21 February 2018

LLOYDS BANKING GROUP PLC – ANNUAL REPORT AND ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2017

In accordance with Listing Rule 9.6.1, Lloyds Banking Group plc has submitted today the following document to the National Storage Mechanism.

- Annual Report and Accounts 2017

This document will shortly be available for inspection at www.hemscott.com/nsm.do

A copy of the Annual Report and Accounts 2017 is available through the 'Investors & Performance' section of our website www.lloydsbankinggroup.com

This announcement also contains additional information for the purposes of compliance with the Disclosure and Transparency Rules, including principal risk factors, details of related party transactions and a responsibility statement. This information is extracted, in full unedited text, from the Annual Report and Accounts 2017 (the **'Annual Report'**). References to page numbers and notes to the accounts made in the following Appendices, refer to page numbers and notes to the accounts in the Annual Report. The 2017 Results News Release made on 21 February 2018 contained a condensed set of financial statements, the Group Chief Executive's statement and the Chief Financial Officer's review.

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FORWARD LOOKING STATEMENTS

This Annual Report 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. Words such as 'believes', 'anticipates', 'estimates', 'expects', 'intends', 'aims', 'potential', 'will', 'would', 'could', 'considered', 'likely', 'estimate' and variations of these words and similar future or conditional expressions are intended to identify forward looking statements but are not the exclusive means of identifying such 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. Examples of such forward looking statements include, but are not limited to: projections or expectations of the Group's future financial position including profit attributable to shareholders, provisions, economic profit, dividends, capital structure, portfolios, net interest margin, capital ratios, liquidity, risk-weighted assets (RWAs), expenditures or any other financial items or ratios; litigation, regulatory and governmental investigations; the Group's future financial performance; the level and extent of future impairments and write-downs; statements of plans, objectives or goals of Lloyds Banking Group or its management including in respect of statements about the future business and economic environments in the UK and elsewhere including, but not limited to, future trends in interest rates, foreign exchange rates, credit and equity market levels and demographic developments; statements about competition, regulation, disposals and consolidation or technological developments in the financial services industry; and statements of assumptions underlying such statements. 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. Lloyds Banking Group may also make or disclose written and/or oral forward looking statements in reports filed with or furnished to the US Securities and Exchange Commission, Lloyds Banking Group annual reviews, half-year announcements, proxy statements, offering circulars, prospectuses, press releases and other written materials and in oral statements made by the directors, officers or employees of Lloyds Banking Group to third parties, including financial analysts. Except as required by any applicable law or regulation, the forward looking statements contained in this Annual Report are made as of the date hereof, and Lloyds Banking Group expressly disclaims any obligation or undertaking to release publicly any updates or revisions to any forward looking statements contained in this Annual Report to reflect any change in Lloyds Banking Group's expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based. The information, statements and opinions contained in this Annual Report 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.

Appendix 1 – Risk Factors

The principal risks and uncertainties relating to Lloyds Banking Group plc are set out on pages 34-37 of the Annual Report. The following is extracted in full and unedited form from the Annual Report.

The most significant risks which could impact the delivery of our long-term strategic objectives and our approach to each risk, are detailed below.

As part of the Group's ongoing assessment of the potential implications of the UK leaving the European Union, the Group continues to consider the impact to its customers, colleagues and products – as well as legal, regulatory, tax, financial and capital implications.

There remains continued uncertainty around both the UK and global political and macroeconomic environment. The potential impacts of external factors have been considered in all principal risks to ensure any material uncertainties continue to be monitored and are appropriately mitigated.

Principal risks and uncertainties are reviewed and reported regularly. This year we have added a new principal risk, model risk, to reflect the Group's increasing use of analytics and models to make decisions.

Credit

The risk that parties with whom we have contracted, fail to meet their financial obligations (both on and off balance sheet).

Example:

- Adverse impact on profitability due to an increase in impairment losses, write downs and/or decrease in asset valuations which can occur for a number of reasons, including adverse changes in the economic, geopolitical and market environment. For example, low interest rates have helped customer affordability, but there is a risk of increased defaults as interest rates rise.

Key mitigating actions

- Credit policy, incorporating prudent lending criteria, aligned with Board approved risk appetite, to effectively manage risk.
- Robust risk assessment and credit sanctioning to ensure we lend appropriately and responsibly.
- Extensive and thorough credit processes and controls to ensure effective risk identification, management and oversight.
- Effective, well-established governance process supported by independent credit risk assurance.
- Early identification of signs of stress leading to prompt action in engaging the customer.

Regulatory and legal

The risks of changing legislation, regulation, policies, voluntary codes of practice and their interpretation in the markets in which we operate may have a significant impact on the Group's operations, business prospects, structure, costs and/or capital requirements and ability to enforce contractual obligations.

Examples:

- Increased regulatory oversight and prudential regulatory requirements.
- Increased legislative requirements, such as ring-fencing legislation, Payment Services Directive 2 (PSD2), Open Banking and General Data Protection Regulation (GDPR).

Key mitigating actions

- Ensure we develop comprehensive plans for delivery of all legal and regulatory changes and track their progress.
- Group−wide projects implemented to address significant impacts.
- Continued investment in people, processes, training and IT to assess impact and help meet our legal and regulatory commitments.
- Engage with regulatory authorities and industry bodies on forthcoming regulatory changes, market reviews and investigations.

Conduct

Conduct risk can arise from a number of areas including selling products to customers which do not meet their needs; failing to deal with customers' complaints effectively; not meeting customers' expectations; failing to promote effective competition in the interest of customers; and exhibiting behaviours which could impact on the integrity of the market or undermine wider regulatory standards.

Example:

- The most significant conduct cost in recent years has been PPI mis-selling.

Key mitigating actions

- Conduct risk appetite metrics provide a granular view of how our products and services are performing for customers.
- Product approval, continuous product review processes and customer outcome testing (across products and services) supported by conduct management information.
- Learning from past mistakes through root cause analysis and clear customer accountabilities for colleagues, with rewards driven by customer-centric metrics.
- Further enhancements and embedding of our framework to support customers in vulnerable circumstances.

Operational

We face significant operational risks which may disrupt services to customers, cause reputational damage, and result in financial loss. These include the availability, resilience and security of our core IT systems, unlawful or inappropriate use of customer data, theft of sensitive data, fraud and financial crime threats, and the potential for failings in our customer processes.

Example:

The dynamic threat posed by cyber risk to the confidentiality and integrity of electronic data or the availability of systems.

Key mitigating actions

- Investing in enhanced cyber controls to protect against external threats to the confidentiality or integrity of electronic data, or the availability of systems, and to ensure effective third party assurance.
- Enhancing the resilience of systems that support critical business processes with independent verification of progress on an annual basis.
- Significant investment in compliance with GDPR and Basel Committee on Banking Supervision standards.
- Working with industry bodies and law enforcement agencies to identify and combat fraud and money laundering.

People

Key people risks include the risk that we fail to maintain organisational skills, capability, resilience and capacity levels in response to organisational, political and external market change and evolving business needs.

Example

Inability to attract or retain colleagues with key skills could impact the achievement of business objectives.

Key mitigating actions

- Focused action to attract, retain and develop high calibre people. Delivering initiatives which reinforce behaviours to generate the best outcomes for customers and colleagues.
- Managing organisational capability and capacity to ensure there are the right skills and resources to meet our customers' needs.
- Effective remuneration arrangements to promote appropriate colleague behaviours and meet regulatory expectations.

Insurance underwriting

Key insurance underwriting risks within the Insurance business are longevity, persistency and property insurance. Longevity risk is expected to increase as our presence in the bulk annuity market increases.

Example

- Uncertain property insurance claims impact Insurance earnings and capital, e.g. extreme weather conditions, such as flooding, can result in high property damage claims.

Key mitigating actions

- Processes for underwriting, claims management, pricing and product design seek to control exposure. Longevity and bulk pricing experts support the bulk annuity proposition.
- The merits of longevity risk transfer and hedging solutions are regularly reviewed for the Insurance business.
- Property insurance exposures are mitigated by a broad reinsurance programme.

Capital

The risk that we have a sub-optimal quantity or quality of capital or that capital is inefficiently deployed across the Group.

Example

- A worsening macroeconomic environment could lead to adverse financial performance, which could deplete capital resources and/ or increase capital requirements due to a deterioration in customers' creditworthiness.

Key mitigating actions

- A comprehensive capital management framework that includes setting of capital risk appetite and dividend policy.
- Close monitoring of capital and leverage ratios to ensure we meet regulatory requirements and risk appetite.
- Comprehensive stress testing analyses to evidence capital adequacy under various adverse scenarios.

Funding and liquidity

The risk that we have insufficient financial resources to meet our commitments as they fall due.

Example

- A deterioration in either the Group's or the UK's credit rating, or a sudden and significant withdrawal of customer deposits, would adversely impact our funding and liquidity position.

Key mitigating actions

- Holding liquid assets to cover potential cash and collateral outflows and to meet regulatory requirements. In addition, maintaining a further pool of assets that can be used to access central bank liquidity facilities.
- Undertaking daily monitoring against a number of market and Group-specific early warning indicators.
- Maintaining a contingency funding plan detailing actions and strategies available in stressed conditions.

Governance

Against a background of increased regulatory focus on governance and risk management, the most significant challenges arise from meeting the requirements to ring-fence core UK financial services and activities from January 2019 and further requirements under the Senior Manager & Certification Regime (SM&CR).

Examples

- Inadequate or complex governance arrangements to address ring-fencing requirements could result in a weaker control environment, delays in decision making and lack of clear accountability.
- Non-compliance with or breaches of SM&CR requirements could result in lack of clear accountability and legal and regulatory consequences.

Key mitigating actions

- Leveraging our considerable change experience to meet ring-fencing requirements before the regulatory deadlines, and the continuing evolution of SM&CR.
- Programme in place to address ring-fencing. In close and regular contact with regulators to develop and deploy our planned operating and legal structure.
- Evolving risk and governance arrangements to continue to be appropriate to comply with regulatory objectives.

Market
The risk that our capital or earnings profile is affected by adverse market rates, in particular interest rates and credit spreads in the banking business, equity and credit spreads in the Insurance business, and credit spreads in the Group's defined benefit (DB) pension schemes.

Examples
- Earnings are impacted by our ability to forecast and model customer behaviour accurately and establish appropriate hedging strategies.
- The Insurance business is exposed indirectly to equity risk through the value of future management charges on policyholder funds. Credit spread risk within the Insurance business primarily arises from bonds and loans used to back annuities.
- Narrowing credit spreads will increase the cost of pension scheme benefits.

Key mitigating actions
- Structural hedge programmes implemented to manage liability margins and margin compression.
- Equity and credit spread risks are closely monitored and, where appropriate, asset and liability matching is undertaken.
- The Group's DB pension schemes have increased their credit allocation and hedged against nominal rate and inflation movements.

Model
The risk of financial loss, regulatory censure, reputational damage or customer detriment, as a result of deficiencies in the development, application and ongoing operation of financial models and rating systems.

Examples of the consequences of inadequate models include:
- Inappropriate levels of capital or impairments.
- Inappropriate credit or pricing decisions.
- Adverse impacts on funding or liquidity, or the Group's earnings and profits.

Key mitigating actions
A comprehensive model risk management framework including:
- Defined roles and responsibilities, with clear ownership and accountability.
- Principles regarding the requirements of data integrity, development, validation, implementation and ongoing maintenance.
- Regular model monitoring.
- Independent review of models.
- Periodic validation and re-approval of models.

Appendix 2 – Related Party Transactions

The following statements regarding related party transactions of Lloyds Banking Group plc are set out on pages 223 to 224 of the Annual Report. The following is extracted in full and unedited form from the Annual Report.

Note 46: Related party transactions

Key management personnel
Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of an entity; the Group's key management personnel are the members of the Lloyds Banking Group plc Group Executive Committee together with its Non-Executive Directors.

The table below details, on an aggregated basis, key management personnel compensation:

	2017 £m	2016 £m	2015 £m
Compensation			
Salaries and other short-term benefits	**13**	17	14
Post-employment benefits	**–**	–	–
Share-based payments	**22**	23	18
Total compensation	**35**	40	32

Aggregate contributions in respect of key management personnel to defined contribution pension schemes were £0.05 million (2016: £0.1 million; 2015: £0.1 million).

	2017 million	2016 million	2015 million
Share option plans			
At 1 January	**3**	9	13
Granted, including certain adjustments (includes entitlements of appointed key management personnel)	**–**	3	3
Exercised/lapsed (includes entitlements of former key management personnel)	**(2)**	(9)	(7)
At 31 December	**1**	3	9

	2017 million	2016 million	2015 million
Share plans			
At 1 January	**65**	82	102
Granted, including certain adjustments (includes entitlements of appointed key management personnel)	**37**	29	37
Exercised/lapsed (includes entitlements of former key management personnel)	**(20)**	(46)	(57)
At 31 December	**82**	65	82

The tables below detail, on an aggregated basis, balances outstanding at the year end and related income and expense, together with information relating to other transactions between the Group and its key management personnel:

	2017 £m	2016 £m	2015 £m
Loans			
At 1 January	**4**	5	3
Advanced (includes loans of appointed key management personnel)	**1**	3	4
Repayments (includes loans of former key management personnel)	**(3)**	(4)	(2)
At 31 December	**2**	4	5

The loans are on both a secured and unsecured basis and are expected to be settled in cash. The loans attracted interest rates of between 6.45 per cent and 23.95 per cent in 2017 (2016: 2.49 per cent and 23.95 per cent; 2015: 3.99 per cent and 23.95 per cent).

No provisions have been recognised in respect of loans given to key management personnel (2016 and 2015: £nil).

	2017 £m	2016 £m	2015 £m
Deposits			
At 1 January	**12**	13	16
Placed (includes deposits of appointed key management personnel)	**41**	41	58
Withdrawn (includes deposits of former key management personnel)	**(33)**	(42)	(61)
At 31 December	**20**	12	13

Deposits placed by key management personnel attracted interest rates of up to 4.0 per cent (2016: 4.0 per cent; 2015: 4.7per cent).

At 31 December 2017, the Group did not provide any guarantees in respect of key management personnel (2016 and 2015: none).

At 31 December 2017, transactions, arrangements and agreements entered into by the Group's banking subsidiaries with directors and connected persons included amounts outstanding in respect of loans and credit card transactions of £0.01 million with 3 directors and 2 connected persons (2016: £0.4 million with five directors and two connected persons; 2015: £1 million with four directors and six connected persons).

Subsidiaries

Details of the Group's subsidiaries and related undertakings are provided on pages 268–274. In accordance with IFRS 10 Consolidated financial statements, transactions and balances with subsidiaries have been eliminated on consolidation.

Pension funds

The Group provides banking and some investment management services to certain of its pension funds. At 31 December 2017, customer deposits of £337 million (2016: £171 million) and investment and insurance contract liabilities of £307 million (2016: £406 million) related to the Group's pension funds.

Collective investment vehicles

The Group manages 134 (2016: 139) collective investment vehicles, such as Open Ended Investment Companies (OEICs) and of these 83 (2016: 83) are consolidated. The Group invested £418 million (2016: £265 million) and redeemed £616 million (2016: £826 million) in the unconsolidated collective investment vehicles during the year and had investments, at fair value, of £2,328 million (2016: £2,405 million) at 31 December. The Group earned fees of £133 million from the unconsolidated collective investment vehicles during 2017 (2016: £192 million).

Joint ventures and associates

At 31 December 2017 there were loans and advances to customers of £123 million (2016: £173 million) outstanding and balances within customer deposits of £9 million (2016: £15 million) relating to joint ventures and associates.

In addition to the above balances, the Group has a number of other associates held by its venture capital business that it accounts for at fair value through profit or loss. At 31 December 2017, these companies had total assets of approximately £4,661 million (2016: £4,712 million), total liabilities of approximately £5,228 million (2016: £5,033 million) and for the year ended 31 December 2017 had turnover of approximately £4,601 million (2016: £4,401 million) and made a loss of approximately £87 million (2016: net loss of £27 million). In addition, the Group has provided £1,226 million (2016: £1,550 million) of financing to these companies on which it received £81 million (2016: £127 million) of interest income in the year.

Appendix 3 – Directors' Responsibility Statement

The following statement is extracted from page 83 of the Annual Report. This statement relates solely to the Annual Report and is not connected to the extracted information set out in this announcement or the 2017 Results News Release dated 21 February 2018.

Statement of directors' responsibilities

The Directors are responsible for preparing the annual report, the Directors' remuneration report and the financial statements in accordance with applicable law and regulations. Company law requires the Directors to prepare financial statements for each financial year. Under that law, the Directors have prepared the Group and parent Company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law, the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Company and Group for that period. In preparing these financial statements, the Directors are required to: select suitable accounting policies and then apply them consistently; make judgements and accounting estimates that are reasonable and prudent; and state whether applicable IFRSs as adopted by the European Union have been followed.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the financial statements and the Directors' remuneration report comply with the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

A copy of the financial statements is placed on our website at www.lloydsbankinggroup.com. The Directors are responsible for the maintenance and integrity of the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Each of the current Directors who are in office as at the date of this report, and whose names and functions are listed on pages 54–55 of this annual report, confirm that, to the best of his or her knowledge:

- the Group financial statements, which have been prepared in accordance with IFRSs as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and Group; and
- the management report contained in the strategic report and the Directors' report includes a fair review of the development and performance of the business and the position of the Company and Group, together with a description of the principal risks and uncertainties that they face.

The Directors consider that the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy. The Directors have also separately reviewed and approved the strategic report.