LLOYDS BANKING GROUP

Q1 INTERIM MANAGEMENT STATEMENT

Presentation to Analysts and Investors

28 April 2016

HIGHLIGHTS FOR THE FIRST THREE MONTHS OF 2016

Robust financial performance demonstrating the strength of the business model

- **Robust financial performance with stable underlying profit and strong underlying returns**
  - Underlying profit of £2.1bn with an underlying return on required equity of 13.8%
  - Positive operating jaws of 1% achieved with lower operating costs offset by marginally lower income
  - Credit quality remains strong with a 6% reduction in impairment and an AQR of 14bps
  - Statutory profit before tax of £0.7bn after the expected £0.8bn charge relating to the redemption of ECNs
  - Strong balance sheet maintained with a CET1 ratio (pre dividend accrual) of 13.0%, after 0.4% impact of ECNs
- **Our differentiated UK focused business model continues to deliver in a challenging operating environment**
  - Cost discipline and low risk business model providing competitive advantage
  - Strong underlying capital generation of c.60bps
- **Helping Britain prosper through continued support to SMEs, first time buyers, and growth in motor finance**
- **2016 guidance reaffirmed**

FINANCIAL PERFORMANCE – FIRST THREE MONTHS OF 2016

Robust financial performance in a challenging operating environment

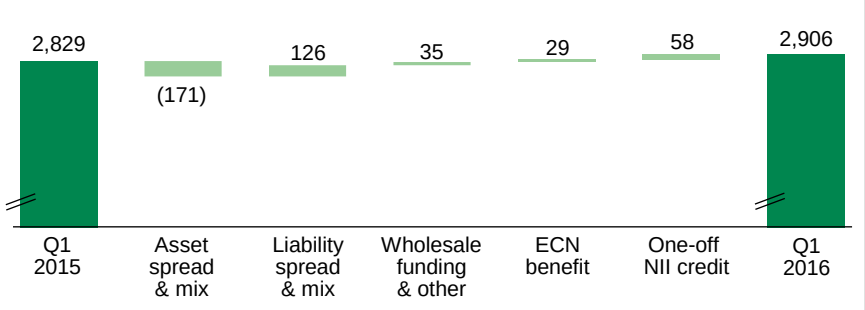
(£m)	Q1 2016	Q1 2015	Change
Net interest income	**2,906**	2,829	*3%*
Other income	**1,477**	1,592	*(7)%*
Total income	**4,383**	4,421	*(1)%*
Operating costs	**(1,987)**	(2,020)	*2%*
Operating lease depreciation	**(193)**	(183)	*(5)%*
Impairment	**(149)**	(158)	*6%*
Underlying profit (excluding TSB)	**2,054**	2,060	–
TSB	**–**	118	–
Underlying profit	**2,054**	2,178	*(6)%*
Net interest margin	**2.74%**	2.60%	*14bps*
Cost:income ratio	**47.4%**	47.7%	*(0.3)pp*
AQR	**0.14%**	0.14%	–

- **Underlying profit stable at £2.1bn, driven by**
  - 3% improvement in NII, reflecting a margin of 2.74%
  - Resilient other income in challenging market conditions
  - Operating costs down 2%: actively responding to market conditions through accelerated delivery of cost initiatives
  - Positive operating jaws of 1%, with the cost:income ratio improving to 47.4%
  - Credit quality remains strong; 6% decrease in impairment charge, with an AQR of 14bps
- **Underlying return on required equity of 13.8%**

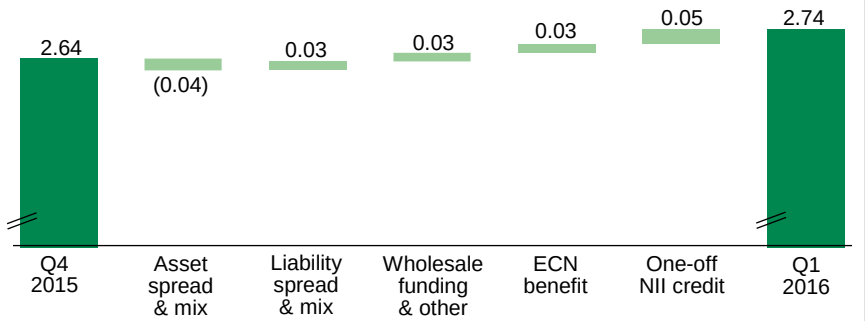
FINANCIAL PERFORMANCE

Good net interest income performance reflecting an improved margin, offset by lower other income

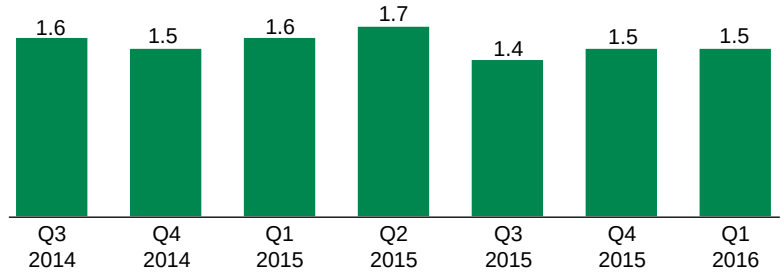
Net interest income – vs. Q1 2015 (£m)



Net interest margin – vs. Q4 2015 (%)



Other income (£bn)

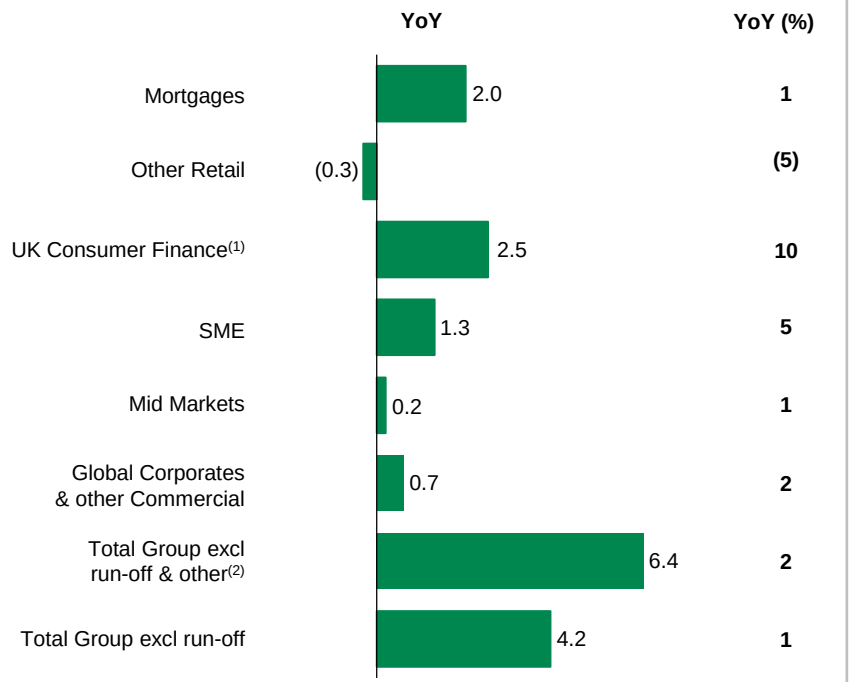


- **NIM of 2.74% up 10bps vs. Q4 2015, driven by**
  - Improved deposit margin and lower funding costs more than offsetting asset pricing pressures
  - Funding cost benefit from ECN redemption
  - One-off credit to NII relating to credit cards
- **Continue to expect 2016 NIM of around 2.70%**
- **Resilient other income in challenging market conditions: quarterly run-rate broadly in line with our expectations**

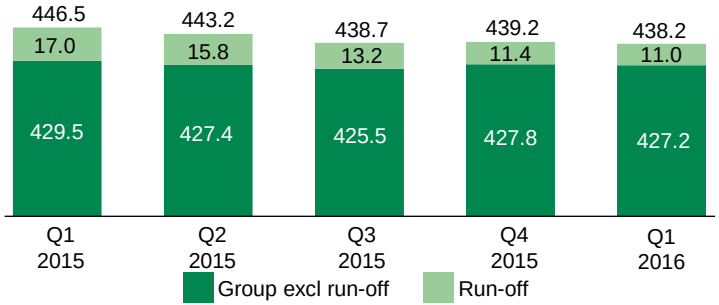
DELIVERING SUSTAINABLE GROWTH

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

Net lending growth (£bn)



Average interest earning assets (AIEAs) (£bn)



- **Lending up 2% across key customer segments**
- **Mortgage growth below market, reflecting margin focus**
- **SME growth continues to outperform market**
- **UK Consumer Finance continues to grow; 30% increase in motor finance and 4% increase in credit card balances**
- **AIEAs marginally down on Q4 2015 at £438bn**

(1) UK Consumer Finance includes motor finance, credit cards and unsecured personal lending (UPL) which has recently transferred from Retail. Excluding the UPL transfer year on year growth was in line with the full year at 17%. (2) Other includes, specialist mortgage book, Intelligent Finance and Dutch mortgages.

FINANCIAL PERFORMANCE

Statutory profit impacted by ECNs redemption charge and below-the-line volatility

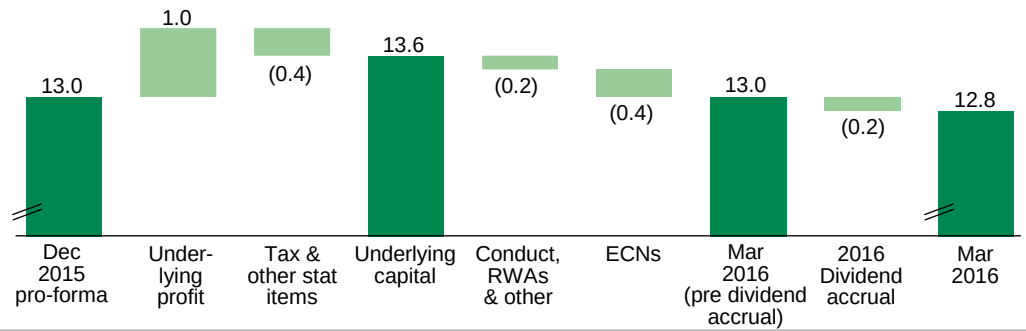
(£m)	Q1 2016	Q1 2015
Underlying profit	**2,054**	2,178
ECNs	**(790)**	(65)
Market volatility and other items	**(334)**	(128)
Restructuring costs	**(161)**	(26)
Conduct provisions	**(115)**	–
TSB costs	**–**	(745)
Statutory profit before tax	**654**	1,214
Taxation	**(123)**	(270)
Statutory profit after tax	**531**	944

- **Statutory profit before tax of £0.7bn, driven by**
  - £790m charge for ECNs redemption (primarily relating to the embedded derivative)
  - Market volatility and other items of £334m includes £163m of adverse insurance volatility
  - Restructuring of £161m reflects costs of Simplification severance and ring-fencing
  - Retail conduct provisions of £115m
  - Effective tax rate of 19%
- **PPI complaints in the first quarter of c.8,500 per week on average, broadly in line with expectations**

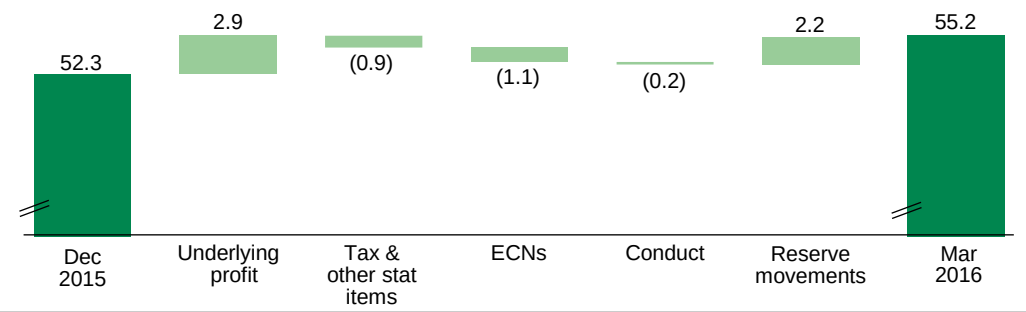
BALANCE SHEET

Strong balance sheet maintained with a CET1 ratio of 13.0% (pre dividend accrual), after impact of ECNs

Common equity tier 1 ratio (%)



Tangible net assets per share (p)



- **CET1 ratio of 13.0% pre dividend accrual**
- **Strong underlying capital generation of c.60bps, largely offset by ECN redemption charge**
- **In line with 2015, no Q1 capital contribution from Insurance in respect of the current year**
- **Total capital remains strong at 21.4%**
- **Robust leverage ratio of 4.7%**
- **TNAV per share increased to 55.2p driven by underlying profit and reserve movements**

SUMMARY

2016 guidance reaffirmed

- **The Group has a clear strategic focus and a differentiated business model**
- **Actively responding to market conditions**
- **Delivering strong underlying earnings and capital generation**
- **Well positioned for further progress**

- **2016 NIM expected to be around 2.70%**
- **Year-on-year reduction in cost:income ratio**
- **2016 full year asset quality ratio expected to be around 20bps**
- **Expect to generate around 2% of CET1 capital per annum**

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APPENDIX

AVERAGE INTEREST EARNING ASSETS

Ongoing business AIEAs broadly flat in 2016

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AIEAs and customer loans (£bn)

	Q1 2016	Q4 2015	Q3 2015	Q2 2015	Q1 2015
Net loans and advances	**456.7**	455.2	455.0	452.3	455.1
Impairment provisions	**4.3**	4.4	4.9	7.0	7.4
Non banking items					
Fee based loans & advances	**(10.9)**	(10.1)	(8.0)	(7.2)	(6.4)
Sale of assets to Insurance	**(5.7)**	(5.7)	(5.3)	(5.2)	(4.7)
Other non-banking	**(5.3)**	(5.6)	(6.2)	(5.5)	(6.6)
Gross loans and advances (banking)	**439.1**	438.2	440.4	441.4	444.8
Averaging	**(0.9)**	1.0	(1.7)	1.8	1.7
AIEAs (banking)	**438.2**	439.2	438.7	443.2	446.5
AIEAs (banking YTD)	***438.2***	*441.9*	*442.8*	*444.8*	*446.5*

- **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

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 (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 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; 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 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 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 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. The information, statements and opinions contained in this document and subsequent discussion 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 page 11 of the Q1 2016 Interim Management Statement.