LLOYDS BANKING GROUP

MORGAN STANLEY FINANCIALS CONFERENCE

António Horta-Osório | 19 March 2019

2018 was a year of strong financial performance with continued growth in profits and returns

Statutory profit after tax	**£4.4bn** ***+24%***
Earnings per share	**5.5p** ***+27%***
Underlying profit	**£8.1bn** ***+6%***
Net income	**£17.8bn** ***+2%***
Cost:income ratio (incl. remediation)	**49.3%** ***(2.5)pp***
Cost:income ratio (excl. remediation)	**46.0%** ***(0.8)pp***
Return on tangible equity	**11.7%** ***+2.8pp***
Capital build (pre-dividend and buyback)	**210bps**

- **Statutory profit after tax of £4.4bn up 24%, with EPS 27% higher**
- **Underlying profit up 6% at £8.1bn**
  - Net income of £17.8bn, 2% higher, with higher NIM of 2.93%
  - Cost:income ratio further improved to 49.3% with positive jaws of 5% and BAU costs(1) down 4%
  - Credit quality remains strong with gross AQR flat at 28bps and higher net AQR of 21bps due to lower write-backs and releases
- **Continued growth with loans up £4bn excluding the sale of Irish mortgages and current accounts £8bn higher in the year**
- **Increased return on tangible equity of 11.7%**
- **Strong CET1 capital increase of 210bps and CET1 ratio 13.9% post dividends and share buyback**
- **TNAV per share 53.0p up 1.3p after payment of dividends in 2018**

1 – Operating costs, less investment expensed and depreciation.

We have executed on a clear strategic path since 2011, reflecting constant evolution

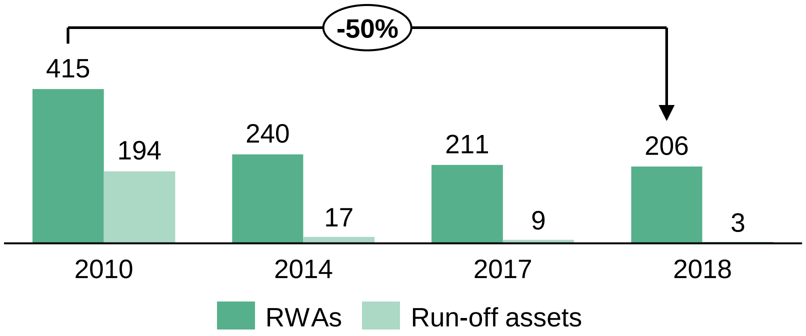
	GSR1 (2011-2014)	GSR2 (2015-2017)	GSR3 (2018-2020)
Unchanged purpose	**Helping Britain Prosper**		
Key strategic actions	Reshape our portfolio Simplify the Group Invest in the core business Strengthen balance sheet and liquidity positions	Deliver sustainable growth Become simpler and more efficient Creating the best customer experience	**Leading** customer experience **Digitising** the Group **Maximising** Group capabilities **Transforming** Ways of Working
Improving performance	Roll-out of digital banking £2bn annual-run rate cost savings £175bn reduction in RWAs Restoring statutory profitability	Largest digital bank in the UK <50% CIR[1] Dividend resumption FY17: 8.9% RoTE	**15.7m** digitally active users in 2018 **<£8bn** costs in **2019; Low 40s** CIR[2] **170-200bps** capital build per annum **14-15%** RoTE from 2019
Clear outcomes	The best bank for customers and shareholders	Simple, low risk, customer focused, UK retail and commercial bank	**Digitised, simple, low risk, customer focused, UK financial services provider**

1 – Excludes remediation. 2 – <£8bn costs excludes remediation. Low 40s CIR includes remediation, exiting 2020.

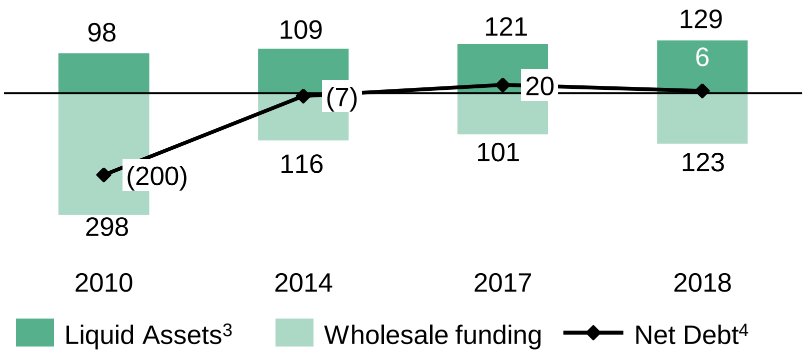
Material transformation of the business since 2011, with significant balance sheet restructuring complete

Significantly de-risking the balance sheet

RWAs[1] and run-off assets[2], £bn

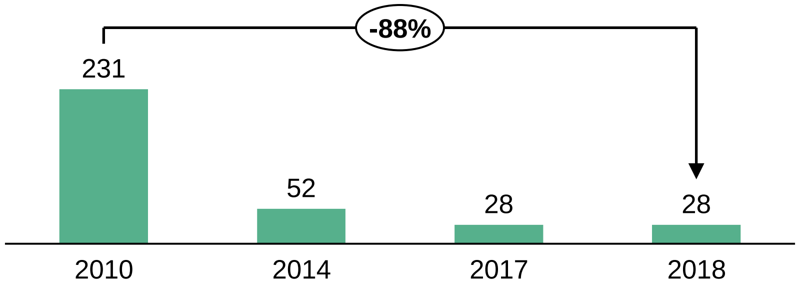


Wholesale funding and liquid assets, £bn

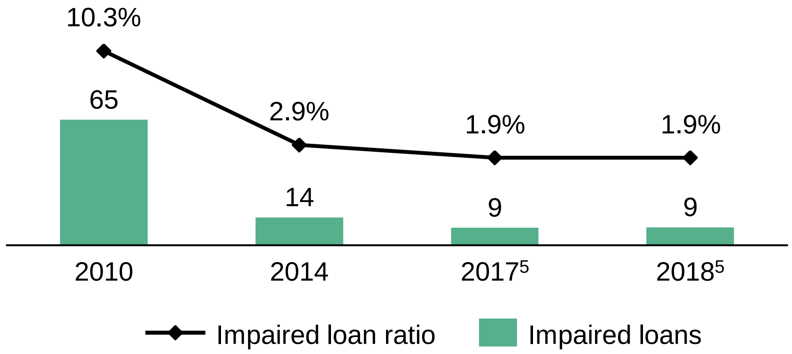


Material improvements in credit quality

Gross asset quality ratio, bps



Impaired loans, £bn, & impaired loan ratio

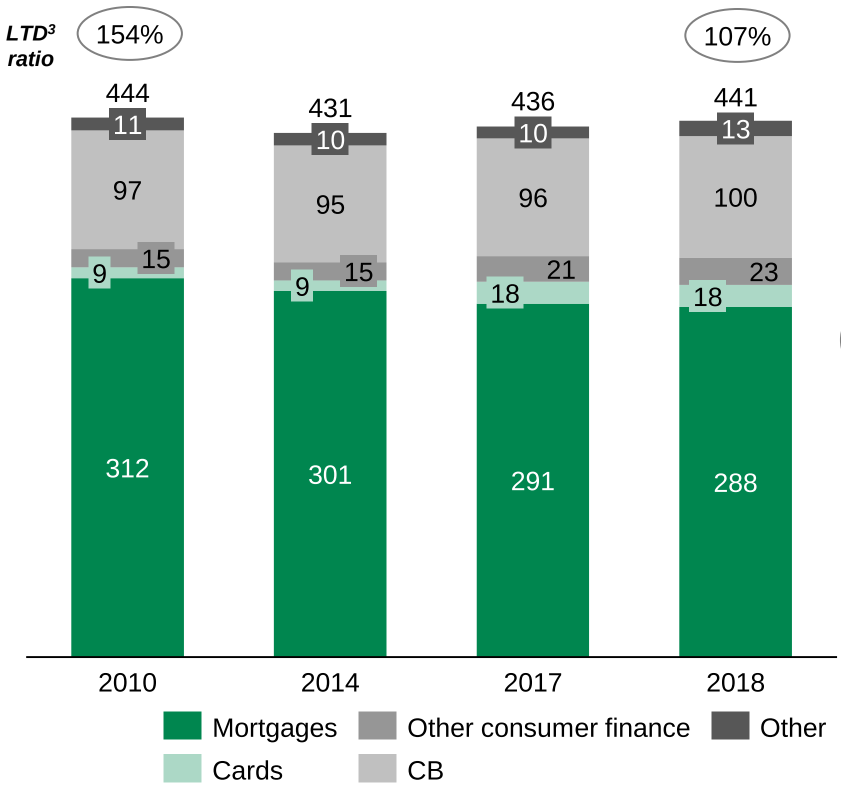


1 – Current rules. 2 – 2014 after reclassification of £28bn back into core business. 3 – 2010 and 2014 on ILAS basis, 2017 and 2018 LCR Eligible primary liquid assets. 4 – Net Debt defined as liquid assets less wholesale funding. 5 - 2017 & 2018 shown on underlying basis (IFRS9 stage 3 loans).

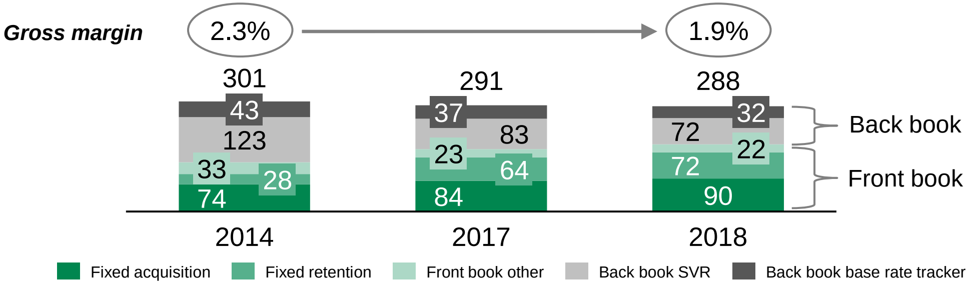
We have restructured our core loan book, but not at the detriment of scale…

Re-shaping the core loan book

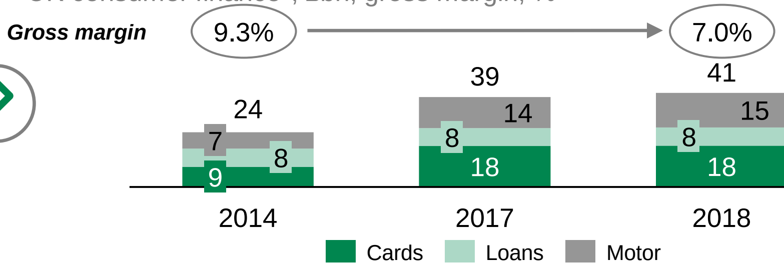
Core loans and advances to customers[1,2], £bn



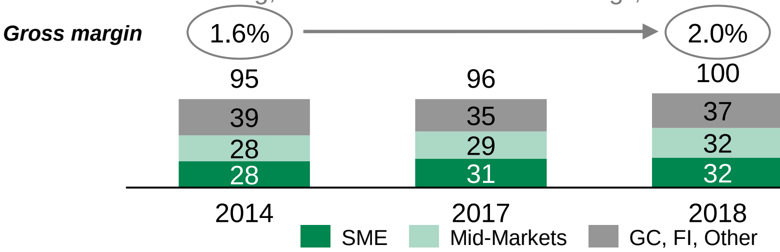
Mortgage book[2,4], £bn, gross margin, %



UK consumer finance[2], £bn, gross margin, %



Commercial Banking, incl. Retail Business Banking[2], £bn

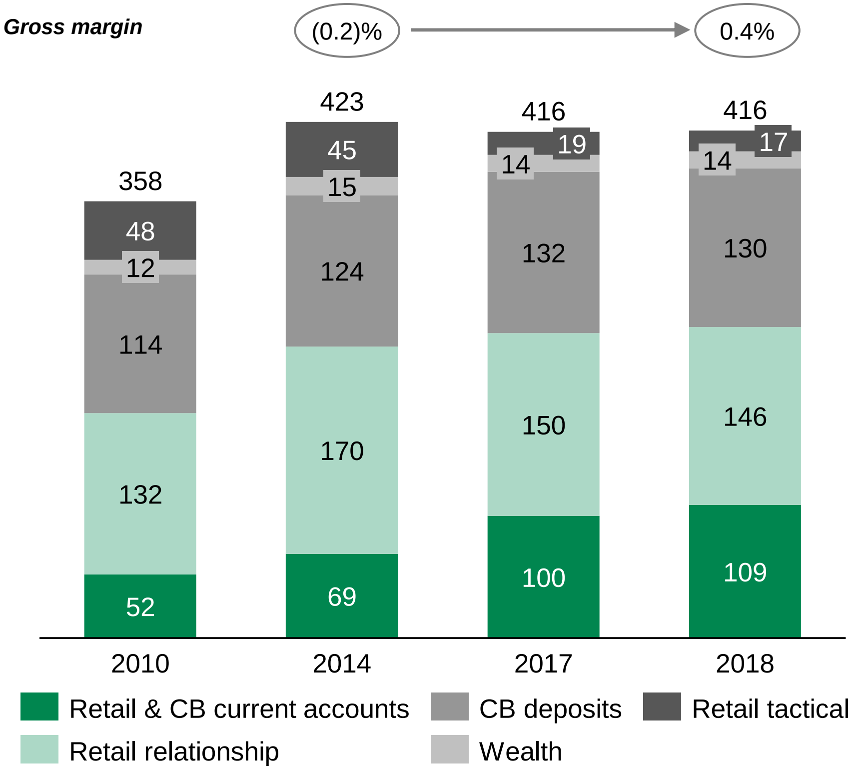


1 – 2010 and 2014 excludes TSB. Excludes run-off loans in all periods. 2 – Prior periods restated to reflect changes in operating structures. 3 – Total book Loan To Deposit ratio. 4 – Excludes TSB.

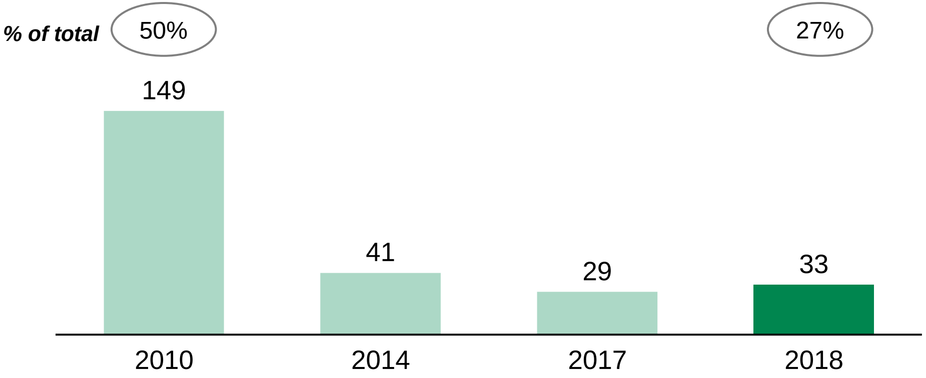
…and transformed our funding profile

Transformed funding profile

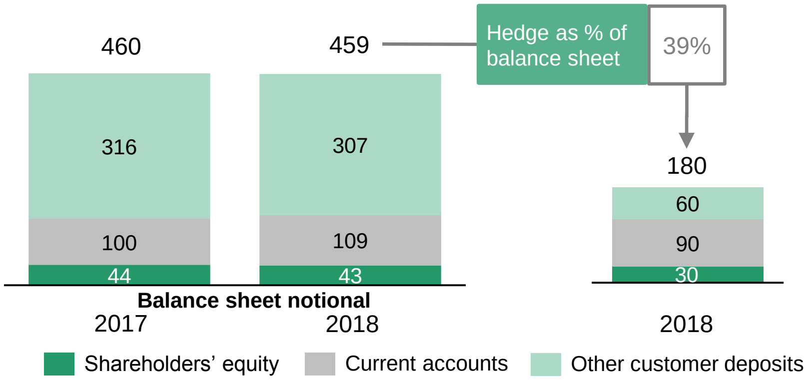
Customer deposits[1], £bn



Wholesale funding less than 1 year, £bn



Hedged balances[2], (£bn)

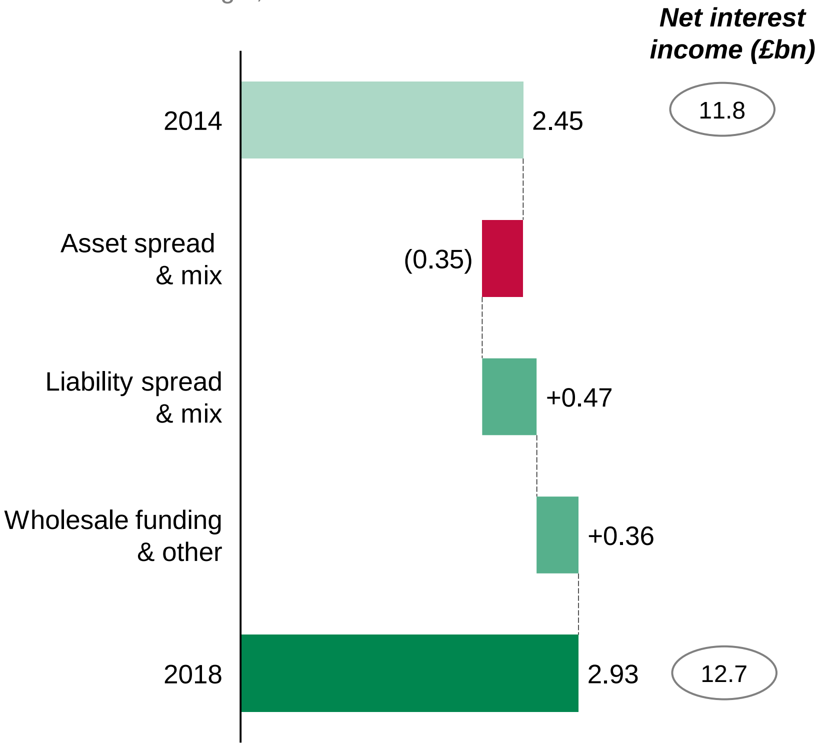


1 – Includes Retail Business Banking within SME and other reclassifications. Excludes TSB. 2010 splits estimated due to differences in reporting structure. 2 – Equity, savings and current accounts have a behavioural life of 10, 5 and 10 years respectively.

The combination of these, and our significant cost advantage, has enabled us to restore profitability within a solid and prudent balance sheet

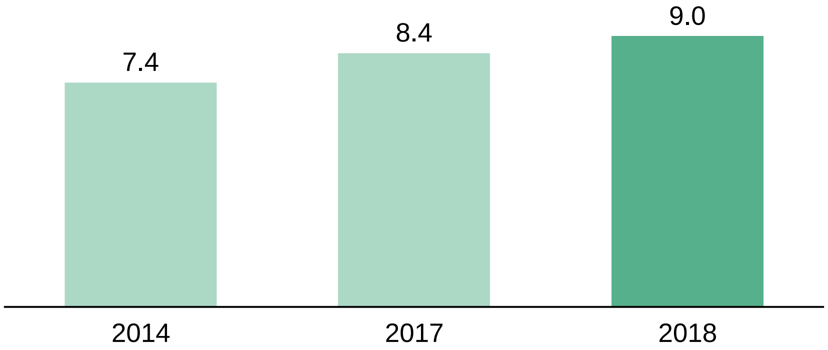
Re-shaped balance sheet driving higher income

Net interest margin, %



Restoring profitability

Pre-impairment provision underlying operating profit[1], £bn



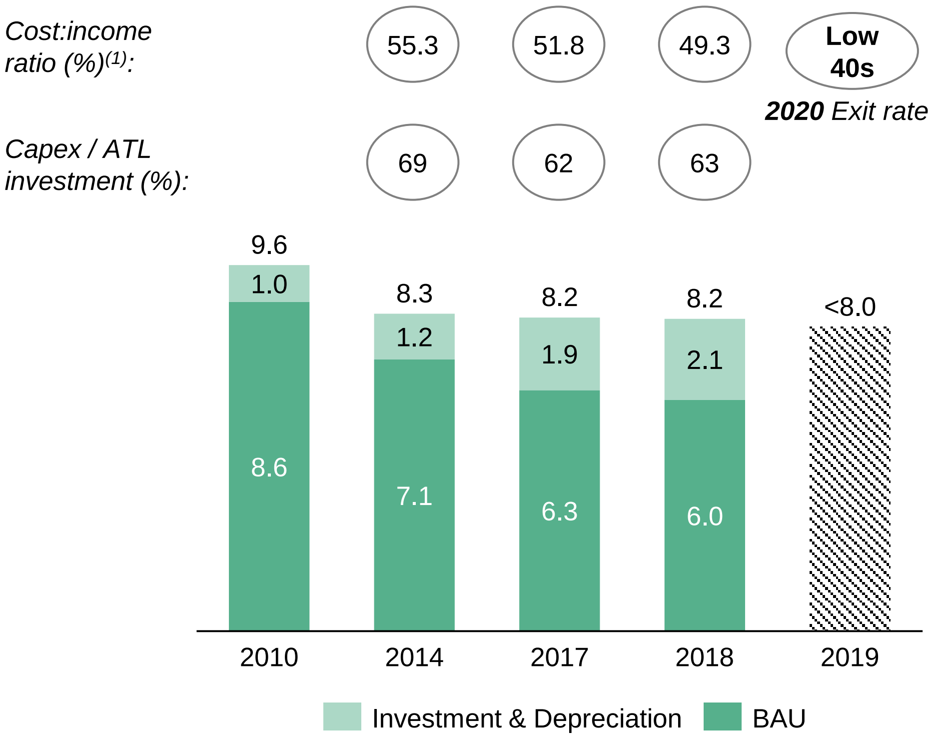
- **Re-structured balance sheet has supported NII growth in a low rate environment, with growth in net interest margin driven by mix changes and improved deposit margin and funding costs**
- **Income resilience, combined with market leading efficiency position has enabled a 5% CAGR in pre-provision operating profit since 2014[1]**

1 – Excludes TSB and 2014 run-off contribution.

Our cultural focus on costs has delivered a best-in-class efficiency position…

Continued focus on BAU cost reduction

Operating costs[1], £bn



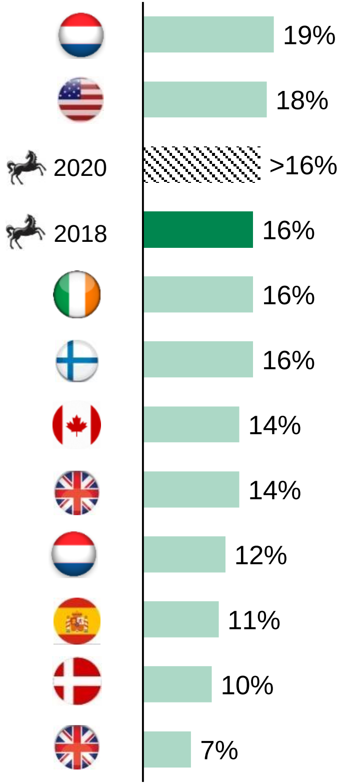
- Operating costs **15% lower than** 2010; -4% BAU cost CAGR more than offsetting increasing investment
- BAU cost reduction delivered by a number of means, underpinned by matrix management approach:
  - Leaner, more agile organisation
  - Significant reduction in sourcing suppliers, while increasing use of e-auctions
  - Increasing use of technology to simplify back office processes
- Now expect to deliver operating costs of <£8bn in 2019, one year earlier than scheduled
- Targeting low 40s cost:income ratio, exiting 2020

1 – Excludes TSB and operating lease depreciation, includes remediation.

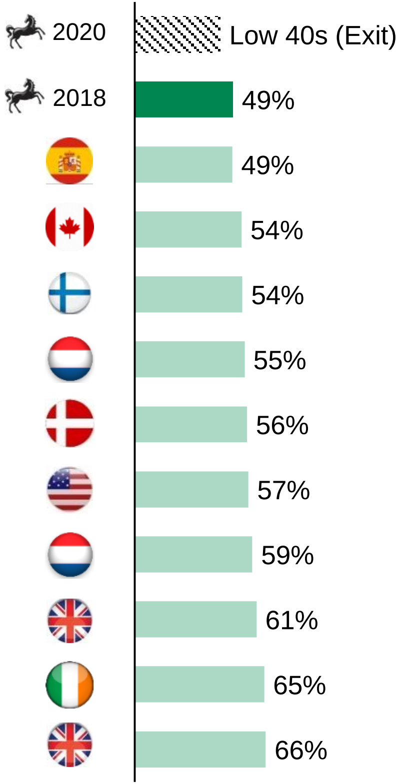
…which creates capacity for increased investment…

Top quartile investment supported by market leading efficiency

IT / Technology cash spend as % of operating costs[1]



Reported cost:income ratio



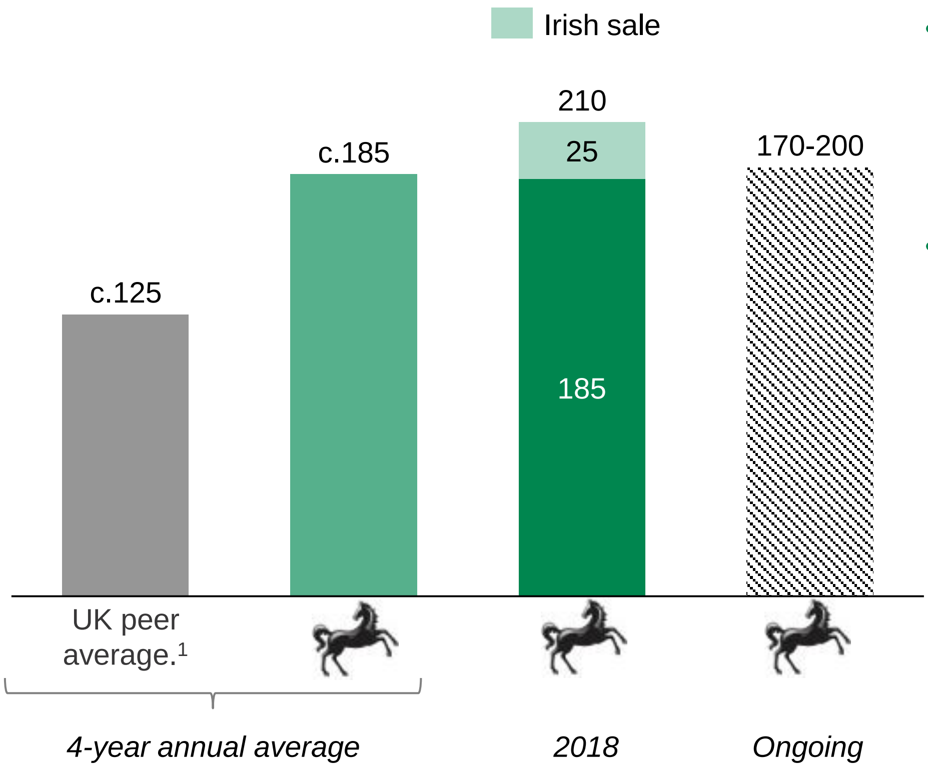
- **Significantly increasing investment over the course of the plan period**
  - **>£3bn strategic investment between 2018-2020**
  - **Increasing levels of technology spend, equating to 16% of operating costs in 2018, up 24% YoY**
- **Investment of this size reflects confidence in future and enabled by unique business model and market leading efficiency position**
- **Virtuous cycle of efficiency a clear competitive advantage, enabling increased investment while committing to net cost reductions and improved customer experience**

1 – Estimated – Proxy for peers technology spend calculated based on available disclosure and may not be like for like.

…whilst supporting the delivery of strong capital build...

Strong and consistent capital generation

Pre-dividend capital build, bps



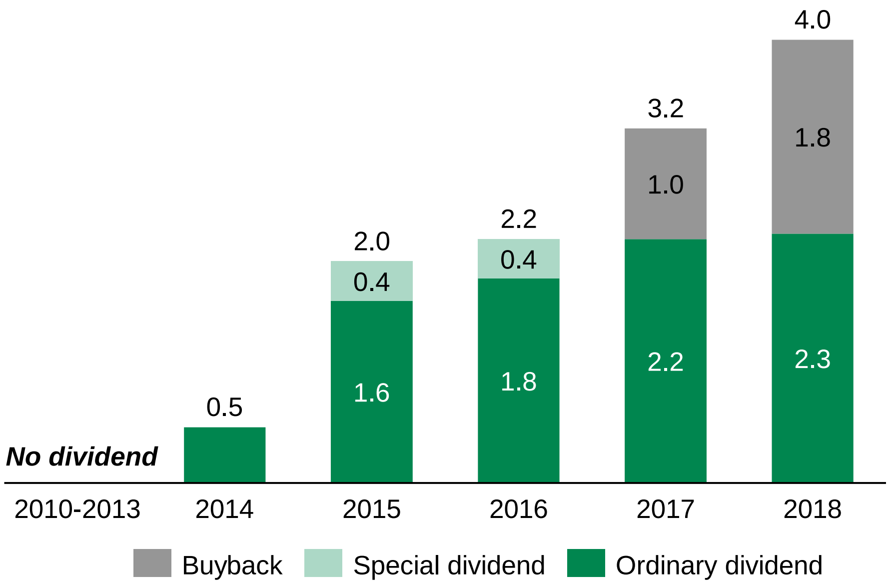
- **Strongly capital generative business model; expect ongoing capital build of 170-200bps every year:**
  - **Represents free capital build, over and above uses of capital and known regulatory changes**
- **Consistent strong capital build provides optionality for long-term management decisions, including:**
  - **Increasing levels of investment**
  - **Loan growth across our targeted customer segments**
  - **Increased returns to shareholders**
  - **Growing share in under-represented areas e.g. MBNA**

1 – Average of major UK banking peers.

…and increasing shareholder returns

Improving shareholder return

Total capital return to shareholders, £bn



- **c.£12bn returned to shareholders over last 5 years, (c.25% of market cap) following dividend resumption in 2014**
- **£4bn returned to shareholders in 2018 alone, up 26% YoY, including share buyback of up to £1.75bn**
- **Clear dividend policy, with progressive and sustainable ordinary dividends, whilst maintaining the flexibility to return surplus capital to shareholders**
- **Ongoing CET1 capital requirement remains around 13% plus a management buffer of around 1%**

Our strategic execution has positioned us well to respond to both opportunities and challenges provided by our evolving operating environment

Recognising the emerging trends impacting our industry

Further enhancing the customer experience and sourcing new opportunities enabled by greater adoption of technology

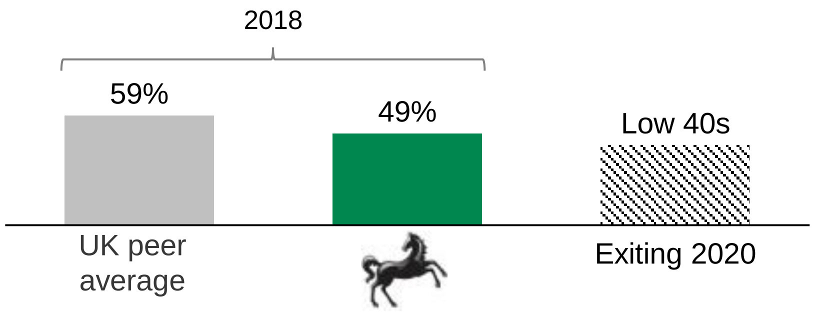
Increasing competition across core markets

Greater focus on investment in the core business following the end of significant restructuring efforts

Heightened political and economic uncertainty

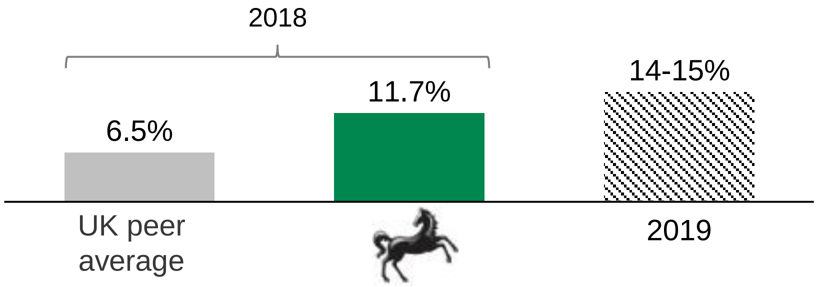
Further improving our efficiency advantage

Cost:income ratio[1]



Increasing our profitability and returns profile

Statutory RoTE[2]



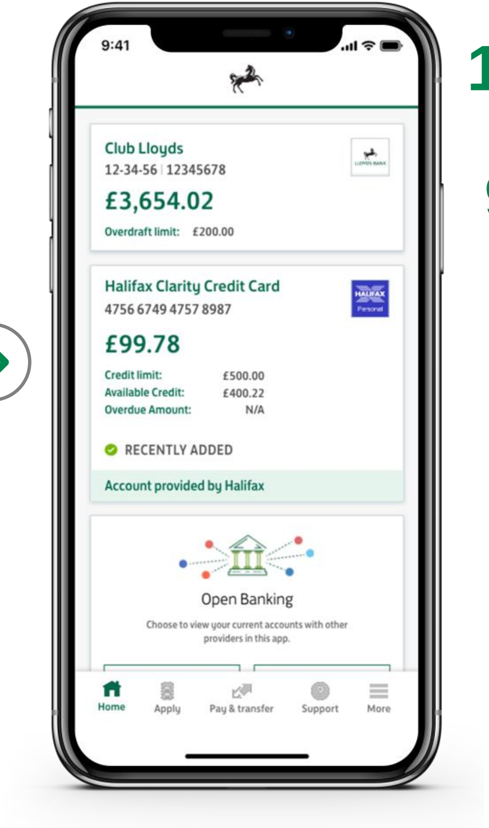
1 – Average underlying cost:income ratio (excl. notable items as highlighted by each institution). LBG ratio includes remediation. 2 – As stated by major UK banking peers. UK peer average 7.1% on a like for like basis with Lloyds methodology.

Over the course of 2018 we executed against a number of our strategic priorities

2018 strategic deliverables

- Launched **Open Banking aggregation** functionality
- **Single Customer View** to **>3m** customers
- Further improvement in **NPS** to **62**
- **Building innovation pipeline** and collaborating with FinTechs to accelerate transformation
- Partnership with **Schroders** to create **market leading wealth proposition**
- Delivered **targeted customer propositions** to better meet customer needs and grow in under represented segments
- **£3bn** loan growth across **start-ups, SME and Mid-Markets**

Further developing our leading digital bank



15.7m Digitally active users

9.3m Mobile app users

74% Products originated via digital

22 Average mobile app customer logons per month

36k Customers currently using LBG open banking functionality[1]

>3m With Single Customer View

1 – As at February 2019.

In 2019, we have clear strategic plans and our financial guidance reflects confidence in our future prospects

2019 strategic deliverables

- **Open Banking** extended to all active mobile app customers; >9m on **Single Customer View** by end of plan period
- Building on **strong open book AuA customer net inflows** of £13bn in 2018[1], expect to generate c.£15bn in 2019[1]
- Developing **Scottish Widows Schroders** JV proposition; planned launch in June 2019
- Broadening relationships with **targeted customer segments**
- **Digitising credit decisioning** for **Business Banking and SME** clients, significantly reducing **time to cash**

2019 financial guidance

c.290bps NIM	**<£8bn** Operating costs	**<30bps** AQR

14%-15%
Statutory RoTE

170-200bps
Pre-dividend capital build

1 – Excludes impact of market movements.

Forward looking statements and basis of presentation

Forward looking statements

This document contains certain forward looking statements with respect to the business, strategy, plans and /or results of the Group and its current goals and expectations relating to its future financial condition and performance. Statements that are not historical facts, including statements about the 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; the ability to achieve strategic objectives; changing customer behaviour including consumer spending, saving and borrowing habits; changes to borrower or counterparty credit quality; concentration of financial exposure; management and monitoring of conduct risk; instability in the global financial markets, including Eurozone instability, instability as a result of uncertainty surrounding the exit by the UK from the European Union (EU) and as a result of such exit 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; risks relating to climate change; changes in laws, regulations, practices and 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 transition from IBORs to alternative reference rates; 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 and risks 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 the Group expressly disclaims any obligation or undertaking to release publicly any updates or revisions to any forward looking statements contained in this document to reflect any change in the 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 document do not constitute a public offer under any applicable law or an offer to sell any securities or financial instruments or any advice or recommendation with respect to such securities or financial instruments.

Basis of presentation

The results of the Group and its business are presented in this presentation on an underlying basis. The principles adopted in the preparation of the underlying basis of reporting are set out on the inside front cover of the 2018 Results News Release.