ACQUISITION OF MBNA

Presentation to Analysts and Investors

20 December 2016

TRANSACTION OVERVIEW

Value generating acquisition of a prime credit card portfolio supporting our strategic goal to grow in consumer finance

TRANSACTION

- £7bn prime credit card book with strong asset quality primarily operating under MBNA brand
- Consideration of £1.9bn: reflecting 15% premium over gross receivables
- Expected to complete by the end of H1 2017, subject to receipt of competition and regulatory approval

RATIONALE

- Creation of best in class credit card offering with combined portfolio of £16bn
  - Addition of strong MBNA brand, propositions and analytical capability; digital led multi-channel model
- Supports stated strategic goal to grow in consumer finance
- Strong financial returns with significant shareholder value creation
  - Significant opportunity for cost synergies, leveraging LBG cost advantage and capability
  - Enhances future earnings and capital generation
- Funded through organic capital generation; CET1 impact of approximately 80bps

ACQUISITION RATIONALE

Creating shareholder value through strengthening our Consumer Finance business

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1

Best in class UK credit card business

- c.£16bn prime credit card portfolio(1)
- Low risk portfolio with strong asset quality
- Cost advantage further enhanced
- Enhanced customer proposition/ analytical capabilities with digital led distribution model
- Multi brand strategy

2

Strategic goal to grow in consumer finance

- Delivers sustainable growth through multi-brand strategy
- Profitable and growing sector
- Combined market share of 26%(2)
- Diversification of group earnings

3

Strong financial returns with significant shareholder value creation

- Underlying RoI exceeds cost of equity in first full year and increases to c.17% in second full year post acquisition
- Statutory EPS accretion of c.3% in first and c.5% in second full year post acquisition
- Cost synergies of c.£100m pa (c.30% of MBNA 2015 cost base)

4

Funded through organic capital generation

- Expected to utilise c.80bps of CET1, further enhancing future earnings and capital generation
- Continue to expect c.160bps of capital generation in 2016, pre dividend
- In line with policy, our approach to surplus capital distribution at year end will give due consideration to regulatory requirements, uncertainties and business growth, and will include the capital impact of this transaction

(1) As at 30 Jun 2016. (2) As at 31 Dec 2015.

CREATING A 'BEST IN CLASS' UK CREDIT CARD BUSINESS

Low risk, customer-centric business with enhanced digital capabilities

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High quality customer base underpinned by sound risk management	
Demographics	• Prime customer base, with higher than average affluence • No subprime or credit repair cards
Asset Quality	• New business quality in line with LBG • 2015 AQR consistent with LBG • MBNA portfolio remains profitable over plan period, even under severe stress conditions[1]
Conduct	• PPI exposure capped at £240m and included in purchase price

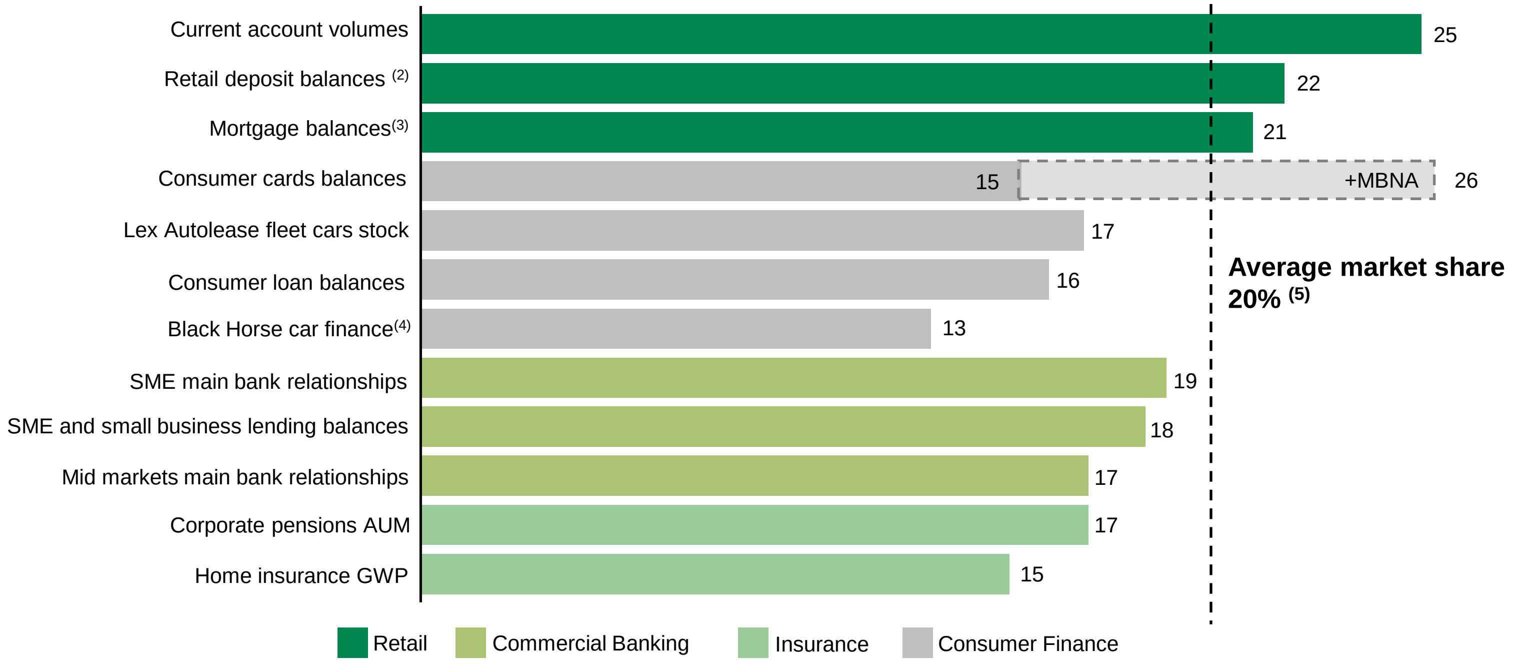
Customer-centric business with diversified distribution model	
Multi-brand strategy	• MBNA brand maintained as challenger brand
Customer-led proposition	• Additional propositions allowing LBG to meet more customer needs
Additional capabilities	• Strong data analytics capabilities
Diversified distribution model	• Digital-led multichannel acquisition and servicing capabilities

[1] 2016 PRA stress test parameters, including unemployment of 9.5% in 2017.

SUPPORTS STRATEGIC GOAL TO GROW IN CONSUMER FINANCE

Strengthening our customer proposition in an under-represented product area

LBG market share[1] (%)



[1] Source: CACI, BoE, FLA, Experian, BBA, ABI. All positions at FY 2015, except current account volumes at November 15 and Home Insurance. [2] Change in methodology versus previous versions to use ‘individual deposits’ in place of ‘household deposits’ and to include wealth balances. [3] Open book only. BoE restated mortgage market size in June 2015. [4] Black Horse point of sale new business flow share. [5] Average market share calculated for ‘core banking products’.

CREATING SIGNIFICANT VALUE FOR SHAREHOLDERS

Strong financial returns supported by sizeable opportunity for synergies

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Income	**+£650m**	✓ Overall impact on total Group revenues of c.£650m ✓ Enhances Group net interest margin by c.10bps per annum ✓ Potential for revenue synergies, but not currently included in financials
Costs savings	**c.£100m pa (run rate)**	✓ Cost synergies of c.30% of MBNA 2015 cost base – achieved through consolidation of IT infrastructure, marketing, property consolidation and operational efficiencies ✓ Migration expertise enables savings to be achieved within 2 years of completion ✓ Cost to achieve integration of c.£200m over next 2 years (65% in 2017), taken below the line
Costs to achieve	**c.£200m**	
EPS accretion	**c.3% yr1 c.5% yr2**	✓ c.3% Group statutory EPS accretion in the first full year post acquisition(1) ✓ c.5% Group statutory EPS accretion in the second full year post acquisition(1)
Attractive multiples	**c.6x P/E 2.3x BV**	✓ Consideration represents c.6x MBNA 2016 estimated earnings (including anticipated run-rate synergies)(2) ✓ Equivalent to 2.3x BV as at H1 2016
Return on investment	**17%**	✓ Underlying Return on Investment expected to exceed cost of equity in first full year post acquisition ✓ 17% Return on Investment in the second full year post acquisition(3)

(1) Group statutory profit based on analysts consensus compiled by LBG. (2) LBG estimate of MBNA 2016 net income including run-rate synergies and excluding restructuring costs.
(3) Based on underlying profit for MBNA.

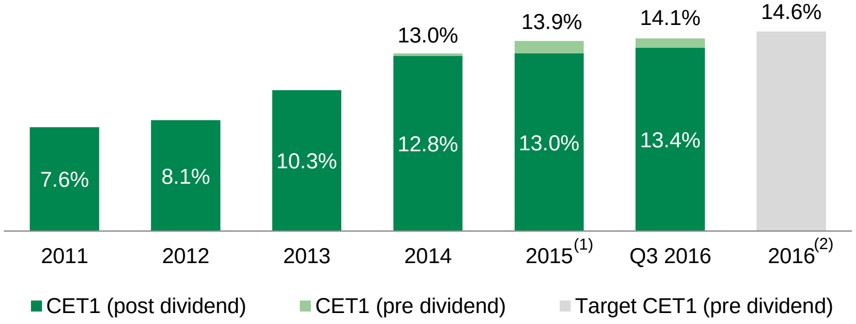
TRANSACTION FUNDED THROUGH ORGANIC CAPITAL GENERATION

Strong balance sheet and capital generation provides strategic optionality

Impact on capital

- Expected to utilise approximately 80bps of CET1 capital on completion in 2017, further enhancing future earnings and capital generation
- Continue to expect c.160bps of capital generation in 2016, pre dividend
- In line with policy, our approach to surplus capital distribution at year end will give due consideration to regulatory requirements, uncertainties and business growth, and will include the capital impact of this transaction

Strong capital position and ongoing capital generation



- The Group remains confident in delivering a progressive and sustainable ordinary dividend in 2016 and continues to target a payout ratio of at least 50% of sustainable earnings over the medium term
- In line with our policy, the Group's approach to surplus capital distribution at the end of the year will give due consideration to the Board's view of the current level of capital required to meet regulatory requirements, cover uncertainties and grow the business, which will include the capital impact of this transaction.

(1) Pro-forma. (2) Pro-forma year end 2016 CET1 ratio based on stated company guidance of c160bps pre-dividend capital generation

APPENDIX

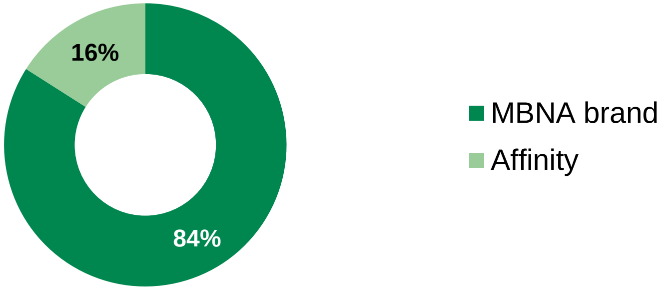
OVERVIEW OF MBNA CARD BUSINESS

Efficient, customer focused, credit card business with high quality, low risk portfolio well aligned to Lloyds existing proposition

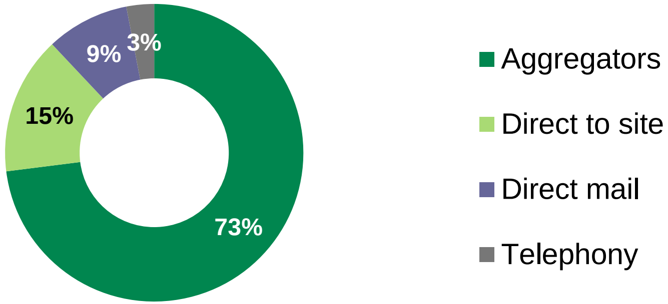
MBNA

- UK's #1 mono-line credit card issuer by balances
- Total balances outstanding of c.£7.0bn as at Jun 2016 (£6.2bn RWAs)
- Sizeable customer base (c.2.8m active accounts)
- Customer-led product proposition with strong brand and significant analytical capability
- Low cost operating model (c.90% of account acquisition and c.70% of customer service through digital channels)
- Low risk book with strong asset quality:
  - Credit risk profile consistent with LBG
  - No sub-prime lending or credit repair cards

Portfolio breakdown[1]



Multi channel distribution[2]



[1] Portfolio split for 2015. [2] Source eBenchmarkers.

FORWARD LOOKING STATEMENTS

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