

LLOYDS
BANKING GROUP



Q3 INTERIM MANAGEMENT STATEMENT

Presentation to analysts and investors | 25 October 2018

Strong financial performance with continued growth in profits and returns

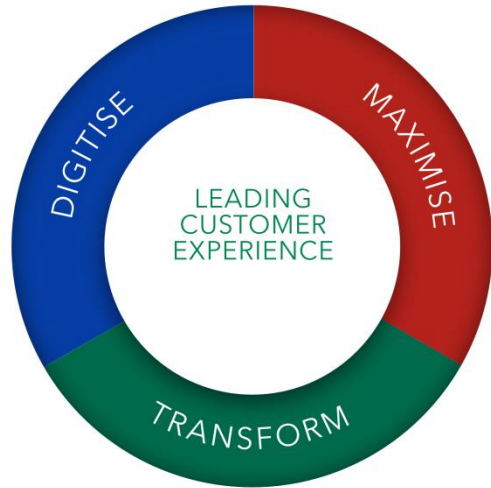


Net income	£13.4bn +2%
Cost:income ratio (incl. remediation)	47.5% (2.5)pp
Cost:income ratio (excl. remediation)	44.8% (1.1)pp
Underlying profit	£6.3bn +5%
Statutory profit after tax	£3.7bn +18%
Earnings per share	4.7p +21%
Return on tangible equity	13.0% +2.5pp
Capital build (pre dividends)	162bps

- **Statutory profit after tax of £3.7bn up 18% with underlying profit up 5% at £6.3bn**
 - Net income of £13.4bn, 2% higher, with NIM stable at 2.93%
 - Cost:income ratio further improved to 47.5% with positive jaws of 5% and BAU costs⁽¹⁾ down 4%
 - Asset quality remains strong with gross AQR stable at 28bps; increased net AQR of 22bps due to lower write backs and releases
- **Continued growth with loans up £2.3bn in Q3, current accounts up £7.5bn YTD and strategic partnership with Schrodgers announced**
- **Increased RoTE of 13.0% and earnings per share up 21% to 4.7p**
- **Strong CET1 capital increase of 162bps with 41bps in the quarter and CET1 ratio of 14.6% post dividend accrual**
- **TNAV of 51.3p per share; up 0.3p on H1 before interim dividend**
- **£1bn share buyback complete with more than £3.2bn returned to shareholders during 2018, equivalent to over 4.5p per share**
- **Financial targets for 2018 and the longer term reaffirmed**

¹ – Operating costs, less investment expensed and depreciation.

Transforming the Group for success in a digital world



>£3bn strategic investment
2018 – 2020

Strategic investment of £0.6bn in 2018 with focus on enhancing processes and customer experience

Digitising the Group

- Investment in robotics driving significant process improvement and enhanced productivity with c.600k colleague hours saved year to date
- Private Cloud solutions delivering more efficient, scalable and flexible infrastructure

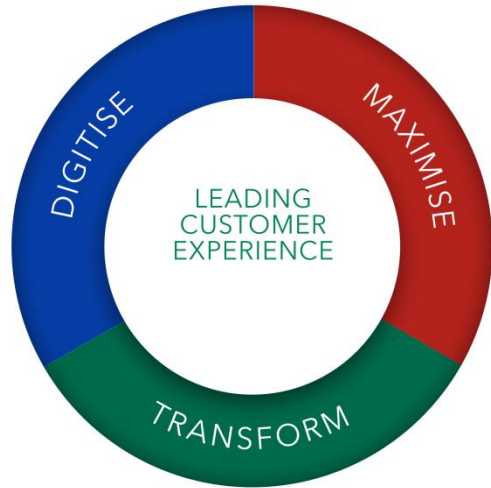
Leading Customer Experience

- Continued to transform branch account opening journeys, improving customer experience and reducing account opening times by almost 40%
- Integrated API-led Open Banking proposition to be launched in November

Transforming Ways of Working

- c.40% uplift in colleague training to c.550k hours in 2018

Transforming the Group for success in a digital world



>£3bn strategic investment
2018 – 2020

Maximising Group Capabilities – Financial Planning & Retirement

- **Strong performance to date with Insurance & Wealth open book AuA growth ahead of plan at >£11bn**
- **Announced strategic partnership with Schroders to create a market-leading wealth proposition**
 - Personalised, advice-led proposition for affluent customers; aim for JV to be top-3 UK financial planning business within 5 years
 - Wealth management and investment offering for high net worth customers
 - Growth will be incremental to existing targets of >1m new pension customers and £50bn AuA growth by year end 2020
- **Insurance and banking single customer view rolled out to >3m customers**
- **Simplified pension consolidation process, reducing completion times and increasing conversion rate by 15%**

Appendix

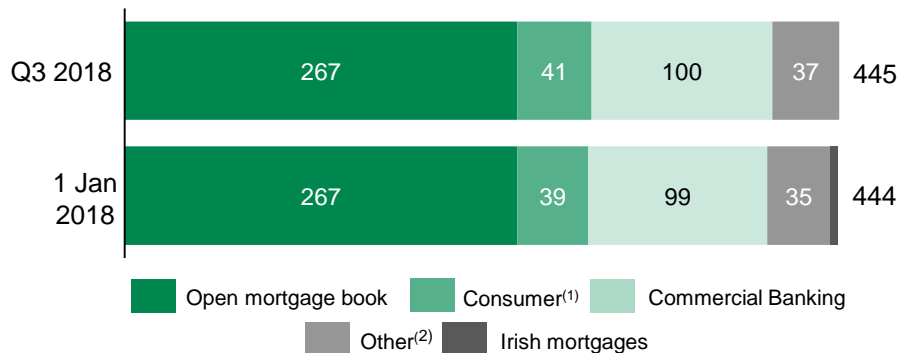


Continued growth in targeted segments while continuing to optimise the portfolio



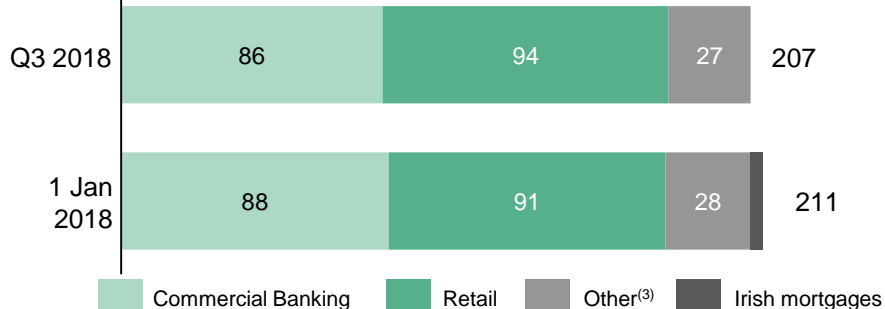
Loans and advances

(£bn)



Risk-weighted assets

(£bn)



- **Delivering prudent lending growth in targeted segments**

- Open mortgage book in line with start of the year; continue to expect modest book growth in 2018
- Continued high-quality growth in SME and Mid-markets (+£1.9bn)⁽⁴⁾; in line with targeted £6bn growth by 2020
- Motor Finance growth continuing ahead of market with increase of £0.9bn in 2018
- AuA growth >£11bn and >500k new pension customers, both ahead of plan; targeting £50bn AuA growth and >1m new customers by year end 2020

- **Completed sale of c.£4bn Irish mortgage portfolio**

- **Strategy to grow current account balances, reduce tactical balances and optimise liability mix**

- Retail and Commercial combined current account balances up 7% in 2018

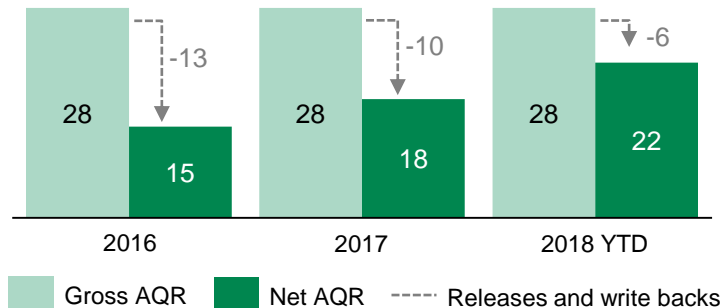
1 – Includes Cards, Personal Loans and Motor Finance. 2 – Includes the closed mortgage book, Retail Business Banking, Insurance & Wealth and Central. 3 – Includes Insurance & Wealth, Central and threshold RWA. 4 – Includes Retail Business Banking.

Low risk business model with prudent participation choices and no deterioration seen across portfolio



Asset quality ratio

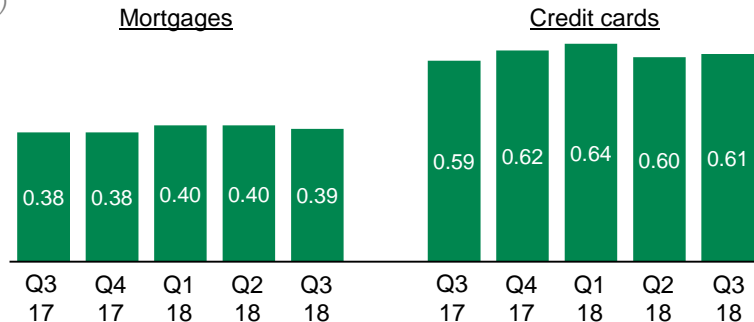
(bps)



- **Gross AQR stable at 28bps despite including MBNA; net AQR up due to lower releases and write backs**
- **Underlying credit quality remains strong with no deterioration in credit risk**
- **Continue to expect net AQR in 2018 to be <25bps**
 - AQR through the plan expected to be <30bps and c.35bps through the cycle
- **Low risk business model underpins low AQRs**

New to arrears as proportion of total book⁽¹⁾

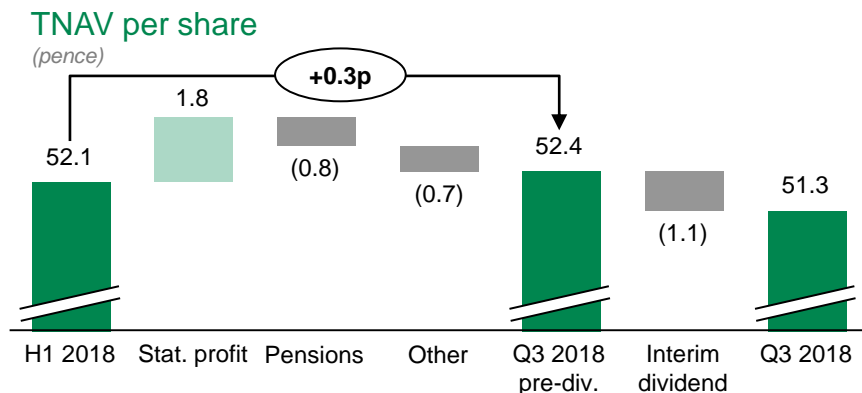
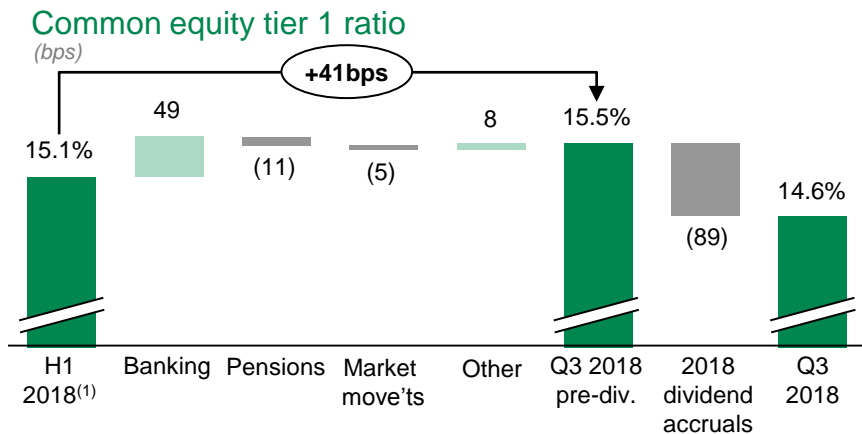
(%)



- Low average mortgage LTV of 43.2% with stable new to arrears; new business average LTV 62.6% and c.90% of portfolio continues to have LTV ≤80%
- Low risk credit card business with conservative underwriting and stable new to arrears
- Motor finance book largely secured lending with prudent residual values; used car prices strong with c.£300 profit on sale per vehicle

1 – 3-month rolling average.

Continued strong capital build



- **CET1 capital build of 41bps in Q3 and 162bps YTD**
- **Capital build of c.200bps pre-dividend expected in 2018 and 170-200bps per year through the plan**
 - Q4 benefits from final Insurance dividend but also impacted by pension contributions and bank levy
- **CET1 capital target unchanged at c.13% plus a management buffer of around 1%**
 - Pillar 2A requirement reduced by 30bps in H1
- **Progressive and sustainable ordinary dividend policy with capacity to distribute surplus capital**
 - £1bn share buyback complete with more than £3.2bn paid out to shareholders during 2018, equivalent to over 4.5p per share
- **TNAV of 51.3p per share; up 0.3p before interim dividend**

1 – Pro forma, reflecting dividends declared by Insurance but paid in Q3, the sale of the Irish mortgage portfolio and the full share buyback impact.

Creating a market leading wealth proposition for customers



Client Needs

'Help me invest my ISA allowance'

- Digitally enabled direct Financial Planning & Retirement offering

Mass Market

'Help me plan for retirement'

- Joint venture – 50.1% holding
- Personalised, advice-led proposition with referral arrangements

Mass Affluent – Affluent

'Help me manage my family office'

- 19.9% stake in Cazenove Capital
- Access to a leading wealth management and investment funds business

High Net Worth Customers

Asset management capabilities covered by new long-term agreement

Market leading wealth proposition with full and unique market offering



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



Unique client base

Multi-channel distribution model

Leading digital franchise

Schroders

Investment & wealth management expertise

Expert technology capabilities

Well-established brand



Delivering significant growth in line with strategy

- Growth will be **in addition** to existing **£50bn FP&R open book AuA** growth target
- Aiming to become a **top-3 UK financial planning business** within 5 years

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; 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, 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 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 within the 2018 Q3 Interim Management Statement.