



# Q3 INTERIM MANAGEMENT STATEMENT

Presentation to Analysts and Investors

26 October 2016

# HIGHLIGHTS FOR THE FIRST NINE MONTHS OF 2016

Robust financial performance demonstrating the strength of the business model

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BANKING  
GROUP



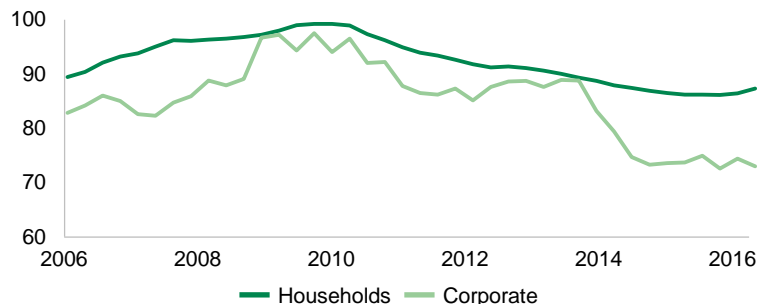
- **Robust underlying performance with strong improvement in statutory profit**
  - Underlying profit of £6.1bn with an increase in statutory profit before tax to £3.3bn
  - Positive operating jaws achieved with marginally lower income more than offset by lower operating costs
  - Credit quality remains strong with no deterioration in underlying portfolios and an AQR of 14bps
  - PPI provision of £1bn to cover further operating costs and redress
- **Strong capital generation with balance sheet strength maintained**
  - CET1 ratio of 14.1% pre dividend (13.4% post dividend); total capital ratio of 22.1%
  - Net capital generation of c.60bps in quarter
- **Our differentiated UK focused business model continues to deliver for customers and shareholders**
  - Helping Britain prosper through continued support to SMEs, first time buyers, and growth in consumer finance
  - Cost discipline and low risk business model providing competitive advantage
- **2016 guidance reaffirmed demonstrating the strength of current year performance**
- **UKFI have commenced a trading plan to dispose of the remaining HMT shareholding**

# UK ECONOMIC ENVIRONMENT

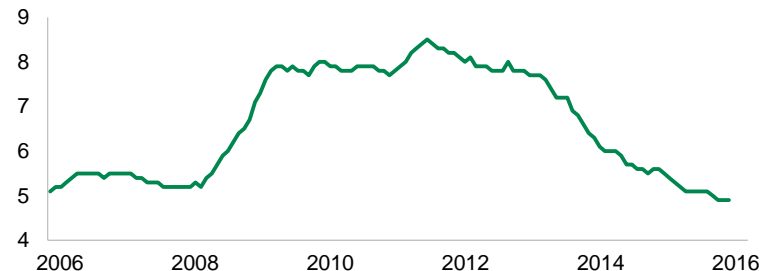
The UK faces a period of uncertainty from a position of strength



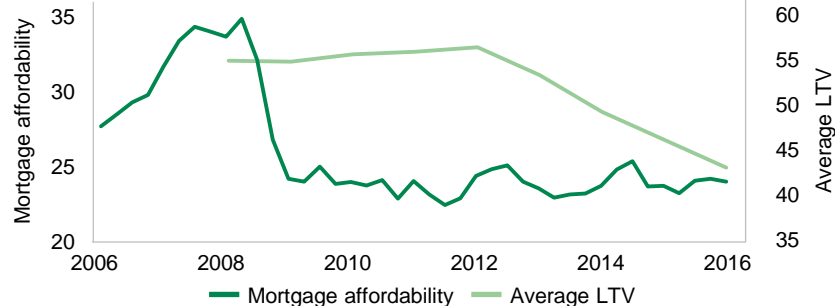
## UK private sector debt / GDP<sup>(1)</sup> (%)



## Unemployment rate<sup>(2)</sup> (%)



## UK mortgage affordability<sup>(3)</sup> & average LTV<sup>(4)</sup> (%)



- **Sustainable recovery means the economy enters this period of uncertainty from a position of strength**
- **UK operating environment has significant structural strengths**
- **Business volumes have remained resilient post referendum**

<sup>(1)</sup> Source: debt data from Bank for International Settlements; GDP data from ONS. <sup>(2)</sup> Source: ONS. <sup>(3)</sup> Affordability: mortgage payments as a percentage of earnings, source: ONS, BoE data, LBG calculations.

<sup>(4)</sup> Lloyds Banking Group average loan to value at period end.

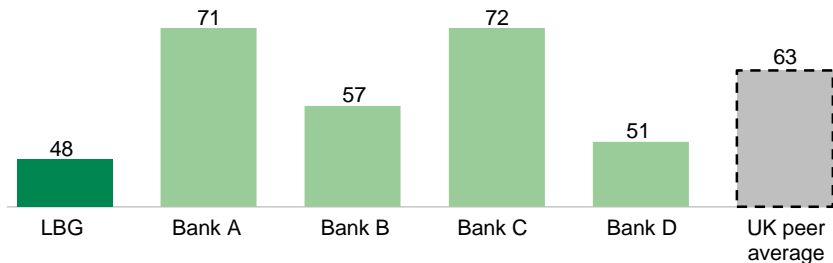
# DIFFERENTIATED BUSINESS MODEL POSITIONS US WELL

Well positioned to continue delivering for our customers and shareholders given our distinct competitive advantages



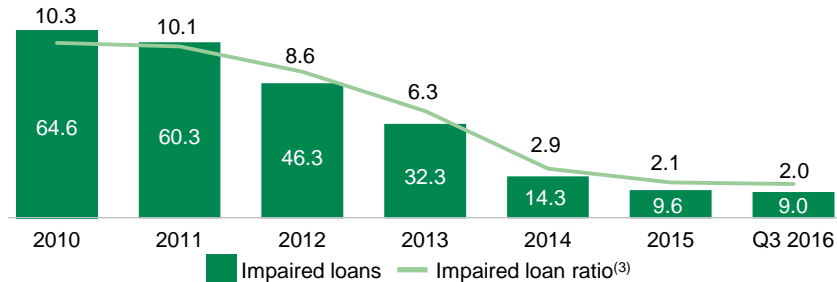
## Low cost business model

Cost:income ratio – 2016 UK peer comparison<sup>(1)</sup> (%)

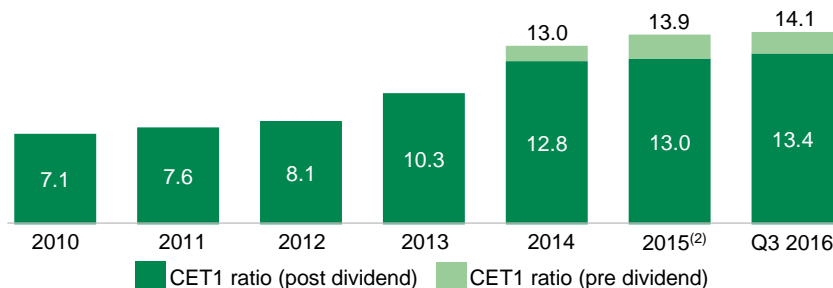


## Low risk approach

Impaired loans (£bn) & impaired loan ratio (%)



## CET1 Progress (%)



- Simple, UK focused retail and commercial bank
- Multi-brand and multi-channel distribution, with a market leading digital proposition
- Low risk and low cost business model provides competitive advantage
- Strong capital position and ongoing capital generation

<sup>(1)</sup> LBG ratio as at Q3 2016, peers as at H1 2016 from reported company results. Average underlying cost:income ratio (includes levies and systemic charges, and excludes notable items as highlighted by each institution). UK peers excludes LBG. <sup>(2)</sup> Pro forma. <sup>(3)</sup> Impaired loans as a percentage of closing advances.

# FINANCIAL PERFORMANCE

## Robust underlying performance



(£m)	YTD 2016	YTD 2015	Change
Net interest income	8,630	8,578	1%
Other income	4,520	4,627	(2)%
<b>Total income</b>	<b>13,150</b>	13,205	–
Operating costs	(5,959)	(6,069)	2%
Operating lease depreciation	(669)	(563)	(19)%
Impairment	(449)	(336)	(34)%
TSB	–	118	–
<b>Underlying profit</b>	<b>6,073</b>	6,355	(4)%
Net interest margin	2.72%	2.63%	9bps
Cost:income ratio	47.7%	48.0%	(0.3)pp
AQR	0.14%	0.11%	3bps

- **Underlying profit of £6.1bn, driven by**

- 1% improvement in NII, reflecting an increased margin of 2.72%
- Slightly lower other income at £4.5bn
- Operating costs down 2%: actively responding to market conditions through accelerated delivery of cost initiatives
- Positive operating jaws of 0.5%, with the cost:income ratio improving to 47.7%
- Credit quality remains strong; with an AQR of 14bps. Gross AQR in the first nine months stable at 26bps

- **Underlying return on required equity of 13.6%**

# FINANCIAL PERFORMANCE

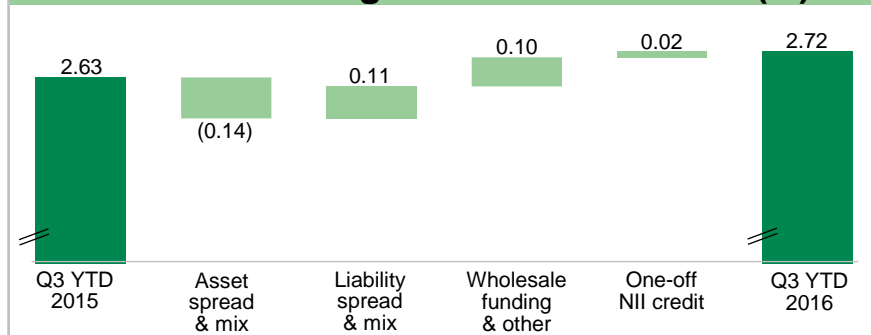
Net interest income performance reflects an improved margin, offset by lower other income



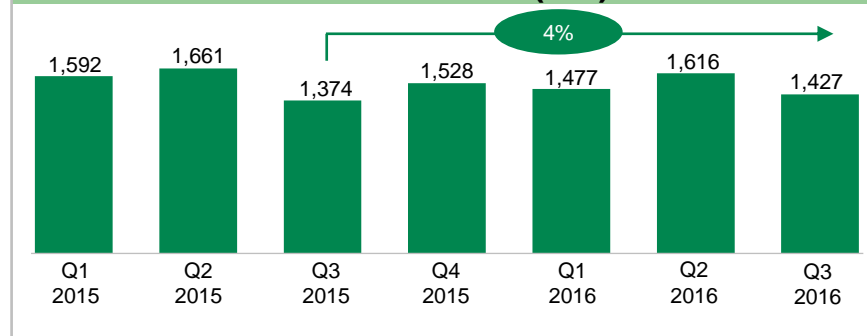
## Net interest income – vs. Q3 YTD 2015 (£m)



## Net interest margin – vs. Q3 YTD 2015 (%)



## Other income (£m)



- **NIM of 2.72% up 9bps; improved deposit margin and lower funding costs more than offsetting asset pricing pressures**
- **Continue to expect 2016 full year NIM of around 2.70%**
- **Other income of £4.5bn slightly lower than prior year due to lower Insurance income**
  - Q3 other income down on Q2, but 4% ahead of prior year
  - Expect FY 2016 other income to be around £6bn

# FINANCIAL PERFORMANCE

Strong improvement in statutory profit

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(£m)	YTD 2016	YTD 2015
<b>Underlying profit</b>	<b>6,073</b>	6,355
ECNs	<b>(790)</b>	(369)
Market volatility and other items	<b>(18)</b>	(586)
Restructuring costs	<b>(390)</b>	(69)
PPI	<b>(1,000)</b>	(1,900)
Other conduct	<b>(610)</b>	(535)
TSB costs	<b>–</b>	(745)
<b>Statutory profit before tax</b>	<b>3,265</b>	2,151
Taxation	<b>(1,189)</b>	(536)
<b>Statutory profit after tax</b>	<b>2,076</b>	1,615

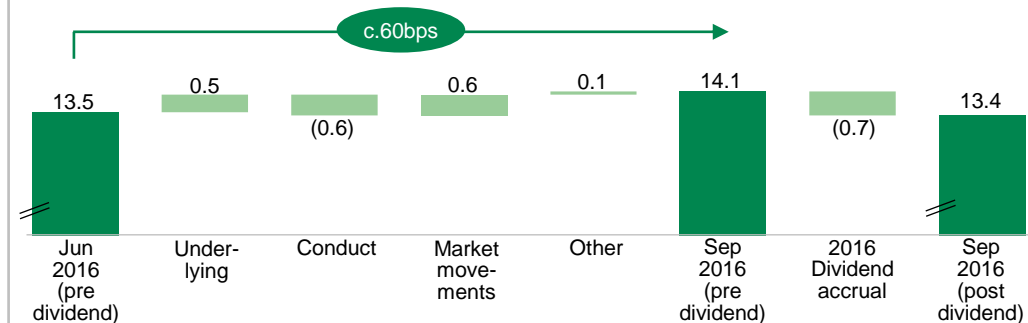
- **Statutory profit before tax of £3.3bn, driven by**
  - £790m charge for ECNs redemption in Q1
  - Market volatility and other includes £484m gain on Visa sale, offset by fair value unwind, amortisation of intangibles and insurance volatility
  - Restructuring of £390m reflects costs of Simplification severance and ring-fencing
  - PPI provisions of £1bn in Q3 to cover further operating costs and redress
- **Effective tax rate of 36% due to revaluation of net deferred tax assets, tax surcharge and non-deductibility of conduct provisions**

# BALANCE SHEET

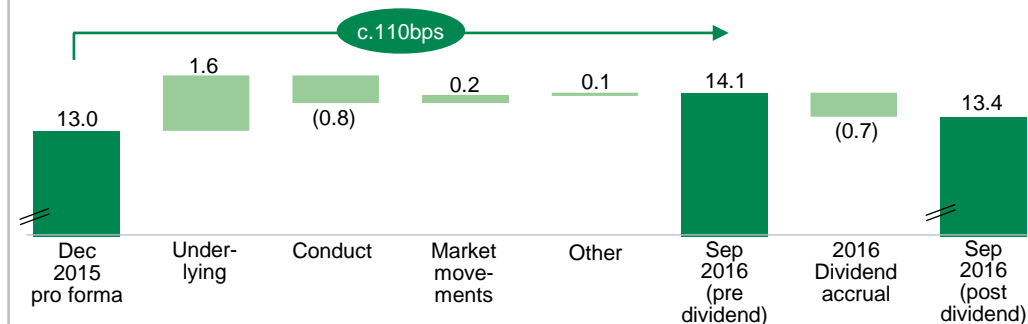
Capital generation remains strong



## Common equity tier 1 ratio (%) – Jun to Sep



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



- Q3 capital generation of c.60bps in line with underlying performance
- YTD capital generation of c.110bps with underlying of c.160bps partially offset by conduct
- Market movements of c.60bps in Q3 and c.20bps YTD
- Strong CET1 ratio of 14.1% (pre dividend) and 13.4% (post dividend)
- Continue to expect to generate around 160bps CET1 in 2016, pre dividend
- TNAV per share up 2.6p YTD at 54.9p after 2.9p of dividend paid in 2016



# SUMMARY

Well positioned to continue delivering for customers and shareholders



- **UK economy faces uncertainty, but well positioned given economic recovery in recent years**
- **Our differentiated business model is delivering**
  - Cost discipline and low risk business model continue to provide competitive advantage
  - Continued successful execution of strategy
  - Generating strong profits and returns
  - Strong capital generation

## 2016 GUIDANCE REAFFIRMED

- **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 <20bps**
- **Expect to generate around 160bps of CET1 capital for 2016**



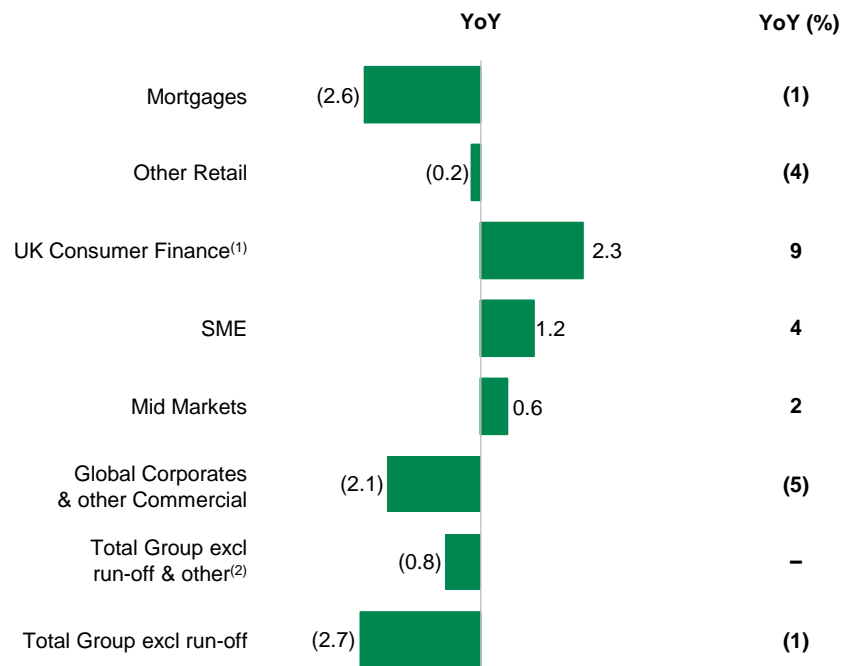
# APPENDIX

# DELIVERING PRUDENT GROWTH

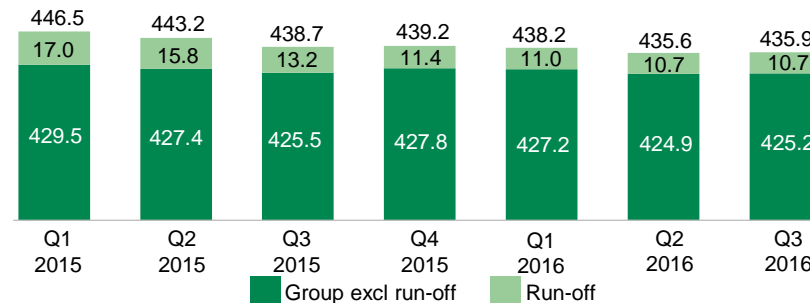
Supporting the UK economy with continued loan growth in targeted customer segments



## Net lending growth (£bn)



## Average interest earning assets (AIEAs) (£bn)



- Lending up across our targeted key customer segments
- Slight reduction in mortgage lending reflects strategic decision to focus on margin
- SME growth of 4% continues to outperform market
- UK Consumer Finance continues to grow; 23% increase in motor finance and 5% increase in credit card balances
- AIEAs marginally up on Q2 2016 at £436bn

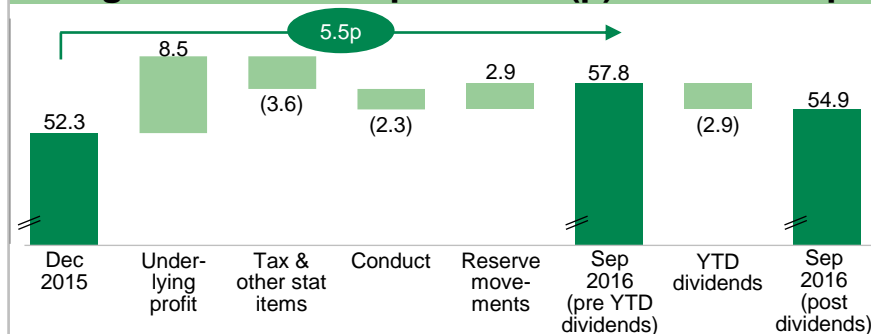
<sup>(1)</sup> UK Consumer Finance includes motor finance, credit cards and unsecured personal lending. <sup>(2)</sup> Other includes, specialist mortgage book, Intelligent Finance and Dutch mortgages.

# BALANCE SHEET

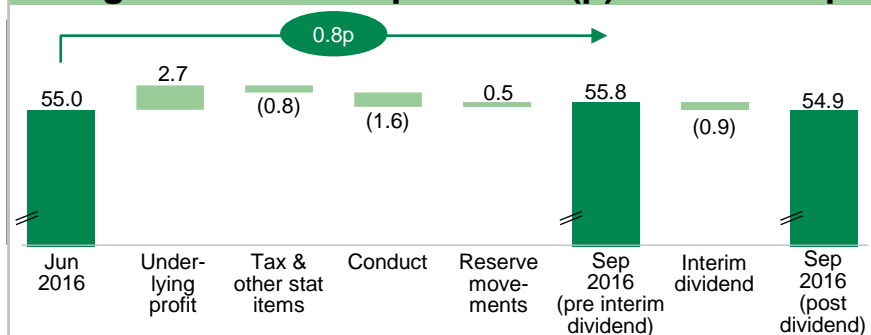
TNAV per share of 54.9p increased YTD, driven by strong statutory profit and reserve movements



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



## Tangible net assets per share (p) – Jun to Sep



- **TNAV per share increased 2.6p YTD with an increase of 5.5p before dividend payments:**

- Strong statutory profit after conduct, ECNs and tax
- YTD reserve movements include:
  - 3.0p increase from cash flow hedge reserve
  - 1.6p increase from HTM to AFS reclassification
  - 1.7p decrease from pensions impact
- YTD dividends includes; 2015 final dividend cash payment of 2.0p in Q2 and 0.85p interim in Q3

- **TNAV per share broadly stable on June with an increase of 0.8p before dividend payments:**

- Underlying profit offset by conduct and tax
- Impact of market movements from pensions largely offsets the held-to-maturity reclassification benefit
- 2016 interim dividend cash payment of 0.85p in Q3



## 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; 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, 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 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, 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 Q3 2016 Interim Management Statement.