

LLOYDS  
BANKING  
GROUP



# 2017 HALF-YEAR RESULTS

Presentation to Fixed Income Investors

27 July 2017

# HIGHLIGHTS

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

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- **Strong first half financial performance with improved underlying and statutory profit**
  - Underlying profit of £4.5bn and statutory profit of £2.5bn; underlying return on tangible equity of 16.6%
- **Strong capital generation of 1.0% with a CET1 ratio of 14.0% (pre dividend accrual)**
- **Loans and advances increased to £453bn including impact of the MBNA acquisition**
- **Interim dividend of 1.0p per share, up 18%, in line with progressive and sustainable ordinary dividend policy**
- **2017 guidance for NIM and AQR updated, with all other guidance reaffirmed**
  - Now expect 2017 full year NIM to be close to 2.85% and improved AQR of less than 20bps (both including MBNA)
  - Continue to expect 2017 CET1 capital generation to be at the top end of 170–200bps ongoing guidance range
- **Group now returned to full private ownership after UK Government stake reduced to zero**

# FINANCIAL PERFORMANCE

Strong underlying and statutory profit with increased interim dividends



<b>Total income</b>	<b>£9.3bn</b> <b>4%</b>
<b>Cost:income ratio</b>	<b>45.8%</b> <b>(2.0)pp</b>
<b>Underlying profit</b>	<b>£4.5bn</b> <b>8%</b>
<b>Statutory profit before tax</b>	<b>£2.5bn</b> <b>4%</b>
<b>Capital generation (pre dividends)</b>	<b>c.100bps</b>
<b>Ordinary dividend per share</b>	<b>1.0p</b> <b>+18%</b>

- **Strong underlying profit of £4.5bn**
  - Income up 4% with increased NII and Other Income
  - Positive operating jaws of 5%, with market leading cost:income ratio
  - Credit quality remains strong with an AQR of 12bps
- **Statutory profit before tax increased to £2.5bn after taking further conduct charges**
- **Strong capital generation has enabled the Group to increase the interim dividend by 18% to 1.0p per share**
- **CET1 ratio (pre dividend accrual) of 14.0% and total capital ratio of 20.8%**

# OUR STRATEGIC FOCUS

We have made good progress in delivering our current strategic plan



## Creating the best customer experience

- **Enhanced our multi-brand, multi-channel proposition; we operate the UK's largest digital bank with a 21% market share and an award winning digital proposition**
- **Net promoter scores improved across all brands / channels whilst complaints continue to fall**
- **Good progress made in transforming key customer journeys**

## Becoming simpler and more efficient

- **Continued reduction in cost base; market leading cost:income ratio further improved**
- **Increased automation of end-to-end customer journeys driving efficiencies**
- **Simplification programme on track and expected to deliver £1.4bn run-rate target by end 2017**

## Delivering sustainable growth

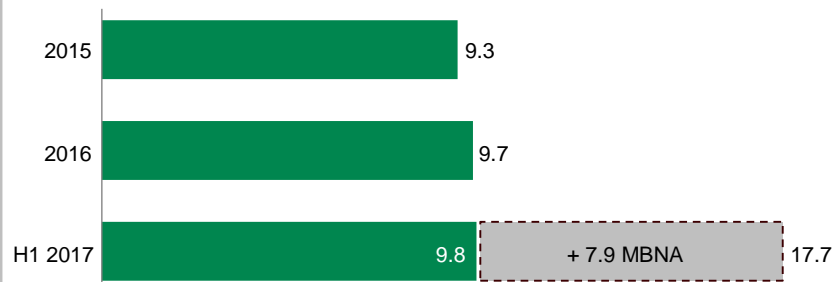
- **Committed to Helping Britain Prosper**
  - Strong growth in UK Consumer Finance
  - Largest UK mortgage lender with low risk appetite and leading coverage
  - SME lending growth continues to outperform market
- **Acquisition of prime UK MBNA credit card book completed on 1 June**

# DELIVERING SUSTAINABLE GROWTH

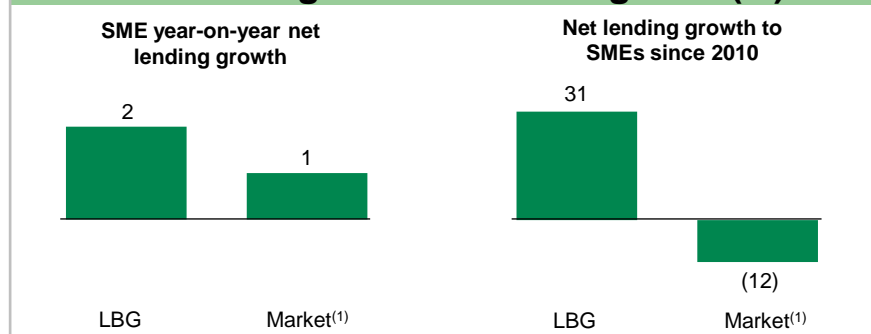
Supporting the UK economy with continued loan growth in our targeted key customer segments



## Credit card net lending growth (£bn)



## Continued growth in SME segment (%)



- **UK Consumer Finance net lending continues to grow**
  - Organic credit card growth of 4% year-on-year (excl MBNA)
  - Continued strong growth in motor finance of 17%
  - MBNA book of £7.9bn now included in Consumer Finance
- **SME growth continues to outperform market**
  - Committed to supporting SMEs as part of the Group's Helping Britain Prosper plan
- **Open mortgage book broadly flat on Dec 2016**
  - Includes re-acquisition of £1.7bn of mortgages from TSB (relating to the TSB IPO mortgage sale agreement)
  - Open mortgage book will grow in H2 and now expect 2017 year end to be slightly above 2016 closing position

<sup>(1)</sup> Market figures sourced from the latest published Bank of England data.

# UNDERLYING FINANCIAL PERFORMANCE

Strong underlying performance



(£m)	H1 2017	H1 2016	Change
Net interest income	5,925	5,782	2%
Other income	3,348	3,093	8%
<b>Total income</b>	<b>9,273</b>	8,875	4%
Operating lease depreciation	(495)	(428)	(16)%
<b>Net income</b>	<b>8,778</b>	8,447	4%
Operating costs	(4,018)	(4,041)	1%
Impairment	(268)	(245)	(9)%
<b>Underlying profit</b>	<b>4,492</b>	4,161	8%
Net interest margin	2.82%	2.74%	8bp
Cost:income ratio	45.8%	47.8%	(2.0)pp
AQR	0.12%	0.11%	1bp
Underlying RoTE	16.6%	15.1%	1.5pp

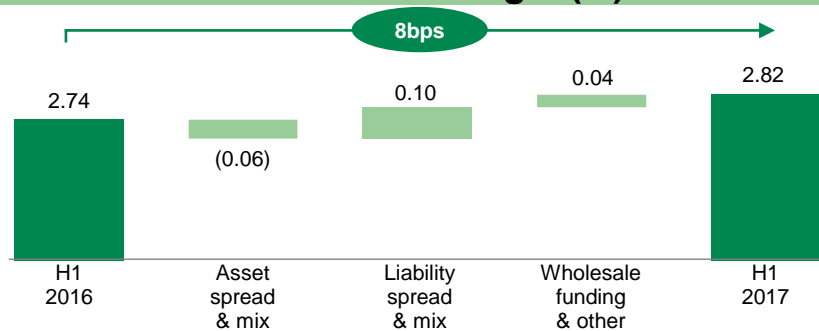
- **8% increase in underlying profit to £4.5bn**
  - NII increased 2% to £5.9bn reflecting an improved margin of 2.82% and a small initial contribution from MBNA
  - Increased Other Income of £3.3bn through improved divisional performance and a £146m gain on sale from VocaLink disposal
  - Operating costs down 1% through continued cost control and Simplification programme benefits
  - Positive operating jaws of 5%; cost:income ratio of 45.8%
  - Stable asset quality with improved gross AQR of 23bps and a net AQR of 12bps
- **Improved underlying RoTE of 16.6%**

# INCOME

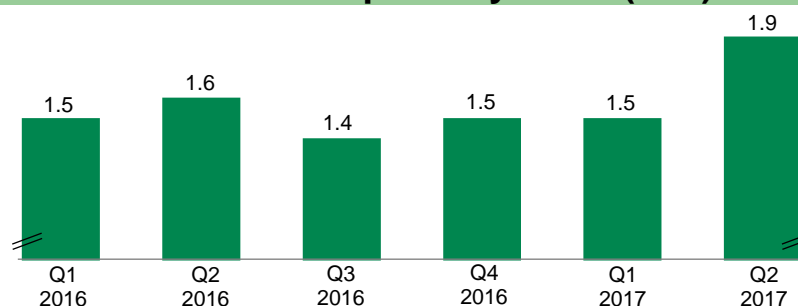
Total income of £9.3bn with increased NII and Other Income



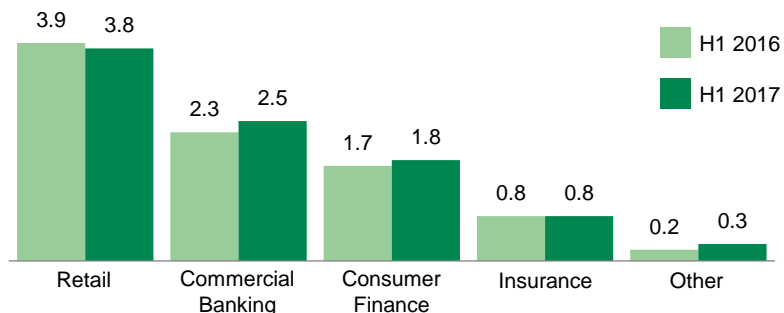
## Net interest margin (%)



## Other Income quarterly trend (£bn)



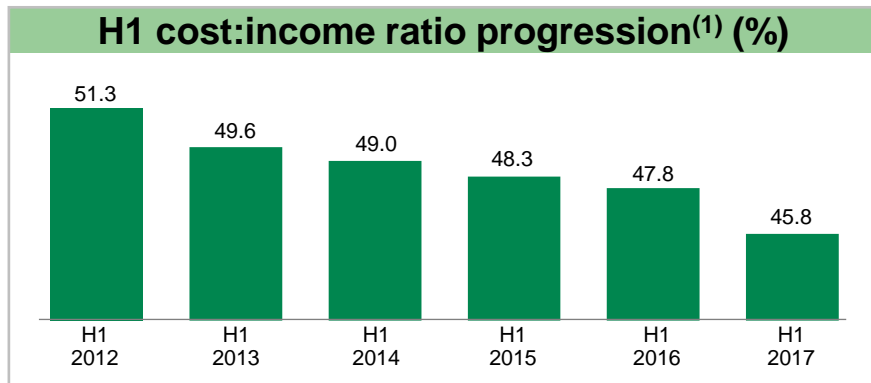
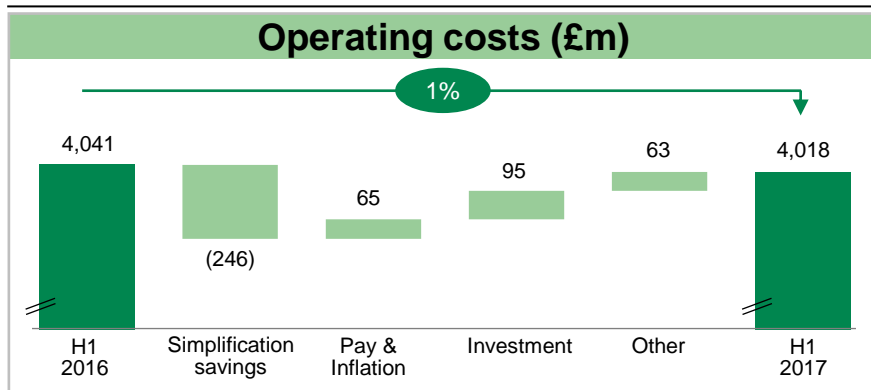
## Divisional income (£bn)



- **Improved NII of £5.9bn with 8bps increase in margin**
  - NIM improvement due to lower funding and deposit costs
  - Now expect 2017 FY NIM to be close to 2.85% (incl MBNA)
- **Other Income of £3.3bn up 8%; good performance in Commercial Banking / Consumer Finance & VocaLink gain**
- **Improved Commercial Banking and Consumer Finance income, with stability in Insurance and Retail**

# COSTS

Operating costs continue to be tightly managed and reduced year-on-year



- **Operating costs down 1% since H1 2016 driven by Simplification savings, partly offset by increased investment in the business and inflation**
- **MBNA costs of £21m in June**
- **On track to deliver Simplification run-rate savings of £1.4bn by end 2017, with £1.2bn achieved to date**
- **Market leading cost:income ratio improved to 45.8% and continues to provide competitive advantage**
- **Continue to target a cost:income ratio of around 45% exiting 2019, with reductions every year**

<sup>(1)</sup> Cost:income ratio adjusted to exclude the impact of St James Place and TSB where relevant.

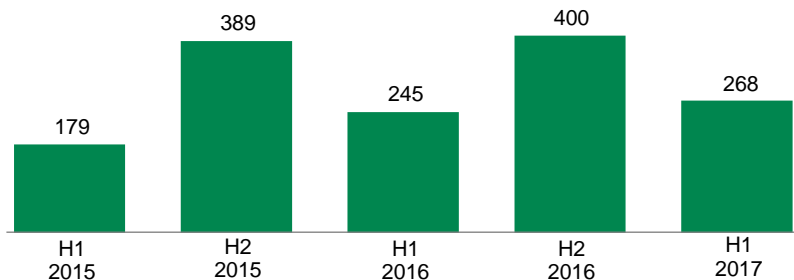


# ASSET QUALITY

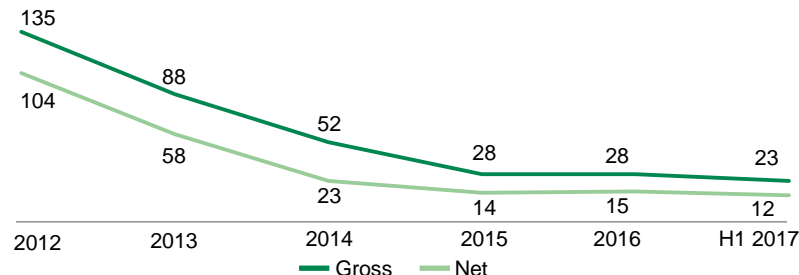
Credit quality remains strong



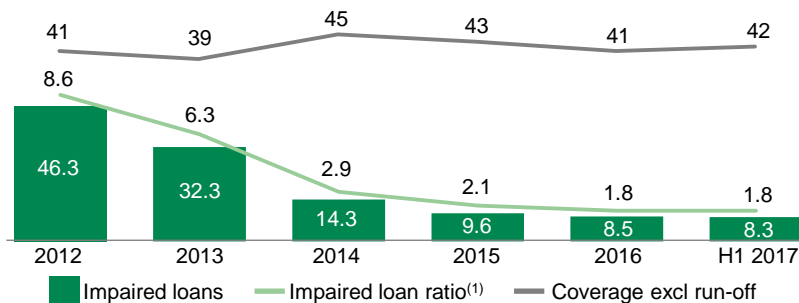
## Impairment charge (£m)



## Asset quality ratio (bps)



## Impaired loans (£bn) & impaired loan ratio (%)



- Impairment of £268m and AQR of 12bps demonstrates strength of asset quality and credit environment
- Improved gross AQR of 23bps
- Impaired loans ratio remains stable at 1.8%
- LTV profile continues to improve; 43% average LTV; 90% of mortgage book has an LTV <80%
- Now expect 2017 AQR of less than 20bps (including MBNA) reflecting a stable gross AQR

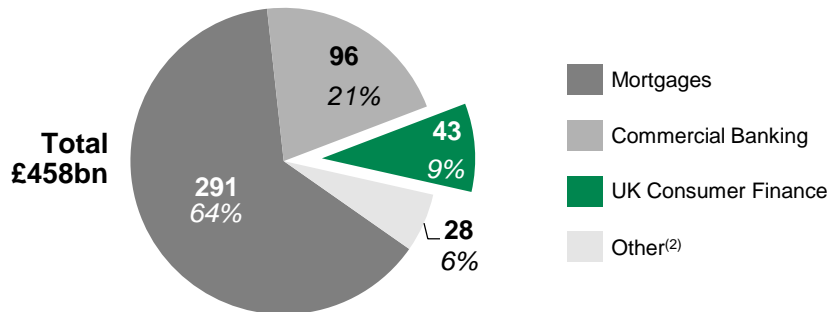
(1) Impaired loans as a percentage of closing advances.

# ASSET QUALITY

Low risk lending portfolio primarily in mortgages; UK Consumer Finance accounts for just 9% of customer assets and is prudently managed

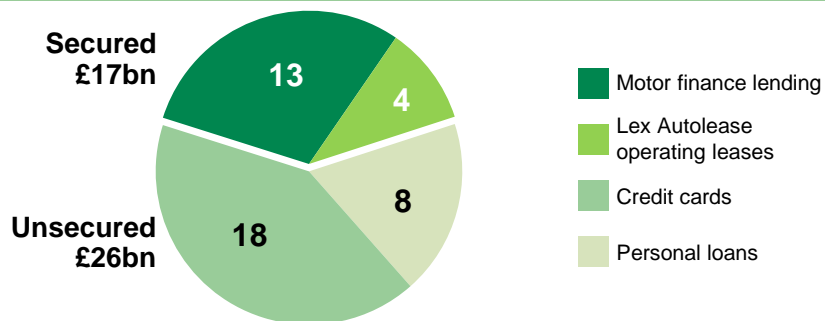


## Group customer assets<sup>(1)</sup> (£bn)



- **Mortgages account for 64% of customer assets, with good mortgage payment affordability and a strong LTV profile**
- **Good quality Commercial Banking book with reduced RWAs following portfolio optimisation**
- **Low risk approach to motor finance business**
  - Conservative residual values (RV); generating a profit per vehicle at contract end
  - c.£6bn RV exposure across typical 3–4 year contractual life
  - RV and specific event provision of >£100m
- **Prime UK credit card book with conservative risk appetite**
  - Operate prudent Effective Interest Rate (EIR) assumptions; small EIR asset on the balance sheet

## UK Consumer Finance customer assets (£bn)



<sup>(1)</sup> Loans and advances to customers of £453bn and operating lease assets of £5bn, excludes Insurance customer assets. <sup>(2)</sup> Other includes run-off assets, Dutch mortgages, overdrafts, RBB / Wealth balances and other.

# STATUTORY FINANCIAL PERFORMANCE

## Increase in statutory profit after taking further conduct charges



(£m)	H1 2017	H1 2016
Underlying profit	4,492	4,161
Market volatility and other items	(37)	(940)
Restructuring costs	(321)	(307)
PPI	(1,050)	–
Other conduct	(540)	(460)
<b>Statutory profit before tax</b>	<b>2,544</b>	<b>2,454</b>
Taxation	(905)	(597)
<b>Statutory profit after tax</b>	<b>1,639</b>	<b>1,857</b>

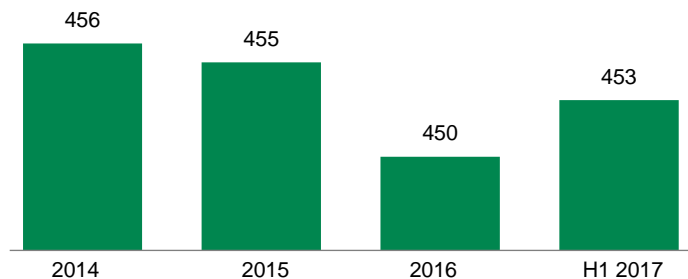
- Market volatility and other items in 2016 included the £790m ECN redemption charge
- Restructuring costs include Simplification, non-branch property rationalisation, ring-fencing spend and MBNA integration costs
- PPI provision of £1,050m includes a further £700m taken in Q2 reflecting current claims levels
  - Remaining provision of £2.6bn sufficient to cover c.9,000 complaints per week through to Aug 2019 time bar
- Other conduct includes £340m taken in Q2 for items including packaged bank accounts and arrears handling
- Effective tax rate of 36% primarily due to non-deductible conduct charges
- Statutory RoTE of 8.2%

# BALANCE SHEET

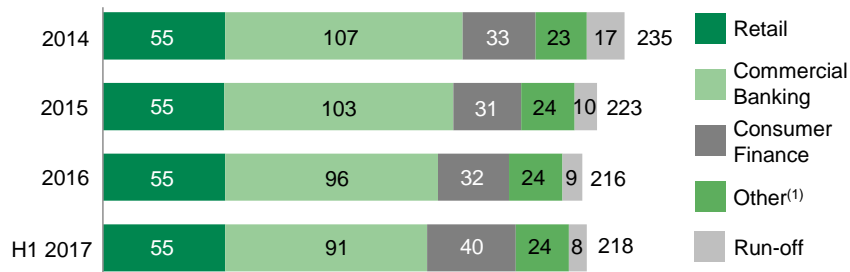
Further balance sheet optimisation; £3bn increase in loans and advances to customers and £2bn increase in RWAs



## Group loans & advances to customers (£bn)



## Divisional RWAs (£bn)



- Improved capital returns and RWA efficiency through business mix optimisation
- Loans and advances to customers increased by £3bn and RWAs by £2bn, reflecting
  - Continued organic growth in higher returning Consumer Finance segment and c.£8bn impact of MBNA acquisition
  - Offset by reduction in lower returning Global Corporates balances

<sup>(1)</sup> Other includes central items and Insurance & deferred tax asset threshold RWAs.

# SUMMARY

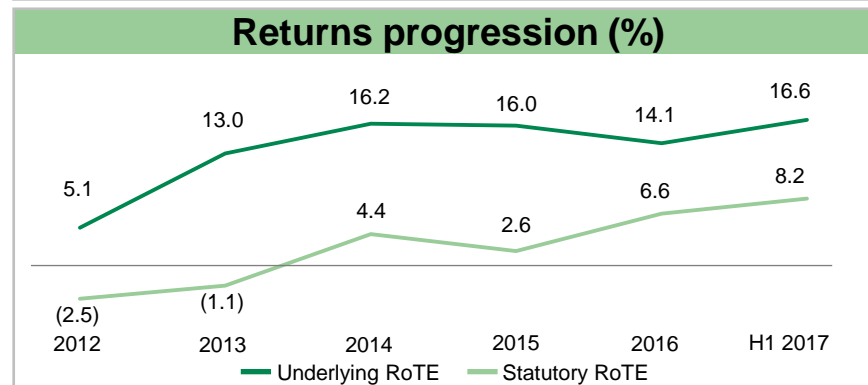
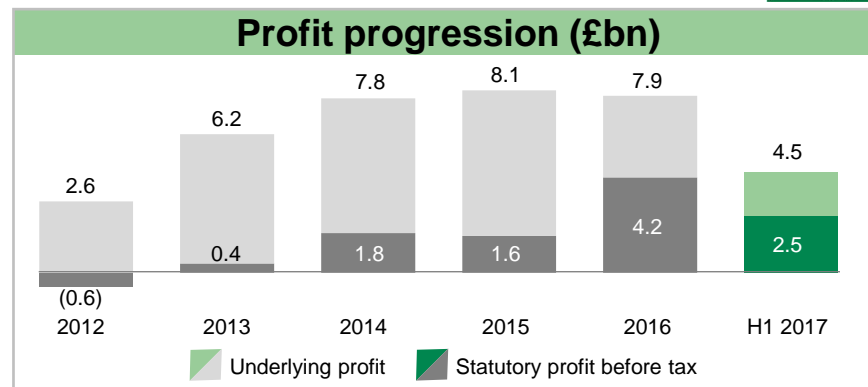
## Differentiated business model continues to deliver



- **Our differentiated business model is delivering**

- Simple, efficient and low risk business model provides competitive advantage
- Multi-brand and multi-channel operating model
- Strong underlying financial performance with increased statutory profit
- Continued strong capital generation

- **2017 guidance for NIM and AQR updated, with all other guidance reaffirmed**



# SUMMARY

Delivery of the current strategic plan and responding to the evolving environment



- **Focused on delivering final year of current strategic plan**
- **Started work to prepare our next three year strategic plan (2018–2020)**
- **Key organisational and senior management changes made**
- **New strategic plan to be announced with FY 2017 results in February 2018**



## Helping Britain Prosper

- **Supporting and benefiting from UK economic performance**

## Best bank for customers

- **Delivering the best customer experience**

## Best bank for shareholders

- **Delivering superior and sustainable returns**
- **Progressive and sustainable dividend policy with interim dividend of 1.0p**

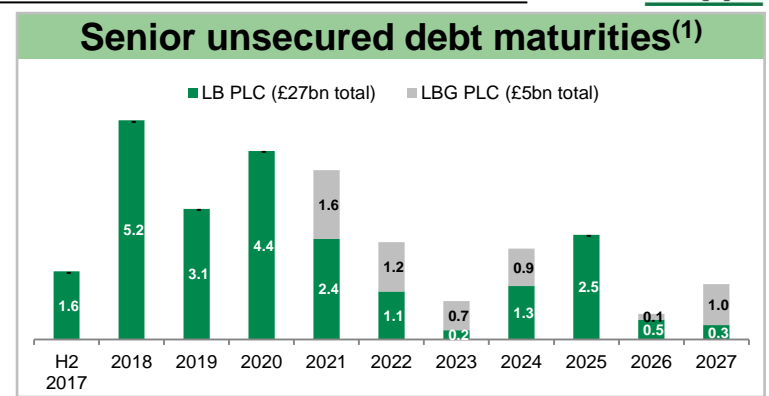
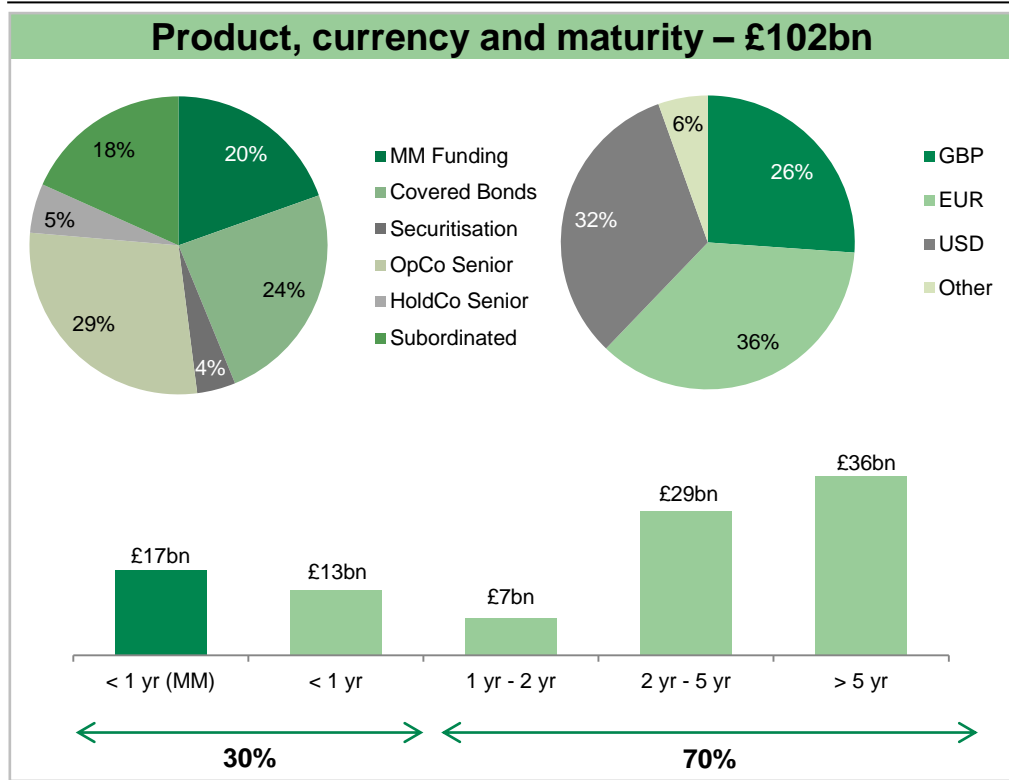
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# FUNDING AND LIQUIDITY

# WHOLESALE FUNDING

Composition of wholesale funding as at 30 June 2017



- **Steady-state funding requirement of £15-20bn per annum**
- **Lower funding needs in 2017 partly due to the availability of TFS**
  - £4.4bn issued YTD (gross), including £3.1bn HoldCo
  - Modest incremental issuance expected in H2 2017
- **Successful execution of Op Co buyback in H1 2017**

<sup>(1)</sup> Maturities reflect public and private senior unsecured debt.



# WHOLESALE FUNDING

Multiple issuance platforms with access to diverse funding sources globally

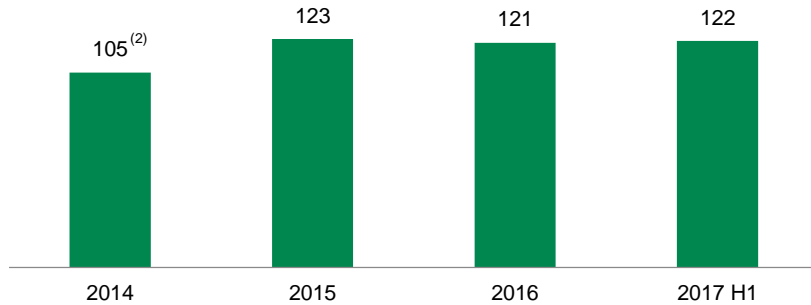


£4.4bn Term issuance YTD 2017		Issuer	Funding platforms
<p>Legend: GBP (dark green), EUR (light green), USD (grey), Other (yellow)</p> <p>Y-axis: LBG (HoldCo), Lloyds Bank (OpCo)</p> <p>X-axis: £bn (0 to 4)</p> <p>HoldCo senior: ~0.8 GBP, ~0.6 EUR, ~0.6 USD</p> <p>Subordinated debt: ~0.2 EUR, ~0.2 USD</p> <p>OpCo senior Public: ~0.1 EUR, ~0.1 USD</p> <p>Covered bonds: ~0.8 GBP</p> <p>OpCo senior Private: ~0.1 USD</p> <p>Securitisation: ~0.1 USD</p>	<p><b>Lloyds Banking Group (Baa1/BBB+/A+)<sup>(1)</sup></b></p>	<p><b>Capital/ MREL<sup>(2)</sup> issuance</b></p> <ul style="list-style-type: none"> <li>• Subordinated debt: AT1, Tier 2</li> <li>• Senior unsecured debt                             <ul style="list-style-type: none"> <li>– EMTN, SEC Registered Shelf, AUD (Kangaroo), Samurai<sup>(3)</sup></li> </ul> </li> </ul>	
		<p><b>Lloyds Bank (A1/A+)<sup>(1)</sup></b></p>	<p><b>Maintain usage of a diverse range of OpCo funding formats</b></p> <ul style="list-style-type: none"> <li>• Senior unsecured debt                             <ul style="list-style-type: none"> <li>– GMTN, EMTN, SEC Registered Shelf, AUD (Kangaroo), Samurai/Uridashi Shelf, SSD/NSV</li> </ul> </li> <li>• Covered Bonds: (UK Residential Mortgages)</li> </ul>
	<p><b>Securitisations</b></p>	<ul style="list-style-type: none"> <li>• RMBS (UK): Permanent</li> <li>• Credit Card ABS: Penarth</li> </ul>	

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



### Primary/LCR eligible liquid assets<sup>(1)</sup> (£bn)



- Liquid assets are broadly unchanged compared to 2016

- The Group maintains a strong liquid asset portfolio comprised largely of cash and LCR eligible securities

### Loan to deposit composition

Balance sheet	2014 <sup>(3)</sup>	2015	2016	2017 H1
Loans and advances to customers	£456bn	£455bn	£450bn	£453bn
Customer deposits	£423bn	£418bn	£413bn	£417bn
Loan to deposit ratio	108%	109%	109%	109%

- LCR eligible liquid assets represent over 7 times Money Markets funding and exceed total wholesale funding

- LCR comfortably exceeds regulatory minimum

# CREDIT RATINGS

Strong credit ratings, with stable outlook unless stated otherwise



	LBG (HoldCo)	Lloyds Bank	HBOS	Bank of Scotland
<b>MOODY'S</b>				
Long Term	<b>Baa1</b>	A1	A1	A1
Short Term	<b>P-2</b>	P-1	P-1	P-1
<b>S&amp;P</b>				
Long Term	<b>BBB+</b> <i>Negative Outlook</i>	A <i>Negative Outlook</i>	BBB+ <i>Negative Outlook</i>	A <i>Negative Outlook</i>
Short Term	<b>A-2</b>	A-1	A-2	A-1
<b>FITCH</b>				
Long Term	<b>A+</b>	A+	A+	A+
Short Term	<b>F1</b>	F1	F1	F1

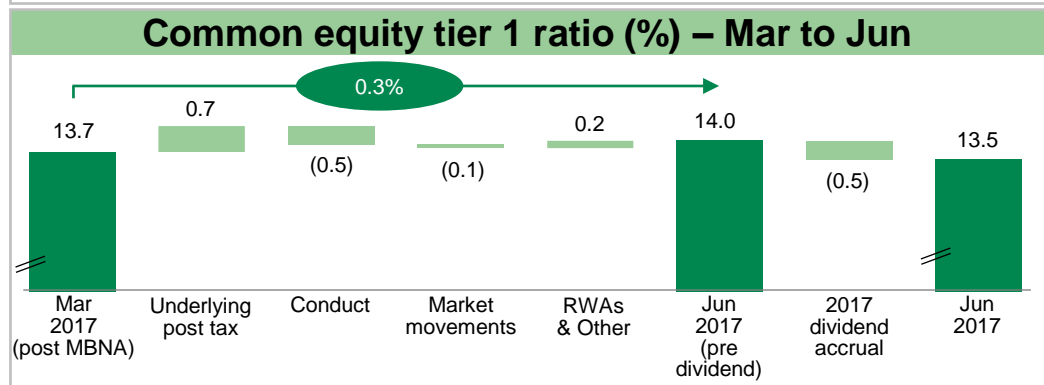
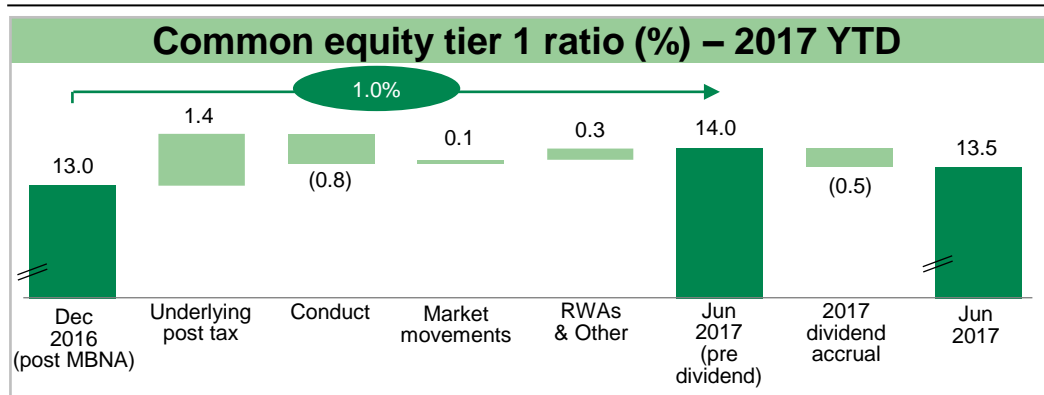
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# CAPITAL POSITION AND STRUCTURAL REFORM

# CONTINUED CAPITAL GENERATION...

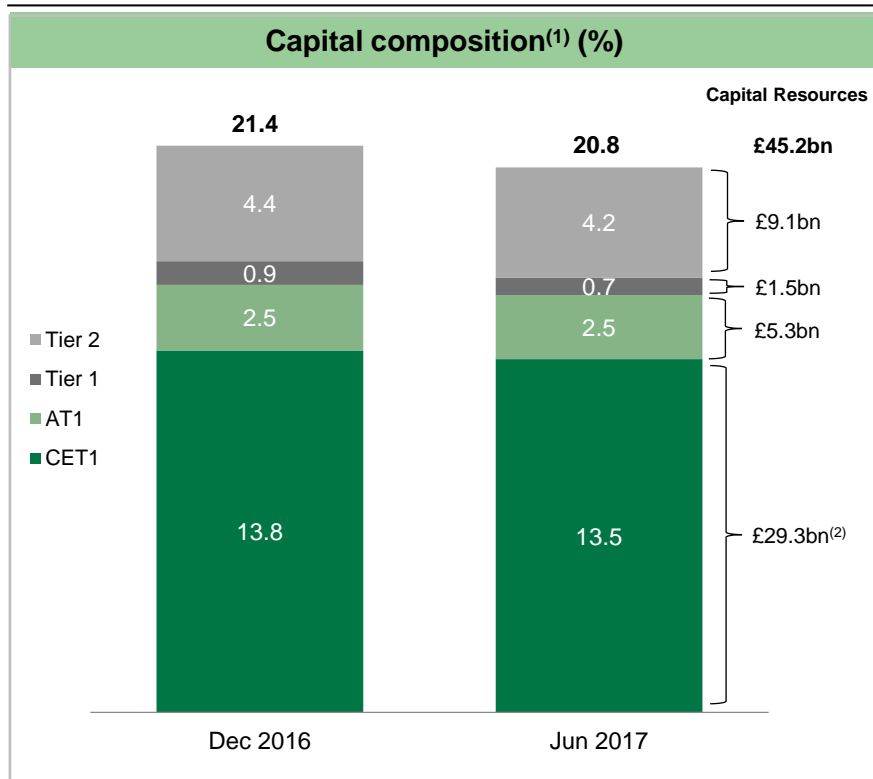
Strong capital generation in line with full-year 2017 guidance



- **CET1 capital generation of 1.0%**
  - Good underlying performance and lower RWAs (pre MBNA), partly offset by conduct
  - In line with guidance for top-end of 170–200bps range
  - CET1 ratio of 14.0% (pre dividend accrual)
- **Interim dividend of 1.0p, up 18% on 2016**
- **Group CET1 ratio target maintained at around 13%**
- **Total capital remains strong at 20.8%**
- **Leverage ratio of 4.9%**
- **TNAV of 52.4p after 2.2p 2016 final cash dividend payment and 1.4p MBNA reduction**

# ...FROM A STRONG CAPITAL BASE

Well positioned in an evolving regulatory environment



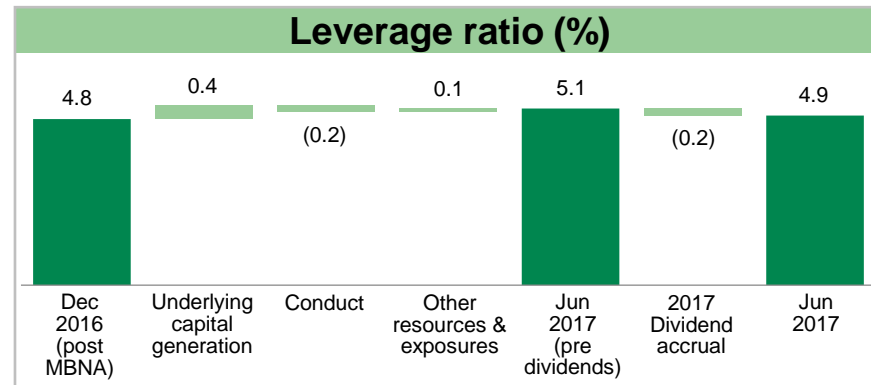
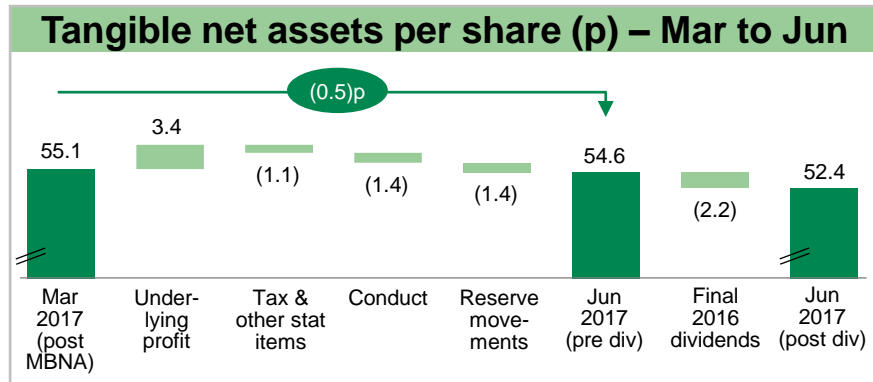
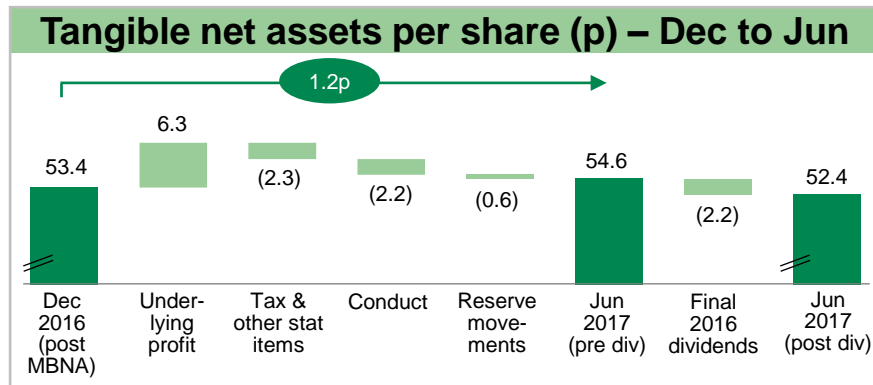
- **Strong capital position**
  - Fully loaded CET1 of 13.5% on a pro forma basis
  - Total capital ratio of 20.8% (following H1 redemptions)
- **Strong capital generation in H1 of 1.0% CET1**
- **2017 capital generation expected to be at the top end of 170-200bps ongoing guidance range**
- **Group capital position remains above transitional total capital ratio target of around 20%**

<sup>(1)</sup> As a percentage of risk-weighted assets; fully loaded CET1 ratios; total capital includes grandfathered capital securities. <sup>(2)</sup> Pro forma, including Insurance dividend.

# TANGIBLE NET ASSET VALUE AND LEVERAGE RATIO



Movement in TNAV per share reflects strong statutory profit offset by final 2016 dividend payment and MBNA impact; strong leverage ratio maintained



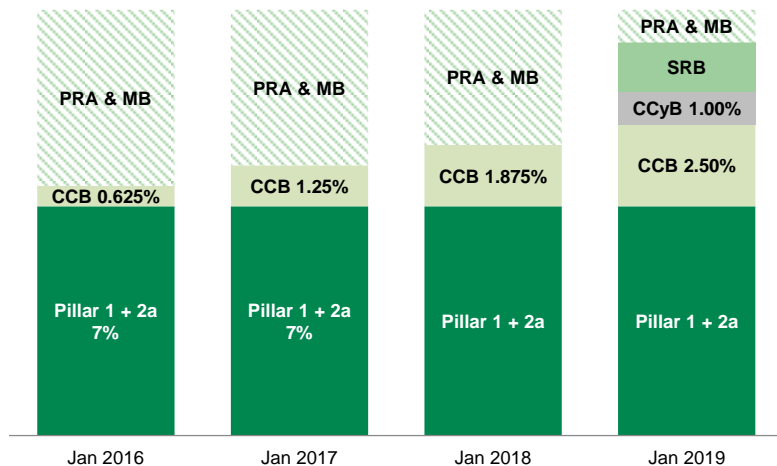
- **TNAV per share reduced to 52.4p in H1 2017, reflecting**
  - Strong underlying profit of 6.3p
  - Adverse reserve movements of 0.6p
  - Final 2016 dividend payment of 2.2p
- **Leverage ratio of 4.9% reflects strong capital generation**

# MANAGING EVOLUTION OF CET1 REGULATORY BUFFERS

Strong capital generative business provides comfort for meeting regulatory buffers



## LBG capital buffer evolution (%)



### Notes

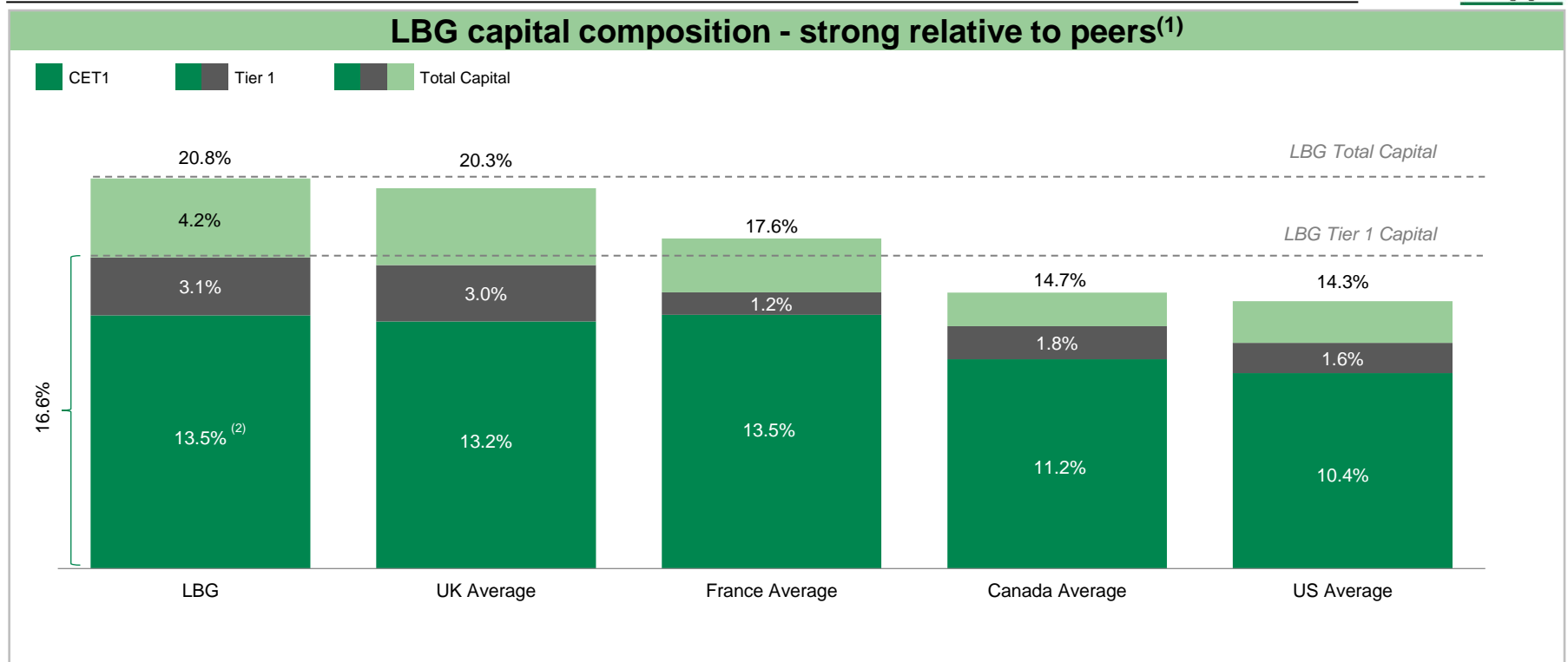
- **PRA + MB:** PRA buffer plus Management buffer
- **CCB:** Capital Conservation Buffer (to incrementally increase by 0.625% annually to 1 January 2019)
- **SRB:** A Systemic Risk Buffer will be set for the ringfenced bank early in 2019, effective three months later
- **CCyB:** Assumed buffer of 1.0% in light of FPC expectation of further increase to be announced in November, effective November 18
- **Pillar 2A:** 2016 ICG used as basis for future years, for illustration purposes.

- Differentiated low risk business model with strong capital generation
- PRA Buffer reduced in 2016 reflecting de-risking; target CET1 ratio maintained at c.13%
- Pillar 2a capital requirement of 4.5%, of which 2.5% has to be met with CET1 (reviewed annually by PRA)
- Capital Conservation Buffer is transitioning in over the four year period to 1 January 2019
- Systemic Risk Buffer applicable to ring-fenced bank from 2019; lower at the Group level
- Current MDA buffer c.5.0% in excess of 2017 MDA requirement (8.3% CET1)



# PEER COMPARISON: RELATIVE CAPITAL STRENGTH

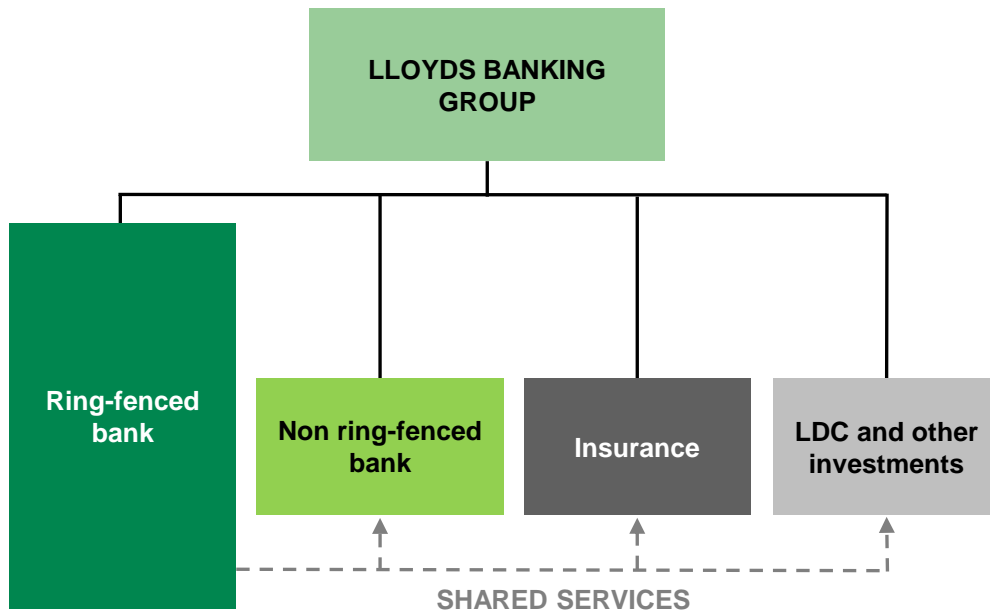
LBG is well capitalised relative to global peers



<sup>(1)</sup> Source: respective banks' most recent results announcement available prior to 20 July 2017. UK average: San UK, Barclays, RBS, HSBC and Standard Chartered. France average: BNP Paribas, Credit Agricole and BPCE. Canada average: Bank of Montreal, Bank of Nova Scotia, CIBC, National Bank of Canada, Royal Bank of Canada and TD Bank. US Average: JP Morgan, Bank of America, Bank of New York, State Street, BB&T, Capital One, Northern Trust, PNC, U.S. Bancorp. Ratios disclosed on a current rules basis per jurisdictional requirements. <sup>(2)</sup> Pro forma, including Insurance dividend in relation to its 2017 interim earnings.

# RING-FENCING ON TRACK WITH KEY MILESTONES ACHIEVED

Limited impact from ring-fencing given simple, UK, retail and commercial model



- Group is making good progress with ring-fencing, on track to meet 1 January 2019 deadline
- Given we are a simple, UK, retail and commercial bank the impact on us is limited
- Approximately 97% of Group loans and advances to sit within ring-fenced bank
- Minimal impact on majority of customers
- Implementation costs anticipated to be a further c.£0.2bn between now and end 2018, with a total cost of c.£0.5bn

# RING-FENCING ON TRACK WITH KEY MILESTONES ACHIEVED

Non ring-fenced bank well defined with strong preliminary ratings



## Implementation of the non ring-fenced bank

### Non ring-fenced bank activities

- Commercial Banking Markets Financing (incl loan markets, bonds, asset securitisations)
- Commercial Banking Financial Markets Products (incl elements of FX and rates) <sup>(1)</sup>
- Lloyds Bank International Ltd and our branches in United States, Singapore and Crown Dependencies
- Limited balance sheet size; c.3% of loans and advances and estimated at c.7% of current Group RWAs

### Progress to date

- NRFB named 'Lloyds Bank Corporate Markets plc'
- Conditional banking licence with restrictions approved
- Board and management team in place

## Lloyds Bank Corporate Markets ratings

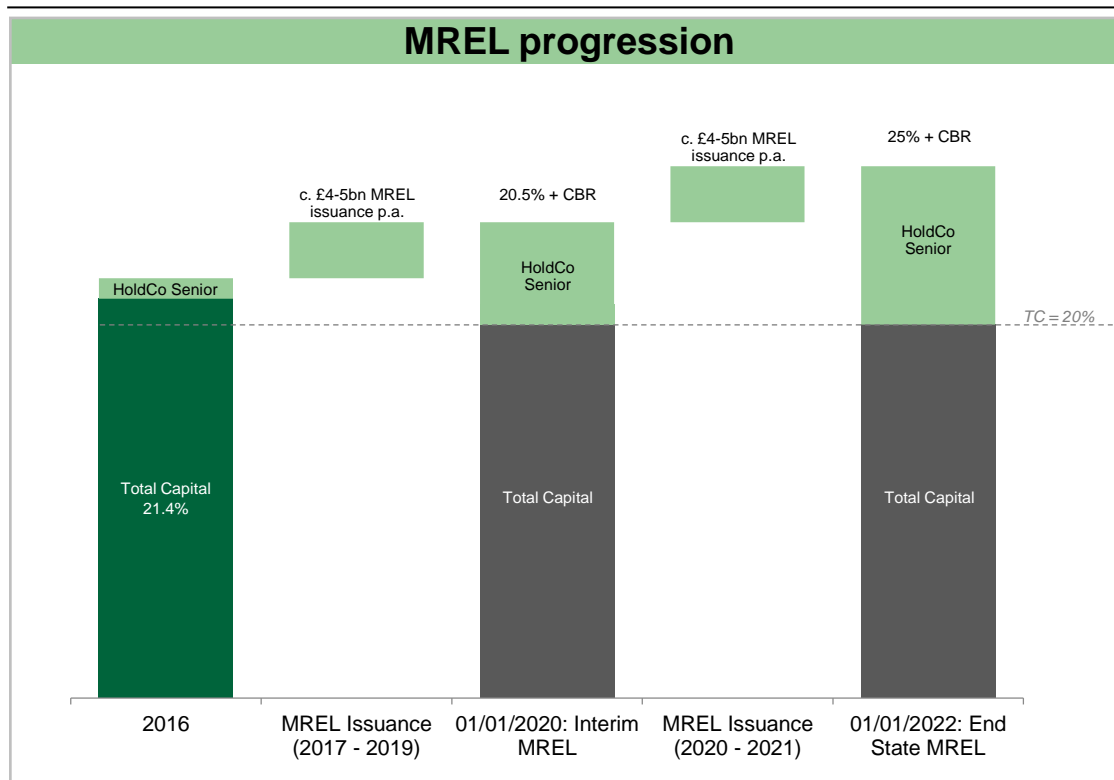
	Lloyds Bank Corporate Markets	Lloyds Bank
<b>S&amp;P</b>		
Long Term	A-	A
Short Term	A-2	A-1
<b>FITCH</b>		
Long Term	A	A+
Short Term	F1	F1

- Lloyds Bank Corporate Markets has been assigned strong investment grade preliminary / expected ratings by S&P and Fitch
- Final ratings expected to be assigned close to point of asset and liability transfer (H1 2018)

<sup>(1)</sup> Simple FX and rates products for SME / Mid Markets clients will be provided by the ring-fenced bank

# PROGRESSION TOWARD MREL REQUIREMENT

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



- **MREL to be met with regulatory capital and senior unsecured issuance at HoldCo level**
- **Good progress on MREL issuance, with £5.5bn of HoldCo senior debt issued to date**
- **Transitional MREL position of 22.7% at H1**
- **Expected £4-5 bn HoldCo senior/MREL issuance per annum as the Group transitions towards MREL target ratios**
- **HoldCo senior issuance requirements will be achieved largely by refinancing maturing OpCo debt**

(1) Indicative interim MREL of 20.5% plus combined buffer requirement (CBR) on the basis of 2016 ICG.

(2) Indicative final MREL of 25% plus combined buffer requirement (CBR) on the basis of 2016 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 <sup>(1)</sup> )
Internal and External Tier 2
Internal and External Additional Tier 1
Internal Equity



## HoldCo Loss Absorption Hierarchy

HoldCo Senior Unsecured
HoldCo Tier 2
HoldCo Additional Tier 1
HoldCo Equity

MREL eligible

2

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

<sup>(1)</sup> LAC: Loss Absorbing Capacity.

# SUMMARY

## Meeting an evolving regulatory environment from a position of strength

---



- **Strongly capitalised relative to peers :**
  - pro forma 14.0% CET1 pre dividend (fully loaded)
  - 20.8% Total capital
  - 4.9% Leverage ratio
- **Well positioned in a competitive environment;** strong balance sheet and capital generative business model
- **Implementation of ringfencing on track;** strong credit ratings confirmed for Lloyds Bank Corporate Markets (non-ringfenced bank)
- **UK resolution framework established;** confirming structural subordination approach and clarifying creditor hierarchy
  - LBG structure supports ‘Single Point of Entry’ resolution strategy and continued issuance of HoldCo Senior
  - On track to meeting interim MREL in 2020 with c.£3bn issued YTD

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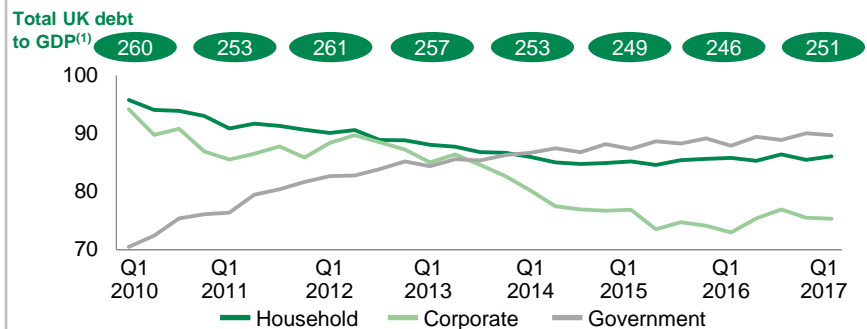
# APPENDIX

# UK ECONOMY

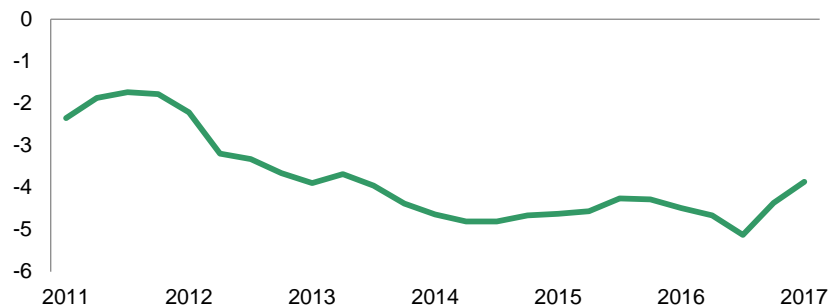
## UK economy remains resilient



### Debt to GDP (%)



### Current account deficit (% of GDP)<sup>(2)</sup>



- **UK economy remains resilient following the economic trends of recent years including**

- Strong GDP growth
- Consumer and business deleveraging
- Record employment levels
- Rising house prices

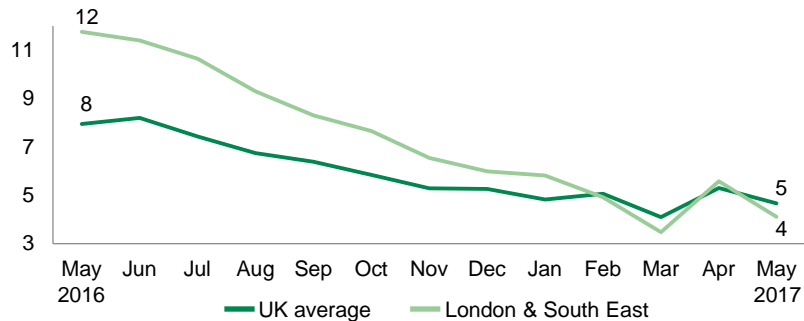
- **Robust economic performance over the past 12 months, although uncertainty persists**

- EU exit outcome
- Consumer confidence softening, but from elevated levels
- UK current account deficit improving with increased exports



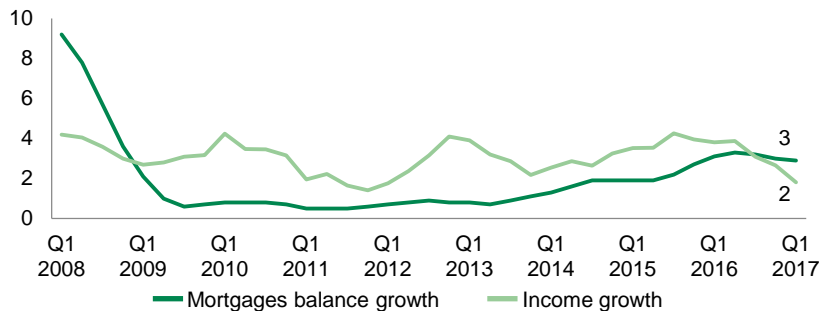


### Year-on-year house price growth<sup>(1)</sup> (%)



- UK house prices continue to rise in real terms though London & SE price growth is slowing markedly
- Mortgage payment affordability better than or close to the long-term average in all regions except London
- Given significant house price increases in recent years UK homeowners have higher levels of equity in their homes than outstanding mortgage debts
- Rising house prices, combined with low mortgage growth, has led to much healthier LTVs on the balance sheets of the banks
  - Group LTV of 43% with 90% of mortgages <80% LTV
  - London & South East LTV of 39% with c.95% of mortgages <80% LTV

### Mortgage balance growth vs income growth<sup>(2)</sup> (%)



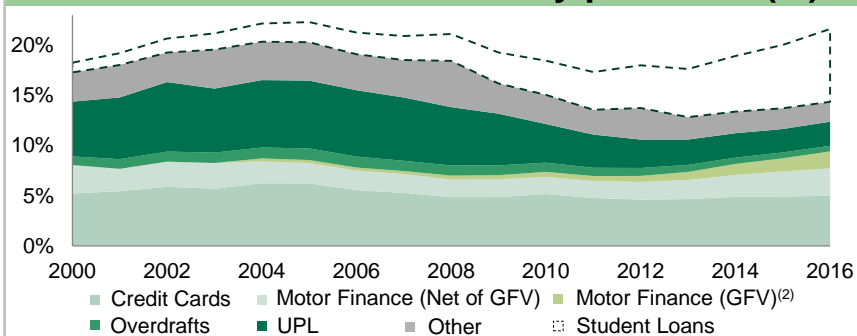
<sup>(1)</sup> Source: UK Land Registry and ONS; year-on-year average house price change. <sup>(2)</sup> Source: Bank of England and ONS.

# UK ECONOMY

Consumer indebtedness and servicing has improved in recent years, although inflation is starting to impact disposable income



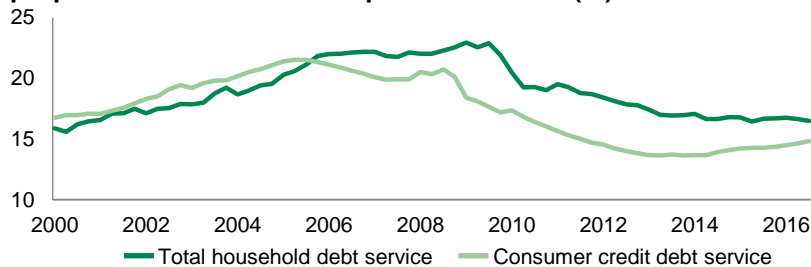
## Consumer debt-to-income by product<sup>(1)</sup> (%)



- Households have recently taken on more consumer credit, but debt burden remains low
- Total household debt service to disposable income has fallen to its lowest level in 15 years
- Consumer debt-to-income increase since 2010 driven by student loans; excluding this lower than pre crisis
  - Guaranteed future value component of PCP accounts for >50% of motor finance debt-to-income growth since 2010
- Inflation is now increasing faster than disposable income growth
- Group is positively geared to rising rate expectations

## Debt service levels have been improving

UK consumer credit<sup>(3)</sup> and households' total debt service<sup>(4)</sup> as proportion of household disposable income (%)



<sup>(1)</sup> Estimated DTI Ratio = BOE Consumer Credit divided by average annual earnings. Sources: BOE, SLC, BBA, FLA. <sup>(2)</sup> Motor Finance GFV – internal estimate based on market share gross-up of Black Horse GFV proportion. <sup>(3)</sup> Source: Debt data BOE and adjusted for reclassifications; income data ONS. <sup>(4)</sup> Source: Debt service data BoE; income data ONS.

# MORTGAGE PORTFOLIO LTVs

Further improvement in LTVs during 2017



	June 2017				Dec 2016	Dec 2015	Dec 2010
	Mainstream	Buy to let	Specialist	Total	Total	Total	Total <sup>(1)</sup>
Average LTVs	40.9%	52.4%	47.5%	<b>43.0%</b>	44.0%	46.1%	55.6%
New business LTVs	64.7%	60.6%	n/a	<b>64.0%</b>	64.4%	64.7%	60.9%
≤ 80% LTV	89.4%	93.3%	87.4%	<b>90.0%</b>	89.0%	86.4%	57.0%
>80–90% LTV	8.1%	4.5%	6.9%	<b>7.4%</b>	8.0%	9.0%	16.2%
>90–100% LTV	2.0%	1.6%	2.5%	<b>1.9%</b>	2.3%	3.5%	13.6%
>100% LTV	0.5%	0.6%	3.2%	<b>0.7%</b>	0.7%	1.1%	13.2%
Value >100% LTV	£1.1bn	£0.3bn	£0.5bn	<b>£1.9bn</b>	£2.1bn	£3.4bn	£44.9bn

# EBA & PRA STRESS SCENARIO COMPARISON

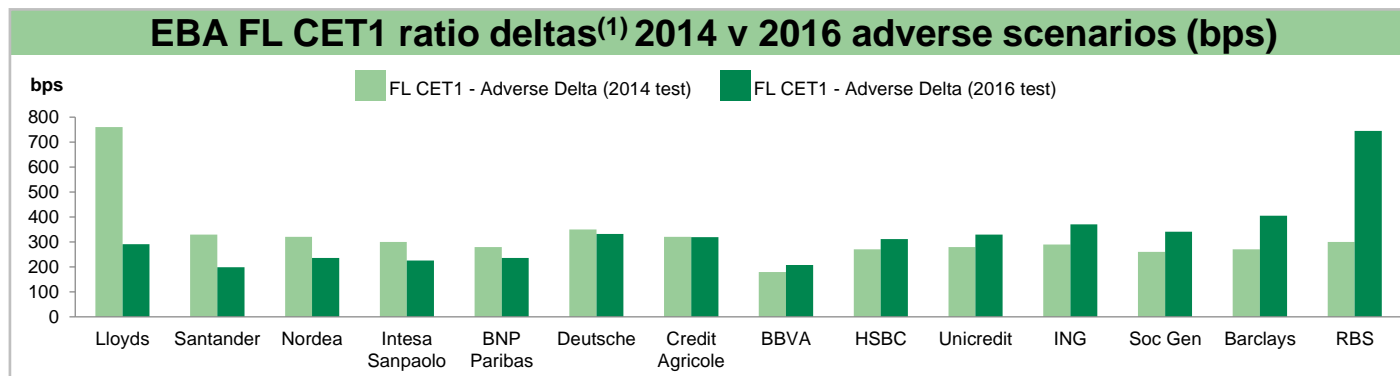
The 2017 PRA stress test combines elements of recent scenarios with a high rates environment to test all aspects of UK banks



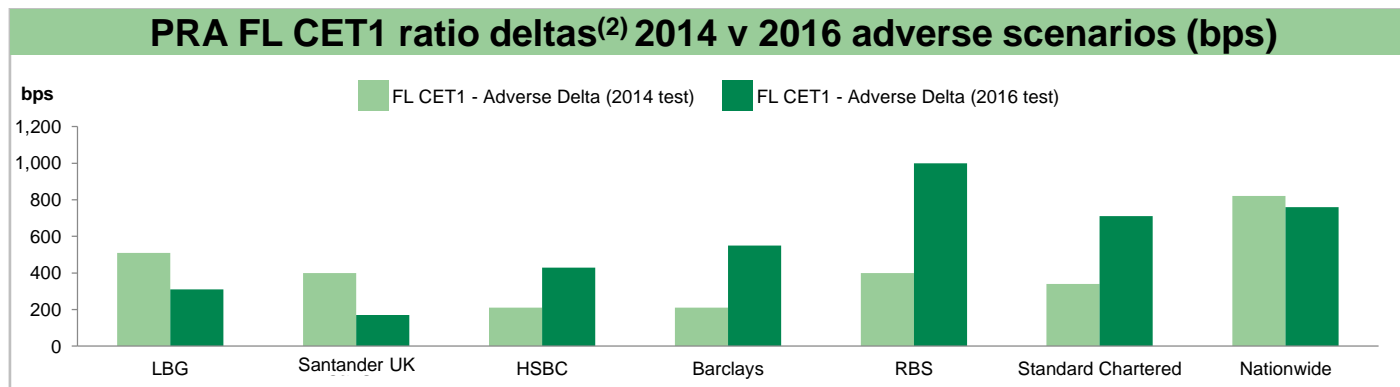
	UK domestic stress scenarios					
	PRA 2017	PRA 2016	PRA 2015	PRA 2014	EBA 2016	EBA 2014
<b>GDP</b> (peak-to-trough, ppts)	-4.7	-4.3	-3.2	-3.9	-4.2	-3.5
<b>Unemployment</b> (start-to-peak, ppts)	+4.7	+4.5	+3.5	+5.2	+4.5	+3.5
<b>House prices</b> (start-to-trough, ppts)	-33.0	-31.0	-20.0	-34.6	-11.1	-26.8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

# STRESS TESTING FRAMEWORK

De-risked business model showed stronger adverse FL CET1 ratios under both stress tests



- 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

<sup>(1)</sup> Source: EBA. <sup>(2)</sup> Source: BoE.

# DEBT INVESTOR RELATIONS CONTACTS

Website: [www.lloydsbankinggroup.com/investors/debt-investors/](http://www.lloydsbankinggroup.com/investors/debt-investors/)

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## FORWARD LOOKING STATEMENTS 2017 HALF YEAR RESULTS

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; 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 on the inside front cover of the half year 2017 news release.