LLOYDS BANKING GROUP

2017 RESULTS

Presentation to analysts and investors | 21 February 2018

Full year results – Introduction

António Horta-Osório
Group Chief Executive

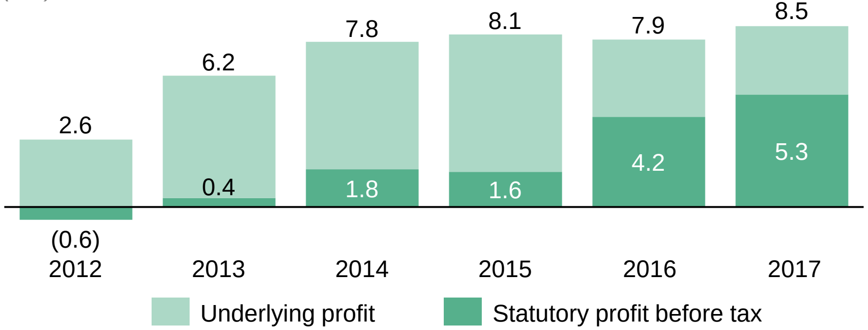
2017 a landmark year – strong strategic and financial performance

- **Group returned to full private ownership at a surplus for the UK taxpayer**
- **Successful delivery of GSR 2 with improved customer service, market-leading digital proposition, targeted lending growth and Simplification savings ahead of the original target**
- **Completed acquisition of MBNA and announced acquisition of Zurich's workplace pensions and savings business**
- **Restructured the business and reorganised the team; ready for the next stage of the Group's strategic journey**
- **Improved statutory and underlying profits and returns; growth in loans and advances**
- **Strong capital generation of 245bps and strengthened balance sheet**
  - CET1 capital required of c.13% plus a management buffer of around 1%
  - Total ordinary dividend of 3.05p per share, an increase of 20%, with a share buyback of up to £1bn, representing an increase in total capital returns of up to 46%; total return to shareholders of up to £3.2bn

Continued progress – business model is delivering increased profits and returns

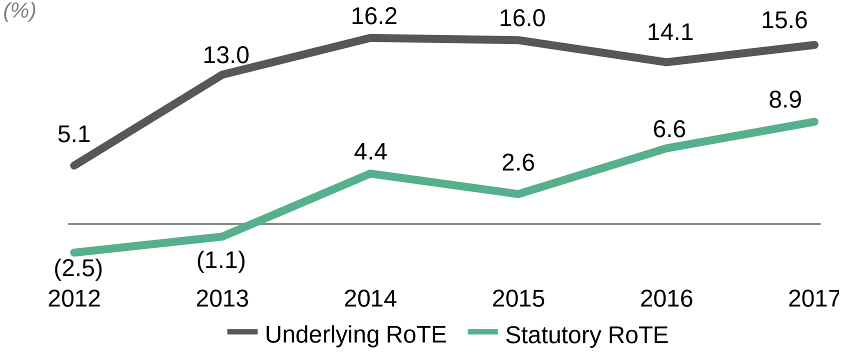
Profit progression

(£bn)



Returns progression

(%)



- **Statutory profit increasing: growth in underlying profit and reduction in below the line charges despite higher PPI cost**
- **Consistent strong underlying profit**
  - Net income growth of 5%, NIM up to 2.86%
  - Market-leading cost:income ratio of 46.8%
  - Strong asset quality with AQR of 18bps
  - Moody's upgraded Lloyds Bank's rating to Aa3 and S&P improved outlook to positive
  - Loan growth of £6bn with growth in targeted segments
- **Strong underlying RoTE of 15.6%, with the statutory RoTE increasing to 8.9%**

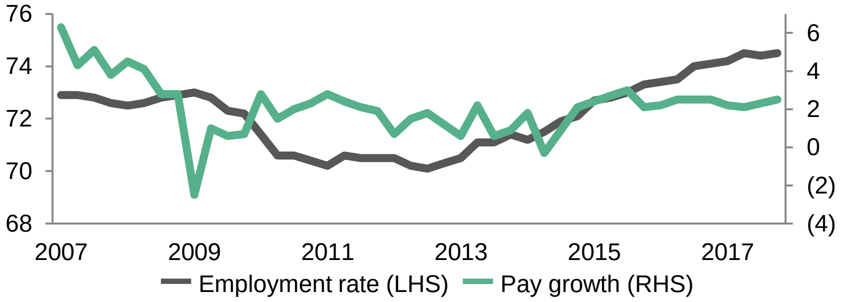
UK economy has proven resilient

Unemployment rate and GDP[1]

(%)

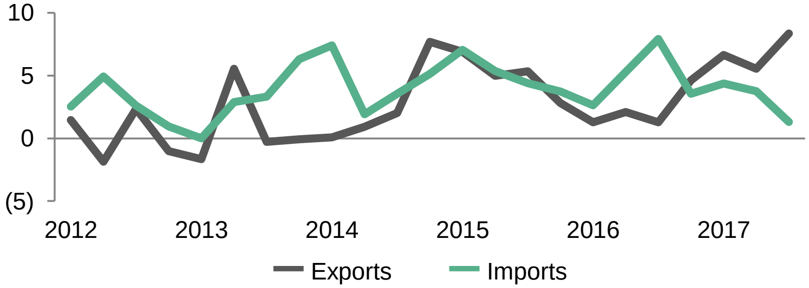
Employment rate[2] and pay growth

(%)



UK external trade volume growth[3]

(%)



- UK economy remains resilient; GDP growth of 1.8% in 2017 and expected to be similar in 2018
- Employment at record high, supporting consumption
- Inflation impacting consumers' real wages
- Low interest rate environment; rates expected to rise slowly
- Export growth consistently ahead of imports for first time in 6 years with higher earnings from UK foreign assets
- Global growth creates supportive backdrop

1 – Source: ONS. 2 – Source: ONS, % of 16-64 year-olds. 3 – Source: ONS

Summary – confidence in the Group's future prospects reflected in 2018 targets

- **Significant strategic progress in the year**
- **Continued strong financial performance**
  - Cost discipline and low risk business model continue to provide competitive advantage
  - Strong profit, returns and capital generation
- **Strong financial targets for 2018 reflecting the strength of the business model**
  - NIM expected to be around 2.90% for the full year
  - Cost:income ratio expected to improve further
  - Asset quality ratio expected to be less than 30bps
  - Capital generation expected to be 170-200bps, pre-dividend
- **The Group is well positioned for the future and enters the next stage of its strategic development with confidence**

Full year results – Financials

George Culmer
Chief Financial Officer

Strong statutory and underlying performance with continued improvement in profits and returns

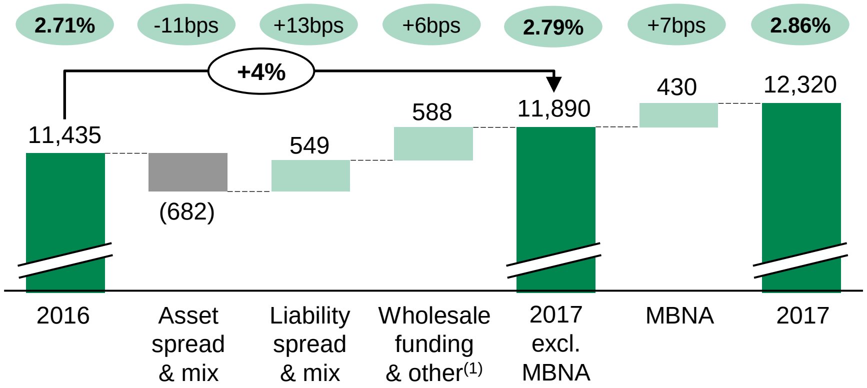
(£m)	2017	2016	Change
Net income	**17,472**	16,605	*5%*
Operating costs	**(8,184)**	(8,093)	*(1)%*
Impairment	**(795)**	(645)	*(23)%*
Underlying profit	**8,493**	7,867	*8%*
Charges and other items	**(3,218)**	(3,629)	*11%*
Statutory profit before tax	**5,275**	4,238	*24%*
Net interest margin	**2.86%**	2.71%	*15bp*
Cost:income ratio	**46.8%**	48.7%	*(1.9)pp*
Asset quality ratio	**0.18%**	0.15%	*3bp*
Underlying RoTE	**15.6%**	14.1%	*1.5pp*
Statutory RoTE	**8.9%**	6.6%	*2.3pp*

- **2017 statutory profit of £5.3bn up 24% with underlying profit of £8.5bn up 8%**
- **Strong Q4 performance, with NII up 14% on Q4 2016 and underlying profit up 7%**
- **2017 net income of £17.5bn up 5%; higher NII and other income offsetting increased operating lease depreciation**
- **Positive operating jaws of 4%, with the cost:income ratio improving to 46.8%**
- **Credit quality remains strong; with a net AQR of 18bps and gross AQR stable at 28bps**
- **Statutory RoTE of 8.9% up 2.3pp, with underlying RoTE of 15.6%**

Net income up 5% with improvements in net interest income and other income

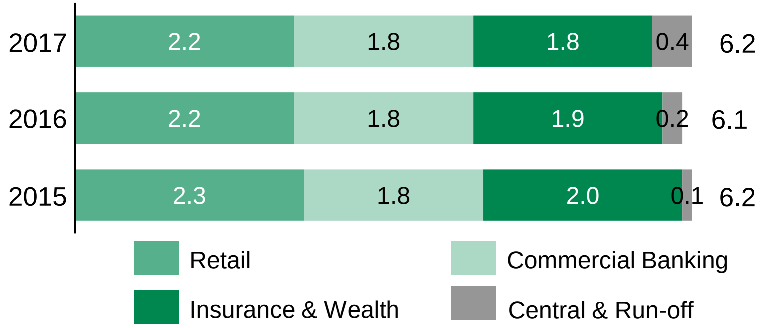
Net interest income and net interest margin

(£m)



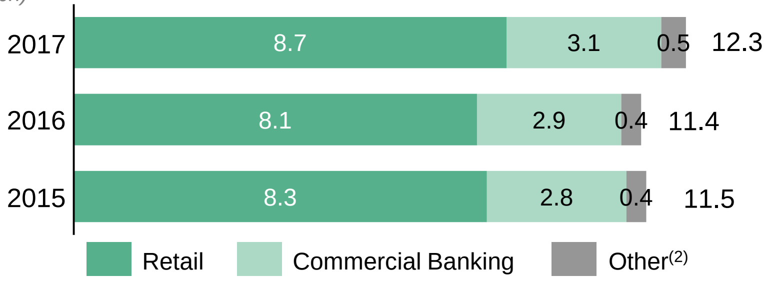
Other income

(£bn)



Net interest income

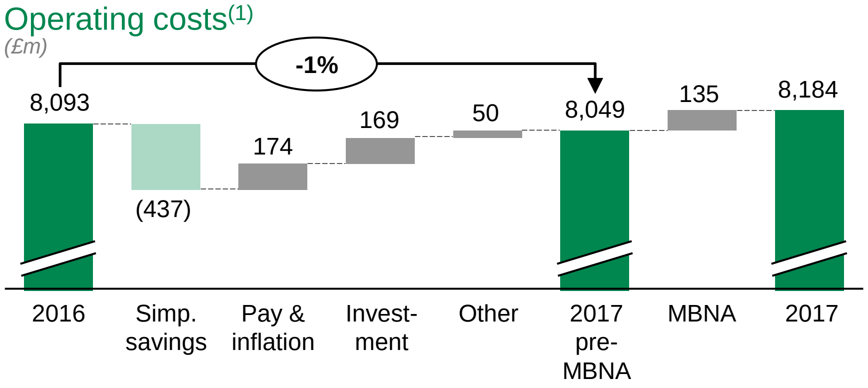
(£bn)

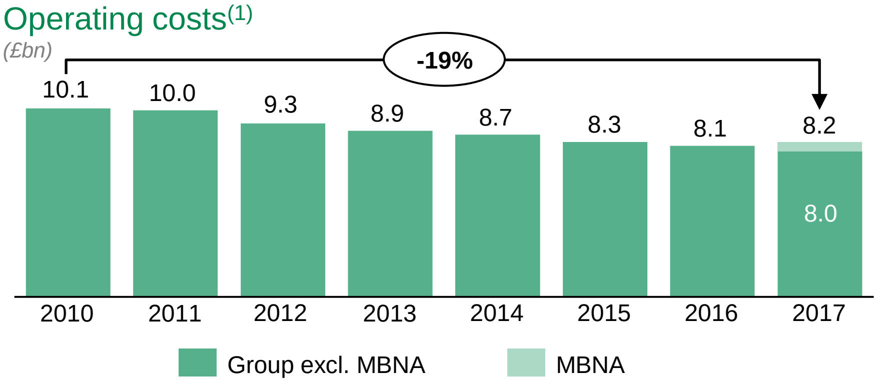


- **Improved NII of £12.3bn with 15bps increase in NIM and asset growth in targeted segments**
  - NIM: lower funding and deposit costs more than offset ongoing asset pressure; MBNA benefit 7bps
  - Q4 NIM stable on Q3 at 2.90%, +22bps on Q4 2016
- **Other income of £6.2bn up slightly on 2016**
  - 2% up after sale of Vocalink and treasury liquid assets
  - Robust divisional performance

1 – Other includes non-banking net interest income. 2 – Other includes Insurance & Wealth, Central and Run-off.

Operating costs continue to be tightly managed providing competitive advantage





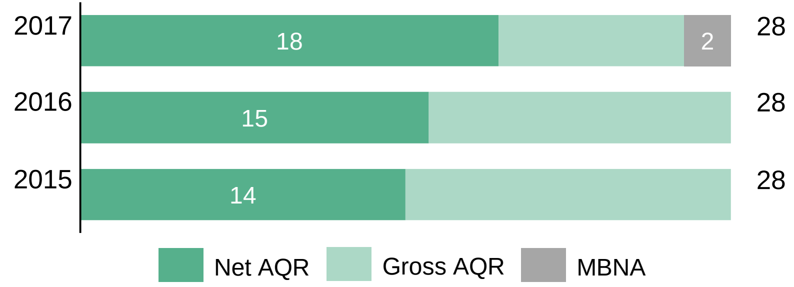
- **Operating costs down 1% year on year before MBNA, driven by Simplification savings**
- **Delivered enhanced Simplification run rate savings target of £1.4bn**
- **Operating costs reduced by c.£2bn, or 19%, since 2010 despite significant investment**
- **Market leading cost:income ratio improved to 46.8% and continues to provide competitive advantage**
- **Cost:income ratio expected to improve in 2018**

1 – Operating costs exclude operating lease depreciation.

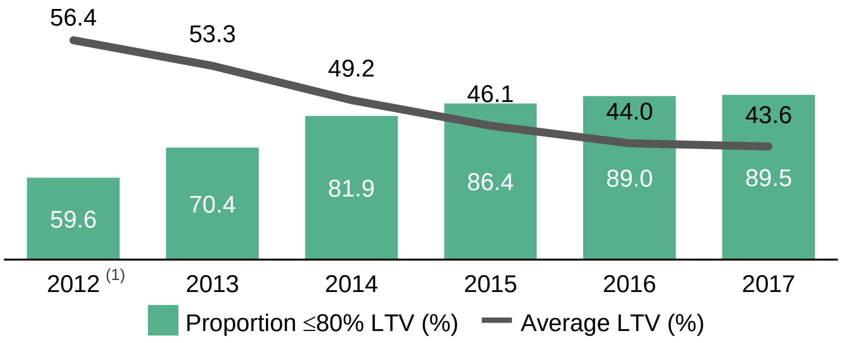
Asset quality remains strong reflecting a continued prudent approach to risk

Asset quality ratio

(bps)

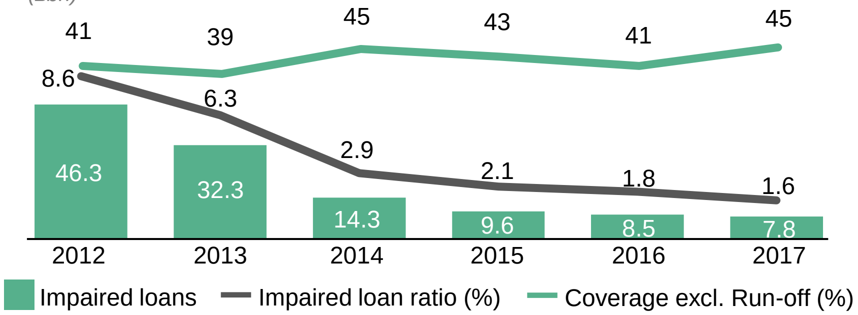


Mortgage portfolio quality



Impaired loans

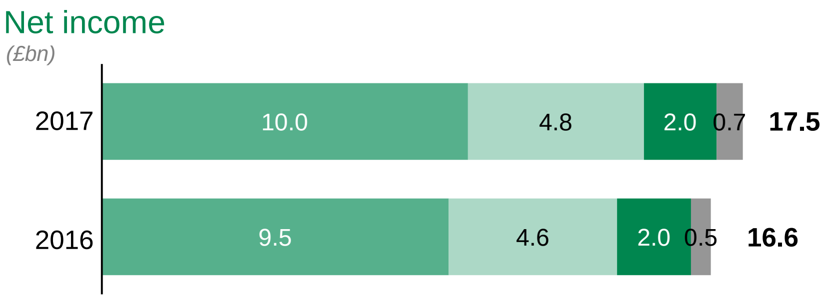
(£bn)

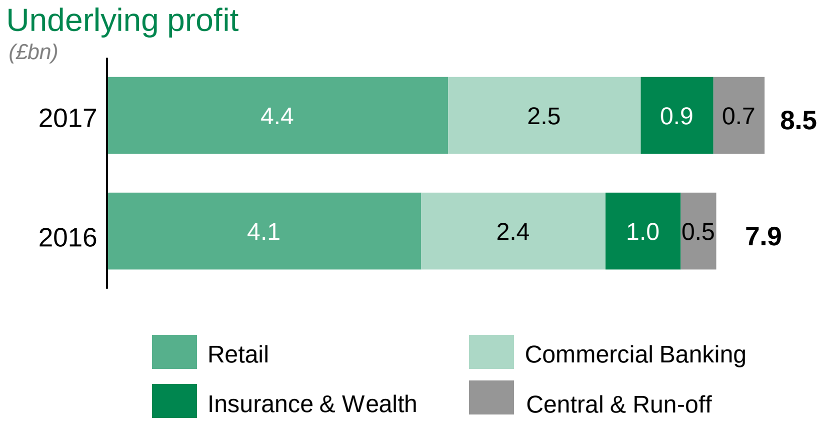


- **Gross AQR stable at 28bps with net AQR up due to lower releases and write-backs**
- **Continuing to benefit from low risk approach**
  - Strong mortgage affordability and LTV profiles
  - Portfolio optimisation in Commercial Banking
  - Low risk consumer lending with prudent residual value provision and prime credit card book
- **Impaired loan ratio 1.6% and coverage 45%**

1 – 2012 includes TSB.

Divisions showing continued progress and strong financial performance





Retail

- Underlying profit increased 9% with NII up 8%, 14bps improvement in NIM and OOI up 3%
- Lending up 3%, including open mortgage growth
- MBNA performing ahead of expectations

Commercial Banking

- Underlying profit up 5% with RoRWA 2.82%
- Net income up 5%, NIM up 18bps
- SME lending growth 2%, ahead of the market

Insurance and Wealth

- Underlying profit down 3% with life & pensions sales up 12% and new household premiums up 12%

Central and Run-off

- Gain on sale of Vocalink and treasury liquid assets

Significant improvement in statutory profit and returns

(£m)	2017	2016	Change
Underlying profit	**8,493**	7,867	*8%*
Market volatility and other items	**(82)**	(922)	
Restructuring costs	**(621)**	(622)	-
PPI	**(1,650)**	(1,000)	*(65)%*
Other conduct	**(865)**	(1,085)	*20%*
Statutory profit before tax	**5,275**	4,238	*24%*
Tax expense	**(1,728)**	(1,724)	-
Statutory profit after tax	**3,547**	2,514	*41%*
Effective tax rate	**33%**	41%	*(8)pp*
Statutory RoTE	**8.9%**	6.6%	*2.3pp*

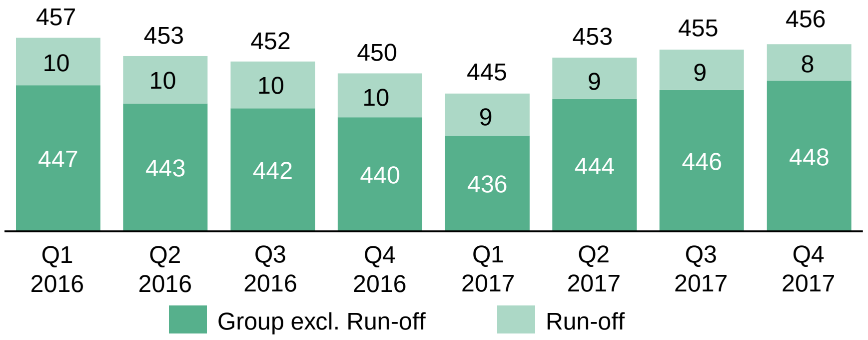
- **Statutory profit after tax of £3.5bn, up 41%**
  - Market volatility and other items in 2016 included the £790m charge for redemption of ECNs
  - Restructuring costs include Simplification, non-branch property rationalisation, ring-fencing spend and MBNA integration costs
  - PPI charge of £600m in Q4 with £2.4bn outstanding provision and other conduct charge of £325m in Q4
- **Effective tax rate of 33% largely due to conduct; lower than 2016 due to prior year DTA write-downs**
- **Statutory return on tangible equity of 8.9%**

Balance sheet – balance growth while continuing to optimise the portfolio

- **Loans and advances £456bn, up £6bn since 2016**
  - Open mortgage book growth in 2017 while continuing to focus on the Group margin
  - SME growth continues to outperform the market
  - Continued high-quality growth in unsecured lending portfolio
  - Consolidated the £8bn prime MBNA credit card book in Q2; portfolio in line with expectations
- **RWAs include £7bn for MBNA**
  - Improved capital returns and RWA efficiency through business mix optimisation
  - Continued de-risking of portfolio

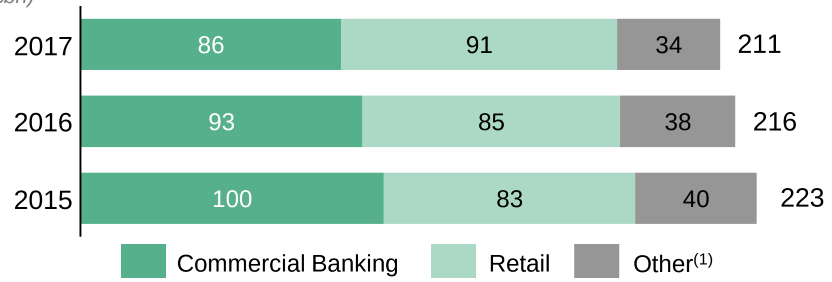
Loans and advances

(£bn)



Risk-weighted assets

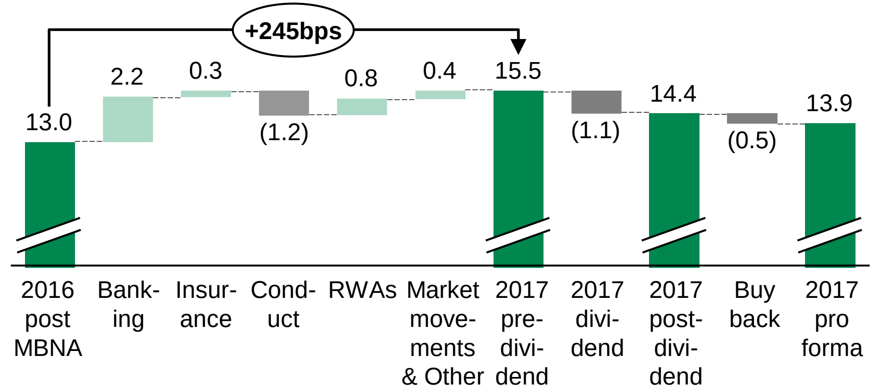
(£bn)



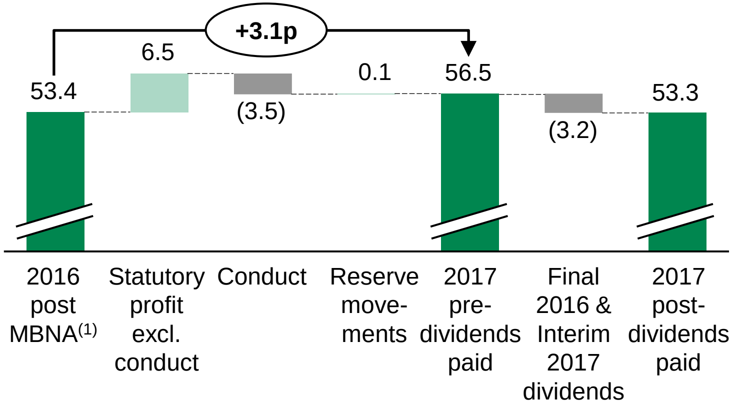
1 – Other includes Insurance & Wealth, Central, Run-off and threshold RWAs.

Capital generation very strong with capital ratios enhanced

Common equity tier 1 ratio *(%)*



TNAV per share *(pence)*



- **CET1 capital generation of 245bps**
  - CET1 ratio of 15.5%, 13.9% post-ordinary dividend and buyback
  - Total ordinary DPS 3.05p, up 20%, with a share buyback up to £1bn
  - Total return to shareholders up to £3.2bn, an increase of up to 46%
- **CET1 capital required c.13% plus a management buffer of around 1%**
- **Total capital remains strong at 21.2%; UK leverage ratio of 5.4%**
- **Future pension contributions agreed and reflected in ongoing capital generation guidance of 170-200bps**
- **TNAV generation of 3.1p fully offset by dividends paid in the year**
- **IFRS 9 day 1 CET1 impact 30bps before transitional relief, 1bp after**

1 – 2016 reported TNAV 54.8p, adjusted for 1.4p impact of MBNA acquisition.

Summary – confidence in the Group's future prospects

- **Continued strong financial performance**
  - Cost discipline and low risk business model continue to provide competitive advantage
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- **Strong financial targets for 2018 reflecting the strength of the business model**
  - NIM expected to be around 2.90% for the full year
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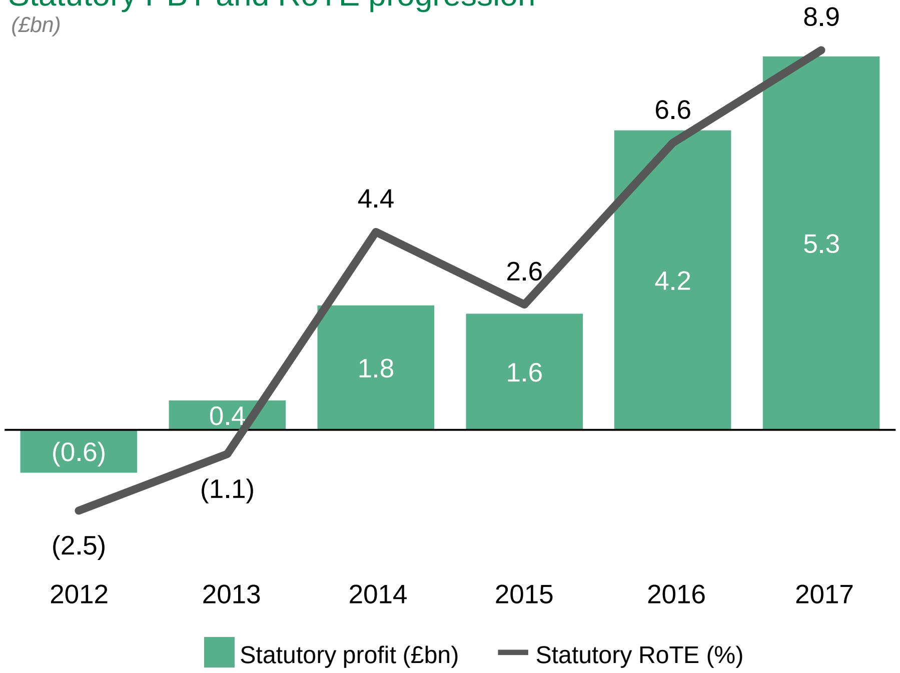
  - Asset quality ratio expected to be less than 30bps
  - Capital generation expected to be 170-200bps, pre-dividend
- **Significant strategic progress in the year; the Group is well positioned for the future and faces the next stage of its strategic development with confidence**

Statutory PBT and RoTE progression

(£bn)



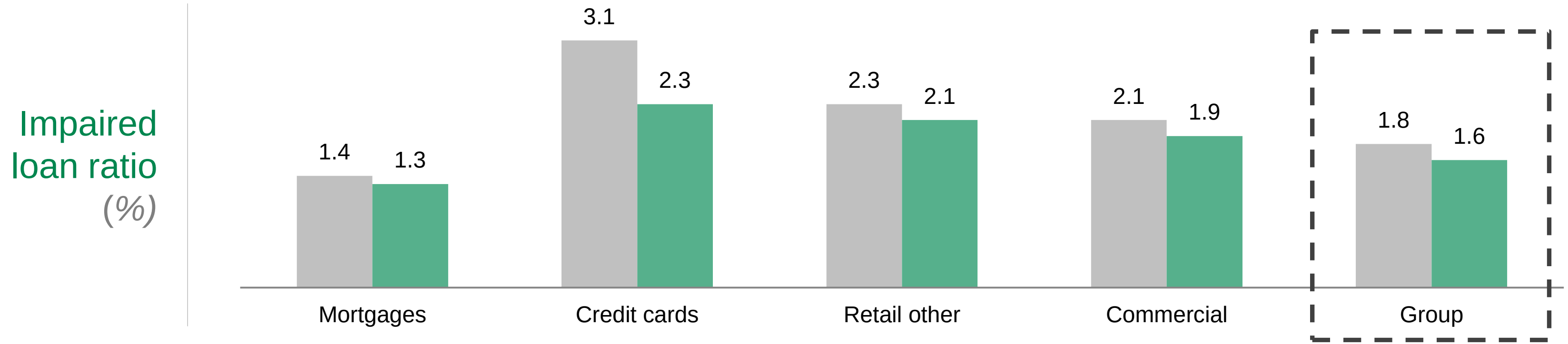
Appendix

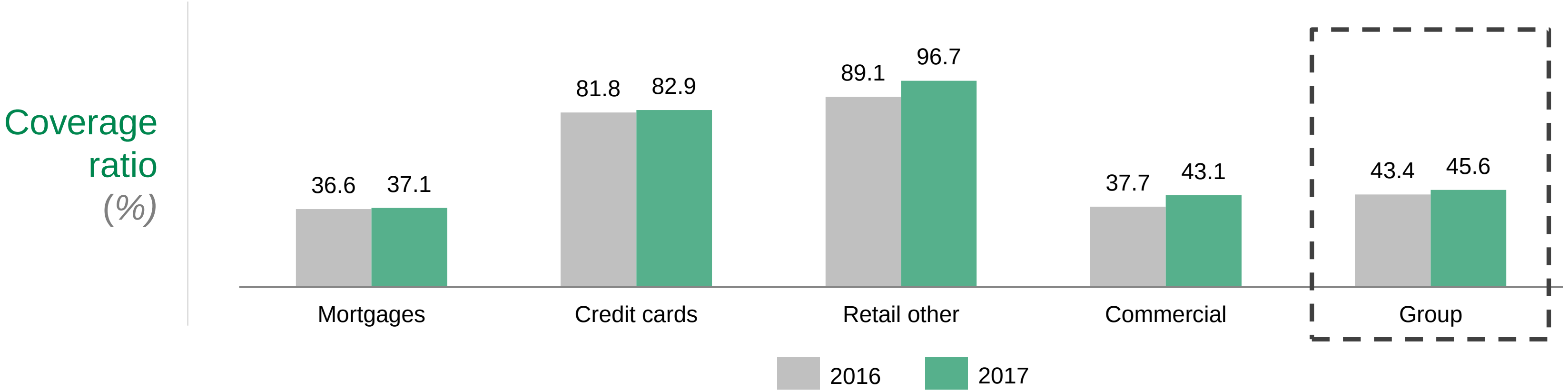
Mortgage LTVs – further improvement in 2017

	Dec 2017				Dec 2016	Dec 2015	Dec 2010
	Mainstream	Buy to let	Specialist	Total	Total	Total	Total[1]
Average LTVs	41.7%	53.0%	47.4%	**43.6%**	**44.0%**	46.1%	55.6%
New business LTVs	63.7%	59.1%	n/a	**63.0%**	**64.4%**	64.7%	60.9%
≤ 80% LTV	88.5%	94.6%	88.8%	**89.5%**	**89.0%**	86.4%	57.0%
>80–90% LTV	9.0%	4.1%	6.4%	**8.0%**	**8.0%**	9.0%	16.2%
>90–100% LTV	2.1%	0.7%	1.6%	**1.9%**	**2.3%**	3.5%	13.6%
>100% LTV	0.4%	0.6%	3.2%	**0.6%**	**0.7%**	1.1%	13.2%
Value >80% LTV	£25.9bn	£2.9bn	£1.8bn	**£30.7bn**	**£32.4bn**	£41.1bn	£146.6bn
Value >100% LTV	£1.0bn	£0.3bn	£0.5bn	**£1.8bn**	**£2.1bn**	£3.4bn	£44.9bn

1 – 2010 LTVs include TSB.

Prudently provisioned – coverage ratio increasing across the Group while impaired loan ratio falls





Forward looking statement and basis of presentation

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This document contains certain forward looking statements with respect to the business, strategy, plans and /or results 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 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, inflation, 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, instability as a result of the exit by the UK from the European Union (EU) and the potential for 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 the security of IT and operational infrastructure, systems, data and information resulting from increased threat of cyber and other attacks; 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 together with any resulting impact on the future structure of the Group; the ability to attract and retain senior management and other employees and meet its diversity objectives; 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 in the inside cover of the 2017 Results News Release.

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