

LLOYDS
BANKING
GROUP



2016 RESULTS

Presentation to Analysts and Investors

22 February 2017



Highlights

António Horta-Osório
Group Chief Executive

Financial Results

George Culmer
Chief Financial Officer

HIGHLIGHTS

Strong financial performance demonstrating the strength of the business model



- **Good underlying performance with strong improvement in statutory profit**
 - Underlying profit of £7.9bn; statutory profit before tax more than doubled to £4.2bn
- **Strong capital generation of c.190bps in 2016 with balance sheet strength maintained**
 - CET1 ratio of 13.8%⁽¹⁾ post dividends with c.80bps retained for MBNA (14.9%⁽¹⁾ pre dividends); total capital ratio of 21.4%
- **Our differentiated UK focused business model continues to deliver for customers and shareholders**
 - Helping Britain prosper through continued support to SMEs and first-time buyers
 - Announced acquisition of MBNA's prime UK credit card business, in line with our strategy to grow in consumer finance
- **UKFI holding now below 5%; no longer the Group's largest shareholder**
- **Confidence in the Group's future prospects**
 - Total ordinary dividend of 2.55p per share, an increase of 13%, with a special dividend of 0.5p per share
 - Strong financial targets reflecting strength of business model

⁽¹⁾ Pro forma, including Insurance dividend relating to 2016, paid in 2017.

FINANCIAL PERFORMANCE

Statutory profit more than doubled with strong balance sheet maintained and increased dividends



Income	£17.5bn (1)%
Cost:income ratio	48.7% (0.6)pp
Underlying profit	£7.9bn (3)%
Statutory profit before tax	£4.2bn 158%
Capital generation (pre dividends)	c.190bps
Ordinary dividend	2.55p +13%
Special dividend	0.5p

- **Good underlying profit of £7.9bn**
 - Income down 1% with stable NII and slightly lower other income
 - Positive operating jaws of 1%, with market leading cost:income ratio
 - Credit quality remains strong with an AQR of 15bps
- **Statutory profit before tax more than doubled to £4.2bn reflecting good underlying profit and lower PPI**
- **Strong capital generation has enabled the Group to**
 - Fund the MBNA acquisition (c.80bps of capital)
 - Increase the total ordinary dividend by 13% to 2.55p per share
 - Pay a special dividend of 0.5p per share
- **CET1 ratio of 13.8%⁽¹⁾ and improved leverage ratio of 5.0%⁽¹⁾**

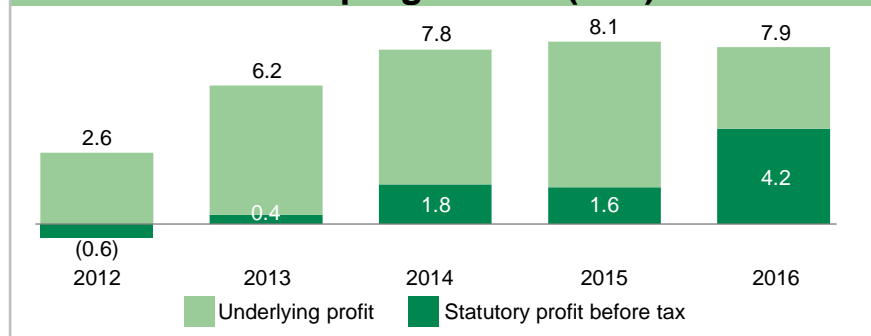
⁽¹⁾ Pro forma, including Insurance dividend relating to 2016, paid in 2017.

DIFFERENTIATED BUSINESS MODEL

Our simple, low risk, UK focused business model is now delivering increased statutory profit as well as strong capital generation

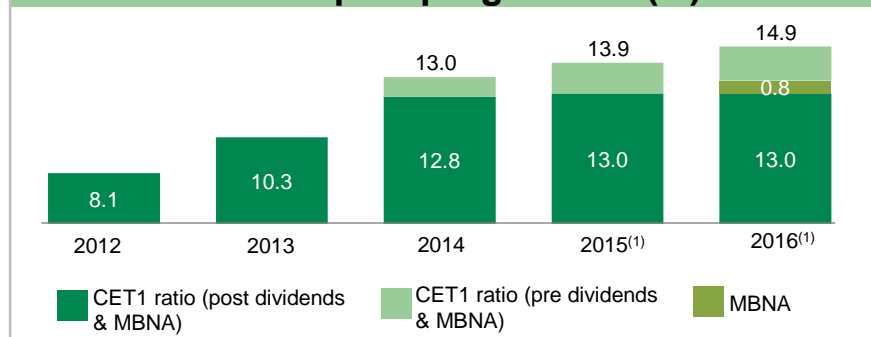


Profit progression (£bn)



- Low risk and low cost business model provides competitive advantage
- Business delivering consistently good underlying profit
- Strong statutory profit and capital generation is now being delivered as the gap to underlying profit narrows
- Strong underlying RoRE of 13.2% and RoTE of 14.1%, with a statutory RoRE of 5.3% and RoTE of 6.6%
- PRA Buffer reduced reflecting de-risking of the Group; target CET1 ratio maintained at c.13%
- Expect ongoing CET1 capital generation of between 170 and 200bps per annum, pre dividend

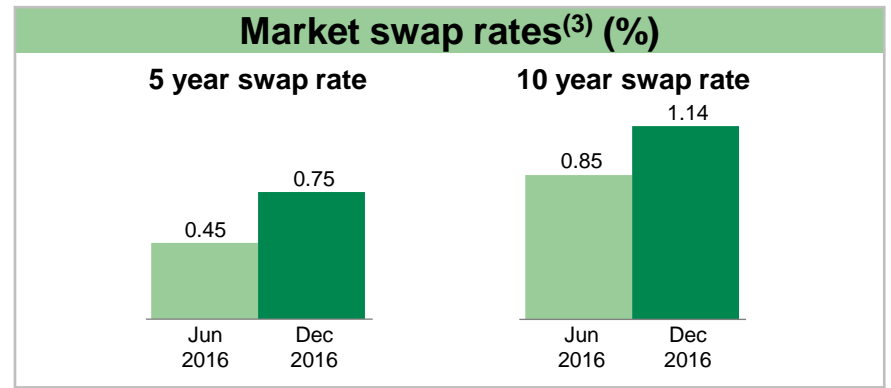
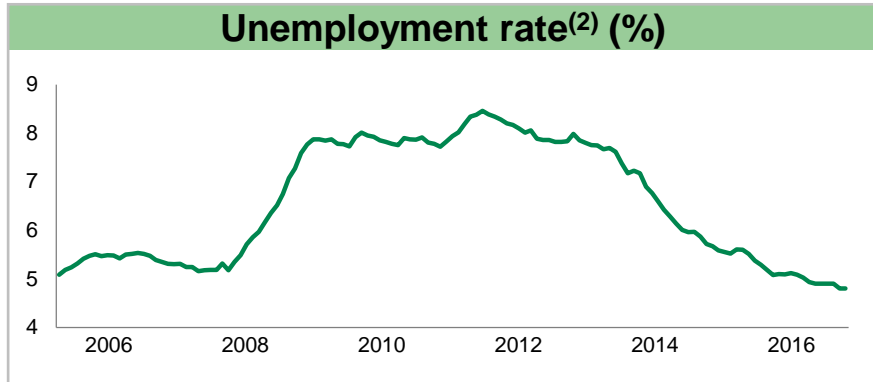
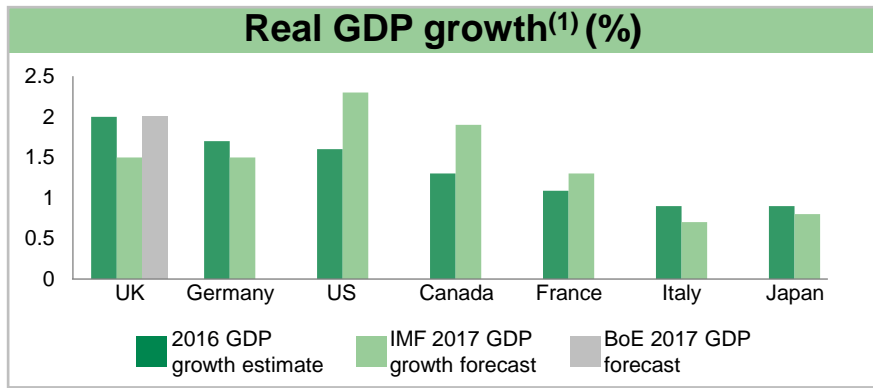
CET1 capital progression (%)



⁽¹⁾ Pro forma, including Insurance dividend.

UK ECONOMY

Resilient UK economic performance; UK economy enters 2017 from a position of strength



- **2016 UK GDP growth has outperformed other major developed economies**
- **GDP forecast to continue its strong growth in 2017**
- **Unemployment of 4.8% at its lowest for over 10 years**
- **Inflation has been low, but is expected to rise in 2017**
- **Market swap rates have improved in H2**

⁽¹⁾ Source: 2016 growth estimates from national statistical offices and IMF January World Economic Outlook update. 2017 growth forecasts from the MPC's February Inflation Report and IMF January World Economic Outlook. ⁽²⁾ Source: ONS. ⁽³⁾ Swap rates (vs 3 month £ LIBOR) as per Bloomberg on 30 June 2016 and 30 December 2016.

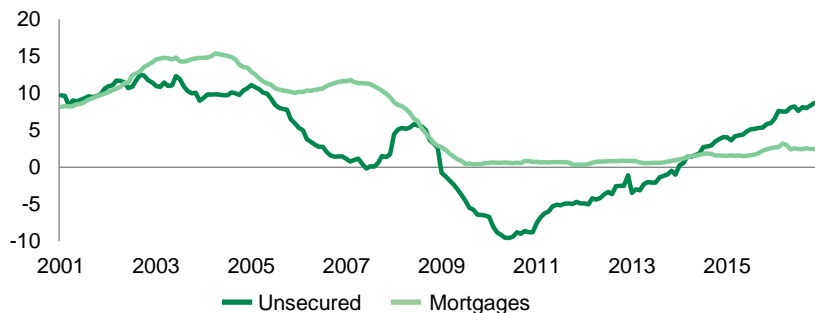
UK ECONOMY

UK unsecured lending has grown but affordability remains good and debt-to-GDP has been reducing

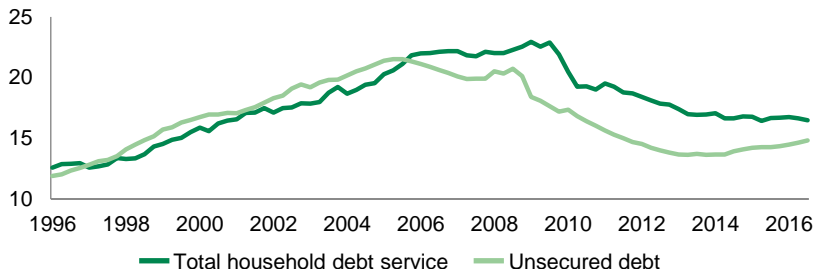


Unsecured lending (%)

Annual growth in UK lending balances⁽¹⁾

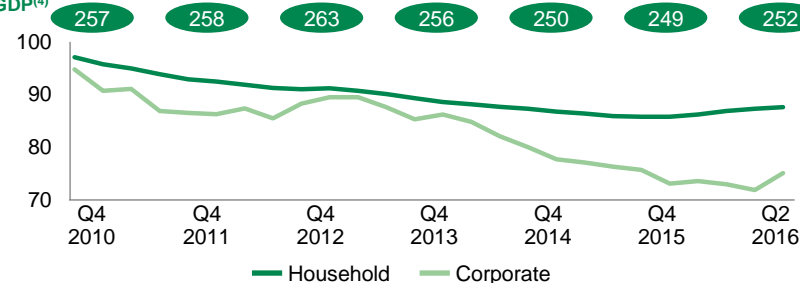


UK unsecured debt⁽²⁾ and households' total debt service⁽³⁾ as proportion of household disposable income



Debt to GDP (%)

Total UK debt to GDP⁽⁴⁾



- Unsecured lending has grown in recent years following a period of contraction post crisis
- Mortgage market balance growth remains low at c.2.5%
- Total household debt service to disposable income has fallen, while low interest rates leave debt service levels at its lowest in 15 years

⁽¹⁾ Source: Debt data from Bank of England and adjusted for reclassifications. ⁽²⁾ Source: Debt data from Bank of England and adjusted for reclassifications; income data from ONS.

⁽³⁾ Source: Debt service data calculated from Bank of England data; income data from ONS. ⁽⁴⁾ Total debt consists of government, household and non-financial corporate debt. Source: BIS.

CREATING THE BEST CUSTOMER EXPERIENCE

Leading multi-brand, multi-channel proposition including UK's largest digital bank



Integrated multi-channel approach

Branches

- UK's largest branch network with c.2,000 branches
- Commercial Banking client relationship model supported by >3,300 client-facing colleagues

Intermediaries

- Trusted partner of intermediary distributors
 - Largest mortgage introducer; rated #1 for NPS
 - '5 star' Service Awards in Insurance⁽¹⁾

Phone

- Telephone banking receives c.100m calls per year
- Enhanced proposition with video calls and web chats

Digital

- UK's largest digital bank
 - 12.5m active online customers; >2bn logons in 2016
 - Rated #1 UK banking app for functionality⁽²⁾

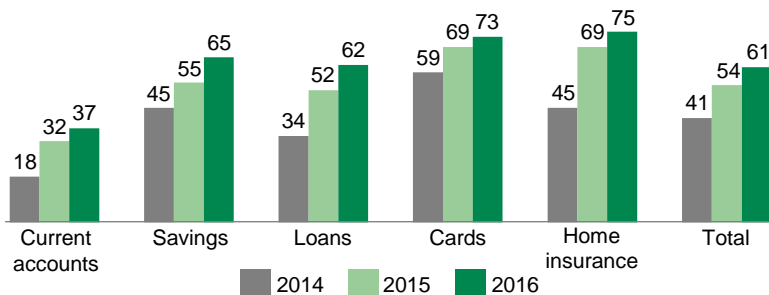
- UK's largest retail and commercial bank with a leading Insurance proposition through Scottish Widows
- Multi-brand approach enables us to address the needs of different customer segments
- Customer experience improved through enhanced multi-channel access
- Net Promoter Score continues to improve, up nearly 50% since the end of 2011

CREATING THE BEST CUSTOMER EXPERIENCE

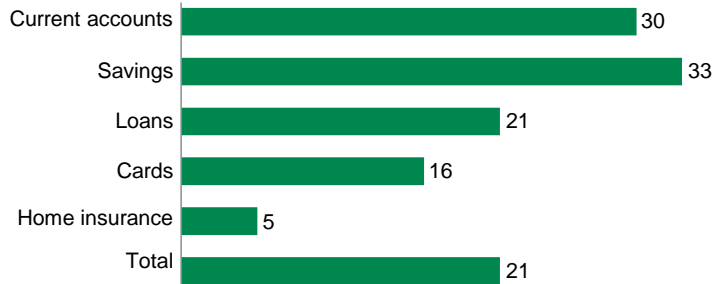
Significant growth across the digital channel and major progress in our customer journey transformations delivered



Needs met via digital⁽¹⁾ (%)



Digital market share⁽²⁾ (%)



Customer journey transformation

Mortgages

55%

of approved applications proceed to offer within 14 calendar days
up from 37% in 2015

Savings

c.50%

reduction in time taken to open savings account in branch
from 45mins to 15-30mins

SME onboarding

1

digital application form rather than 15 paper forms previously
15 forms down to 1

Corporate pensions

21 days

reduction in time taken to process monthly contributions
22 days to 1 day

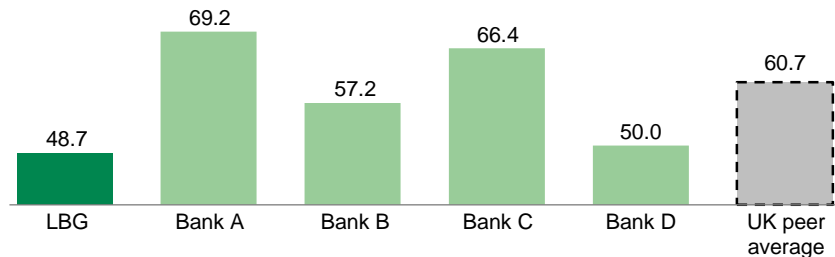
BECOMING SIMPLER AND MORE EFFICIENT

Rigorous and proven cost management process provides cost leadership;
Simplification programme on track to deliver increased run-rate savings of £1.4bn



Low cost business model (%)

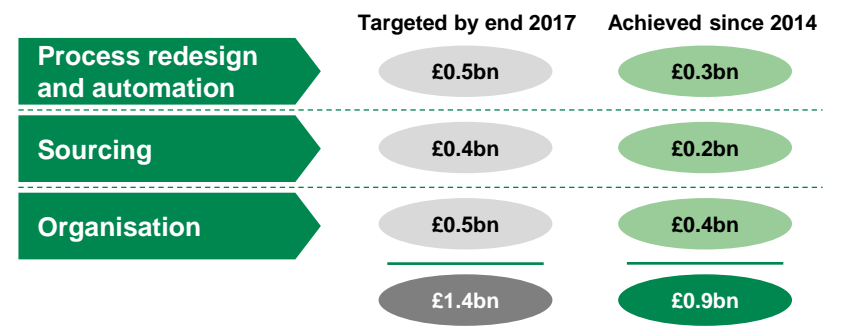
Cost:income ratio – 2016 UK peer comparison⁽¹⁾



- Market leading cost:income ratio of 48.7% delivered through our rigorous and proven cost management process

- On track to deliver the increased Simplification run-rate savings target of £1.4bn; £0.9bn achieved since 2014

Simplification run-rate savings



- End-to-end process re-engineering and simplification provide significant opportunities

- Continue to target a cost:income ratio of around 45% exiting 2019, with reductions every year

⁽¹⁾ LBG ratio as at FY 2016, UK peers as at Q3 2016 from reported company results (excluding notable items as highlighted by each institution). UK peer average excludes LBG. Note: UK peers' Q3 2016 ratios excludes impact of Q4 bank levy, but this is included in LBG FY 2016 ratio.

DELIVERING SUSTAINABLE GROWTH

Well positioned to grow the business



MBNA financial metrics

Return on investment

+17%

in second full year post acquisition

EPS accretion

c.5%

in second full year post acquisition

Attractive multiple

c.6x P/E

• MBNA acquisition

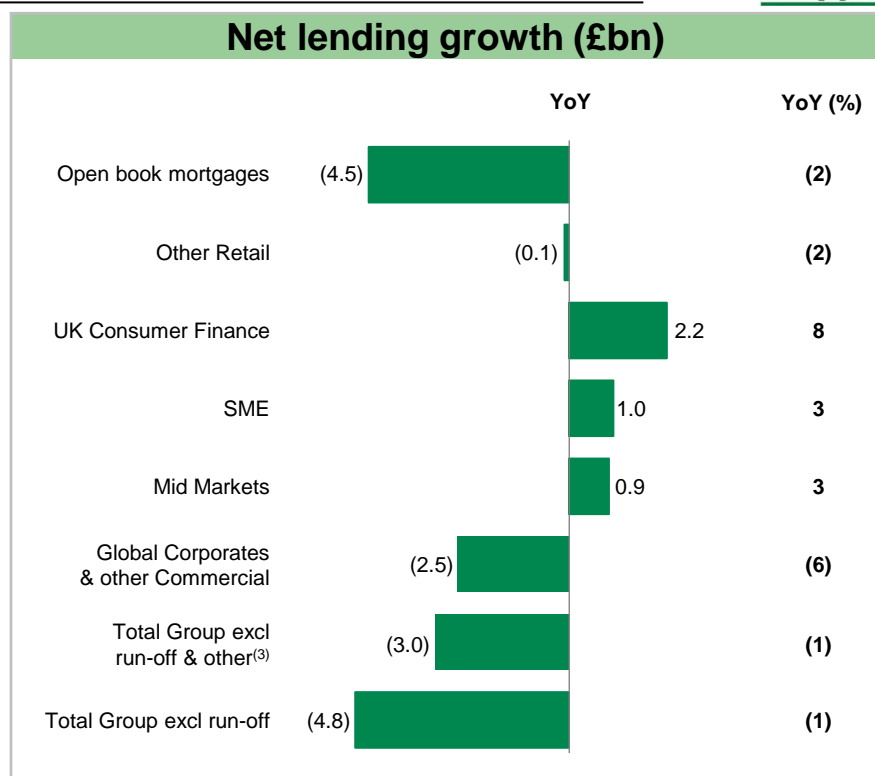
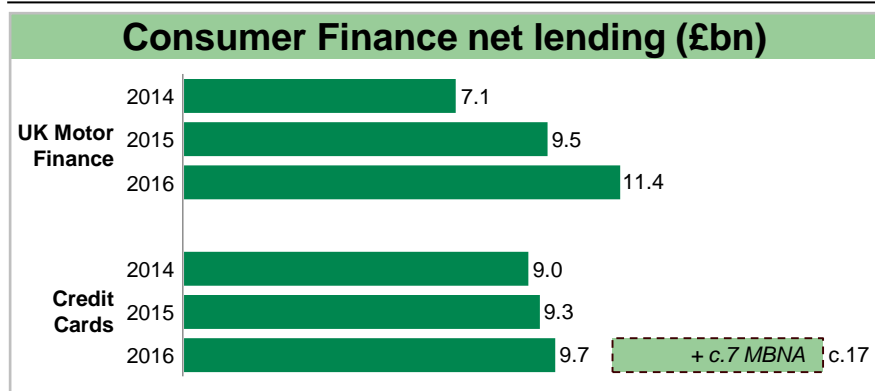
- Opportunity to acquire a prime UK credit card business with a strong brand and complementary capabilities; no further PPI exposure after acquisition
- In line with our strategic goal to grow in consumer finance and provides opportunity to create a best-in-class credit card operation
- Significant cost synergies through consolidation of IT infrastructure, marketing, property consolidation and operational efficiencies
- Strong financial returns with significant shareholder value creation

• Lloyds competitive advantages

- Focused strategy; restructuring and transformation complete
- Highly capital generative business model provides options for organic and inorganic growth
- Strong management team with proven integration capabilities
- Low cost model and cost capability provides advantage in delivering enhanced financial returns

DELIVERING SUSTAINABLE GROWTH

Supporting the UK economy with continued loan growth in our targeted key customer segments



- **Consumer Finance continues to grow in 2016 while maintaining credit quality**
 - Black Horse gross lending growth 27% vs market 16%⁽¹⁾
 - Credit cards gross lending in line with market at 4%⁽²⁾
- **SME growth of 3% continues to outperform market**
- **Open book mortgage reduction reflects focus on margin in a highly competitive market; expect open book mortgages to be broadly stable in 2017**

⁽¹⁾ Blackhorse retail point of sale (POS) car finance growth vs market as published by Finance & Leasing Association. ⁽²⁾ Credit Cards includes Consumer Cards gross lending vs market as published by BBA. ⁽³⁾ Other includes, specialist mortgage book, Intelligent Finance and Dutch mortgages.

OUTLOOK

Confidence in the Group's future prospects is reflected in the dividend and our strong financial targets



- **Our differentiated business model is delivering**

- Cost discipline and low risk business model provide competitive advantage
- Multi-brand and multi-channel operating model
- Improved financial performance with increased statutory profit and continued strong capital generation
- Increasing dividend capacity

- **UK economy enters 2017 from a position of strength**

- **Focused on delivering final year of current strategic plan**

Financial targets

- **Strong financial targets reflecting strength of business model**

- NIM >2.70% in 2017 (before MBNA)
- AQR of around 25bps in 2017 (before MBNA)
- Cost:income ratio of around 45% exiting 2019, with reductions every year
- Ongoing CET1 capital generation of between 170 and 200bps per annum, pre dividend
- RoRE of 12.0 to 13.5% and a RoTE of 13.5 to 15.0% in 2019



Highlights

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UNDERLYING FINANCIAL PERFORMANCE

Good underlying performance



(£m)	2016	2015	Change
Net interest income	11,435	11,482	–
Other income	6,065	6,155	(1)%
Total income	17,500	17,637	(1)%
Operating lease depreciation	(895)	(764)	(17)%
Net income	16,605	16,873	(2)%
Operating costs	(8,093)	(8,311)	3%
Impairment	(645)	(568)	(14)%
TSB	–	118	
Underlying profit	7,867	8,112	(3)%
Net interest margin	2.71%	2.63%	8bps
Cost:income ratio	48.7%	49.3%	(0.6)pp
AQR	0.15%	0.14%	1bp

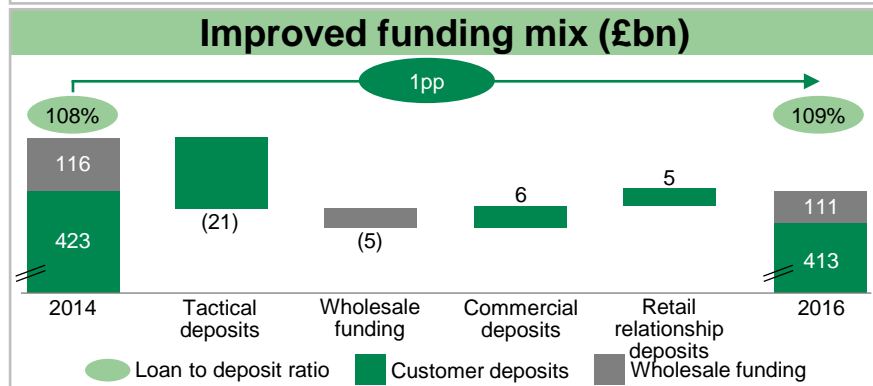
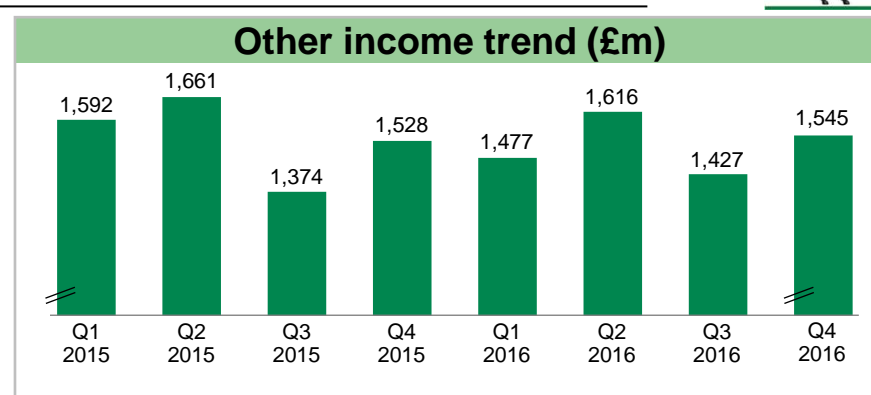
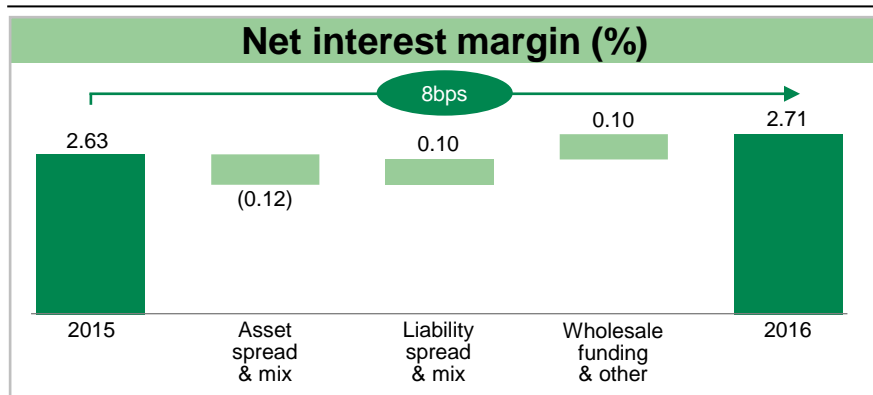
- **Good underlying profit of £7.9bn**

- Stable NII at £11.4bn with an increased margin of 2.71% offset by marginally lower average interest earning assets
- Resilient other income of £6.1bn with Q4 slightly ahead of prior year and Q3 2016
- Operating costs down 3%; actively responding to market conditions through accelerated delivery of cost initiatives
- Positive operating jaws of 1%, with our market leading cost:income ratio further improved to 48.7%
- Increase in impairment charge reflects lower releases and writebacks

- **Underlying RoRE of 13.2% and RoTE of 14.1%**

INCOME

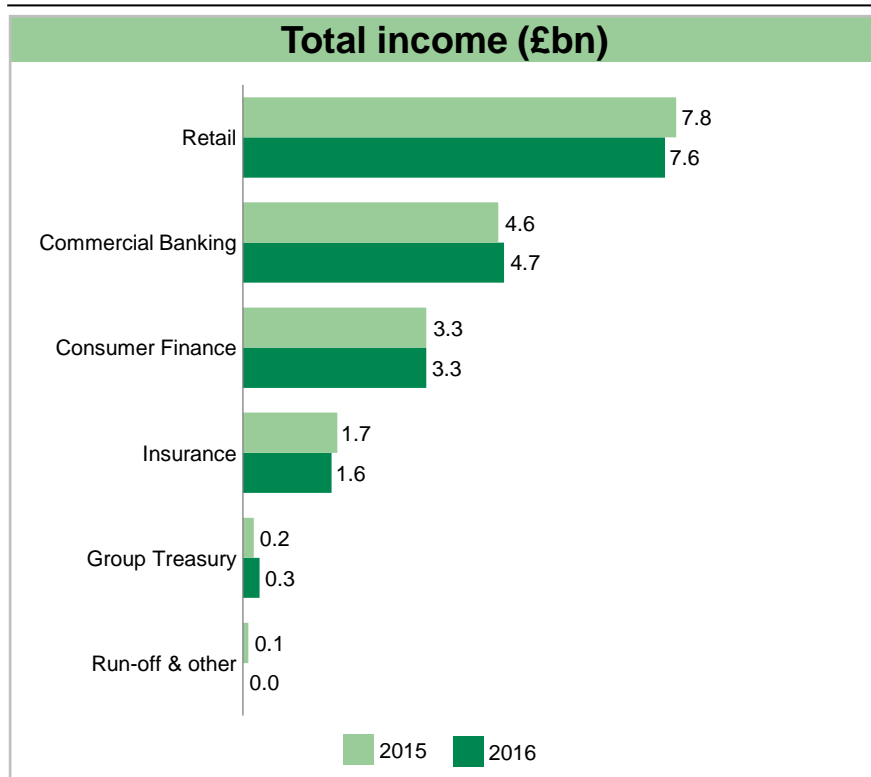
Total income of £17.5bn with stable NII and slightly lower other income



- **NII stable at £11.4bn with 8bps improvement in margin offset by 1% reduction in AIEAs**
 - Expect 2017 full year NIM of >2.70% (before MBNA)
- **Improved funding mix as expensive tactical deposits and wholesale funding are partly replaced by relationship Retail and Commercial deposits**
- **Other income of £6.1bn resilient with Q4 improved both quarter-on-quarter and year-on-year**

DIVISIONAL INCOME PERFORMANCE

Resilient divisional income performance with trends in line with wider Group



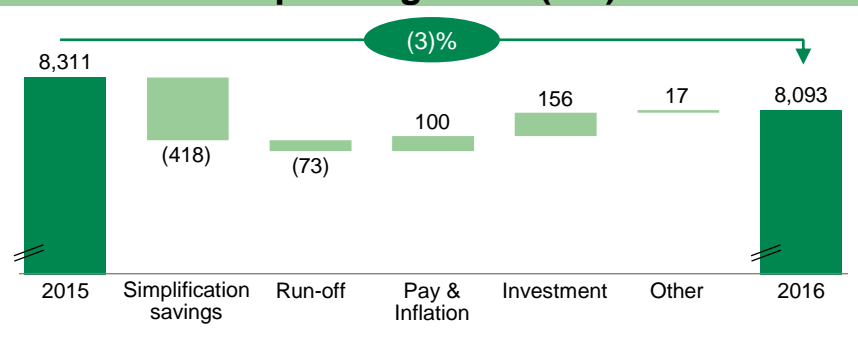
- **Retail:** resilient margin and tactical deposit reduction; lower fees driven by ATM costs and packaged bank accounts
- **Commercial Banking:** growth due to increased NII supported by high quality deposit growth and disciplined balance sheet management
- **Consumer Finance:** NII reflects higher quality, lower margin new business; fee income impacted by interchange cap more than offsetting growth in operating lease income
- **Insurance:** 17% increase in new business income offset by impact of adverse economics on existing business
- **Group Treasury:** primarily gains from liquidity portfolio optimisation and timing of dividends from strategic investments

COSTS

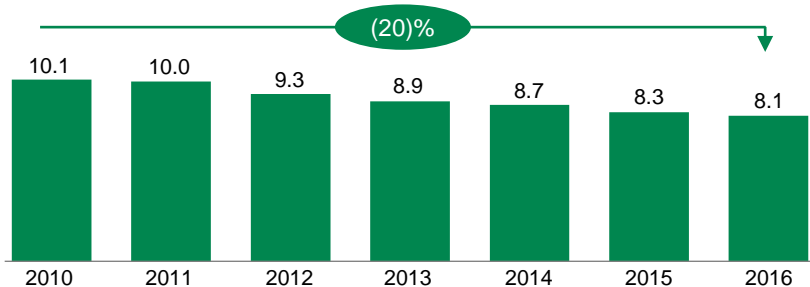
Operating costs continue to be tightly managed; costs are lower than 2015 and £2bn lower than 2010, despite further investment in the business



Operating costs (£m)



Operating costs trajectory (£bn)

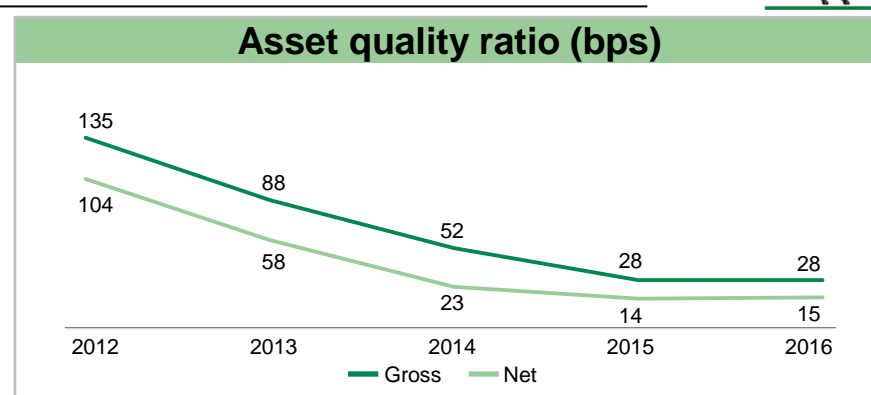
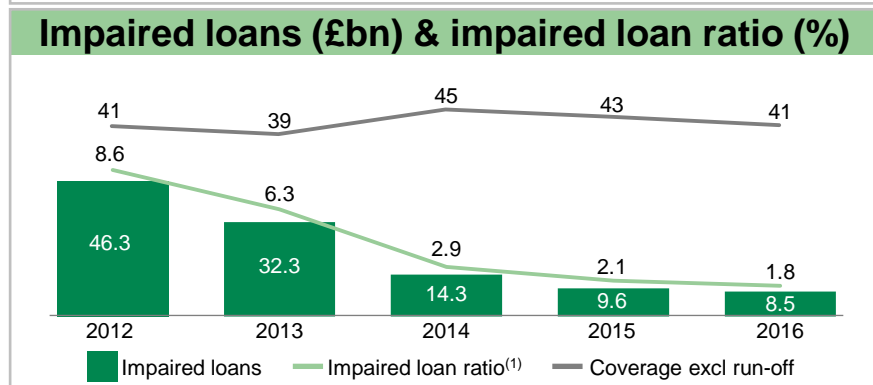
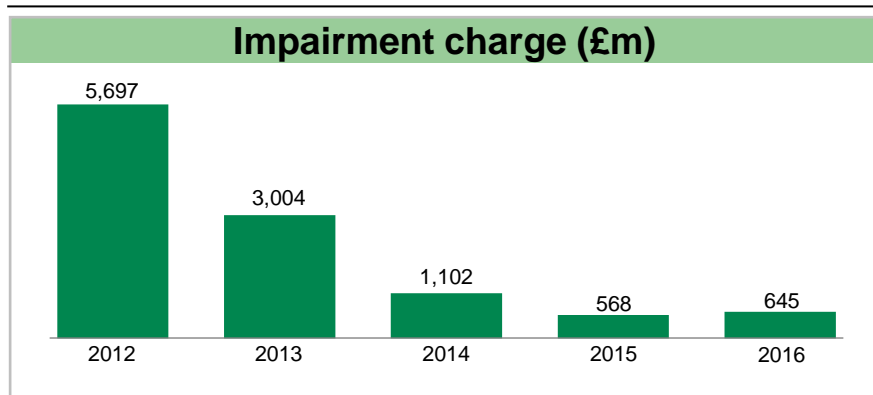


- Operating costs⁽¹⁾ lower than 2015 driven by **Simplification savings and lower run-off, partly offset by increased investment in the business and inflation**
- Operating costs reduced by c.£2bn, or 20%, since 2010 despite significant investment in the business
- Market leading cost:income ratio improved to 48.7% and continues to provide competitive advantage
- Continue to target a cost:income ratio of around 45% exiting 2019, with reductions every year

⁽¹⁾ Operating costs exclude operating lease depreciation.

ASSET QUALITY

Credit quality remains strong with no signs of deterioration in the portfolio



- Impairment of £645m and AQR of 15bps increased slightly due to lower levels of releases and write backs
- Stable gross AQR of 28bps due to prudent risk appetite
- Impaired loans as a percentage of closing advances now 1.8% from 2.1% at the end of December 2015
- LTV profile continues to improve; 44% average LTV
- Expect 2017 AQR of around 25bps (excluding MBNA) reflecting a stable gross AQR

(1) Impaired loans as a percentage of closing advances.

STATUTORY FINANCIAL PERFORMANCE

Significant increase in statutory profit primarily reflecting lower PPI provisions



(£m)	2016	2015
Underlying profit	7,867	8,112
ECNs	(790)	(101)
Market volatility and other items	(132)	(615)
Restructuring costs	(622)	(170)
PPI	(1,000)	(4,000)
Other conduct	(1,085)	(837)
TSB costs	–	(745)
Statutory profit before tax	4,238	1,644
Taxation	(1,724)	(688)
Statutory profit after tax	2,514	956

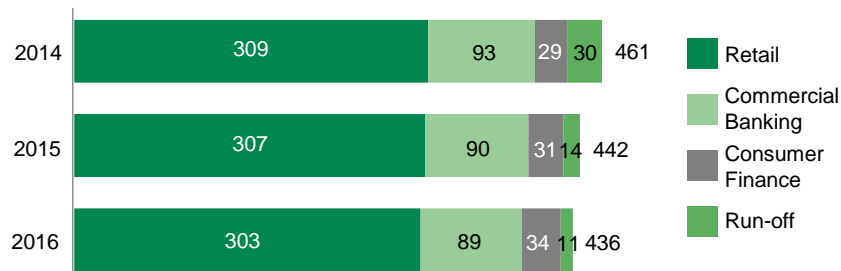
- **Market volatility includes a £484m gain on Visa sale, offset by FV unwind and amortisation of intangibles**
- **Restructuring costs include Simplification, non-branch property rationalisation and ring-fencing**
- **PPI provision of £1bn significantly lower than 2015; no further provision taken in Q4**
- **Other conduct of £1.1bn includes £0.3bn for packaged bank accounts and £0.3bn of arrears related activities**
- **Effective tax rate of 41% primarily due to banking surcharge, conduct, impact of tax changes on net DTA and insurance policyholder DTA effect**
 - Continue to expect a c.27% medium-term effective rate

BALANCE SHEET

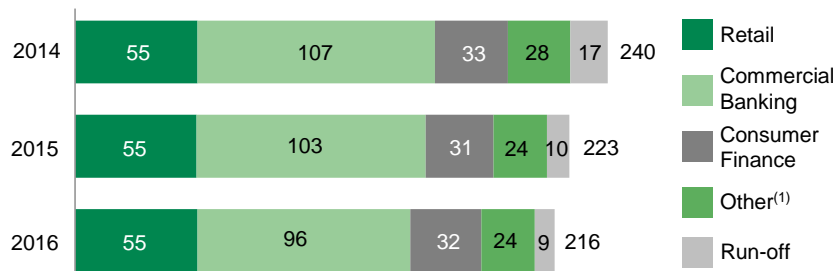
AIEAs down slightly primarily due to run-off; RWAs down c.£7bn due to balance sheet management actions



Divisional AIEAs (£bn)



Divisional RWAs (£bn)



⁽¹⁾ Other includes central items, threshold RWAs, TSB (2014 only).

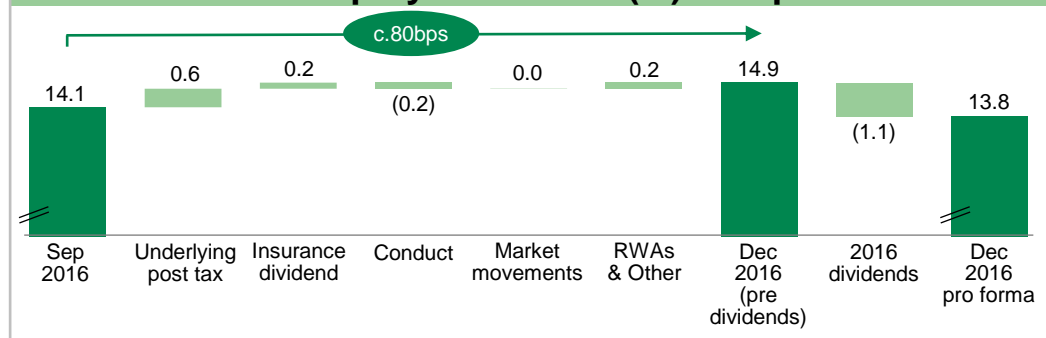
- **Pro-active management of the balance sheet**
- **AIEAs excluding run-off broadly stable at £426bn**
 - Growth in Consumer Finance and SME lending, offset by reductions in mortgages and Global Corporates
 - AIEAs expected to benefit from c.£7bn of MBNA balances
- **Run-off AIEAs continue to reduce, down £3bn**
- **RWAs reduced c.£7bn in 2016 as the Group continues to de-risk the balance sheet**
 - c.£7bn reductions within Commercial Banking driven by balance sheet management actions and continued portfolio optimisation across the division
 - Commercial Banking RoRWA improved 8bps to 2.44%

BALANCE SHEET

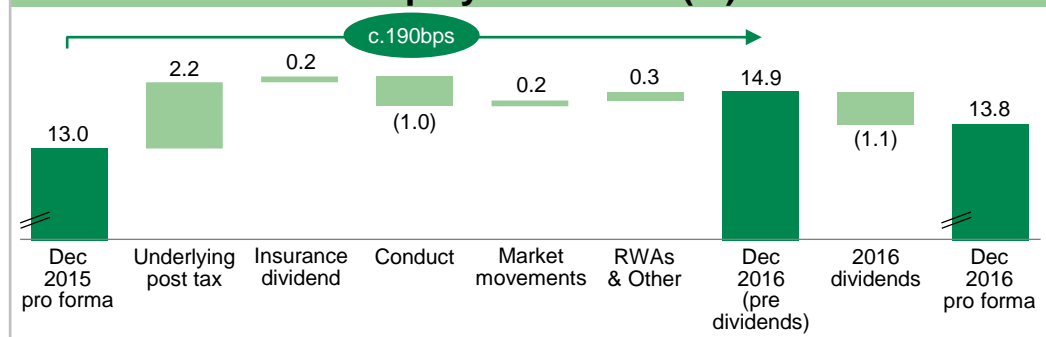
Strong capital generation provides the capacity for increased dividends and funding of the MBNA acquisition



Common equity tier 1 ratio (%) – Sep to Dec



Common equity tier 1 ratio (%) – 2016



- **Pro forma CET1 ratio of 13.8%**
 - Retention of c.80bps of capital to cover the capital impact of the MBNA acquisition
 - Q4 capital generation of c.80bps with good underlying performance and continued de-risking of the balance sheet
 - Includes 2016 Insurance dividend of £500m paid in February 2017
- **2016 capital generation of c.190bps ahead of guidance due to Q4 performance**
- **PRA buffer reduced reflecting de-risking; target CET1 ratio maintained at c.13%**
- **Total capital remains strong at 21.4%**
- **Pro forma leverage ratio improved to 5.0%**
- **TNAV increased 2.5p per share to 54.8p**

OUTLOOK

Confidence in the Group's future prospects is reflected in the dividend and our strong financial targets



- **Our differentiated business model is delivering**

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Financial targets

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APPENDIX

MORTGAGE PORTFOLIO LTVs

Further improvement in LTVs during 2016



	Dec 2016				Dec 2015	Dec 2014	Dec 2010
	Mainstream	Buy to let	Specialist	Total	Total	Total	Total ⁽¹⁾
Average LTVs	41.8%	53.7%	49.2%	44.0%	46.1%	49.2%	55.6%
New business LTVs	65.0%	61.9%	–	64.4%	64.7%	64.8%	60.9%
≤ 80% LTV	88.6%	91.8%	85.2%	89.0%	86.4%	81.9%	57.0%
>80–90% LTV	8.4%	6.1%	8.6%	8.0%	9.0%	10.7%	16.2%
>90–100% LTV	2.4%	1.5%	3.1%	2.3%	3.5%	5.2%	13.6%
>100% LTV	0.6%	0.6%	3.1%	0.7%	1.1%	2.2%	13.2%
Value >100% LTV	£1.3bn	£0.3bn	£0.5bn	£2.1bn	£3.4bn	£6.7bn	£44.9bn

AVERAGE INTEREST EARNING ASSETS (AIEAs)

AIEAs down slightly reflecting continued reduction in run-off and lower mortgage lending due to strategic focus on margin in a highly competitive market



AIEAs and customer loans (£bn)

	Q4 2016	Q3 2016	Q2 2016	Q1 2016
Net loans and advances	449.7	451.7	453.0	456.7
<i>Impairment provisions</i>	3.7	3.8	4.1	4.3
Non banking items				
<i>Fee based loans & advances</i>	(9.4)	(8.7)	(9.1)	(10.9)
<i>Sale of assets to Insurance</i>	(6.7)	(6.2)	(6.1)	(5.7)
<i>Other non-banking</i>	(5.0)	(5.5)	(4.9)	(5.3)
Gross loans and advances (banking)	432.3	435.1	437.0	439.1
<i>Averaging</i>	1.7	0.8	(1.4)	(0.9)
AIEAs (banking)	434.0	435.9	435.6	438.2
<i>AIEAs (banking YTD)</i>	435.9	436.6	436.9	438.2

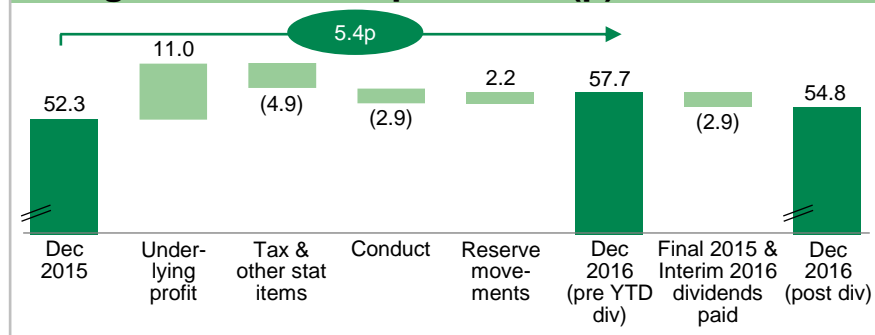
- **AIEAs are gross of impairments**
- **AIEAs are customer and product balances in banking businesses on which interest is earned**
- **Non-banking items largely comprise**
 - Fee based loans & advances in Commercial Banking
 - Loans sold to the Insurance business to support the annuity business

TANGIBLE NET ASSET VALUE AND LEVERAGE RATIO

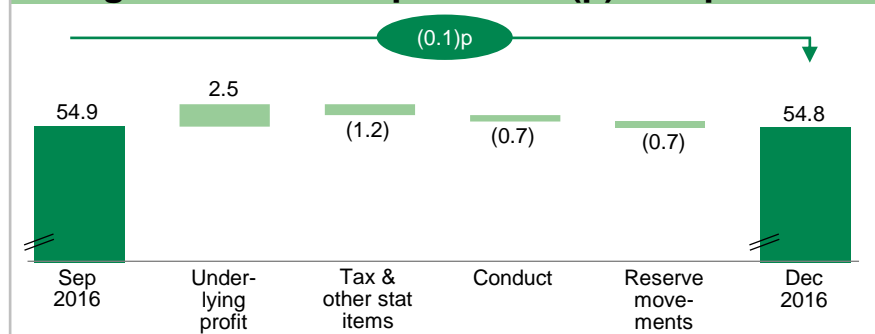


Movement in TNAV per share reflects strong statutory profit and reserve movements; leverage ratio further improved due to capital generation

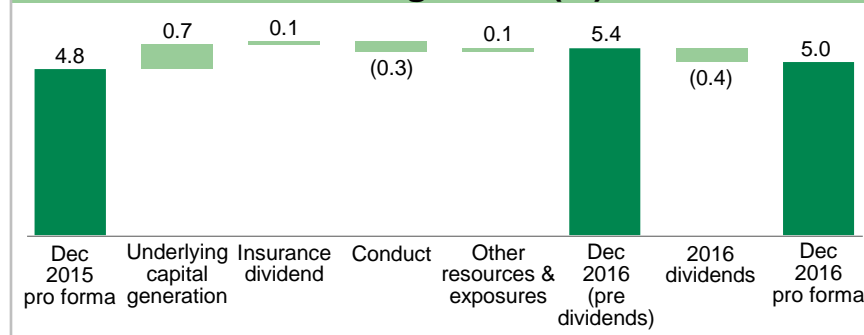
Tangible net assets per share (p) – Dec to Dec



Tangible net assets per share (p) – Sep to Dec



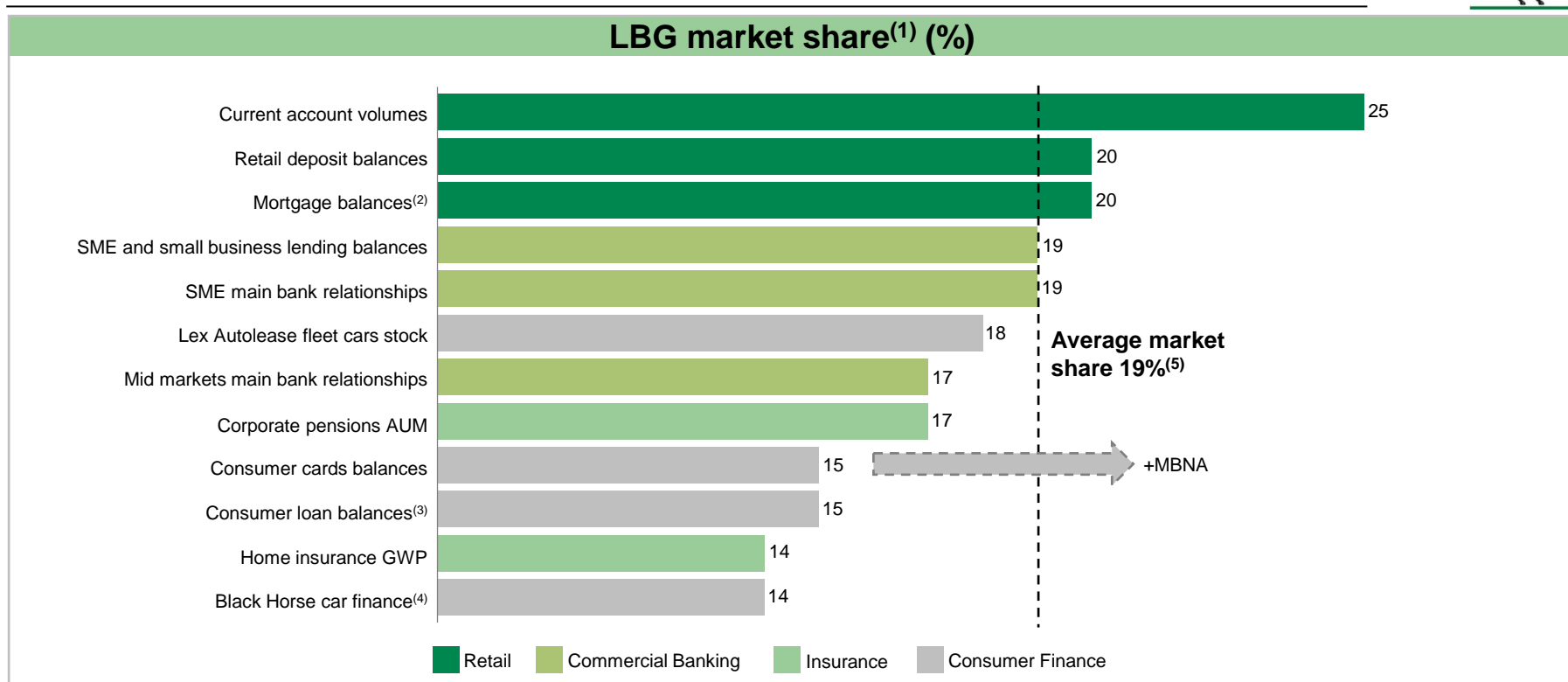
Leverage ratio (%)



- **TNAV per share increased to 54.8p in 2016, reflecting**
 - Strong statutory profit of 3.2p
 - Positive reserve movements of 2.2p
 - Final 2015 and Interim 2016 dividend payments (2.9)p
- **Pro forma leverage ratio increased c.20bps to 5.0% reflecting strong capital generation**

MARKET SHARE

Continue to deliver sustainable growth in target areas



⁽¹⁾ Source: CACI, BoE, Experian, Spence Johnson, BVRLA, BBA, ABI. All positions at FY 2016, except current account volumes (Nov 2016) due to market data availability.

⁽²⁾ Open book only. ⁽³⁾ Consumer loans comprises unsecured personal loans, overdrafts, and Black Horse retail lending balance share of BoE consumer lending. ⁽⁴⁾ Black Horse point of sale and LBG's Online Car Finance new business flow share. ⁽⁵⁾ Average market share calculated for 'core banking products' (including MBNA portfolio).

BRANCH PRESENCE

Multi-brand strategy serving different segments of the market

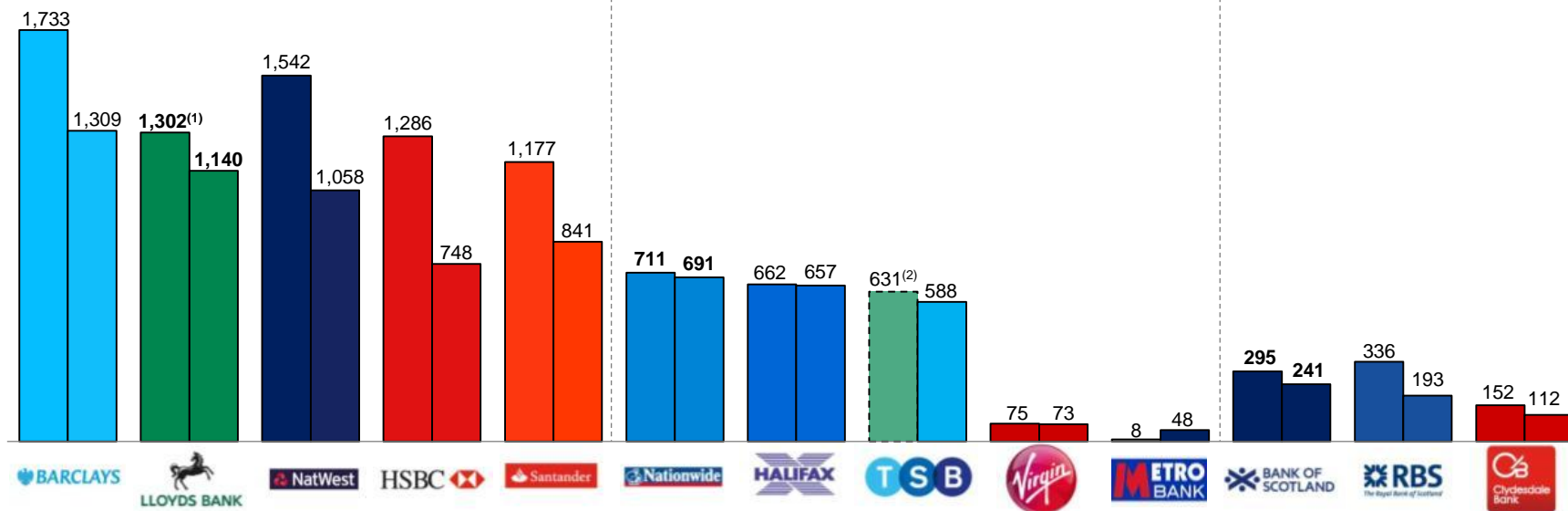


Branch network comparison

Large relationship brands

Challenger brands

Scottish brands



H1 2011 vs H2 2016 branch presence by brand. Source CACI (Dec 2016) Branch Base, except: Virgin, sourced company website, and Lloyds Banking Group own brand figures (Lloyds Bank, Halifax and BoS). ⁽¹⁾ Does not include 631 divested TSB branches. ⁽²⁾ TSB did not exist in H1 2011, these 631 branches were part of Lloyds Banking Group.



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 (including but not limited to the payment of dividends) 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 interest rates (including low or negative rates), 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, the exit by the UK from the European Union (EU) and the potential for one or more 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 cyber security; 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, 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; the ability to attract and retain senior management and other employees; requirements or limitations 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 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 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. 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 on the inside front cover of the 2016 Results News Release.