LLOYDS BANKING GROUP

2017 HALF-YEAR RESULTS

Presentation to Analysts and Investors

27 July 2017

AGENDA

Highlights	**António Horta-Osório** Group Chief Executive
Financial Results	**George Culmer** Chief Financial Officer
Summary	**António Horta-Osório** Group Chief Executive

HIGHLIGHTS

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

LLOYDS BANKING GROUP

- **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

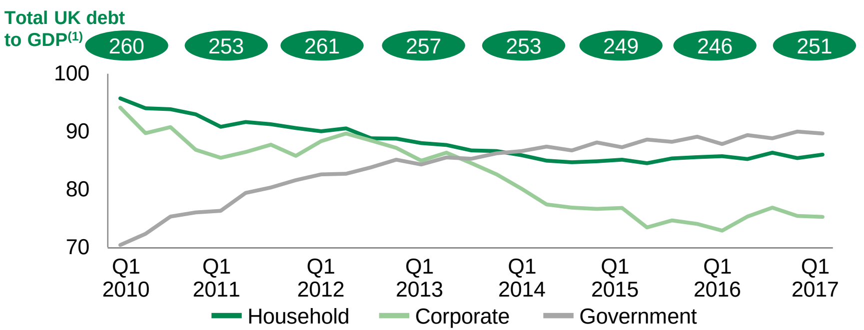
Total income	**£9.3bn** ***4%***
Cost:income ratio	**45.8%** ***(2.0)pp***
Underlying profit	**£4.5bn** ***8%***
Statutory profit before tax	**£2.5bn** ***4%***
Capital generation (pre dividends)	**c.100bps**
Ordinary dividend per share	**1.0p** ***+18%***

- **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%**

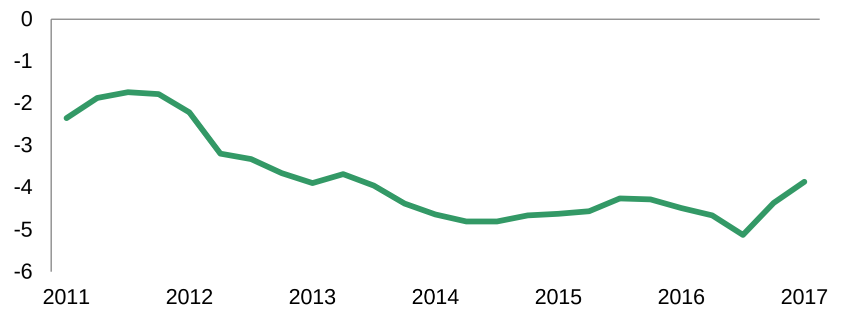
UK ECONOMY

UK economy remains resilient

Debt to GDP (%)



Current account deficit (% of GDP)[2]



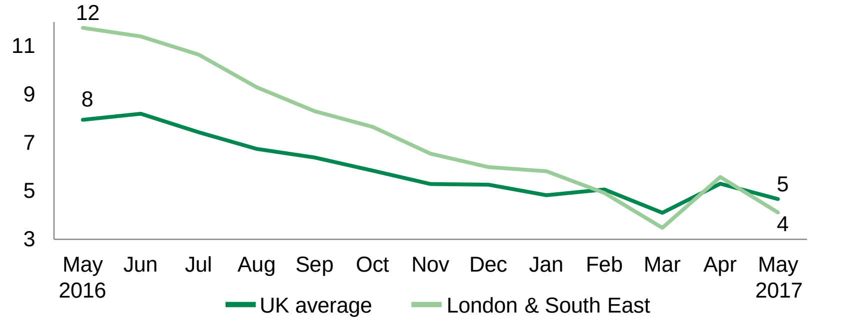
- **UK economy remains resilient following the economic trends of recent years including**
  - Strong GDP growth
  - Consumer and business deleveraging
  - Record employment levels
  - Rising house prices
- **Robust economic performance over the past 12 months, although uncertainty persists**
  - EU exit outcome
  - Consumer confidence softening, but from elevated levels
  - UK current account deficit improving with increased exports

(1) Source: ONS and Bank for International Settlements. (2) Source: ONS. Four quarter rolling average.

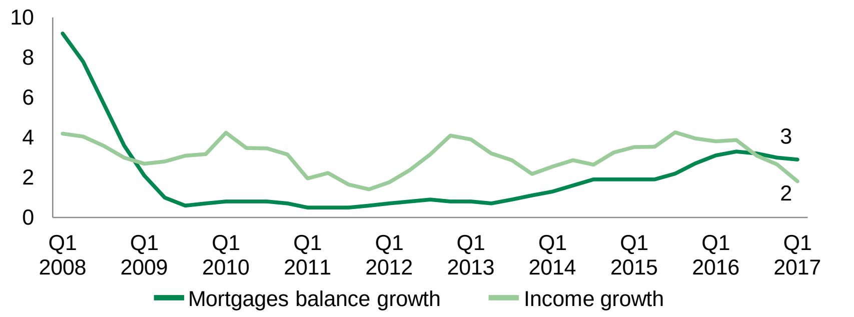
UK ECONOMY

UK house prices resilient though some pressure in London and South East

Year-on-year house price growth(1) (%)



Mortgage balance growth vs income growth(2) (%)



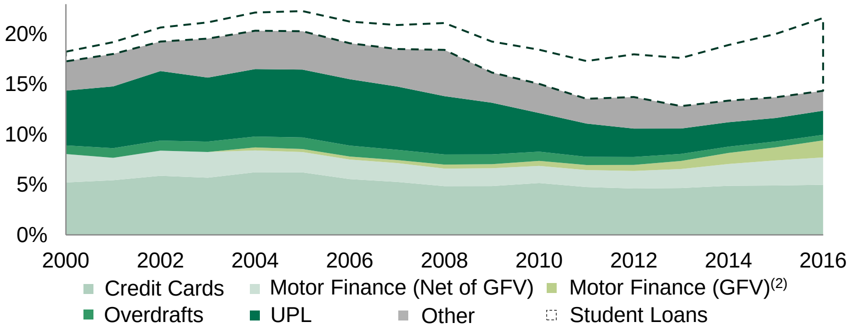
- **UK house prices continue to rise in real terms though London & SE price growth is slowing markedly**
- **Mortgage payment affordability better than or close to the long-term average in all regions except London**
- **Given significant house price increases in recent years UK homeowners have higher 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

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

UK ECONOMY

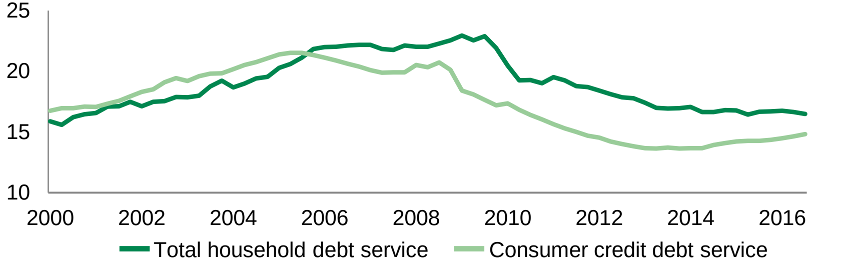
Consumer indebtedness and servicing has improved in recent years, although inflation is starting to impact disposable income

Consumer debt-to-income by product[1] (%)



Debt service levels have been improving

UK consumer credit[3] and households' total debt service[4] as proportion of household disposable income (%)



- **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**

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

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**

Mortgage application process

- **<15 mins** for Agreement in Principle through all channels with a video appointment service now offered
- **36%** increase in customers receiving their offer in <14 days with some offers in two working days

Account opening and onboarding

- **c.90%** of branch savings accounts (c.300,000) opened in <30 mins with appointment times halved
- **77%** increase in proportion of SME clients onboarded in <30 days with 50% using digital agreement capability

Other

- **1 day** to process pension contribution files, down from 22 days
- Scottish Widows awarded multiple industry awards for improved IFA proposition and customer service(1)
- **20 mobile branches** now in operation to support 147 rural communities

(1) Awards include '5 star' service awards in both Life & Pensions and Investments categories and Most Improved Provider in Life & Pensions (2016 Financial Adviser Service Awards); 'Pension Firm of the Year' (FDs' Excellence Awards 2017), 'Pensions Provider of the Year' (Pensions Age Awards 2017) and Risk Reduction Provider of the Year (UK Pensions Awards 2017).

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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**
  - **Process redesign and automation:** £0.4bn of run-rate savings against target of £0.5bn
  - **Sourcing:** £0.3bn of run-rate savings against £0.4bn target
  - **Organisation:** on track to achieve £0.5bn run-rate savings target

OUR STRATEGIC FOCUS

We have made good progress in delivering our current strategic plan

LLOYDS BANKING GROUP

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Becoming simpler and more efficient

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- **Simplification programme on track and expected to deliver £1.4bn run-rate target by end 2017**

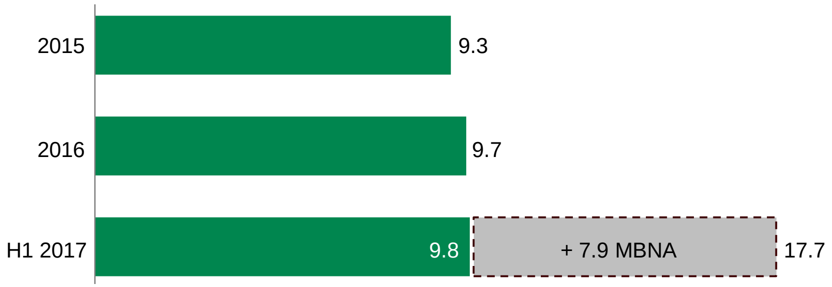
Delivering sustainable growth

- **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**

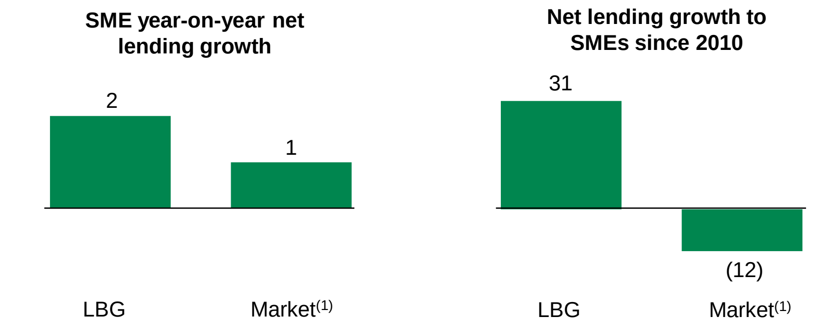
DELIVERING SUSTAINABLE GROWTH

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

(1) Market figures sourced from the latest published Bank of England data.

AGENDA

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Financial Results	**George Culmer** Chief Financial Officer
Summary	**António Horta-Osório** Group Chief Executive

UNDERLYING FINANCIAL PERFORMANCE

Strong underlying performance

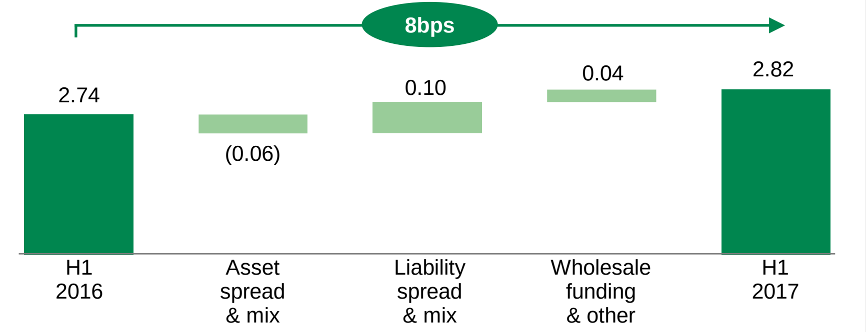
(£m)	H1 2017	H1 2016	Change
Net interest income	**5,925**	5,782	*2%*
Other income	**3,348**	3,093	*8%*
Total income	**9,273**	8,875	*4%*
Operating lease depreciation	**(495)**	(428)	*(16)%*
Net income	**8,778**	8,447	*4%*
Operating costs	**(4,018)**	(4,041)	*1%*
Impairment	**(268)**	(245)	*(9)%*
Underlying profit	**4,492**	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%**

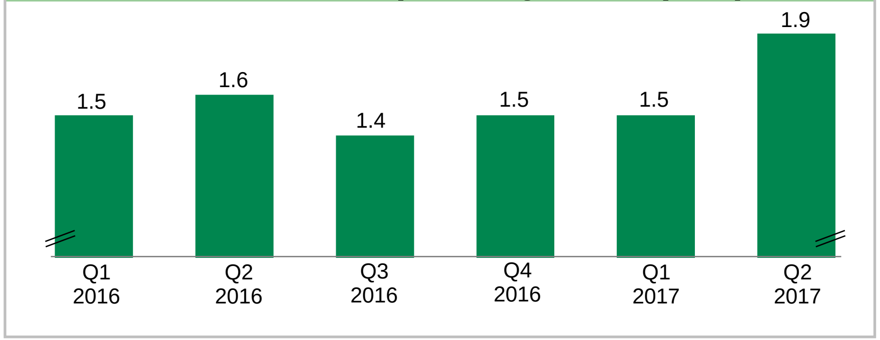
INCOME

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

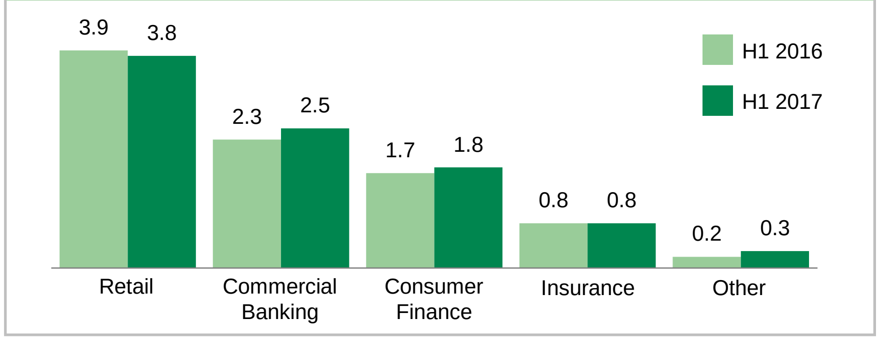
Net interest margin (%)



Other Income quarterly trend (£bn)



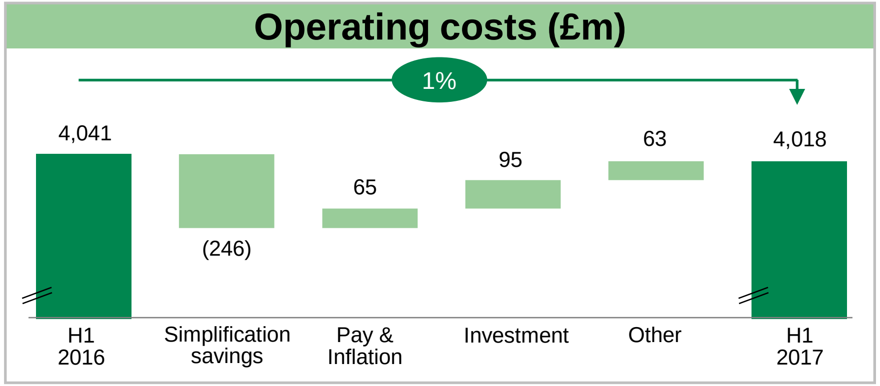
Divisional income (£bn)

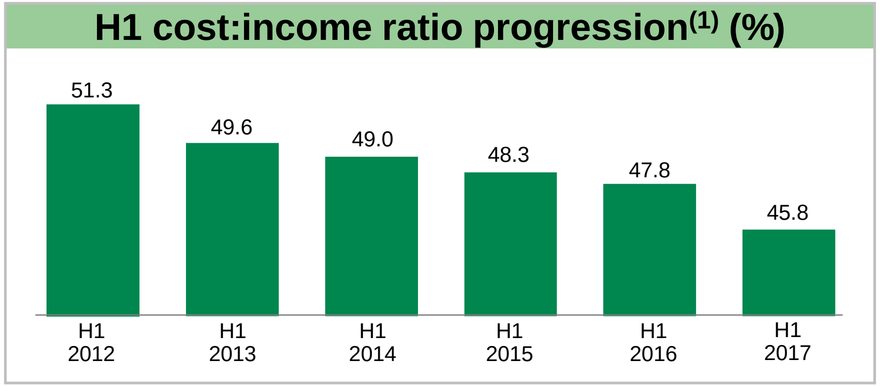


- **Improved NII of £5.9bn with 8bps increase in margin**
  - NIM improvement due to lower funding and deposit costs
  - Now expect 2017 FY NIM to be close to 2.85% (incl MBNA)
- **Other Income of £3.3bn up 8%; good performance in Commercial Banking / Consumer Finance & VocaLink gain**
- **Improved Commercial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

COSTS

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





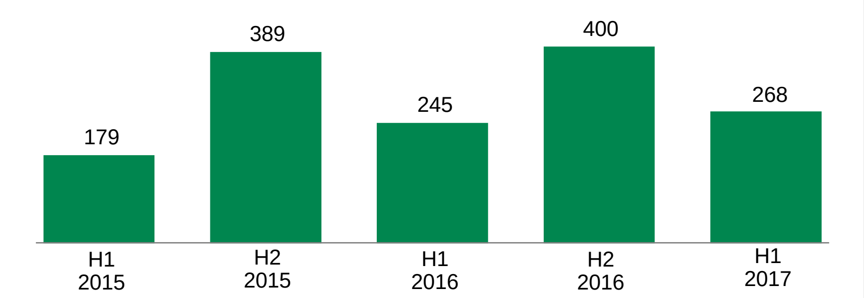
- **Operating costs down 1% since H1 2016 driven by Simplification savings, partly offset by increased investment in the business and inflation**
- **MBNA costs of £21m in June**
- **On track to deliver Simplification run-rate savings of £1.4bn by end 2017, with £1.2bn achieved to date**
- **Market leading 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**

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

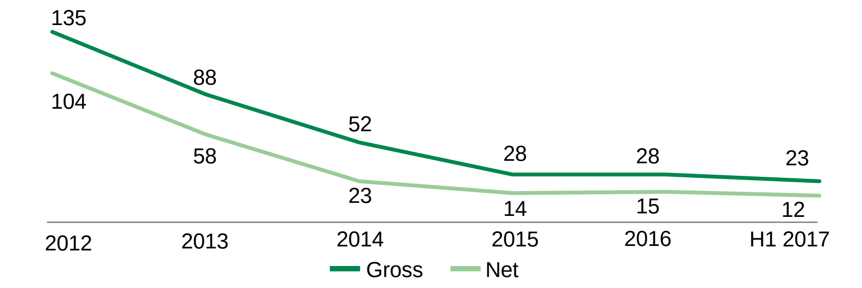
ASSET QUALITY

Credit quality remains strong

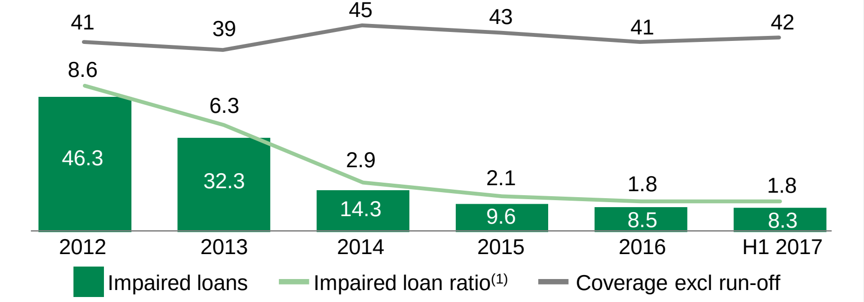
Impairment charge (£m)



Asset quality ratio (bps)



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



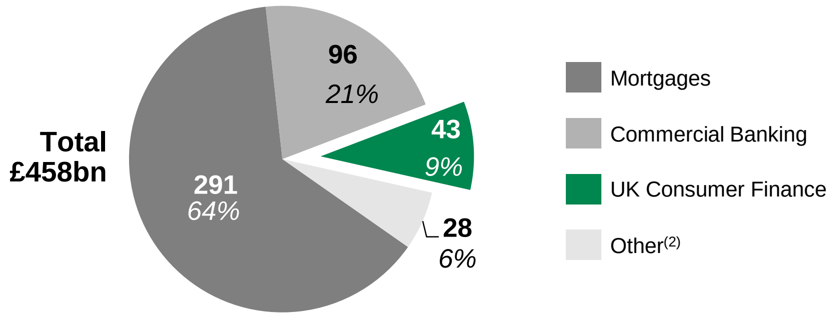
- **Impairment of £268m and AQR of 12bps demonstrates strength of asset quality and credit environment**
- **Improved gross AQR of 23bps**
- **Impaired loans ratio remains stable at 1.8%**
- **LTV profile continues to improve; 43% average LTV; 90% of mortgage book has an LTV <80%**
- **Now expect 2017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

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

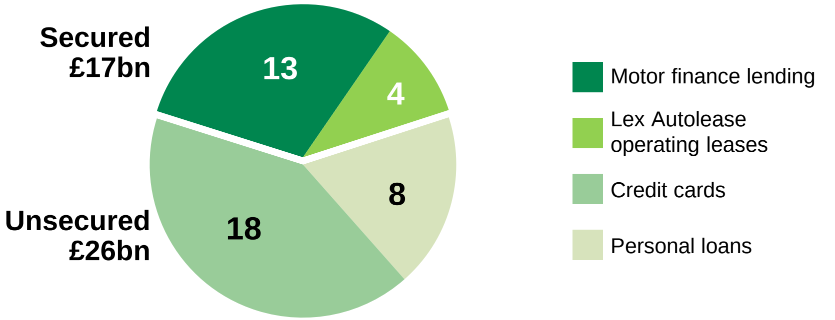
ASSET QUALITY

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

Group customer assets[1] (£bn)



UK Consumer Finance customer assets (£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

[1] Loans and advances to customers of £453bn and operating lease assets of £5bn, excludes Insurance customer assets. [2] 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

LLOYDS BANKING GROUP

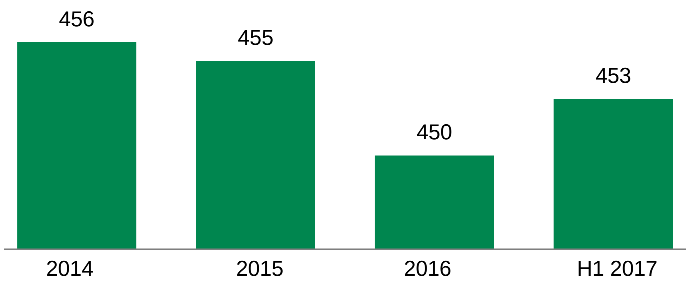
(£m)	H1 2017	H1 2016
Underlying profit	**4,492**	4,161
Market volatility and other items	**(37)**	(940)
Restructuring costs	**(321)**	(307)
PPI	**(1,050)**	–
Other conduct	**(540)**	(460)
Statutory profit before tax	**2,544**	2,454
Taxation	**(905)**	(597)
Statutory profit after tax	**1,639**	1,857

- **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%**

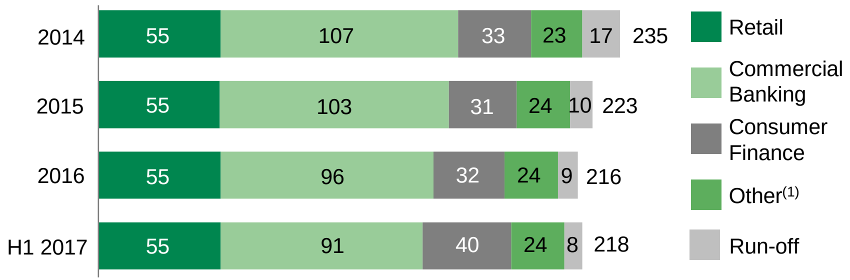
BALANCE SHEET

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)



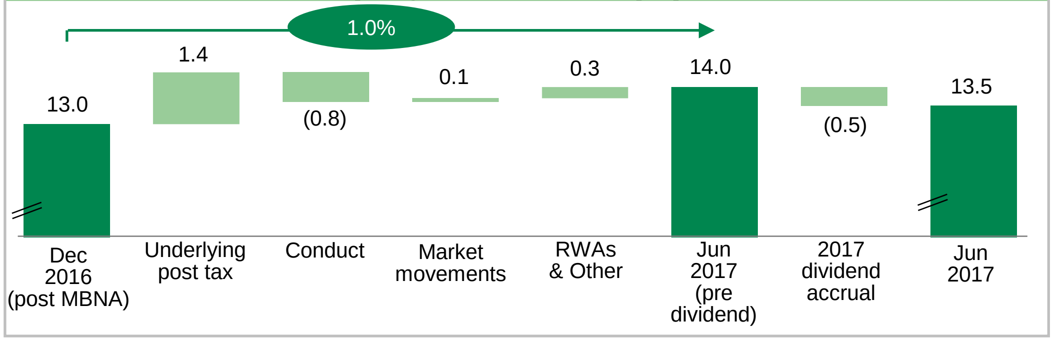
- **Improved capital returns and RWA efficiency through business mix optimisation**
- **Loans and advances to customers increased by £3bn and RWAs by £2bn, reflecting**
  - Continued organic growth in higher returning Consumer Finance segment and c.£8bn impact of MBNA acquisition
  - Offset by reduction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

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

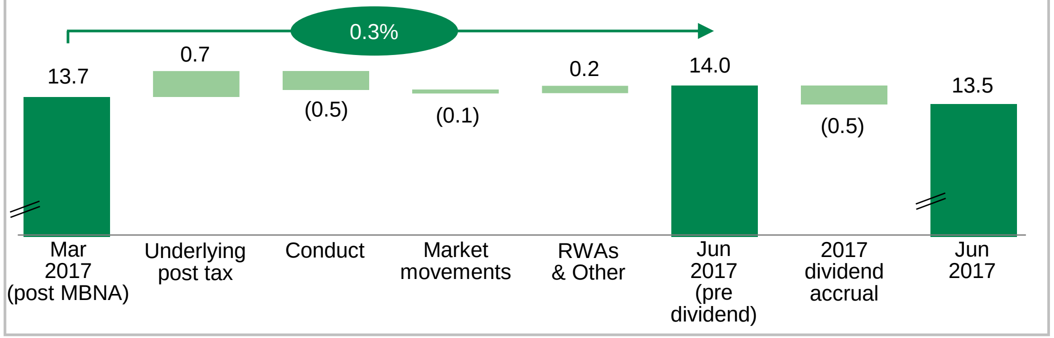
BALANCE SHEET

Strong capital generation in line with full-year 2017 guidance

Common equity tier 1 ratio (%) – 2017 YTD



Common equity tier 1 ratio (%) – Mar to Jun



- **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**

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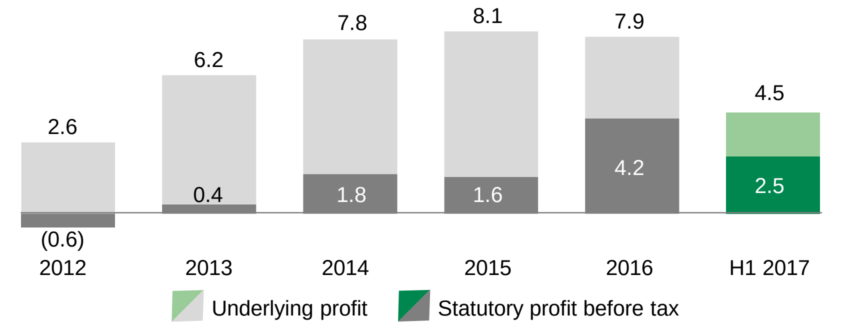
SUMMARY

Differentiated business model continues to deliver

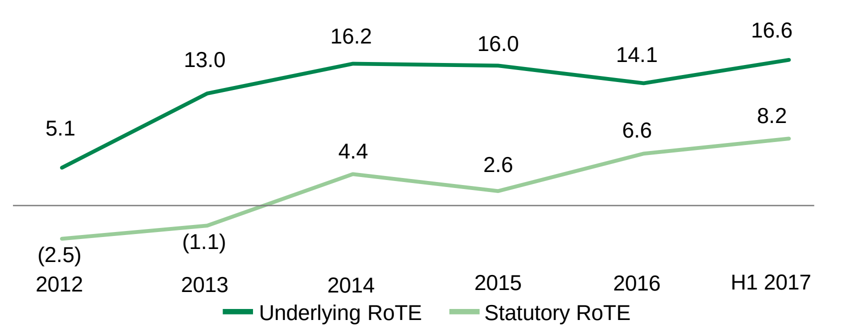
- **Our differentiated business model is delivering**
  - Simple, efficient and low risk business model provides competitive advantage
  - Multi-brand and multi-channel operating model
  - Strong underlying financial performance with increased statutory profit
  - Continued strong capital generation

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

Profit progression (£bn)



Returns progression (%)



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**

APPENDIX

MORTGAGE PORTFOLIO LTVS

Further improvement in LTVs during 2017

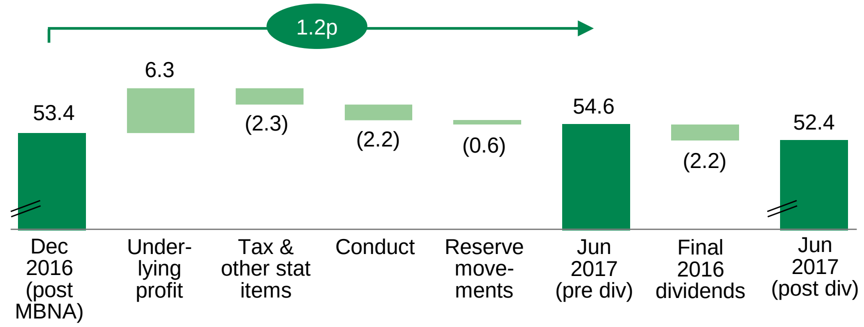
	June 2017				Dec 2016	Dec 2015	Dec 2010
	Mainstream	Buy to let	Specialist	Total	Total	Total	Total[1]
Average LTVs	40.9%	52.4%	47.5%	**43.0%**	44.0%	46.1%	55.6%
New business LTVs	64.7%	60.6%	n/a	**64.0%**	64.4%	64.7%	60.9%
≤ 80% LTV	89.4%	93.3%	87.4%	**90.0%**	89.0%	86.4%	57.0%
>80–90% LTV	8.1%	4.5%	6.9%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

Indexed by value at 30 June 2017. Specialist lending is closed to new business. [1] 2010 LTVs include TSB.

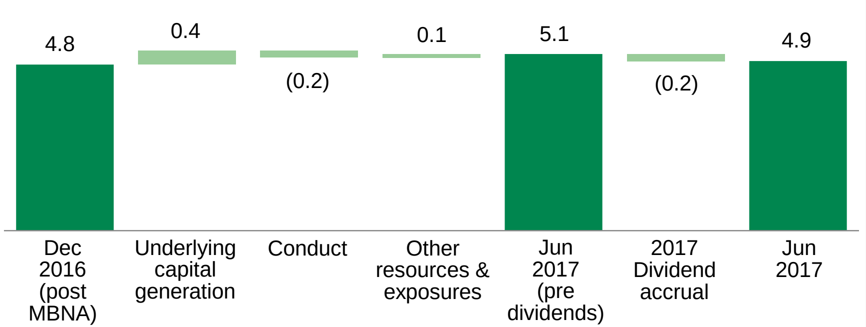
TANGIBLE NET ASSET VALUE AND LEVERAGE RATIO

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

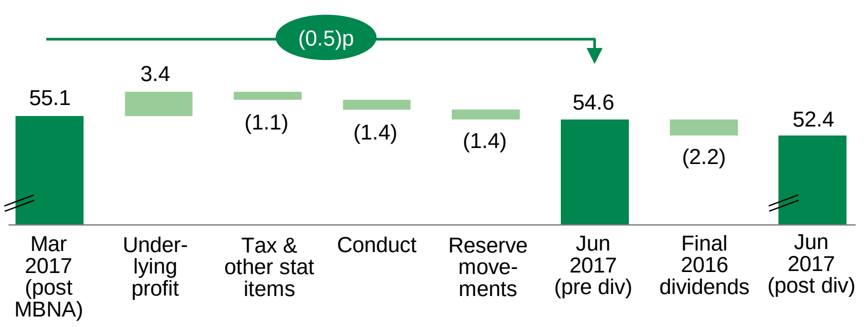
Tangible net assets per share (p) – Dec to Jun



Leverage ratio (%)



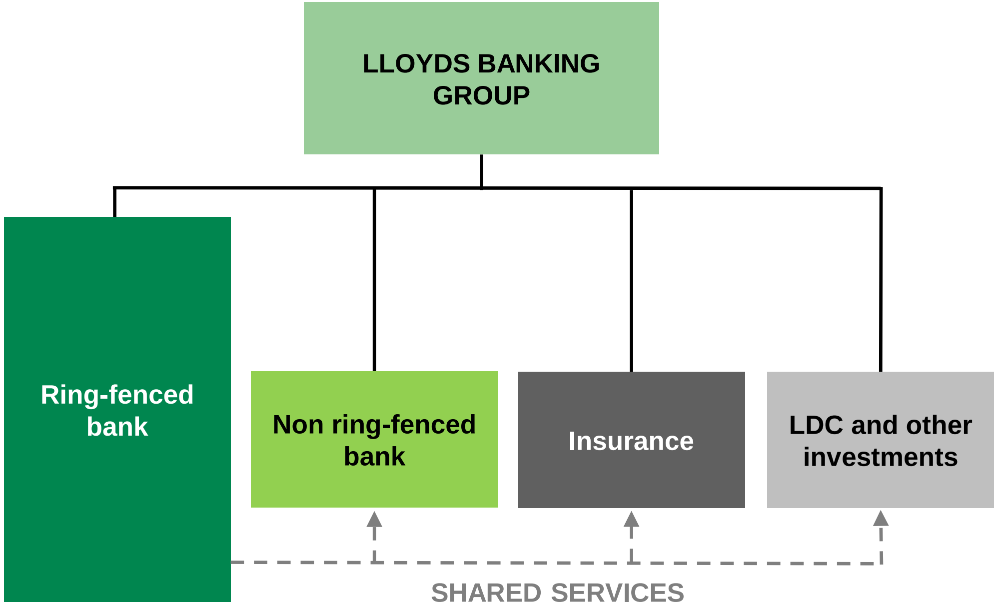
Tangible net assets per share (p) – Mar to Jun



- **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**

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

LLOYDS BANKING GROUP

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) (1)
- 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
S&P		
Long Term	**A–**	A
Short Term	**A–2**	A–1
FITCH		
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)

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

FORWARD LOOKING STATEMENT AND BASIS OF PRESENTATION

LLOYDS BANKING GROUP

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 2017 Half-Year Results News Release.