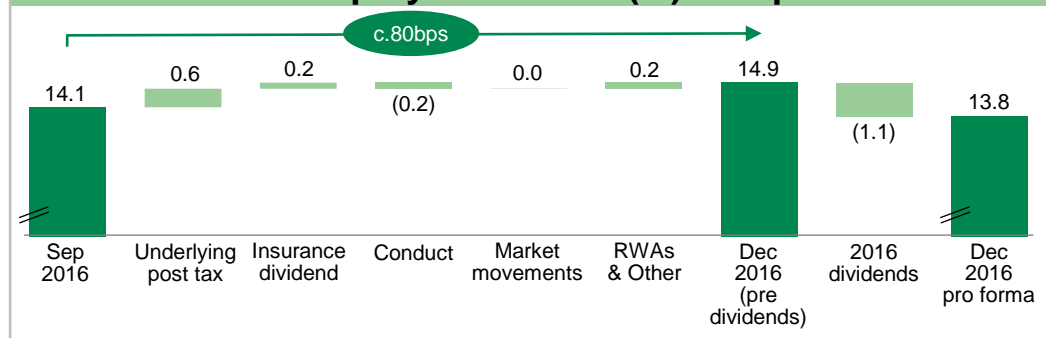
- **Pro-active management of the balance sheet**
- **AIEAs excluding run-off broadly stable at £426bn**
 - Growth in Consumer Finance and SME lending, offset by reductions in mortgages and Global Corporates
 - AIEAs expected to benefit from c.£7bn of MBNA balances
- **Run-off AIEAs continue to reduce, down £3bn**
- **RWAs reduced c.£7bn in 2016 as the Group continues to de-risk the balance sheet**
 - c.£7bn reductions within Commercial Banking driven by balance sheet management actions and continued portfolio optimisation across the division
 - Commercial Banking RoRWA improved 8bps to 2.44%

BALANCE SHEET

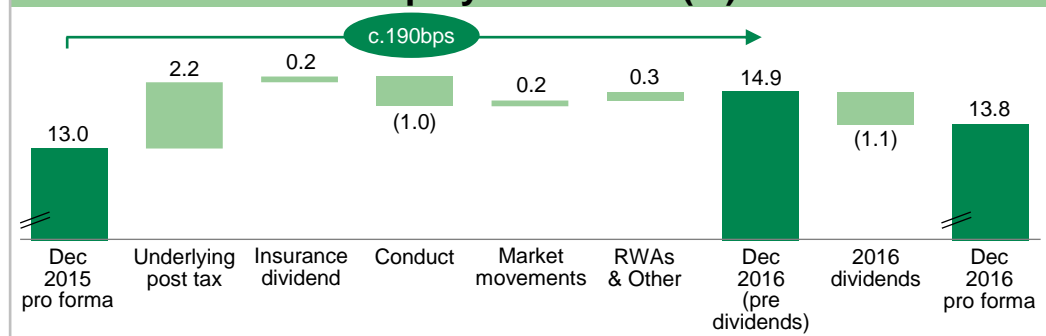
Strong capital generation provides the capacity for increased dividends and funding of the MBNA acquisition



Common equity tier 1 ratio (%) – Sep to Dec



Common equity tier 1 ratio (%) – 2016



- **Pro forma CET1 ratio of 13.8%**
 - Retention of c.80bps of capital to cover the capital impact of the MBNA acquisition
 - Q4 capital generation of c.80bps with good underlying performance and continued de-risking of the balance sheet
 - Includes 2016 Insurance dividend of £500m paid in February 2017
- **2016 capital generation of c.190bps ahead of guidance due to Q4 performance**
- **PRA buffer reduced reflecting de-risking; target CET1 ratio maintained at c.13%**
- **Total capital remains strong at 21.4%**
- **Pro forma leverage ratio improved to 5.0%**
- **TNAV increased 2.5p per share to 54.8p**

OUTLOOK

Confidence in the Group's future prospects is reflected in the dividend and our strong financial targets



- **Our differentiated business model is delivering**

- Cost discipline and low risk business model provide competitive advantage
- Multi-brand and multi-channel operating model
- Improved financial performance with increased statutory profit and continued strong capital generation
- Increasing dividend capacity

- **UK economy enters 2017 from a position of strength**

- **Focused on delivering final year of current strategic plan**

Financial targets

- **Strong financial targets reflecting strength of business model**

- NIM >2.70% in 2017 (before MBNA)
- AQR of around 25bps in 2017 (before MBNA)
- Cost:income ratio of around 45% exiting 2019, with reductions every year
- Ongoing CET1 capital generation of between 170 and 200bps per annum, pre dividend
- RoRE of 12.0 to 13.5% and a RoTE of 13.5 to 15.0% in 2019

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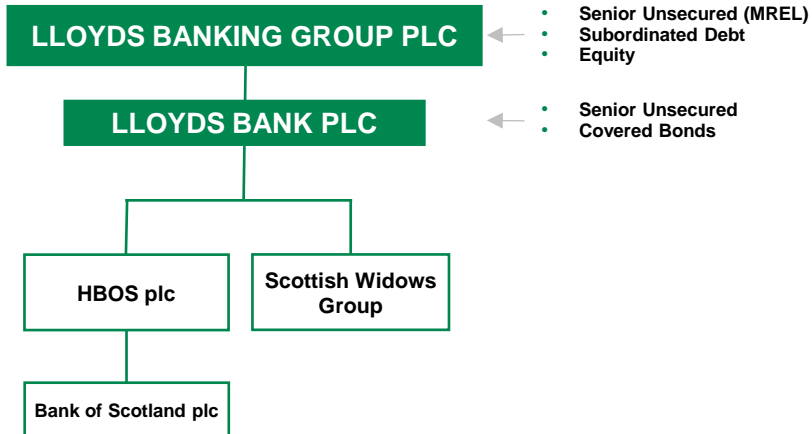
FUNDING AND LIQUIDITY

GROUP STRUCTURE AND FUTURE REGULATORY REQUIREMENTS

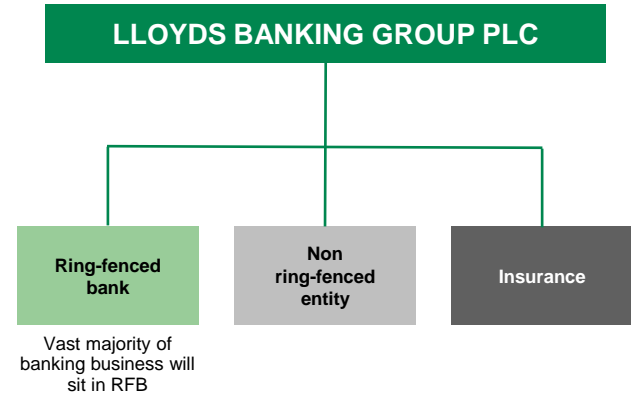
Simple, UK focused business model positions the Group well for ring-fencing



Simplified Group structure



Simplified structure under ring-fencing



Multi-brand and multi-channel

Clear strategic focus



CREDIT RATINGS

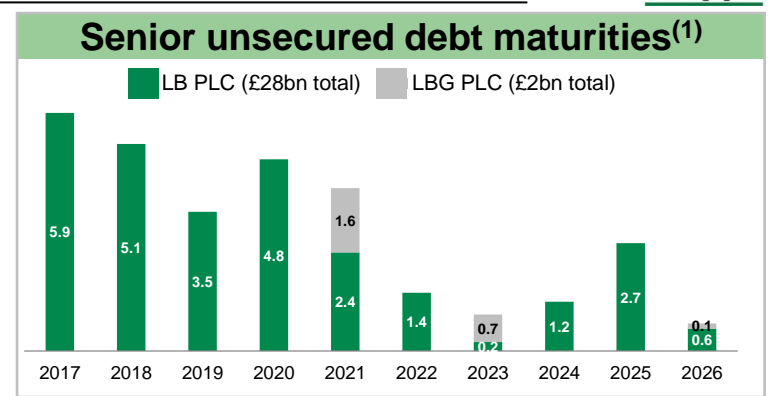
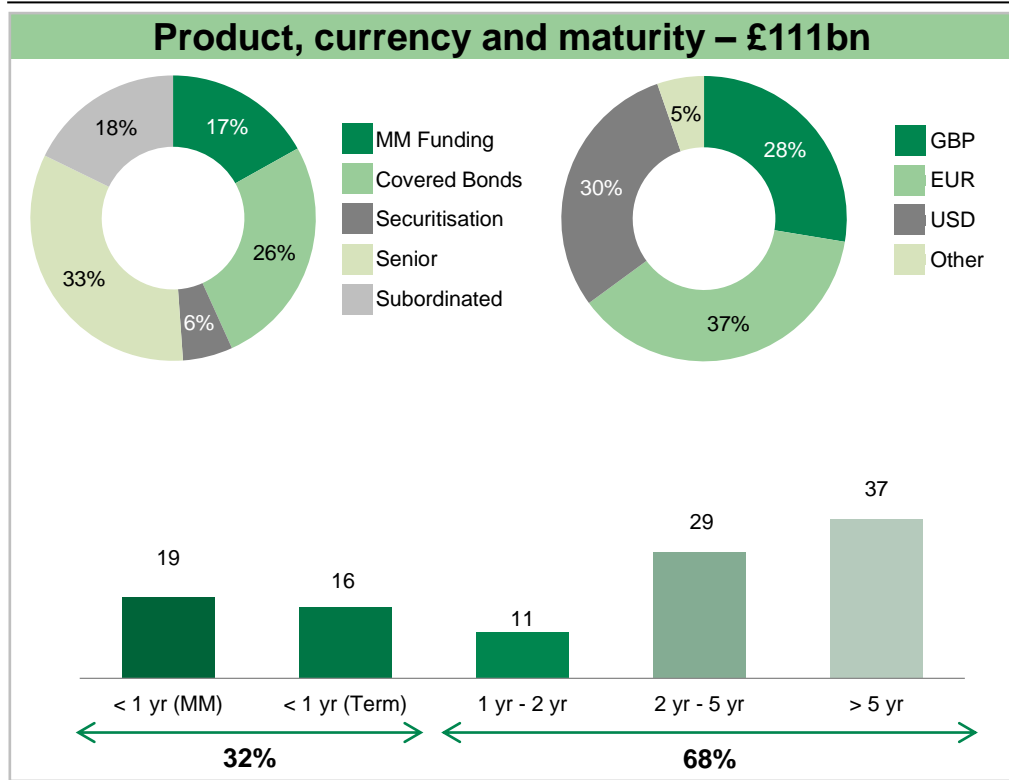
All ratings on stable outlook unless specified



	LBG (HoldCo)	Lloyds Bank	HBOS	Bank of Scotland
MOODY'S				
Long Term	Baa1	A1	A1	A1
Short Term	P-2	P-1	P-1	P-1
S&P				
Long Term	BBB+ <i>Negative Outlook</i>	A <i>Negative Outlook</i>	BBB+ <i>Negative Outlook</i>	A <i>Negative Outlook</i>
Short Term	A-2	A-1	A-2	A-1
FITCH				
Long Term	A+	A+	A+	A+
Short Term	F1	F1	F1	F1

WHOLESALE FUNDING

Composition of wholesale funding as at 31 December 2016



- Wholesale funding decreased to £111bn following Q4 2016 liability management exercises and a reduction in MM Funding
- Steady-state funding requirement of £15 – £20bn per annum; lower funding requirement in 2017 partly due to the availability of the Term Funding Scheme
- Maintain multiple issuance platforms with access to diverse funding sources globally

⁽¹⁾ Maturities reflect public and private senior unsecured debt.

WHOLESALE FUNDING

Diverse and simple term funding model has enabled successful execution

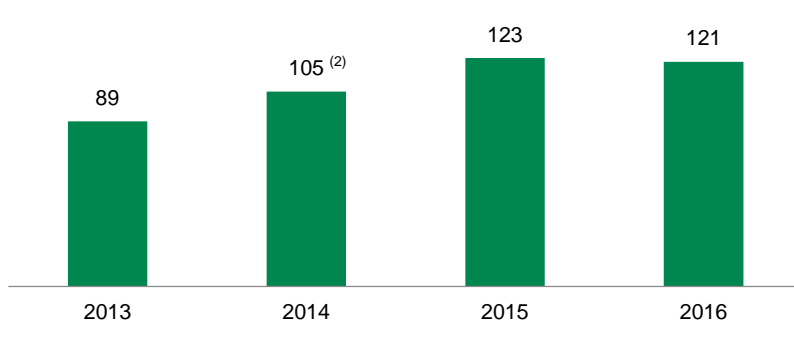


£10.4bn Term issuance in 2016		Issuer	Funding platforms																																				
<p>Legend: GBP (dark green), EUR (light green), USD (grey), Other (yellow)</p> <p>Y-axis: LBG (HoldCo), Lloyds Bank (OpCo)</p> <p>X-axis: £bn (0 to 4)</p> <table border="1"> <caption>Term Issuance in 2016 (Estimated from Chart)</caption> <thead> <tr> <th>Issuer</th> <th>Category</th> <th>GBP (£bn)</th> <th>EUR (£bn)</th> <th>USD (£bn)</th> <th>Other (£bn)</th> </tr> </thead> <tbody> <tr> <td rowspan="2">Lloyds Banking Group (Baa1/BBB+/A+)⁽¹⁾</td> <td>HoldCo senior</td> <td>0.5</td> <td>1.0</td> <td>0.5</td> <td>0.2</td> </tr> <tr> <td>Subordinated debt</td> <td>0.0</td> <td>0.0</td> <td>1.0</td> <td>0.0</td> </tr> <tr> <td rowspan="4">Lloyds Bank (A1/A/A+)⁽¹⁾</td> <td>OpCo senior</td> <td>0.0</td> <td>0.0</td> <td>0.8</td> <td>0.0</td> </tr> <tr> <td>Covered bonds</td> <td>1.0</td> <td>2.5</td> <td>0.0</td> <td>0.0</td> </tr> <tr> <td>Private placements</td> <td>0.0</td> <td>0.5</td> <td>1.0</td> <td>0.0</td> </tr> <tr> <td>Securitisation</td> <td>0.2</td> <td>0.0</td> <td>0.3</td> <td>0.0</td> </tr> </tbody> </table>	Issuer	Category	GBP (£bn)	EUR (£bn)	USD (£bn)	Other (£bn)	Lloyds Banking Group (Baa1/BBB+/A+) ⁽¹⁾	HoldCo senior	0.5	1.0	0.5	0.2	Subordinated debt	0.0	0.0	1.0	0.0	Lloyds Bank (A1/A/A+) ⁽¹⁾	OpCo senior	0.0	0.0	0.8	0.0	Covered bonds	1.0	2.5	0.0	0.0	Private placements	0.0	0.5	1.0	0.0	Securitisation	0.2	0.0	0.3	0.0	<p>Lloyds Banking Group (Baa1/BBB+/A+)⁽¹⁾</p> <ul style="list-style-type: none"> • Capital/ MREL⁽²⁾ issuance • Subordinated debt: AT1, Tier 2 • Senior unsecured debt <ul style="list-style-type: none"> – EMTN, SEC Registered Shelf, AUD (Kangaroo), Samurai⁽³⁾
	Issuer	Category	GBP (£bn)	EUR (£bn)	USD (£bn)	Other (£bn)																																	
Lloyds Banking Group (Baa1/BBB+/A+) ⁽¹⁾	HoldCo senior	0.5	1.0	0.5	0.2																																		
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	Securitisation	0.2	0.0	0.3	0.0																																		
<p>Lloyds Bank (A1/A/A+)⁽¹⁾</p> <ul style="list-style-type: none"> • Maintain usage of a diverse range of OpCo funding formats • Senior unsecured debt <ul style="list-style-type: none"> – GMTN, EMTN, SEC Registered Shelf, AUD (Kangaroo), Samurai/Uridashi Shelf, SSD/NSV • Covered Bonds: Eur 60bn (UK Residential Mortgages) 	<p>Securitisations</p> <ul style="list-style-type: none"> • RMBS (UK): Permanent • Credit Card ABS: Penarth 																																						

⁽¹⁾ Moody's/ S&P/ Fitch. ⁽²⁾ MREL – minimum requirement for own funds and eligible liabilities. ⁽³⁾ Expected establishment of Samurai shelf in late 2017.



Primary/LCR eligible liquid assets⁽¹⁾ (£bn)



- Liquid assets are broadly unchanged compared to a year ago

- The Group maintains a strong liquid asset portfolio comprised largely of cash and LCR eligible securities

Loan to deposit composition

Balance sheet	2013	2014 ⁽³⁾	2015	2016
Loans and advances to customers	£493bn	£456bn	£455bn	£450bn
Customer deposits	£436bn	£423bn	£418bn	£413bn
Loan to deposit ratio	113%	108%	109%	109%

- LCR eligible liquid assets are almost 9 times Money Markets funding and in excess of total outstanding wholesale funding

- LCR ratio comfortably exceeds regulatory requirements

⁽¹⁾ The UK regulator adopted the EU delegated act on 1 October 2015. Prior to this, liquidity was managed on an Individual Liquidity Adequacy Statement (ILAS) basis. 2015 liquid assets are classed as LCR eligible. ⁽²⁾ Excludes TSB. At 31 December 2014, TSB had £4.5bn of liquid assets, bringing the Group total liquid assets to £109bn. ⁽³⁾ Excludes TSB.

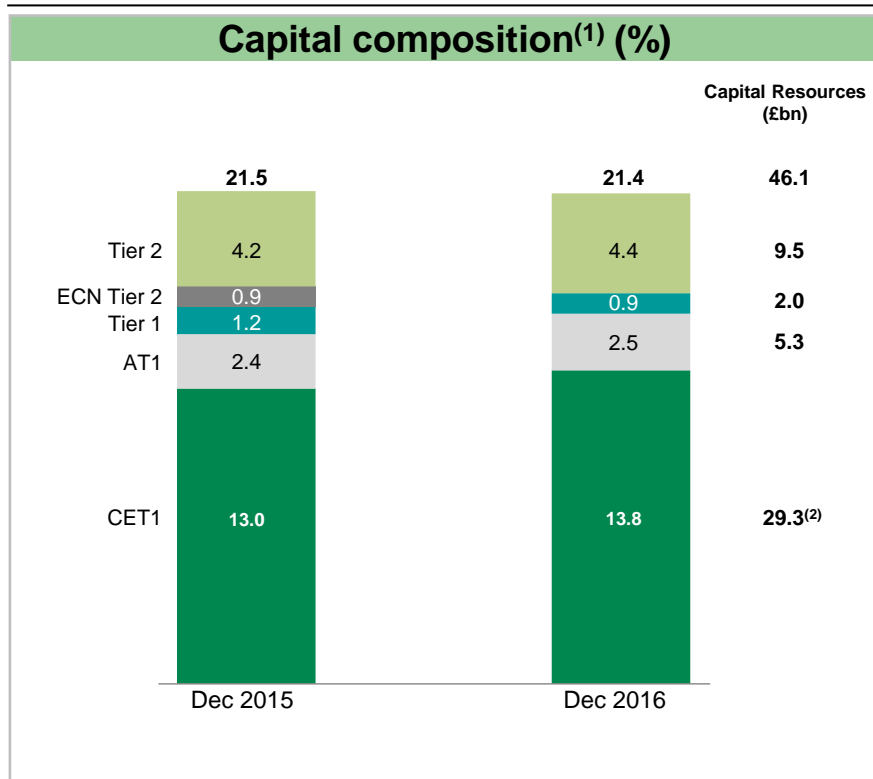
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CAPITAL POSITION AND BANKING REFORM

STRONG CAPITAL BASE

Well positioned in an evolving regulatory environment



- **Strong capital position**
 - fully loaded CET1 of 13.8% on a pro forma basis
 - total capital ratio of 21.4%
- **Strong capital generation with c.190bps generated in 2016, pre dividend**
- **Expect ongoing CET1 capital generation of between 170 and 200 bps per annum, pre dividend**
- **Continue to review capital base in light of regulatory requirements and to optimise costs**

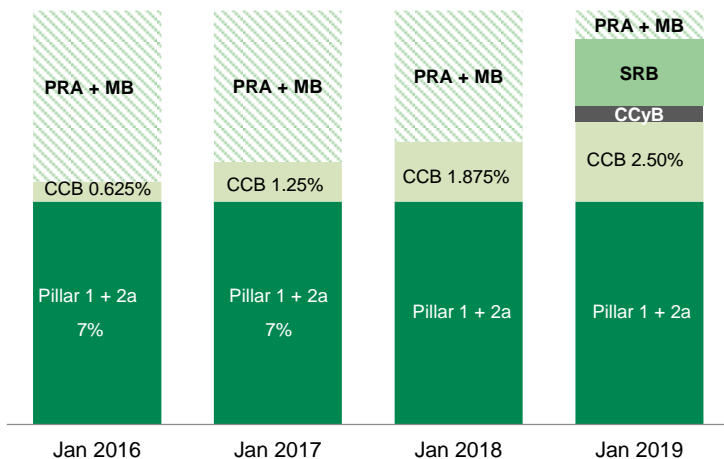
⁽¹⁾ As a percentage of risk-weighted assets; fully loaded CET1 ratios on a pro forma basis; Total Capital includes grandfathered capital securities. Excluding insurance dividend, CET1 reported ratios are 12.8% and 13.6% as at December 2015 and December 2016 respectively. ⁽²⁾ Excluding £0.5bn insurance dividend paid in February 2017.

EVOLUTION OF CET1 REGULATORY BUFFERS

Strong capital generative business provides comfort for meeting regulatory buffers



LBG capital buffer evolution (%)



Notes

- **PRA + MB:** PRA buffer plus Management buffer
- **CCB:** Capital Conservation Buffer (to incrementally increase by 0.625% annually to 1 January 2019)
- **CCyB:** UK Countercyclical Capital Buffer is currently 0%. Once increased, will be effective 12 months later
- **SRB:** A Systemic Risk Buffer will be set for the ringfenced bank early in 2019, effective three months later
- **Pillar 2A:** assumed constant for illustration purposes

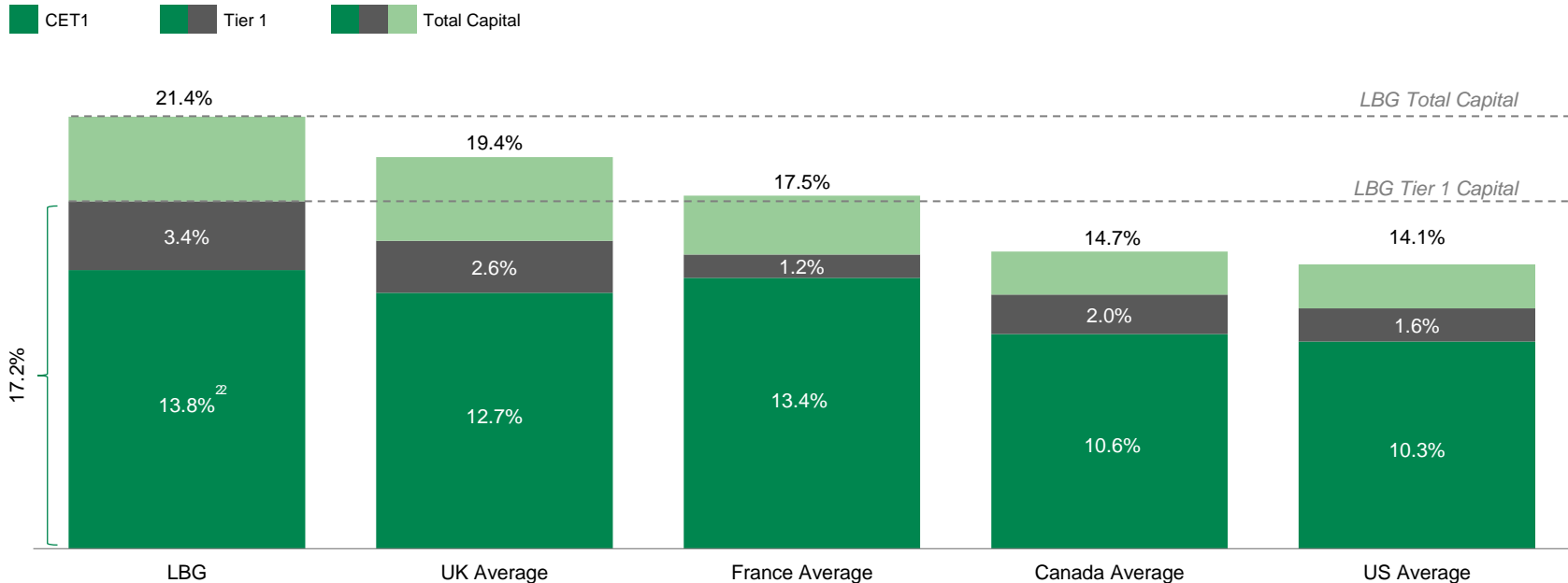
- Differentiated low risk business model with strong capital generation
- PRA Buffer reduced reflecting de-risking; target CET1 ratio maintained at c.13%
- Pillar 2a capital requirement of 4.5%, of which 2.5% has to be met with CET1 (reviewed annually by PRA)
- Capital Conservation buffer is transitioning in over a four year period to 1 January 2019
- Systemic Risk Buffer applicable to ring-fenced bank from 2019; lower at the Group level
- Current MDA buffer circa 5.5% in excess of 2017 MDA requirements

RELATIVE CAPITAL STRENGTH

Well capitalised relative to global peers



LBG capital composition - strong relative to peers⁽¹⁾



⁽¹⁾ Source: respective banks' most recent results announcement available prior to 20 February 2017. UK average: San UK, Barclays, RBS, HSBC and Standard Chartered. France average: BNP Paribas, Credit Agricole and BPCE. Canada average: Bank of Montreal, Bank of Nova Scotia, CIBC, National Bank of Canada, Royal Bank of Canada and TD Bank. US Average: BB&T, Capital One, Northern Trust, PNC, U.S. Bancorp. Ratios disclosed on a current rules basis per jurisdictional requirements. ⁽²⁾ Pro forma, including Insurance dividend relating to 2016, paid in 2017.

UK APPROACH TO RESOLUTION

Defined approach underpinned by clear preference for structural subordination



1

Losses occur at the OpCo and are passed to HoldCo via write down of intercompany assets

OpCo Loss Absorption Hierarchy
Excluded Liabilities
External Senior Unsecured
Internal Senior Unsecured (LAC ⁽¹⁾)
Internal and External Tier 2
Internal and External Additional Tier 1
Internal Equity



HoldCo Loss Absorption Hierarchy

HoldCo Senior Unsecured
HoldCo Tier 2
HoldCo Additional Tier 1
HoldCo Equity

MREL eligible

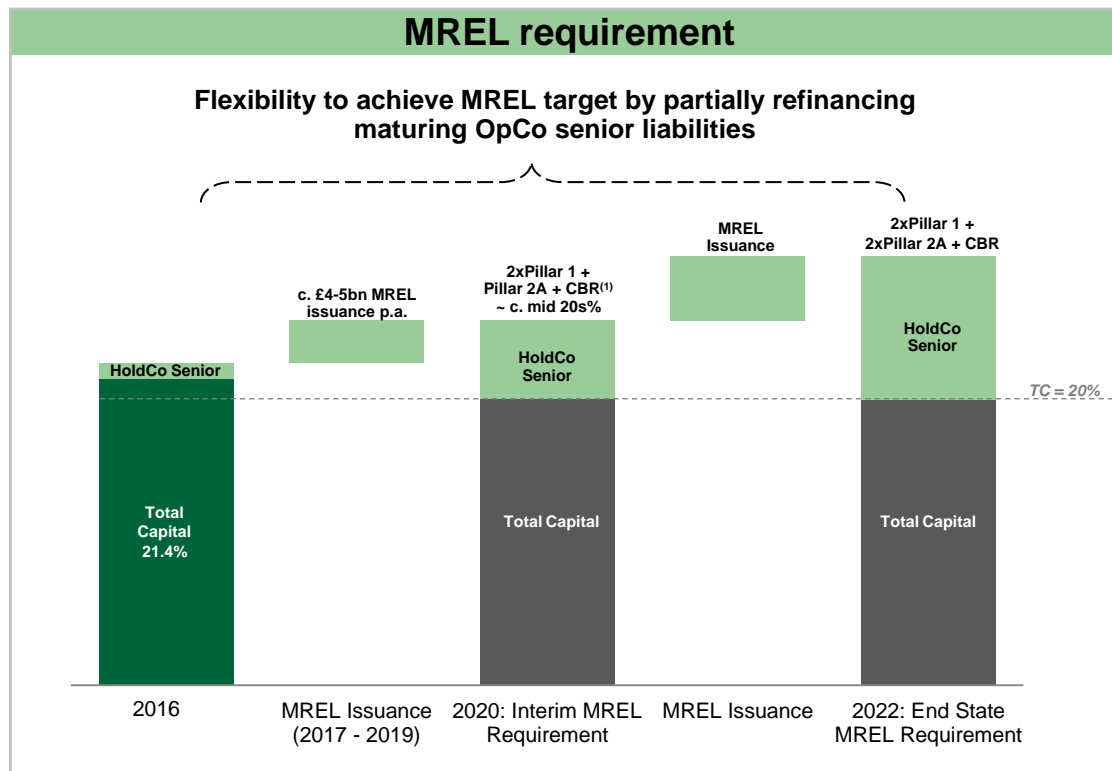
2

HoldCo investors bear loss in accordance with creditor hierarchy – 'No creditor worse off' principle respected

⁽¹⁾ LAC: Loss Absorbing Capacity.

FUTURE CAPITAL REQUIREMENTS

Progress toward interim and final MREL requirements from a position of strength due to strong capital and diversified funding



- MREL to be met with regulatory capital and senior unsecured issuance at HoldCo level
- Good progress on MREL issuance, with the issuance of £4.6bn of HoldCo Senior debt in the last 8 months
- Expect £4-5 bn of HoldCo Senior/MREL issuance per annum as we transition towards MREL target ratios
- HoldCo Senior issuance will largely refinance maturing OpCo liabilities
- End state MREL requirement will be confirmed following Bank of England review in 2020

⁽¹⁾ CBR: Combined Buffer Requirement.

LOSS ABSORBENCY FRAMEWORK

UK loss absorption hierarchy is well defined



UK resolution framework well established providing certainty to issuers and investors



- Stated preference for structural subordination by UK Resolution Authority - Senior Hold Co issuers
- NCWO principle respected - creditor hierarchy is clear
- MREL requirements and eligibility have been clarified



Aligned with other Hold Co issuance markets: US, Japan, Switzerland



Other jurisdictions: No G-SIBs identified in Australia or Canada. Resolution frameworks remain unclear



- **French** legislation passed to introduce 'non preferred senior' – build up of asset class underway
- **Italian** legislation passed but not effective until 2019; awaiting EU solution
- **Spain** awaiting EU solution
- **German** legislation ranks tradable Op Co Senior debt below 'other' senior claims in insolvency



SUMMARY

Well positioned to face any regulatory headwinds and loss absorbency requirements



- **LBG is well capitalised relative to peers – pro forma 13.8% CET1 (fully loaded), 21.4% Total Capital and 5.0% Leverage ratio**
- **Strong capital generation and simple low risk business model means LBG is well positioned for any regulatory headwinds and loss absorbency requirements**
- **UK resolution framework is well established following further clarity from the BoE in November 2016**
 - Confirmation of structural subordination approach
 - Senior OpCo debt ranks equally with other operating liabilities
 - Creditor hierarchy is respected in line with ‘NCWO’ principle
- **LBG on track to meet MREL requirements**
 - LBG structure supports ‘Single Point of Entry’ resolution strategy
 - Good progress on MREL issuance with £2.4bn HoldCo Senior issued in 2016 and a further £2.2bn in January 2017 across USD and € markets

LLOYDS
BANKING
GROUP



BUSINESS STRATEGY

CLEAR STRATEGIC FOCUS

Differentiated business model continues to deliver competitive advantage



Lloyds Bank



Bank of Scotland



Simple, UK focused retail and commercial bank

Multi-brand and multi-channel distribution

Halifax



Scottish Widows



Low risk and low cost business model provides competitive advantage

Creating sustainable value for shareholders and customers

Helping Britain prosper through our unique competitive position

CREATING THE BEST CUSTOMER EXPERIENCE

Leading multi-brand, multi-channel proposition including UK's largest digital bank



Integrated multi-channel approach

Branches

- UK's largest branch network with c.2,000 branches
- Commercial Banking client relationship model supported by >3,300 client-facing colleagues

Intermediaries

- Trusted partner of intermediary distributors
 - Largest mortgage introducer; rated #1 for NPS
 - '5 star' Service Awards in Insurance⁽¹⁾

Phone

- Telephone banking receives c.100m calls per year
- Enhanced proposition with video calls and web chats

Digital

- UK's largest digital bank
 - 12.5m active online customers; >2bn logons in 2016
 - Rated #1 UK banking app for functionality⁽²⁾

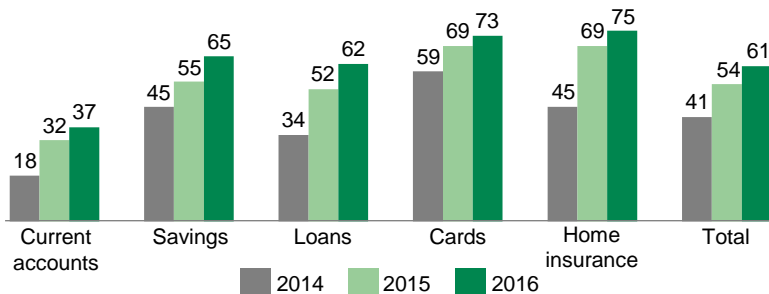
- UK's largest retail and commercial bank with a leading Insurance proposition through Scottish Widows
- Multi-brand approach enables us to address the needs of different customer segments
- Customer experience improved through enhanced multi-channel access
- Net Promoter Score continues to improve, up nearly 50% since the end of 2011

CREATING THE BEST CUSTOMER EXPERIENCE

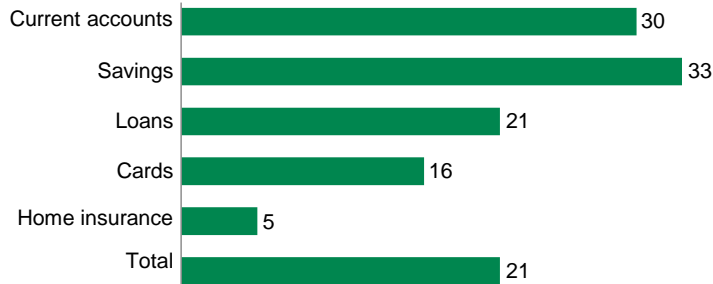
Significant growth across the digital channel and major progress in our customer journey transformations delivered



Needs met via digital⁽¹⁾ (%)



Digital market share⁽²⁾ (%)



Customer journey transformation

Mortgages

55%

of approved applications proceed to offer within 14 calendar days
up from 37% in 2015

Savings

c.50%

reduction in time taken to open savings account in branch
from 45mins to 15-30mins

SME onboarding

1

digital application form rather than 15 paper forms previously
15 forms down to 1

Corporate pensions

21 days

reduction in time taken to process monthly contributions
22 days to 1 day

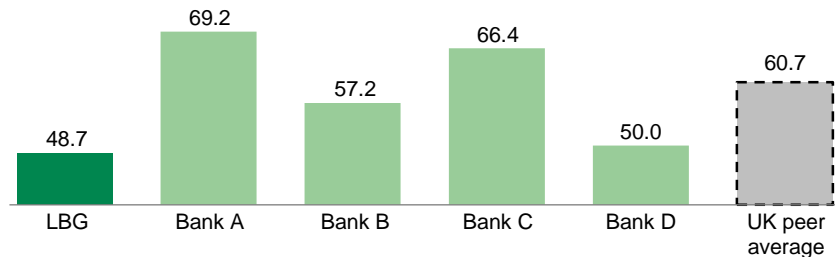
BECOMING SIMPLER AND MORE EFFICIENT

Rigorous and proven cost management process provides cost leadership;
Simplification programme on track to deliver increased run-rate savings of £1.4bn



Low cost business model (%)

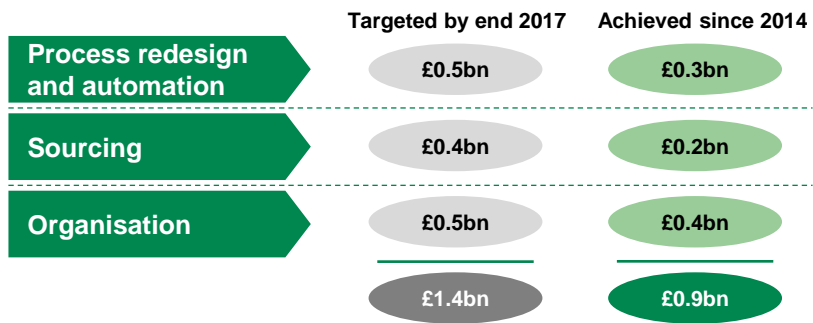
Cost:income ratio – 2016 UK peer comparison⁽¹⁾



- Market leading cost:income ratio of 48.7% delivered through our rigorous and proven cost management process

- On track to deliver the increased Simplification run-rate savings target of £1.4bn; £0.9bn achieved since 2014

Simplification run-rate savings



- End-to-end process re-engineering and simplification provide significant opportunities

- Continue to target a cost:income ratio of around 45% exiting 2019, with reductions every year

⁽¹⁾ LBG ratio as at FY 2016, UK peers as at Q3 2016 from reported company results (excluding notable items as highlighted by each institution). UK peer average excludes LBG. Note: UK peers' Q3 2016 ratios excludes impact of Q4 bank levy, but this is included in LBG FY 2016 ratio.

DELIVERING SUSTAINABLE GROWTH

Well positioned to grow the business



MBNA financial metrics

Return on investment

+17%

in second full year post acquisition

EPS accretion

c.5%

in second full year post acquisition

Attractive multiple

c.6x P/E

• MBNA acquisition

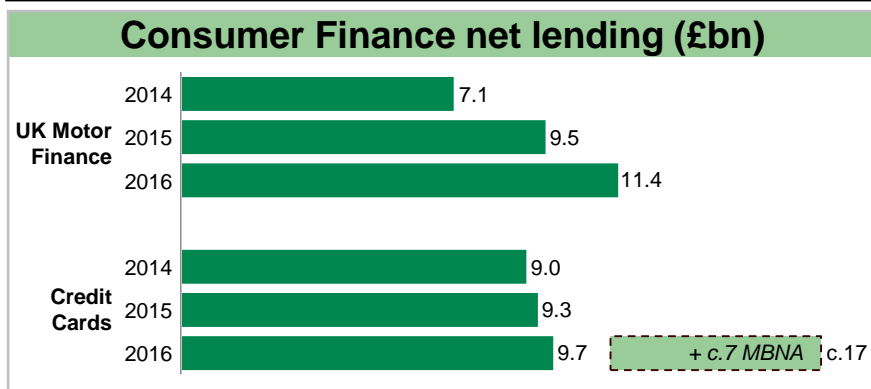
- Opportunity to acquire a prime UK credit card business with a strong brand and complementary capabilities; no further PPI exposure after acquisition
- In line with our strategic goal to grow in consumer finance and provides opportunity to create a best-in-class credit card operation
- Significant cost synergies through consolidation of IT infrastructure, marketing, property consolidation and operational efficiencies
- Strong financial returns with significant shareholder value creation

• Lloyds competitive advantages

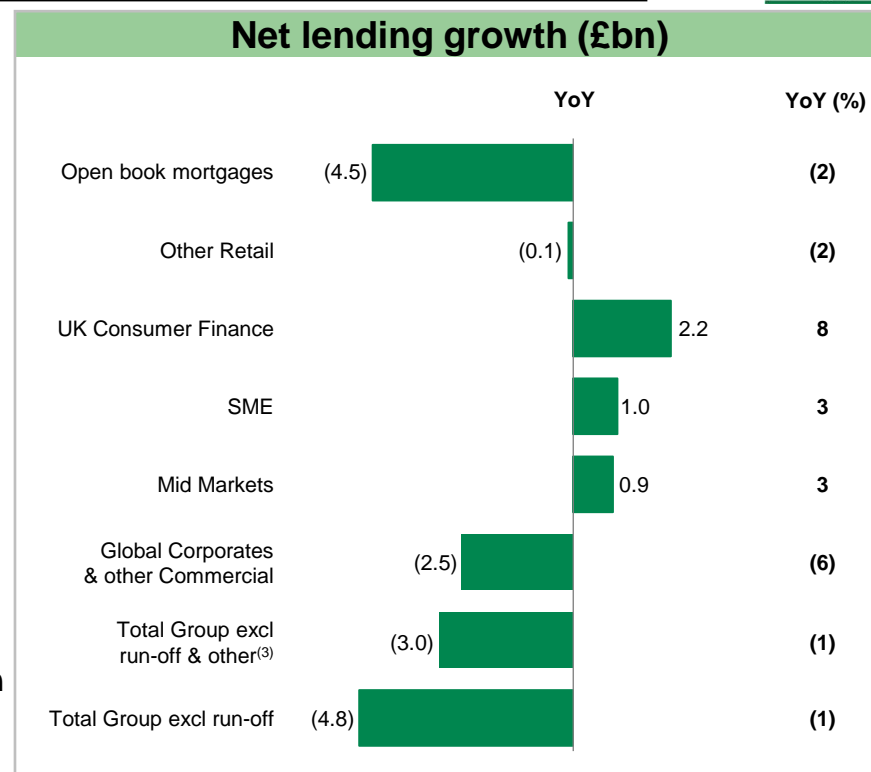
- Focused strategy; restructuring and transformation complete
- Highly capital generative business model provides options for organic and inorganic growth
- Strong management team with proven integration capabilities
- Low cost model and cost capability provides advantage in delivering enhanced financial returns

DELIVERING SUSTAINABLE GROWTH

Supporting the UK economy with continued loan growth in our targeted key customer segments



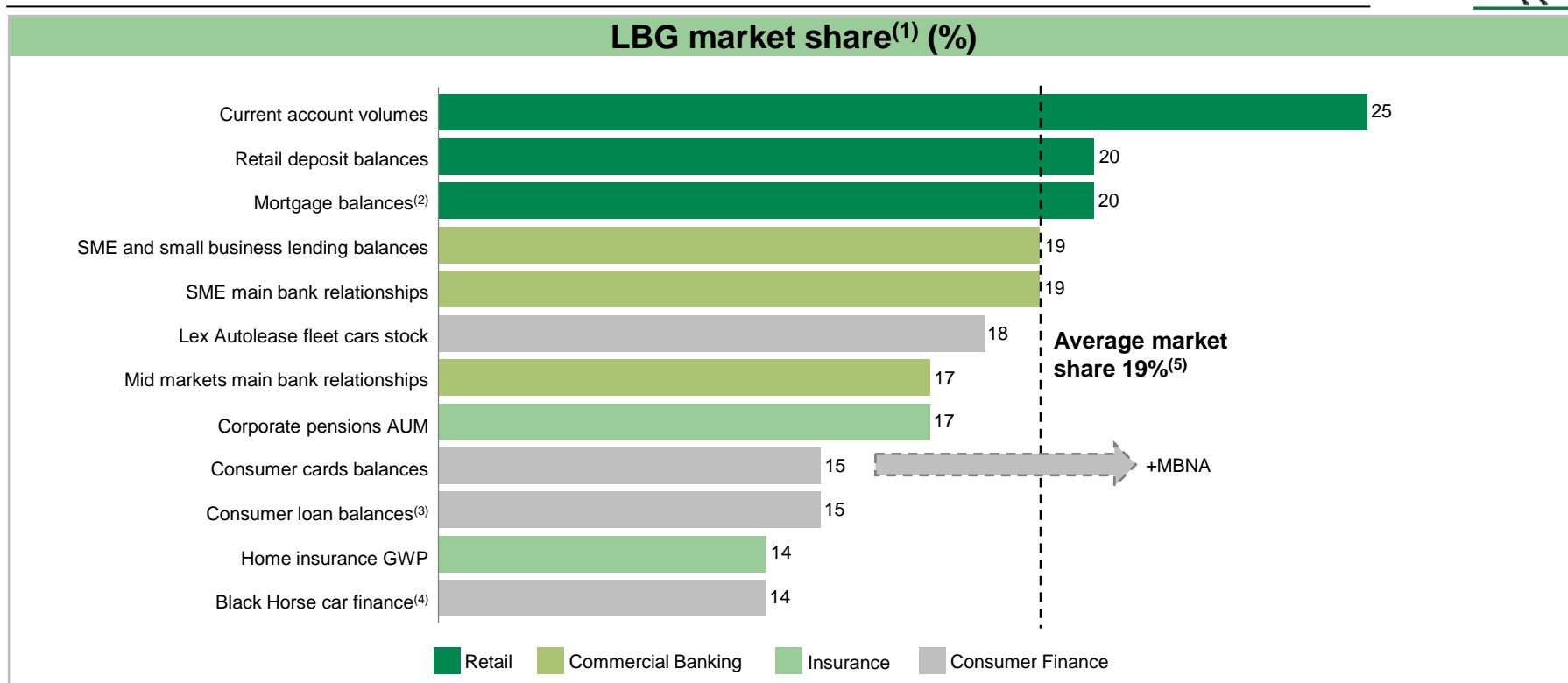
- **Consumer Finance continues to grow in 2016 while maintaining credit quality**
 - Black Horse gross lending growth 27% vs market 16%⁽¹⁾
 - Credit cards gross lending in line with market at 4%⁽²⁾
- **SME growth of 3% continues to outperform market**
- **Open book mortgage reduction reflects focus on margin in a highly competitive market; expect open book mortgages to be broadly stable in 2017**



⁽¹⁾ Blackhorse retail point of sale (POS) car finance growth vs market as published by Finance & Leasing Association. ⁽²⁾ Credit Cards includes Consumer Cards gross lending vs market as published by BBA. ⁽³⁾ Other includes, specialist mortgage book, Intelligent Finance and Dutch mortgages.

MARKET SHARE

Continue to deliver sustainable growth in target areas



⁽¹⁾ Source: CACI, BoE, Experian, Spence Johnson, BVRLA, BBA, ABI. All positions at FY 2016, except current account volumes (Nov 2016) due to market data availability.

⁽²⁾ Open book only. ⁽³⁾ Consumer loans comprises unsecured personal loans, overdrafts, and Black Horse retail lending balance share of BoE consumer lending. ⁽⁴⁾ Black Horse point of sale and LBG's Online Car Finance new business flow share. ⁽⁵⁾ Average market share calculated for 'core banking products' (including MBNA portfolio).

BRANCH PRESENCE

Multi-brand strategy serving different segments of the market

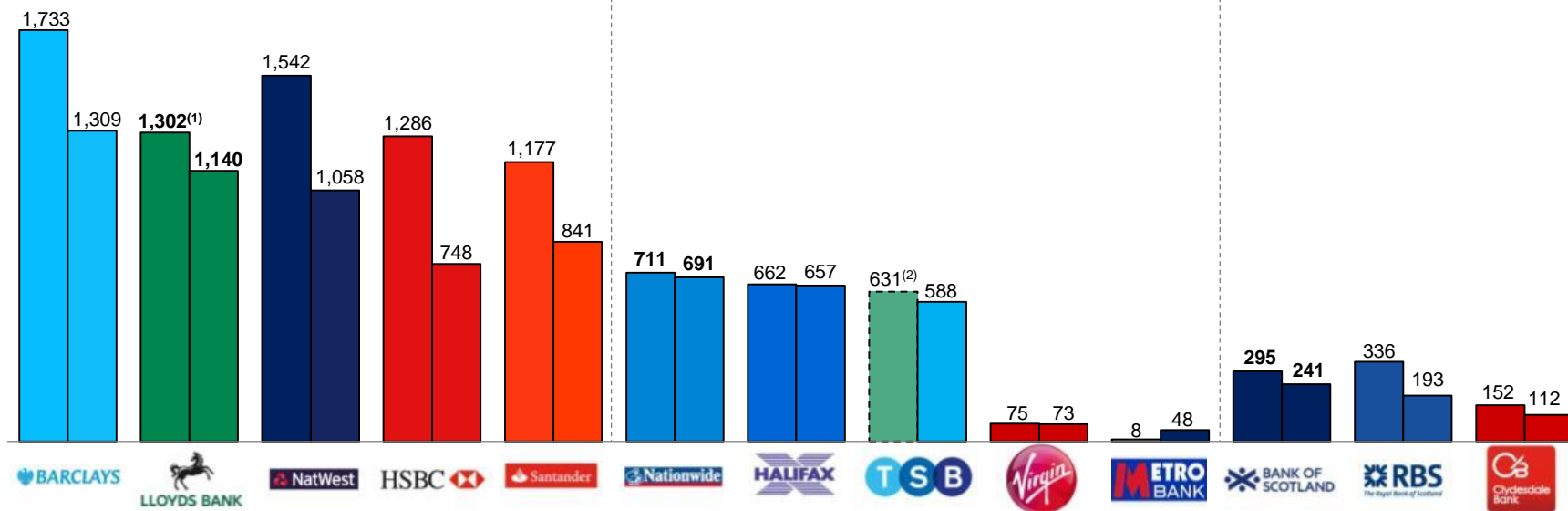


Branch network comparison

Large relationship brands

Challenger brands

Scottish brands



H1 2011 vs H2 2016 branch presence by brand. Source CACI (Dec 2016) Branch Base, except: Virgin, sourced company website, and Lloyds Banking Group own brand figures (Lloyds Bank, Halifax and BoS). ⁽¹⁾ Does not include 631 divested TSB branches. ⁽²⁾ TSB did not exist in H1 2011, these 631 branches were part of Lloyds Banking Group.

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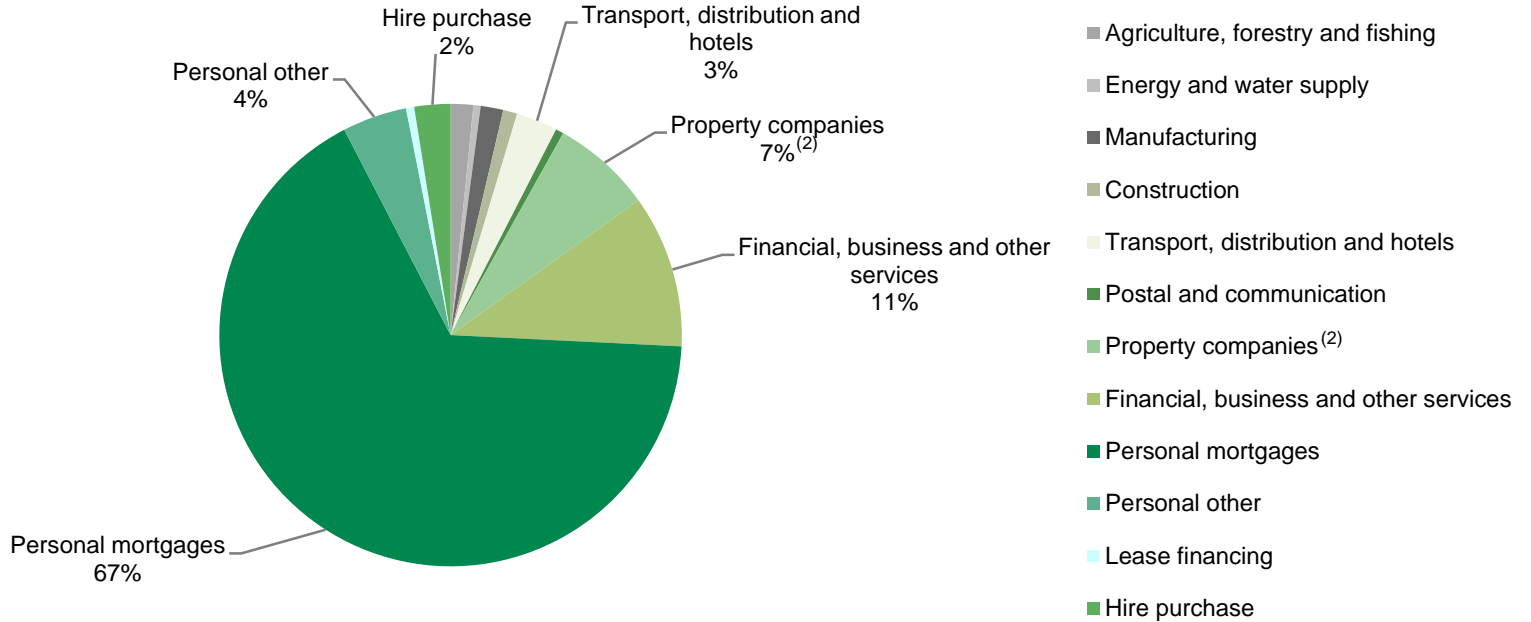


APPENDIX

LOANS AND ADVANCES TO CUSTOMERS



Loans and advances to customers £460bn⁽¹⁾



⁽¹⁾ Before allowance for impairment losses on loans and advances. As at 31 December 2016. ⁽²⁾ Total UK Direct Real Estate gross lending across the Group was £19.9 bn at 31 December 2016.

MORTGAGE PORTFOLIO LTVs

Further improvement in LTVs during 2016



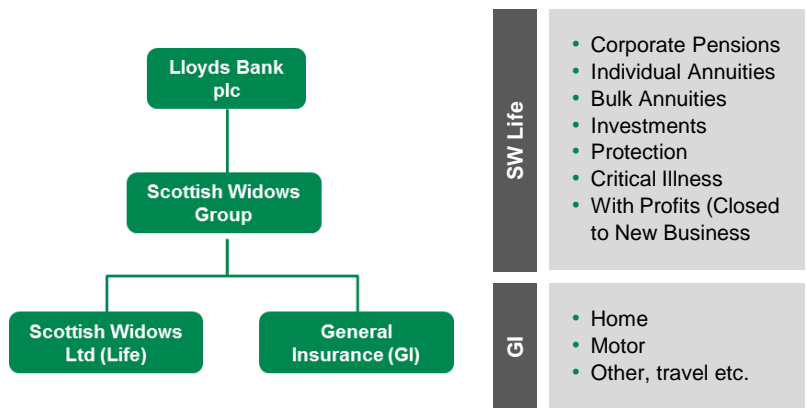
	Dec 2016				Dec 2015	Dec 2014	Dec 2010
	Mainstream	Buy to let	Specialist	Total	Total	Total	Total ⁽¹⁾
Average LTVs	41.8%	53.7%	49.2%	44.0%	46.1%	49.2%	55.6%
New business LTVs	65.0%	61.9%	–	64.4%	64.7%	64.8%	60.9%
≤ 80% LTV	88.6%	91.8%	85.2%	89.0%	86.4%	81.9%	57.0%
>80–90% LTV	8.4%	6.1%	8.6%	8.0%	9.0%	10.7%	16.2%
>90–100% LTV	2.4%	1.5%	3.1%	2.3%	3.5%	5.2%	13.6%
>100% LTV	0.6%	0.6%	3.1%	0.7%	1.1%	2.2%	13.2%
Value >100% LTV	£1.3bn	£0.3bn	£0.5bn	£2.1bn	£3.4bn	£6.7bn	£44.9bn

INSURANCE DIVISION

Well established business with strong and complimentary contribution to Group profit

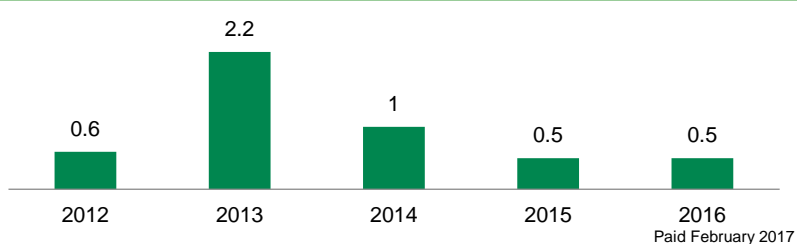


Insurance corporate structure

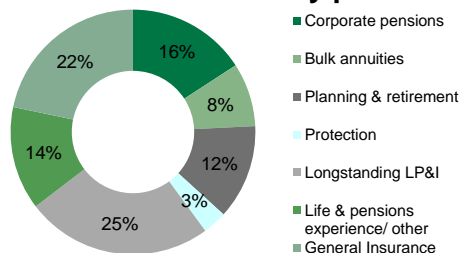


- Insurance corporate structure simplified through a combination of life companies into Scottish Widows Ltd in 2015
- Life business written under the Scottish Widows brand
- General Insurance written under Lloyds, Halifax and Bank of Scotland brands
- LBG Insurance Group Solvency II ratio at year end 2016 was 160% pre dividend
- Strong contribution to Group capital through dividends, with further £500m paid in February 2017
- Underlying profit of £837m or 11% of Lloyds Group's underlying profit in 2016

Dividends (£bn)



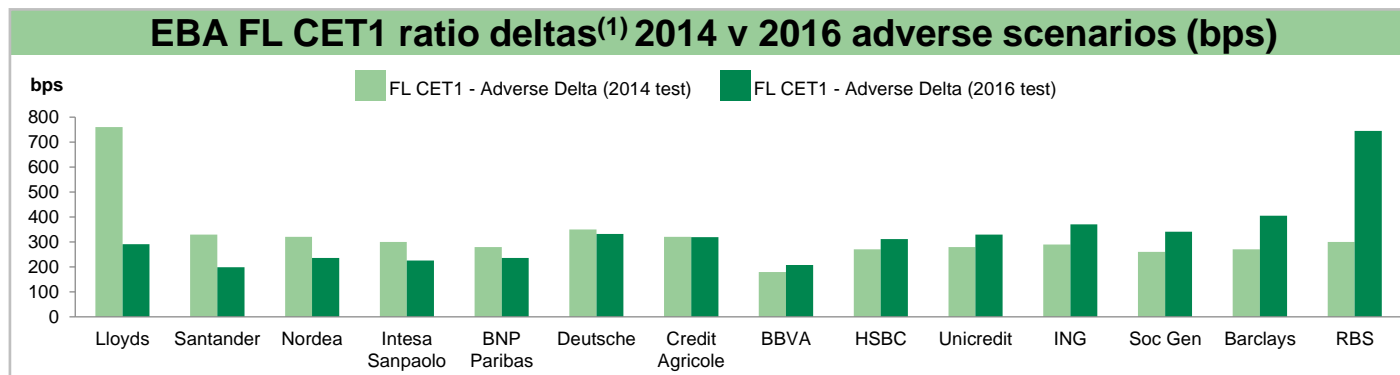
2016 Total income by product



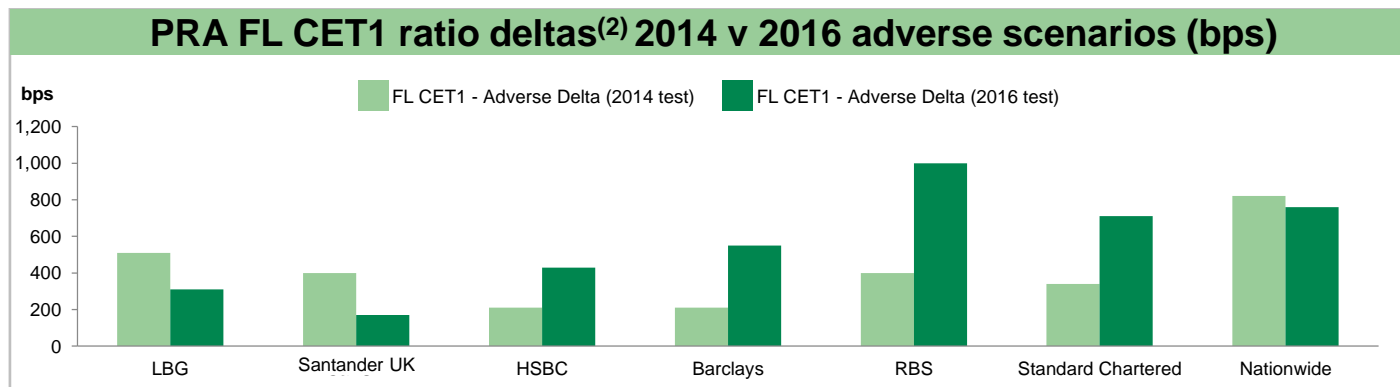
2016 Underlying profit	£m
Corporate pensions	258
Bulk annuities	137
Planning and retirement	204
Protection	52
Longstanding LP&I	402
Life and pensions experience and other items	223
General insurance	354
NII and free asset return	(21)
Total costs	(772)
Underlying profit	837

STRESS TESTING FRAMEWORK

De-risked business model showed stronger adverse FL CET1 ratios under both stress tests



- Stronger balance sheet and FL CET1 ratio for the 2016 stress tests
- De-risked business model showed a lower CET1 adverse delta despite a more challenging EBA stress test vs 2014



- UK stress scenario remains one of the most severe among major European economies
- LBG rank second after mitigating actions, comfortably exceeding PRA thresholds

⁽¹⁾ Source: EBA. ⁽²⁾ Source: BoE.

EBA & PRA STRESS SCENARIO COMPARISON

The 2016 PRA stress test combines domestic elements of 2014 with international elements of 2015 to test all aspects of UK banks



	UK domestic stress scenarios				
	PRA 2016	PRA 2015	PRA 2014	EBA 2016	EBA 2014
GDP (peak-to-trough, ppts)	-4.3	-3.2	-3.9	-4.2	-3.5
Unemployment (start-to-peak, ppts)	+4.5	+3.5	+5.2	+4.5	+3.5
House prices (peak-to-trough, ppts)	-31.0	-20.0	-34.6	-11.1	-26.8
CRE values (peak-to-trough, ppts)	-42.0	-29.7	-30.0	-29.3	-41.7
Equities (peak-to-trough, ppts)	-42.9	-36.0	-27.8	-32.7	-24.4
Interest rates (maximum or minimum, ppts)	0	0	4.25	1.25	1.75

DEBT INVESTOR RELATIONS CONTACTS

Website: www.lloydsbankinggroup.com/investors/debt-investors/

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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 (including but not limited to the payment of dividends) 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 interest rates (including low or negative rates), 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 and other benefits including, but without limitation as a result of any acquisitions, disposals and other strategic transactions; 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, the exit by the UK from the European Union (EU) and the potential for one or more other countries to exit the EU or the Eurozone and the impact of any sovereign credit rating downgrade or other sovereign financial issues; technological changes and risks to cyber security; natural, pandemic 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 the exit by the UK from the EU, or a further possible referendum on Scottish independence; 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 or courts in the UK, the EU, the US or elsewhere including the implementation and interpretation of key legislation and regulation; the ability to attract and retain senior management and other employees; requirements or limitations 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 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, lending companies and digital innovators and disruptive technologies; and exposure to regulatory or competition scrutiny, legal, regulatory or competition proceedings, 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. The information, statements and opinions contained in this document do not constitute a public offer under any applicable law or an offer to sell any securities or financial instruments or any advice or recommendation with respect to such securities or financial instruments.

BASIS OF PRESENTATION

The results of the Group and its business are presented in this presentation on an underlying basis. The principles adopted in the preparation of the underlying basis of reporting are set out on the inside front cover of the 2016 Full Year Results News Release.