



Q3 INTERIM MANAGEMENT STATEMENT

Presentation to Analysts and Investors

28 October 2015

HIGHLIGHTS FOR THE FIRST NINE MONTHS OF 2015

Resilient financial performance, with improved profitability and strengthened capital position demonstrating strength of business model

LLOYDS
BANKING
GROUP



- **Robust UK economy; low unemployment, increased house prices, increased consumer spending and lower household debt**
- **Our differentiated UK focused business model continues to deliver**
 - Growth in targeted areas including SME and Consumer Finance whilst maintaining support to first-time buyers
 - Cost discipline and low risk business model providing competitive advantage
- **Resilient financial performance with improved profitability and returns**
 - Underlying profit up 6% and return on required equity of 15.7%
 - Other income weaker in the third quarter partly offset by lower costs and impairments
 - Increased year to date statutory profit, despite additional conduct charges in third quarter
- **Strengthened capital position with improvement in CET1 ratio and leverage ratio**
- **Guidance for 2015 updated for net interest margin, AQR and other income**
- **UK government stake reduced to less than 11%**

FINANCIAL PERFORMANCE – FIRST NINE MONTHS OF 2015

6% increase in underlying profit, with significant improvement in statutory profit.

Strong balance sheet maintained

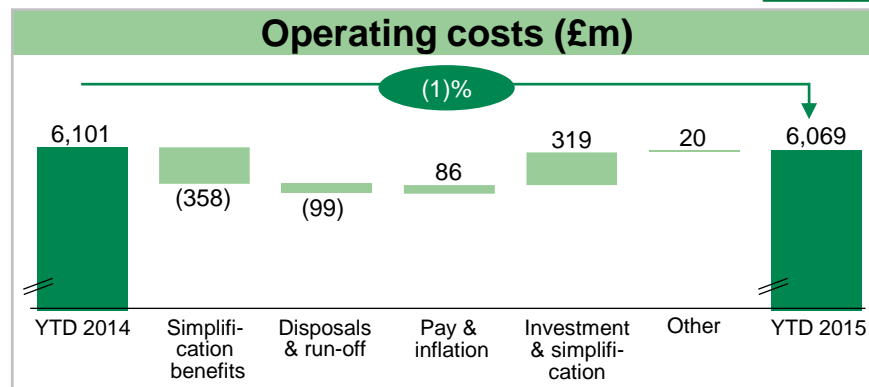
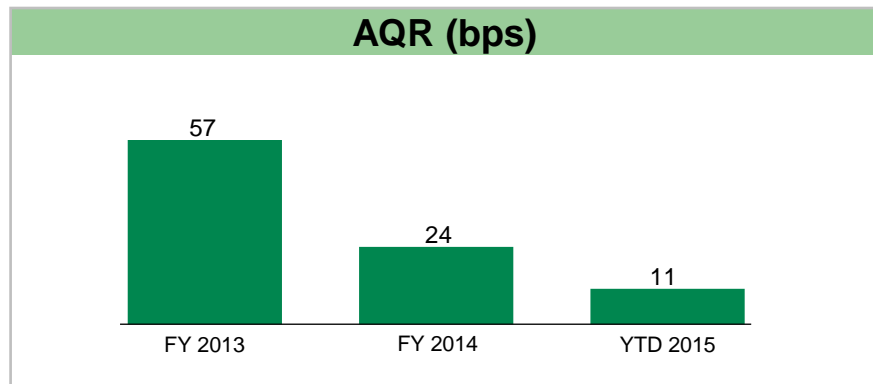
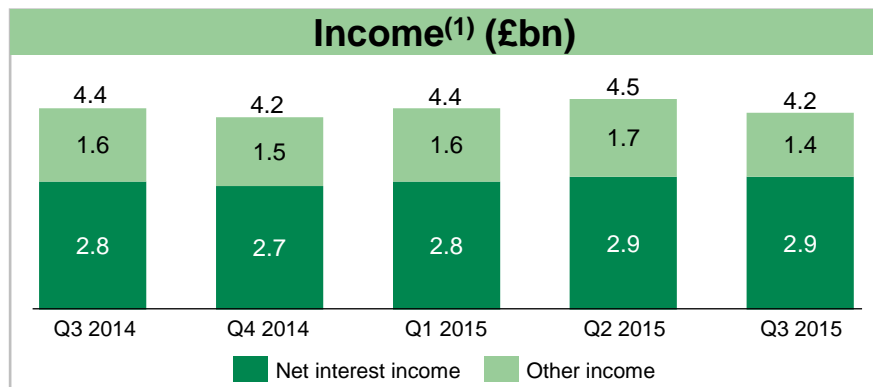


Income	£13.2bn 0% —
Underlying profit	£6.4bn +6% ↑
Underlying return on required equity	15.7% +1.7pp ↑
Statutory profit before tax	£2.2bn +33% ↑
CET1 ratio	13.7% +0.9pp ↑

- Underlying profit increased 6% to £6.4bn with return on required equity of 15.7%
 - Income flat: 4% improvement in NII offset by lower other income
 - 64% reduction in impairment charge, AQR of 11bps
 - Operating costs down 1% with cost:income ratio improved to 48.0%
- Statutory profit before tax of £2.2bn – includes additional £500m PPI provision in third quarter
- Statutory return on required equity of 4.4%, up from 3.9%
- CET1 ratio improved to 13.7% from 12.8% at year end, primarily driven by underlying profit and RWA reduction
- Leverage ratio strengthened to 5.0%

FINANCIAL PERFORMANCE

Resilient performance in the first nine months with income flat, lower costs and a significant reduction in impairments



- **Net interest margin increased to 2.63%, 24bps higher than the first nine months of 2014**
- **Other income in the third quarter weaker at £1.4bn, expected to recover in the fourth quarter**
- **Operating costs down 1% despite additional investment and simplification costs**
- **Impairment down 64% with an AQR of 11bps**
- **Further reduction in impaired loan ratio to 2.1%**

⁽¹⁾ Excludes TSB.

FINANCIAL PERFORMANCE

Significant increase in statutory profit to £2.2bn despite loss on sale of TSB and conduct charges



(£m)	YTD 2015	YTD 2014
Underlying profit	6,355	5,974
Asset sales & other items	(955)	(1,296)
Simplification	(69)	(650)
TSB costs	(745)	(414)
PPI and other conduct	(2,435)	(2,000)
Statutory profit before tax	2,151	1,614
Tax	(536)	(222)
Statutory profit after tax	1,615	1,392

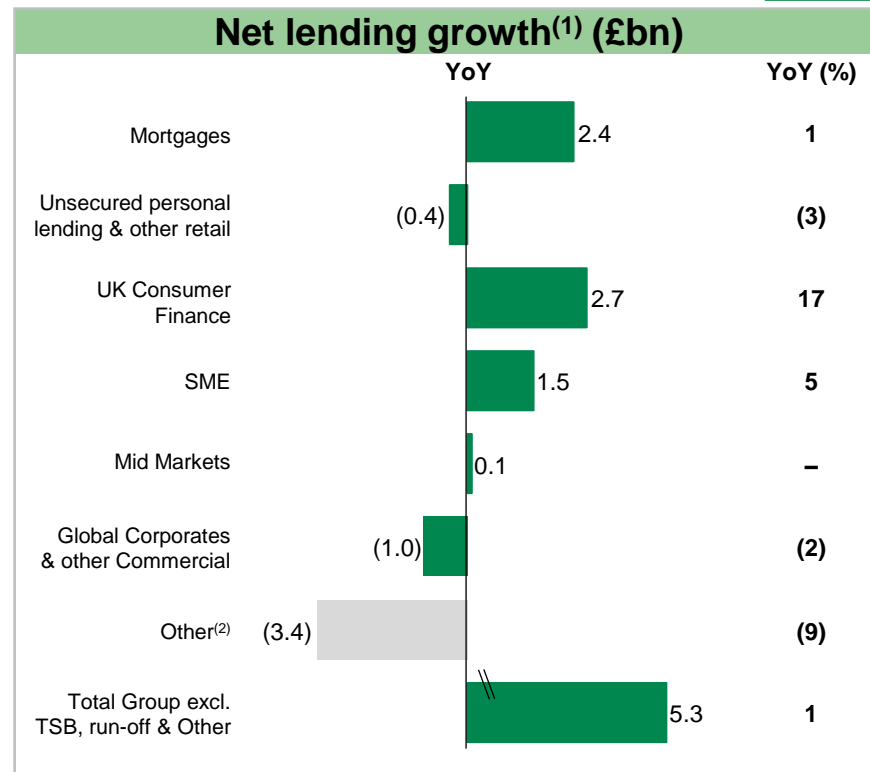
- 33% increase in statutory profit to £2.2bn
- Asset sales includes £369m charge for change in value of ECNs and negative insurance volatility of £316m (2014 includes £1.1bn loss on ECN exchange)
- Simplification reflects redundancy costs of £69m
- TSB costs include dual running costs of £85m and a net charge of £660m relating to sale of TSB – all taken in Q1
- Conduct charges include an additional £500m PPI provision taken in Q3 primarily reflecting half year sensitivity run-rate
- Effective tax rate of 25%

DELIVERING FOR OUR CUSTOMERS AND SHAREHOLDERS

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



- **Lending growth of 1%, YTD annualised growth of 2%**
- **Mortgage growth remains below market**
 - £27bn gross lending in first nine months, balance growth slightly below market reflecting focus on margin
 - Remain the largest lender to first-time buyers
- **SME lending up 5% and Mid Market lending flat; both continuing 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



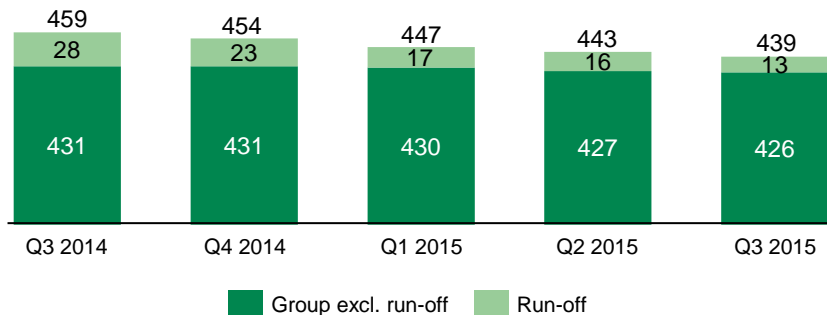
⁽¹⁾ Excludes TSB and run-off. Represents net lending in the 12 months to 30 September 2015 ⁽²⁾ Other includes, specialist mortgage book, Intelligent Finance and Asset Finance Europe.

BALANCE SHEET

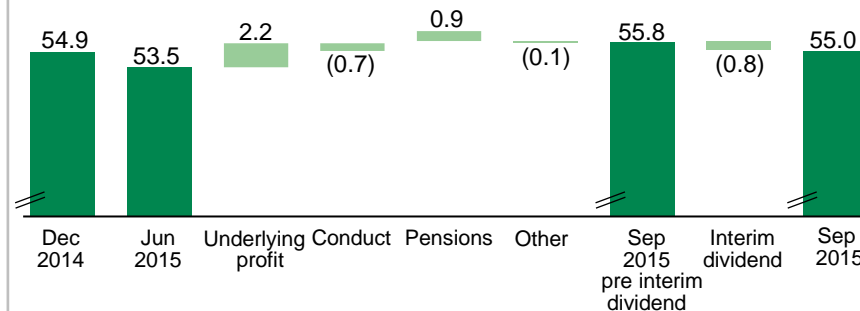
Strong balance sheet maintained with continued capital generation and TNAV progression in the third quarter



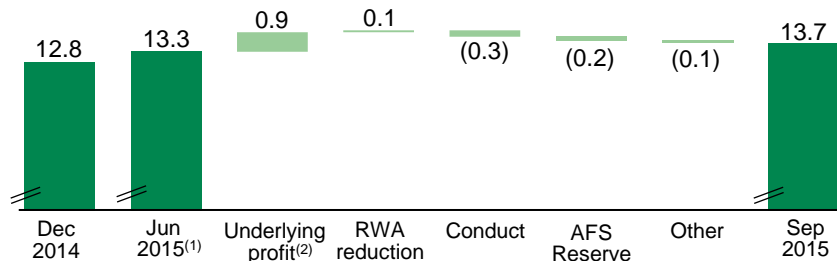
Average interest earning assets (£bn)



Tangible net assets per share (p)



Common equity tier 1 ratio (%)



- RWAs reduced to £225bn reflecting improved credit quality, run-off and the sale of TSB
- AIEAs lower, primarily due to run-off assets
- CET1 up 0.9pp YTD to 13.7% (1.1pp pre-dividend)
- CET1 ratio increase in Q3 reflects underlying profit, partly offset by conduct and market movements
- TNAV per share up to 55.0p (53.5p June 2015)

⁽¹⁾ Jun 2015 CET1 ratio post 0.75p interim dividend. ⁽²⁾ Excluding profit in the Insurance business.

SUMMARY

The Group's differentiated business model continues to deliver



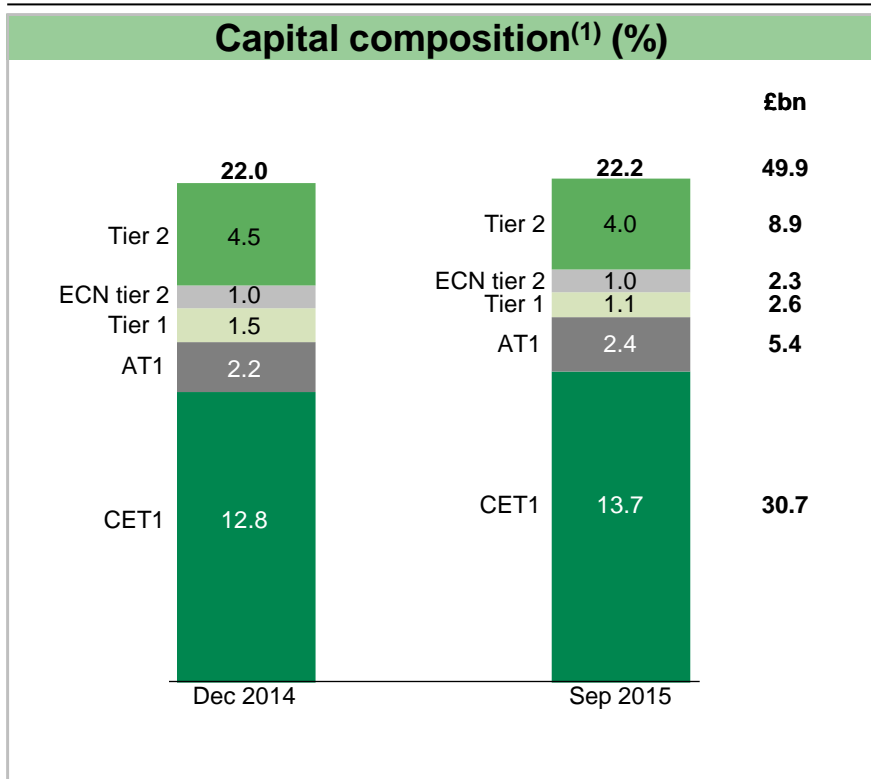
- **Robust UK economic outlook positions us well for the future**
- **Resilient underlying profit and returns with significant improvement in statutory profit**
- **Strong balance sheet maintained with improvements in CET1 ratio and leverage ratio**
- **Delivering sustainable growth in targeted areas**
- **Guidance for 2015 updated**
 - Net interest margin for the full year now expected to be in line with year to date performance (2.63%)
 - Asset quality ratio now expected to be lower than 15bps for the full year
 - Other income expected to recover in the fourth quarter but full year now expected to be slightly below 2014
- **Confident in generating strong and sustainable returns**



APPENDIX

FURTHER STRENGTHENING THE BALANCE SHEET

Strong capital base positions us well in evolving regulatory environment



- **Strong total capital ratio of 22.2%**
- **Credit ratings affirmed or upgraded by S&P, Moody's and Fitch**
- **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)**

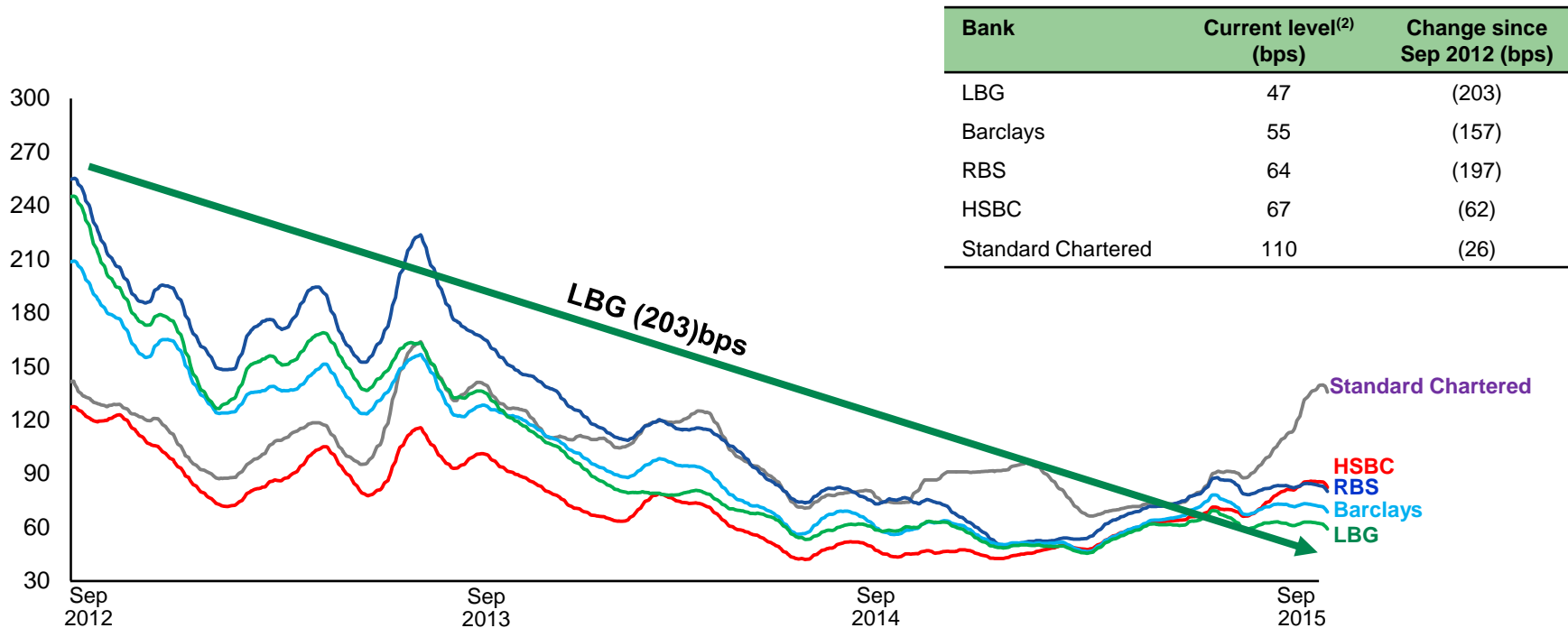
⁽¹⁾ As a percentage of risk-weighted assets; includes grandfathered capital securities.

LOW RISK BUSINESS MODEL

Significant progress in strengthening and de-risking the balance sheet resulting in one of the lowest CDS spreads in the banking industry



UK bank CDS⁽¹⁾



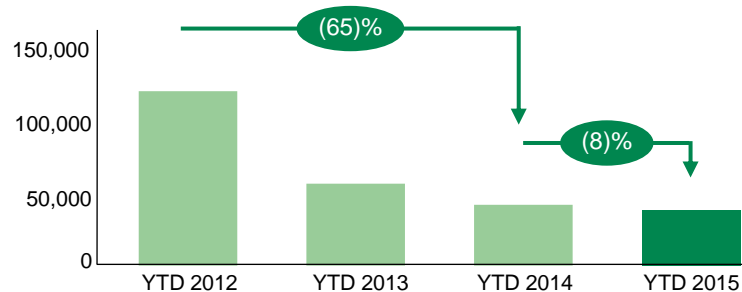
⁽¹⁾ Source: Bloomberg 5-year senior mid (4 week rolling average). ⁽²⁾ As at 23 October 2015.

LEGACY ISSUES – PPI

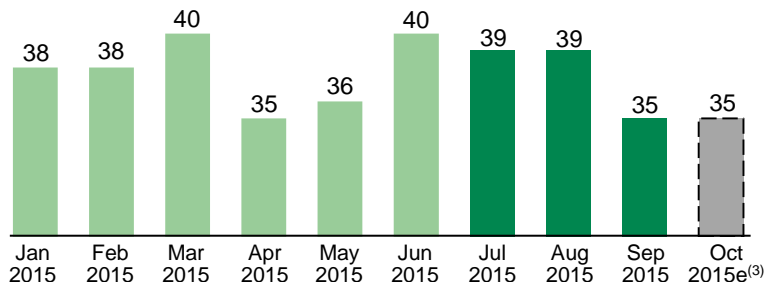
Additional PPI provision of £0.5bn in the third quarter



Average complaint volumes per month⁽¹⁾



Average complaint volumes per month⁽¹⁾ ('000)



PPI provision analysis⁽²⁾ (bn)

	Q3 charge	Cumulative provision	Unutilised Sep 2015
Past business review	–	1.7	0.1
Remediation	0.1	1.6	0.4
Reactive	0.4	10.6	1.6
Total	0.5	13.9	2.1

- Reactive provision of £375m lower than sensitivity run-rate given at H1 due to lower redress rates
- Remediation provision of £125m, driven by higher overturn and redress rates
- Cash spend of £0.6bn in the third quarter
- Awaiting further clarity on FCA proposal for time-barring and treatment of commissions
- Risks and uncertainties remain

⁽¹⁾ Excludes complaints where no PPI policy is held. ⁽²⁾ Costs include an apportionment of administration costs. ⁽³⁾ Estimate based on actuals to 26 October 2015.



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 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 Q3 2015 Interim Management Statement.