

LLOYDS  
BANKING  
GROUP



# Q1 INTERIM MANAGEMENT STATEMENT

Presentation to Analysts and Investors

1 May 2015

# HIGHLIGHTS FOR THE FIRST THREE MONTHS OF 2015

Continued improvement in financial strength and performance with strong start to next phase of strategic journey

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

- Underlying profit of £2.2bn, up 21% on the first three months of 2014, with an underlying RoRE of 16.0%
- Income 3% higher, with Net Interest Income up 7%, driven by improved NIM of 2.65%, offset by lower Other Income
- Costs flat year on year, with increased investment in the business; cost:income ratio of 47.7% (Q1 2014: 49.3%)(<sup>1</sup>)
- Statutory profit before tax of £1.2bn, after loss on TSB sale of £660m
- Balance sheet strengthened further with a CET1 ratio of 13.4% and leverage ratio of 5.0%

- **Strong start to next phase of strategic journey**

- Sale of TSB agreed, enabling us to meet our EC commitment ahead of the mandated deadline
- Creating best customer experience through multi-channel, multi-brand strategy; increased investment in digital
- Continue to become simpler and more efficient through process redesign and automation
- Delivering growth in targeted areas including SME and Consumer Finance whilst maintaining support to first-time buyers
- UK government stake reduced to 20.95%, less than half its original stake

(<sup>1</sup>) Adjusted for operating lease depreciation and excluding TSB.

# FINANCIAL PERFORMANCE – FIRST THREE MONTHS OF 2015

Profit and returns substantially improved and balance sheet further strengthened



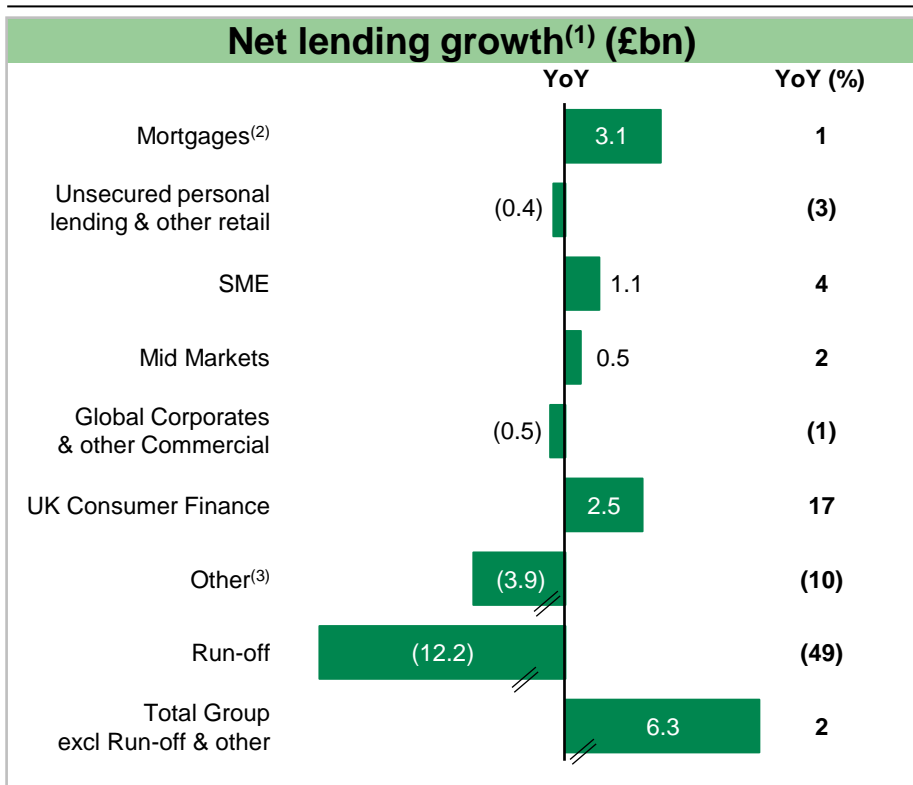
<b>Income</b>	<b>£4.6bn</b> <b>+3%</b>	↑
<b>Underlying profit</b>	<b>£2.2bn</b> <b>+21%</b>	↑
<b>Statutory profit before tax</b>	<b>£1.2bn</b> <b>(11)%</b>	↓
<b>Underlying RoRE</b>	<b>16.0%</b> <b>+3.0pp</b>	↑
<b>CET1 ratio</b>	<b>13.4%</b> <b>+0.6pp</b>	↑
<b>Leverage ratio</b>	<b>5.0%</b> <b>+0.1pp</b>	↑

- **Total income increased 3% to £4.6bn**
  - Strong Net Interest Income performance, up 7%
  - Net Interest Margin increased to 2.65%
  - Other Income down 6% on Q1 2014 reflecting business disposals and lower retail fee income, but up 5% on Q4 2014
- **Underlying profit increased 21% to £2.2bn**
  - Costs flat vs. same period in 2014; cost:income ratio of 47.7%<sup>(1)</sup>
  - 59% reduction in impairment to £177m; AQR of 15bps
- **Statutory profit before tax of £1.2bn after charges of £660m from sale of TSB**
- **Underlying RoRE improvement to 16% reflecting the increase in underlying profit**
- **CET1 ratio improvement of 0.6% to 13.4% driven by underlying profit and lower RWAs, and despite net 0.2% impact of TSB sale**

<sup>(1)</sup> Adjusted for operating lease depreciation and excluding TSB.

# SUPPORTING OUR CUSTOMERS AND THE UK ECONOMY

## Continued loan growth in key customer segments

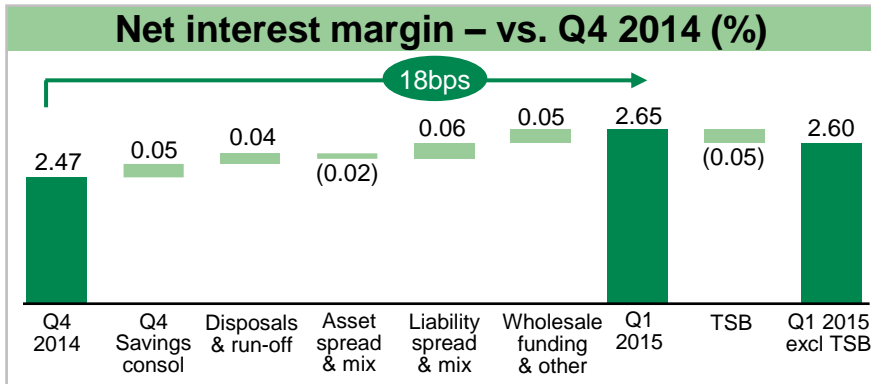
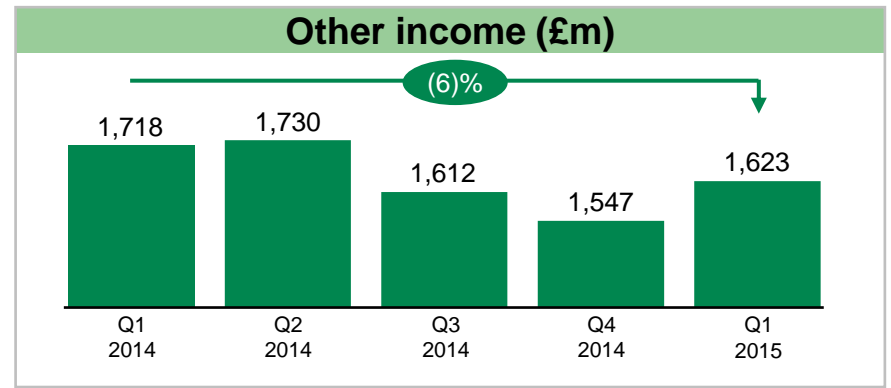
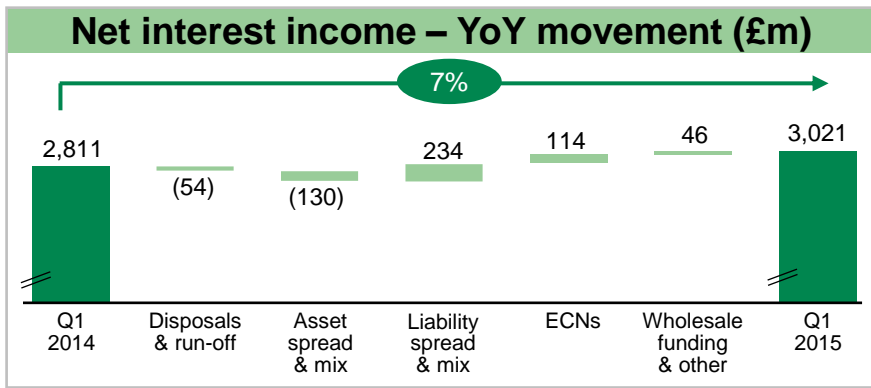


- **Continued growth in mortgages; remain the largest lender to first-time buyers**
  - £8bn gross lending in first three months; £2.2bn to first time buyers
- **Unsecured personal lending and other retail reduction reflects lower balances in Wealth**
- **SME lending up 4% on prior year and Mid-Market lending up 2%; continue to outperform the market**
  - Supported over 23,000 business start-ups in the first three months
- **UK Consumer Finance growth of 17% reflecting**
  - 37% increase in Asset Finance driven by market growth and successful partnership with Jaguar Land Rover
  - Continued growth in credit card balances
- **Remain confident in meeting our medium term growth targets**

<sup>(1)</sup> TSB lending balances excluded at 31 March 2015 as no longer included in Group balance sheet. Comparator restated on like for like basis. <sup>(2)</sup> Excludes specialist mortgage book, Intelligent Finance and Dutch mortgages. <sup>(3)</sup> Other includes, specialist mortgage book, Intelligent Finance and Dutch mortgages.

# FINANCIAL PERFORMANCE

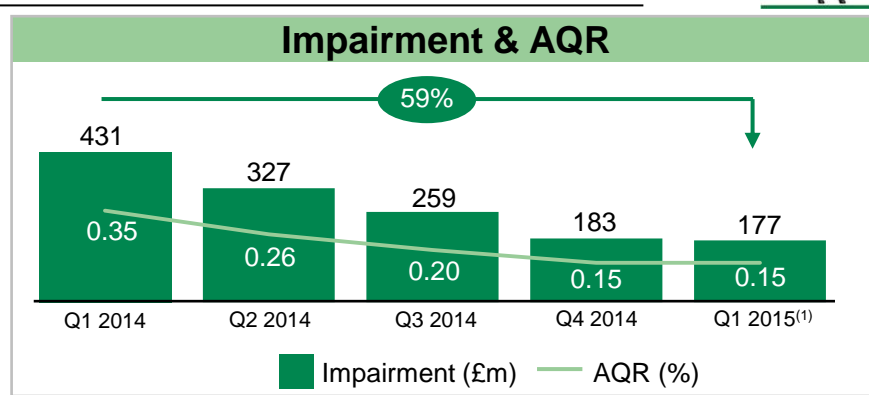
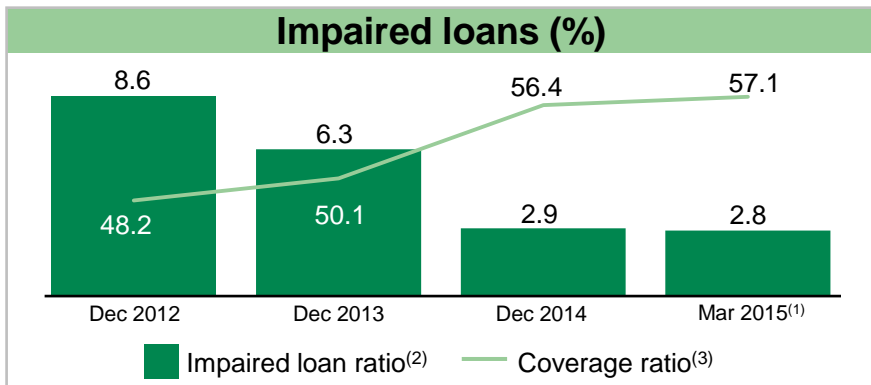
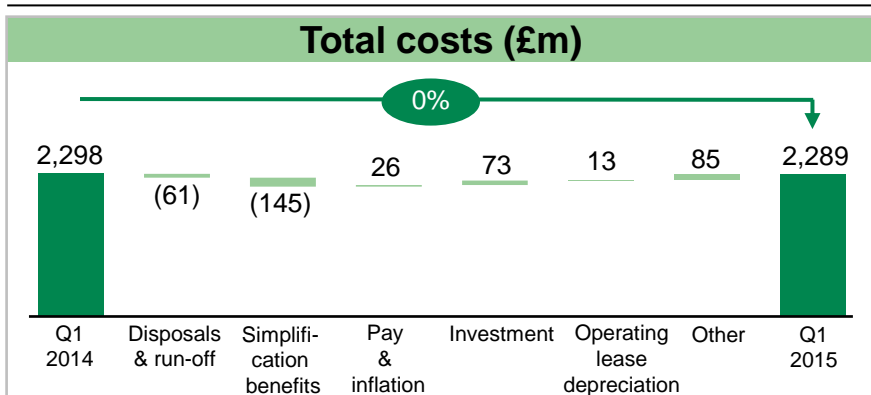
Strong Net Interest Income performance driven by Net Interest Margin



- Improvement in NII reflects further margin expansion
- Margin increase to 2.65% reflects disposal of lower margin run-off assets, benefit from deposit mix and pricing and reduced wholesale funding costs offset by asset pricing
- Expect to exceed NIM guidance of c.2.55% for the full year
- Other Income reduction of 6% on prior year reflects business disposals and lower Retail fees. Up 5% on Q4 2014
- Continue to expect 2015 Other Income to be broadly stable

# FINANCIAL PERFORMANCE

Continued cost discipline and a further significant reduction in impairment



- **Costs flat vs. Q1 2014 after additional investment of £73m**
- **Cost:income ratio improved to 47.7% driven by higher income**
- **Impairment down 59% with lower new impairments reflecting effective risk management, the reduction in the size of the run-off portfolio and economic conditions**
- **AQR YTD of 15bps; guidance for 2015 improved, now expected to be around 25bps for the year**
- **Further reduction in impaired loan ratio to 2.8%**

<sup>(1)</sup> Impairment and AQR include TSB charge in first three months, impaired loan and coverage ratios exclude TSB at 31 March 2015 as no longer included in the Group balance sheet.

<sup>(2)</sup> Impaired loans as a percentage of closing advances. <sup>(3)</sup> Provisions as a percentage of impaired loans.

# FINANCIAL PERFORMANCE

Statutory profit before tax of £1.2bn including £660m impact of TSB sale



(£m)	Q1 2015	Q1 2014
<b>Underlying profit</b>	<b>2,178</b>	1,800
Asset sales & other items	(111)	120
Simplification costs	(26)	(294)
TSB costs	(745)	(172)
Other statutory items	(82)	(85)
<b>Statutory profit before tax</b>	<b>1,214</b>	1,369
Tax	(270)	(207)
<b>Statutory profit after tax</b>	<b>944</b>	1,162

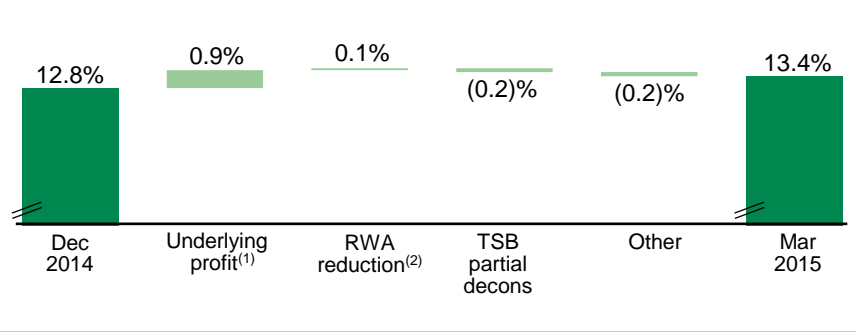
- **Asset sales and other items principally reflects**
  - A £65m charge from change in the value of ECN embedded derivative (Q1 2014: £204m gain)
  - £105m gain on disposal of SWIP recognised in Q1 2014
  - Positive insurance and banking volatility of £72m (Q1 2014: negative volatility of £108m)
  - Fair value unwind of £129m (Q1 2014: £140m)
- **Simplification costs of £26m for redundancy costs**
- **TSB costs include dual running costs of £85m and a net charge of £660m relating to sale of TSB**
- **Effective tax rate of 22%, compared with 15% in Q1 2014 which reflected tax exempt gains on the sale of businesses, including SWIP**

# BALANCE SHEET

Further strengthening of the balance sheet with solid capital generation and TNAV progression in the first three months



## Common equity tier 1 ratio (%)



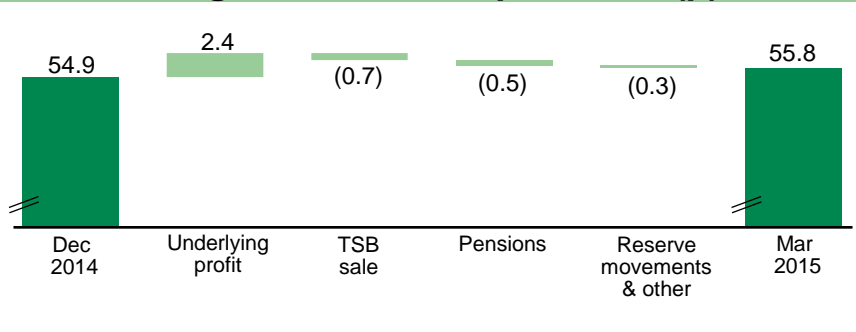
- CET1 ratio improved to 13.4% with increase primarily driven by underlying profit

- Leverage ratio improved to 5.0%

- Total capital ratio improved from 22.0% to 22.6%

- Run-off portfolio reduced to £15bn

## Tangible net assets per share (p)



- RWAs reduced to £234bn primarily driven by the partial deconsolidation of TSB

- Loan to deposit ratio of 109%, with customer deposits flat compared to March 2014<sup>(3)</sup>

- TNAV per share increased from 54.9p to 55.8p with improvement driven by underlying profit, partly offset by sale of TSB and pensions valuation



## SUMMARY

The Group's differentiated business model continues to deliver and we remain well positioned for further progress in 2015

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- **Continued improvement in financial strength and performance**
- **Delivering sustainable growth in targeted areas**
- **Full year guidance improved or reconfirmed**
  - Full year net interest margin now expected to exceed original guidance of around 2.55%
  - Other income expected to be broadly stable
  - Full year AQR now expected to be around 25bps
  - Full year cost:income ratio targeted to be lower than 2014 ratio of 49.8%
- **Differentiated business model is aligned to the evolving regulatory environment**
- **Well positioned for further progress in 2015**

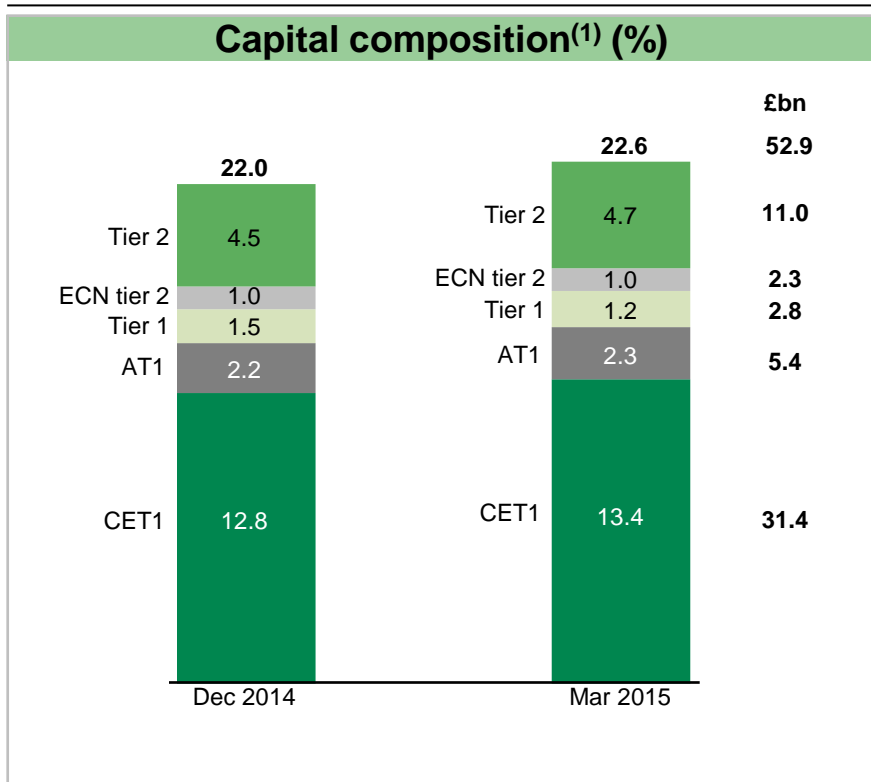
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# APPENDIX

# FURTHER STRENGTHENING THE BALANCE SHEET

Strong capital position with medium term AT1 requirement already met



- **Strong total capital ratio of 22.6%**
- **Improved leverage and rating agency capital measures**
- **Continue to review capital base in light of regulatory requirements and to optimise costs**
- **Well positioned for regulatory requirements for loss absorbing capacity (MREL – minimum requirement for own funds and eligible liabilities)**

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

# TSB – CREATION OF AN EFFECTIVE CHALLENGER BANK

TSB sale enabling us to meet our commitment, originally agreed with the EC in 2009, ahead of mandated deadline



## Accounting treatment for TSB

### Income Statement

- TSB income, expenses and impairment charges excluded from Group underlying profit post Q1 2015
- Dual running costs of £85m in first quarter – no further charges
- £660m net charge on sale of TSB primarily reflecting net costs of Transitional Service Agreement and contribution to TSB in migrating to an alternative IT platform

### Balance Sheet/Capital

- TSB loans and advances, deposits and other balance sheet items deconsolidated at March 2015
- Proportional deconsolidation for capital and risk-weighted assets under regulatory reporting
  - 0.2% reduction in CET1 ratio at March 2015
  - 0.1% further reduction on completion of transaction

## TSB is an effective challenger bank

- 4.5 million retail customers
- 4.3% share of personal current accounts with over 8% of all new and switcher bank accounts in 2014<sup>(1)</sup>
- 631 branches across the United Kingdom
- Mobile and online banking services
- £22bn loans and advances to customers<sup>(2)</sup>
- £25bn customer deposits<sup>(2)</sup>
- Market capitalisation of £1.7bn
- Total costs of creating and launching TSB of £2.4bn<sup>(3)</sup>



## 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, the potential for one or more countries to exit the Eurozone and the impact of any sovereign credit rating downgrade or other sovereign financial issues; technological changes and risks to cyber security; pandemic, natural 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 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 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 and lending companies; and exposure to regulatory or competition scrutiny, legal proceedings, regulatory or 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. The principles adopted in the preparation of the underlying basis of reporting are set out on the inside front cover of the Q1 2015 Interim Management Statement