LLOYDS BANKING GROUP

# 2014 HALF-YEAR RESULTS

Presentation to Analysts and Investors

31 July 2014

# AGENDA

**PROGRESS IN THE FIRST HALF OF 2014**
**António Horta-Osório, Group Chief Executive**

**FINANCIAL RESULTS**
**George Culmer, Chief Financial Officer**

**SUMMARY**
**António Horta-Osório, Group Chief Executive**

# HIGHLIGHTS FOR THE FIRST HALF OF 2014
## Continued successful execution of our strategy

- **Investment in customer-focused initiatives driving growth**
  - Lending growth in key customer segments and deposit growth in relationship brands
  - Launched Helping Britain Prosper plan
- **Simplification programme continuing to deliver substantial efficiency improvements**
  - Competitive strength from market leading cost:income ratio of 50.5%
- **Reshaping of Group and balance sheet strengthening substantially complete**
  - TSB IPO successfully completed; 38.5% sold
  - Run-off portfolio reduced to £25bn and international presence to 8 countries
  - CET1 ratio increased to 11.1% and leverage ratio of 4.5%
- **Underlying profit increased by 32% to £3.8bn, up 58% excluding St. James's Place (SJP)**
- **Statutory profit before tax of £0.9bn, after restructuring and legacy charges**

**SUPPORTING AND BENEFITING FROM THE UK ECONOMIC RECOVERY**

# FINANCIAL PERFORMANCE

## Profit and returns substantially improved and balance sheet further strengthened

LLOYDS BANKING GROUP

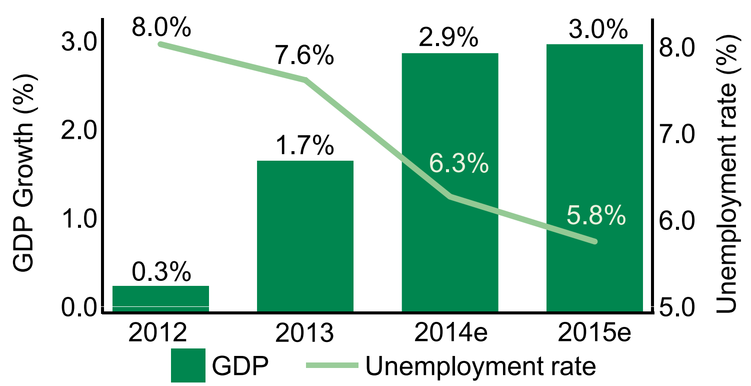
| | | |
|---|---|---|
| INCOME (excl SJP) | £9.3bn +4% | ↑ |
| UNDERLYING PROFIT | £3.8bn +32% | ↑ |
| RETURN ON RWAs | 2.90% +95bps | ↑ |
| FL CET1 RATIO | 11.1% +0.8pp | ↑ |
| LEVERAGE RATIO | 4.5% +0.7pp | ↑ |

- **Income growth driven by 12% increase in net interest income**
  - Net interest margin of 2.40%, up 39bps
  - Loan growth in targeted segments
- **Underlying profit increased to £3.8bn**
  - Costs excluding FSCS timing down 6%
  - 58% reduction in impairment; AQR of 30bps
- **RoRWA improvement driven by underlying profit increase and lower RWAs**
- **Loan to deposit ratio improved to 109%**
- **Fully loaded CET1 ratio improvement led by underlying profit**
- **Fully loaded Basel III leverage ratio improvement driven by underlying profit and AT1 issuance**

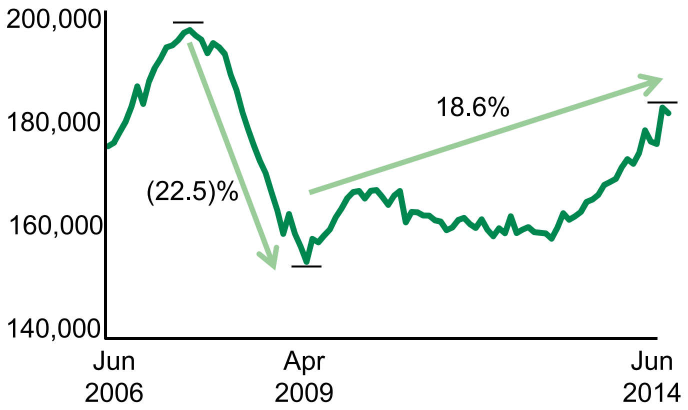
# UK ECONOMIC PERFORMANCE

## Supporting and benefiting from strengthening UK economy

### GDP GROWTH/UNEMPLOYMENT (%)(1)




### HOUSE PRICES (%)(2)




- **Stronger UK economic growth and falling unemployment**
  - Q2 GDP growth of 3.1% year-on-year
  - Unemployment of 6.5% in the 3 months to May
- **Consumer and business confidence continue to rise**
- **Recovery broadening to business investment**
  - Growth of 10.6% year-on-year in Q1
- **Housing market strengthening across the country with year-on-year price increases of 8.8%**(3)
- **Improving economy benefiting our markets**
  - Increasing lending volumes
  - Improving credit environment
  - Stronger business flows
  - Greater savings potential

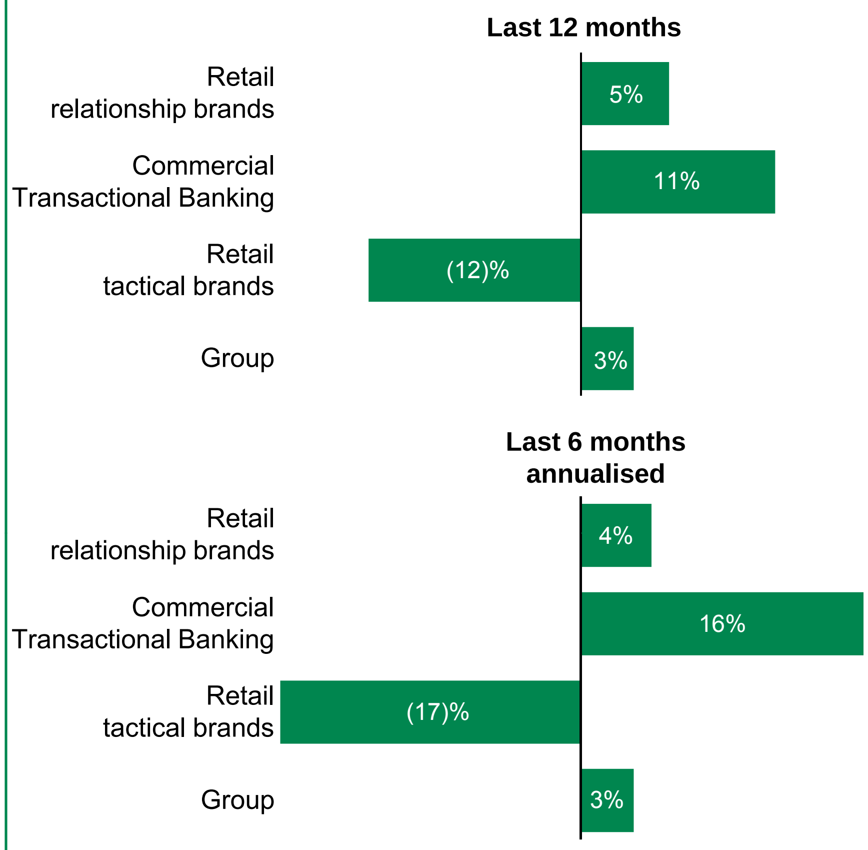
(1) Source – 2012-2013: Actual; 2014e-2015e: LBG projections. (2) Source – Halifax Standardised Average House Price/BoE Seasonally Adjusted Mortgage Approval Data. (3) Source – Halifax HPI (June 2014).

# SUPPORTING OUR CUSTOMERS AND THE UK ECONOMY

## Continued loan growth in key customer segments and deposit growth in relationship brands

### NET LENDING GROWTH (%)


### DEPOSIT GROWTH (%)




**LOAN GROWTH SUPPORTING UK ECONOMIC RECOVERY**

(1) Excludes specialist book, Intelligent Finance and TSB. (2) Other includes specialist book, Intelligent Finance, Dutch mortgages, TSB and other Retail lending.

# INVESTING TO BE BEST BANK FOR CUSTOMERS

LLOYDS BANKING GROUP

| | |
|---|---|
| **RETAIL** | ▪ Strong financial performance; underlying profit up 32%<br>▪ Supported over 43,000 first time buyers and 52,000 new business start-ups<br>▪ Innovative product launches including Club Lloyds |
| **COMMERCIAL BANKING** | ▪ RoRWAs increased to 1.96%; underlying profit up 35%<br>▪ Supporting the UK economy, over £6.5bn of FLS lending in the first half<br>▪ Helped clients access £3.9bn of non-bank lending |
| **INSURANCE** | ▪ Resilient performance in challenging market conditions<br>▪ Leveraging Group synergies through operational and balance sheet efficiency<br>▪ Dividends of £0.7bn to Group; £2.9bn over the last 18 months |
| **CONSUMER FINANCE** | ▪ Underlying profit increased 5%; 11% UK loan growth<br>▪ 5% increase in new credit cards; 11% increase in balance transfer volumes<br>▪ 17% growth in Lex deliveries; 70% increase in Black Horse new business |

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# FINANCIAL PERFORMANCE
## Substantial increase in underlying profit

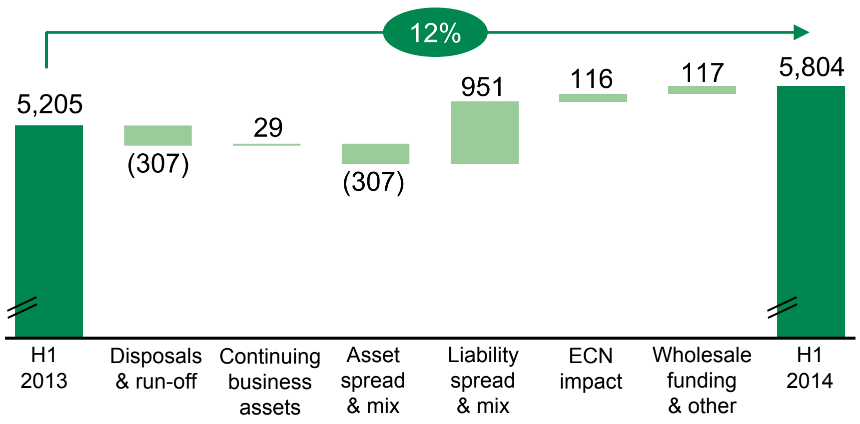
| (£m) | H1 2014 | H1 2013 | Change |
|---|---|---|---|
| Net interest income | **5,804** | 5,205 | *12%* |
| Other income | **3,448** | 3,729 | *(8)%* |
| | **9,252** | 8,934 | *4%* |
| SJP | **–** | 530 | |
| **Underlying income** | **9,252** | 9,464 | *(2)%* |
| Costs | **(4,675)** | (4,749) | *2%* |
| Impairment | **(758)** | (1,813) | *58%* |
| **Underlying profit** | **3,819** | 2,902 | *32%* |
| **Statutory profit before tax** | **863** | 2,134 | *(60)%* |
| **Statutory profit after tax** | **699** | 1,578 | *(56)%* |

- **Total income excluding SJP up 4%**
- **Strong NII performance, up 12%, driven by higher margins**
- **Other income up 1% in second quarter**
- **Continued strong progress on costs**
  - 6% reduction (excluding FSCS timing)
  - 8% underlying positive jaws, excluding SJP
- **Impairment down 58%, AQR of 30bps**
- **Underlying profit up 32%; up 58% excluding SJP**
- **Statutory profit includes ECN exchange, legacy and Simplification costs**

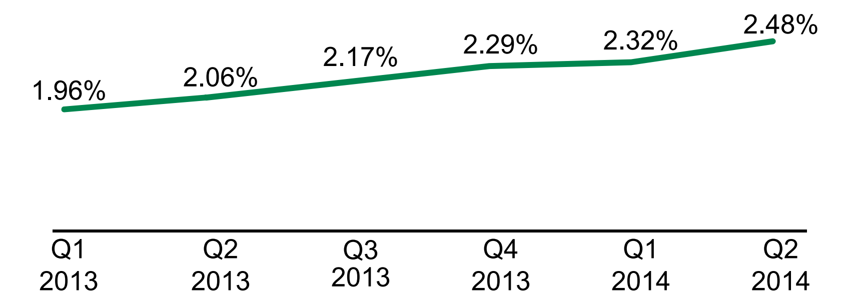
# NET INTEREST INCOME

## Strong net interest income performance driven by margin and loan growth in key segments

### NET INTEREST INCOME (£m)[1]




### NET INTEREST MARGIN (%)




### NET INTEREST INCOME (£m)

| | H1 2014 | H1 2013 | Change |
|---|---|---|---|
| Retail | 3,493 | 3,036 | *15%* |
| Commercial Banking | 1,234 | 1,009 | *22%* |
| Insurance | (64) | (49) | *(31)%* |
| Consumer Finance | 645 | 670 | *(4)%* |
| Run-off[1] | (67) | 127 | - |
| TSB | 400 | 305 | *31%* |
| Other | 163 | 107 | *52%* |
| **Group** | **5,804** | **5,205** | ***12%*** |

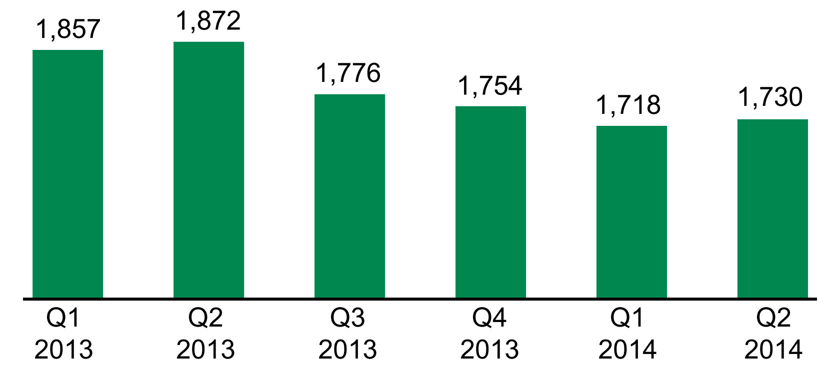
- **Strong improvement in NII reflecting margin expansion and loan growth in key segments**
- **Margin increase in second quarter reflects impact of ECN exchange, increased deposit margins and lower funding costs**
- **Full year margin now likely to be around 2.45%**

[1] Excludes £1m relating to SJP in 2013.

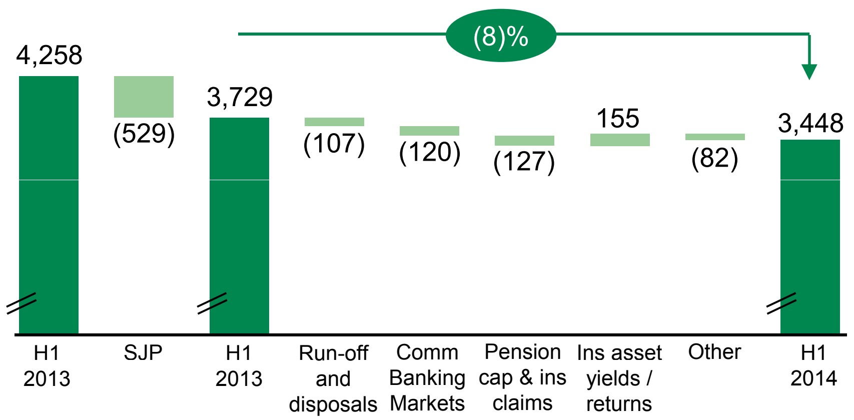
# OTHER INCOME

## Second quarter stable in a challenging environment

### OTHER INCOME TREND (£m)[1]




### OTHER INCOME (£m)




### OTHER INCOME (£m)

| | H1 2014 | H1 2013 | Change |
|---|---|---|---|
| Retail | 700 | 733 | *(5)%* |
| Commercial Banking | 984 | 1,154 | *(15)%* |
| Insurance | 854 | 945 | *(10)%* |
| Consumer Finance | 675 | 681 | *(1)%* |
| Run-off | 260 | 367 | *(29)%* |
| TSB | 72 | 88 | *(18)%* |
| Other | (97) | (239) | *59%* |
| | 3,448 | 3,729 | *(8)%* |
| SJP | – | 529 | |
| **Other Income** | **3,448** | **4,258** | ***(19)%*** |

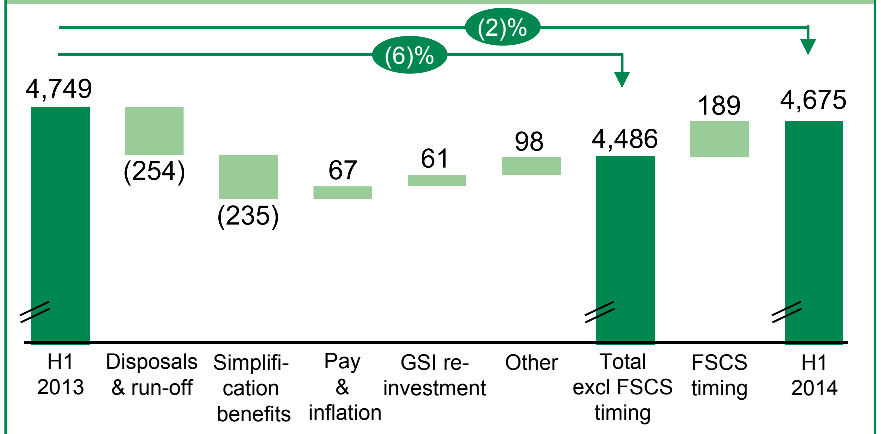
- **Other income up marginally in second quarter, primarily driven by lower claims**
- **Other income reduction on H1 2013 reflects disposals and challenging market conditions**
- **Expect quarterly other income in the second half to be close to the Q2 level**

[1] Excluding SJP.

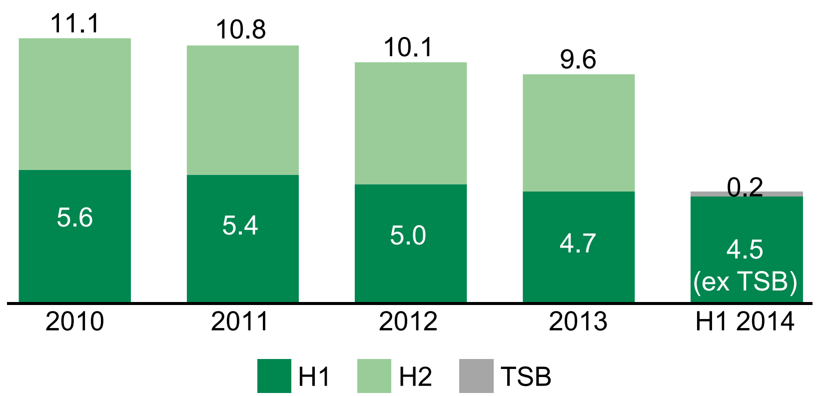
# COSTS

## Further cost improvement from disposals, run-off and Simplification

### TOTAL COSTS (£m)




### TOTAL COSTS TREND (£bn)

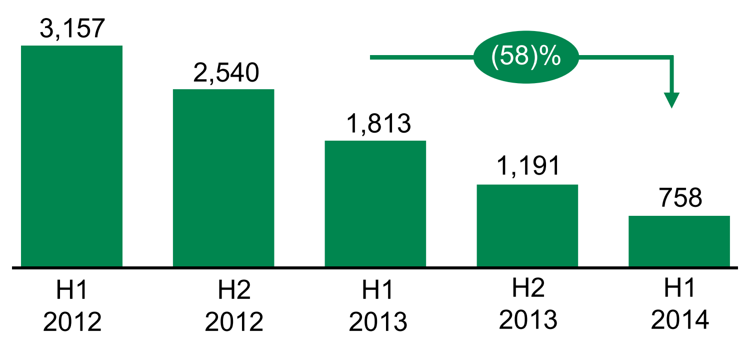



- **Continued reduction in underlying costs; down 6% excluding FSCS timing**
- **Simplification run-rate savings of £1.8bn**
  - Expect to achieve exit run-rate savings of £2bn by end 2014
- **Market leading cost:income ratio of 50.5%**
- **Total costs excluding TSB of £4.5bn in the first half of 2014**
- **Continue to expect full year 2014 costs of around £9bn (excluding TSB costs)**

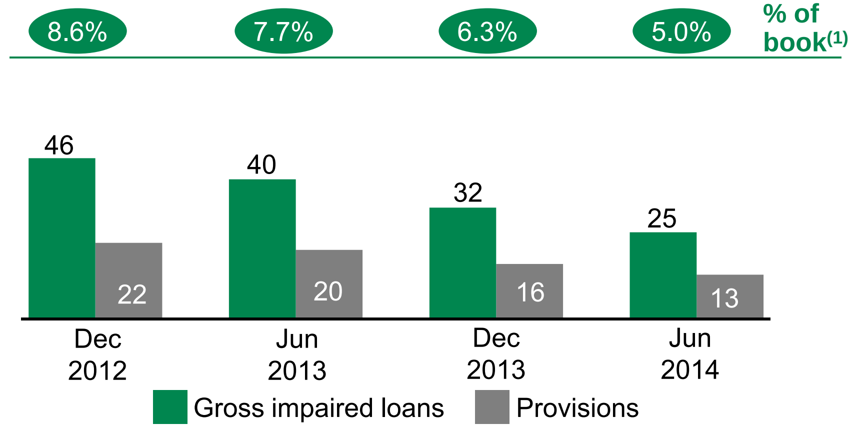
# ASSET QUALITY

## Further improvement reflecting a lower risk business; AQR guidance reduced to around 35bps for full year 2014

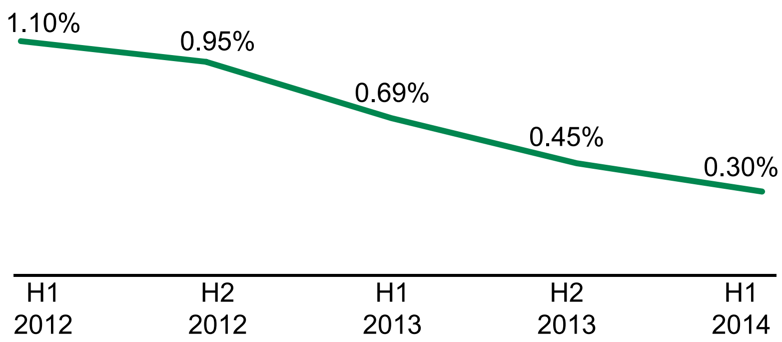
### IMPAIRMENT (£m)



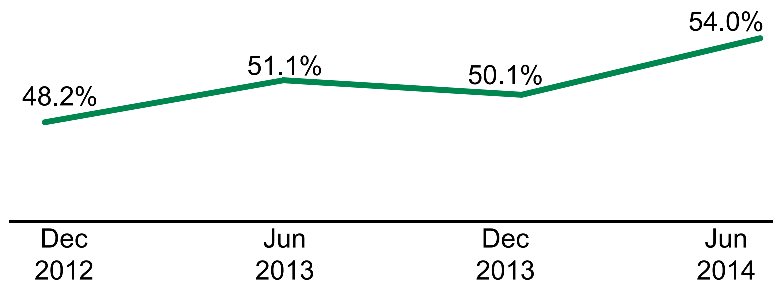

### GROSS IMPAIRED LOANS (£bn)




### ASSET QUALITY RATIO (%)




### COVERAGE RATIO (%)




(1) Gross impaired loans as a percentage of total loans and advances to customers.

# DIVISIONAL FINANCIAL PERFORMANCE
## Substantial improvement in profitability and returns

LLOYDS BANKING GROUP

| (£m) | Underlying profit H1 2014 | H1 2013 | Change |
|---|---|---|---|
| Retail | **1,710** | 1,300 | *32%* |
| Commercial Banking | **1,156** | 854 | *35%* |
| Insurance | **461** | 559 | *(18)%* |
| Consumer Finance | **534** | 509 | *5%* |
| Run-off | **(300)** | (737) | *59%* |
| TSB and other | **258** | (69) | |
| Group excl SJP | **3,819** | 2,416 | *58%* |
| SJP | **–** | 486 | |
| Group | **3,819** | 2,902 | *32%* |

| | RoRWA H1 2014 | H1 2013 | Change (bps) |
|---|---|---|---|
| Retail | **4.82%** | 3.21% | *161* |
| Commercial Banking | **1.96%** | 1.38% | *58* |
| Consumer Finance | **5.20%** | 4.67% | *53* |

- **Strong underlying profit growth in Retail and Commercial Banking, driven by income growth and reduced impairments**
- **Insurance underlying profit impacted by regulatory change and weather related claims**
- **Improved run-off performance reflects lower impairment**
- **RoRWAs improving in all banking divisions due to underlying profits and reduced RWAs**

# FINANCIAL PERFORMANCE

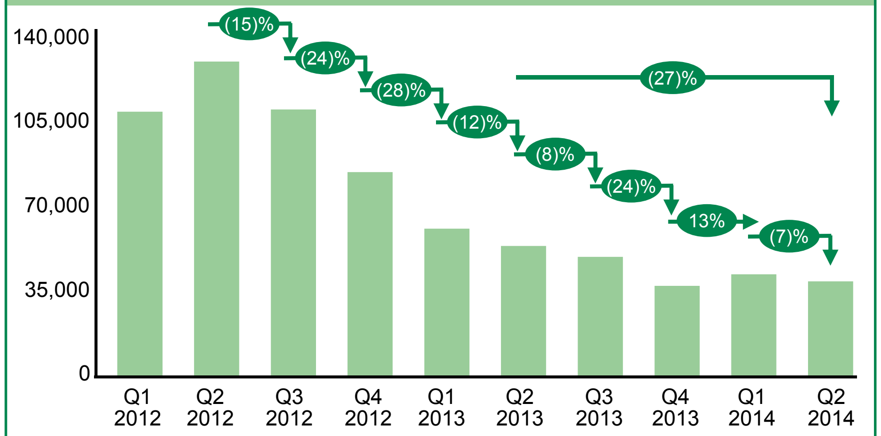
## Statistory profit of £863m after restructuring and legacy charges

| (£m) | H1 2014 | H1 2013 |
|---|---|---|
| **Underlying profit** | **3,819** | 2,902 |
| Asset sales & volatile items | **(857)** | 793 |
| Simplification costs | **(519)** | (409) |
| TSB costs | **(309)** | (377) |
| Legacy | **(1,100)** | (575) |
| Other statutory items | **(171)** | (200) |
| **Statutory profit before tax** | **863** | 2,134 |
| Tax | **(164)** | (556) |
| **Statutory profit after tax** | **699** | 1,578 |

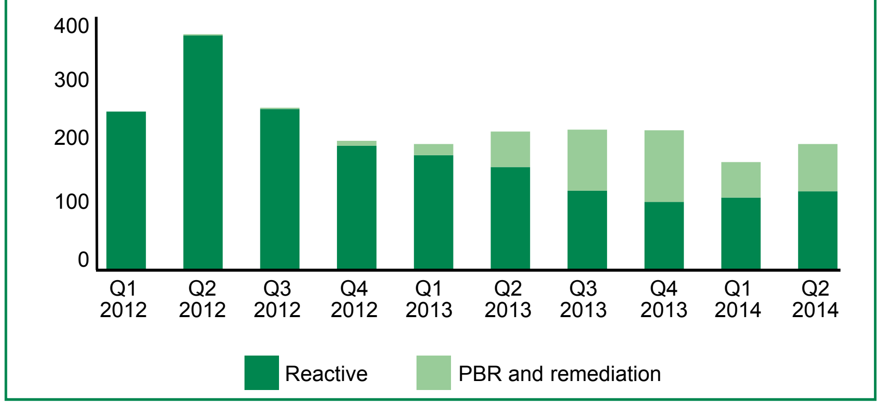
- **Asset sales & volatile items includes loss on ECN exchange and pension credit; 2013 includes gain on sale of government bonds**
- **Simplification costs of £2.2bn to date; programme to finish by end 2014**
- **TSB build and dual running costs of £1.8bn to date**
- **Legacy predominantly reflects PPI, Retail conduct provisions and LIBOR / repo settlement**
- **Effective tax rate of 19% reflects tax-exempt gains on disposals in first quarter**
- **Expect full year statutory profit to be significantly ahead of the first half**

# LEGACY ISSUES
## PPI provision increased by £600m

AVERAGE COMPLAINT VOLUMES PER MONTH[1]




AVERAGE PPI COSTS PER MONTH (£m)




- **Additional provision of £600m reflects higher than expected complaint volumes and related costs**
- **£2.3bn of provision remains unutilised**
- **Complaint volumes down 7% in the second quarter and down 27% vs. Q2 2013**
- **Proactive mailings substantially complete**
- **Current run-rate of cash spend of about £200m per month**
- **Spend expected to fall significantly on completion of PBR and remediation activity**
- **Risks and uncertainties remain**

[1] Excludes complaints where no PPI policy is held.

# FURTHER STRENGTHENING THE BALANCE SHEET

## Strong balance sheet. Run-off reduction ahead of expectations: now expect run-off to be <£20bn by end of 2014

| (£bn) | Jun 2014 | Dec 2013 | Change |
|---|---|---|---|
| **ASSETS** | | | |
| Loans and advances[1] | **466** | **468** | – |
| *Global Corporates* | ***33*** | ***38*** | *(12)%* |
| *TSB* | ***23*** | ***24*** | *(4)%* |
| *Other loans and advances* | ***410*** | ***406*** | *1%* |
| Run-off assets | **25** | **33** | *(24)%* |
| Primary liquid assets | **89** | **88** | *1%* |
| **LIABILITIES** | | | |
| Customer deposits[1] | **445** | **438** | *2%* |
| *TSB* | ***24*** | ***23*** | *3%* |
| *Other* | ***421*** | ***415*** | *1%* |
| Wholesale funding | **120** | **138** | *(13)%* |
| Equity[2] | **46** | **39** | *17%* |

| (£bn) | H1 2014 |
|---|---|
| **SOURCE OF FUNDS** | |
| Deposit growth[1] | **7** |
| Loans and advances[1] | **2** |
| Run-off asset reduction | **8** |
| Other movement | **2** |
| | **19** |
| **USE OF FUNDS** | |
| Primary liquid assets | **1** |
| Reduced wholesale funding | **18** |
| | **19** |

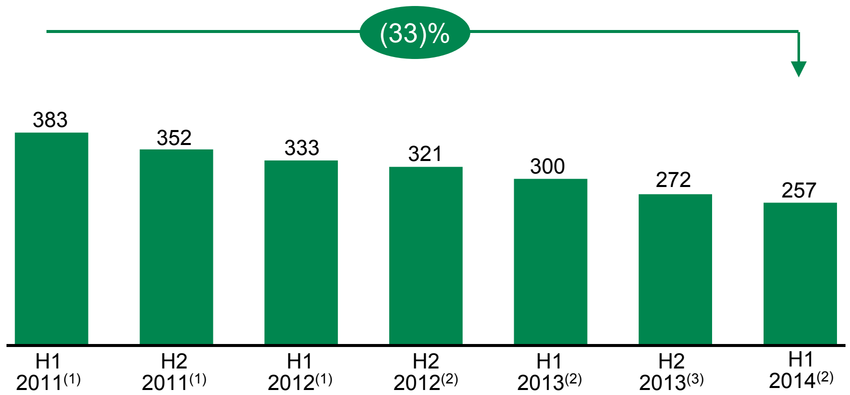
| | Jun 2014 | Dec 2013 | Change |
|---|---|---|---|
| **Loan to deposit ratio** | **109%** | **113%** | **(4)pp** |
| **Risk-weighted assets[3]** | **£257bn** | **£272bn** | **(6)%** |
| **TNAV per share** | **49.4p** | **48.5p** | **0.9p** |

[1] Excludes run-off, repos and reverse repos. [2] Includes AT1 of £5.3bn in June 2014. [3] Fully loaded, December 2013 on a pro forma basis.

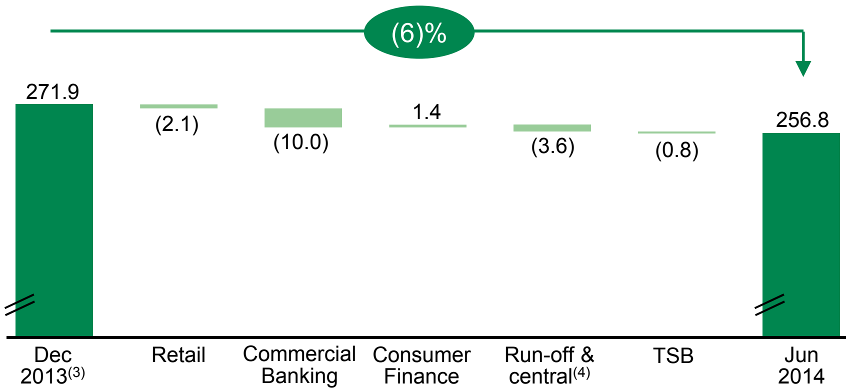
# FURTHER STRENGTHENING THE BALANCE SHEET

## Implementation of low risk strategy reflected in substantial reduction in risk-weighted assets

### RISK-WEIGHTED ASSETS (£bn)




### RISK-WEIGHTED ASSETS (£bn)[2]



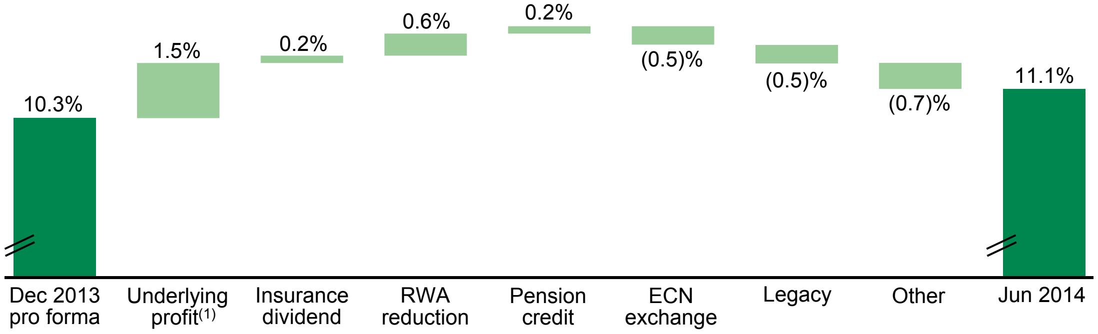

- **RWA reduction reflects balance sheet de-risking, non-core asset reductions and disposals**
- **Reduction in RWAs greater than that in loans and advances since H1 2011**
  - RWAs reduced by 33%
  - Loans and advances reduced by 14%
  - Total balance sheet reduced by 14%
- **Continued balance sheet de-risking in first half of 2014**
  - 6% reduction in RWAs
  - 2% reduction in loans and advances

[1] Prevailing rules. [2] Fully loaded rules. [3] Fully loaded pro forma basis. [4] Includes threshold RWAs and pro forma adjustments.

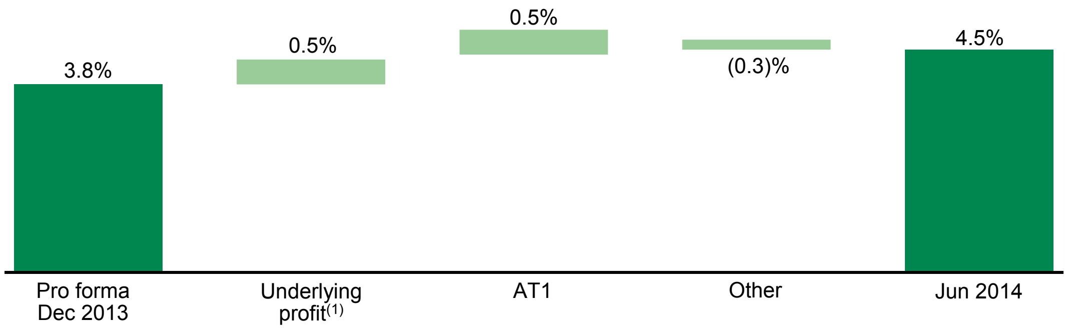
# FURTHER STRENGTHENING THE BALANCE SHEET

## Common equity tier 1 and leverage positions further strengthened

### FULLY LOADED COMMON EQUITY TIER 1 RATIO




### FULLY LOADED LEVERAGE RATIO[2]




- **Stronger capital position principally driven by underlying profit**
  - Insurance dividends paid to Group in first quarter
  - ECN exchange effect partly offset by pension credit
- **Fully loaded CET1 ratio improved to 11.1%**
- **Leverage ratio substantially improved through profitability and AT1 issuance**

**A STRONGLY CAPITAL GENERATIVE BUSINESS**

[1] Excl profit in Insurance business. [2] Estimated in accordance with the revised Basel III leverage ratio framework issued in January 2014.

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**FINANCIAL RESULTS**
**George Culmer, Chief Financial Officer**

**SUMMARY**
**António Horta-Osório, Group Chief Executive**

# SUMMARY
## Supporting and benefiting from the UK economic recovery

- **2011-2014 strategic plan now substantially delivered**
- **Continued successful execution of strategy**
  - Continued loan growth in key customer segments
  - 32% increase in underlying profit to £3.8bn; 58% increase excluding SJP
  - Substantial increase in returns, with RoRWA of 2.90%
- **Well positioned in evolving regulatory environment**
  - Further strengthening of capital position, with fully loaded CET1 ratio of 11.1%
  - Leverage ratio of 4.5%
- **UK government stake reduced to 24.9%**
- **Will apply to the PRA in the second half of 2014 to restart dividend payments**
- **Strategic update to be presented to the market in the Autumn**

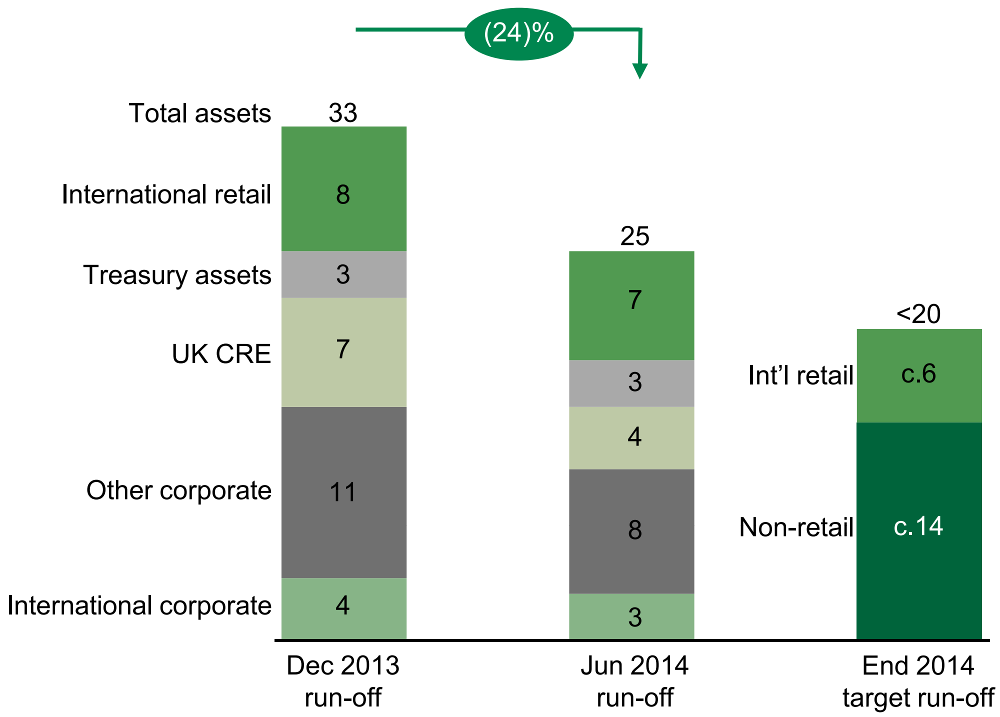
**CONFIDENT IN DELIVERY OF STRONG AND SUSTAINABLE RETURNS**

# APPENDIX

# RUN-OFF PORTFOLIO

## Reduction of £8bn in the first half of 2014

**RUN-OFF PORTFOLIO (£bn)**




| | Dec 2013 run-off | Jun 2014 run-off |
|---|---|---|
| **Underlying loss £m[1]** | **(1,329)** | **(300)** |
| **RWAs £bn** | **31** | **24** |

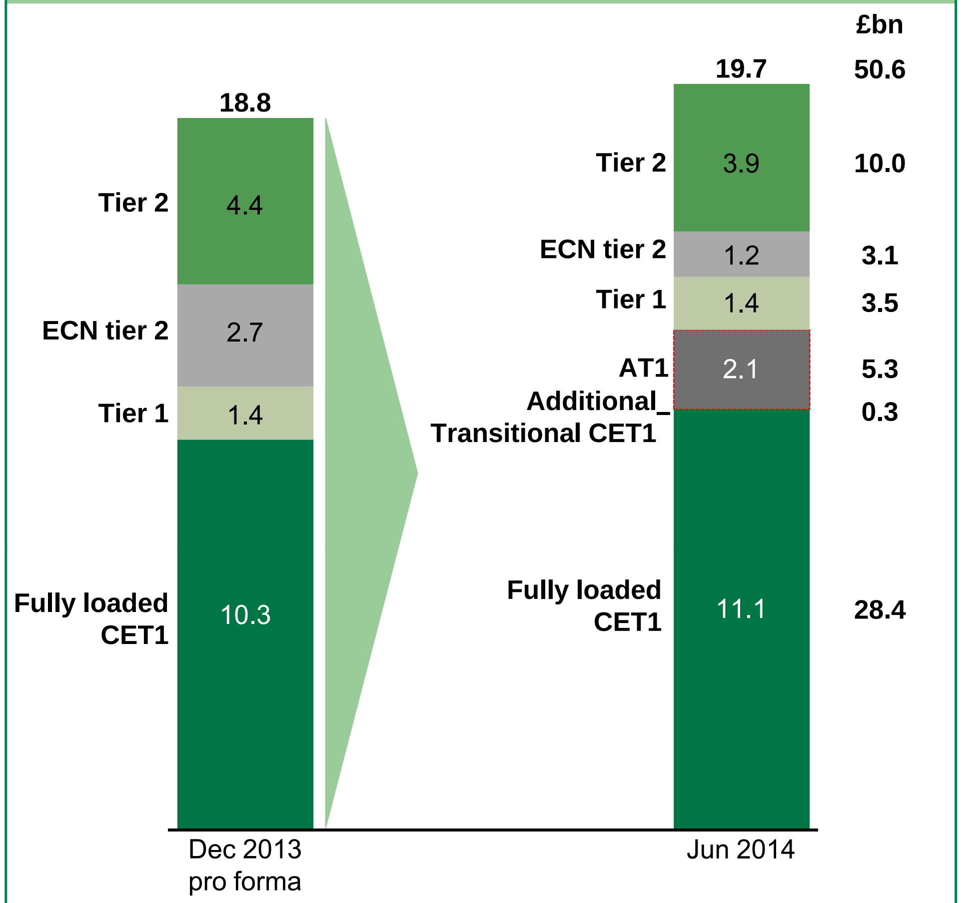
- **Run-off assets reduced 24% to £25bn**
- **Underlying loss decreased to £300m**
- **Risk-weighted assets now £24bn**
- **Run-off assets now expected to be less than £20bn at the end of 2014**

[1] Excludes SJP.

# FURTHER STRENGTHENING THE BALANCE SHEET

## Strong capital position with medium term AT1 requirement met through recent ECN exchange

**CAPITAL COMPOSITION (%)[1]**



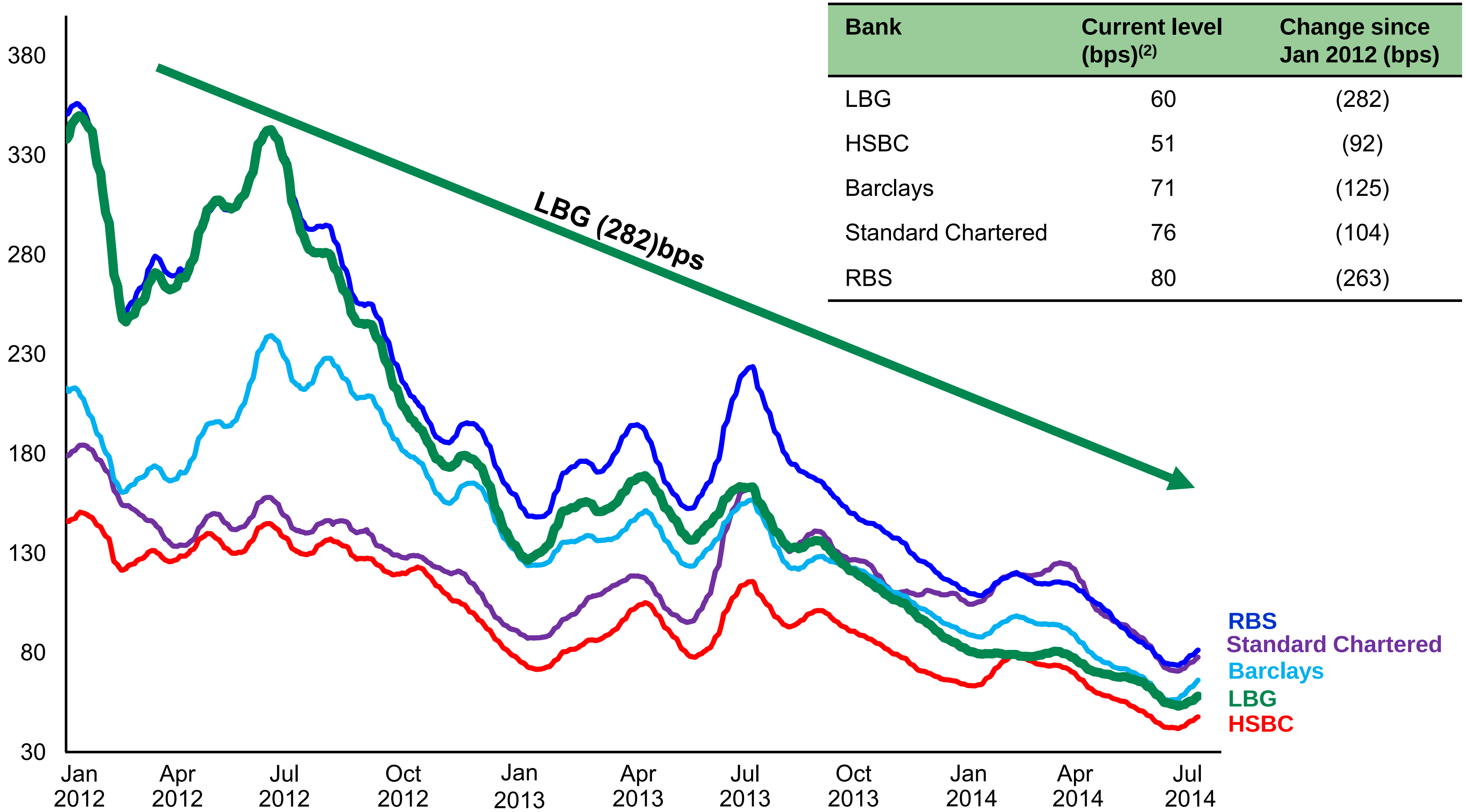

- **Strong total capital ratio of 19.7%**
- **Substantially improved quality of capital with c.£5.3bn of new AT1 (2.1% of RWAs)**
- **Improved leverage and rating agency capital measures**
- **Continue to review capital base to meet regulatory requirements and optimise costs**
- **Will apply to the PRA in the second half to restart dividend payments**

[1] As a percentage of risk-weighted assets; includes grandfathered capital securities.

# LOW RISK BUSINESS MODEL

## Further recognition of balance sheet strength and de-risking

### UK BANK CDS[1]




| Bank | Current level (bps)[2] | Change since Jan 2012 (bps) |
|---|---|---|
| LBG | 60 | (282) |
| HSBC | 51 | (92) |
| Barclays | 71 | (125) |
| Standard Chartered | 76 | (104) |
| RBS | 80 | (263) |

(1) Source: Bloomberg 5-year senior mid (4 week rolling average). (2) As at 25 July 2014.

# MORTGAGE PORTFOLIO LTVs

| | Mainstream Jun 2014 | Buy to let Jun 2014 | Specialist Jun 2014 | Total Jun 2014 | Total Dec 2013 | Total Dec 2012[1] |
|---|---|---|---|---|---|---|
| Average LTVs | 47.3% | 63.4% | 61.8% | **50.4%** | 53.3% | 56.4% |
| New business LTVs | 64.5% | 63.6% | n/a | **64.3%** | 64.0% | 62.6% |
| ≤80% LTV | 80.7% | 76.7% | 65.8% | **79.0%** | 70.4% | 59.6% |
| >80–90% LTV | 11.9% | 12.1% | 17.2% | **12.3%** | 15.6% | 16.8% |
| >90–100% LTV | 4.7% | 8.6% | 10.3% | **5.8%** | 8.6% | 11.9% |
| >100% LTV | 2.7% | 2.6% | 6.7% | **2.9%** | 5.4% | 11.7% |
| Value >100% LTV | £6.1bn | £1.3bn | £1.5bn | **£8.9bn** | £16.2bn | £37.8bn |

Indexed by value at 30 June 2014. Specialist lending is closed to new business. [1] Includes TSB.

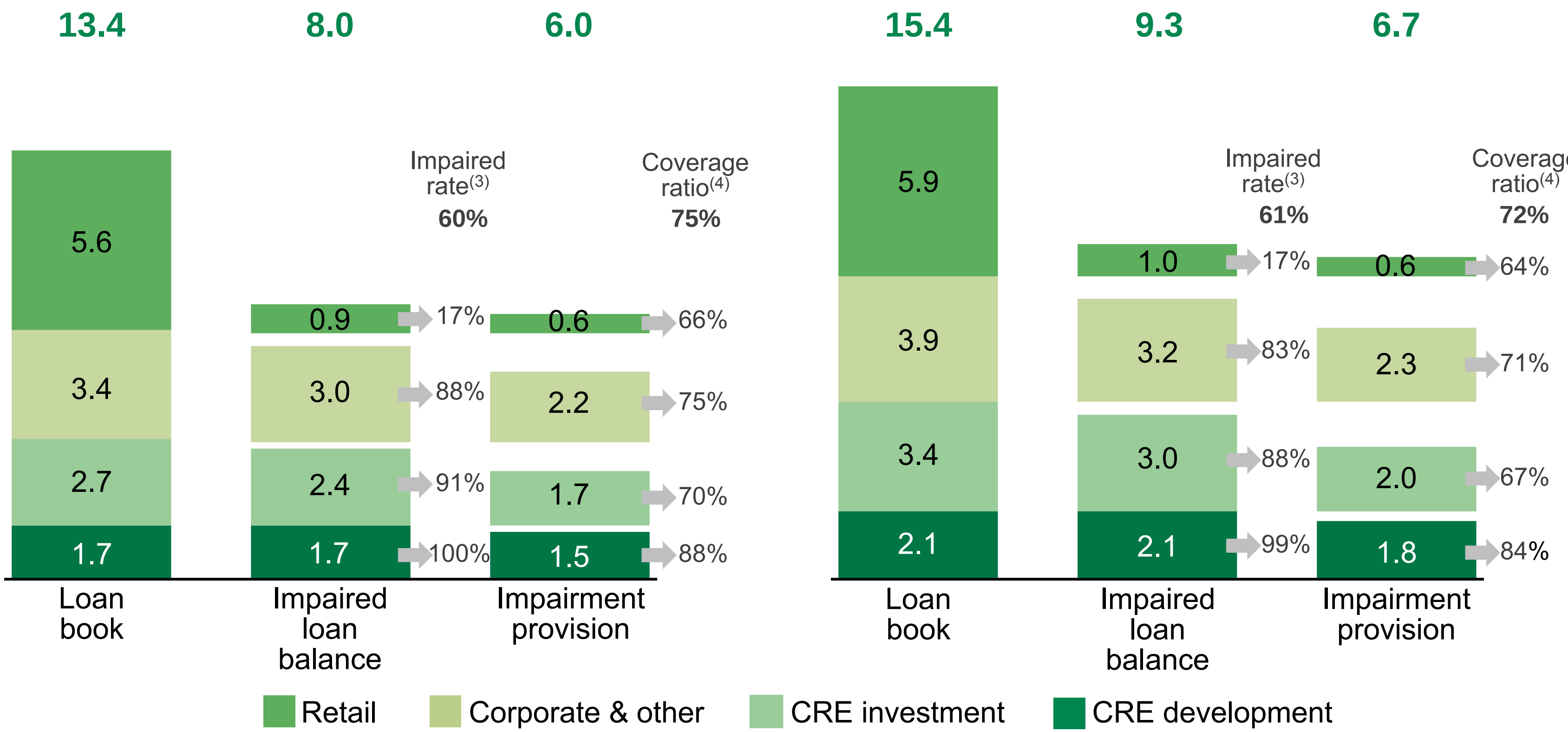
# IRISH PORTFOLIO

## Robust coverage which minimises downside risks

### PORTFOLIO BREAKDOWN (£bn)

**Jun 2014**
Gross assets: £13.4bn[1] (Net: £7.3bn)
Non-retail gross assets: £7.8bn (Net: £2.3bn)

**Dec 2013**
Gross assets: £15.4bn[2] (Net: £8.7bn)
Non-retail gross assets: £9.4bn (Net: £3.4bn)

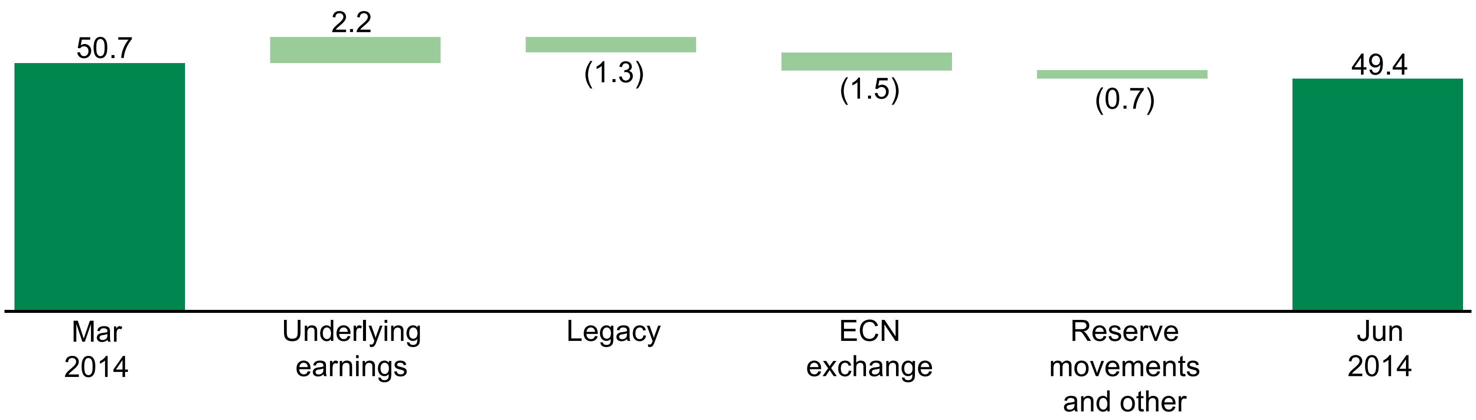



[1] €16.7bn in local currency. [2] €18.5bn in local currency. [3] Impaired loan balance / gross drawn assets. [4] Impairment provision / impaired loan balance.
May not sum due to rounding.

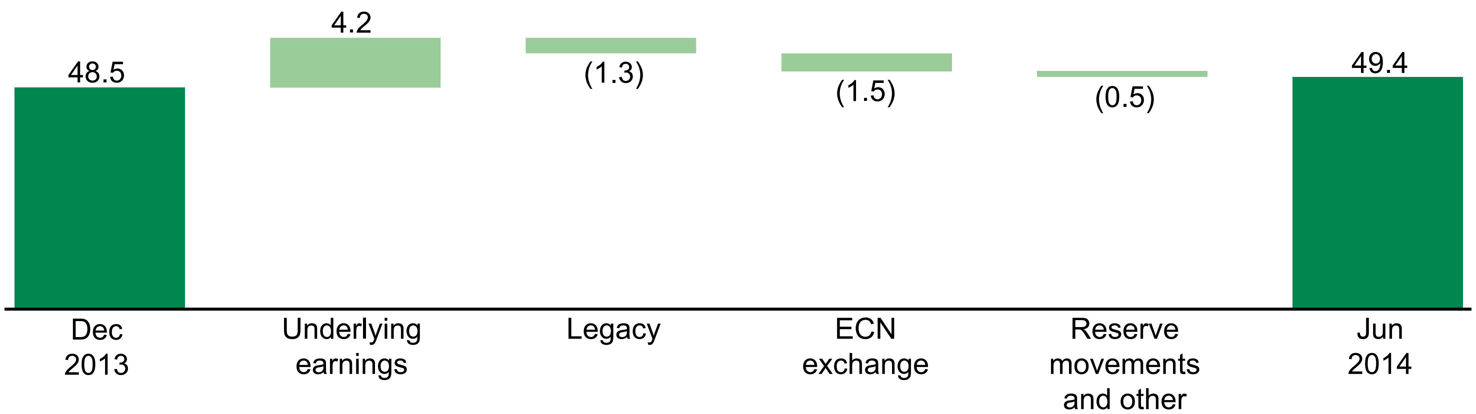
# NET TANGIBLE ASSETS

## Reduction in last quarter primarily driven by legacy items and ECN exchange

### NET TANGIBLE ASSETS PER SHARE (p) – MAR TO JUN




### NET TANGIBLE ASSETS PER SHARE (p) – DEC TO JUN



# FORWARD LOOKING STATEMENTS AND BASIS OF PRESENTATION

## FORWARD LOOKING STATEMENTS

This announcement contains forward looking statements with respect to the business, strategy and plans of the 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 the Group or the Group's management's beliefs and expectations, are forward looking statements. By their nature, forward looking statements involve risk and uncertainty because they relate to future events and circumstances that will or may occur. The Group's actual future business, strategy, plans and/or results may differ materially from those expressed or implied in these forward looking statements as a result of a variety of factors, including, but not limited to, UK domestic and global economic and business conditions; the ability to derive cost savings and other benefits, including as a result of the Group's Simplification programme; the ability to access sufficient funding to meet the Group's liquidity needs; changes to the Group's credit ratings; risks concerning borrower or counterparty credit quality; instability in the global financial markets, including Eurozone instability and the impact of any sovereign credit rating downgrade or other sovereign financial issues; market-related risks including changes in interest rates and exchange rates; changing demographic and market-related trends; changes in customer preferences; changes to laws, regulation, accounting standards or taxation, including as a possible result of the referendum on Scottish independence and also including changes to regulatory capital or liquidity requirements; the policies, decisions and actions of governmental or regulatory authorities in the UK and other jurisdictions in which the Group operates; the implementation of the Bank Recovery and Resolution Directive and Banking Reform Act; the ability to attract and retain senior management and other employees; requirements or limitations imposed on the Group as a result of HM Treasury's investment in the Group; the ability to satisfactorily dispose of certain assets or otherwise meet the Group's EC State aid obligations; the provision of a range of banking operations services to TSB; the extent of any future impairment charges or write-downs caused by depressed asset valuations, market disruptions and illiquid markets; the effects of competition and the actions of competitors, including non-bank financial services and lending companies; exposure to regulatory scrutiny, legal proceedings, regulatory and competition investigations or complaints, and other factors. 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. The forward looking statements contained in this announcement are made as at the date of this announcement, and the Group undertakes no obligation to update any of its forward looking statements.

## BASIS OF PRESENTATION

The results of the Group and its business are presented in this presentation on a underlying basis. Please refer to the Basis of Presentation in the 2014 Half-Year Results which sets out the principles adopted in the preparation of the underlying basis of reporting.