LLOYDS BANKING GROUP

2015 HALF-YEAR RESULTS

Presentation to Analysts and Investors

31 July 2015

AGENDA

Delivering for our key stakeholders	**António Horta-Osório** Group Chief Executive
Financial results	**George Culmer** Chief Financial Officer

HIGHLIGHTS FOR THE FIRST HALF OF 2015

Continued improvement in financial performance with strong start to next phase of strategic journey

- **Strong start to the next phase of our strategic journey**
- **Underlying performance improved; profit up 15% to £4.4bn with return on required equity of 16%**
- **Statutory profit before tax up 38% to £1.2bn, despite conduct charges primarily relating to PPI**
- **Strong balance sheet and liquidity position; good capital generation with CET1 ratio of 13.3% post-dividend**
- **Successful sale of TSB to Banco Sabadell at premium to market price**
- **UK government stake reduced to less than 15%**
- **Interim dividend of 0.75p per share with further guidance on capital and dividend policy**

FINANCIAL PERFORMANCE FOR THE FIRST HALF OF 2015

Profit and returns substantially improved and balance sheet further strengthened

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Income	**£9.0bn +2%** ↑
Underlying profit	**£4.4bn +15%** ↑
Underlying return on required equity	**16.2% +2.2pp** ↑
Statutory profit before tax	**£1.2bn +38%** ↑
CET1 ratio	**13.3% +0.5pp** ↑

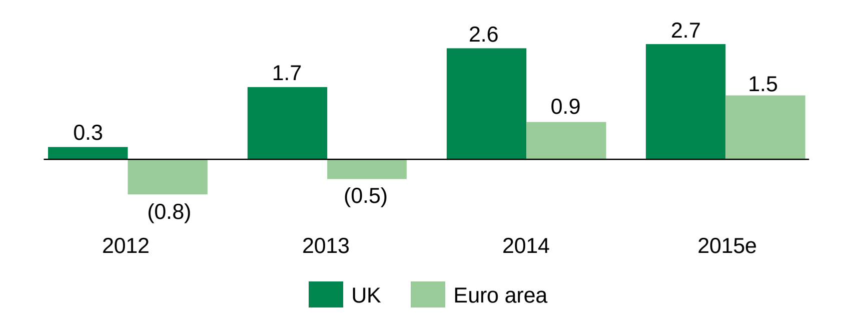
- **Underlying profit increased 15% to £4.4bn**
  - Income up 2% driven by 6% increase in net interest income
  - 75% reduction in impairment charge, AQR of 9bps
  - Cost:income ratio strengthened to 48.3%
- **Underlying return on required equity of 16.2% with improvement primarily driven by underlying profit**
- **Return on risk weighted assets improved to 3.78% including strong improvements in Retail and Commercial Banking**
- **Statutory profit before tax of £1.2bn, despite loss on sale of TSB and conduct charges including £1.4bn relating to PPI**
- **Statutory return on required equity of 3.7%, up from 3.1%**
- **CET1 ratio improved to 13.3% (post-dividend) from 12.8% at year end, driven by underlying profit and a reduction in RWAs**
- **Leverage ratio remains strong at 4.9%**

UK ECONOMIC PERFORMANCE

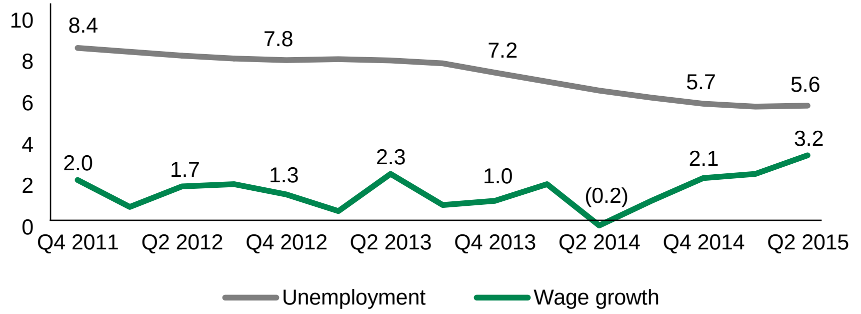
Supporting and benefiting from sustainable UK economic recovery

LLOYDS BANKING GROUP

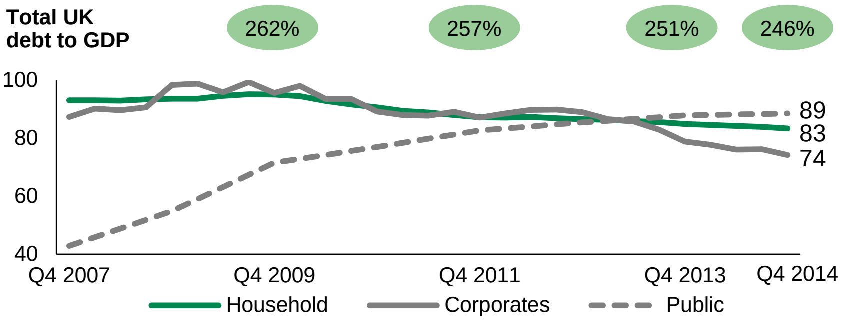
GDP growth[(1)] (%)



Unemployment and wage growth[(2)] (%)



UK debt/GDP (%)



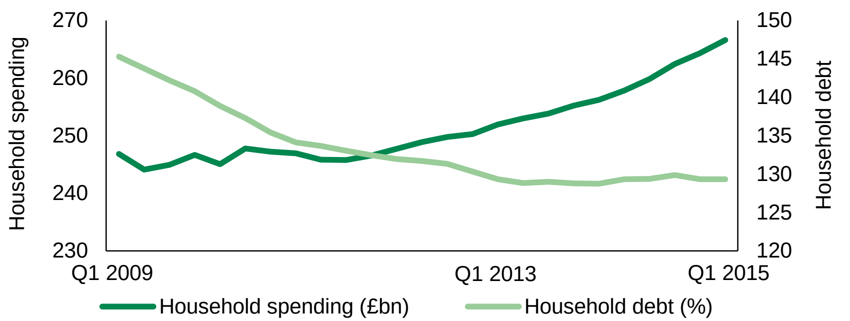
- **UK GDP has recovered strongly and is expected to continue to outperform the Euro area**
- **Unemployment has fallen significantly, down to 5.6% and wage growth is at its highest in over five years**
- **Business confidence has increased over last 3 years**
- **Bank base rate rises expected to be slow and gradual**
- **UK household and corporate debt as a percentage of GDP have fallen from their 2009 peak**

(1) GDP growth/forecast per IMF World Economic Outlook data series, as at April 2015. (2) Average weekly earnings (total pay) change on previous year, 3 month average – source ONS.

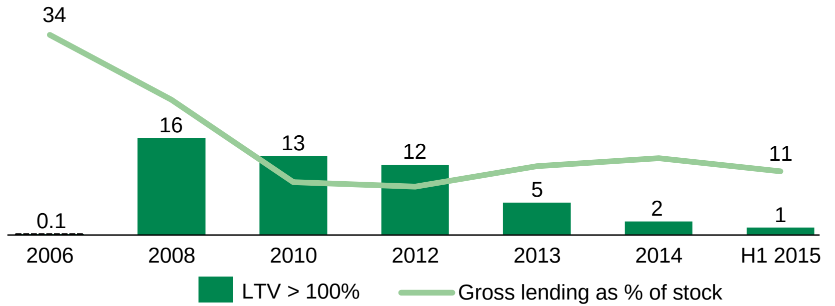
UK ECONOMIC PERFORMANCE

Supporting and benefiting from sustainable UK economic recovery

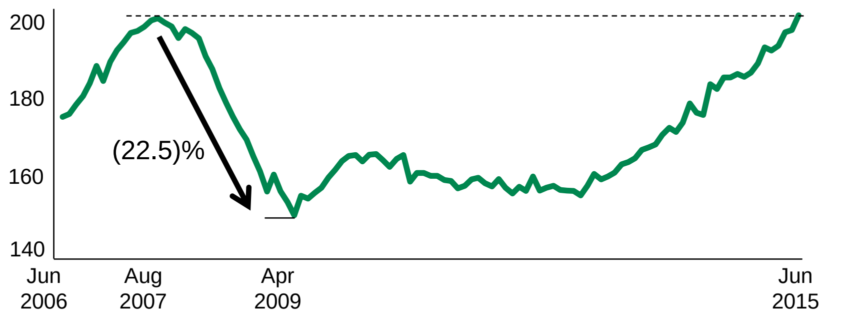
Household spending[1] (£bn) and debt[2] (%)



LBG mortgage portfolio trends[4] (%)



Average house price[3] (£000)



- **Sustainable and resilient recovery with consumers spending more but household indebtedness falling**
- **House prices have recovered to pre-crisis levels, resulting in reduced risk in the mortgage book, but remain lower in real terms**
- **Increased house prices and lower book turnover help improve portfolio quality. Average LTV reduced to 45.9% from 56.4% in December 2012**

[1] ONS Household Quarterly Household Consumption Expenditure – volume measure. [2] Household debt as a percentage of disposable income (including secured, unsecured and student loans), source ONS. [3] Halifax house price index (HPI). [4] H1 2015 gross lending as % of stock is annualised.

DELIVERING FOR OUR CUSTOMERS AND SHAREHOLDERS

Clear strategic focus and differentiated business model providing competitive advantage

Our business model

Simple, low risk, customer focused, UK retail and commercial bank

Our strategic priorities

Creating the best customer experience	Becoming simpler and more efficient	Delivering sustainable growth

- **Clear strategy: UK retail and commercial focus**
- **Multi brand, multi channel distribution**
- **Market leading cost position**
- **Low risk, leading to lower cost of funds and equity**
- **Strong balance sheet and funding position**
- **Well positioned to meet regulatory requirements**

DELIVERING FOR OUR CUSTOMERS AND SHAREHOLDERS

Creating the best customer experience whilst becoming simpler and more efficient

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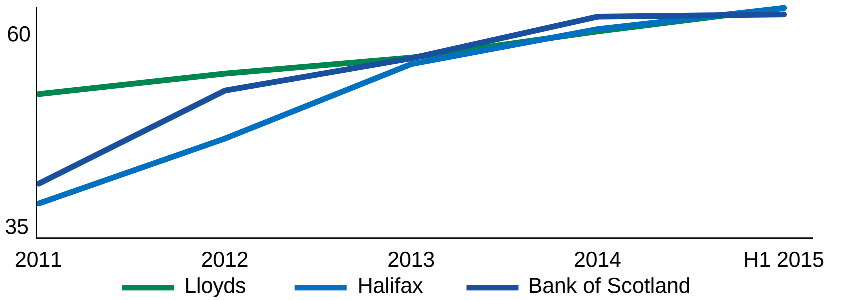
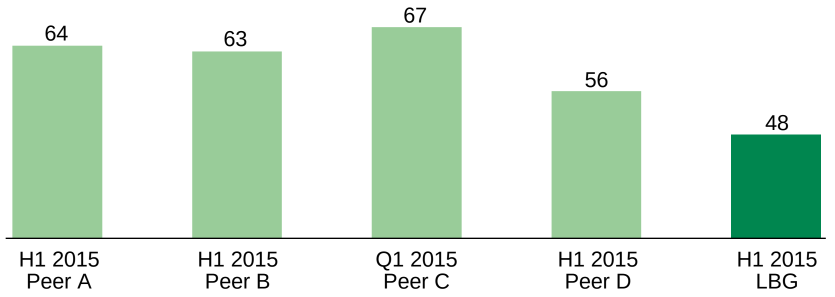
- **Creating the best customer experience**
  - New intermediary mortgage process has improved application to offer time from 25 to 14 days; further improvements targeted
  - Active online users increased to more than 11m
  - New digital propositions including Motor Finance offer
  - Improved customer satisfaction, with net promoter score up 3 points this year and by 60% since 2010

- **Becoming simpler and more efficient**
  - On track to deliver £1bn Simplification run-rate savings by end 2017, with £225m achieved to date
  - Further reduction in cost:income ratio to 48.3%; continues to be a source of competitive advantage
  - Targeting cost:income ratio of 45% exiting 2017, with reductions every year

Increasing net promoter score (NPS)



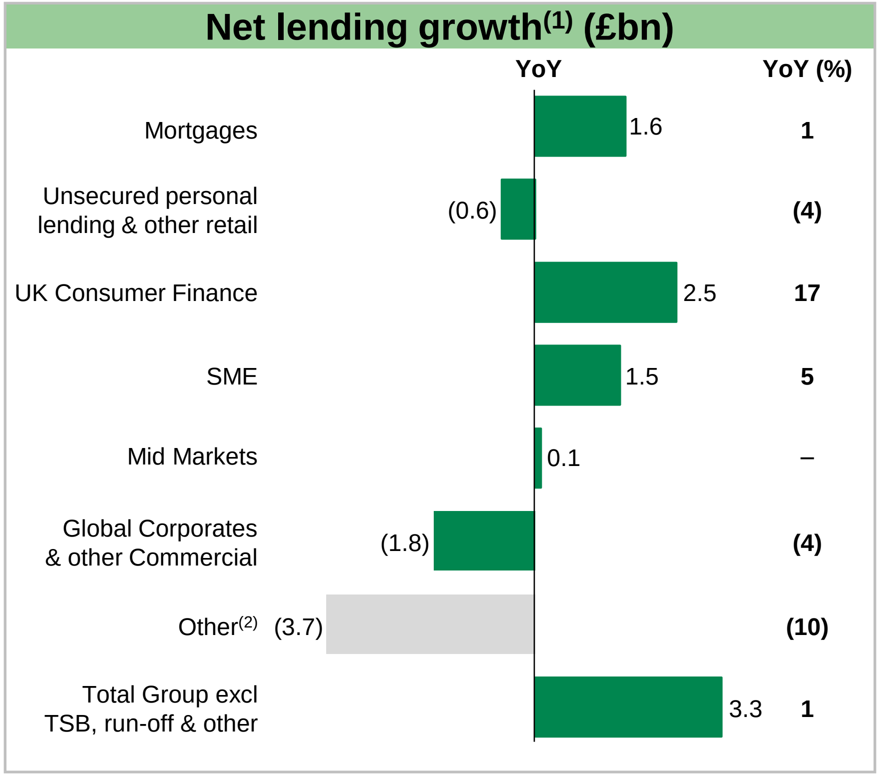
Market leading cost:income ratio (%)



DELIVERING FOR OUR CUSTOMERS AND SHAREHOLDERS

Delivering sustainable growth by supporting the UK economy through loan growth in key customer segments

- **SME lending up 5% and Mid Market lending maintained; continue to outperform the market**
  - Supported 1 in 5 business start-ups in 2015
- **UK Consumer Finance growth of 17%**
  - 34% increase in motor finance
  - 5% increase in credit card balances
- **Mortgage market growth lower than expected**
  - £16bn gross lending in first six months, slightly below revised market growth, reflecting focus on margin
  - Remain the largest lender to first-time buyers



(1) Excludes TSB and run-off. (2) Other includes, specialist mortgage book, Intelligent Finance and Dutch mortgages.

DELIVERING FOR OUR CUSTOMERS AND SHAREHOLDERS

Continued focus on supporting customers and the UK economy through the successful delivery of our strategy

- **Supporting the UK economy with growth in key customer segments**
- **Customer proposition strengthened with improvements in customer experience and efficiency**
- **Increase in profitability and returns with balance sheet further strengthened**
- **TSB sale completed at premium to market price**
- **UK government stake reduced to less than 15%**

Helping Britain Prosper

- **Supporting and benefiting from UK economic recovery**

Best bank for customers

- **Delivering the best customer experience**

Best bank for shareholders

- **Delivering strong and sustainable returns**
- **Interim dividend of 0.75p**

AGENDA

Delivering for our key stakeholders	**António Horta-Osório** Group Chief Executive
Financial results	**George Culmer** Chief Financial Officer

FINANCIAL PERFORMANCE

Strong improvement in underlying profit

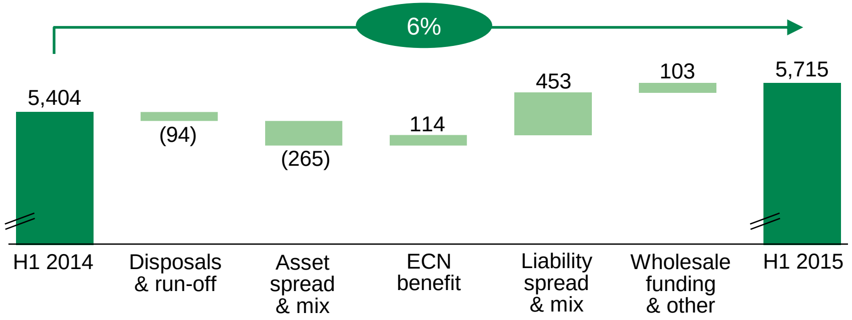
(£m)	H1 2015	H1 2014	Change
Net interest income	**5,715**	5,404	*6%*
Other income	**3,253**	3,376	*(4)%*
Income	**8,968**	8,780	*2%*
Operating costs	**(4,150)**	(4,134)	–
Operating lease depreciation	**(374)**	(346)	*(8)%*
Impairment	**(179)**	(707)	*75%*
Underlying profit (excl. TSB)	**4,265**	3,593	***19%***
TSB	**118**	226	
Underlying profit	**4,383**	3,819	***15%***

- **Income 2% higher at £9.0bn**
  - Strong net interest income performance, up 6%, largely driven by improvement in NIM
  - Other income lower, but 4% higher in Q2 than Q1
- **Costs remain tightly managed**
  - Operating costs flat with efficiency savings funding additional business investment
  - 1.5% positive jaws
  - Cost:income ratio improved to 48.3%
- **Impairment charge down 75%, AQR of 9bps**
- **Underlying profit up 15% to £4.4bn**

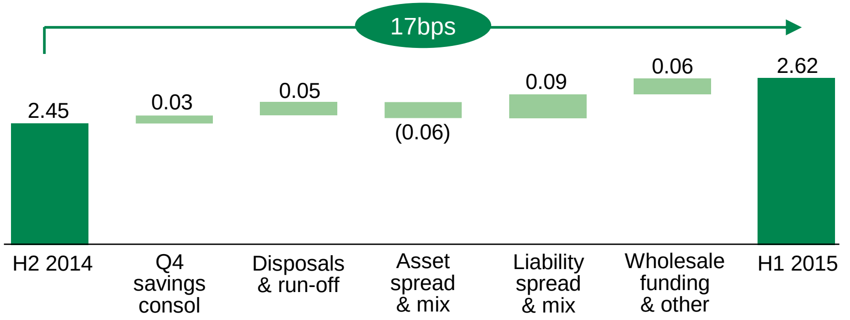
NET INTEREST INCOME

Strong net interest income performance largely driven by improved margin

Net interest income (£m)



Net interest margin – vs. H2 2014 (%)



Net interest income (£m)

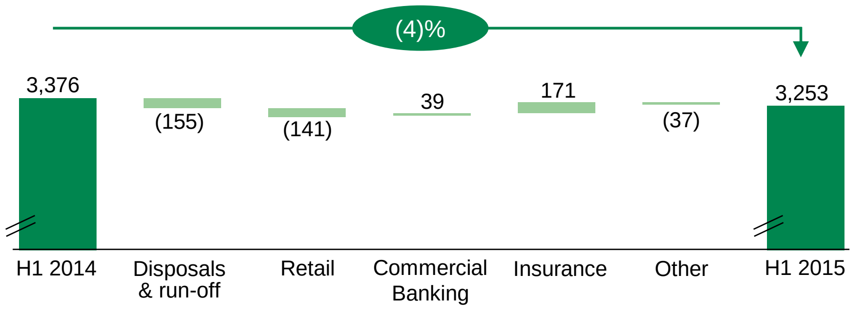
	H1 2015	H1 2014	Change
Retail	**3,743**	3,493	*7%*
Commercial Banking	**1,234**	1,234	–
Consumer Finance	**658**	645	*2%*
Insurance & other	**80**	32	–
Group	**5,715**	5,404	***6%***

- **Net interest income up 6% to £5.7bn largely driven by margin improvement in Retail**
- **NIM of 2.62% up 17bps vs. H2 2014, driven by**
  - improved deposit margin and lower funding costs
  - disposal of lower margin run-off assets
  - partly offset by continued pressure on asset pricing
- **2015 full year NIM guidance improved to c.2.60%**

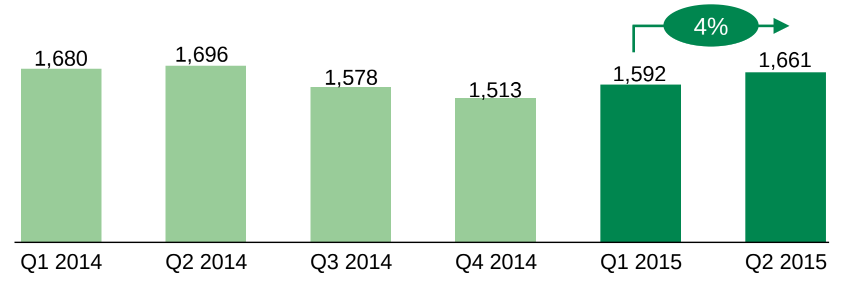
OTHER INCOME

Other income down 4%, largely due to disposals and run-off, but increased in second quarter. Other income expected to be broadly stable in 2015

Other income (£m)



Other income trend (£m)



Other income (£m)

	H1 2015	H1 2014	Change
Retail	**559**	700	*(20)%*
Commercial Banking	**1,023**	984	*4%*
Consumer Finance	**677**	675	–
Insurance	**1,025**	854	*20%*
Run-off and central items[1]	**(31)**	163	–
Group	**3,253**	3,376	***(4)%***

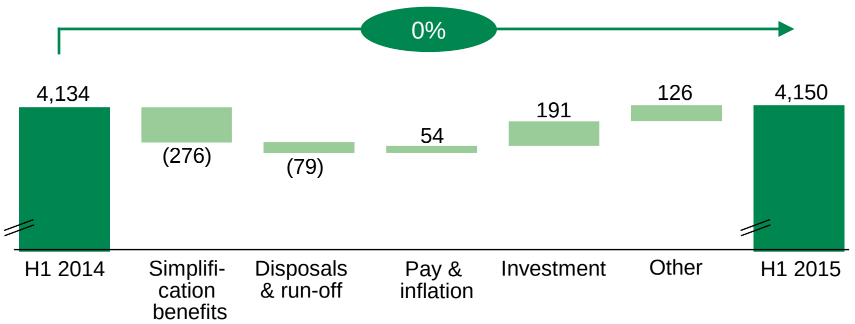
- **Other income up 4% in second quarter, primarily driven by Insurance and Commercial Banking**
- **Insurance improvement includes bulk annuity transaction and absence of prior year one-offs**
- **Commercial Banking benefiting from increased capital markets activity**
- **Retail reduction reflects impact of regulation and current environment**
- **Expect other income to be broadly stable in 2015**

[1] 2014 run-off includes SWIP income.

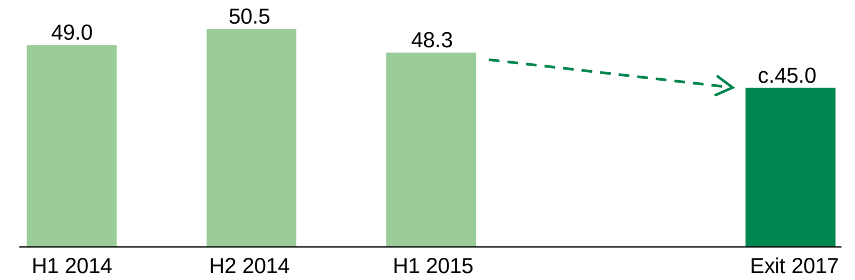
COSTS

Continued tight management of costs with an improved cost:income ratio

Operating costs (£m)



Market leading cost:income ratio (%)

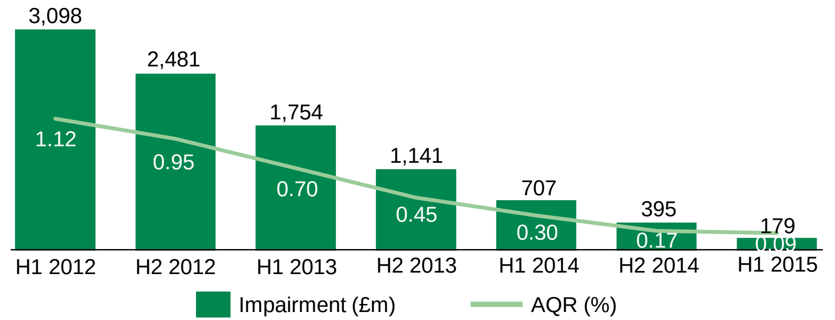


- **Operating costs flat on H1 2014 with efficiency savings funding increased business investment**
- **New Simplification programme has delivered run-rate savings of £225m to date. On track to deliver £1bn of savings by end of 2017**
- **Market leading cost:income ratio of 48.3%**
- **Continue to expect 2015 cost:income ratio to be lower than 2014 (49.8%)**
- **Targeting cost:income ratio of around 45% exiting 2017, with reductions in every year**

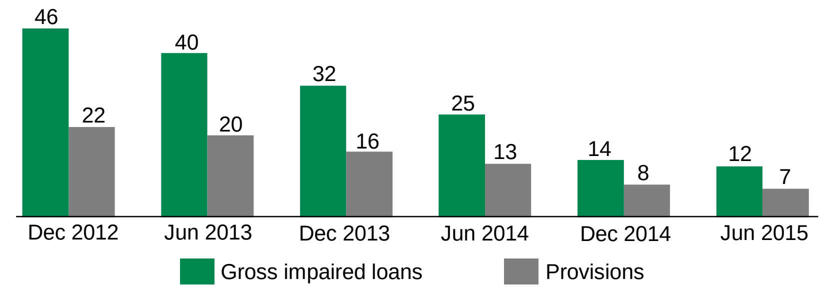
ASSET QUALITY

Further improvement reflecting a low risk business; AQR reduced to 9bps

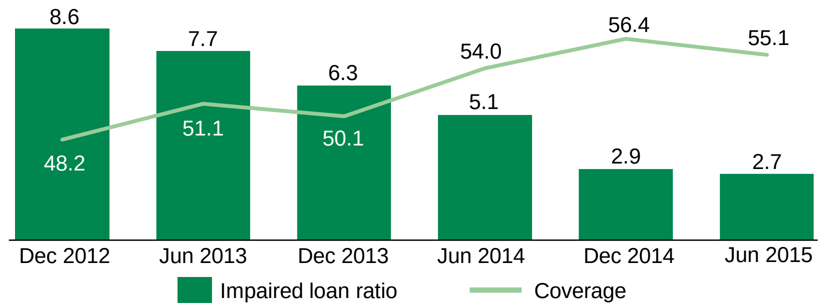
Impairment (£m) & AQR (%)



Gross impaired loans (£bn)



Impaired loan ratio & coverage (%)



- **Impairment charge down 75% in H1 2015, with reductions in all banking divisions**
- **AQR reduced to 9bps, reflecting improved economic environment and effective risk management**
- **Reduction in impaired loans from 2.9% to 2.7%**
- **Reduction in coverage from 56% to 55% reflects sale of highly impaired assets in run-off and Commercial**
- **2015 AQR guidance improved to around 15bps**

DIVISIONAL FINANCIAL PERFORMANCE

Significant improvement in profitability with increases in all divisions, driven by income growth and reduced impairments

	Underlying profit		
(£m)	**H1 2015**	**H1 2014**	**Change**
Retail	**1,839**	1,710	*8%*
Commercial Banking	**1,193**	1,156	*3%*
Consumer Finance	**539**	534	*1%*
Insurance	**584**	461	*27%*
Run-off and central items	**110**	(268)	
Group (excl. TSB)	**4,265**	3,593	***19%***
TSB	**118**	226	
Group	**4,383**	3,819	***15%***

- **Improvement in Retail primarily driven by improved net interest income, with NIM up 16bps to 2.44%**
- **Commercial Banking RoRWA up 33bps to 2.29%, on track to deliver targeted returns of >2.40% by the end of 2017**
- **Underlying profit increase in Consumer Finance while continuing to invest for growth**
- **Insurance improvement reflects bulk annuity transaction with SW with-profits fund and absence of prior year one-offs**
- **Improvement in run-off and central items reflects continued reduction and lower impairments in run-off**

STATUTORY PROFIT

Strong increase in statutory profit to £1.2bn despite conduct charges, primarily relating to PPI, and loss on sale of TSB

(£m)	H1 2015	H1 2014
Underlying profit	**4,383**	3,819
Asset sales & other items	**(578)**	(1,028)
Simplification	**(32)**	(519)
TSB costs	**(745)**	(309)
PPI	**(1,400)**	(600)
Other conduct	**(435)**	(500)
Statutory profit before tax	**1,193**	863
Tax	**(268)**	(164)
Statutory profit after tax	**925**	699

- **38% increase in statutory profit to £1.2bn**
- **Asset sales includes charge of £390m from revaluation of ECNs (H1 2014 includes £1.1bn loss on ECN exchange)**
- **TSB costs include dual running costs of £85m and a net charge of £660m relating to sale of TSB**
- **£1.4bn of PPI charges**
- **Other conduct includes FCA settlement relating to PPI complaint handling**
- **Effective tax rate of 22%. Following recent tax changes we now expect our medium term tax rate to be around 30%**

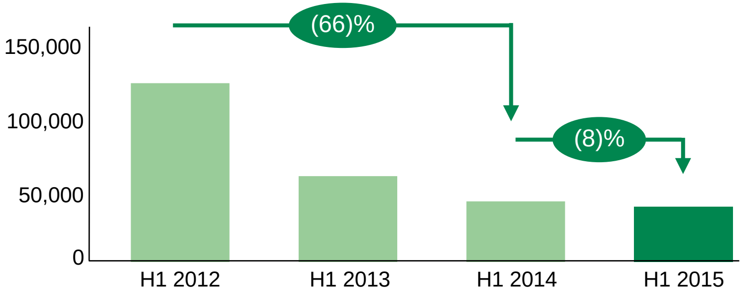
LEGACY ISSUES – PPI

Additional PPI provision of £1.4bn for H1 2015

PPI provision analysis(1) (bn)

	H1 charge	Cumulative provision	Unutilised June 2015
Past business review	–	1.7	0.2
Remediation	0.4	1.5	0.4
Reactive	1.0	10.2	1.6
Total	**1.4**	**13.4**	**2.2**

Average complaint volumes per month(2)



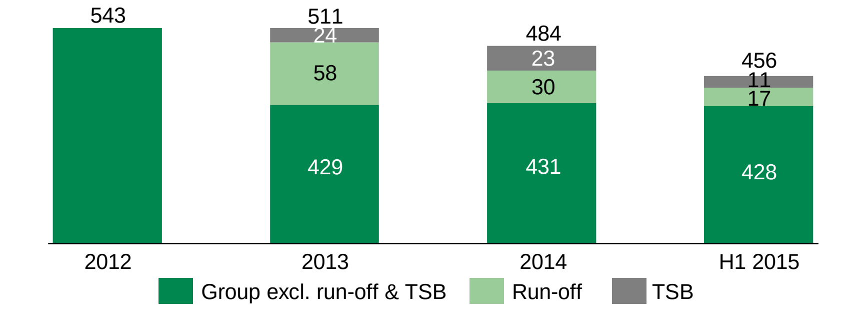
- **Past business review**
  - 98% of programme complete with final 2% to be completed in second half – no further provision
- **Remediation**
  - Provision reflects increased scope to 1.4m cases as well as higher overturn and redress rates
  - Review of all remediation cases now expected to be substantially completed by year end
- **Reactive**
  - Complaint volumes down year on year but above Q4 2014 levels
  - Average redress above expectations
  - Future complaint volumes largely driven by Claims Management Company (CMC) activity
- **Cash spend will fall with completion of PBR and remediation**
- **Risks and uncertainties remain**

(1) Costs include an apportionment of administration costs. (2) Excludes complaints where no PPI policy is held.

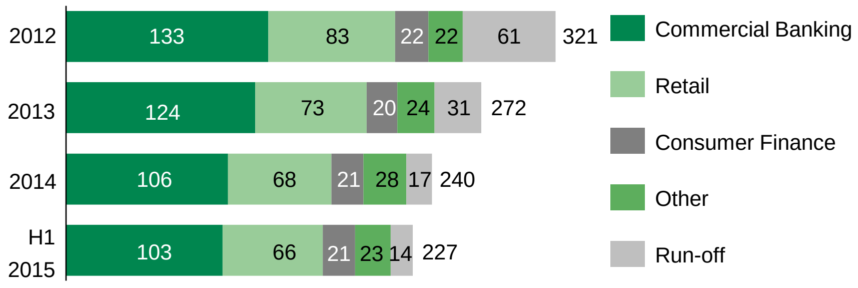
BALANCE SHEET

Balance sheet de-risked with average interest earning assets broadly flat, excluding run-off and TSB; further reductions in risk weighted assets

Average interest earning assets (£bn)



Risk weighted assets (£bn)

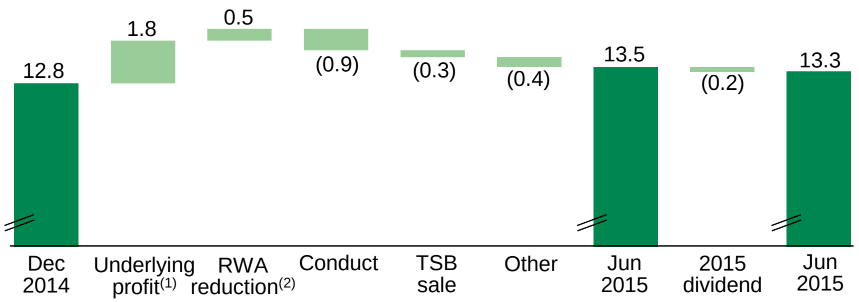


- **Average interest earning assets have been broadly flat, excluding run-off and TSB**
  - AIEAs of £456bn down 6% primarily due to a £13bn reduction in run-off and £12bn from the sale of TSB
  - Increase in Consumer Finance offset by Commercial Banking and Retail
- **Risk weighted assets reduced by £13bn reflecting**
  - General improvement in credit quality
  - Active portfolio management
  - Continued reduction in the run-off portfolio
  - Sale of TSB

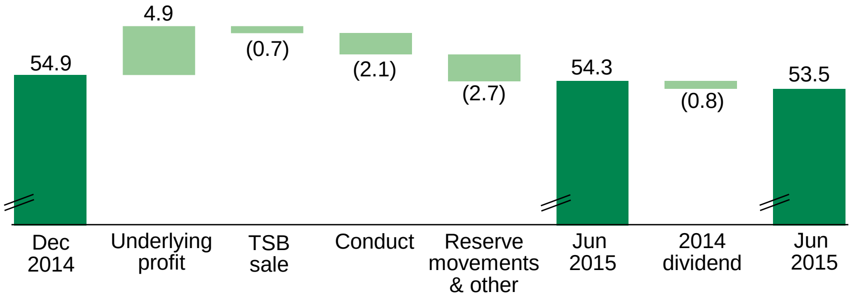
BALANCE SHEET

Dividend policy supported by strong balance sheet and capital generation

Common equity tier 1 ratio (%)



Tangible net assets per share (p)



- **Balance sheet**
  - CET1 ratio improved to 13.3% primarily driven by underlying profit
  - Leverage ratio remains strong at 4.9%, total capital ratio of 21.7%
  - TNAV per share of 53.5p; underlying profit largely offset by reserve movements and conduct
  - Underlying return on required equity improved by 2.2pp to 16.2%
- **Dividend**
  - Interim dividend of 0.75p per share
  - Progressive and sustainable dividend policy
  - Consideration of distribution of surplus capital through special dividends or share buy-backs
  - Surplus capital represents amounts in excess of c.12% CET1 plus a further year's ordinary dividend

(1) Excluding profit in the Insurance business. (2) Excludes reduction in RWAs resulting from the sale of TSB.

SUMMARY

Strong financial performance, with improved guidance reflecting confidence in the Group's future prospects

LLOYDS BANKING GROUP

- **Clear strategic focus and a differentiated business model**
- **Increase in profitability and returns with balance sheet further strengthened**
- **Well positioned for further progress in 2015 and beyond**

2015 guidance enhanced or reconfirmed

- **Full year NIM improved to around 2.60%**
- **Other income to be broadly stable**
- **Full year AQR improved to around 15bps**
- **Full year cost:income ratio to be lower than 2014 ratio**

APPENDIX

MORTGAGE PORTFOLIO LTVS

Further improvement in portfolio quality with average LTV below 46% and only 1% of the portfolio with an LTV greater than 100%

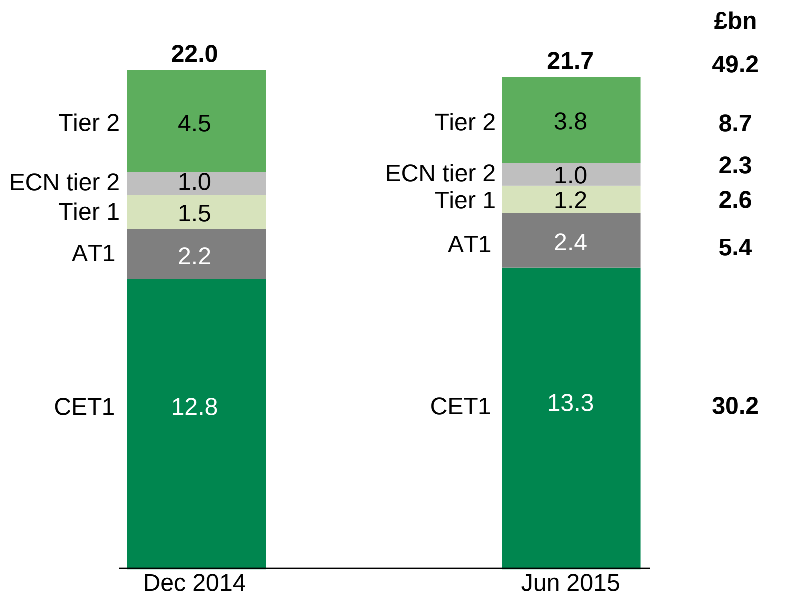
	Jun 2015				Dec 2014	Dec 2013	Dec 2012
	Mainstream	Buy to let	Specialist	Total	Total	Total	Total[1]
Average LTVs	43.3%	56.7%	54.4%	**45.9%**	49.2%	53.3%	56.4%
New business LTVs	65.0%	62.7%	N/A	**64.6%**	64.8%	64.0%	62.6%
≤80% LTV	89.4%	87.9%	79.7%	**88.4%**	81.9%	70.4%	59.6%
>80–90% LTV	7.6%	8.9%	12.3%	**8.2%**	10.7%	15.6%	16.8%
>90–100% LTV	2.1%	2.1%	4.2%	**2.2%**	5.2%	8.6%	11.9%
>100% LTV	0.9%	1.1%	3.8%	**1.2%**	2.2%	5.4%	11.7%
Value >100% LTV	£2.1bn	£0.6bn	£0.8bn	**£3.5bn**	£6.7bn	£16.2bn	£37.8bn

Indexed by value at 30 June 2015. Specialist lending is closed to new business. [1] Includes TSB.

FURTHER STRENGTHENING THE BALANCE SHEET

Strong capital position with medium term AT1 requirement already met

Capital composition[1] (%)



- **Strong total capital ratio of 21.7%**
- **Tier 2 reduction largely reflects calls and a change in the regulatory value of eligible securities**
- **Sustained leverage and improved rating agency core capital measures**
- **Continue to review capital base in light of regulatory requirements and to optimise costs**
- **Well positioned for regulatory requirements for loss absorbing capacity (MREL – minimum requirement for own funds and eligible liabilities)**

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

FORWARD LOOKING STATEMENT AND BASIS OF PRESENTATION

FORWARD LOOKING STATEMENTS

This document contains certain forward looking statements with respect to the business, strategy and plans of 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 Lloyds Banking 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 to differ materially from the plans, objectives, expectations, estimates and intentions expressed in such 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 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; 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, the potential for one or more countries to exit the Eurozone or European Union (EU) (including the UK as a result of a referendum on its EU membership) and the impact of any sovereign credit rating downgrade or other sovereign financial issues; technological changes and risks to cyber security; pandemic, natural 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, accounting standards or taxation, including as a result of further Scottish devolution; 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 in the UK, the EU, the US or elsewhere including the implementation of key legislation and regulation; 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; 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 provision of banking operations services to TSB Banking Group plc; 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 and lending companies; 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 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 Lloyds Banking Group expressly disclaims any obligation or undertaking to release publicly any updates or revisions to any forward looking statements.

BASIS OF PRESENTATION

The results of the Group and its business are presented in this presentation on a underlying basis. The principles adopted in the preparation of the underlying basis of reporting are set out on the inside front cover of the 2015 Half-Year Results News Release.