

LLOYDS  
BANKING  
GROUP



# Q3 INTERIM MANAGEMENT STATEMENT

Presentation to analysts and investors

28 October 2014

# HIGHLIGHTS FOR THE FIRST NINE MONTHS OF 2014

Continued successful execution of our strategy and further improvement in financial performance

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- **Further strategic progress**

- Lending growth in key customer segments, deposit growth driven by relationship brands
- Reshaping of Group substantially complete with run-off portfolio reduced to £23bn
- TSB shareholding successfully reduced to 50%

- **Continued improvement in financial strength and performance**

- Balance sheet further strengthened with CET1 of 12.0% and leverage ratio of 4.7%
- Underlying profit increased by 35% to £6.0bn
- Statutory profit after tax of £1.4bn, despite further PPI charge of £900m in Q3
- EBA stress test successfully passed

# FINANCIAL PERFORMANCE 2014 TO DATE

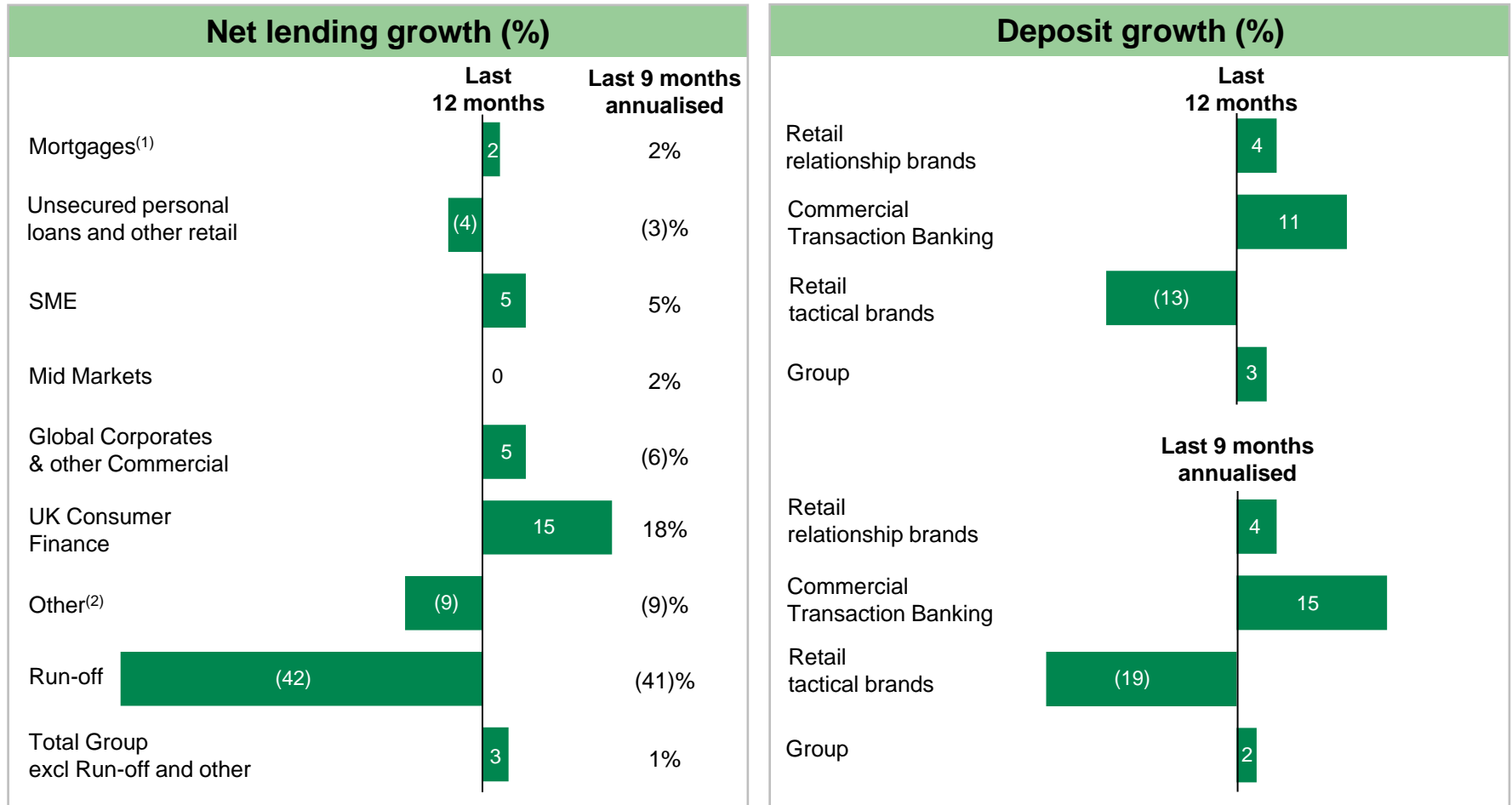
Profit and returns substantially improved and balance sheet further strengthened



<b>Income (excl SJP)</b>	<b>£13.9bn</b> <b>+3%</b> ↑	<ul style="list-style-type: none"> <li>Income growth driven by 11% increase in net interest income                             <ul style="list-style-type: none"> <li>– Net interest margin of 2.44%, up 38bps</li> <li>– Loan growth in key customer segments</li> </ul> </li> </ul>
<b>Underlying profit</b>	<b>£6.0bn</b> <b>+35%</b> ↑	<ul style="list-style-type: none"> <li>Underlying profit increased to <b>£6.0bn</b> <ul style="list-style-type: none"> <li>– Costs excluding FSCS timing down 6%</li> <li>– 59% reduction in impairment; AQR of 27bps</li> </ul> </li> </ul>
<b>Statutory profit after tax</b>	<b>£1.4bn</b> <b>+397%</b> ↑	<ul style="list-style-type: none"> <li>Statutory profit after tax of <b>£1.4bn</b>, increased from <b>£0.3bn</b> in 2013</li> </ul>
<b>Return on RWAs</b>	<b>3.05%</b> <b>+104bps</b> ↑	<ul style="list-style-type: none"> <li>RoRWA improvement driven by underlying profit increase and lower RWAs</li> </ul>
<b>FL CET1 ratio</b>	<b>12.0%</b> <b>+1.7pp</b> ↑	<ul style="list-style-type: none"> <li>Fully loaded CET1 ratio improvement led by underlying profit</li> </ul>
<b>Leverage ratio</b>	<b>4.7%</b> <b>+0.9pp</b> ↑	<ul style="list-style-type: none"> <li>Fully loaded Basel III leverage ratio improvement driven by underlying profit and ECN / AT1 exchange</li> <li>TNAV improved from 49.4p at the end of June 2014 to 51.8p at the end of September</li> </ul>

# SUPPORTING OUR CUSTOMERS AND THE UK ECONOMY

Continued loan growth in key customer segments and deposit growth in relationship brands

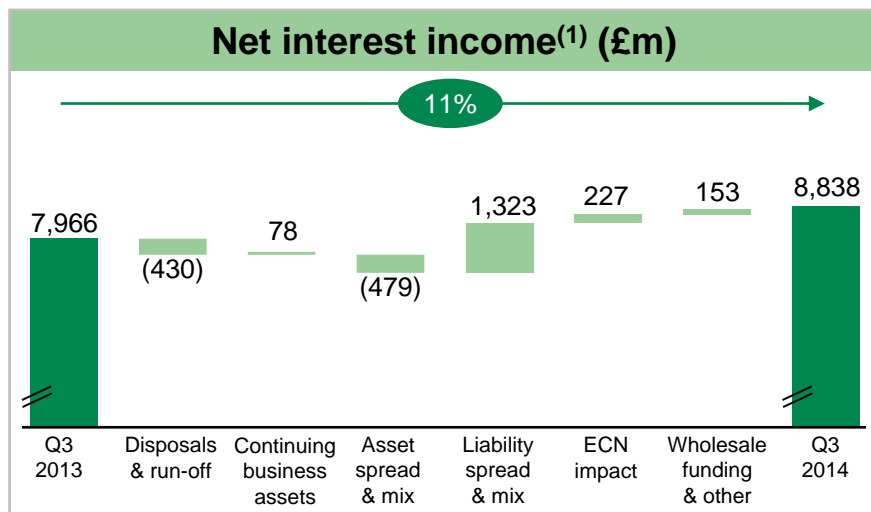


## LOAN GROWTH SUPPORTING UK ECONOMIC RECOVERY

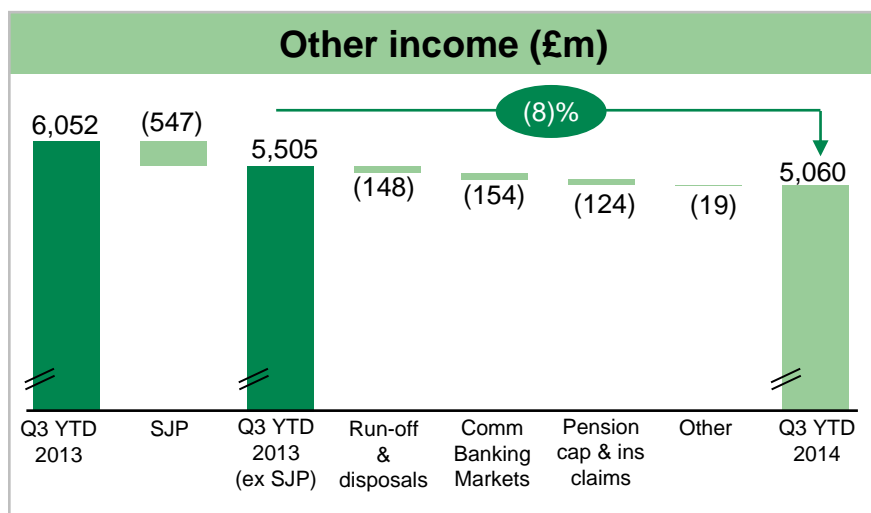
<sup>(1)</sup> Excludes TSB, specialist book, Intelligent Finance and Dutch mortgages. <sup>(2)</sup> Other includes TSB, specialist book, Intelligent Finance and Dutch mortgages.

# FINANCIAL PERFORMANCE

Strong net interest income performance, resilient other income given the challenging environment



- Strong improvement in NII year on year reflects further margin expansion and loan growth in key segments
- Margin increased to 2.51% in third quarter, driven by increased deposit margins and lower funding costs
- Continue to expect NIM of around 2.45% for the full year

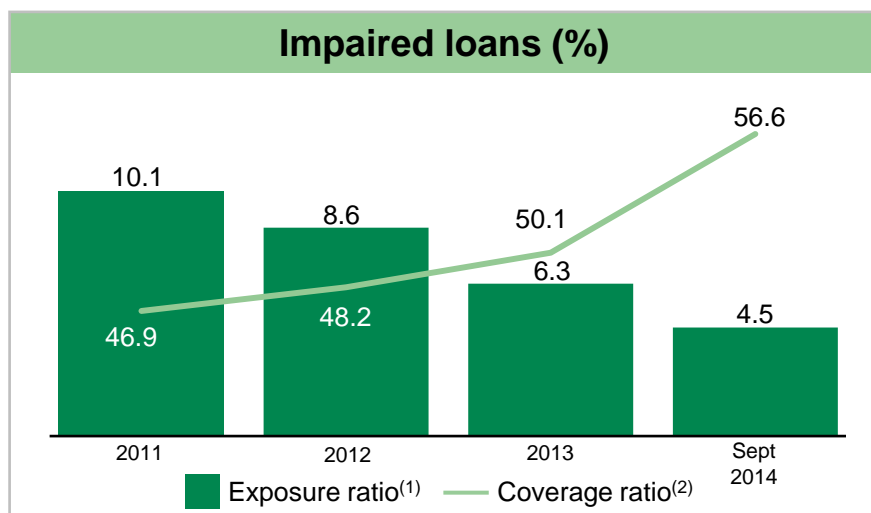
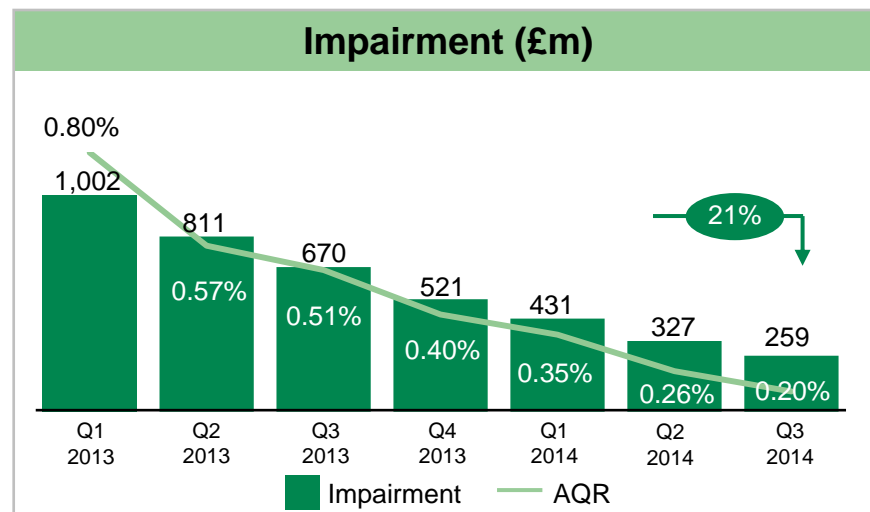
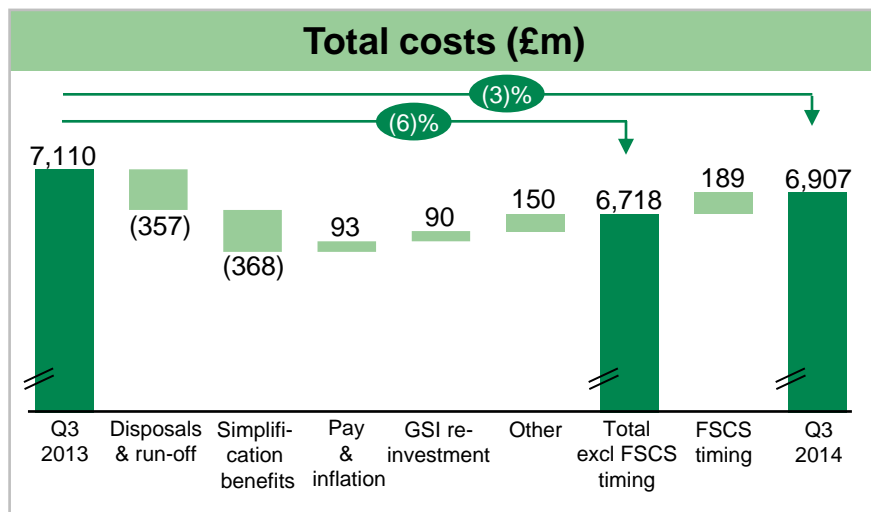


- Other income reduction year on year reflects disposals, challenging market conditions in Financial and Capital Markets within Commercial Banking and regulatory driven changes in Insurance
- Slight reduction in quarter primarily driven by lower insurance profits (including higher weather claims) and the impact of reducing run-off portfolio

<sup>(1)</sup> Excludes £1m relating to SJP in 2013.

# FINANCIAL PERFORMANCE

Continued cost improvement; reduction in impairment resulting in enhanced AQR guidance



- Continued reduction in underlying costs; down 6% excluding FSCS timing
- Impairment down by 59% with reductions in all divisions
- AQR YTD of 27bps, 20bps in Q3; AQR guidance for FY 2014 improved to around 30bps
- NPLs of 4.5% and expect further reduction by year end
- Coverage ratio of 56.6%

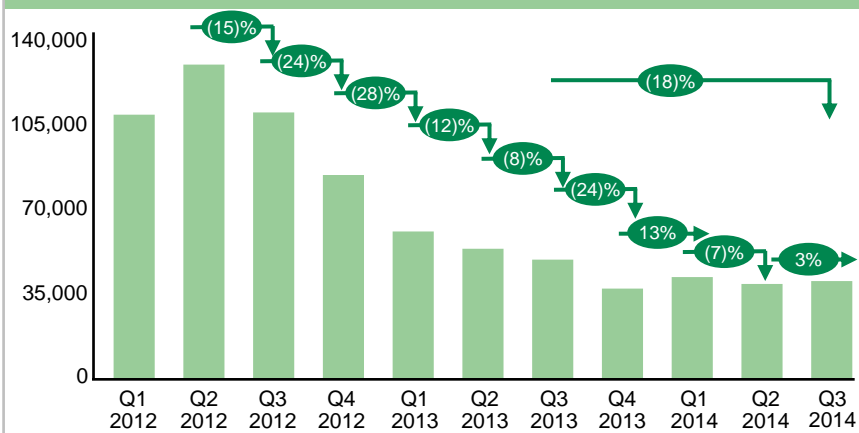
<sup>(1)</sup> Impaired loans as a percentage of closing advances. <sup>(2)</sup> Provisions as a percentage of impaired loans.

# LEGACY ISSUES

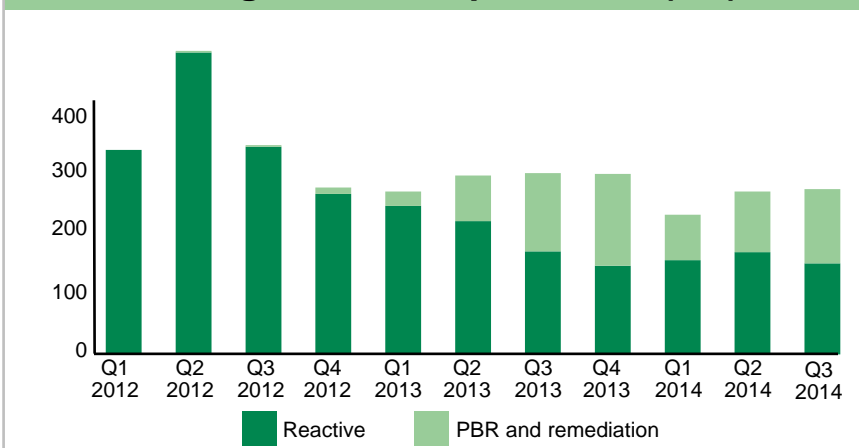
An additional charge of £900m in Q3 in relation to PPI claims



Average complaint volumes per month<sup>(1)</sup>



Average PPI costs per month (£m)



- Additional charge of £900m in Q3 primarily driven by higher than expected reactive complaint volumes
- Reduction in recent reactive complaints but uncertainties remain
- Proactive mailings substantially complete
- Current run rate of cash spend about £200m per month
- Spend expected to fall on completion of PBR and remediation activity during the first half of 2015
- £2.5bn of provision remains unutilised
- Risks and uncertainties remain

<sup>(1)</sup> Excludes complaints where no PPI policy is held.

# FINANCIAL PERFORMANCE

Statutory profit before tax of £1.6bn after restructuring and legacy charges



(£m)	YTD Q3 2014	YTD Q3 2013
Underlying profit	5,974	4,426
Asset sales & volatile items	(1,043)	84
Simplification costs	(650)	(608)
TSB costs	(414)	(586)
Legacy	(2,000)	(1,325)
Other statutory items	(253)	(297)
<b>Statutory profit before tax</b>	<b>1,614</b>	<b>1,694</b>
Tax	(222)	(1,414)
<b>Statutory profit after tax</b>	<b>1,392</b>	<b>280</b>

- **Asset sales and volatile items includes loss on ECN exchange offset by pension credit; 2013 includes gain on sale of government bonds**
- **Simplification costs of £2.3bn to date; programme to finish by end 2014**
- **Legacy predominantly reflects PPI, Retail conduct provisions and LIBOR / repo settlement**
- **Effective tax rate of 14% reflects tax-exempt gains on disposals and lower rate in insurance**
- **Expect full year statutory profits to be significantly ahead of first half**

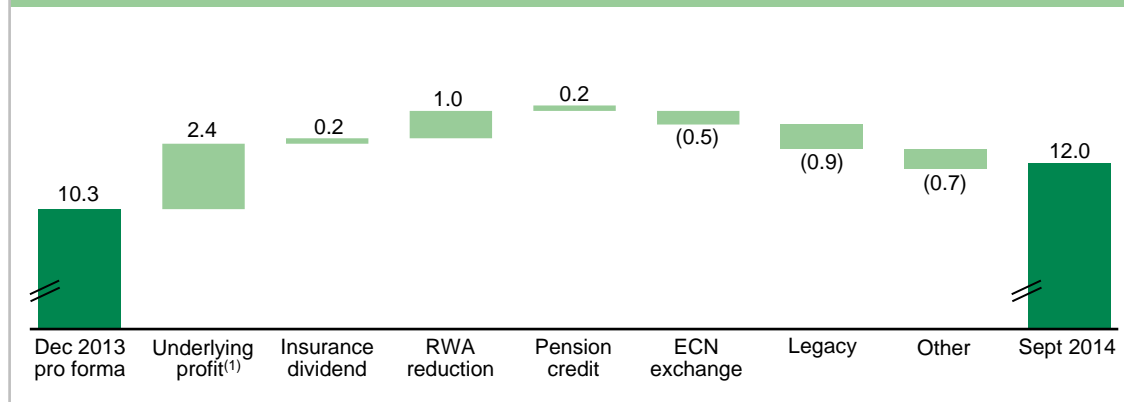


# FURTHER STRENGTHENING THE BALANCE SHEET

Common equity tier 1 and leverage ratios further strengthened

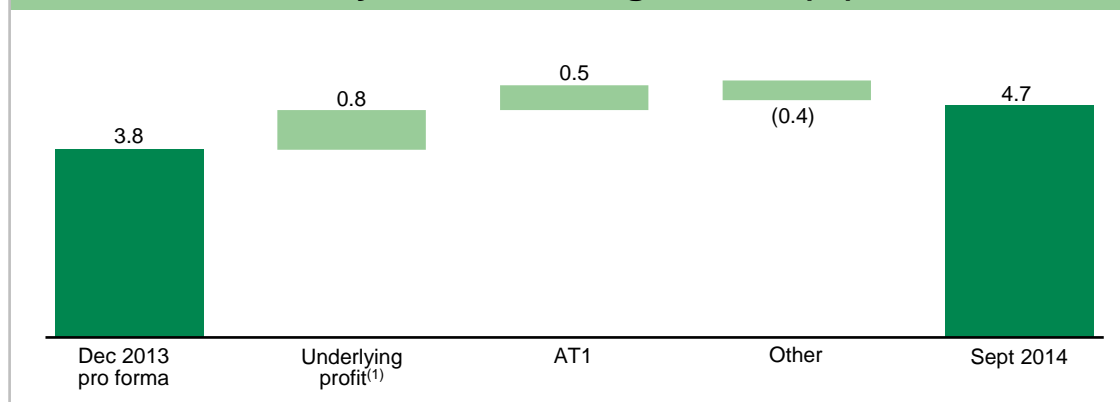


## Fully loaded common equity tier 1 ratio (%)



- Stronger capital position principally driven by underlying profit and RWA reduction
- Fully loaded CET1 ratio improved to 12.0%
- Improvement of 0.9% in the quarter driven by underlying earnings and further RWA reduction partly offset by legacy charge
- Leverage ratio substantially improved through profitability and AT1 issuance
- Well positioned in advance of changing regulatory requirements

## Fully loaded leverage ratio<sup>(2)</sup> (%)



**A STRONGLY CAPITAL GENERATIVE BUSINESS**

<sup>(1)</sup> Excl profit in Insurance business. <sup>(2)</sup> Following PRA guidance, calculated in accordance with the January 2014 revised Basel III leverage ratio framework.



- **Continued successful execution of strategy**
  - Continued loan growth in key customer segments
  - 35% increase in underlying profit to £6.0bn; statutory PAT of £1.4bn
  - Substantial increase in returns, with RoRWA of 3.05%
  
- **Well positioned in evolving regulatory environment**
  - Further strengthening of capital position, with fully loaded CET1 ratio of 12.0%
  - Leverage ratio of 4.7%
  
- **AQR guidance for the full year improved to around 30bps; all other guidance reconfirmed**
  - 2014 full year net interest margin expected to be around 2.45%
  - Run-off assets expected to be less than £20bn by the end of 2014
  - Full year statutory profit to be significantly ahead of first half
  
- **Ongoing discussions with the PRA regarding the resumption of dividends**

**CONFIDENT IN DELIVERY OF STRONG AND SUSTAINABLE RETURNS**

# APPENDIX

# FURTHER STRENGTHENING THE BALANCE SHEET

## Strong balance sheet



(£bn)	Sept 2014	Dec 2013	Change	(£bn)	YTD Q3 2014
<b>ASSETS</b>				<b>SOURCE OF FUNDS</b>	
Loans and advances <sup>(1)(2)</sup>	<b>468</b>	468	–	Deposit growth	7
<i>Global Corporates</i>	<b>33</b>	38	(13)%	Run-off asset reduction	10
<i>TSB</i>	<b>22</b>	24	(6)%	Other movement	6
<i>Other loans and advances</i>	<b>413</b>	406	2%		<b>23</b>
Run-off assets	<b>23</b>	33	(32)%	<b>USE OF FUNDS</b>	
Total on BS liquid assets	<b>94</b>	89	6%	Total on BS liquid assets	5
				Reduced wholesale funding	18
<b>LIABILITIES</b>					<b>23</b>
Customer deposits <sup>(2)</sup>	<b>445</b>	438	2%		
<i>TSB</i>	<b>24</b>	23	5%		
<i>Other</i>	<b>421</b>	415	1%		
Wholesale funding	<b>120</b>	138	(13)%		
Equity <sup>(3)</sup>	<b>48</b>	39	21%		

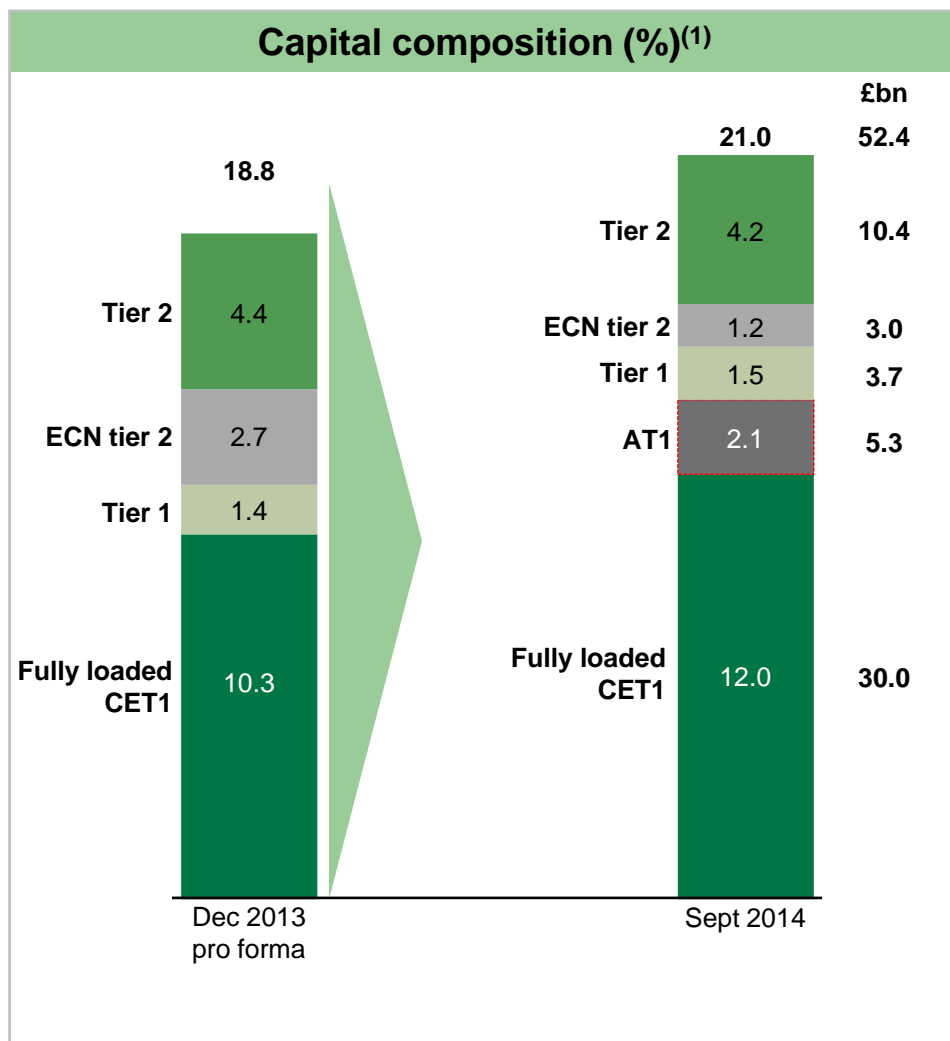
  

	Sept 2014	Dec 2013	Change
<b>Loan to deposit ratio</b>	<b>109%</b>	<b>113%</b>	<b>(4)pp</b>
<b>Risk-weighted assets<sup>(4)</sup></b>	<b>£250bn</b>	<b>£272bn</b>	<b>(8)%</b>
<b>TNAV per share</b>	<b>51.8p</b>	<b>48.5p</b>	<b>3.3p</b>

<sup>(1)</sup> Excludes run-off loans and advances. <sup>(2)</sup> Excludes repos and reverse repos. <sup>(3)</sup> Includes AT1 of £5.3bn. <sup>(4)</sup> Fully loaded, December 2013 on a pro forma basis.

# FURTHER STRENGTHENING THE BALANCE SHEET

Strong capital position with medium term AT1 requirement met through ECN exchange

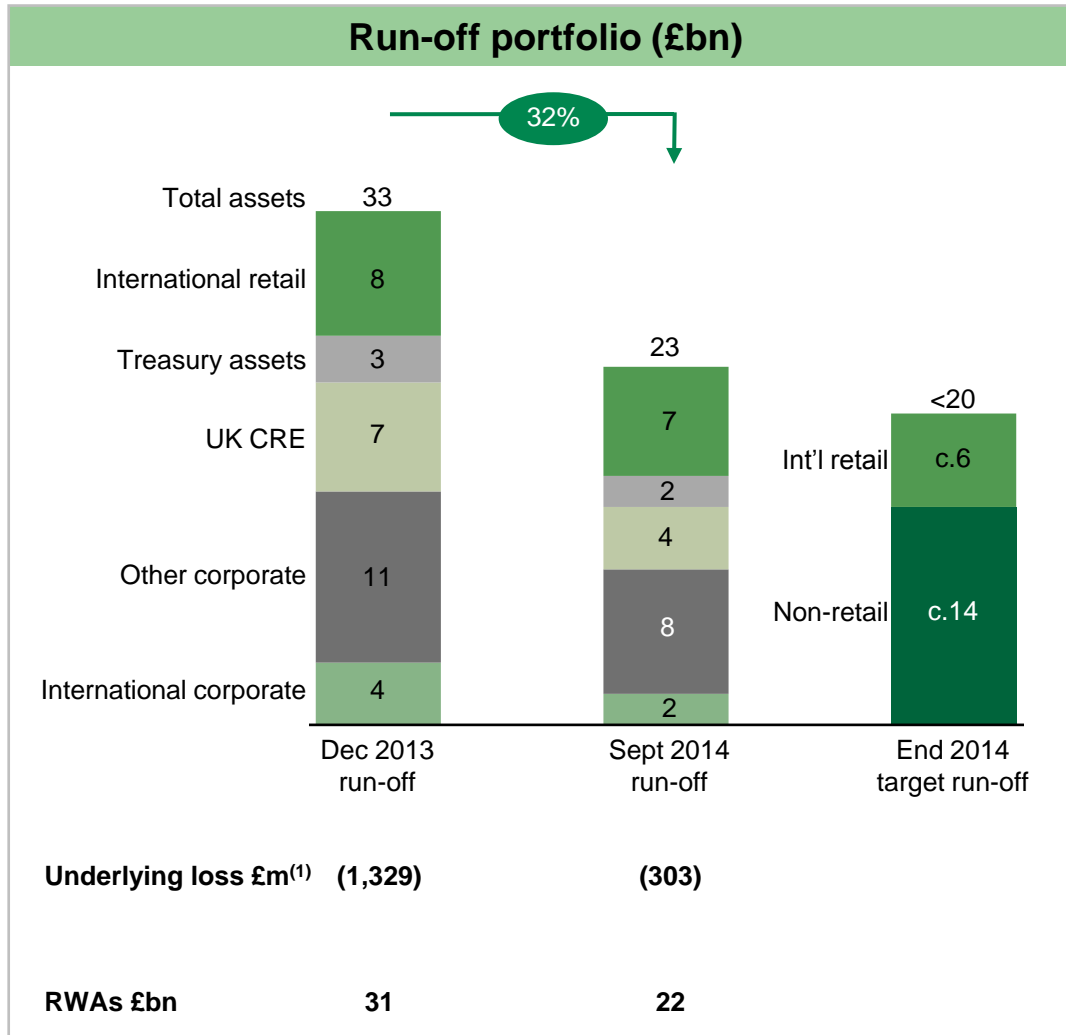


- Strong total capital ratio of 21.0%
- Substantially improved quality of capital with c.£5.3bn of new AT1 (2.1% of RWAs)
- Improved leverage and rating agency capital measures
- Continue to review capital base to meet regulatory requirements and optimise costs

<sup>(1)</sup> As a percentage of risk-weighted assets; includes grandfathered capital securities.

# RUN-OFF PORTFOLIO

Reduction of £10bn in the first nine months of 2014



- Run-off assets reduced 32% to £23bn
- Underlying loss decreased to £303m
- Risk-weighted assets now £22bn

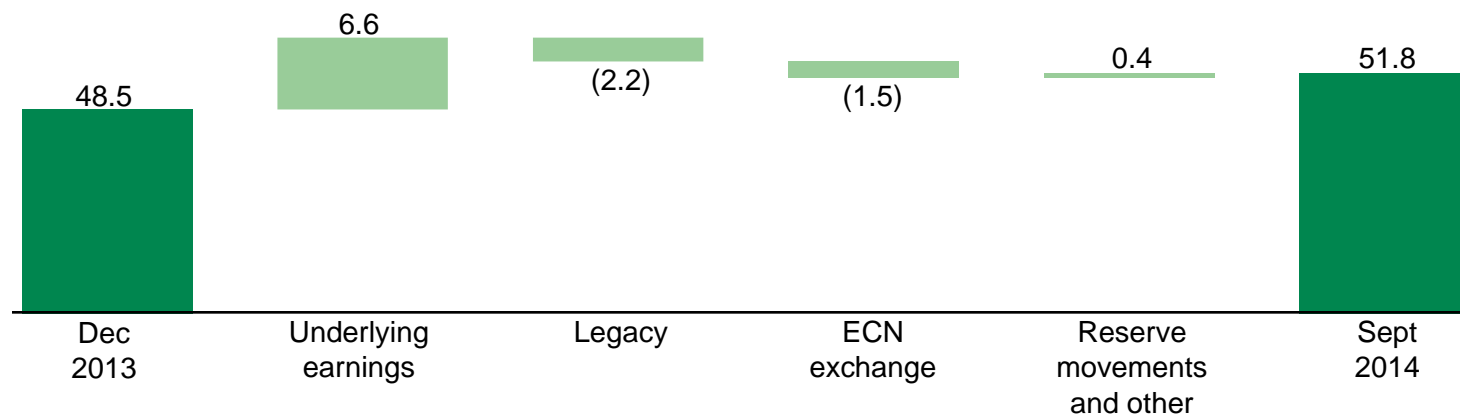
<sup>(1)</sup> Excludes SJP.



## Net tangible assets per share (p) – Jun to Sept



## Net tangible assets per share (p) – Dec to Sept



# FORWARD LOOKING STATEMENTS AND BASIS OF PRESENTATION

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## 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 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 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; 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 and the impact of any sovereign credit rating downgrade or other sovereign financial issues; technological changes and risks to cyber security; natural, pandemic and other disasters, adverse weather and similar contingencies outside the Group's control; inadequate or failed internal or external processes or systems; terrorist acts, geopolitical events and other acts of war or hostility, geopolitical, pandemic or other such events; changes in laws, regulations, accounting standards or taxation, including as a result of further Scottish devolution; 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 in the UK, the European Union (EU), the US or elsewhere including the implementation of key legislation and regulation; the ability to attract and retain senior management and other employees; requirements or limitations imposed on the Group as a result of HM Treasury's investment in the Group; 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 ability to complete satisfactorily the disposal of certain assets as part of the Group's EU State Aid obligations; the provision of banking operations services to TSB Banking Group plc; the extent of any future impairment charges or write-downs; 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 and lending companies; and exposure to regulatory scrutiny, legal proceedings, regulatory and competition 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.

## BASIS OF PRESENTATION

The results of the Group and its business are presented in this presentation on a underlying basis. Please refer to the Basis of Presentation in the 2014 Q3 Interim Management Statement which sets out the principles adopted in the preparation of the underlying basis of reporting.