Full year results – Introduction

António Horta-Osório
Group Chief Executive
Significant business progress with strong start to the Group’s latest strategic plan

- Group will continue to Help Britain Prosper whilst delivering strong and sustainable returns
- Significant progress against strategic priorities with increased investment in the business
- Strong financial performance with continued growth in profit and market-leading returns
- Ordinary dividend of 3.21p, up 5%, and share buyback of up to £1.75bn
- Guidance demonstrates confidence in business model and future strong performance

1 – 2015 to 2017 restated to show Remediation / Other Conduct within underlying profit.
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.
UK economy remains resilient despite heightened uncertainty

- Economic growth remains resilient and global growth forecast to slow slightly\(^{(3)}\)
- Households benefiting from record employment rate and pay growth exceeding inflation
- Consumer indebtedness down 24% from pre-crisis
- Business investment lower in 2018
- Expect one 25bp rate rise per year to 2021

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1 – Source: ONS. 2 – Employment is % of 16+ population, year average. 3 – IMF World Economic Outlook update, Jan 2019
Clear strategic plan, delivering new sources of competitive advantage and future proofing our business model

• Number of deliverables achieved within first 12 months:
  - **Largest digital bank** in UK with 15.7m digitally active users\(^{(1)}\) and 74%\(^{(2)}\) of products originated digitally, alongside *largest branch network in the UK*
  - Launched API-enabled *Open Banking aggregation* functionality
  - Provided differentiated *Single Customer View* to >3m customers\(^{(3)}\)
  - *Building innovation pipeline* and collaborating with FinTechs to accelerate transformation, while announced strategic 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*

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1 – As at December 2018. Reflects number of customers by brand which have logged in within last 3 months. Includes 1.6m MBNA customers. 2 – Based on volumes. Includes internet banking and mobile, includes MBNA. 3 – Customers who can see insurance and/or pension products alongside banking products
Increased investment is enabling further customer enhancements and market leading returns

- Strong strategic progress enabled by unique, customer focused business model
- Ability to deliver both higher investment and returns supported by ongoing focus on efficiency
- Efficiency position underpinned by market leading cost:income ratio with further reductions targeted every year
- Higher investment continues to fund improvements for both customers and colleagues
- Delivering market leading returns; on track to achieve 14-15% statutory RoTE in 2019

Future proofing our business model

Net cost reduction to <£8bn in 2019

Statutory RoTE 14-15% in 2019

Greater investment capacity

End-to-end transformation

Enhancements to internal processes

Higher NPS scores

Greater business efficiency

Market leading efficiency

Freeing up capital for >£3.0bn strategic investment
Market leading efficiency creates capacity for increased investment…

**Continued focus on BAU cost reduction**

*Operating costs*(1), £bn

<table>
<thead>
<tr>
<th>Year</th>
<th>BAU Costs</th>
<th>CAGR</th>
<th>Cost:income ratio (%)*(1):</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>9.4</td>
<td>55.3</td>
<td>8.5</td>
</tr>
<tr>
<td>2014</td>
<td>8.3</td>
<td>51.8</td>
<td>7.1</td>
</tr>
<tr>
<td>2017</td>
<td>8.2</td>
<td>49.3</td>
<td>6.3</td>
</tr>
<tr>
<td>2018</td>
<td>8.2</td>
<td>49.3</td>
<td>6.0</td>
</tr>
</tbody>
</table>

-5% CAGR on BAU Costs

**Selected examples:**
- Staff costs down 4% YoY
- General expenses down 7% YoY
- Professional services down 13% YoY

**Creating capacity for >£3bn strategic investment over plan period**

2018 strategic investment as multiple of 2017 (Selected examples)

- Open Banking: 1.4x
- Data & advanced analytics: 2.2x
- People & Ways of Working: 4.5x
- Financial Planning & Retirement: 10.0x

1 – Excludes TSB, includes remediation.
…supporting further simplification and efficiency enhancements

One of the largest transformation programmes in financial services\(^1\), supported by increased investment in technology and people...

**Technology spend, £bn; % of operating costs**

- 2017: 13%
- 2018: 16%
- >20%

**‘Skills of the future’ training, cumulative hours (m)**

- 2018: 1.1
- 2020: 4.4

**Delivering change efficiencies that can be reinvested in the business**

- **Cumulative change efficiencies\(^2\)** 2018-2020, £m
  - 2018: 88
  - End-2020: (shaded bar)

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1. Based on number of colleagues working in transformation.
2. Cost efficiencies driven by Cloud and Transforming Change.
…as well as delivering further improvements to our customer proposition

**Only provider serving all financial needs in one place**
- Launched API-enabled **Open Banking aggregation** functionality, while providing differentiated **Single Customer View** of all banking and insurance needs
- Partnering with Schroders to create **market-leading wealth proposition**

**Personalised customer experiences**
- Leveraging multiple data points, customer reports and **focus groups** to better understand bespoke financial needs
- Pilots focused on meeting needs of **targeted customer segments** more effectively e.g. professionals and first time buyers

**Clear and intuitive propositions**
- Increasing customer control through launch of innovative features including **voice ID, card controls** and **smart alerts**
- First large UK bank to introduce **location based payment tracking** enabling customers to identify fraudulent transactions

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1 – Balance growth delivered across mortgages, savings, PCA, cards and loans as at October 2018.
A number of key opportunities exist in 2019, building on our progress to date

• Well positioned to accelerate strategic delivery:
  - **Open Banking** aggregation functionality extended to all active mobile app customers and progressing towards >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 ahead of planned launch by June 2019\(^{(2)}\):
    - To be branded **Schroders Personal Wealth** and aiming to become a **top 3 UK financial planning business within 5 years**
    - Broadening relationships with **targeted customer segments**, including recent launch of **Lend a Hand mortgage**
    - **Digitising credit decisioning** for **Business Banking and SME clients**, significantly reducing **time to cash**\(^{(3)}\)

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1 – Excludes negative market movements and includes benefit of Zurich acquisition. 2 – Subject to regulatory approval. 3 – Time to cash for simple unsecured lending within 2 hours
Summary – significant business progress with strong start to the Group’s latest strategic plan

- Significant progress against strategic priorities with increased investment in the business
- Strong financial performance with continued growth in profit and market-leading returns
- Guidance demonstrates confidence in business model and future strong performance
  - Continue to expect RoTE of 14-15% in 2019
  - Ongoing annual capital build of 170-200bps, pre-dividend
  - NIM c.290bps in 2019 and resilient through the plan
  - Operating costs now expected to be <£8bn in 2019
  - AQR expected to be <30bps in 2019
- Group will continue to Help Britain Prosper whilst delivering strong and sustainable returns
Transformation update

Zak Mian
Group Director, Transformation
Progressing our transformation with tangible benefits delivered

**Channel technology**
- Cyber defences
  - Branch
  - Telephony
  - Digital
  - API

**Insight and data**
- Multi-brand, omni-channel customer servicing platform
- Cognitive and machine learning
- Enterprise data hub
- Core Systems e.g. Banking, Mortgage, Pension, etc.
- Single Customer View

**Infrastructure**
- Software as a service
- Cloud hosting
- In-house hosting

<table>
<thead>
<tr>
<th>New capabilities</th>
<th>Enhancement</th>
<th>Simplification</th>
</tr>
</thead>
<tbody>
<tr>
<td>Technology spend</td>
<td>2018</td>
<td>2017</td>
</tr>
<tr>
<td></td>
<td>34%</td>
<td>19%</td>
</tr>
<tr>
<td></td>
<td>36%</td>
<td>52%</td>
</tr>
<tr>
<td></td>
<td>30%</td>
<td>29%</td>
</tr>
</tbody>
</table>

Release cycles for simple digital changes reduced from 30 days to 2 days

>350 key hires\(^{(1)}\) in new skills in the last 12 months, to treble in 2019

c.100 applications migrated to private cloud, with all applicable apps migrated by 2020

1 – Example hires include Software Engineers, Designers & Data Scientists.
Our mobile app

>2.3bn
Customer logons\(^{(1)}\) in 2018, +30% YoY

9.3m
Active mobile app users\(^{(2)}\), +21% YoY

22
Average customer logons per month\(^{(3)}\)

74%
Products originated via digital in 2018\(^{(4)}\)

37%
Products originated via mobile in 2018\(^{(4)}\)

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1 – Customer logons across Lloyds Bank, Halifax, Bank of Scotland and MBNA brands. 2 – Includes 0.6m MBNA customers. Excludes 2.1m users relating to browser. 3 – Average monthly customer mobile app logons across Lloyds Bank, Halifax, Bank of Scotland and MBNA brands. 4 – Includes MBNA. Mobile includes both app and browser.
Delivering a leading customer experience and operational efficiencies

**Virtual assistants & automation**

**Tangible benefits delivered in 2018…**
- Live to 3m customers
- 10 point increase in customer satisfaction
- Up to 30% containment rate

**More to come in 2019…**
- Expansion to all customers

**Push notifications**

**Tangible benefits delivered in 2018**
- 30% adoption rate so far
- 80% positive ratings during pilot

**More to come in 2019…**
- Expansion across brands
- Enriched money management insight

**Location-based spend searches**

**Tangible benefits delivered in 2018…**
- Used >1m times per month
- 45% reduction in clicks for help
- 75% positive ratings during pilot

**More to come in 2019…**
- Further utilisation of data to improve customer insight

**Business banking online lending**

**Tangible benefits delivered in 2018**
- New strategic end-to-end business banking lending journey
- 50% reduction in colleague effort

**More to come in 2019…**
- Client self-serve online journey with time to cash for simple unsecured lending reducing from 6 days to 2 hours
- SME expansion

Tangible benefits delivered in 2018
Our new Open Banking proposition

100%
Mobile app customers(1) have access to Open Banking

36k
Customers currently using LBG Open Banking functionality(2)

1 – Lloyds Bank, Halifax and Bank of Scotland customers excludes MBNA. 2 – As at 18 February 2019.
All your financial needs in one place

>3m

Customers currently able to view banking and insurance products, such as pensions and home insurance, in one place

165k

Customers view their pension alongside banking products daily\(^{(1)}\)

>9m

Customers able to view all of their financial products, including our **Schroders Personal Wealth** offering, in one place by the end of plan period

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1 – Number of unique customers logging into mobile banking app and actively viewing pension tile. February 2019.
The future – digitally enabled multi-channel proposition
Full year results – Financials

George Culmer
Chief Financial Officer
Strong financial performance with continued growth in profits and returns

<table>
<thead>
<tr>
<th>(£m)</th>
<th>2018</th>
<th>2017</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net interest income</td>
<td>12,714</td>
<td>12,320</td>
<td>3%</td>
</tr>
<tr>
<td>Other Income</td>
<td>6,010</td>
<td>6,059</td>
<td>(1)%</td>
</tr>
<tr>
<td>Vocalink</td>
<td>-</td>
<td>146</td>
<td>-</td>
</tr>
<tr>
<td>Operating lease depreciation</td>
<td>(956)</td>
<td>(1,053)</td>
<td>9%</td>
</tr>
<tr>
<td><strong>Net income</strong></td>
<td>17,768</td>
<td>17,472</td>
<td>2%</td>
</tr>
<tr>
<td>Operating costs</td>
<td>(8,165)</td>
<td>(8,184)</td>
<td>-</td>
</tr>
<tr>
<td>Remediation</td>
<td>(600)</td>
<td>(865)</td>
<td>31%</td>
</tr>
<tr>
<td><strong>Total costs</strong></td>
<td>(8,765)</td>
<td>(9,049)</td>
<td>3%</td>
</tr>
<tr>
<td>Impairment</td>
<td>(937)</td>
<td>(795)</td>
<td>(18)%</td>
</tr>
<tr>
<td><strong>Underlying profit</strong></td>
<td>8,066</td>
<td>7,628</td>
<td>6%</td>
</tr>
<tr>
<td><strong>Statutory profit before tax</strong></td>
<td>5,960</td>
<td>5,275</td>
<td>13%</td>
</tr>
<tr>
<td>Earnings per share</td>
<td>5.5p</td>
<td>4.4p</td>
<td>27%</td>
</tr>
<tr>
<td>Net interest margin</td>
<td>2.93%</td>
<td>2.86%</td>
<td>7bp</td>
</tr>
<tr>
<td>Cost:income (incl. remediation)</td>
<td>49.3%</td>
<td>51.8%</td>
<td>(2.5)pp</td>
</tr>
<tr>
<td>Asset quality ratio</td>
<td>0.21%</td>
<td>0.18%</td>
<td>3bp</td>
</tr>
</tbody>
</table>

- **Underlying profit increased 6% to £8.1bn**
- **Net income increased 2% to £17.8bn**
  - NII up 3% with increased margin of 2.93%
  - Other income of £6.0bn with strong performance from Insurance new business
- **Operating costs slightly lower at £8.2bn**
  - BAU costs\(^{(1)}\) down 4% more than offsetting increased investment in the business and higher depreciation
  - Improved cost:income ratio, both including (49.3%) and excluding remediation (46.0%)
- **Remediation down 31% with further significant reduction expected in 2019**
- **Credit quality remains strong**
  - Gross AQR flat at 28bps; net AQR up to 21bps due to expected lower releases and write-backs
- **Statutory profit before tax increased 13% to £6.0bn and EPS up 27% to 5.5p**

\(^{(1)}\) – BAU costs reflect operating costs, less investment expensed and depreciation.
Net interest income up 3% with improved margin of 293 basis points

• Improved NII of £12.7bn with 7bps increase in NIM and asset growth in targeted segments
  - NIM: improved deposit costs and increased structural hedge income more than offset asset pricing pressure
  - Asset margin benefiting from positive mix change
• NIM for 2019 expected to be c.2.90%; continue to expect resilient NIM through the plan
Asset pricing and mix: mortgage pricing remains competitive but margin resilient

### Changing asset mix

*(Book size £bn, Gross margin %)*

#### Mortgage book

<table>
<thead>
<tr>
<th>Year</th>
<th>Fixed acquisition</th>
<th>Fixed retention</th>
<th>Front book other</th>
<th>Back book SVR</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td>37</td>
<td>23</td>
<td>84</td>
<td>291</td>
</tr>
<tr>
<td>2018</td>
<td>32</td>
<td>22</td>
<td>72</td>
<td>288</td>
</tr>
</tbody>
</table>

- Mortgage pricing remains competitive and focus remains on margin and risk ahead of volume
- Back book now £104bn with attrition stable at c.13%
  - Average back book rate c.3.7% and only 14% of customers pay >4.25%
  - c.£17bn of back book mortgages on balance of less than £50k
- Mix benefiting from c.75% retention
- Targeted growth in consumer finance supporting Group margin
- Resilient Commercial margin; targeted growth in SME and Mid Markets

#### UK consumer finance

<table>
<thead>
<tr>
<th>Year</th>
<th>Motor - New(2)</th>
<th>Motor - Used</th>
<th>Loans</th>
<th>Cards</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td>8</td>
<td>5</td>
<td>8</td>
<td>18</td>
</tr>
<tr>
<td>2018</td>
<td>9</td>
<td>6</td>
<td>8</td>
<td>18</td>
</tr>
</tbody>
</table>

- 7.2% to 7.0%

#### Commercial Banking incl. Retail Business Banking(3)

<table>
<thead>
<tr>
<th>Year</th>
<th>Motor - New(2)</th>
<th>Motor - Used</th>
<th>Loans</th>
<th>Cards</th>
<th>Global Corporates, Financial Institutions &amp; Other (excl. run off)</th>
<th>Mid Markets</th>
<th>SME</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td>96</td>
<td>35</td>
<td>29</td>
<td>31</td>
<td>84</td>
<td>22</td>
<td>72</td>
</tr>
<tr>
<td>2018</td>
<td>100</td>
<td>37</td>
<td>32</td>
<td>32</td>
<td>97</td>
<td>22</td>
<td>72</td>
</tr>
</tbody>
</table>

- 2.1% to 2.0%

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1 – Gross margin is gross customers receivables or payables, less short term funding costs (LIBOR or relevant swap rates).
2 – Includes Fleet, Stocking and Lex Finance.
3 – Prior periods restated to reflect changes in operating structures.
Improving liability mix (1)
(Book size £bn, Gross margin %)

<table>
<thead>
<tr>
<th>Relationship</th>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Commercial deposits</td>
<td>132</td>
<td>130</td>
</tr>
<tr>
<td>Retail relationship</td>
<td>150</td>
<td>146</td>
</tr>
<tr>
<td>Wealth</td>
<td>100</td>
<td>109</td>
</tr>
<tr>
<td>Total</td>
<td>416</td>
<td>416</td>
</tr>
</tbody>
</table>

- Increased liability margin due to mix shifting to high quality current accounts
  - Current accounts £109bn, 9% higher and tactical balances £17bn, down 11%; loan to deposit ratio stable
- Structural hedge £180bn; weighted average life c.4 years
  - Hedge balance earnings of 0.7% or £1.4bn over LIBOR and £2.7bn in total; will continue to support NIM over the plan
  - 1pp move in curve drives c.£1.8bn increase in NII in time

1 – Includes Retail Business Banking within SME and other reclassifications.
2 – Equity, savings and current accounts have a behavioural life of 10, 5 and 10 years respectively.
Resilient Other Income performance

- Other Income of £6.0bn stable on recent years and H2 in line with prior year
- Divisional performance driven by
  - Strong Insurance new business with higher workplace pension volumes
  - Stable Retail income despite changes to overdraft charges, which are now complete
  - Slightly lower income in Commercial given lower client markets activity
- Continued to sell gilts and other liquid assets with £18bn sold in 2018, realising income of £270m
Operating costs continue to provide competitive advantage despite increased strategic investment

**Operating costs (1)**

(£m)

<table>
<thead>
<tr>
<th>Year</th>
<th>Cost savings</th>
<th>Pay &amp; inflation</th>
<th>Investment &amp; depreciation</th>
<th>Other</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td>(353)</td>
<td>82</td>
<td>201</td>
<td>51</td>
<td>8,184</td>
</tr>
<tr>
<td>2018</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>8,165</td>
</tr>
</tbody>
</table>

- Operating costs down with BAU costs -4% and investment expensed and depreciation £2.1bn, +10%
- Above the line investment £2.4bn included c.£1bn of strategic investment; on track for >£3bn by end 2020
- Capitalisation broadly stable at c.60% of above the line investment or c.50% of total investment
- Remediation down 31% with further significant reduction expected in 2019
- Operating costs now expected to be <£8bn in 2019

1 – Operating costs exclude operating lease depreciation.
Credit quality remains strong reflecting a continued prudent approach to risk

**Asset quality ratio (bps)**

<table>
<thead>
<tr>
<th>Year</th>
<th>Gross AQR</th>
<th>Net AQR</th>
<th>Releases and write-backs</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>28</td>
<td>15</td>
<td></td>
</tr>
<tr>
<td>2017</td>
<td>28</td>
<td>18</td>
<td></td>
</tr>
<tr>
<td>2018</td>
<td>28</td>
<td>21</td>
<td></td>
</tr>
</tbody>
</table>

- Gross AQR flat at 28bps with net AQR of 21bps up due to expected lower releases and write-backs
- Underlying credit portfolio remains stable
- Continuing to benefit from low risk approach
- Stage 2 and 3 balances down while expected credit loss coverage of Stages 2 and 3 increased
- Continue to expect AQR to be <30bps in 2019 and through the plan

**IFRS 9 Stage 2 and 3 as proportion of total customer loans and advances**

<table>
<thead>
<tr>
<th>Year</th>
<th>Stage 2</th>
<th>Stage 3</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Jan 18</td>
<td>11.3%</td>
<td>1.9%</td>
</tr>
<tr>
<td>1 Jan 18</td>
<td>7.8%</td>
<td>1.9%</td>
</tr>
</tbody>
</table>

1 – Shown on an underlying basis. 2 – Stage 2/3 expected credit loss allowance as a proportion of Stage 2/3 drawn balances.

**Stage 2/3 coverage**

<table>
<thead>
<tr>
<th>Year</th>
<th>Stage 2</th>
<th>Stage 3</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Jan 18</td>
<td>3.5%</td>
<td>24.0%</td>
</tr>
<tr>
<td>1 Jan 18</td>
<td>4.1%</td>
<td>24.3%</td>
</tr>
</tbody>
</table>

Conservative risk appetite and prudent economic scenarios driving lower IFRS 9 sensitivities

**Stage 2 loans and advances**

- Prudent approach to IFRS 9
  - Stage 2 is largely up-to-date secured lending which is classified as Stage 2 due to economic assumptions
- Conservative economic scenarios
  - Assume 30% downside and 10% severe downside with the impact already in ECL
  - No significant change to economic assumptions included in IFRS 9 models for 2018
- IFRS 9 will introduce additional volatility, but through the cycle expectations unchanged
- Procyclical impact results in increased coverage
  - Total provision of £4.4bn includes £0.6bn for severe economic scenario

**Balance sheet provision and underlying cash write-offs**

- Shown on an underlying basis.
Diversified, high quality portfolios with new to arrears stable

- No deterioration in credit seen across mortgage portfolio with new to arrears remaining low
  - Legacy balances declining: pre-2009 vintages down 13% in 2018, including Specialist book down 11%

- High quality mortgage book; low average LTV 44.1%
  - Jan 13 Jan 14 Jan 15 Jan 16 Jan 17 Jan 18
  - Mortgages and credit cards – new to arrears as proportion of total book

- Diversified and high quality Commercial portfolio
  - Prudent approach to vulnerable sectors/single names

- Prime credit card book with conservative risk appetite
  - New to arrears low and MBNA in line with expectations

- Prudent approach to Motor Finance
  - Continued profit on sale given prudent residual values
  - Maintained protection from c.£200m residual value and specific event provision
Significant improvement in statutory profit and returns

- **Statutory profit after tax of £4.4bn, up 24%**
  - Market volatility and asset sales includes £236m negative insurance volatility in Q4
  - Restructuring includes severance, ring-fencing, non-branch property rationalisation and MBNA integration
  - Ring-fencing/MBNA largely complete so restructuring costs expected to be significantly lower in 2019
  - PPI charge £750m with £200m in Q4; £1.3bn outstanding provision for remaining 8 months

- **Lower effective tax rate of 26% due to lower conduct charges; in line with longer term guidance**

- **Statutory return on tangible equity of 11.7% and continue to expect 14-15% in 2019**

<table>
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<tr>
<th>(£m)</th>
<th>2018</th>
<th>2017</th>
<th>Change</th>
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<tr>
<td><strong>Underlying profit</strong></td>
<td>8,066</td>
<td>7,628</td>
<td>6%</td>
</tr>
<tr>
<td>Market volatility and asset sales</td>
<td>(50)</td>
<td>279</td>
<td>-</td>
</tr>
<tr>
<td>Fair value and amortisation</td>
<td>(427)</td>
<td>(361)</td>
<td>(18)%</td>
</tr>
<tr>
<td>Restructuring costs</td>
<td>(879)</td>
<td>(621)</td>
<td>(42)%</td>
</tr>
<tr>
<td>PPI</td>
<td>(750)</td>
<td>(1,650)</td>
<td>55%</td>
</tr>
<tr>
<td><strong>Statutory profit before tax</strong></td>
<td>5,960</td>
<td>5,275</td>
<td>13%</td>
</tr>
<tr>
<td>Tax expense</td>
<td>(1,560)</td>
<td>(1,728)</td>
<td>10%</td>
</tr>
<tr>
<td><strong>Statutory profit after tax</strong></td>
<td>4,400</td>
<td>3,547</td>
<td>24%</td>
</tr>
<tr>
<td>Effective tax rate</td>
<td>26%</td>
<td>33%</td>
<td>(7)pp</td>
</tr>
<tr>
<td>Statutory RoTE</td>
<td>11.7%</td>
<td>8.9%</td>
<td>2.8pp</td>
</tr>
</tbody>
</table>
Balance sheet – quality of the portfolio continues to improve

- **Loans and advances £444bn, stable in 2018**
  - Loan growth in targeted segments offsetting sale of the Irish mortgage portfolio
  - Open mortgage book broadly flat while continuing to focus on the Group margin
  - **SME(1) growth 3% continues ahead of the market**
  - Continued high-quality growth in unsecured portfolio

- **Continued reduction in RWAs to £206bn**
  - Continued de-risking of portfolio, including £4bn sale of Irish mortgage portfolio in 2018
  - Improved capital returns and RWA efficiency through business mix optimisation

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1 – Retail Business Banking included within SME. 2 – Other includes Insurance & Wealth, Central and the Group’s Irish mortgage portfolio in 1 Jan 2018; Other RWAs also include threshold RWAs.
Strong capital build with capital ratios and targets maintained

- CET1 capital build of 210bps with CET1 ratio 13.9% post-dividend and buyback
  - Total ordinary dividend 3.21p per share, up 5%, with a share buyback up to £1.75bn
  - Total return to shareholders of up to £4.0bn, an increase of up to 26%

- CET1 required remains around 13% plus a management buffer of around 1%
- Total pro forma capital remains strong at 23.1%; UK leverage ratio of 5.6%
- Continue to expect ongoing capital build of 170-200bps annually
- TNAV generation of 4.4p partly offset by dividends paid in the year
Summary – significant business progress with strong start to the Group’s latest strategic plan

- Significant progress against strategic priorities with increased investment in the business
- Strong financial performance with continued growth in profit and market-leading returns
- Guidance demonstrates confidence in business model and future strong performance
  - Continue to expect RoTE of 14-15% in 2019
  - Ongoing annual capital build of 170-200bps, pre-dividend
  - NIM c.290bps in 2019 and resilient through the plan
  - Operating costs now expected to be <£8bn in 2019
  - AQR expected to be <30bps in 2019
- Group will continue to Help Britain Prosper whilst delivering strong and sustainable returns

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1 – 2015 to 2017 restated to show Remediation / Other Conduct within underlying profit.
Appendix
Strong mortgage portfolio with continued low LTVs
£289bn gross lending; total market share 21% and 19% of open book

<table>
<thead>
<tr>
<th></th>
<th>Dec 2018</th>
<th></th>
<th>Dec 2017</th>
<th></th>
<th>Dec 2010</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Mainstream</td>
<td>Buy to let</td>
<td>Specialist</td>
<td>Total</td>
<td>Total</td>
</tr>
<tr>
<td>Average LTVs</td>
<td>42.5%</td>
<td>52.1%</td>
<td>45.8%</td>
<td>44.1%</td>
<td>43.6%</td>
</tr>
<tr>
<td>New business LTVs</td>
<td>63.1%</td>
<td>58.6%</td>
<td>n/a</td>
<td>62.5%</td>
<td>63.0%</td>
</tr>
<tr>
<td>≤ 80% LTV</td>
<td>86.1%</td>
<td>94.2%</td>
<td>88.2%</td>
<td>87.7%</td>
<td>89.5%</td>
</tr>
<tr>
<td>&gt;80–90% LTV</td>
<td>10.7%</td>
<td>4.6%</td>
<td>6.6%</td>
<td>9.4%</td>
<td>8.0%</td>
</tr>
<tr>
<td>&gt;90–100% LTV</td>
<td>2.8%</td>
<td>0.7%</td>
<td>2.0%</td>
<td>2.4%</td>
<td>1.9%</td>
</tr>
<tr>
<td>&gt;100% LTV</td>
<td>0.4%</td>
<td>0.5%</td>
<td>3.2%</td>
<td>0.5%</td>
<td>0.6%</td>
</tr>
<tr>
<td>Value &gt;80% LTV</td>
<td>£31.1bn</td>
<td>£3.0bn</td>
<td>£1.6bn</td>
<td>£35.7bn</td>
<td>£30.7bn</td>
</tr>
<tr>
<td>Value &gt;100% LTV</td>
<td>£0.8bn</td>
<td>£0.3bn</td>
<td>£0.4bn</td>
<td>£1.5bn</td>
<td>£1.8bn</td>
</tr>
<tr>
<td>Gross lending</td>
<td>£223bn</td>
<td>£52bn</td>
<td>£14bn</td>
<td>£289bn</td>
<td>£292bn</td>
</tr>
</tbody>
</table>

1 – 2010 LTVs include TSB.
Opportunities for growth in targeted key segments

Channels market share

- Digital new business volumes: 21%
- Branch new business volumes: 20%
- Number of branches: 22%

Product market share

- Consumer credit card balances: 25%
- PCA deposit balances: 22%
- Mortgage balances (open book): 19%
- SME and small business lending balances: 19%
- Mid Market main bank relationships: 18%
- Savings balances: 17%
- Consumer loan balances: 15%
- Black Horse car finance balances: 15%
- Corporate pensions (flow): 12%
- Home insurance GWP: 12%
- Commercial payments volumes (flow): 7%
- Individual pensions & drawdown (flow): 3%

Average market share: 19%

1 – Volumes across PCAs, loans, savings, cards and home insurance. 2 – Based on CACI Branch Base data as at 1 December 2018 (excluding agency branches). 3 – Comprises unsecured personal loans, overdrafts and Black Horse retail lending balances. 4 – Annualised Premium Equivalent new business on a whole of market basis. 5 – Average market share calculated for core financial services products. Market data sources: ABI, BoE, CACI, eBenchmarkers, Experian pH, FLA, Ipsos MORI FRS, PayUK, Spence Johnson and internal estimates.

All market shares FY18 except PCA & savings balances (Nov-18) and individual pensions & drawdown (9M18).
Creating a market leading wealth proposition for customers

Clear rationale for strategic partnership between two of UK’s strongest financial services businesses

Unique client base

Multi-channel distribution model with leading digital franchise

Schroders

Investment & wealth management expertise with well-established brand

Expert technology capabilities

Delivering significant growth in line with strategy
- Growth will be in addition to existing £50bn FP&R open book AuA growth target

Mass Market
- Digitally enabled direct Financial Planning & Retirement offer

Mass Affluent – Affluent
- Joint venture – 50.1% holding(1)
- Scottish Widows Schroders planned launch by June 2019(1); JV to be branded Schroders Personal Wealth
- Aim to be top-3 UK financial planning business within 5 years
- c.300 advisors on day 1; expected to more than double within 3 years

High Net Worth Customers
- 19.9% stake in Cazenove Capital
- Leading wealth management and investment funds business

Asset management capabilities covered by new long-term agreement

Market leading wealth proposition with full and unique market offering

1 – Subject to regulatory approval.
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 a 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.