

LLOYDS
BANKING GROUP



STRATEGIC UPDATE

21 February 2018





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LLOYDS BANKING GROUP STRATEGIC UPDATE

'I am delighted to announce today our strategy for the next three years which will transform the Group for success in a digital world.

Over the last six years the Group has made huge progress and has built many strong capabilities including the largest and top rated digital bank in the UK. As we enter the next phase of our journey our team is determined to further improve the business, enhance customer experience and deliver superior shareholder returns.

The external environment is evolving rapidly and I am confident that this exciting and ambitious plan, with the significant additional investment, will mean we remain at the forefront of UK financial services, and continue to deliver our mission of Helping Britain Prosper.'

António Horta-Osório, Group Chief Executive

Key actions of the 2018–2020 strategic plan:

- Transform the Group into a digitised, simple, low risk, customer focused, UK financial services provider
- Leverage our multi-brand and multi-channel model, including the UK's largest digital bank and branch network, to be the best bank for customers
- Invest more than £3 billion in strategic initiatives, an increase of more than 40 per cent on the previous strategy, to further enhance customer propositions, further digitise the Group, maximise capabilities as an integrated financial service provider and transform the way we work.

Key outcomes and financial targets:

- Growth in targeted segments with strong statutory profit growth
- Operating costs of less than £8 billion in 2020 with cost: income ratio in low 40s as we exit 2020
- Asset quality ratio of around 35 basis points through the cycle and less than 30 basis points during the plan period
- Strong and superior returns (14–15 per cent return on tangible equity from 2019) on a higher CET1 capital base
- Strong capital generation (170–200 basis points per year pre dividend) will continue to drive attractive and sustainable capital returns

Strategy overview

Over the last six years we have successfully transformed the Group, restructuring and simplifying the business whilst enhancing customer experience, Helping Britain Prosper and significantly increasing shareholder returns.

We have made strong progress, leveraging the unique strengths and assets of the Group including our differentiated multi-brand strategy, our multi-channel propositions, market leading efficiency, and the largest digital bank and branch network in the UK.

As we look to the future, we see the external environment evolving rapidly. Changing customer behaviours, the pace of technological evolution and changes in regulation all present opportunities. Given our strong capabilities and the significant progress made in recent years we believe we are in a unique position to compete and win in this environment by developing additional competitive advantages. We will continue to transform ourselves to succeed in this digital world and the next phase of our strategy will ensure we have the capabilities to deliver future success.

Strategic priorities

We have identified four strategic priorities focused on the financial needs and behaviours of the customer of the future: further enhancing our leading customer experience; further digitising the Group; maximising Group capabilities; and transforming ways of working. We will invest more than £3 billion in these strategic initiatives through the plan period that will drive our transformation into a digitised, simple, low risk, customer focused UK financial services provider.

Delivering a leading customer experience

We will drive stronger customer relationships through best in class propositions while continuing to provide our customers with brilliant servicing and a seamless experience across all channels. This will include:

- remaining the number 1 digital bank in the UK with open banking functionality;
- unrivalled reach with UK's largest branch network serving complex needs; and
- data-driven and personalised customer propositions.

Digitising the Group

We will deploy new technology to drive additional operational efficiencies that will make banking simple and easier for customers whilst reducing operating costs, pursuing the following initiatives:

- deeper end-to-end transformation targeting over 70 per cent of cost base;
- simplification and progressive modernisation of our data and IT infrastructure; and
- technology enabled productivity improvements across the business.

Maximising the Group's capabilities

We will deepen customer relationships, grow in targeted segments and better address our customers' banking and insurance needs as an integrated financial services provider. This will include:

- increasing Financial Planning and Retirement (FP&R) open book assets by more than £50 billion by 2020 with more than 1 million new pension customers;
- implementing an integrated FP&R proposition with single customer view; and
- start-up, SME and Mid Market net lending growth (more than £6 billion in the plan period).

Transforming ways of working

We are making our biggest ever investment in people, increasing colleague training and development by 50 per cent to 4.4 million hours per annum and embracing new technology to drive better customer outcomes. The hard work, commitment and expertise of our colleagues has enabled us to deliver to date and we will further invest in capabilities and agile working practices. We have already restructured the business and reorganised the leadership team to ensure effective implementation of the new strategy.

Financial returns

The UK economy has proven resilient and going forward our plans and projections assume this performance continues with a steady increase in base rate to 1.25 per cent by the end of 2020.

The strategy outlined today will enable the Group to deliver strong statutory profit growth supported by targeted asset growth in key segments, a resilient net interest margin, lower operating costs, strong asset quality and lower remediation costs, whilst delivering strong capital generation and sustainable and superior shareholder returns.

Costs will continue to be a competitive advantage as we deliver market leading efficiency. We expect operating costs to be less than £8 billion in 2020. We also expect to achieve a cost:income ratio in the low 40s as we exit 2020, including future remediation costs. We continue to expect improvements in the cost:income ratio every year.

Asset quality remains strong and, given our low risk business model and the significant portfolio improvements in recent years, we now expect an asset quality ratio of around 35 basis points through the cycle and less than 30 basis points through the plan period.

We expect to deliver an improved return on tangible equity (RoTE) of 14.0–15.0 per cent from 2019 onwards on a higher CET1 capital base of c.13 per cent plus a management buffer of around 1 per cent.

Capital generation is expected to remain strong with 170-200 basis points of capital generation per year pre dividend and as a result we expect to deliver progressive and sustainable ordinary dividends whilst maintaining the flexibility to return surplus capital to shareholders.

Forward looking statements

This document contains certain forward looking statements with respect to the business, strategy, plans and /or results 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 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, inflation, 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, instability as a result of the exit by the UK from the European Union (EU) and the potential for 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 the security of IT and operational infrastructure, systems, data and information resulting from increased threat of cyber and other attacks; 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 together with any resulting impact on the future structure of the Group; the ability to attract and retain senior management and other employees and meet its diversity objectives; 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.

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STRATEGIC UPDATE

Presentation to analysts and investors | 21 February 2018

Transforming the Group for success in a digital world

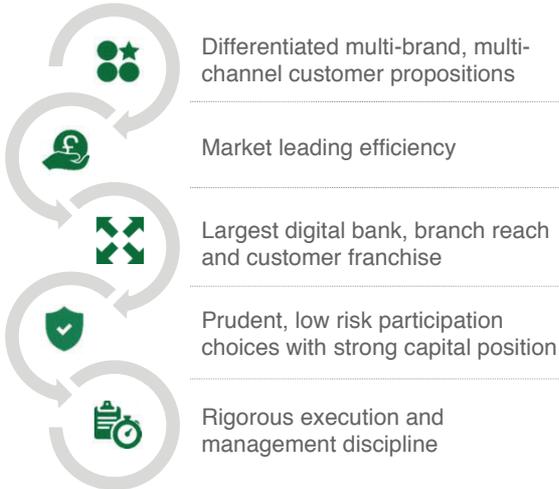
António Horta-Osório
Group Chief Executive



Solid foundations underpinning our customer centric business model

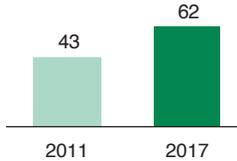


Distinctive competitive strengths



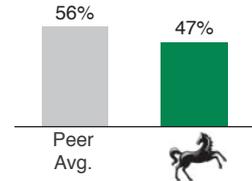
Best-in-class customer experience

Customer NPS



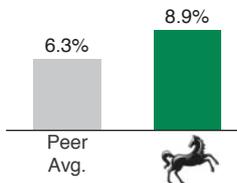
Highly efficient

Cost:income Ratio¹, FY2017²



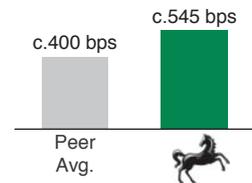
Strong profitability

Statutory RoTE, FY2017²



Capital generative

Cumulative capital generation³ 2015 – 2017²

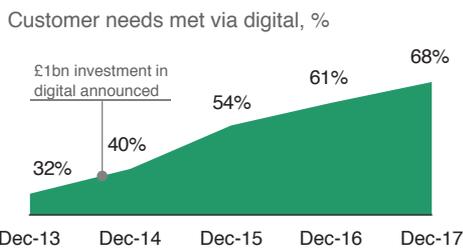


1 – As stated by major UK banking peers. 2 – Lloyds Banking Group figures as of Dec 2017 and peer group as at 9M 2017. 3 – Pre-dividend capital generation, excluding acquisitions (peers annualised).

Largest digital bank in the UK, delivering market leading experience



Largest digital bank in the UK

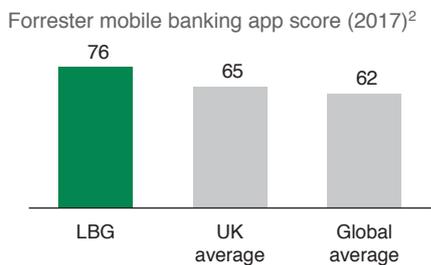


>13m digitally active customers

209m digital visits per month

#1 rated UK mobile app since 2015¹

Leading functionality



- “**Excels at usability**”: easy enrolment/ login, seamless navigation, context-sensitive help function
- “**Outstanding marketing and sales functionality**”: tailored product offers, comparison tools, third-party offers
- “**Wide range of touchpoints**”: mobile-optimised website, SMS interactions, Facebook Messenger
- “**Excellent cross-channel guidance**”: branch appointment scheduling function

1 – Forrester UK Mobile Banking, 2015, 2016, 2017. 2 – Forrester: UK Mobile Banking Benchmark, 2017; Global Mobile Banking Benchmark, 2017

Changing customer behaviour and expectations create opportunities



Evolving customer needs and expectations...



Increasing personalisation



Connected, seamless experience



Safety and security



Convenience and ease



Simpler products with greater transparency



...require a proactive response

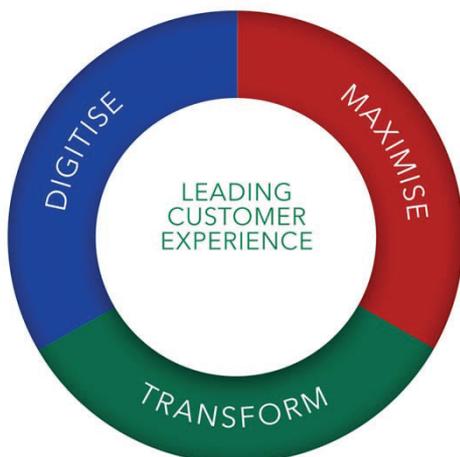
- **Richer interactions**, better understanding of **customer needs**
- Deeper **customer engagement**
- More **personalised propositions**
- **New channels** to serve customers and guide to propositions that serve their needs
- Harnessing **value from data**
- **Safe, secure** and **trusted** online environment
- **Increased productivity** and process **automation**

4

Building on our solid foundations to future proof our business



Strategic priorities



Developing new sources of competitive advantage



Differentiated multi-brand, multi-channel customer propositions with **data-driven customer experience**



Market leading efficiency through **tech-enabled productivity improvements**



Largest digital bank, branch reach and customer franchise with **leading integrated propositions**



Prudent, low risk participation choices with strong capital position



Rigorous execution and management discipline focusing on key **skills of the future**

5

More than £3bn strategic investment to deliver a significant transformation



LEADING CUSTOMER EXPERIENCE

- **#1 UK digital bank**, with Open Banking functionality
- **#1 Branch network**, serving complex needs
- **Data-driven and personalised** customer propositions

MAXIMISING GROUP CAPABILITIES

- **£6bn loan growth in start-ups, SME and Mid Market** businesses
- Sole integrated UK banking and insurance provider targeting **>1m new pensions customers** and **£50bn AuA growth**



DIGITISING THE GROUP

- **End to end transformation** covering more than 70% of our cost base
- **Simplification** and **progressive modernisation** of IT and data architecture

TRANSFORMING WAYS OF WORKING

- **More than half** of transformation delivered through **Agile methodology**
- **Biggest ever investment in our People with 50% increase** in colleague training and development to **4.4m hours p.a.**

6

Continuing to deliver greater value for shareholders



Group Strategic Review 2 (2015-2017)

Group Strategic Review 3 (2018-2020)

Increased investment	c.£1bn investment in digital	>£3.0bn strategic investment
Market leading efficiency	£1.4bn simplification run-rate savings <45% underlying CIR exiting 2019	<£8.0bn operating costs in 2020, including increased strategic investment Low 40s CIR exiting 2020, including remediation
Sustainable and low risk growth	Growth in under represented areas and maintain market leadership in key retail areas c.40bps AQR through-the-cycle	Growth in key targeted segments c.35bps AQR through-the-cycle and <30bps in plan period
Superior returns and lower cost of equity	13.5%-15.0% statutory RoTE in 2019 c.12% CET1, plus c.1% management buffer	14.0%-15.0% statutory RoTE from 2019 Strong growth in statutory profit c.13% CET1, plus around 1% management buffer
Strong capital generation and attractive capital return policy	170-200bps pre-dividend CET1 capital generation per annum Progressive and sustainable ordinary dividend Flexibility to return surplus capital	

7

Committed to Helping Britain Prosper



Delivering on our purpose

>700,000

individuals, businesses and charities trained in digital skills during 2017

>440,000

start-up businesses supported since 2014

15%

increase in SME net lending since the start of 2014, compared to a market that has grown by 1%

Largest

corporate tax payer in the UK in 2015 and 2016

34%

of senior roles now held by women. Up from 29% in 2014

>£47bn

of lending to first time buyers since 2014

>£72m

donated to the Group's independent charitable Foundations since 2014



Increasing our support going forward

People



Lending to first time buyers

Individuals, businesses and charities trained in digital skills

Growth in assets managed in retirement and investment products³

Businesses



Growth in net lending to start-up, SME and Mid Market businesses

Communities



Charities supported by our £100m commitment to the Group's independent charitable Foundations

Percentage of senior roles held by women

Percentage of roles held by Black, Asian and Minority Ethnic colleagues

	2018 ¹	2020 ²
Lending to first time buyers	£10bn	£30bn
Individuals, businesses and charities trained in digital skills	700k	1.8m
Growth in assets managed in retirement and investment products ³	£8bn	£50bn
Growth in net lending to start-up, SME and Mid Market businesses	£2bn	£6bn
Charities supported by our £100m commitment to the Group's independent charitable Foundations	2,500	7,500
Percentage of senior roles held by women	36%	40%
Percentage of roles held by Black, Asian and Minority Ethnic colleagues	8.9%	10%

1 – Year end target. 2 – Cumulative from 2018. 3 – Growth in assets under administration in our open books.

Evolving our business model and transforming the Group for success in a digital world



Our purpose

Helping Britain Prosper

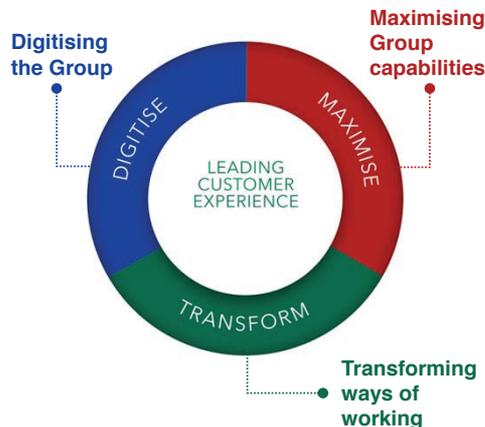
Our aim

Best bank for customers, colleagues and shareholders

Our business model

Digitised, simple, low risk, customer focused, UK financial services provider

Our strategic priorities



Our ambition

Transforming the Group for success in a digital world

Delivering our transformation

Juan Colombás
Chief Operating Officer



Delivery model leveraging our structural advantages



Our structural advantages... >



Single geography



Simple operating model



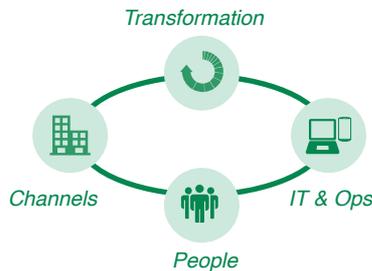
Centralised management



Transformation expertise

...are enhanced by our recent organisational changes...

All critical components of transformation under one umbrella...



...for better coordination and **end-to-end accountability**

> ...and our delivery model

Investment management is now organised around customer journeys with priorities frequently reviewed

Faster delivery of change for customers through Agile approach

Cross-functional, co-located teams focused on transformation agenda

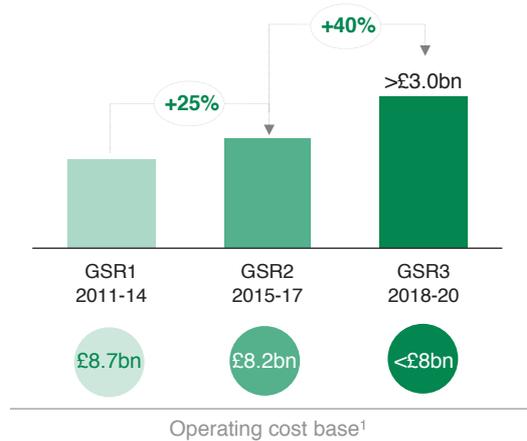
Focus on **outcomes not initiatives**

Larger transformation programme with significantly increased strategic investment



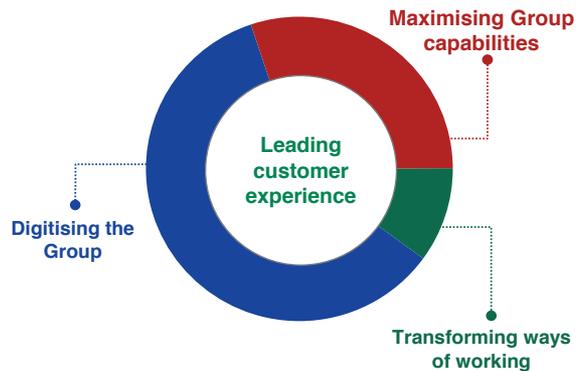
Focus on efficiency enabling increased investment

Total strategic investment, £bn



And delivering a leading customer experience

>£3bn strategic investment



1 – Operating cost at period-end; 2014 for GSR1, 2017 for GSR2 and 2020 for GSR3.

Business and Transformation leads



Leading personal customer experience

& Digitising the Group
& Transforming ways of working

Maximising Group capabilities



Vim Maru
Group Director,
Retail



Jakob Pfaudler
Group Director,
Community Banking



Zaka Mian
Group Director,
Transformation



Jen Tippin
Group People &
Productivity Director



Antonio Lorenzo
Chief Executive,
Scottish Widows and
Group Director,
Insurance & Wealth



David Oldfield
Group Director,
Commercial Banking

Leading personal customer experience

Vim Maru
Group Director, Retail

Jakob Pfaudler
Group Director, Community Banking



Leading personal customer experience



GSR3 priorities



Build on our market leading **digital financial services experience**



Tailor and leverage multi-channel model in line with evolving **customer needs and behaviours**



Use **enhanced capabilities** to meet customers' expectations for increasingly **personalised propositions**



Key outcomes (2020)

#1

UK digital bank, with Open Banking functionality

#1

Branch network, serving complex needs

£30-40bn

Market opportunity in under represented customer segments

Leading brands and customer franchise that differentiate us in a competitive market



Differentiated brand proposition

Iconic brands serving over 27m retail customers¹



Efficiently delivering market leading awareness levels in the UK²

Extensive customer engagement³

72% of customers used two or more channels in 2017



209m digital visits per month



320m debit card transactions per month



18m branch visits per month



6m calls answered per month

1 – Unique active Lloyds, Halifax, and BoS customers plus primary active MBNA customers. 2 – IPSOS, Nielsen, 2017. 3 – 72% based on active PCA customers. Monthly statistics based on Q4 2017 average.

A track record of delivering increasing customer satisfaction



Simpler product range¹

PCA



Reduction in new business range

Savings



Reduction in products

Overdraft variants



Improved customer journeys



Rated mobile account opening journey²



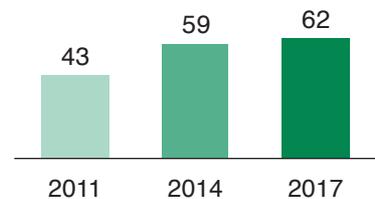
Reduction in customer effort in digital PCA opening journey since 2011



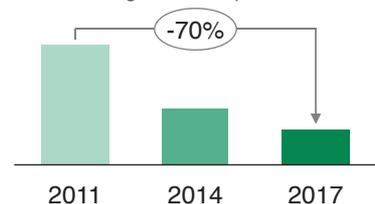
For mortgage agreement in principle through digital channels

Higher customer satisfaction

Customer NPS³



Total incoming retail complaints⁴



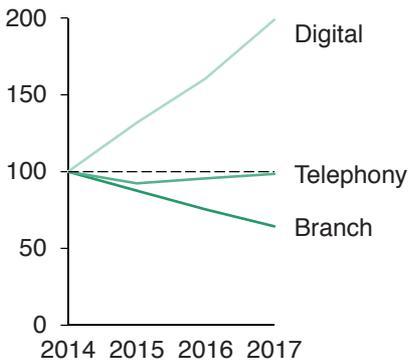
1 – 2014-17. 2 – eBenchmarks, 2017. 3 – Day to day usage across channels. 4 – Absolute incoming retail complaints excluding PPI and CMC.

Significant competitive advantage from multi-channel model

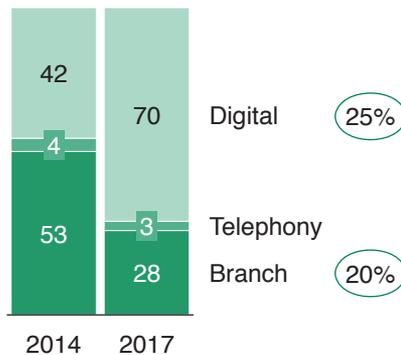


Simple needs migrating to digital channels

Customer channel interactions
Indexed to 2014¹



Simple product needs met
Volume, %²



Market share³

25%

20%

Multi-channel model critical

1.4x

Value of multi-channel customers relative to single channel

>75%

Customers preferring a F2F interaction for first banking relationship⁴

60%

Customers preferring branch for their first mortgage⁵

21%

LBG market share of mortgage needs met through branches

1 – Digital: Visits to desktop site or mobile app; Telephony: Calls via IVR or human agent; Branch: Visits excludes self-service. 2 – Excludes MBNA, Mortgages, Insurance and direct mail. 3 – BoE, CML, eBenchmarks, GfK and internal reporting. Simple products market share based on PCA, Savings, Cards and Loans, excludes MBNA. 4 – GfK's Financial Research Survey, Dec 2017, respondents who opened their first current account in the previous 12 months. 1,210 respondents. 5 – GfK's Financial Research Survey, Dec 2017 638 respondents likely to take their first mortgage in the next 12 months.

Opportunity to tailor and leverage multi-channel model in line with evolving customer needs and behaviours



Branch network

- F2F for complex customer needs
- Differentiated formats

Telephony

- Focused on trouble shooting and support
- Powered by AI and machine learning

Alternative channels

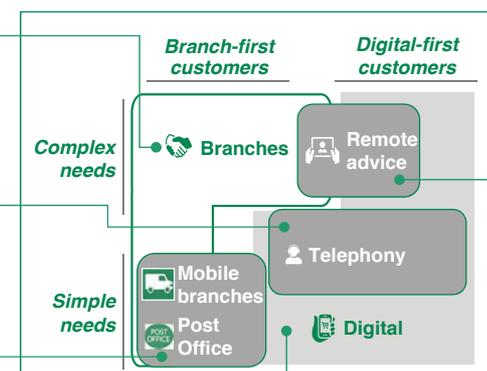
- Next generation mobile branches
- Extended Post Office offer

Digital bank

- Integrated with branch and telephony
- Secure and convenient top rated mobile app

Remote advice

- Home and branch
- Click-to-call
- Mortgages, Insurance and Businesses



Compelling strategic agenda

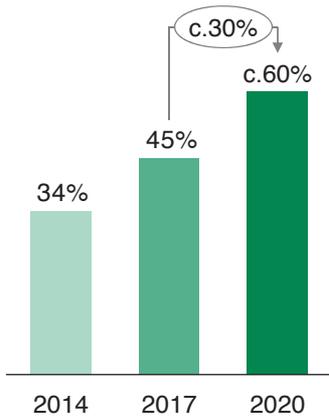
- **Tailored channels** to customer needs
- Ability to **integrate across channels**
- Ambitious vision for **role of branches**
- Optimised **cost to serve**

Physical distribution optimised for purpose, efficiency and reach



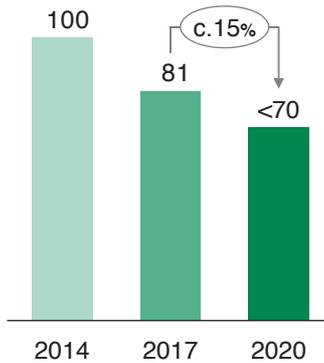
Focusing on complex needs

Customer-facing time on complex needs¹



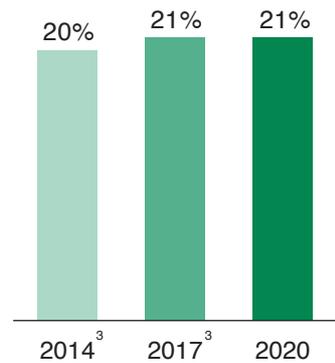
Optimising cost to serve

Branch and telephony costs per customer indexed²



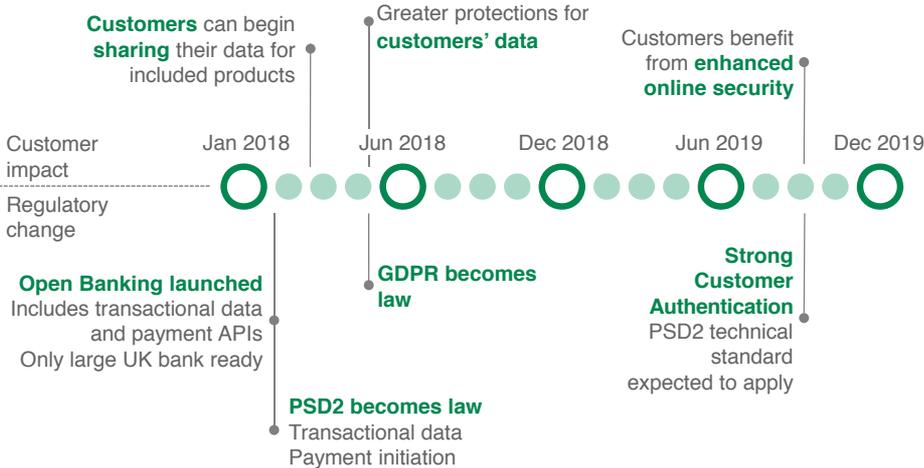
Maintaining reach

Branch market share



1 – Branch colleagues customer facing time - Kiran (2014), Finalta (2017) observation studies; complex needs include mortgage appointments, moments of truth and other enquiries/appointments that customers find complex. 2 – Direct and Property costs per primary active customer. 3 – CACI.

Well placed for future evolution of Open Banking



Implications

- More customer control
- New innovations in products and services
- A focus on responsible data use and security

Notes – API: Application programming interface. PSD2: Payment Services Directive 2. GDPR: General Data Protection Regulation.

Remain #1 UK digital bank with Open Banking functionality



LBG's leading position

1. Largest digital financial services provider with multi-brand, multi-channel offering and strong customer relationships
2. Leading digital functionality and continuing innovation
3. Secure and trusted by customers vs. third parties¹
4. Customer convenience: they want account aggregation from their main bank²

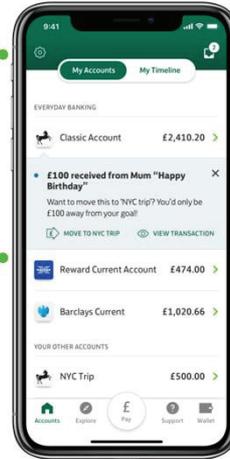
Making Open Banking work for our customers

Everything in one place

- Aggregated view of customer's financial holdings from across the market place

New propositions

- Exploring 3rd party networks and journeys



Innovative tools

- Enhanced servicing (e.g. nudges and card controls)
- Personalised insights
- Everyday controls (real-time notifications)

Security a shared priority

- APIs will ensure the highest levels of security

1 – Harris Interactive Concept Express Open Banking Evaluation, Nov 2017. 2 – GfK Account Aggregation Survey, 2017.

Use enhanced capabilities to meet customers' expectations for increasingly personalised services



Demand for personalisation

We have a **diverse customer base** with varying needs¹:

- 57% own or mortgage home vs 43% rent²
- More than 60% digitally active
- 15% over 70 years old
- 11% don't use cash

Customers have increasing **expectations for personalised and relevant experiences**



Enhanced capabilities

GSR3 capabilities will allow us to respond, from one-size-fits-all to a tailored service which better meets the individual needs

Digitised customer journeys

Enhanced data capabilities

Leading digital servicing

Opportunity

- **Enhanced customer experience** for all customers
- We will deliver growth through **data-driven** and **personalised propositions**
- Micro-segmentation of our customer base identified **10m customers where we are under represented** with a market share of 17%, below our natural market share
- **Opportunity of c.£30-40bn additional customer balances** from under represented personal customer segments

1 – 60% based on 4Q17 Active PCA Lloyds, Halifax, Bank of Scotland customers; 15% based on December 2017 Primary Active Lloyds, Halifax, Bank of Scotland customers; 11% based on 3Q17 sampled Lloyds, Halifax, Bank of Scotland active PCA customers. 2 – CACI Limited 2017, GfK, UK population.

Leading personal customer experience



GSR3 priorities



Build on our market leading **digital financial services experience**



Tailor and leverage multi-channel model in line with evolving **customer needs and behaviours**



Use **enhanced capabilities** to meet customers' expectations for increasingly **personalised propositions**



Key outcomes (2020)

#1

UK digital bank, with Open Banking functionality

#1

Branch network, serving complex needs

£30-40bn

Market opportunity in under represented customer segments

Digitising the Group & Transforming ways of working

Zaka Mian
Group Director, Transformation

Jen Tippin
Group People & Productivity Director



Digitising the Group & Transforming ways of working



GSR3 priorities

- 
Digitise more customer journeys end-to-end and **scale up transformation** to include our Central Functions
- 
 Simplification and **progressive modernisation** through targeted investment in technology, data, and innovation
- 
More agile ways of working and continued focus on **technology-enabled productivity** improvement
- 
 Build key **skills of the future** and **greater in-house capabilities**

Key outcomes (2020)

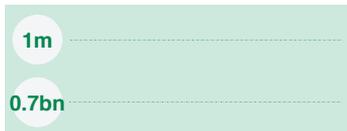
- >70%** of cost base covered by journey transformation
- Up to 30%** Change resource efficiency improvement
- 50%** increase in training and development to 4.4m hours p.a.

Scaling up our transformation to digitise the Group end-to-end and transform our ways of working



Building digital foundations

Creating a scalable digital platform providing choice and convenience for customers



Creating the largest UK digital bank

Enhancing digital capabilities and undertaking Customer Journey Transformation 1.0 to improve experience and business efficiency



Digitising the Group & Transforming ways of working

- ✓ Broader and deeper digital transformation
- ✓ Simplification and **progressive modernisation** of our IT and data architecture
- ✓ More **agile** and more **efficient ways of working**
- ✓ Investing to build **key skills of the future** with greater in-house capabilities

2011

2014

2017

2020+

1 - eBenchmarks. 2 - Includes all logons to LBG secure-sites.

Broader and deeper digital transformation, leveraging improved technology and data capabilities



Broader and deeper transformation...



...leveraging improved capabilities

End-to-end transformation

End-to-end digitisation, including **more activities along the value chain** (e.g. control functions and operations)



Enhanced channel technology

More customer journeys covered

~20 additional customer journeys, including:

- Financial planning and retirement
- Home insurance claims



Upgraded data and applied sciences

Central functions digitised

~15 enterprise journeys, with manual processes re-engineered across central functions



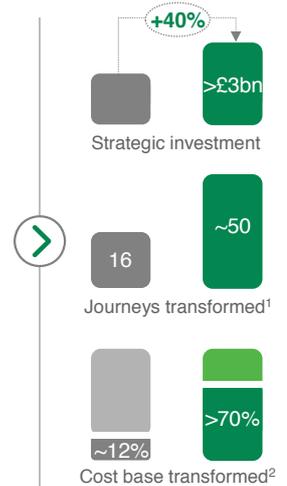
Simplified IT infrastructure



Accelerated innovation

GSR2

GSR3



1 – Includes customer and enterprise journeys. 2 – Operating cost base covered by journey transformation.

Making continuous improvements to everyday banking by leveraging emerging technologies



Using applied sciences to transform both customer experience and operational effectiveness

Customer

~45 seconds

less time spent per call for authentication

Instant authentication via voice biometrics, click-to-call

20 - 40%

increase in customer satisfaction

Greater convenience through in-app messaging

~20%

reduction in errors

Use of intelligent automation to streamline delivery of customer outcomes

Bank

1/3rd

more colleague capacity created

Automated voice and chat-bots matching customer need with agent skill

~10%

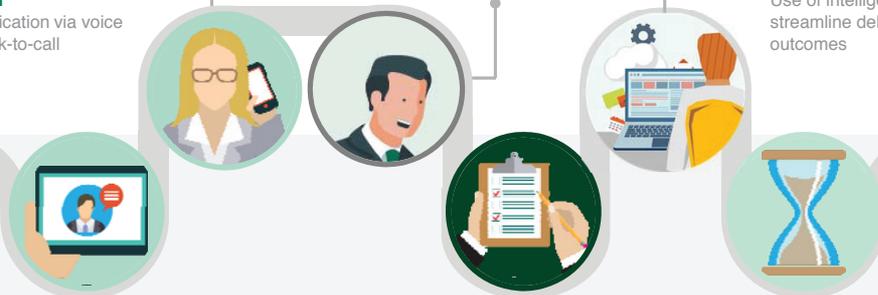
increase in first resolution rates

Coaching prompts for colleagues using speech and text analytics on "next best resolution" during call

~20%

reduction in manual compliance effort

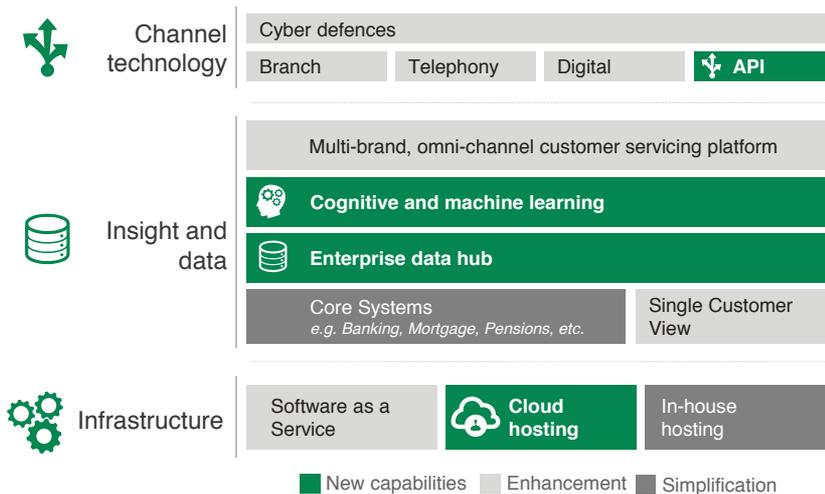
Greater efficiency in compliance activities using automated speech to text and analytics



Simplification and progressive modernisation of our IT architecture



Targeted simplification and “at scale” exploitation of new tech-enabled opportunities



- **API enabled** channel to leverage FinTech and exploit Open Banking
- **Insight powered** customer experiences
- **Selectively upgrade core systems** but avoid “big-bang” solution
- **Transformed software development processes** with greater automation
- Cost and agility improvements by **leveraging hybrid cloud** and software as a service

More agile and more efficient ways of working



Moving from waterfall...

...to Agile in more than half of our change activity



Up to 30% Change resource efficiency improvement

>50% Change delivered through Agile

3.5x Increase in Agile coaches

Biggest ever investment in our People to build key skills of the future



Investing in People to create lasting competitive advantage



Upskill and retrain

- Academies** to develop skills for **specialist roles**
- Leadership** programmes to **role model** ways of working
- Clearer career progression** routes
- Enhanced **workforce analytics**



Increase in training and development to 4.4m hours p.a.



Attract top talent and specialist resource

- Targeted **recruitment campaigns**
- Faster **recruitment and on-boarding** process
- Simpler structure fostering **individual development**
- Aligned **graduate** and **apprenticeship programmes**



Reduction in external resources in Change



Increase in digital experience designers and robotics/AI engineers

Long-term enhancements to our business and competitive position

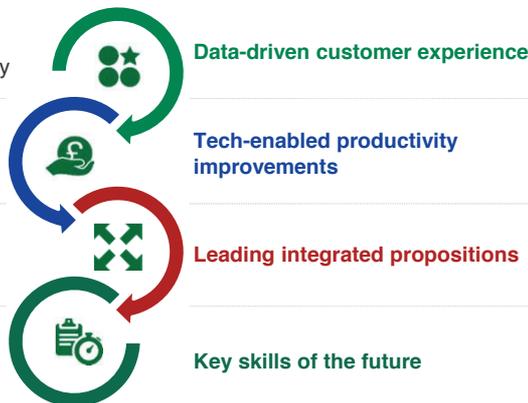


Structural upgrade to our business

Improved capabilities

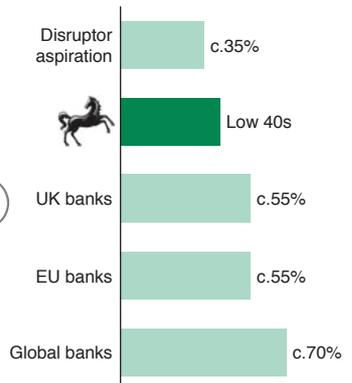
- Upgraded data architecture
- Enhanced channel technology
- E2E journey transformation
- Applied sciences
- Single customer view
- Scalable infrastructure
- Agile change
- Upskilled workforce

Strengthening our competitive advantages



Strong position to compete

Cost:income ratio¹, %



1 – Cost:income ratios as reported (latest disclosure). Disruptor aspiration: based on marketplace lenders; UK: RBS, Santander UK, Barclays, HSBC; EU: BBVA, Santander Group, UniCredit, Intesa, Nordea, Swedbank, ING, KBC, CaixaBank, Sabadell, Societe Generale, Credit Agricole; Global: Citigroup, JP Morgan, Bank of America, Morgan Stanley, Goldman Sachs, Credit Suisse, UBS, Deutsche Bank, BNP Paribas.

Digitising the Group & Transforming ways of working



GSR3 priorities



Digitise more customer journeys end-to-end and **scale up transformation** to include our Central Functions



Simplification and **progressive modernisation** through targeted investment in technology, data, and innovation



More agile ways of working and continued focus on **technology-enabled productivity** improvement



Build key **skills of the future** and **greater in-house capabilities**

Key outcomes (2020)

>70% of cost base covered by journey transformation



Up to 30% Change resource efficiency improvement

50% increase in training and development to 4.4m hours p.a.

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Maximising Group capabilities

Antonio Lorenzo
Chief Executive, Scottish Widows
Group Director, Insurance & Wealth

David Oldfield
Group Director, Commercial
Banking



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Maximising Group capabilities – Insurance & Wealth

Antonio Lorenzo
Chief Executive, Scottish Widows
Group Director, Insurance & Wealth



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Maximising Group capabilities: Insurance & Wealth



GSR3 priorities



Capture the **Corporate Pensions** opportunity, leveraging the Zurich acquisition and Group strengths



Offer customers a **single home for their banking and insurance needs**



Drive growth across intermediary and relationship channels through a strong distribution model

Key outcomes (2020)

>1m New pension customers

£50bn Financial Planning & Retirement open book AuA growth¹

1 – Includes Wealth, excludes longstanding products.

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Insurance & Wealth business with diversity and scale



Unique business model

Iconic Group brands			
Strength across our core markets	Retirement & Investment	General Insurance	Protection
Scale player ¹	>9m Customers		£145bn AuA
Unrivalled multi-channel distribution	Franchise	Direct	Intermediary
GSR2 selected achievements	Successful re-platforming of our Home Insurance business	£2.5bn bulk annuity deals since launch	5 star Financial Adviser service rating

> Integral part of Lloyds Banking Group

£0.9bn

Underlying profit in 2017 (12% of Group)

£5.9bn

Cumulative dividends paid to Group since 2011

16%

Underlying return on tangible equity in 2017

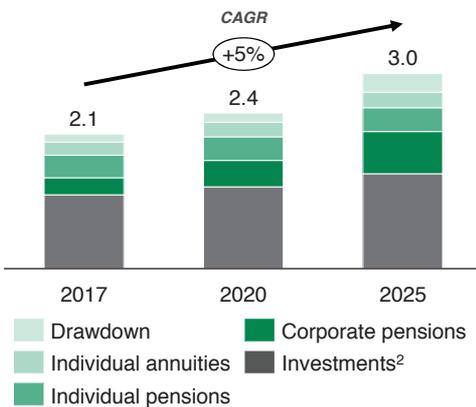
1 – Figures exclude Zurich acquisition.

Meeting customers' Financial Planning & Retirement needs in a growing market



Significant market opportunity...

Market AuA, Financial Planning & Retirement products, £tn¹



> ...which we will start to capture during GSR3

Double-digit new business income **growth across Financial Planning & Retirement**

Grow income in **General Insurance and Protection**

These increases will more than **offset reductions in longstanding products**

1 – Provider results, ABI, Compeer, Fundscape, HMRC, Investment Association, Money Management and Spence Johnson. 2 – Investments includes stocks & shares ISAs, unwrapped funds and direct equities. Markets shown where LBG participates.

Capturing the Corporate Pensions opportunity, leveraging the Zurich acquisition and Group-wide capabilities



Market opportunity



Corporate Pension AuA projected to **grow at 11% CAGR** between 2017-2025¹

Auto-enrolment and **higher contributions²**



Customer preference for digitised services **increases customer interaction**



Key initiatives and outcomes

Integrating Zurich platform to increase scale, enhance capabilities and **reach into new, growing segments**

Leveraging our corporate client relationships to provide retirement solutions

Digitising employer and employee journeys to enhance customer experience

>1m

Increase in pensions customers



15%

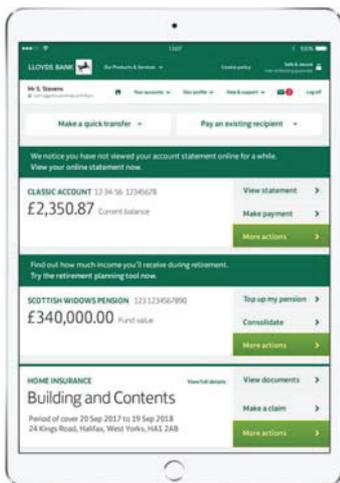
Corporate Pensions new business market share by 2020¹ (10% in 2017)

1 – Internal projections based on provider results and data from the ABI and Spence Johnson. 2 – Total minimum contributions levels, including employer and staff contributions: up to 05/04/2018: 2%; 06/04/2018 – 05/04/2019: 5%; 06/04/2019 onwards: 8%

Offering customers a single home for their banking and insurance needs



Our Single Customer View...



...brings our Insurance proposition to Retail digital customers

Unrivalled level of engagement with customers

>13m Digitally active users

16 Average visits per month

Significantly higher than standalone insurers

#1 rated UK mobile app since 2015¹

Deeper understanding of our customers' insurance needs

- Offer **data-driven, bespoke** Financial Planning & Retirement, General Insurance and Protection **propositions** with **seamless service**
- Provide **greater convenience for customers** through our leading distribution network and multi-channel approach

1 – Forrester UK Mobile Banking, 2015, 2016, 2017.

Strong distribution model to drive growth across Intermediary and Relationship channels



We are investing in each channel to grow our business



Intermediary

Launch Open Market Option (OMO) annuity, allowing customers of any pension provider to buy a Scottish Widows annuity

Enter the on-platform pension and investment market, providing access to a fast growing customer segment

Enhance digital journeys for intermediaries



Relationship
(Franchise and Direct)

Connect franchise holdings via **Single Customer View**

Provide a comprehensive range of **advice and guidance solutions** for pensions & investments

Embed **Home and Life insurance solutions** in the Franchise customer journey

15%

Individual annuities market share¹, a 5pp increase



>2x

Increase in Franchise Home Insurance and Protection needs met²

1 – Market share of new business, based on internal projections and ABI data. 2 – Needs met originating in branch and via Connect mortgages, based on internal projections

Maximising Group capabilities: Insurance & Wealth



GSR3 priorities



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£50bn Financial Planning & Retirement open book AuA growth¹

1 – Includes Wealth, excludes longstanding products.

Maximising Group capabilities - Commercial Banking

David Oldfield
Group Director, Commercial Banking



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Maximising Group capabilities – Commercial Banking



GSR3 priorities



Digitise propositions and support lending needs to drive **growth in SME and Mid Markets**



Upgrade propositions to **deepen relationships** with Global Corporates and Financial Institutions



Increase the productivity of our Relationship Managers through investment in data and analytics

Key outcomes (2020)

£6bn

Growth in net lending to Start-ups, SMEs and Mid Markets

>70%

Products digitised

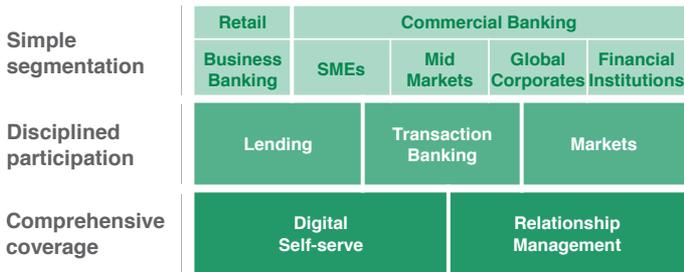
Maintain market leading RoRWA – 2.8% in 2017

45

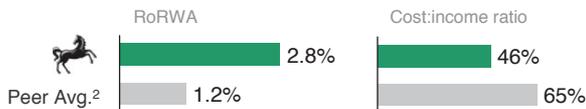
Solid foundations and simple model delivering best-in-class returns



Simple, low risk, relationship-led and UK-focused model



Delivering best-in-class returns (FY2017)¹



¹ – LBG figures for FY17 and peer average for 9M17

² – Peer average refers to RBS (Commercial and NatWest Markets), Barclays (Corporate & IB) and Santander UK (Commercial and Global Corporate Banking)

Strong track record of delivery (GSR2)

Targeted growth

+£4bn SME and Mid Market net lending

Investment in digital

>12k Active clients on CB Online

Simplification

>16k Accounts opened through the new digital onboarding process

Capital discipline

£17bn RWA reduction

Transforming our propositions to meet our clients' evolving needs



Wide ranging client needs....



...supported through our key GSR3 themes

For simple needs they want

- Seamless multi-channel engagement
- Fully digital self-serve
- Flawless servicing
- Digital integration with accounting systems

For complex needs they want

- Relationship Manager support
- Customised propositions
- Real-time relevant sector insight
- Digital integration with enterprise systems



Invest and grow In SME and Mid Markets

- Digitise client experience
- Increase self-serve
- Improve product range



Deepen Relationships in GC and FI

- Enhance payment and cash management
- Upgrade liquidity and working capital propositions
- Maintain returns discipline



Increase Productivity Of Relationship Managers

- Focus on high value client interactions
- Deliver valuable insight

Invest and grow in SME and Mid Markets



In GSR3 we will...



Digitise client experience

Digital origination of simple loans, with **online servicing**
Faster time to **loan sanction** and **cash draw down**
Enhance digital offering in FX, Rates and deposits
Transform transaction and banking journeys end-to-end

100%

Loans serviceable online



Improve product range

Upgrade trade and **working capital** propositions
Leverage Open Banking to broaden client reach
Expand loan product range with flexible funding options

2x

SME conversion rate in Markets products from online channels



Simplify onboarding and servicing

Straight-through-processing and automation
Transform onboarding for corporate clients across the Group

<2hrs

Decision time for simple lending

Deepen relationships in Global Corporates and Financial Institutions



In GSR3 we will...



Broaden Payments & Cash Management

Modernisation of capabilities to expand client offering
Address more **liquidity needs** and provide more **financing solutions**
Continue to invest in **trade** and **asset finance platforms**

1 in 3

Cash management mandates won (from 1 in 8)



Improve Markets products

Integrate **bulk FX payment** capability
Improve **electronic Rates** and **Repo capabilities**
Simplify operations and **systems** to drive efficiency gains

>90%

Straight-through-processing of international payments



Create seamless client experience

Have the **Relationship Manager** at the heart of our model
A **client coverage led model** supported by product and delivery teams

25%

Increase in e-traded volumes (FX and Rates)

Make the Relationship Manager role more productive with more time spent on value adding activity



Clients want ...

Frictionless multi-channel engagement and **flawless servicing**

Customised propositions

Timely, relevant insight adding tangible value



Through our Relationship Managers we will deliver...



A trusted partner providing **valuable insight** and creating **strategic conversations**

Proactive client interaction offering **customised propositions**

50% increase in RM time spent on more complex, value adding activity

Underpinned by...



Automated processes and **self-serve capability**

Connected cross-Group and external data

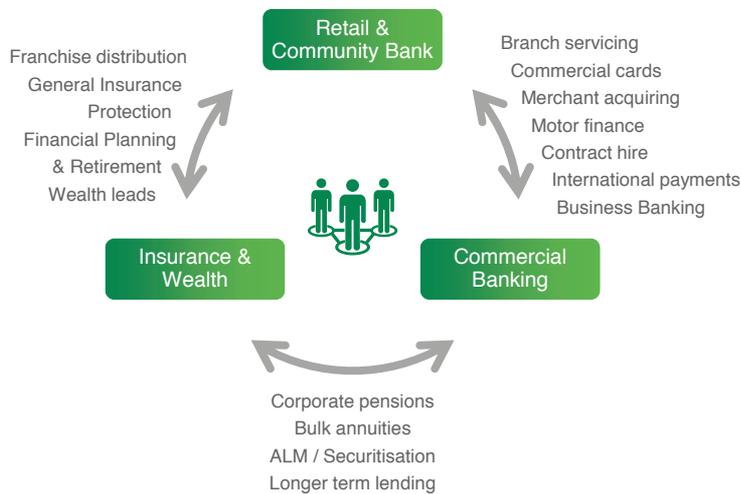
Group **API architecture**

Applied sciences for sophisticated analytics

We can work across the Group to bring joined up solutions



Strong cross-divisional collaboration will drive **deeper relationships** with Commercial clients



Focus going forward



Maximising Group capabilities to target profitable growth



Diversifying further our sources of income



Extracting further synergies through deeper relationships

Maximising Group capabilities – Commercial Banking



GSR3 priorities



Digitise propositions and support lending needs to drive **growth in SME and Mid Markets**



Upgrade propositions to **deepen relationships** with Global Corporates and Financial Institutions



Increase the productivity of our Relationship Managers through investment in data and analytics

Key outcomes (2020)

£6bn

Growth in net lending to Start-ups, SMEs and Mid Markets

>70%

Products digitised

Maintain market leading RoRWA – 2.8% in 2017

52



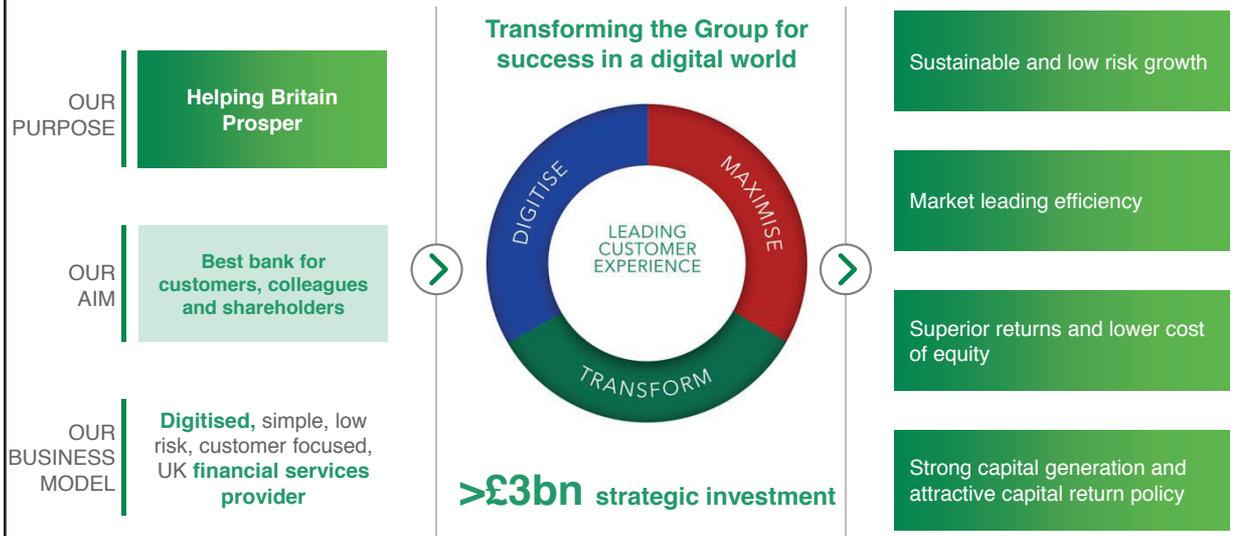
Financial projections and targets

George Culmer
Chief Financial Officer



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Clear strategy that will underpin the delivery of superior returns and create greater value for shareholders



Sustainable and low risk growth – Opportunities for growth in targeted key segments



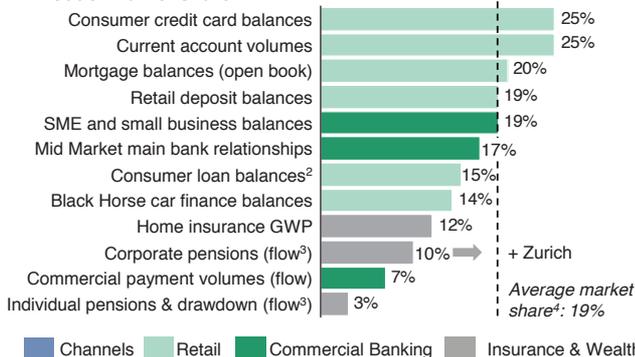
Strong franchise across key channels and products

Further growth opportunities

Channels market share



Product market share



Organic growth in targeted key segments:

- **Financial Planning & Retirement** open book assets under administration
- **Start-up, SME and Mid Market** lending
- Targeted growth in **consumer lending** segments
- Will continue to balance **volume and margin** considerations in **mortgages**

Inorganic growth:

- Consider 'bolt-on' acquisitions in **segments and/or capabilities** where appropriate
- **Innovation growth opportunities** through strategic partnerships and FinTech engagement

No change to prudent risk appetite

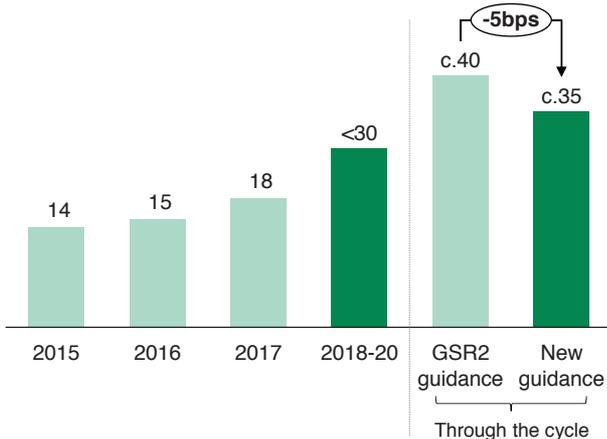
1 – Volumes across PCAs, loans, savings, cards and home insurance. 2 - Comprises unsecured personal loans, overdrafts, and Black Horse retail lending balance share. 3 - Annualised Premium Equivalent new business. Corporate Pensions previously disclosed as stock market share of a smaller addressable market. 4 – Average market share calculated for core financial services products. Market data sources: ABI, BoE, CACI, eBenchmarks, Experian pH, FLA, Spence Johnson, UK Finance. All market shares as at FY17 except individual pensions & drawdown (9M17).

Sustainable and low risk growth – Cost of risk expected to remain low, with through the cycle guidance improved



Cost of risk to remain low

Asset quality ratio (net), bps



Reflecting our low risk business model

- Low risk business model underpinned by **prudent participation choices and portfolio de-risking**
 - Over 95% of assets in UK (**AA rated**)
 - **Secured** assets represent **over 2/3 of portfolio**; average mortgage LTV of **43.6%**
 - Unsecured consumer portfolio **c.6%** of loans, compared to c.4% in 2014
 - **Stringent underwriting criteria** with **targeted balance growth** in recent years
 - Run off assets now **c.£9bn, down 95%** from peak, and just c.2% of loans
 - **Limited exposure** to high volatility business lines
- **Asset quality ratio of c.35bps** (prev. c.40bps) **through the cycle and <30bps in the plan period**, with lower releases and write backs than FY17

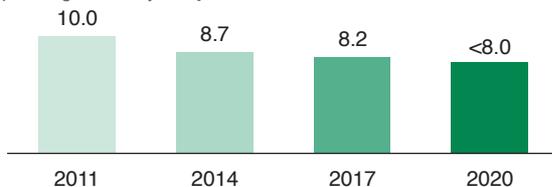
56

Market leading efficiency – Targeting further absolute cost reductions, creating capacity for strategic investment



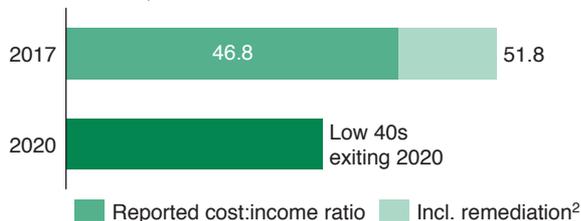
Further absolute cost reductions

Operating cost¹ trajectory, £bn



Further cost:income ratio improvements

Cost:income ratio, %



Outlook

- **Proven track record** of delivering cost reductions; cost base reduced by **c.£2bn since 2011**
- Targeting **operating costs of <£8.0bn in 2020**, more than offsetting inflation
- Focus on efficiency allows for increased investment; **>£3bn strategic investment** over next three years
 - **>40% increase** compared to the prior plan period
- Cost:income ratio **will now include remediation**, as well as operating costs with **increased investment**
 - Remediation costs expected to **reduce significantly** below 2017 levels
- Targeting further improvements in **cost:income ratio**
 - **Low 40s exiting 2020**, compared with 51.8% in 2017, with reductions every year

¹ – Operating costs exclude operating lease depreciation. Includes TSB (2011 and 2014) and MBNA (2017). ² – Calculated as (operating costs + remediation costs) / net income. Remediation previously referred to as other conduct

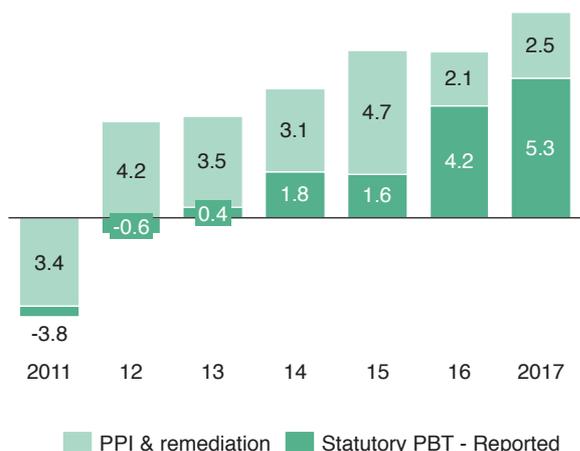
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Superior returns and lower cost of equity – Targeting strong statutory profit growth



Continued strong statutory profit progression

Statutory profit before tax, £bn



Closing the gap to underlying PBT

- Statutory PBT has **increased significantly since 2011** and now accounts for **62%** of underlying PBT
- Targeting further **strong statutory profit growth**, driven by targeted growth, resilient NIM, low risk business model, and lower operating and remediation costs
- Below the line items to **reduce significantly**
 - **PPI costs to cease in August 2019** due to industry deadline
 - Post this deadline, only volatility, restructuring, amortisation of purchased intangibles and fair value unwind will remain below the line
- Expect an **effective tax rate of around 25%** in 2020

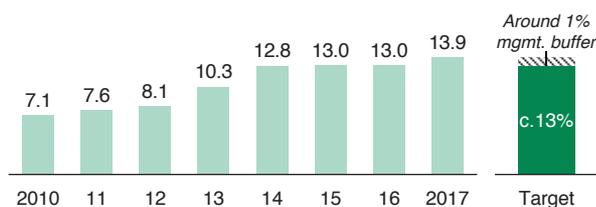
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Superior returns and lower cost of equity – Targeting improved returns on a higher capital base



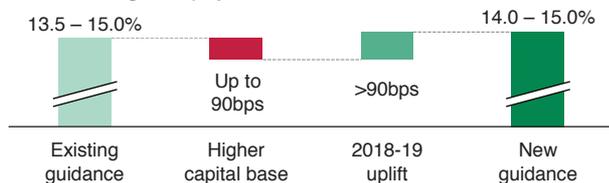
Higher capital base

Post-capital return CET1 ratio¹



Impact of higher capital base fully absorbed

Return on tangible equity, %



Improved returns on a higher capital base

- **Targeting improved statutory RoTE of 14.0% - 15.0% from 2019** on a higher capital base
- Targeting higher **CET1 ratio of c.13%, plus a management buffer of around 1%**
- Excluding the impact of higher capital requirements, **RoTE would be up to 90bps higher**

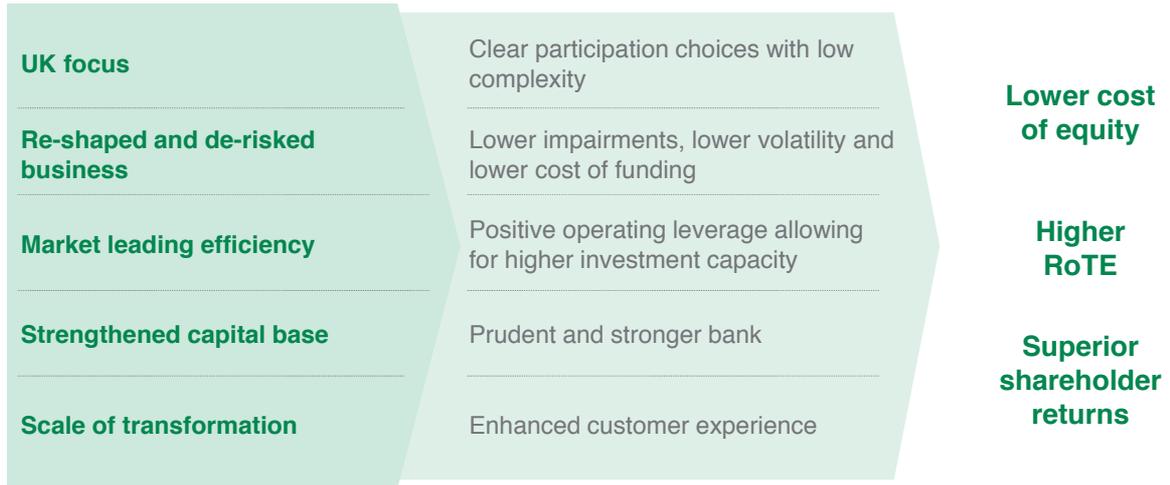
¹ – Pro-forma for Insurance dividend, 2016 post-MBNA (0.8%), 2017 post announced share buy back.

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Superior returns and lower cost of equity – Delivering superior shareholder returns



Simple, differentiated business model

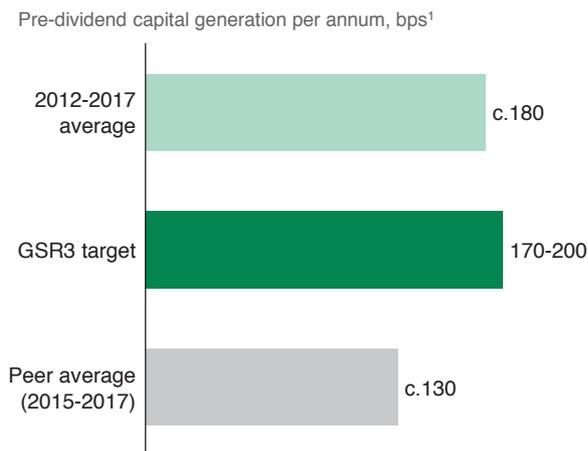


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Strong capital generation and attractive capital return policy – Capital generative business model with clear framework for capital return



Consistent capital generation



➤ Enabling superior shareholder returns

- Business model remains **strongly capital generative**
 - Continue to target **170-200bps per annum, pre-dividend**
- Improved profitability provides capacity for growth and ability to absorb capital headwinds while still delivering **consistent capital generation**
- **Clear framework for capital return to shareholders:**
 - **Progressive and sustainable** ordinary dividend
 - Will continue to **return surplus capital by an appropriate means**, with current preference for **share buy-backs**

¹ – Excluding acquisitions. Annualised average for peers

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Closing comments

António Horta-Osório
Group Chief Executive



Transforming the Group for success in a digital world



Our purpose

Helping Britain Prosper

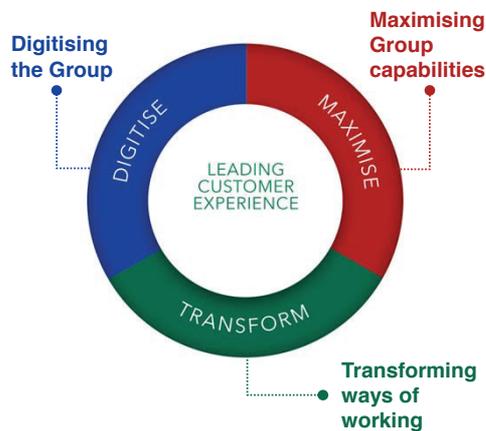
Our aim

Best bank for customers, colleagues and shareholders

Our business model

Digitised, simple, low risk, customer focused, UK financial services provider

Our strategic priorities



Our ambition



Transforming the Group for success in a digital world

Appendix



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Speakers' biographies



Vim Maru

Group Director, Retail

Vim was appointed Group Director, Retail in September 2017.

He joined the Group in June 2011 as Managing Director, Customer Products and was appointed to the Group Executive Committee in August 2013. Vim is also a UK Finance Board member, leading on Retail Banking.

Previously Vim worked for over 12 years at Santander, in a range of roles in Corporate Strategy, Mergers & Acquisitions, the Life Division and most recently held the position of Director, Retail Products.

Vim holds an Economics degree from the London School of Economics and is a member of the Institute of Chartered Accountants.

Jakob Pfaudler

Group Director, Community Banking

Jakob was appointed Group Director, Community Banking in September 2017.

From 2015 to 2017 he was Chief Operating Officer for the Retail Bank and prior to this he was Managing Director of Asset Finance. Other previous roles include Chief Operating Officer for Wealth & International, Managing Director International Retail and International Banking and Wholesale Banking Operations Director.

Jakob joined the Group in 2004 having spent six years with McKinsey & Co, in their London office. Prior to McKinsey, Jakob spent time with Goldman Sachs and Oliver Wyman.

He has a PhD in Theoretical Physics from Oxford University.

Zaka Mian

Group Director, Transformation

Zak joined the Group in 1989 as a Business Analyst in IT and has carried out multiple roles involving Retail CIO, Head of IT Architecture and leading the Digital Transformation programme.

He was appointed Group Director, Digital and Transformation in 2016 and his responsibilities increased in September 2017 as the Group Director, Transformation. He is responsible for the digital transformation of the Group, including all IT and business change, and ensuring we are ready to meet the future expectations of our customers.

Zak has a Computer Science degree from York University.

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Speakers' biographies



Jennifer Tippin Group People and Productivity Director

Jen was appointed as Group People and Productivity Director in July 2017 and is responsible for leading the people function and managing the Group's cost base.

Prior to her current role, Jen held the roles of Group Customer Services Director and Managing Director, Retail Business Banking.

Graduating from Oxford University, Jen enjoyed a career spanning multiple industries, including banking, engineering and the airline sector. Jen is a non-executive director on the board of Lloyds Bank Corporate Markets and the Kent Community NHS Foundation Trust.

Antonio Lorenzo Chief Executive, Scottish Widows and Group Director, Insurance and Wealth

Antonio was appointed Chief Executive, Scottish Widows and Group Director, Insurance at the end of 2015 and during 2017 he also assumed responsibility for the Wealth Division.

Antonio joined the Group in 2011 from Santander to lead the Group's strategic review and subsequent programme of reducing non-core assets and exiting international locations. He subsequently held the role of Group Director, Consumer Finance & Group Corporate Development, leading the division's growth strategy whilst completing the sale of TSB.

He is Group Executive Sponsor for Emerging Talent.

David Oldfield Group Director, Commercial Banking

David was appointed as Group Director, Commercial Banking in September 2017 responsible for supporting corporate clients from SMEs through Mid Markets to Global Corporates and Financial Institutions.

David started his career with Lloyds Bank 31 years ago on the graduate programme and has held a number of key leadership roles across all Divisions of the Group. Immediately prior to his current role he was Group Director Retail and Consumer Finance, responsible for the Lex Autolease and Black Horse Brands, Retail branch networks, Telephone Banking, and Retail Business Banking and UK Wealth businesses.

David is a Fellow of the Chartered Institute of Bankers. He is also Group Executive Sponsor for Disability.

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Forward looking statement



Forward looking statement

This document contains certain forward looking statements with respect to the business, strategy, plans and /or results 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 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, inflation, 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, instability as a result of the exit by the UK from the European Union (EU) and the potential for 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 the security of IT and operational infrastructure, systems, data and information resulting from increased threat of cyber and other attacks; 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 together with any resulting impact on the future structure of the Group; the ability to attract and retain senior management and other employees and meet its diversity objectives; 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.

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