



3 September 2019

LLOYDS BANKING GROUP TO ACQUIRE TESCO BANK'S UK RESIDENTIAL MORTGAGE PORTFOLIO

Lloyds Banking Group plc (the 'Group') announces today that Halifax has entered into an agreement with Tesco Personal Finance plc ('Tesco Bank') to acquire Tesco Bank's prime £3.7 billion UK residential mortgage portfolio.¹

As part of the transaction, we welcome over 23,000 mortgage customers who will be transitioning from Tesco Bank. Halifax has a proven track record in serving and supporting mortgage borrowers across the UK.

The transaction is consistent with Group strategy and value accretive to shareholders.

As previously indicated, the Group's strong free capital build gives us flexibility to consider inorganic growth opportunities in selected target areas where we see value for shareholders. The transaction is in line with this approach and demonstrates the Group's strong commitment to the strategically core prime mortgage market.

The acquired portfolio will generate good returns to the Group in excess of current organic market opportunities, while delivering open mortgage book growth within the Group's low risk strategy and providing additional flexibility in participation choices in the mortgage market. Following this transaction, we now expect the Group's open mortgage book assets at the year end to be ahead of the year end 2018 balance.

The purchase price of c. £3.8 billion represents a 2.5 per cent premium on gross book value.² It will be funded using existing internal resources with minimal impact on capital (mid to high single digits basis points at year end 2019). Under the ownership of Tesco Bank the portfolio generated customer income of c. £81 million and a pre-tax profit of c. £9 million in the year to 28 February 2019.

The beneficial ownership of the portfolio is expected to transfer at the end of September 2019, with transfer of legal title anticipated by the end of March 2020. We will work closely together with Tesco Bank to ensure a smooth transition to the Group for all customers.

¹ Halifax is a division of Bank of Scotland plc which is a wholly owned subsidiary of Lloyds Banking Group plc

² There will be an adjustment at legal close for in-flight customer loans and further advances made to existing customers during the period until legal title transfer which is likely to be less than £30 million

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For further information:

Investor Relations

Douglas Radcliffe
Group Investor Relations Director
douglas.radcliffe@lloydsbanking.com

+44 (0)20 7356 1571

Corporate Affairs

Matt Smith
Head of Corporate Media
matt.smith@lloydsbanking.com

+44 (0)20 7356 3522

FORWARD LOOKING STATEMENTS

This document contains certain forward looking statements with respect to the business, strategy, plans and/or results of the Group and its current goals and expectations relating to its future financial condition and performance. Statements that are not historical facts, including statements about the Group's or its directors' and/or management's beliefs and expectations, are forward looking statements. By their nature, forward looking statements involve risk and uncertainty because they relate to events and depend upon circumstances that will or may occur in the future. Factors that could cause actual business, strategy, plans and/or results (including but not limited to the payment of dividends) to differ materially from forward looking statements made by the Group or on its behalf include, but are not limited to: general economic and business conditions in the UK and internationally; market related trends and developments; fluctuations in interest rates, inflation, exchange rates, stock markets and currencies; any impact of the transition from IBORs to alternative reference rates; 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; the ability to achieve strategic objectives; changing customer behaviour including consumer spending, saving and borrowing habits; changes to borrower or counterparty credit quality; concentration of financial exposure; management and monitoring of conduct risk; instability in the global financial markets, including Eurozone instability, instability as a result of uncertainty surrounding the exit by the UK from the European Union (EU) and as a result of such exit 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; political instability including as a result of any UK general election; 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; risks relating to climate change; changes in laws, regulations, practices and accounting standards or taxation, including as a result of the exit by the UK from the EU, or a further possible referendum on Scottish independence; changes to regulatory capital or liquidity requirements and similar contingencies outside the Group's control; the policies, decisions and actions of governmental or regulatory authorities or courts in the UK, the EU, the US or elsewhere including the implementation and interpretation of key legislation and regulation together with any resulting impact on the future structure of the Group; the ability to attract and retain senior management and other employees and meet its diversity objectives; actions or omissions by the Group's directors, management or employees including industrial action; changes to the Group's post-retirement defined benefit scheme obligations; the extent of any future impairment charges or write-downs caused by, but not limited to, depressed asset valuations, market disruptions and illiquid markets; the value and effectiveness of any credit protection purchased by the Group; the inability to hedge certain risks economically; the adequacy of loss reserves; the actions of competitors, including non-bank financial services, lending companies and digital innovators and disruptive technologies; and exposure to regulatory or competition scrutiny, legal, regulatory or competition proceedings, investigations or complaints. Please refer to the latest Annual Report on Form 20-F filed with the US Securities and Exchange Commission for a discussion of certain factors and risks 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 the Group expressly disclaims any obligation or undertaking to release publicly any updates or revisions to any forward looking statements contained in this document to reflect any change in the Group's expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based. 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.