

LLOYDS
BANKING GROUP



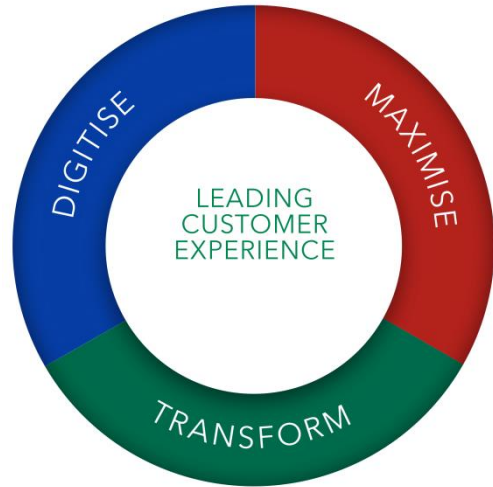
Q1 INTERIM MANAGEMENT STATEMENT

Presentation to analysts and investors | 2 May 2019

Strong start to the second year of the Group's current strategic plan



Transforming the Group for success in a digital world



>£3bn strategic investment
2018 – 2020

Further progress on digitising the Group and enhancing customer propositions

- **Strategic investment of £1.2bn** to date; technology spend 17% of operating costs
- **MBNA migration** completed ahead of schedule; increased RoI of 18% expected
- **Schroders Personal Wealth** on track to launch in Q2 2019
- Launched **self-serve Business Banking loans**, reducing application time to 6 minutes; new **digitised SME lending tool** reducing RM time by >30%⁽¹⁾
- Digitised **insurance claims** process launched, with >50% claimant usage
- **Single Customer View** providing unique integrated access to banking and insurance products; continued roll out of **Open Banking** with 60,000 users
- **15.9m digitally active users**, up 0.2m in Q1 2019
- Overall **NPS** improved from 62 to 64, driven by Branch and Digital channels
- Introduced **cloud-based HR system**, enabling consolidation of 60 systems and processes
- Use of **e-auctions** driving average contract renewal cost savings of >10%

1 – Refers to Relationship Manager time spent on loan applications.

Strong business performance with increased profits and market leading returns



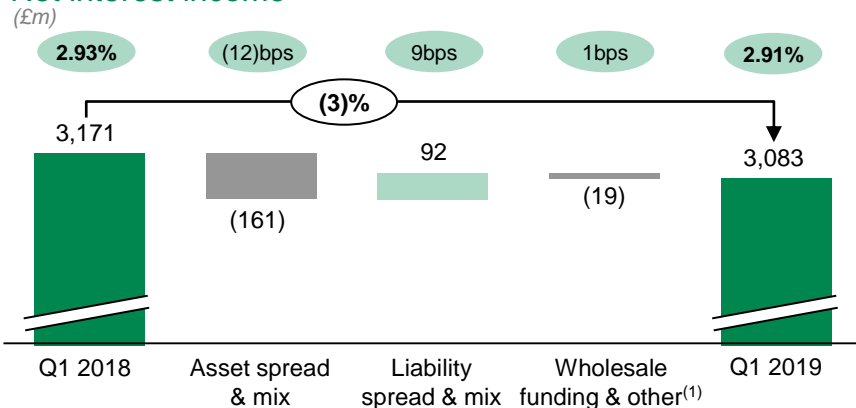
Net income	£4.4bn +2%
Cost:income ratio (incl. remediation)	44.7% (3.1)pp
Cost:income ratio (excl. remediation)	44.3% (2.1)pp
Underlying profit	£2.2bn +8%
Statutory profit after tax	£1.2bn +2%
Earnings per share	1.49p +2%
Return on tangible equity	12.5% +0.2pp
Capital build (pre-dividend accrual)	31bps <i>after 11bps for IFRS 16</i>

- **Statutory profit after tax of £1.2bn up 2% with strong RoTE of 12.5% and EPS up 2% to 1.49p; TNAV up 0.4p on year end to 53.4p**
- **Underlying profit of £2.2bn up 8%**
 - Increased net income with NIM robust at 291bps
 - Lower costs with cost:income ratio further improved to 44.7%
- **Credit quality remains strong; net AQR of 25bps up on Q4 reflecting expected lower releases and write backs**
 - Gross AQR of 30bps stable on Q4 2018
- **Capital build of 31bps after 11bps expected one-off IFRS 16 impact**
- **Reduced CET1 guidance of c.12.5% plus a management buffer of c.1% following Systemic Risk Buffer notification and lower Pillar 2A**

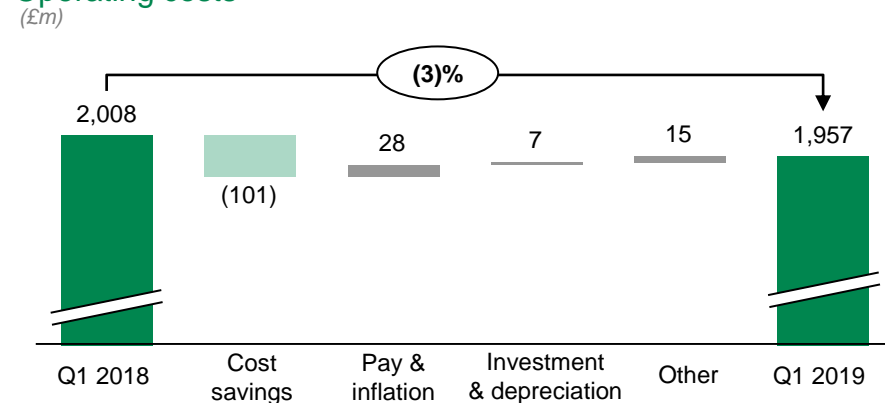
Strong financial performance with resilient margin and reducing costs



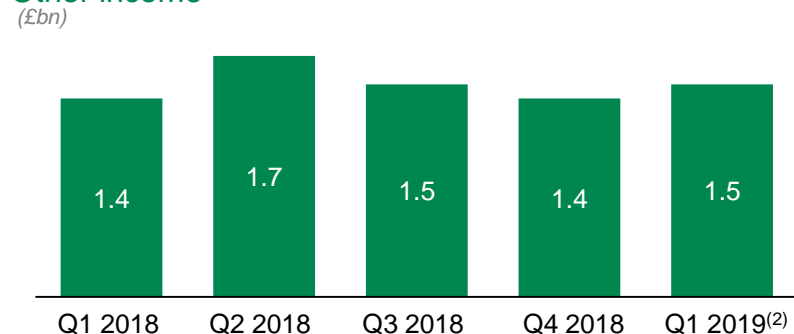
Net interest income



Operating costs



Other income



- **Net income of £4.4 billion up 2%**
 - NII down with robust NIM of 2.91% and AIEAs down 1%
 - Other income up with lower investment management charges
 - Lower operating lease depreciation of £219m mainly reflecting robust used car prices
- **Total costs of £1,977m down 4% with lower operating costs (down 3% to £1,957m) and lower remediation charges; cost:income ratio improved to 44.7%**

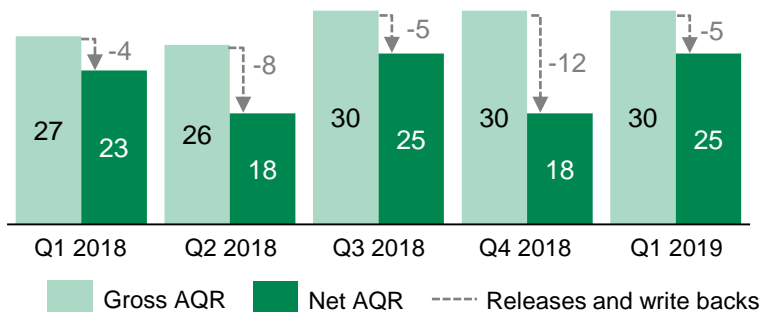
1 – Other includes non-banking net interest income. 2 – Q1 2019 excludes Vocalink gain of £50m.

Low risk business model with prudent participation choices

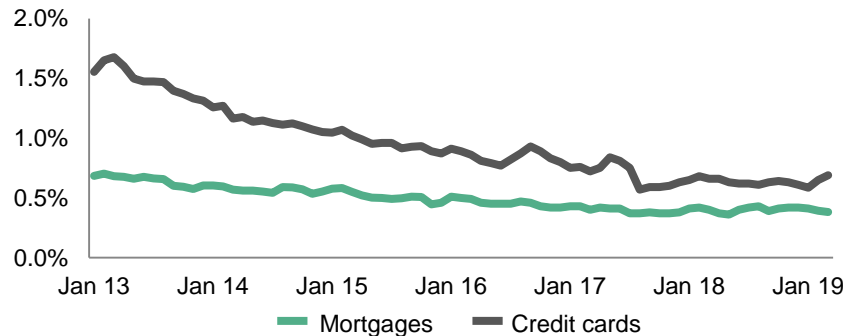


Asset quality ratio

(bps)



Mortgages and credit cards – new to arrears as proportion of total book



- **Gross AQR stable on Q4 2018 at 30bps; net AQR up on Q4 due to expected lower releases and write backs**
- **Underlying credit quality remains strong with no deterioration in credit risk though Brexit uncertainty persists**
 - Low average mortgage LTV of 43% with stable new to arrears; new business average LTV 62% and c.89% of portfolio continues to have LTV ≤80%
 - Prime credit card business with conservative underwriting and new to arrears remaining low
 - Motor finance book largely secured lending with prudent residual values
 - Diversified and high quality Commercial portfolio with impairments remaining low

Continued improvement in statutory profit and returns



(£m)	Q1 2019	Q1 2018	Change
Underlying profit	2,168	2,004	8%
Restructuring	(126)	(138)	9%
Volatility and other items	(339)	(174)	(95)%
PPI	(100)	(90)	(11)%
Statutory profit before tax	1,603	1,602	-
Tax expense ⁽¹⁾	(403)	(431)	6%
Statutory profit after tax	1,200	1,171	2%
Effective tax rate	25%	27%	(2)pp
Statutory RoTE	12.5%	12.3%	0.2pp

- **Statutory profit after tax of £1.2bn, up 2%**
 - Restructuring includes completion of MBNA migration, severance costs and initial costs to establish Schrodgers Personal Wealth
 - Volatility and other items includes adverse movements in banking volatility and a charge for exiting the investment management agreement
 - PPI charge £100m; £1bn outstanding provision assumes 13,000 net complaints per week
- **Lower effective tax rate of 25% in line with longer term guidance**

Continued growth in targeted segments while continuing to optimise the portfolio



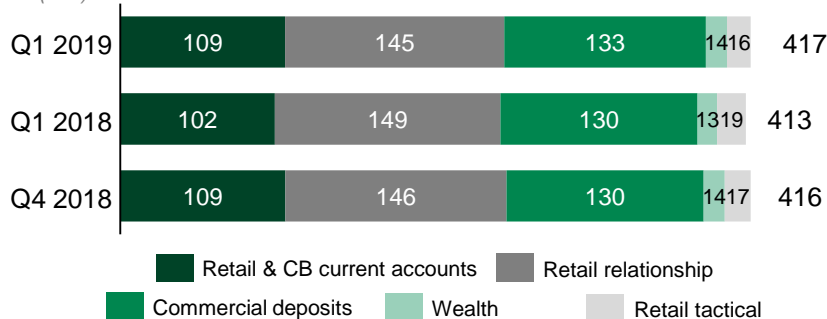
Loans and advances

(£bn)



Liability mix

(£bn)



- **Prudent lending growth in targeted segments**
 - Open mortgage book reduction due to expected maturities and ongoing pricing discipline; continue to expect balances to close 2019 in line with end 2018
 - Continued SME growth, +£0.7bn on Q1 2018⁽¹⁾
 - Motor Finance growth continuing ahead of market with increase of £1.5bn on Q1 2018
- **Continue to target current account balances, reduce tactical balances and optimise mix**
 - Current account balances up £6.7bn on Q1 2018 with increases in both Retail and Commercial
- **RWAs up on Q4 2018 at £208bn with reductions in low risk-weighted mortgages offset by IFRS 16 increase**

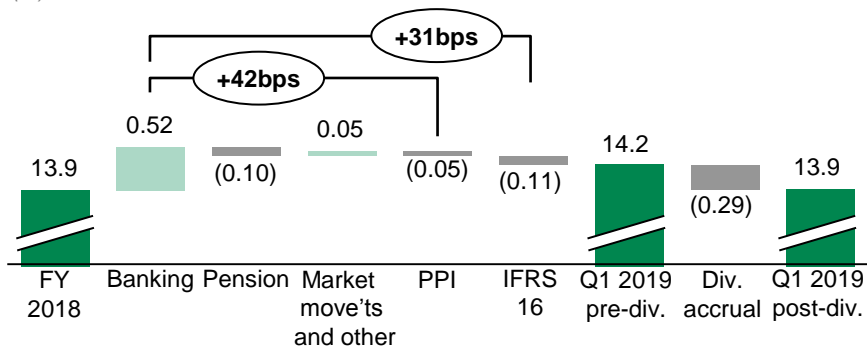
1 – Includes Retail Business Banking.

Continued strong capital build with lower capital target; all guidance reaffirmed



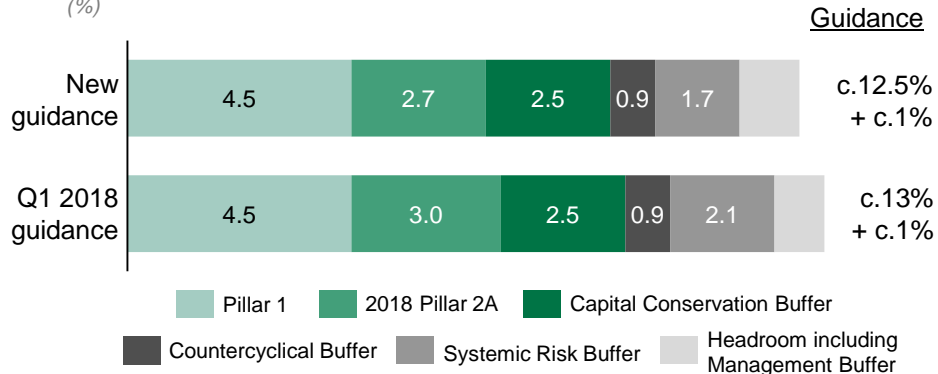
Common equity tier 1 ratio

(%)



Group capital structure

(%)



- CET1 capital build of 31bps in the first quarter includes 11bps expected one-off impact of IFRS 16
- CET1 guidance has reduced from c.13% to c.12.5%, plus a management buffer of c.1%
 - Systemic Risk Buffer now confirmed at 200bps for the Ring Fenced Bank, equivalent to 170bps at Group level, 40bps lower than included in previous capital guidance
 - Pillar 2A requirement reduced by net 30bps in 2018
- **Brexit uncertainty persists and continued uncertainty could further impact the economy, but given current strong performance, all guidance is reaffirmed**
 - NIM expected to be resilient around 290bps
 - Operating costs below £8bn in 2019
 - AQR <30bps through the plan
 - RoTE of 14-15% expected in 2019
 - Ongoing capital build of 170-200bps per year

Forward looking statements

This document contains certain forward looking statements with respect to the business, strategy, plans and/or results of the Group and its current goals and expectations relating to its future financial condition and performance. Statements that are not historical facts, including statements about the 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 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, inflation, 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; the ability to achieve strategic objectives; changing customer behaviour including consumer spending, saving and borrowing habits; changes to borrower or counterparty credit quality; concentration of financial exposure; management and monitoring of conduct risk; instability in the global financial markets, including Eurozone instability, instability as a result of uncertainty surrounding the exit by the UK from the European Union (EU) and as a result of such exit 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; risks relating to climate change; changes in laws, regulations, practices and 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 together with any resulting impact on the future structure of the Group; the transition from IBORs to alternative reference rates; the ability to attract and retain senior management and other employees and meet its diversity objectives; 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 and risks 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 the Group expressly disclaims any obligation or undertaking to release publicly any updates or revisions to any forward looking statements contained in this document to reflect any change in the Group's expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based. 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 within the 2019 Q1 Interim Management Statement.