

LLOYDS
BANKING
GROUP



Q1 INTERIM MANAGEMENT STATEMENT

Presentation to Analysts and Investors

27 April 2017

HIGHLIGHTS

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



- **Strong underlying performance with significant improvement in statutory profit and returns**
 - Increase in underlying profit to £2.1bn with an improved underlying return on tangible equity of 15.1%
 - Positive operating jaws while credit quality remains strong with a net AQR of 12bps
 - Statutory profit before tax has doubled to £1.3bn; statutory return on tangible equity of 8.8%
- **Strong capital generation of 0.7% CET1 as our differentiated business model continues to deliver**
 - CET1 ratio of 14.5% (pre dividend accrual) with c.0.8% still retained for MBNA; total capital ratio of 21.9%
- **Helping Britain prosper through continued support to SMEs and first-time buyers**
- **On track to deliver the Group financial targets for 2017**
 - Now expect 2017 full year NIM to be close to 2.80% and AQR to be inside existing 25bps guidance (both pre MBNA)
 - Open book mortgage balances expected to stabilise and then grow to close the year in line with 31 December 2016
 - 2017 capital generation expected to be at the top end of the 170-200bps ongoing guidance range

UNDERLYING FINANCIAL PERFORMANCE

Strong underlying performance



(£m)	Q1 2017	Q1 2016	Change
Net interest income	2,928	2,906	1%
Other income	1,482	1,477	–
Total income	4,410	4,383	1%
Operating lease depreciation	(232)	(193)	(20)%
Net income	4,178	4,190	–
Operating costs	(1,968)	(1,987)	1%
Impairment	(127)	(149)	15%
Underlying profit	2,083	2,054	1%
Net interest margin	2.80%	2.74%	6bp
Cost:income ratio	47.1%	47.4%	(0.3)pp
AQR	0.12%	0.14%	(2)bp
Underlying RoTE	15.1%	15.0%	0.1pp

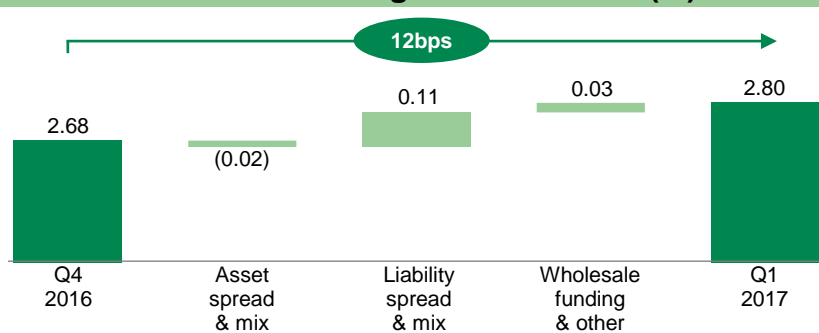
- **Increase in underlying profit to £2.1bn**
 - NII increased 1% to £2.9bn reflecting an improved margin of 2.80% primarily due to lower funding and deposit costs
 - Stable other income of £1.5bn; operating lease depreciation increase reflects strong fleet leasing volumes
 - Operating costs down 1% through continued cost control and Simplification programme benefits
 - Positive operating jaws of 1%; cost:income ratio of 47.1%
 - Lower impairment charge reflects benefit of releases and writebacks; gross AQR of 23bps and a net AQR of 12bps
- **Improved underlying RoTE of 15.1%**

INCOME

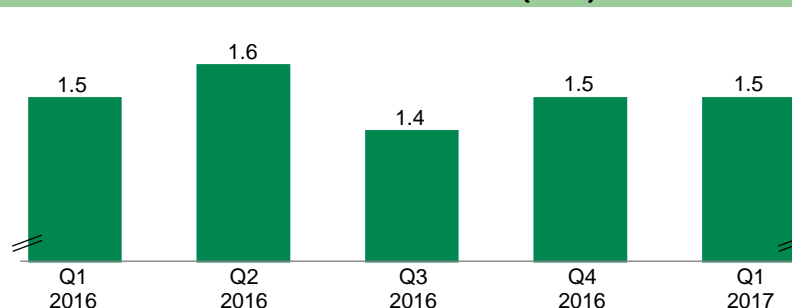
Total income of £4.4bn with increased NII and stable other income



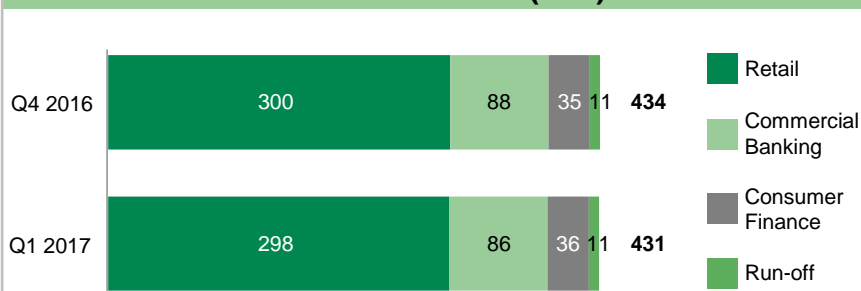
Net interest margin – vs Q4 2016 (%)



Other income trend (£bn)



Divisional AIEAs (£bn)



- **Improved NII of £2.9bn with 12bps increase in margin**
 - NIM improvement due to lower funding and deposit costs including full quarter benefit of deposit re-pricing actions
 - Now expect 2017 FY NIM to be close to 2.80% (pre MBNA)
- **AIEA reduction due to capital and returns optimisation in Global Corporates and lower mortgage balances**
- **Other income of £1.5bn stable year-on-year**

STATUTORY FINANCIAL PERFORMANCE

Significant increase in statutory profit reflecting lower below the line charges



(£m)	Q1 2017	Q1 2016
Underlying profit	2,083	2,054
Market volatility and other items	(72)	(1,124)
Restructuring costs	(157)	(161)
PPI	(350)	–
Other conduct	(200)	(115)
Statutory profit before tax	1,304	654
Taxation	(414)	(123)
Statutory profit after tax	890	531
Statutory RoTE	8.8%	5.7%

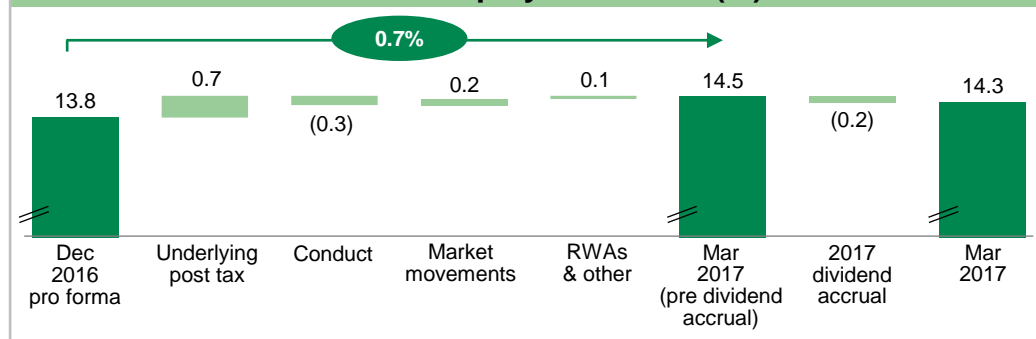
- **Market volatility and other items in 2016 included the £790m ECN redemption charge**
- **Restructuring costs include Simplification, non-branch property rationalisation and ring-fencing spend**
- **Q1 PPI provision of £350m as previously announced following the FCA's revised policy statement in March**
- **Other conduct includes £100m for HBOS Reading compensation and £100m for Retail matters**
- **Effective tax rate of 32% primarily due to non-deductible conduct charges**
- **Improved statutory RoTE of 8.8%**

BALANCE SHEET

Strong capital generation in the quarter



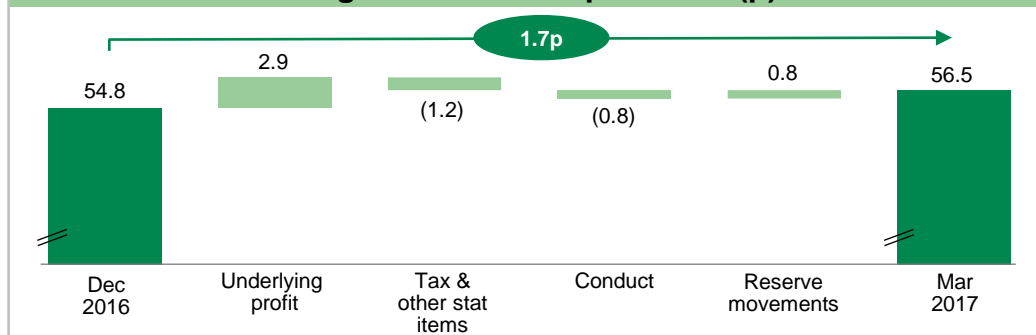
Common equity tier 1 ratio (%)



- **CET1 ratio of 14.5% pre dividend accrual**

- Q1 capital generation of 0.7% with strong financial performance and continued de-risking
- Around 0.8% of capital still retained to cover the capital impact of the MBNA acquisition
- 2017 capital generation now expected to be at the top end of 170-200bps ongoing guidance

Tangible net assets per share (p)



- **Total capital remains strong at 21.9%**

- **Leverage ratio stable at 5.0%**

- **TNAV increased 1.7p per share to 56.5p**

- Driven by strong statutory profit and positive reserve movements, partly offset by conduct

SUMMARY

Confidence in the Group's future prospects is reflected in our strong financial targets



- **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 significant increase in statutory profit
 - Continued strong capital generation
- **Focused on delivering final year of current strategic plan and preparing next three year plan**

Financial targets

- **Strong financial targets reflecting strength of business model**
 - Now expect 2017 FY NIM to be close to 2.80% (pre MBNA)
 - Now expect 2017 FY AQR to be inside existing 25bps guidance (pre MBNA)
 - Cost:income ratio of around 45% exiting 2019, with reductions every year
 - 2017 capital generation expected to be at the top end of the 170-200bps ongoing guidance range
 - Statutory RoTE of 13.5 to 15.0% in 2019



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 (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, the exit by the UK from the European Union (EU) and the potential for one or more 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 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; 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; requirements or limitations 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 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 page 14 of the Q1 2017 Interim Management Statement.