# Q3 INTERIM MANAGEMENT STATEMENT

Presentation to Fixed Income Investors

November 2017

# GROUP OVERVIEW

## Simple, low risk customer focused UK retail and commercial bank

### Our business model

**Simple, low risk, customer focused, UK retail and commercial bank**

### Our strategic priorities

| Creating the best customer experience | Becoming simpler and more efficient | Delivering sustainable growth |
| --- | --- | --- |

### Our brands

Lloyds Bank, Halifax, Bank of Scotland, Blackhorse, Lex Autolease, LDC, Scottish Widows, Birmingham Midshires, MBNA

**Branches**

- **UK's largest branch network**
- **Commercial Banking client relationship model**

**Inter-mediaries**

- **Trusted partner of intermediary distributors**
  - Largest mortgage introducer; rated #1 for NPS
  - '5 star' Service Awards in Insurance(1)

**Phone**

- **Telephone banking receives c.100m calls per year**
- **Enhanced proposition with video and web chats**

**Digital**

- **UK's largest and top ranked digital bank**
  - 13.2m active online customers, with over 9m active on mobile
  - Rated #1 UK banking app for functionality(2)

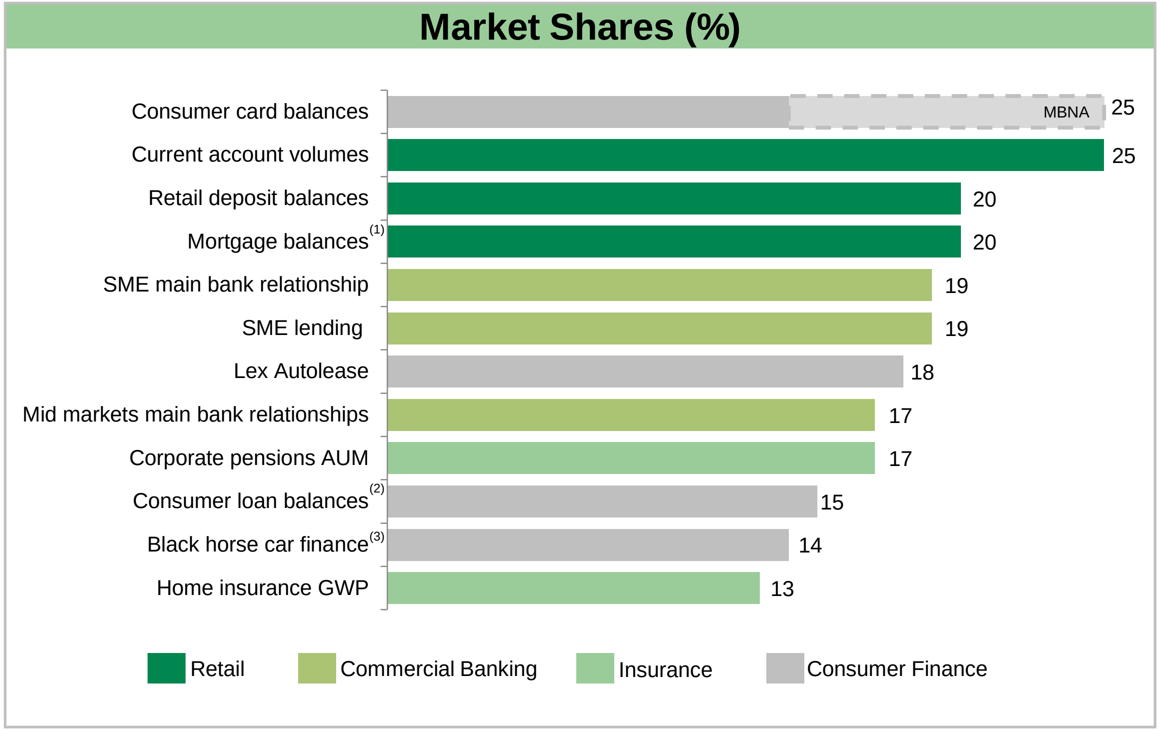
**Helping Britain prosper through our unique competitive position**

(1) '5 star' Service Awards in both Life & Pensions and Investments categories at 2016 Financial Adviser Service Awards. (2) Forrester's 2016 UK Mobile Banking Functionality Benchmark.

# GROUP MARKET SHARE

## Strong market positions with growth in key customer segments

LLOYDS BANKING GROUP




- **Open mortgage book expected to grow and end the year slightly above FY 16**
- **UK Consumer Finance net lending continues to grow**
  - MBNA acquisition and organic credit card growth
  - Continued growth in motor finance
- **Continue to target growth in areas where under-represented**
  - SME
  - Mid-Markets
  - Financial Planning and Retirement

(1) Open Book only
(2) Consumer loans comprises unsecured personal loans, overdrafts, and Black Horse retail lending balance share of BoE consumer lending
(3) Black Horse point of sale and LBG's online car finance new business flow share

# HELPING BRITAIN PROSPER

## Supporting people, businesses and communities across the UK

LLOYDS BANKING GROUP

| | | | |
|---|---|---|---|
| **Helping People** | **Housing** | *We'll Help the construction industry to build more homes, supporting social housing and be a lead provider of new-build and first time buyer mortgages* | Amount of lending committed to help people buy their first homes |
| | | | No. of homes our Housing Growth Partnership has committed to build[1] |
| | | | New funding support for the Social Housing sector |
| | **Saving for the Future** | *We'll help people save and plan for later life by providing education and guidance* | No. of people better informed about their retirement options as a result of our guidance and support |
| | **Skills and Employability** | *We'll support the workforce with skills and training to improve social mobility and make Britain more competitive in the global marketplace* | Number of undergraduates from lower income[2] households supported through the Lloyds Scholars Programme |
| | | | Number of internal apprenticeship positions created within the Group with permanent employment |
| | | | Number of social entrepreneurs supported through the Lloyds Bank and BoS Social Entrepreneurs programme |
| | | | Number of individuals, SMEs and charities trained in digital skills including internet banking |
| **Helping Businesses** | **Helping Businesses to Grow Sustainably** | *We're supporting businesses across the UK to start up, grow and trade internationally* | (Increased amount of net lending to SMEs and Mid-Market companies |
| | | | Investment in the UK manufacturing sector through financial support |
| | | | No. of manufacturing apprentices, graduates and engineers trained as a result of our £1m annual investment in the Lloyds Bank Advanced Manufacturing Centre |
| | | | Value of UK infrastructure projects supported in the government's National Infrastructure Plan |
| | | | Number of businesses we will help to start up |
| | | | Number of clients we will help to export for the first time |
| | | *We'll support the transition to a low carbon economy* | Amount of commercial real estate space we will fund to become more energy efficient with green loans[3] |
| **Helping Communities** | **Tackling Social Dis-advantage** | *We'll tackle disadvantage and help people improve their lives for the better. We'll help improve financial inclusion by offering access to finance for disadvantaged and vulnerable groups* | Share of social banking accounts we will support |
| | | | Additional sustainable lending Credit Unions make to their customers across the UK through our annual £1m commitment to their capital funding |
| | | | Number of charities we will support as a result of our £100m commitment between 2014 and 2020, to the Group's independent charitable Foundations |
| | | | Number of colleague volunteering hours used to support community projects (with min. 30% used to support skills based activity) |
| | | | Amount raised by colleagues and communities for our charitable fundraising partners (including Match Giving[4] from the Groups indpendent charitable Foundations) |
| | | *We'll help make Britain an inclusive and diverse place to live and work by reflecting that diversity in our workforce* | Percentage of senior roles held by women |
| | | | We will consistently increase the engagement levels of our colleagues; Black, Asian & Minority Ethic (BAME), Disabled & LGBT colleagues |

[1] The housing growth partnership is a socio-economic equity investment fund launched by LBG and the Home and Communities Agency
[2] With household income <£25,000 and who meet Programme eligibility criteria
[3] Discounted lending provided through the Lloyds Bank Green Loan Initiative
[4] Matched Giving allows LBG colleagues to claim up to £1,000 per calendar year for registered charities that meet the eligibility criteria

# Q3 2017 RESULTS

# HIGHLIGHTS FOR THE FIRST NINE MONTHS OF 2017

## Strong financial performance continues to demonstrate the strength of the business model

- **Strong financial performance with improved profit and returns on both underlying and statutory bases**
- **Strong third quarter driven by income growth of 8%**
- **Growth in targeted segments including the open mortgage book**
- **Improved capital generation and some upward pressure on capital requirements**
- **Guidance enhanced for 2017 net interest margin and capital generation**
- **UK economy remains resilient**
- **Differentiated UK focused business model continues to deliver; well positioned for future growth**

# DELIVERING FOR CUSTOMERS AND SHAREHOLDERS

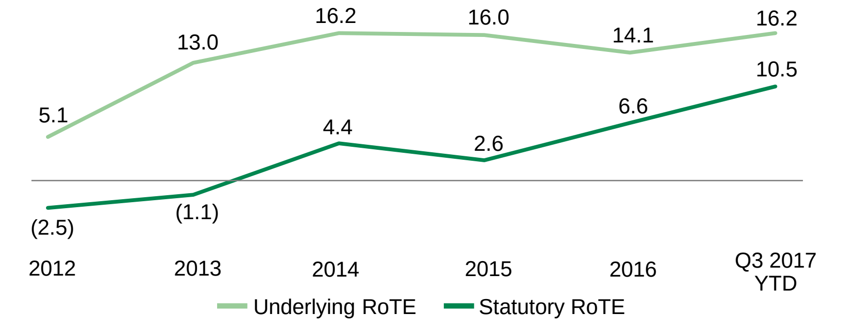
## Significant strategic and financial progress in recent years

- **Creating the best customer experience**
  - UK's largest and top-ranked digital bank
  - 13.2m online customers, 9m active on mobile
- **Becoming simpler and more efficient**
  - Simplification on target to deliver £1.4bn run rate savings
  - Market-leading cost:income ratio further improved
- **Delivering sustainable growth; Q3 income up 8%**
  - Growth in targeted business segments
  - MBNA integration ahead of schedule; agreed to acquire Zurich's workplace pensions and savings business
- **Becoming the best bank for shareholders**
  - Strong ongoing capital generation
  - Strong returns with double-digit statutory RoTE and underlying RoTE above 2019 statutory target

### Q3 income progression (£bn)


Restated for the new divisional structure.

### Returns progression (%)



# FINANCIAL PERFORMANCE

## Strong underlying performance with continued improvement in profit and returns

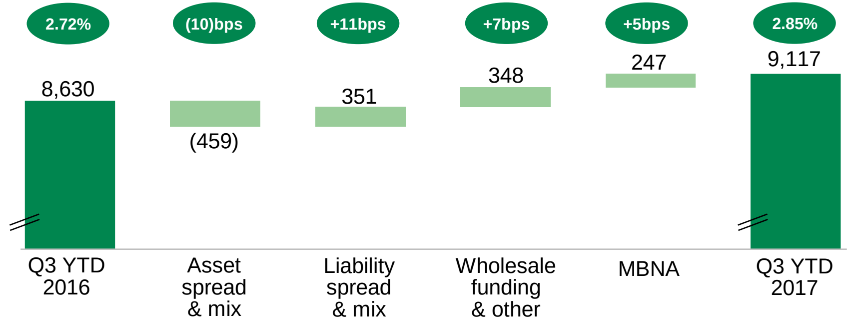
| (£m) | YTD 2017 | YTD 2016 | Change |
|---|---|---|---|
| Net interest income | **9,117** | 8,630 | *6%* |
| Other income | **4,776** | 4,520 | *6%* |
| **Total income** | **13,893** | 13,150 | *6%* |
| Operating lease depreciation | **(769)** | (669) | *(15)%* |
| **Net income** | **13,124** | 12,481 | *5%* |
| Operating costs | **(6,019)** | (5,959) | *(1)%* |
| Impairment | **(538)** | (449) | *(20)%* |
| **Underlying profit** | **6,567** | 6,073 | *8%* |
| Net interest margin | **2.85%** | 2.72% | *13bps* |
| Cost:income ratio | **45.9%** | 47.7% | *(1.8)pp* |
| Asset quality ratio | **0.16%** | 0.14% | *2bps* |
| Underlying RoTE | **16.2%** | 14.8% | *1.4pp* |

- **Strong Q3 performance, with NII up 12% and underlying profit up 9%**
- **YTD underlying profit of £6.6bn up 8%**
  - 6% improvement in NII reflecting an increased margin of 2.85%, in part due to the consolidation of MBNA
  - 6% improvement in other income at £4.8bn, including £146m gain on sale of VocaLink in Q2
  - Positive operating jaws of 4%, with the cost:income ratio improving to 45.9%
  - Credit quality remains strong; with a net AQR of 16bps and gross AQR stable at 26bps
- **Underlying return on tangible equity of 16.2%**

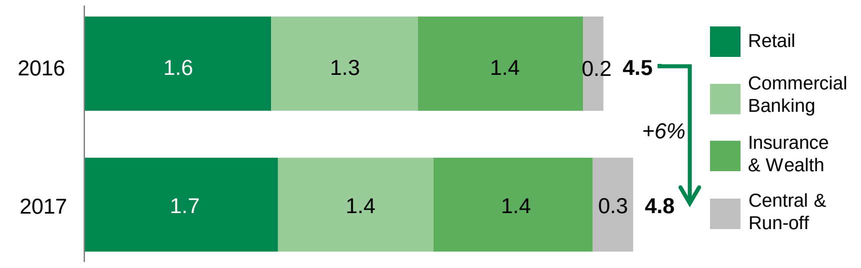
# FINANCIAL PERFORMANCE

## Total income up 6% with improvements in net interest income and other income

### NII and NIM vs Q3 YTD 2016 (£m)

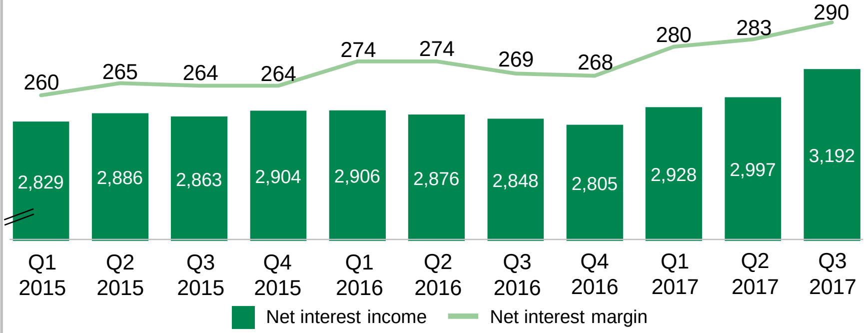



### YTD other income (£bn)




Restated for the new divisional structure.

### Quarterly NII and NIM (£m, bps)



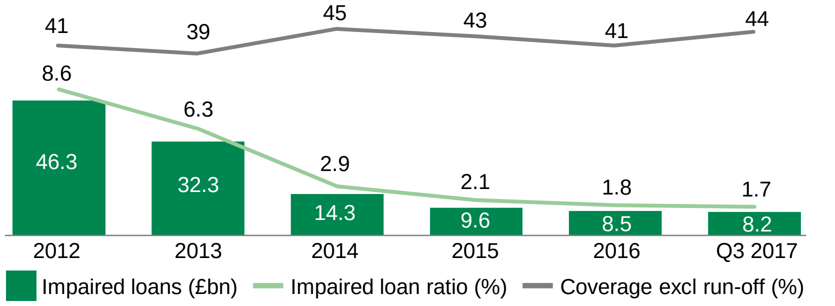

- **Improved NII of £9.1bn with 13bps increase in margin**
  - NIM: lower funding and deposit costs more than offset continued asset pressure; MBNA benefit of 5bps
  - Expect Q4 NIM to be the same level as Q3
- **Q3 other income of £1.4bn in line with Q3 2016**
  - £4.8bn year to date 6% higher than prior year due to VocaLink sale and improved divisional performance

# ASSET QUALITY

## Asset quality remains strong reflecting Group's continued prudent approach to risk

### Asset quality ratio (bps)


### Impaired loans




- **Gross AQR in line with previous years, despite single large corporate impairment in the third quarter**
- **Net AQR for the nine months increased to 16bps, reflecting expected lower releases and write-backs**
- **Continuing to benefit from Group's low risk approach**
  - Strong mortgage affordability and LTV profiles
  - Good quality commercial book with reduced RWAs following portfolio optimisation
- **Low risk approach to growth in consumer segments**
  - Conservative residual values with prudent provision
  - Prime UK credit card book with prudent EIR assumptions and conservative risk appetite
- **Impaired loan ratio lower at 1.7% and coverage 44%**
- **IFRS 9 day 1 capital impact currently expected to be 10 to 30bps, before transitional arrangements**

(1) MBNA consolidated from June, so only one month charge in Q2.

# STATUTORY FINANCIAL PERFORMANCE

## Significant improvement in statutory profit reflecting improvement in underlying profit and lower below the line charges

| (£m) | YTD 2017 | YTD 2016 |
|---|---|---|
| **Underlying profit** | **6,567** | 6,073 |
| Market volatility and other items | **(13)** | (808) |
| Restructuring costs | **(469)** | (390) |
| PPI | **(1,050)** | (1,000) |
| Other conduct | **(540)** | (610) |
| **Statutory profit before tax** | **4,495** | 3,265 |
| Taxation | **(1,386)** | (1,189) |
| **Statutory profit after tax** | **3,109** | 2,076 |
| Statutory RoTE | **10.5%** | 7.6% |

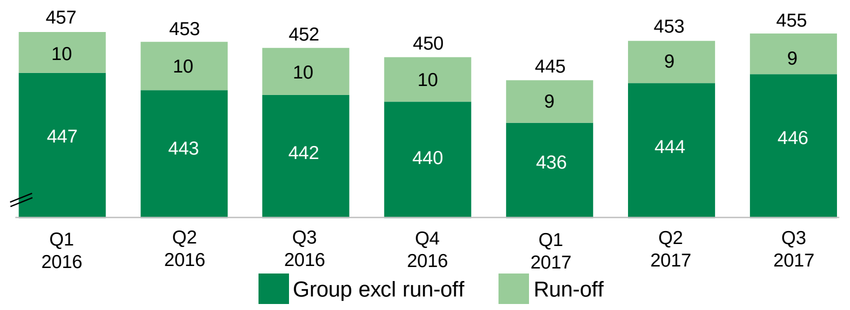
- **Statutory profit after tax of £3.1bn, up 50%**
  - Market volatility and other items in 2016 included the £790m charge for redemption of ECNs
  - Restructuring costs include Simplification, non-branch property rationalisation, ring-fencing spend and MBNA integration costs
  - No additional PPI or other conduct provisions in Q3 and outstanding PPI provision of £2.3bn
  - Effective tax rate 31% primarily due to conduct
- **Statutory return on tangible equity of 10.5% YTD and 15.3% in Q3**

# BALANCE SHEET

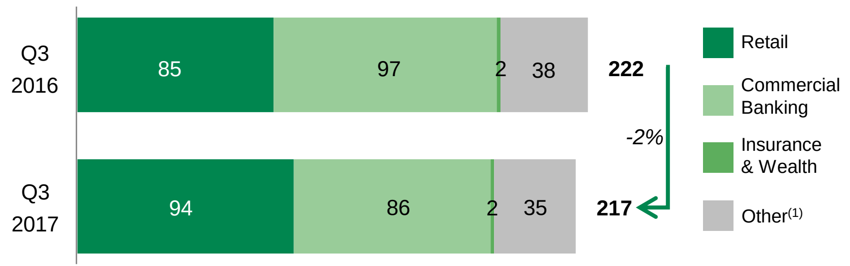
## Customer balances now growing while continuing to optimise the portfolio

- **Loans and advances £455bn, up £5bn since year end**
  - Open mortgage book growth whilst still focusing on margin; book expected to end 2017 slightly above 2016
  - SME growth continues to outperform the market
  - Continued high-quality growth in underlying consumer finance portfolio
  - Consolidated the £7.9bn prime MBNA credit card book in Q2; book quality in line with expectations
- **RWAs include £7bn for MBNA from Q2 2017**
  - Improved capital returns and RWA efficiency through business mix optimisation
  - Continued de-risking of portfolio

**Loans and advances (£bn)**




**Risk-weighted assets (£bn)**



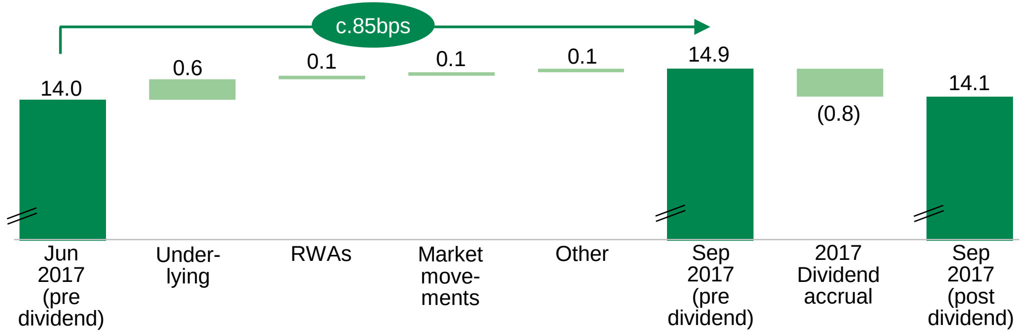

Restated for the new divisional structure.

(1) Other includes central, run-off and threshold RWAs.

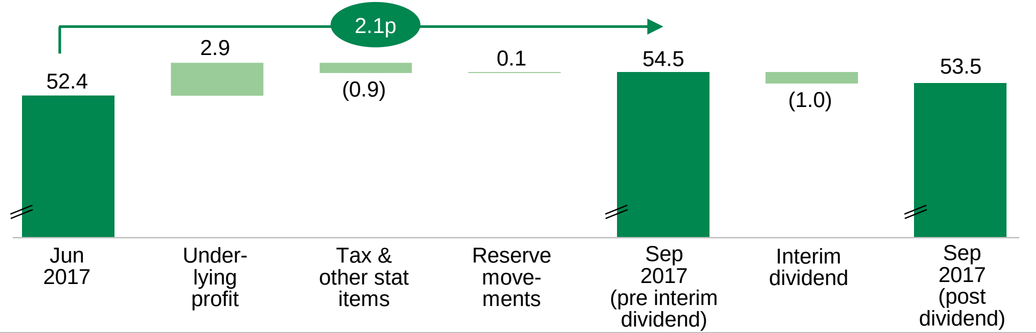
# BALANCE SHEET

## Capital generation very strong with 2017 guidance enhanced

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




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




- **Q3 CET1 capital generation of 85bps**
  - Strong underlying performance
  - CET1 ratio of 14.9%, pre dividend
- **Enhanced 2017 guidance of 225 to 240bps**
- **Increased Pillar 2A resulting in some upward pressure on capital requirements**
- **Total capital remains strong at 21.2%; UK leverage ratio of 5.4%**
- **TNAV increased 1.1p in Q3 to 53.5p**
  - Strong statutory financial performance after tax offset by the interim dividend

# SUMMARY

## Confidence in the Group's future prospects is reflected in our financial targets

- **Continued strong financial performance**
  - Cost discipline and low risk business model continue to provide competitive advantage
  - Strong profit, returns and capital generation
- **2017 guidance improved for capital and margin**
  - Net interest margin expected to be stable in Q4 and around 2.85% for the full year
  - Capital generation guidance enhanced to 225 to 240bps range
  - Continue to expect net AQR less than 20bps

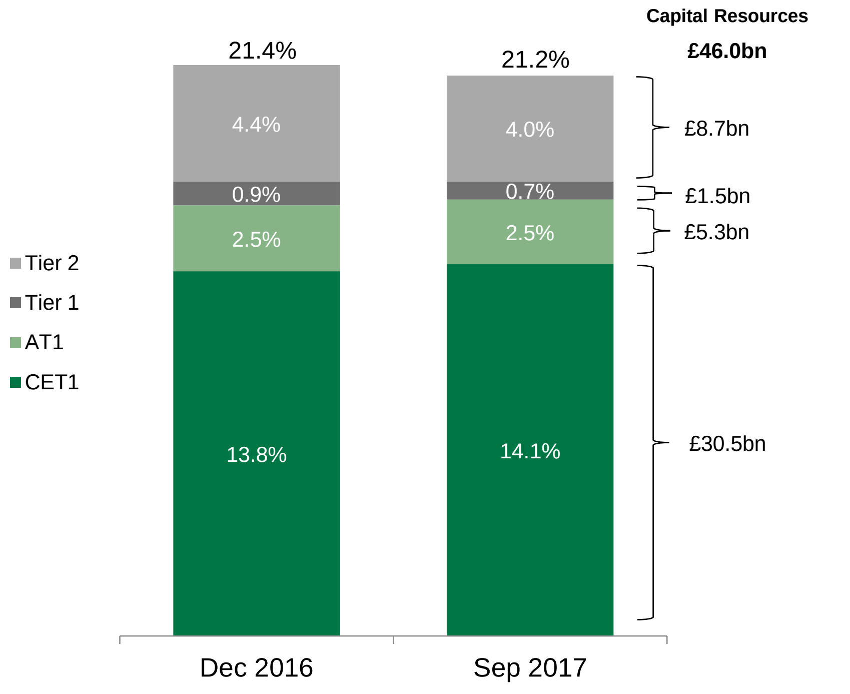
- **Focused on delivering the final stages of our current strategic plan**
- **The Group is well positioned for the future**
  - Market-leading digital proposition
  - MBNA integration ahead of schedule
  - Announced the acquisition of Zurich's workplace pensions and savings business
  - Key organisational and senior management changes now implemented
- **Working on our next three year strategic review, to be announced with 2017 results in February**

# CAPITAL POSITION

# CAPITAL POSITION

## Well positioned in an evolving regulatory environment

### Capital composition[1] (%)



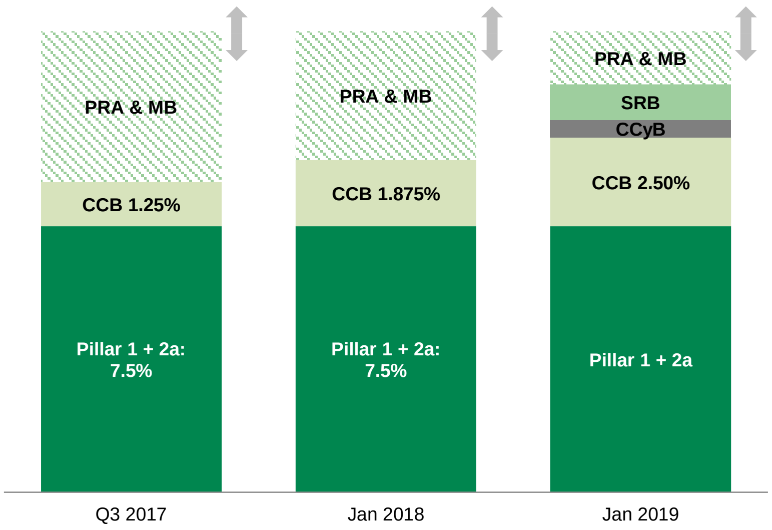

- **Strong capital position following c.85bps capital generation in Q3**
  - CET1 ratio of 14.1% (post dividend accrual)
  - Total capital ratio of 21.2%
- **2017 expectation for capital generation increased to 225-240bps**
- **Group capital position remains above total capital target of around 20%**

(1) As a percentage of risk-weighted assets; fully loaded CET1 ratios; total capital includes grandfathered capital securities.

# MANAGING EVOLUTION OF CET1 REGULATORY REQUIREMENTS

## Strong capital generative business provides comfort for meeting regulatory buffers

### Capital buffer evolution[1] (%)




**Notes**

- **PRA + MB:** PRA buffer plus Management buffer
- **CCB:** Capital Conservation Buffer (to incrementally increase by 0.625% annually to 1 January 2019)
- **SRB:** A Systemic Risk Buffer will be set for the ringfenced bank early in 2019, effective three months later
- **CCyB**: Assumed 1.0% in line with expectation of increase to 1.0%, effective November 2018
- **Pillar 2A**: 2017 ICG used as basis for future years, for illustration purposes.

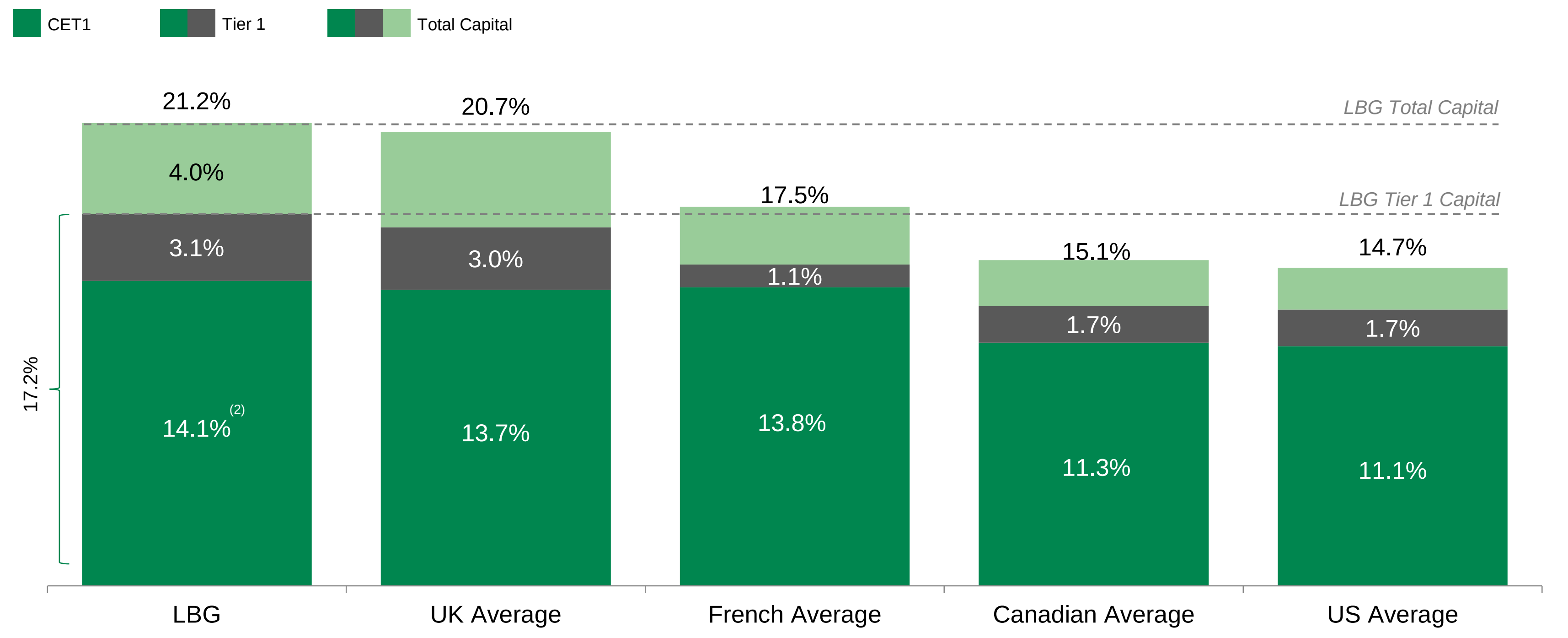
- **Current Pillar 2A CET1 requirement of 3.0% (reviewed annually by PRA)**
- **PRA Buffer reduced earlier in the year, reflecting de-risking; update due early in 2018**
- **Systemic Risk Buffer applicable to ring-fenced bank from 2019; lower at the Group level**
- **Countercyclical Buffer of 0.5% applicable to UK exposures from June 2018; FPC expected to increase to 1.0% from November 2018**
- **MDA buffer of c.5% in excess of MDA requirement (8.75% CET1)**

[1] Graph is for illustrative purposes and is not to scale

# PEER COMPARISON: RELATIVE CAPITAL STRENGTH

## Strongly capitalised at 21.2%

### Capital composition[1]

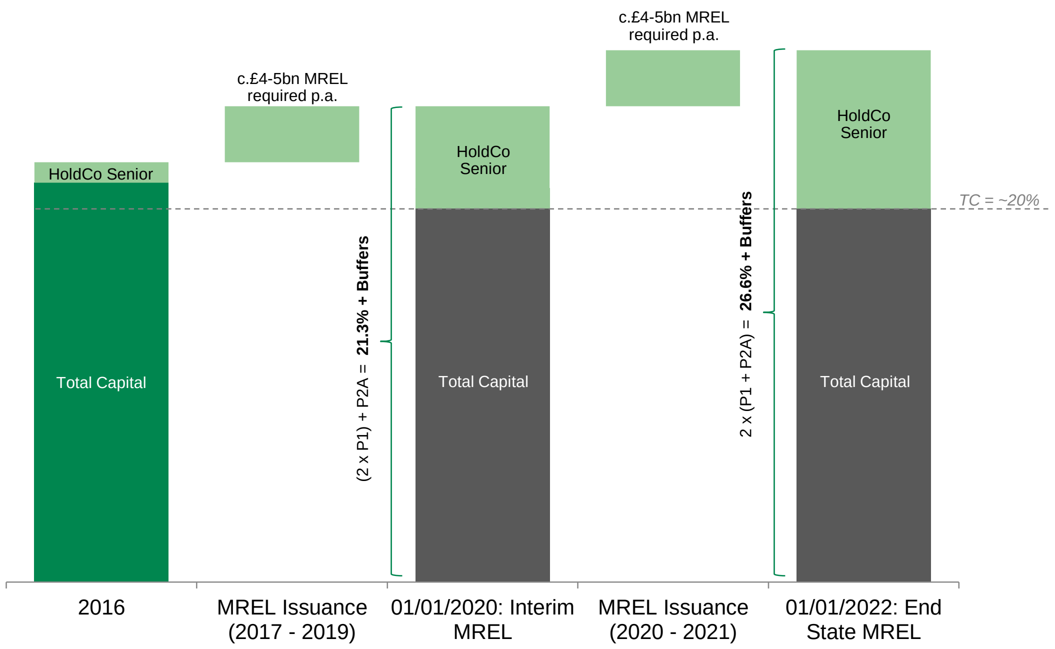



[1] Source: respective banks' most recent results announcement available prior to 23 October 2017. UK average: San UK, Barclays, RBS, HSBC and Standard Chartered. French average: BNP Paribas, Credit Agricole and BPCE. Canadian average: Bank of Montreal, Bank of Nova Scotia, CIBC, National Bank of Canada, Royal Bank of Canada and TD Bank. US Average: Bank of America, BB&T, Northern Trust, PNC, BNY Mellon, U.S. Bancorp and JP Morgan. Ratios disclosed on a current rules basis per jurisdictional requirements. [2] Post dividend accrual

# PROGRESSION TOWARD MREL REQUIREMENT

## MREL build continues via efficient issuance activity from a strong capital base

### MREL build




- **MREL met with regulatory capital and senior unsecured issuance at HoldCo level**
- **HoldCo senior issuance requirements will be achieved largely by refinancing maturing OpCo debt**
- **£4-5bn HoldCo senior issuance per annum required to meet MREL**
- **Q3 transitional MREL position of 23.7% (22.7% at HY 17)**

**Notes:**
- Indicative interim MREL requirement of 21.3% plus buffers on the basis of 2017 ICG.
- Indicative final MREL requirement of 26.6% plus buffers on the basis of 2017 ICG – to be confirmed following Bank of England review in 2020.

# UK APPROACH TO RESOLUTION

## Defined approach underpinned by clear preference for structural subordination

1 Losses occur at the OpCo and are passed to HoldCo via write down of intercompany assets

| OpCo Loss Absorption Hierarchy |
| --- |
| Excluded Liabilities |
| External Senior Unsecured |
| Internal Senior Unsecured (LAC[1]) |
| Internal and External Tier 2 |
| Internal and External Additional Tier 1 |
| Internal Equity |

| HoldCo Loss Absorption Hierarchy | |
| --- | --- |
| HoldCo Senior Unsecured | *MREL eligible* |
| HoldCo Tier 2 | *MREL eligible* |
| HoldCo Additional Tier 1 | *MREL eligible* |
| HoldCo Equity | *MREL eligible* |

2 HoldCo investors bear loss in accordance with creditor hierarchy – 'No creditor worse off' principle respected

[1] LAC: Loss Absorbing Capacity.

# STRUCTURAL REFORM

# GROUP STRUCTURE POST-RINGFENCING

## LBCM core to the Group's simple, UK, retail and commercial model

**Lloyds Banking Group plc (Hold Co)**

### Ring-Fenced Sub-Group

Majority of Group activities, including:

- Current Accounts & Transaction Banking
- Savings & Deposits
- Lending to non-RFI clients

- Lloyds Bank plc
- Bank of Scotland plc
- EEA branches or subsidiaries carrying out ring-fenced activities

### Non-Ring-Fenced Sub-Group

Primary business lines include:

- Lending to RFIs
- Financial Markets Derivatives
- Capital Markets
- Non-EEA booked activity

- Lloyds Bank Corporate Markets plc
  - US Branch
  - Singapore Branch
  - Jersey Branch
- Lloyds Securities Inc.
- Lloyds Bank International Ltd

### Insurance Sub Group (Scottish Widows)

Operates as a stand-alone business. No change anticipated as a result of ring-fencing.

### Equity Investments Sub- Group

Operates as a stand-alone business. No change anticipated as a result of ring-fencing.

- Equity Investments Hold Co

**Key:**

- New entity
- Branch

Entity structure shown is simplified.

# BUSINESS STRATEGY & TARGET MARKET

## LBCM's strategy and proposition will be complementary to the Group

LLOYDS BANKING GROUP

- **LBCM is core to the Group's existing customer proposition and will ensure a continued offering to:**
  - Global Corporates (GC), Financial Institution (FI) and Mid-Market (MM) corporate clients in the UK, US, Singapore and Crown Dependencies
  - Retail and corporate customers in jurisdictions outside the EEA

| | |
|---|---|
| **Markets Financing** | Debt financing, balance sheet and risk management solutions to the Group's GC and FI customers. Products include: Loan Markets, Bonds, Asset Securitisation, and Strategic Debt Finance (including Acquisition Finance). |
| **Markets Traded Products** | Risk management and treasury management solutions primarily to the Group's GC and FI customers. Products include: FX, Rates, Money Markets, Repos, Credit, Commodities, and Liabilities Management (including deposits). |
| **Lending** | Funding to Group's FI customers.<br>Products include: Fixed Rate Loans, Revolving Credit Facilities, Variable Loans, and Business Mortgages. |
| **Global Transaction Banking** | Trade finance solutions to predominantly GC, FI and some MM customers to meet everyday banking and transactional needs. Products include: Trade Services, Trade Finance & Supply Chain, and Asset Finance. |
| **Retail and Consumer Finance** | Retail and Consumer Finance offering to customers in the Channel Islands and Gibraltar |

# LBCM: STRONG RATINGS ASSIGNED

## Investment grade preliminary ratings

| | Lloyds Bank Corporate Markets | Lloyds Bank |
|---|---|---|
| **S&P** | | |
| Long Term | **A–** | A |
| Short Term | **A–2** | A–1 |
| **FITCH** | | |
| Long Term | **A** | A+ |
| Short Term | **F1** | F1 |
| **MOODY'S** | | |
| Long Term | **A2** | Aa3 |
| Short Term | **P-1** | P-1 |

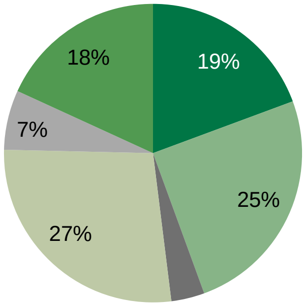
- Lloyds Bank Corporate Markets has been assigned strong investment grade preliminary / expected / prospective ratings by S&P, Fitch and Moody's
- Both S&P and Fitch have taken a "top-down" approach, notching it down from the wider Lloyds Group ratings, reflecting:
  - Importance to Group
  - Interdependence between LBCM and Group
  - High probability of support
  - Regulatory-driven nature of the separation
- Moody's took a "bottom-up" approach, first determining a standalone rating before adding in Group and MREL support
- Ratings expected to be finalised close to point of asset and liability transfer (H1 2018)

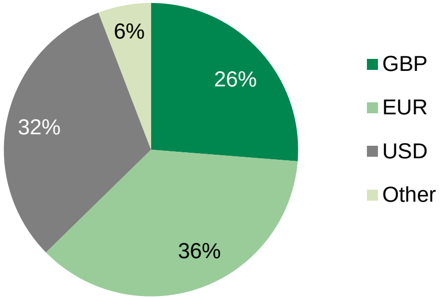
# FUNDING, LIQUIDITY AND CREDIT RATINGS

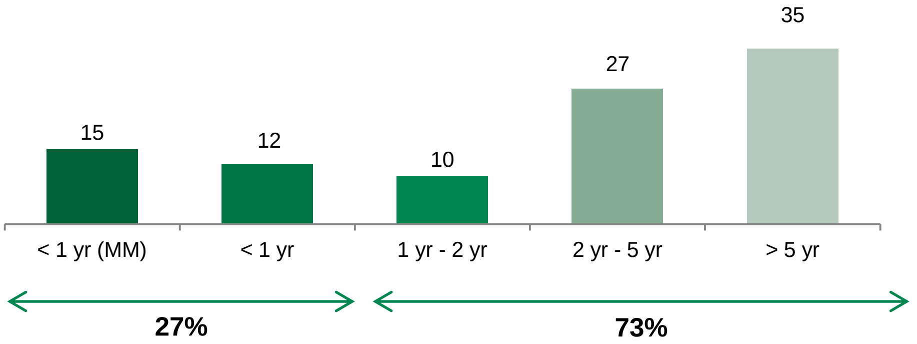
# WHOLESALE FUNDING

## Composition of wholesale funding as at 30 Sept 2017

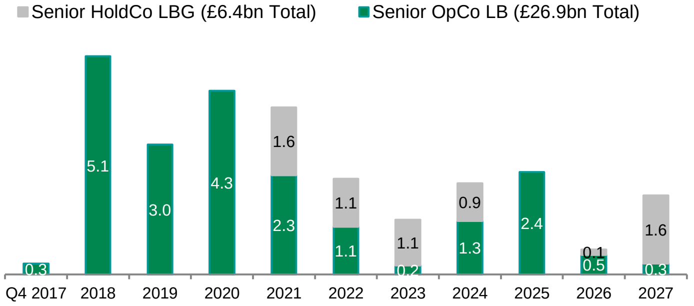
### Product, currency and maturity – £99bn




### Senior unsecured debt maturities[1]



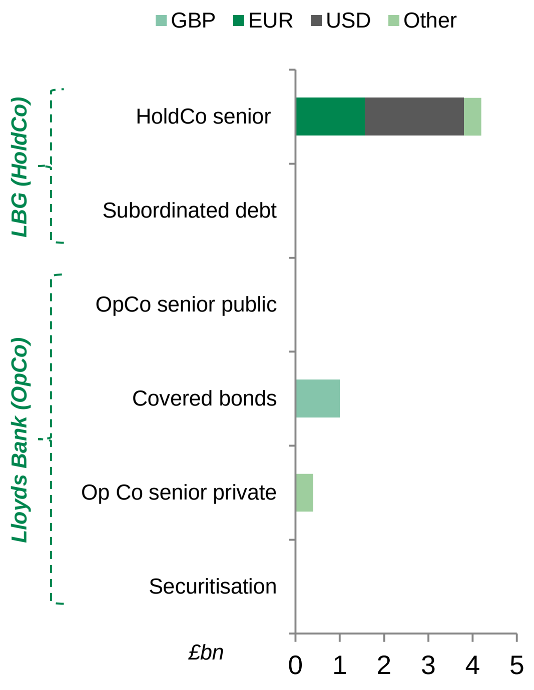

- **Lower wholesale funding in 2017 reflecting TFS drawdowns (now complete)**
- **Steady-state funding requirement of £15 – £20bn per annum from 2018 onwards**
- **Good progress on MREL (23.7%), with £6.4bn of HoldCo senior debt issued to date**
- **Multiple issuance platforms with access to diverse funding sources globally**

[1] Maturities reflect public and private senior unsecured debt.

# WHOLESALE FUNDING

## Diverse and simple term funding model has enabled successful execution

### £5.6bn Term issuance YTD 2017



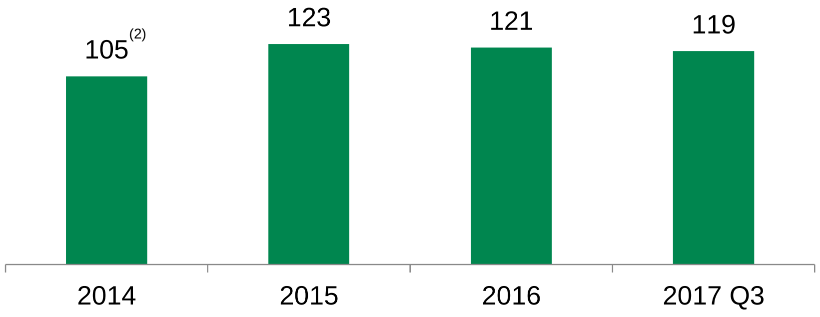

| Issuer | Funding platforms |
| --- | --- |
| **Lloyds Banking Group (A3/BBB+/A+)[1]** | **Capital/ MREL[2] issuance**<br>• Subordinated debt: AT1, Tier 2<br>• Senior unsecured debt<br>– *EMTN, SEC Registered Shelf, AUD (Kangaroo), Samurai[3]* |
| **Lloyds Bank (Aa3/A/A+)[1]** | **Maintain usage of a diverse range of OpCo funding formats**<br>• Senior unsecured debt<br>– *GMTN, EMTN, SEC Registered Shelf, AUD (Kangaroo), Samurai/Uridashi Shelf, SSD/NSV*<br>• Covered Bonds: (UK Residential Mortgages) |
| **Securitisations** | • RMBS (UK): Permanent<br>• Credit Card ABS: Penarth |

(1) Moody's/ S&P/ Fitch. (2) MREL – minimum requirement for own funds and eligible liabilities. (3) Expected establishment of Samurai shelf in late 2017.

# LIQUIDITY

## High level of liquidity

### Primary/LCR eligible liquid assets[1] (£bn)




### Loan to deposit composition

| Balance sheet | 2014[3] | 2015 | 2016 | 2017 Q3 |
|---|---|---|---|---|
| Loans and advances to customers | £456bn | £455bn | £450bn | £455bn |
| Customer deposits | £423bn | £418bn | £413bn | £413bn |
| Loan to deposit ratio | 108% | 109% | 109% | 110% |

- **Liquid assets are broadly unchanged compared to 2016**
- **Strong liquid asset portfolio maintained, comprised largely of cash and LCR eligible securities**
- **LCR eligible liquid assets represent over 6 times Money Markets funding and exceed total wholesale funding**
- **LCR >100%; comfortably exceeds regulatory minimum**

[1] The UK regulator adopted the EU delegated act on 1 October 2015. Prior to this, liquidity was managed on an Individual Liquidity Adequacy Statement (ILAS) basis. 2015 liquid assets are classed as LCR eligible. [2] Excludes TSB. At 31 December 2014, TSB had £4.5bn of liquid assets, bringing the Group total liquid assets to £109bn. [3] Excludes TSB.

# CREDIT RATINGS

## Strong credit ratings, with stable outlook unless stated otherwise

| | LBG (HoldCo) | Lloyds Bank | HBOS | Bank of Scotland | Lloyds Bank Corporate Markets[1] |
|---|---|---|---|---|---|
| **MOODY'S** | | | | | |
| Long Term | **A3** | Aa3 | Aa3 | Aa3 | (P) A2 |
| Short Term | **P-2** | P-1 | P-1 | P-1 | (P) P-1 |
| **S&P** | | | | | |
| Long Term | **BBB+** | A *Positive Outlook* | BBB+ | A *Positive Outlook* | A- (prelim) *Positive Outlook* |
| Short Term | **A-2** | A-1 | A-2 | A-1 | A-2 (prelim) |
| **FITCH** | | | | | |
| Long Term | **A+** | A+ | A+ | A+ | A (exp) |
| Short Term | **F1** | F1 | F1 | F1 | F1 (exp) |

[1] Non-ringfenced entity.

# APPENDIX

# EBA & PRA STRESS SCENARIO COMPARISON

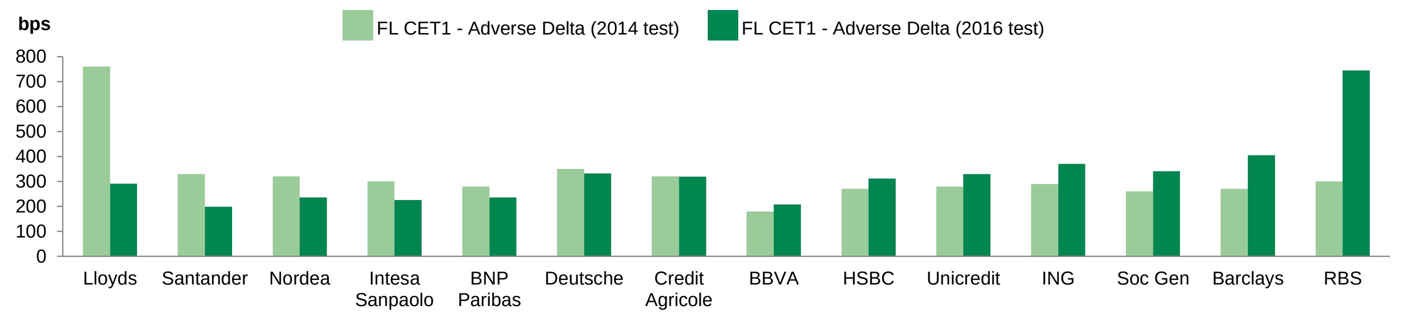
## The 2017 PRA stress test combines elements of recent scenarios with a high rates environment to test all aspects of UK banks

| | UK domestic stress scenarios | | | | | |
|---|---|---|---|---|---|---|
| | **PRA 2017** | **PRA 2016** | **PRA 2015** | **PRA 2014** | **EBA 2016** | **EBA 2014** |
| **GDP** (peak-to-trough, ppts) | -4.7 | -4.3 | -3.2 | -3.9 | -4.2 | -3.5 |
| **Unemployment** (start-to-peak, ppts) | +4.7 | +4.5 | +3.5 | +5.2 | +4.5 | +3.5 |
| **House prices** (start-to-trough, ppts) | -33.0 | -31.0 | -20.0 | -34.6 | -11.1 | -26.8 |
| **CRE values** (start-to-trough, ppts) | -40.0 | -42.0 | -29.7 | -30.0 | -29.3 | -41.7 |
| **Equities** (start-to-trough, ppts) | -44.8 | -42.9 | -36.0 | -27.8 | -32.7 | -24.4 |
| **Interest rates** (maximum or minimum, ppts) | 4.0 | 0.0 | 0.0 | 4.25 | 1.25 | 1.75 |

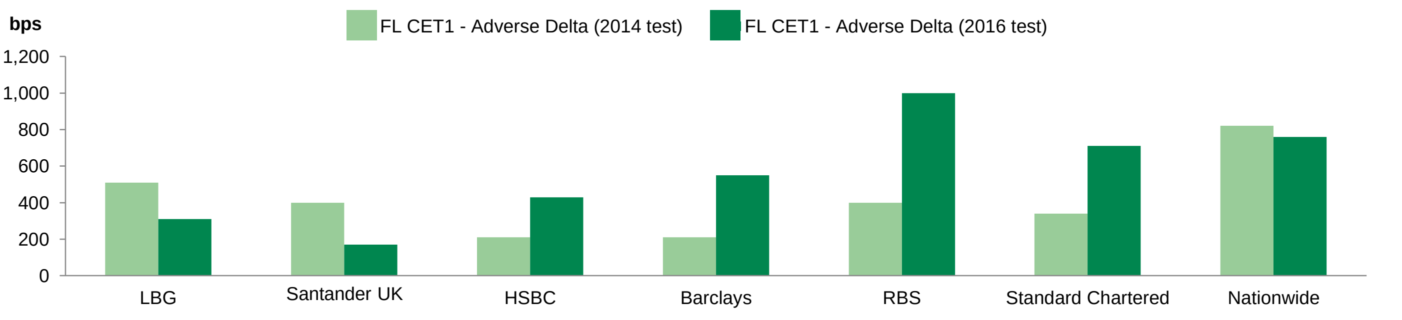
# STRESS TESTING FRAMEWORK

## Reduction in stress peak to trough reflects recent de-risking

**EBA FL CET1 ratio deltas[1] 2014 v 2016 adverse scenarios (bps)**




**PRA FL CET1 ratio deltas[2] 2014 v 2016 adverse scenarios (bps)**




- **Stronger balance sheet and FL CET1 ratio for the 2016 stress tests**
- **De-risked business model showed a lower CET1 adverse delta despite a more challenging EBA stress test vs 2014**
- **UK stress scenario remains one of the most severe among major European economies**
- **LBG rank second after mitigating actions, comfortably exceeding PRA thresholds**

[1] Source: EBA. [2] Source: BoE.

# DEBT INVESTOR RELATIONS CONTACTS

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# FORWARD LOOKING STATEMENT AND BASIS OF PRESENTATION

LLOYDS BANKING GROUP

## 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 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; 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 Q3 2017 Interim Management Statement.