LLOYDS BANKING GROUP

Q3 INTERIM MANAGEMENT STATEMENT

Presentation to analysts and investors | 31 October 2019

Solid financial performance in a challenging environment

Q3 2019 Year to date

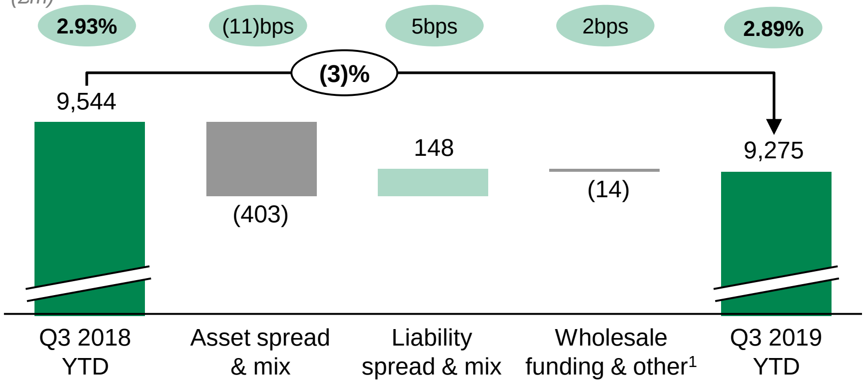
Net income	**£13.0bn** *(3)%*
Cost:income ratio (incl. remediation)	**46.5%** *(1.0)pp*
Underlying profit	**£6.0bn** *(5)%*
Statutory profit before tax	**£2.9bn** *(40)%*
Earnings per share	**2.2p** *(53)%*
Return on tangible equity	**6.8%** *(6.2)pp*
Free capital build (pre-PPI)	**149bps**

- **Statutory profit before tax of £2.9bn for the nine months, down 40%, significantly impacted by additional PPI charge of £1.8bn in Q3**
- **Underlying profit of £6.0bn, down 5%, with underlying RoTE of 15.7%**
  - Net income of £13.0bn, 3% lower, with NIM of 289bps
  - Continued reduction in total costs, down 5%, with BAU costs down 6% and cost:income ratio further improved to 46.5%
  - Credit quality remains strong; net AQR increased to 29bps including a single large corporate charge in Q3
- **Statutory RoTE of 6.8% and TNAV down 1.0p on year end to 52.0p**
- **Free capital build of 149bps, before 121bps PPI impact of which 88bps in Q3**
- **Further 10bps reduction in Pillar 2A with CET1 target maintained at c.12.5% plus a management buffer of c.1%**
- **Continue to target a progressive and sustainable ordinary dividend**

Solid financial performance: ongoing cost reduction continues to partly offset income pressure in a challenging rate environment

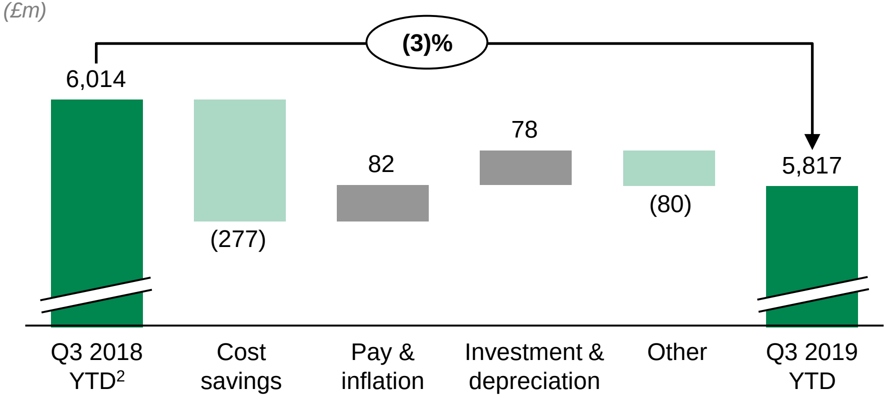
Net interest income

(£m)



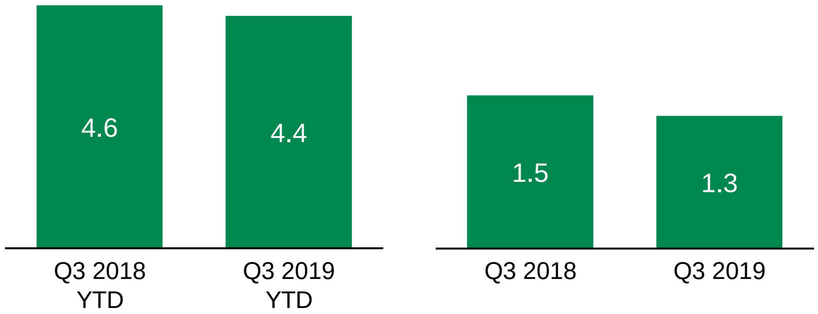
Operating costs

(£m)



Other income

(£bn)



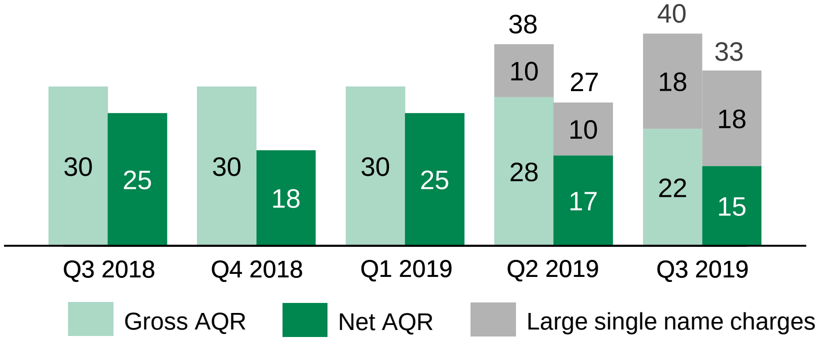
- **Net income of £13.0bn year to date, down 3%**
  - NII down with slightly lower AIEAs and NIM of 2.89% (2.88% in Q3); expect 2019 margin of 2.88%
  - Other income of £4.4bn down 4% impacted by lower client activity in Commercial markets and lower gilt sales
- **Continued reduction in operating costs, down 3%, with cost:income ratio further improved to 46.5%**
- **Now expect operating costs less than £7.9bn in 2019**

1 – Other includes non-banking net interest income. 2 – Q3 2018 adjusted to reflect the impact of IFRS 16.

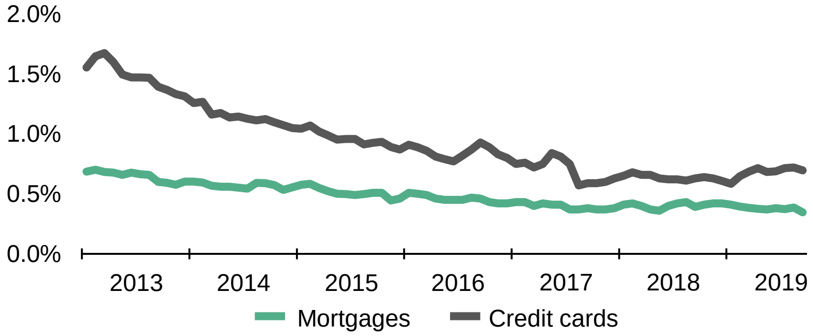
Low risk business model with prudent participation choices: underlying credit quality remains strong

Asset quality ratio

(bps)



Mortgages and credit cards – new to arrears as proportion of total book



- **Gross AQR in Q3 of 40bps with net AQR of 33bps, both impacted by a single large corporate charge and lower used car prices**
  - AQRs remain low in recent quarters excluding the large single name charges
- **Underlying credit quality remains strong though economic uncertainty persists**
  - Low average Retail mortgage LTV of 44% with stable new to arrears; average LTV of new business 64% and c.90% of portfolio has LTV ≤80%
  - Prime credit card book; new to arrears remaining low
  - Motor finance predominantly secured and subject to prudent assumptions and provisioning
  - Diversified, high quality Commercial book
- **Continue to expect 2019 net AQR of less than 30bps**

Solid profits and returns with statutory performance impacted by additional PPI charge in Q3

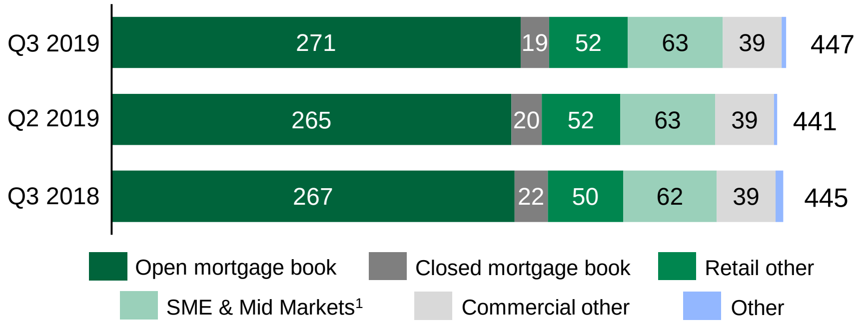
(£m)	Q3 2019 YTD	Q3 2018 YTD	Change
Underlying profit	**6,016**	6,303	*(5)%*
Restructuring	**(280)**	(612)	*54%*
Volatility and other items	**(339)**	(207)	*(64)%*
PPI	**(2,450)**	(550)	
Statutory profit before tax	**2,947**	4,934	*(40)%*
Tax expense[1]	**(960)**	(1,194)	*20%*
Statutory profit after tax[1]	**1,987**	3,740	*(47)%*
Effective tax rate	**33%**	24%	*9pp*
Underlying RoTE	**15.7%**	16.2%	*(0.5)pp*
Statutory RoTE	**6.8%**	13.0%	*(6.2)pp*

- **Underlying profit of £6.0bn, down 5%**
- **Restructuring costs lower due to completion of MBNA migration and ring-fencing; includes severance and initial costs for Schroders JV**
- **Volatility and other items includes adverse movements in banking volatility and the H1 charge relating to change in asset manager**
- **PPI charge of £1.8bn in Q3: assessment of PIR volumes now complete; PIR conversion remains low, averaging around 10%**
- **Statutory profit before tax of £2.9bn, down 40%**
- **Higher effective tax rate of 33% due to PPI**
- **Strong underlying RoTE of 15.7%; statutory RoTE of 6.8% impacted by PPI**

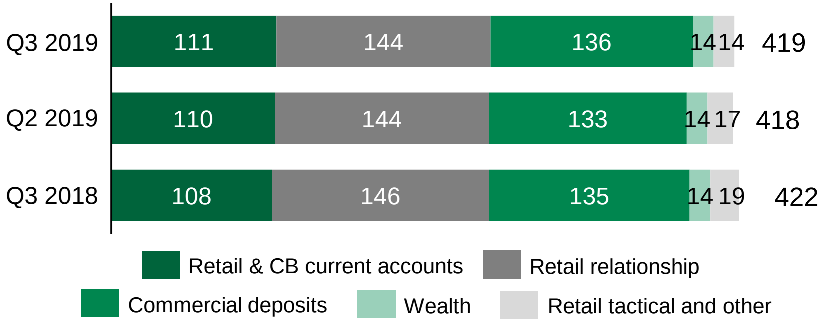
1 – Comparative restated to reflect IAS 12.

Balance sheet: ongoing growth in targeted segments while continuing to optimise the portfolio

Loans and advances
(£bn)



Liability mix
(£bn)

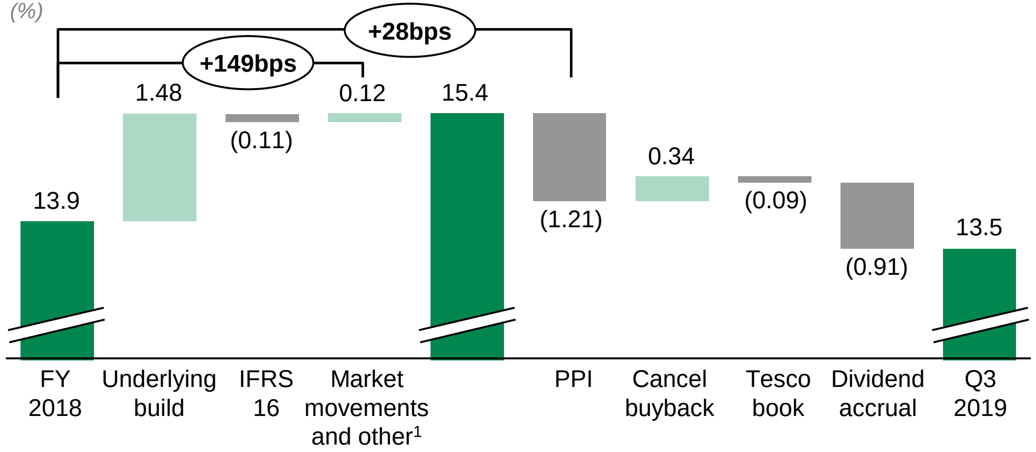


- **Prudent lending growth in targeted segments**
  - Open mortgage book up £6.1bn on Q2 due to £3.7bn Tesco portfolio acquisition and strong organic growth of £2.4bn, taking advantage of improved market pricing
  - Tesco acquisition provides participation flexibility; total open book expected to end 2019 ahead of 2018
  - Continued year on year growth in SME[1] (up 2%) and Motor Finance (up 8%)
- **Continue to target current account balances, reduce tactical balances and optimise mix**
  - Current account balances up £3bn on Q3 2018 with continued growth in PCA ahead of the market
  - Hedgeable balance £185bn, with c.£13bn unused
- **RWAs up £3bn on year end with optimisation of Commercial partly offsetting impact of IFRS 16 and increase in Retail, including the Tesco acquisition**

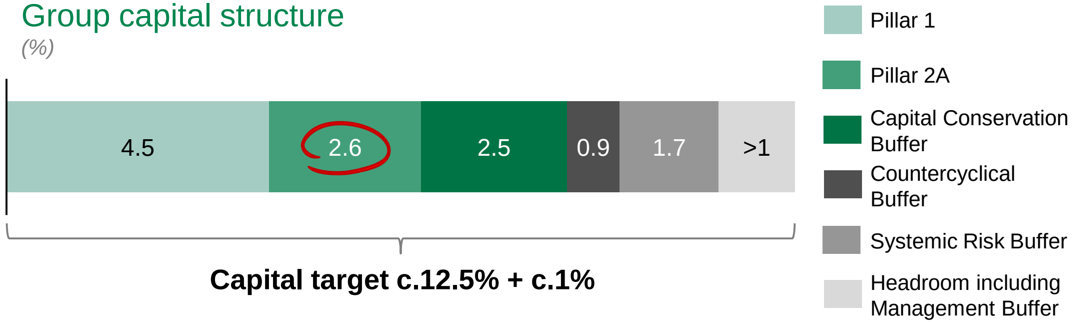
1 – Includes Retail Business Banking.

Continued robust capital build excluding PPI; lower Pillar 2A with capital target maintained

Common equity tier 1 ratio
(%)



Group capital structure
(%)



- **Free capital build YTD of 149bps pre-PPI; 28bps after PPI charges**
- **CET1 13.5% after dividend accrual and PPI; includes 34bps from buyback cancellation and 9bps used for Tesco acquisition**
- **c.75bps free capital build now expected for 2019, after PPI**
- **Pillar 2A down 10bps in Q3 to 2.6%**
- **Maintained CET1 target of around 12.5% plus a management buffer of around 1%**
  - Capital target 50bps lower YoY
- **Continue to target a progressive and sustainable ordinary dividend**

1 – Includes impact of pension contributions and favourable RWA, market and other movements.

Strong strategic progress and solid financial performance position the Group well

OUR PURPOSE

Helping Britain Prosper

OUR AIM

Best bank for customers, colleagues and shareholders

OUR BUSINESS MODEL

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

- **Strong strategic progress and the right strategy in the current challenging market environment**
- **Business model resilience reflected in 2019 guidance**
  - NIM expected to be 288bps and AQR less than 30bps
  - Operating costs now expected to be less than £7.9bn, ahead of previous guidance, with cost:income ratio lower than 2018
  - Free capital build now expected to be c.75bps after PPI charges
  - Continue to target a progressive and sustainable ordinary dividend
- **Continued economic uncertainty could further impact the outlook**
- **Maintain focus on prudent growth and reducing costs, whilst further investing in the business**
- **Well placed to support customers and continue to Help Britain Prosper**

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 Lloyds Banking Group plc together with its subsidiaries (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; any impact of the transition from IBORs to alternative reference rates; 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; political instability including as a result of any UK general election; 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 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 2019 Q3 Interim Management Statement (Q3 IMS). This presentation is derived from the Q3 IMS and readers of this presentation should refer to the Q3 IMS for the underlying information.