LLOYDS BANKING GROUP PLC –Q1 2017 INTERIM MANAGEMENT STATEMENT PRESENTATION

Thursday 27 April 2017

António Horta-Osório, Group Chief Executive

Good morning everyone and thanks for joining our 2017 first quarter results presentation. I am going to give a short overview of the key highlights and George will cover the financial results. We will then have some time for questions at the end.

Turning to slide 1, for those of you following the website presentation. Building on our strong 2016 performance, in the first three months of this year our simple, low risk, UK focused multi-brand business model has continued to deliver, with underlying profit increasing to £2.1 billion and statutory profit before tax doubling to £1.3 billion.

The Group continues to deliver positive operating jaws with stable income and lower operating costs in the quarter, and our market leading cost:income ratio has further improved to 47.1 per cent.

UK economic performance remained strong in the first quarter and continued to benefit from low unemployment and reduced levels of indebtedness. We continue to expect GDP growth in 2017 similar to the level seen in 2016, of around 2 per cent.
Given this robust UK economic backdrop and our low risk business model, asset quality remains strong and is stable across the portfolio, with a net asset quality ratio of 12 basis points in the quarter.

This financial performance has resulted in strong capital generation of around 70 basis points in the quarter, with a CET1 ratio, pre dividend accrual, of 14.5 per cent, which still includes the retention of 80 basis points for the MBNA acquisition, which we continue to expect to complete by the end June.

We are making good progress in delivering the final year of our current strategic plan and remain focused on fulfilling our commitments to individuals, businesses and communities as set out in our Helping Britain Prosper Plan.

In terms of our financial guidance, we remain confident in our ability to deliver the targets we set for 2017 and have today improved our full year margin and AQR guidance, where we now expect to deliver a margin of close to 2.80 per cent and an AQR inside our existing 25 basis points guidance.

While on capital generation, given the strong first quarter performance, we now expect to be at the top end of our 170 to 200 basis points ongoing guidance range for 2017.

In terms of asset growth, we have seen continued net lending growth in our key targeted growth areas of Consumer Finance and SME, while in Global Corporates we have continued to optimise for capital and returns.

With regards to the open mortgage book, where balances continued to decline in the first quarter, as discussed at the year end results presentation we have already taken measures which will stabilise and then grow the book, such that full year balances should close in line with December 2016.

Finally, I am pleased to see that the hard work undertaken in the last six years to transform and simplify the business has allowed the UK government to recover their investment in Lloyds. As the Government announced last Friday, £20.4 billion has now been returned to date, including dividends, on its original £20.3 billion investment, with further proceeds to come as UKFI completes its divestment.

I would now like to pass the call over to George, who will run through the financials.

George Culmer, Chief Financial Officer

Thanks António and good morning everyone. As you have heard, underlying profit for the first three months increased to £2.1 billion, an increase of 1 per cent on Q1 last year. Underlying return on tangible equity was a strong 15.1 per cent and again marginally up on the prior year.

Net income was £4.4 billion, with a 1 per cent increase in net interest income to £2.9 billion and stable other income of £1.5 billion.

Operating lease depreciation increased 20 per cent and in line with strong Lex Autolease fleet volumes in the first quarter.

Operating costs of £2.0 billion were down 1 per cent, through our continued focus on cost control and run-rate benefits from our Simplification programme. And as you've heard, this further improved our market-leading cost income ratio and has driven the positive operating jaws of 1 per cent.

On credit, impairments fell 15 per cent to £127 million with a net AQR of 12 basis points, which comprised 23 basis points of gross impairment and around 11 of releases and writebacks.

This is slightly ahead of expectations, due to the better than expected releases and write backs, and we now expect the 2017 full year net AQR to be inside the previously guided 25 basis points.

Looking at income in slightly more detail. The 1 per cent increase in net interest income was driven by the expected improvement in margin, offset by a slight reduction in average interest earning assets.

The NIM now stands at 2.80 per cent and is 12 basis points higher than in Q4 2016. This was driven by lower deposit and funding costs, including a full quarter's benefit from the deposit re-pricing implemented in Q4, and the continued optimisation of our wholesale funding and capital base.

And, as António has mentioned, we are improving our 2017 full year NIM guidance and now expect the margin to be close to 2.80 per cent.

Average interest earning assets were down £3 billion in the quarter, with growth in Consumer Finance and SME, offset by reductions in Global Corporates and mortgages.

In Global Corporates, average assets were down £2 billion as we continue to optimise for capital and returns, while in mortgages, average assets were also down by £2 billion, with the reduction split evenly between the open and closed books. As just mentioned, we expect the open book mortgage balances to stabilise and then grow, such that they close the year in line with 2016.

Other income of £1.5 billion was slightly up on the prior year and in line with the historic quarterly run-rate. This year-on-year increase was largely driven by Consumer Finance led by fleet growth in Lex Autolease, which offset slightly weaker Retail and Commercial Banking income, while Insurance was stable year-on-year and benefitted from further bulk annuity transactions.

Looking at statutory profit. Statutory profit before tax has doubled year-on-year to £1.3 billion, with a return on tangible equity of 8.8per cent, compared with 5.7 last year.

Market volatility and other items were £72 million in the quarter and considerably lower than prior year which included, of course, the ECNs redemption charge.

Restructuring costs were £157 million which includes severance costs relating to the final year of our current Simplification programme, the non-branch property portfolio rationalisation project and the implementation of the Group's non-ring-fenced bank.

On PPI, as you know, we took a further £350 million during the first quarter in response to the revised PPI policy statement issued by the FCA in early March. The additional provision includes the estimated impact of the revised pro-active communication arrangements for previously defended Plevin complaints and the two month extension to the time bar to the end of August 2019.

On other conduct, as recently announced, the Group has taken a £100 million provision to cover the package of measures we are providing to customers impacted by the HBOS Reading fraud, as well as a further £100 million for Retail conduct matters.

Finally, our tax charge was £414 million, representing an effective rate of 32 per cent. This is slightly above our medium term guidance of around 27 per cent largely due to the non-deductibility of certain conduct provisions in the quarter.

Finishing then with capital. As you've heard, the Group delivered strong capital generation in the Q1 of 70 basis points and our CET1 ratio, prior to the dividend accrual, therefore increased to 14.5 per cent at the end of March, and this is inclusive of around 80 basis points still retained for the MBNA acquisition.

The 70 basis points of capital generation was driven by strong underlying profit, with conduct charges of around 30 basis points offset by a small benefit from positive market movements, primarily in our AFS portfolio, as well as further RWA reductions.

Given this strong performance we now expect the full year capital generation to be at the top end of our 170 to 200 basis points ongoing guidance range.

Elsewhere, the Group's total capital ratio also continues to remain strong at 21.9 per cent and the leverage ratio was stable at 5.0 per cent.

Finally, our TNAV per share increased by 1.7 pence to 56.5 pence at the end of March. Again this increase was again driven by strong underlying profit, with conduct charges largely offset by positive reserve movements.

So, in summary, the Group's simple, efficient and low risk business model has continued to deliver strong statutory profit and capital generation.

The Group is well positioned for the future and we have today improved our net interest margin and asset quality ratio guidance for 2017.

That concludes today's presentation and we are now available to take questions.

<u>Question and Answer Session</u>

<u>Question 1: Chris Manners, MORGAN STANLEY</u>
Good morning António, good morning George. Two questions if I may. The first one was on the net interest margin. Obviously great prints in the quarter, nice to see the liability re-pricing there. Could I ask in the rest of the year, ex-MBNA, are we expecting it to tail off a little bit, I see you're saying that FY17 NIM is going to be close to 280, so are we to assume that there will be a bit of a drift and maybe you could talk about why that would be, if that's maybe being a bit firmer in mortgages means pricing comes down a little bit or something like that?

And the second question was on capital return. I guess you have built 70 basis points in Q1, despite quite a lot of below the line charges. Maybe you could explain why it is only 200 basis points for capital generation for the year? And when I look at that 200 basis points, if I look at your RWAs you have at the moment, that would mean about £4.3 billion of free capital generation which is about 6p per share, would it be sensible to assume that that 6p could come back to shareholders or are there other things, for example IFRS9 that mean we should temper our expectation there a little bit? Thank you.

Answer: George Culmer
Okay Chris, a few questions there. A sort of common answer to both which is, look this is early in the year, we are just at Q1, we have had a strong Q1 both in capital generation and in net interest margin. We have still got 9 months of the year to fold out, so these are early views of the year. To your NIM, we are pleased with our performance, we said coming into this year that we would hope to, for example, have the mortgage book in line with where we started and a NIM in excess of 2.70 per cent, we are now sticking to that volume target, but saying essentially we will be closer to 2.80 per cent.

In terms of managing, yes there will be ons and offs. There is a bit around scale. I appreciate your focus upon this, but the one or two basis points is not material in the overall shape of the Group. We have already taken a number of the actions we planned to do in terms of feeding through into the mortgage book. There will be a number of small moving parts in terms of where rates go, in terms of how our competitors respond, in terms of just how we manage the spread between the two. But I would not read anything overly into that. We are pleased with where we have got to, we have got our volume targets, whereas we essentially improved our NIM target in attaining those volume goals and I think that is the key bit.

And then similarly on the capital, yes you are right, 70 basis points is good, strongly capital generative. What we are essentially doing as I said is, it is the start of the year, we are essentially locking in that out-performance. We talk about the 170-200 basis points you know, we are locking in that out-performance that we have seen in Q1. We are pleased with those positive trends, underlying profit is strong, below the line charges are well down on prior year. To the last part of your question, again you have heard the answer before, we will stay the same. In terms of how we use that capital will be decided by the Board, and we will talk about the Interim at the Interim stage, but at the year end. So I am not going to speculate on what might or might not happen, but your maths was sort of correct. But the usage, that is a decision for the Board and the Board will take that at the appropriate time.

Further question
Fair enough. I was just thinking, if you are going to do 200 basis points of capital generation this year. You have done 70 in Q1, that will mean a fade to about 43 basis points a quarter for the remaining three-quarters. But I just thought that your below-the-line charges should be lower, so it just seemed a conservative target, that's all I was getting at.

Further answer: António Horta-Osório
Chris just to help George a little bit here. I mean we are just telling, I mean we had the year end results presentation two months ago. We had a strong quarter, we are basically updating the guidance. We have fulfilled the performance of quarter one, and that is what you should read into it.

Chris Manners
Okay, that makes sense, thank you.

<u>Question 2: Raul Sinha, JP MORGAN</u>
Morning Antonio, morning George. Can I just start with the NIM please and maybe try and get your thoughts on both the asset and liability side. So on the NIM if you could talk about why you haven't seen more asset spread pressure in the first quarter? There has been clearly a lot of very aggressive pricing out there on the mortgage side. And I was just wondering why we only saw two basis points, is there something specific in there that might have resulted in lower asset spread pressure in Q1 that will come back in the few quarters after?

And then the second part on the NIM is in terms of the liability spread. Have we seen all of the re-pricing baked in? And could you give us an update on what size the term deposit book is now and what the pricing on that is? I am just trying to understand whether we have reached a plateau in terms of fall of liability costs. And then from here should we expect there to be no more re-pricing tailwinds or is there more to come after the ISAs for example?

Answer: George Culmer
It's George here. So dealing with the second one first. Yes in terms of the base rate cut inspired pricing then that has flowed through. In terms of things that pertain back to that particular event. And in terms of your question, within my retail savings book, you know savings are now about £169 billion which is a couple of billion down on where it was at the year end and the cost of those is about 57, and it was 62-63 in terms of 2016. And you can see that has come down. But beyond that we do also always continue to optimise and I know you have heard this before, but in terms of the funding. Not just in terms of across retail and commercial, but the wholesale side of things as well. But also the commercial funding, you know the Commercial Bank's gone up from sort of £133 to £136 billion and again those deposits are costing us you know considerably inside of 57. So we continue to optimise across Commercial Retail and again on the wholesale side of things, obviously we were able to do a number of things back end of last year in terms of retiring expensive funding. And this year we have drawn and said we will continue to

draw the TFS allowance which we will utilise as well. So the actions that specifically related to the base rate cut are finished, going forward we will continue to manage as we have done and there is always some more we can do to manage it on a tactical basis. But the things that relate to the base rate cut have gone, but we will continue to manage the individual balances, the spread between the commercial and retail and then the spread between customer balances and wholesale is part and parcel of what we do and that has not finished.

On the NIM bit, in terms of managing that asset, what you see is the sort of evidence of how we are managing the asset side of the portfolio. And we are down a few basis points as we have been down a few basis points in the last few years. But it is our ability to utilise the multi-brand approach in our channels in terms of minimising those asset costs. So managing that margin volume trade-off. You know, yes the mortgage market does remain tough and you know what our goal is, but it is simply evidence of how we are able to manage across the brand.

Further question
Could I have a follow-up George, just on IFRS9, I did ask this at the full year as well. I am hoping I might get a better answer now because I think yesterday, Standard Chartered said it is a few tens of basis points, they seem to have broken cover. Would you have any updated thoughts on the impact of IFRS9 please?

Answer: George Culmer
Okay, I am not sure you are going to get a better answer! Look Raul, we will update later in the year in terms of what the impact will be, I saw Standard Chartered and I think Virgin came out with a number as well. We will update later in the year. Please don't take that in any way that the project is behind. The project is exactly where we want it to be and we are progressing through in terms of understanding the variances etc. I don't know if Standard Chartered were pre or post transitional, all those sort of things, it's still evolving in terms of capital treatment, but we will update later in the year. But please don't take that as we are behind or anything like that.

Raul Sinha
Great, thanks very much.

<u>Question 3: Chris Cant, Autonomous</u>
Good morning, thanks for the call guys. I just wanted to follow-up on some of the press commentary linking Antonio to various other roles in the banking industry. Obviously you have been with Lloyds now for a number of years, successfully helped the Government exit its position at a small profit. I was just wondering if you could speak to your happiness at Lloyds. Are you likely to stay for the foreseeable future? Thanks.

Answer: António Horta-Osório
Well if you caught my press call, you heard the answer. I really don't have anything to add to that insistent question. I am happy here. I am not here for those so many years as you say. This is a great bank, we have lots to do, we have the MBNA transaction to close, to integrate. There is always more to do and I am happy here and really don't have anything to add to what I said previously.

Chris Cant
Okay, thanks.

<u>Question 4: Rohith Chandra-Rajan, BARCLAYS CAPITAL</u>
Hi morning, Rohith Chandra-Rajan from Barclays. Can I just come back to the NIM actually. As you said, you gave us guidance a couple of months ago and it has improved. I was just wondering if you could help us really understand. It sounds as if the Q1 outturn has been better than you were expecting and you think that will be largely sustained throughout the year based on your comments to Chris' question earlier. Is it the deposit re-pricing piece which is obviously the biggest moving part in the quarter that turned out better than you expected? Or is there anything else going on there? So that would be the first one.

And then secondly, on the open mortgage book. Just to understand if you can remind us of the action you are going to be taking there and is it reasonable to expect stabilisation in Q2 and maybe growth in the second half of the year? Is that the right sort of trajectory? Thank you.

Answer: António Horta-Osório
Okay, let me help to add some colour because George already answered that question, but you want some colour and rightly so. I will give you some colour on this. So we are the only bank in the UK that operates with a multi-brand model as you know. I have repeatedly stated in this call that the multi-brand is a very interesting strategy because different customers have different preferences and it gives us additional levers in order to manage our margin. As I told you as well both the referendum and given our very low risk profile, we have had an abnormal influx of deposits, especially on the Lloyds brand and on the commercial banking side which enabled us to continue our work of managing margin and pruning other high cost deposits. So this has all continued as we have said at year end. Relating to the previous questions and George's answer, we basically see the environment as the same. We continue to expect the competitive market in mortgages to drive spreads slightly down as it has been happening over the last few quarters. And as George said, we still have the cost of deposits at 57 basis points above the average of the sector and we will continue within a multi-brand strategy to bring the cost of those deposits also down as the asset prices are coming down and we believe that the margin as a consequence will be close to 2.80 per cent which is an upgrade on the guidance. So we manage as you know the balance sheet in an integrated way top down. What is really important for us we believe is the right thing to do which is focus on the difference of the assets of the liability margin. Things have been going a bit better than we expected and as George said, one quarter already went by and therefore we are confident of increasing the guidance of the margin, the strategy we have been following is very much the same we have been following over the last two years and this is very much a Lloyds specific strategy. I would say, given our multi-brand model and the way we manage margin.

Further question
Sorry Antonio can I just clarify on that. In terms of the piece that has gone better, it sounds I think from your comment that sort of deposit re-pricing has perhaps gone a bit better because you obviously had a lot of inflows and you can manage by brand, is that the right interpretation?

Answer : António Horta-Osório
The right interpretation is that we continue to attract deposits in a very easy way I would say, given our low risk perception and the power of our brand and we have been able to execute our strategy well as we intended and the fact that in the quarter things went very well. We are a little bit like the capital generation, we are banking the results achieved in quarter one, which we think are sustainable and that is why we are telling you that the margin we achieved is a margin which is sustainable and that is why we are saying we will be closer to 2.80 per cent in the year. But it is the same type of actions we have been following. But of course you know plans are one thing and execution is another. We have continued to execute well, one quarter has gone by and therefore we are confident to create our margin guidance.

On the open mortgage book as George said, we have already taken the actions in order to, as we said at year end results, have the book at year end at the same level as at the end of 2016, but as you know applications come in, you have approvals which take a little bit of time, not much. But then you have normally 90-120 days between approvals and completions. And that is why there is normally a lead time between actions and you have seen the mortgage completing on the books. But we have already taken the measures which will stabilise the book and then make it grow to the same levels as at the end of 2016.

Rohith Chandra-Rajan
Thank you very much

Question 5: Joseph Dickerson, JEFFERIES
Hi good morning guys. Two questions if I may. You mentioned in your press release about reductions in the global corporates portfolio. Could you just go through some of the rationale behind that reduction and how much more reduction we might see directionally or with the remaining quarters of the year? Presumably that is a fairly high RWA density product and will free up capital for you? Any steer on that would be helpful.

And then secondly, just given your capital position, the current share price, the Government hopefully out in the next few weeks, what are the hurdles to pursuing a share buy-back with some of your excess capital here? Is it the same hurdle as say dividend accrual or is it easier to get done from a regulatory standpoint? Thanks.

Answer: George Culmer
Hi Joseph, yes to go back to your first question. Look this isn't a new trend, this is you know, this goes back 4-5 years I think with Antonio and Andrew coming on board and looking at the return on risk weights that the corporate business, the commercial business utilise so back then, I forget the precise number, but I think it was about £120 billion or something of RWAs with the return, I forget the number, but it was inadequate and we set various targets which we have beaten and exceeded. And to your point entirely, this part of the market, global corporate we deliberately don't set targets for, but we take a very close view in terms of RWA usage and optimisation. And I think if you look at the asset base, this year versus last year, I think global corporates are down something like 17 per cent in terms of asset base and what that represents is this disciplined focus on making sure that the relationships that we have are earning the returns that we want. And these are relationships that are not only linked to help the UK prosper but are also driving the returns that we want from our business. And we are both disciplined in that and Andrew's team would spend an awful lot of time working on that. And what you see is the continuation of that that has come through in the results this time. So I would hesitate to give you a target on it, but I would say that approach continues and we will continue to focus and make sure that we are making an appropriate return on the RWAs and you can see what that approach has driven to date, but we will continue with that approach as we move forward.

In terms of the second part, sorry, I am going to be slightly frustrating but I don't think now is an appropriate time now to have discussions between merits of sort of specials and buy-backs etc. And going back to the overall question, you know we as a Board will take a decision at the appropriate time in terms of, if there is surplus capital how it might use that surplus capital and we will have that decision and the question of buy-back or special might not be part of that discussion, but I don't think now is the appropriate time to go through what the rationales might be. But the Board will make its decision at the appropriate time. Sorry, slightly frustrating answer.

Joe Dickerson
Thanks.

Question 6: Jonathan Pierce, EXANE BNP
Morning. I have got two actually. The first one is on net interest income again, sorry about this. Can I just try and understand your bridge between the 4th quarter number and Q1 of this year in a slightly different way to the one you presented. Is this maths broadly correct, that over the last 3 months you have had about a 5 basis point improvement in margin because of the Tier 2 redemptions in December 2016? I guess there is some additional margin from the TFS as well? And actually just as a broader point on that, can you update us as to how much TFS you now have? I am assuming this has probably added a couple of basis points onto the margin as well. So then we are up to an incremental 7-8 basis points and then the rest is just a combination of deposit, asset rates and mix. Is that another way of thinking about the movement in Q1?

Answer: George Culmer
Well we show in our movement that it is about 3 basis points in terms of the wholesale funding, which obviously, all the things that you call out that related and some of it is because in Q4 some of the things you talked about, I forget the precise dates Jonathan, but they would have had a beneficial impact from the moment we did the opening exercise and drew the funds at the back end of last year. So you may be right in absolutes, but I think some of your basis points, and again I forget when we actually did them, but would have been, we were drawing TFS back end of last year, we were doing these Tier 2 redemptions in

Q4. So it is not quite a pure bit. And going back to what we always say as well. Don't want to pull that apart, but again we do manage the thing in totality, so when TFS was announced and launched, we went through every single piece of our funding and in terms of racking and stacking and in terms of the expense and that is not just in terms of headline rate but in terms of liquidity cost. And that is how we manage the bank and we have got the ability and advantage to be able to look across the entire balance sheet and work out what is the most efficient form of funding is. So I recognise your numbers, they are ahead of what we would have in the walk but some of that benefit was probably in December, in Q4 of last year.

You are right on TFS, I mean we will be a full utiliser of TFS and I think we talk about £20 billion I think is our guestimate of capacity on that. We have drawn today, we have drawn about half of that and that is in this year we have drawn about £6 billion so that will obviously have been £4 billion in last year. So we are around half and that will be drawn essentially in relatively even periods as you move through the rest of this year.

Further question
That is very helpful, thanks for that. The second question is on non-interest income. Just trying to understand maybe ahead of the interims, some of the detail around non-interest income and there are two bits really to this question. Insurance income you have commented is flat year-on-year. Now I don't know what the number was in Q1 last year for experience variance in the insurance company, but it was quite big in first half 2016. So is there any experience variance in the Q1 numbers?

And then the second part of this non-interest income question, the AFS Portfolio fell by about £2 billion in the quarter, I am just wondering whether there were any associated AFS gains in the non interest income in Q1 therefore?

Answer: George Culmer
Yeah there will be, realising you know some of the gains is part and parcel of what we do. So in Q1 this year there will have been about £40-50 million from gilts, but there would have been a number in last year's Q1 as well, which I don't have to hand. So some level of gains will be a sort of, a common feature of OOI. The insurance, thinking back to last year, in terms of experience variances, within H1, I doubt they would have been in Q1 of last year, but no big experience variances in Q1 this year for insurance. We name check, I think in the Presentation we talked about bulk annuities which added about £40 million to this year's Q1 numbers for insurance, but I don't think there was anything in there for experience variances per say. And I don't think it was a Q1 feature from last year as well from memory. So I think they were Q2 last year, but I will check that.

Jonathan Pierce
Okay, that was really helpful, thank you.

<u>Question 7: Fahed Kunwar, REDBURN</u>
Hi good morning. Just a few factual questions. As I understand, the 57bp cost of deposit I think Antonio, you called out. Is that versus the 69bps you disclosed in full-year 2016? I just want to make sure it is kind of like-for-like comparison.

And the second question was on your non-interest bearing current accounts (NIBCA). You have talked about influx of deposits giving you, like you had about 25 per cent growth in non-interest bearing accounts in 2016/15. Have you had kind of similar kind of run rate of growth in this quarter?

And the last question is, on that open mortgage book, the £300 billion of AIEA, that you guys are hoping to hit, does that mean ex-MBNA you should be hitting the kind of £435 billion total AIEA mark, kind of flattish on Q4 2016, or slightly up? Thank you.

Answer: George Culmer
Hi Fahed, let's deal with the last part first. In terms of average, it is probably easier just to talk to spot loans and advances actually because I think this year, sorry this quarter end we closed at £445 billion is the number that we closed. And I think we will probably expect to be there or thereabouts at the year end. Within that you know references some of the things we have talked about, you know the large part is mortgages and obviously we expect to grow from the Q1 position to the year end to be sort of flat as we talked about year-on-year 2017 versus 2016, I would expect to see some growth in Consumer Finance. Within that I would expect to see some growth in mid-markets and SME within that.

And then going back to the earlier question, global corporates will be where the pricing takes us and where again our internal approach and internal reviews take us. But I think in sort of totality we would probably for £445 billion, on a swap basis, I would expect to be there or thereabouts by the end of the year.

Further question
That is ex-MBNA I assume?

Answer: George Culmer
That is all ex-MBNA. Yes. And then, to your first bit, in cost of deposits. 57, this is our savings rate, I forget where, 69 isn't a number I recognise. This is a sort of Q4 number. Q4 spot number was more like about 62. So those are sort of Q4 spot versus Q1 spot. And then the middle question, non-interest bearing, sorry I missed that question?

Further question
Your NIBCA growth in I think 2016 was around 25 per cent, non-interest bearing accounts, sorry. What kind of rate of growth have we seen in this quarter? Are you still getting a lot of basically non risk bearing accounts on the commercial and retail side, flowing to you guys? Is it that kind of run rate?

Answer: George Culmer
If I look at things like PCA's, current accounts, Q1 yes, we were somewhere at £66 billion compared with £63 billion at the end of last year. Having talked previously about savings, the savings as I said earlier were down a couple of billion. If I look across the Retail division, the current accounts were up £63 billion to £66 billion, that is Q4 2016 to Q1 2017. I don't have a split within

the sort of commercial businesses, but I think overall commercial was up £133 billion to £136 billion. So we are and continue to be strong in terms of current account non-interest bearing account traction.

Fahed Kunwar
Thank you very much.

Question 8: Edward Firth, KBW
Good morning. Just a quick couple of questions on detail actually. One in terms of the PPI. Could you just tell us what your utilisation run rate has been in the first quarter if that is okay?

And then the second one was on the provision number, you highlight you had some debt sales in there. Is it possible to let us know roughly what that did in terms of reducing the provision charge?

Answer: George Culmer
Well PPI utilisation was £325 million I think in Q1, I am saying that and thinking that at the same time. I'm pretty certain it was about £325 million in terms of utilisation in Q1. But obviously we also increased the provision by the £350 million so the reality of the unutilised provision still stands at, it was basically £2.3 billion at year end, it is to all intents and purposes, £2.3 billion at the end of Q1.

In terms of debt sales and in terms of the impairments provision, again I think we talked about in terms of net and gross AQR in my presentation, I think it was about 11 basis points in terms of write backs and releases. What we said in the presentation was that those were running slightly ahead. So if you look at our gross credit experience, it is kind of in line with last year and we are seeing a sort of continuation of the same trends, but the write backs and releases, I think when we gave our original guidance for this year, I think we said it was something around, only about 2-3 basis points over the whole year of releases and write-backs and what we have seen is basically quite a lot of that has been front ended in Q1. So it is about 11 basis points.

Further question:
So most of the 11 basis points relate to disposal of debts?

Answer: George Culmer
Yes it does. Well hang on. There's bits of both. Disposals of debt are in there and there are some write-backs as well, I don't have the precise, well I do have them, but it would take ages to find them. They're both in there.

Further question:
Okay, great. Could I just come back a bit on the PPI because it seems the utilisation rate is running pretty much flat on what it was in the second half of last year. So sort of surprising to me, I would have thought, there does not seem to be any slowdown in utilisation rate? If it continues at the current rate, clearly £2.2 billion is not going to get you through to August 2019?

Answer: George Culmer
Well you know you have still got a bit of remediation type of stuff in there. There are bits around the edge, but running at £100 million, just over £100 million a month, I would expect that to come down to the sort of £70-80 million per month. So I do expect the utilisation to go down.

Further question:
Do you know when you might expect that? At what point if it doesn't come down, will you have to start topping up again?

Answer: George Culmer
Well I think it will come down during the course of this year. In terms of top-ups, on PPI, we have said, remember we have this flat accrual through to the time bar date, just under 8,000 it is currently running ahead of that at 9,000. We have said we have got a flat rate, sometimes it will be above, sometimes it will be below and currently it is sort of running ahead. So we will keep an eye on that. And of course PPI remains uncertain, but we do have quite a lot, we have a significant amount of unutilised provision still.

Edward Firth
OK. Great, thanks very much.

Question 9: Ian Gordon, INVESTEC
Morning, sorry, it is a repeat question on the bullish volume guidance on page 6 which you have already discussed. I wondered if you could just give me a bit more specifics on the open mortgage guidance. Can you perhaps give me a quarter on quarter rise in the approvals pipeline for mortgages and/or discuss any product variation in terms of the measures you have already taken in order to deliver the anticipated net growth through the last three quarters of the year? Thanks.

Answer: George Culmer
Hi Ian, I am afraid I am going to disappoint you in that no, as you heard from Antonio, as you will know yourself, in terms of actions taken and flow through, there could be 90 to 120 days. Some of the actions which you might have already seen in the market have been taken. As I look through, I won't give you a quarter on quarter prediction, but we were down obviously Q1 versus Q4, let's see where we are in Q2, I think it might be closer to stable, but we will see, and build thereafter in the second half. But in terms of specific pricing, specific offerings, what we might be doing on retention strategies etc, I am afraid I am not going to share. They are for us in terms of how we manage the book and not available for wider dissemination, communication and discussion. I am sorry to disappoint you.

Ian Gordon
No that is fine. I will just take it as ongoing fine tuning to the margin story, where you have obviously continued to outperform. Thank you.

Question 10: Robert Noble, RBC
Good morning. I have just got a few questions on the consumer finance market and the various regulatory proposals that are coming out of the FCA and financial stability review. Can you please give us some numbers on your level of persistent debtors? The amount of the consumer credit book which is on effective interest rate? How much is on balance transfer? And what impact do you actually see from the FCA paper? Thanks.

Answer: George Culmer
Hi, OK. Yes, it came out a couple of weeks back. To answer some of those specific questions, they talked about problem debt. I think they talked about it at an industry level of about 18 per cent, an estimate of our percentage would be in the mid-single digits, 6-7 per cent, of that order. And I think looking at MBNA's book, MBNA's would be a very similar percentage, so they say the market has 18 per cent, and we have a much significantly reduced amount of that. And what that reflects is obviously the prime nature of both those books and what I would also say is that these are two seasoned books as well which I think is relevant in that.

In terms of percentages of share of books and all those sorts of things, balance transfer are about 15 per cent of our new business and about 30 per cent of our book. In terms of EIR adjustments, we take a very prudent approach to this, and probably the easiest way of demonstrating is this is that on our balance sheet we only carry about £60 or £70 million in the sense of the assets, so that is all the income brought forward, which is not a material amount, it is a very small amount. Our effective EIR rate would be about 5 per cent or something like that. We were aware that this paper was coming, we obviously didn't know its precise form, but it came out more or less as we were expecting it to. We have reflected that in our approach to the acquisition. We think the stats reflect, which I have just given you, reflect the quality of our book viz-a-viz the market and certainly on the accounting, as I say, we think we are prudent and it is a non-material part of the overall group.

Answer: António Horta-Osório
And Robert, just to add some colour to what George just covered. As you know we were significantly under-represented in consumer finance. We run as George has said, a very prudent book in general. And our credit card book is much smaller than what it was 6 years ago. MBNA was a very interesting opportunity for us from the moment where we could address the risk of PPI, where as you know we are not taking any additional PPI liability, it will all stay with Bank of America. We are putting the average AQR through the cycle, buying a seasoned book as George said and the expected return is 17 per cent when we have a cost of equity of 9.5, so with a significant cushion. We know the portfolio very well, 20 per cent of the MBNA customers are already our customers in other brands, in other products, and therefore this puts us with a balanced portfolio where our market share in consumer finance in general gets closer to our overall market share and a book which is a prime book, in very attractive conditions. So I think this is quite relevant. We only do prime lending and we think that the way the market is evolving is positive. As I said this morning in terms of the media call, families were significantly indebted 6 years ago, but they have now decreased indebtedness vs. GDP and the only reason why we have seen additional growth in the last 2-3 years is because student loans are growing significantly and student loans is Government funded debt. So that's actually quite important.

Robert Noble
Great thank you. Can I just ask, what is the growth in the consumer finance book looking like? Is it ticking up or at the same sort of levels as 2016? Or do you expect it to slow down?

Answer: António Horta-Osório
It is around 10 per cent year on year which is in line with the previous year.

Robert Noble
Okay, thank you.

António Horta-Osório
And we are growing significantly on car financing. We are growing in line with the market on credit cards and we are slightly decreasing in UPLs, which where the market is decreasing in general, UPLs and overdrafts are going down in terms of the general market.

Robert Noble
Thanks a lot.

Question 11: Robin Down, HSBC
Hi, a couple of quick ones from me. I am quite interested in this mix change you are seeing in the deposit book away from retail savings towards corporate balances. I just wonder if there is any limitation as to how far you would allow that to go? I guess with corporate balances it might be a little bit hotter and a bit more volatile. So I assume for the next few quarters fine, but is there a limit on how far you are prepared to see that mix change go?

And then just a couple of very quick numbers questions for non-banking net interest income step down, I think you sort of indicated it would at full year stage. Is that a sort of Q1 sort of level in the mid 40s, is that sort of run rate that we should think about going forwards?

And the amortisation of purchased intangibles below the line had been running at sort of mid-80s for a long time now and seems to have stepped down in the first quarter. Again is that sort of an aberration or the sort of run rate we should expect going forwards? Thank you.

Answer: George Culmer
Hi Robin, so non-banking, we said at the full year we expected this to come down and yes the £47 million or something in Q1, yes you could extrapolate that and it will give you your annual rate. So I think you will get 140 last year was over £300 million. So significant step-down in that, that is absolutely correct On the fair value, it should be, in terms of Q1, that should be it, if it isn't Douglas will ring you up and tell you it isn't, but that should be how to extrapolate that as well.

On the commercial, there are different things going on here. Part is in terms of customer relationship in terms of building the core SME and mid-market franchise and utilising those long-term relationship deposits as well. So I think, to your point of course there's a limit out there, I've key franchises I value that I want to maintain across the retail and corporate brands etc. And when looking at the commercial deposits, and we have close scrutiny on it, particularly top end in terms of FI etc, and in terms of what do or don't count for liquidity purposes. There is also large fertile grounds in terms of building out as I say mid-market relationship savings and cash deposit and SMEs as well. So the trend that you have seen and I talked about earlier, has been going on for the last few years and again it is about that reorientation of the commercial business. So it is serving the key Lloyds franchises and in terms of those longstanding relationships, that is what it is about so. If it has been a continuing trend and I think it probably will continue, but it is not just about hot money, it is about core relationships.

Robin Down
Thank you.

<u>Question 12: Andrew Coombs, CITI</u>
Good morning. A couple of questions on the interest margin. The first is just on page 9 of the release. You have the insurance gross-up adjustment on NII and the decline in other income. Those numbers have been getting consistently bigger over the course of the last few quarters. I think in Q1 2016 you were at £76 million adjustment on the NII, £325 million in Q4, you are now at £499 million. So your underlying NII is becoming increasingly detached from the statutory and likewise in the opposite direction for other income. So perhaps if you could elaborate on exactly what is driving that? I know there's a little bit of detail in footnote 2, but I would be intrigued.

And then more broadly on NII, my second question would just be coming back to this asset spread point. If we look at the 2 basis points decline you have had Q on Q, that is quite a bit lower than the 4bps you had this time last year. It is quite a bit lower than the 14bps you had at full year 2016, if you were to disaggregate that. So it's just a case of do you think that is sustainable with the normal run rate from here? Is it partly a timing issue benefit based on when mortgage pricing decisions have been made? And would you think that it is likely to increase that pressure from here? Thank you.

Answer: George Culmer
Hi Andrew, The first question, we will get back to you, I am not aware of any long-term trends in terms of the gross-up, in terms of difference between attributing to policy holders and shareholders. So I will get back to you. I can't immediately think of a reason why a core long-term trend, so we can give that some thought and come back to you on that one.

On the asset margin, yes you are right, sort of 4 basis points. Again I am not going to tell you to multiply that by 4 to give you a trend or target. It will depend upon what happens in the market and how we respond to that. So I'm afraid I'm not going to give you a trend in terms of how you may be able to use that forward. So I'm not being particularly helpful in terms of your answer to those two particular questions.

Andrew Coombs
Okay, thank you.

<u>Question 13: Martin Leitgeb, GOLDMAN SACHS</u>
Good morning. Being mindful of time, just one question from my side. In the past we discussed a lot on structural hedging and that was really helpful. And I am just trying to look for a little bit of colour on how you, or more importantly the market, is looking at product hedging going forward? And the reason for that question is obviously we get the TFS coming in which provides substantially cheaper and variable rate funding. And I just wonder how you think the market will adapt to that in terms of mortgage pricing? Whether the mortgages are being priced off the 2 year swap curve or increasingly not so because of the availability of cheaper funding sources elsewhere? Thank you.

Answer: George Culmer
Well it is very hard to comment on what others are doing, and when you see some of the pricing they seem to be responding to what happens on the swap curve. You can believe it is being funded off some of the funds that are available now and would have a duration mis-match to the term of the mortgage. So in terms of where it goes conceptually, I don't think I have any particular insights in terms of how the market might take it. I know how we look at it and funding is part of that: we very closely look at what is going on in terms of the swap rates and in terms of hedging those products, and the cost of hedging those products is a core part of how we put this together. And I don't see that that will change. I can't believe it will change. But I don't know what other models others are playing in the market or will play. So that is our position.

Further question
So for you there hasn't been any change?

Answer: George Culmer
No, absolutely not.

Martin Leitgeb
Thanks a lot, very clear, thank you.

<u>Question 14: James Invine, SOC GEN</u>
Hi, morning, it's James Invine here. Just a couple of questions please. The first is on PPI - I know you have talked about it a bit, but I was just wondering if you could call out the actual claims number for Q1? I was just wondering what all the publicity around the timebar did for that.

And then second, just moving to capital. I think you said in the past that even if the counter-cyclical buffer heads up towards 1 per cent, you could offset most of that and 13 per cent will remain your go-to number. I was just wondering if that still holds, given that the Bank of England's promise to keep the buffer at zero is about to expire? Thanks.

Answer: George Culmer
Okay, on the capital one. Again, something came out at full year in terms of the reduction in the buffer which was something that we called out. So we think 13 per cent is our right requirement and that remains our position. Our position, as previously set out, was that as you get counter-cyclicals come in, they will be offset by reductions elsewhere. Whether that is in the 2A or whether that is actioned on the 2B buffer. And you have seen our 2A come down and we think we will continue to work on that in terms of actions we are taking within the bank. And the 2B, we saw that come down again, reflecting the de-risking. We are hopeful that as we look forward we will continue to see further progress in that. So 13 remains our number and our expectation, so as the counter-cyclical comes in, and it is a run rate of a percent or whatever, we expect to be able to absorb that within our current capital expectations.

In terms of PPI, in terms of claims that are coming out, I think that was the question on PPI?

Further question
So what have the claim volumes done in Q1?

Answer: George Culmer
The claim volumes, as I said, the average weekly level as I was saying earlier, was running at just above 9,000. I think about 9,400 and we had originally assumed around 7,800, so we have seen claims levels – reactives – coming in where we said. Remember we said it is a straight line provision and we expected as we moved through that, there would be periods above and periods below. And we have certainly seen periods above in Q1, no doubt about that.

James Invine
Fine, thank you.

<u>Question 15: Claire Kane, CREDIT SUISSE</u>
Hi, sorry about earlier. Two quick questions please. So just a follow-up on that counter-cyclical capital buffer point. If we do get the 1 per cent announced in June, do you still think with a minimum requirement of 13 or very close to 13 per cent, you can run with zero management buffer on top of that? That is the first clarification point.

And then secondly, we had a paper out as well from the FCA earlier this week about mortgage arrears handling, and they estimated maybe £1.5 billion of redress costs for the industry. Is any of that taken into account in the extra £100 million of conduct provisions you have taken? Or have you got a sense on what your liability might be for that? Thank you.

Answer: George Culmer
There is nothing in the £100 million, there are some other things in there. We don't have a sense of what the exposures might be, or what the provisions might be, it could be anything. But we don't think it is anything there.

And then on the capital limit, we will wait and see, Claire. You are right, it will make things a lot tougher when it comes in at June. If, if. But let's see what happens at that point.

Claire Kane
Great, thank you.

<u>Question 16: David Lock, DEUTSCHE</u>
Morning, one follow-up and then another question please. The first one is on average interest earning assets. I think earlier you were saying you were expecting the overall loans to be flat at about £455 billion by the end of the year, ex MBNA, and I just wondered if that still applies as well to the average interest earning assets, or whether there were some other moving parts that might come back or go away in the coming quarters?

And then secondly on the other income, I note that there was quite strong growth from Consumer Finance driven by contract hire, fleet leasing growth. I just wondered if that is seasonal or if that's something you really are pushing into and therefore we should expect to continue in the coming quarters? Thank you.

Answer: George Culmer
I think I expect to continue to see pretty strong growth in that area, whether at the same level we will see, but I continue to expect to see growth. And then, in terms of spot, I would expect the average to follow. I am not aware of anything that would necessarily distort. So I am expecting the average trend to follow the spot trend pretty closely. I wasn't trying to be devious or miss anything out or anything, but it is just easier to talk to spot, so I would expect the average to follow the spot pretty closely.

David Lock
Okay, thank you.