Lloyds Banking Group
Half-year update
2017

HELPING BRITAIN PROSPER

António Horta-Osório
Group Chief Executive

1.0p
interim dividend
per ordinary share, up 18%

£4.5bn
underlying profit, up 8%

Dear Shareholder

We have delivered another strong financial performance in the first half with increased underlying and statutory profit and strong capital generation.

We have returned to full private ownership, completed the acquisition of MBNA and have made good strategic progress. As a simple, low risk, UK focused bank we are well placed to continue to help Britain prosper.

Operating environment

The UK economy remains resilient following strong employment and GDP growth in recent years together with private sector deleveraging and rising house prices. Inflation is however now rising above disposable income given the recent depreciation in sterling and, while this may affect consumption going forward, the economy should benefit from rising exports and earnings from foreign assets.

The regulatory environment continues to evolve and there are a number of areas on which we await further clarity including Basel IV, but given the strength of our balance sheet and the capital generative nature of our business model, we are well placed to meet these requirements.

Financial performance

The Group has delivered another strong financial performance in the first half of the year. Underlying profit was 8 per cent higher at £4.5 billion with underlying return after tax on tangible equity 1.5 percentage points higher at 16.6 per cent. Income was 4 per cent higher reflecting higher net interest income and other income. Operating costs continue to fall as delivery of the Simplification programme drives further efficiency, and the Group's cost:income ratio fell to 45.8 per cent. Asset quality remains strong and the asset quality ratio remained stable at 12 basis points. Statutory profit before tax increased 4 per cent to £2.5 billion. This was after taking additional provisions for PPI and other conduct related issues which was disappointing. The Group is also currently undertaking a review of the HBOS Reading fraud and is in the process of paying compensation to the victims of the fraud for economic losses, ex-gratia payments and awards for distress and inconvenience. The strong underlying performance has nevertheless enabled the Group to generate approximately 100 basis points of CET1 capital in the period, at the top end of our guided range.

Our differentiated UK focused business model continues to deliver with our cost leadership and lower risk positioning providing competitive advantage.

Our balance sheet remains strong, with a pre dividend CET1 ratio of 14.0 per cent (13.5 per cent post dividend), a total capital ratio of 20.8 per cent and a leverage ratio of 4.9 per cent. Given the strong capital generation in the first half of the year, the Board has recommended an interim ordinary dividend of 1.0 pence per share, an increase of 18 per cent.

Strategic progress

We have continued to make good progress on our strategic priorities in 2017 as we approach the final months of our plan period.

Creating the best customer experience

As a customer focused business, we are committed to meeting our customers' evolving needs and preferences through our multi-brand and multi-channel approach. We operate the UK's largest branch network and the largest digital bank with nearly 13 million active online users. We have more than 8.5 million mobile banking users and for the third consecutive year, the Lloyds Bank app has been rated the most feature rich mobile banking app of all the UK major banks.

Improvements continue to be made across the business as we transform key customer journeys. In Mortgages, customers can receive an agreement in principle in less than 15 minutes and there has been a 36 per cent increase in customers receiving their mortgage offer in less than 14 days with some offers now in two working days. In account opening and onboarding we have opened 300,000 branch savings accounts in less than 30 minutes with a new streamlined process that has halved appointment times. In Commercial Banking we have delivered a 77 per cent increase in the proportion of SME clients onboarded in less than 30 days, with approximately 50 per cent using digital agreements. In Insurance, a core part of our strategy, we have received a number of industry and consumer awards across our key business propositions.

Becoming simpler and more efficient

Cost management continues to be a strategic priority and we remain focused on maintaining competitive advantage through our cost leadership. The Simplification programme is on track to deliver the target of £1.4 billion of annual run-rate savings by the end of 2017, with £1.2 billion of run-rate savings delivered to date. The savings have been delivered through process redesign and automation, improvements in our sourcing arrangements and through organisational changes. These will remain areas of focus as we move into the next phase of our strategy. The Group's market-leading cost:income ratio improved to 45.8 per cent and we continue to expect to exit 2019 with a cost:income ratio of around 45 per cent.

Delivering sustainable growth

We are making good progress in growing market share in areas where we are underrepresented. In Consumer Finance we have grown our motor finance and credit card portfolios organically and the acquisition of MBNA allows us to significantly increase our participation in the UK prime credit card market within our prudent risk appetite. In addition, we have continued to grow SME lending ahead of the market and are committed to supporting first-time home buyers where we are still the largest lender. Open book mortgage balances at 30 June were broadly stable compared to the end of 2016, including the reacquisition of a portfolio of mortgages from TSB, and we expect them to grow in the second half of the year. In Insurance, we continue to invest in developing the brand and the business, including our financial planning and retirement capabilities and have also completed five bulk annuity deals in 2017.

Our strong financial performance and strategic progress continue to position us well for delivering our purpose of Helping Britain Prosper.

We remain committed to supporting the people, businesses and communities in the UK through our Helping Britain Prosper Plan. As part of this plan, we have already provided more than £4 billion in funding support to the manufacturing sector, ahead of our original 2014 target. We have also supported more than 63,000 start-ups and helped around 2,500 clients to start exporting this year and we are on track to exceed our 2017 targets in both areas.

We have also announced that our next strategy update for the period 2018-2020 will accompany the Group's full year results in February 2018, and in preparation for this we have made a number of organisational and senior management changes. The changes are aimed at aligning and strengthening the Group's structure to ensure we meet evolving customer needs and deliver the continuous transformation required of the organisation in the most effective way.

The combination of the progress we have made towards our strategic priorities and our strong financial performance has enabled the Group to be returned to full private ownership with the UK taxpayer receiving approximately £900 million more than the £20.3 billion originally invested.

Outlook

Our differentiated UK focused business model continues to deliver with our cost leadership and lower risk positioning providing competitive advantage, and our updated financial targets reflect our confidence in the future prospects of the Group.

For the full year, and after including MBNA, net interest margin is now expected to be close to 2.85 per cent and the asset quality ratio is expected to be less than 20 basis points. We continue to expect capital generation for 2017 at the top end of the ongoing 170-200 basis points range and for the cost:income ratio to be lower than in 2016. All other longer term guidance remains unchanged.

António Horta-Osório
Group Chief Executive

KEY MILESTONES IN RETURNING TO PRIVATE OWNERSHIP

OCT 2008
Government takes stake
43.4%

2009
LLOYDS BANKING GROUP
Lloyds Banking Group formed

2011
António Horta-Osório becomes Group Chief Executive

2011
HBOS integration complete and new strategy launched

2014
HELPING BRITAIN PROSPER
Launch of Group's purpose with 24 targets to help the people, businesses and communities of the UK

2014
TSB
Successful Initial Public Offering of TSB

2014
Recommenced dividend payments

2015
Government stake
9%

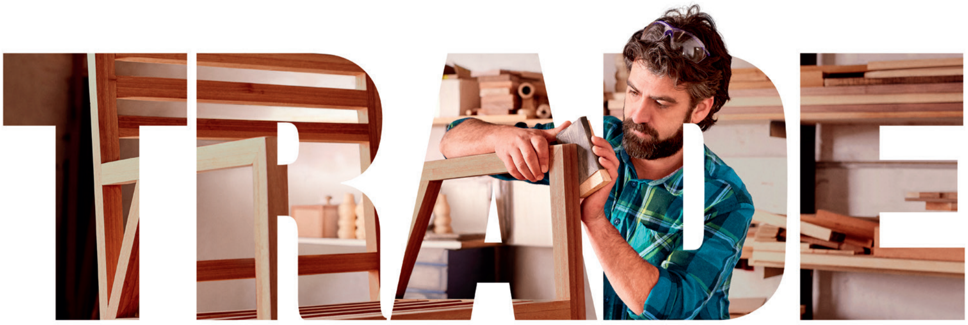
2015
>11.5m
online customers – UK's largest digital bank

MAY 2017
Lloyds Banking Group returns to full private ownership
Government stake
0%

JUNE 2017
mbna
Acquisition of MBNA completed

JULY 2017
Interim dividend per ordinary share
1.0p
up 18%

WE'RE HELPING BRITAIN…



Committed to increasing our business lending by up to £2bn in 2017

Lending up to £10bn to help people move into their first home in 2017

Aiming to create over 8,000 apprenticeships with permanent employment by 2020

Dividend

Key dates for the payment of the dividends are:

10 August 2017
Shares quoted ex-dividend

11 August 2017
Record date

30 August 2017
Final date for joining or leaving the dividend reinvestment plan

27 September 2017
Interim dividend paid

Other dates for your diary

25 October 2017
Q3 interim management statement

21 February 2018
Full year 2017 results
Group strategic update III

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Statements to note

This 2017 half-year update should be read in conjunction with Lloyds Banking Group's 2017 half-year results. This 2017 half-year update is provided for information purposes only, and is not intended to be a substitute for reading the 2017 half-year results. You are also referred to the Helping Britain Prosper Plan update for 2016/2017 for further information.