KBW 2013 UK FINANCIALS DAY PRESENTATION

16 SEPTEMBER 2013
LONDON

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Group Corporate Treasurer

AGENDA

LLOYDS BANKING GROUP

RESULTS OVERVIEW

CAPITAL STRENGTH

BALANCE SHEET RISK MANAGEMENT

LIQUIDITY AND WHOLESALE FUNDING

SUMMARY

RESULTS OVERVIEW
Key highlights for the first half of 2013

- **Accelerated progress in delivering strategic plan**
- **Substantial increase in underlying profit benefiting from income growth of 2%, increased margin of 2.01% and further cost and impairment reductions**
- **Statutory profit before tax of £2.1bn**
- **Core loan book growth accelerating with core underlying income up**
- **Guidance upgraded for margin improvement, cost reduction, non-core asset reduction, and capital build**
- **Now expect full year 2013 margin of close to 2.10%**
- **Expect <£70bn of non-core assets by end 2013; non retail, non-core assets expected to be <£30bn at end 2013 and <£20bn at end 2014**
- **Fully loaded core tier 1 ratio of 9.6%; targeting above 10% by end 2013**

FINANCIAL PERFORMANCE
Profitability and returns substantially improved

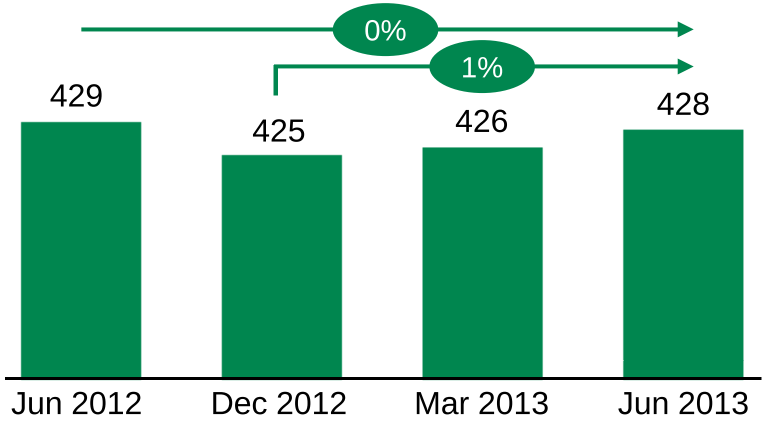
(£m)	H1 2013	H1 2012	Change %
Group income	**9,464**	9,246	*2%*
Group NIM	**2.01%**	1.93%	*8bp*
Group total costs	**(4,749)**	(5,045)	*6%*
Group impairment	**(1,813)**	(3,157)	*43%*
Underlying profit			
Group	**2,902**	1,044	*178%*
Core	**3,696**	2,931	*26%*
Statutory PBT	**2,134**	(456)	
RoRWA			
Group	**1.95%**	0.61%	*134bp*
Core	**3.16%**	2.44%	*72bp*

- **Substantial increase in Group underlying and statutory profit**
  – Core profit increased 26% to £3,696m
  – Returned to statutory profit: £2,134m
- **Group margin ahead of expectations at 2.01%**
- **Costs further reduced; Simplification run-rate savings increased to £1.16bn at end June 2013**
- **Further substantial reduction in impairment**
  – Driven by 58% reduction in non-core
- **Returns further improved, with Group and core returns above cost of equity**

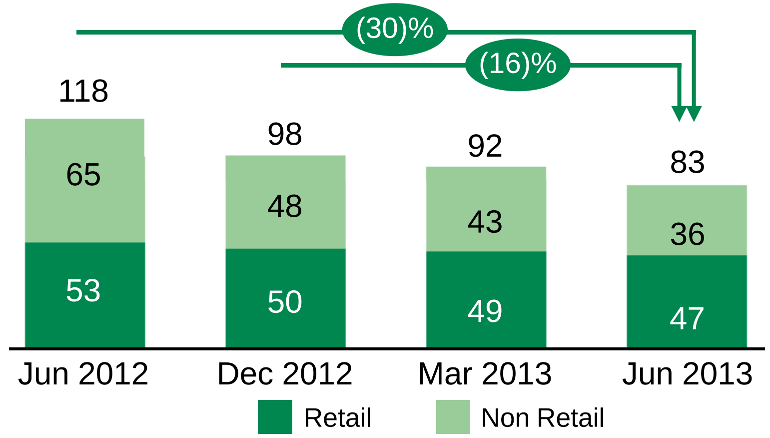
BALANCE SHEET

Core loan book continuing to grow; non-core assets substantially reduced; funding position further strengthened

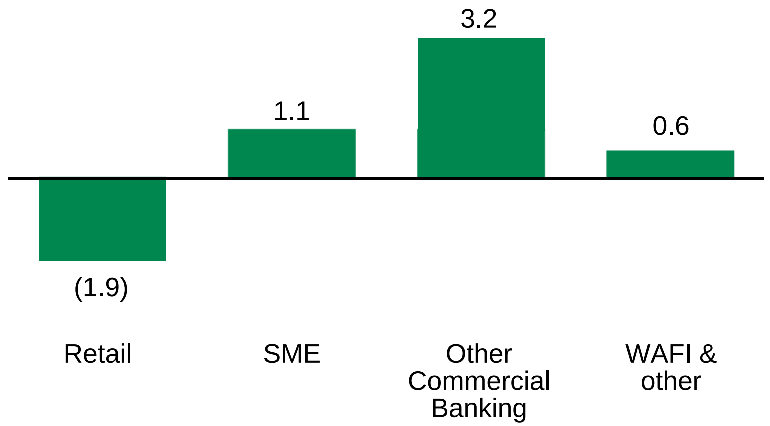
CORE LOANS AND ADVANCES[1] (£bn)



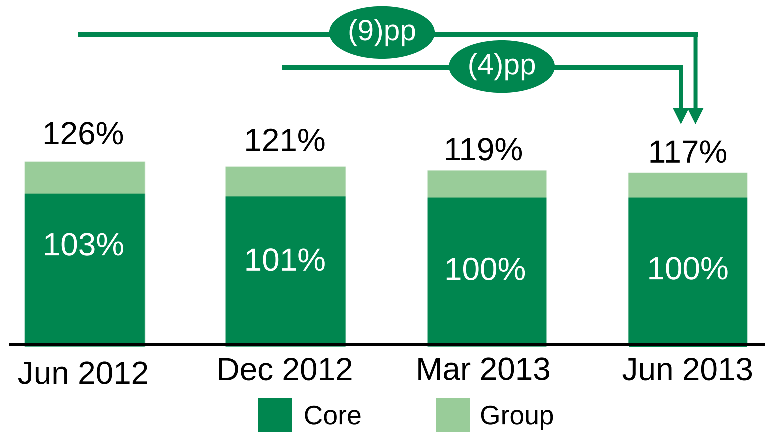
NON-CORE ASSETS (£bn)



H1 CORE LOAN BOOK MOVEMENTS[2] (£bn)

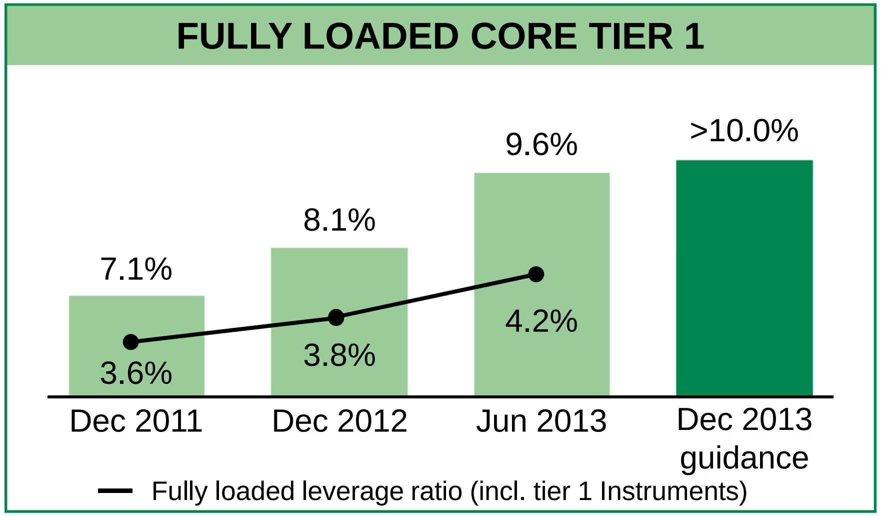


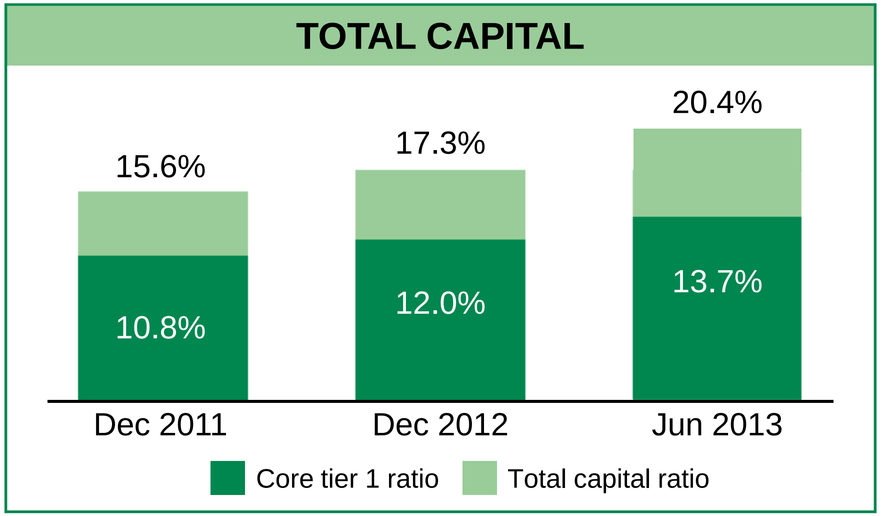
LOAN TO DEPOSIT RATIO[1]



[1] Excluding reverse repos and repos.

CAPITAL
Substantial improvement in capital ratios





- **Remain confident in capital position**
  - Now expect fully loaded core tier 1 ratio of above 10% at end 2013
- **Strongly capital generative strategy**
  - Core business capital generation
  - Capital accretive non-core reduction
  - Other disposals (sales of St. James's Place shares and US RMBS) and £1.6bn insurance dividend
- **Expect to meet PRA's requirement without equity issuance or additional contingent capital**
- **Strong total capital position, substantially in excess of ICB's PLAC recommendation**
- **Fully loaded leverage ratio of 4.2% at end June 2013 including tier 1 capital instruments, 3.5% excluding tier 1 capital instruments**

AGENDA

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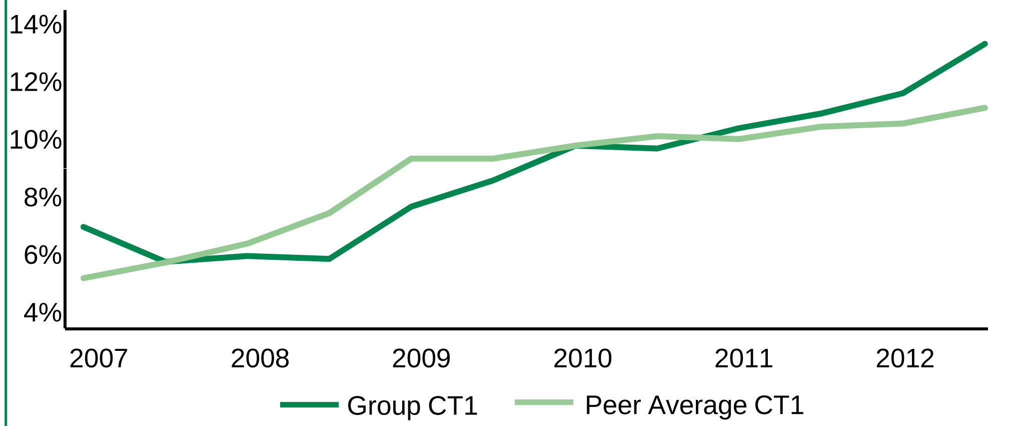
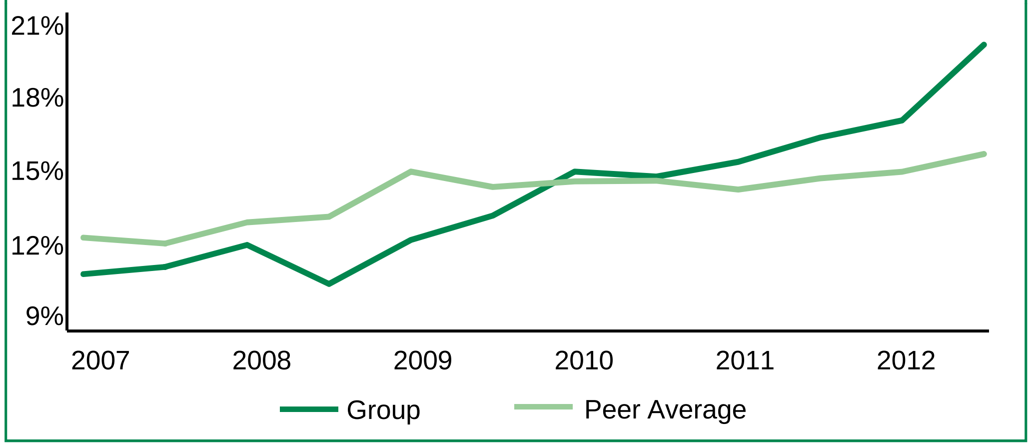
CAPITAL STRENGTH

Evolution of the Structure of Required Capital

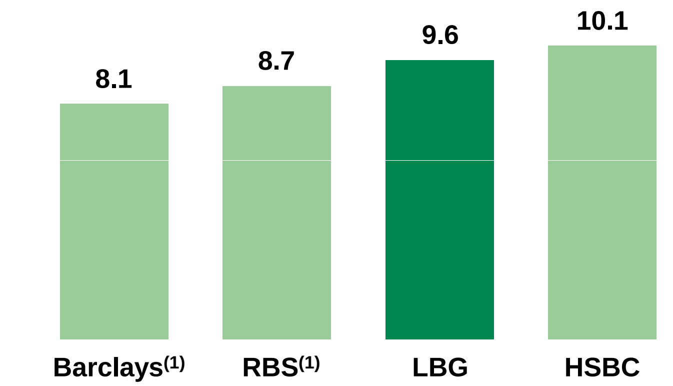
CORE TIER 1 TREND (%)



TOTAL CAPITAL TREND (%)



FULLY LOADED CET1 (%)



(1) Includes management actions; Source: Published accounts at 30 June 2013

- **UK banking sector has built substantial capital strength since beginning of the financial crisis**
- **The Group has significantly strengthened its capital position**
- **Confident in our capital position given our strongly capital generative business**

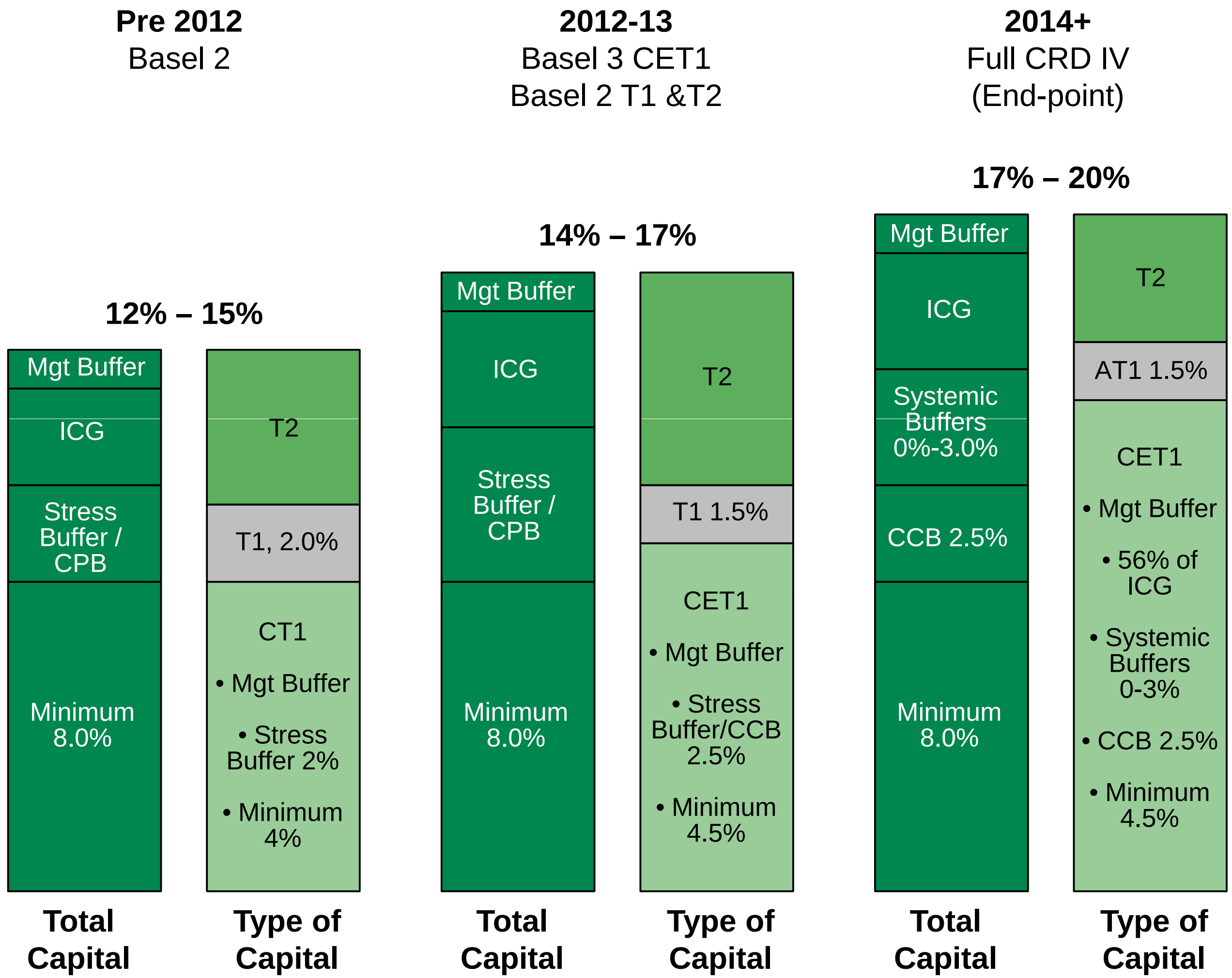
CAPITAL STRENGTH

Lloyds remains well placed to continue to respond to the on-going regulatory change agenda

	Field	Topic	Q4 13	Q1 14	Q2 14	Q3 14
UK	CRD IV	CP 5/13 - consultation deadline	◆ 2 Oct	In force		
	CRD IV	Capital floors project and Standardised comparison	◆ Sept			
	Stress	PRA stress test of UK banking system			◆	
EC	CRD IV	EBA Q&A Tool	◆			
	CRD IV	EBA Asset Quality Review (AQR)		↔	↔	
	Stress	EBA Historic data collection and Stress Testing	◆ Sept-Nov		↔	↔
	CRD IV	EBA Disclosure exercise	◆ Oct-Nov			
	SSM	Single Supervisory Mechanism Balance Sheet exercise		↔	↔	
	Solv II	Omnibus 2, Implementing measures & guidance	↔	↔	↔	
	RRD	Final Text	↔	↔		
GLOBAL	Basel	Leverage ratio consultation deadline	◆ 20 Sept			
	Basel	Separate consultations on treatments of central counterparties, non-internal model methods for counterparty credit risk and equity investments in funds	◆ 27 Sept / 4 Oct			

- **The regulatory change agenda continues and a large number of initiatives are underway**
- **We are comfortable that we continue to be well placed to respond and adapt if necessary**

CAPITAL STRENGTH
Evolution of the Structure of Required Capital



- **Some of ICG must now be met with CET1**
- **Increasing stress buffer**
- **Insurance: up to 10% of CET1 risk-weighted – remainder deducted from CET1**
- **Backstop; higher of both Systemic Buffer and Capital Conservation Buffer or Capital Planning Buffer**

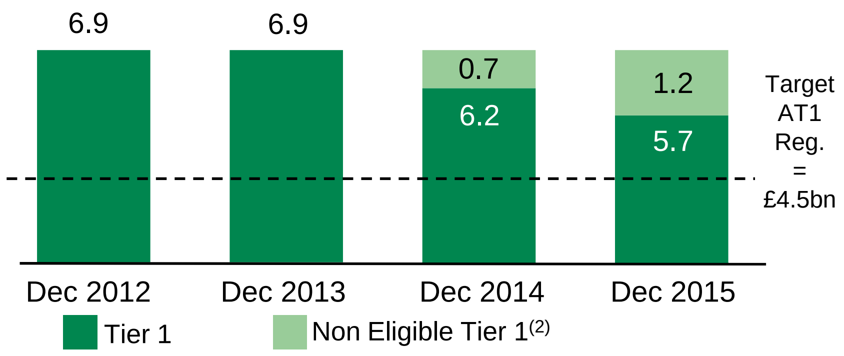
- **Releasing a material proportion of tier 1 and tier 2 capital**

- ICG – Individual Capital Guidance
- CPB – Capital Planning Buffer
- CCB – Capital Conservation Buffer

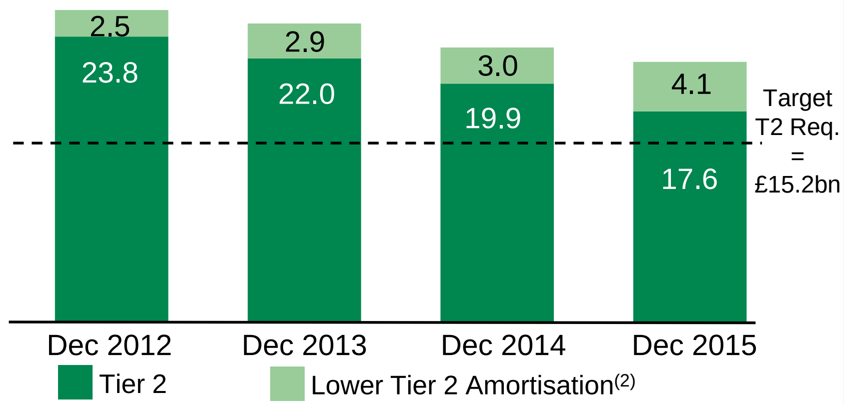
CAPITAL STRENGTH

Capital securities: Indicative Walk-Through to year end 2015

TIER 1 SECURITIES 2012 – 2015 (£bn)



TIER 2 SECURITIES 2012 – 2015 (£bn)



- **CRD IV transition reduces deductions from non-equity capital arising from insurance. This will reduce the need for Tier 1 and Tier 2 capital securities**
- **If AT1 and Tier 2 target levels were 1.5% and 4.5% and RWAs remain constant at £300bn, LBG would require:**
  - **AT1 = £4.5bn**
  - **Tier 2 = £15.2bn[1]**
- **LBG stock of securities is in excess of this**
- **Average subordination premium of existing securities is c.3%. Ability to reduce the excess presents the Group with cost saving opportunities**

[1] Tier 2 Target – including Tier 2 Capital required to cover investment in Insurance Tier 2 Capital securities

[2] Grandfathering based on CRD IV and EBA Q&A guidance

CAPITAL STRENGTH
Current key drivers for Lloyds Banking Group

FPC	**> £7.0bn**	• Announced 1 August that £5.1bn had been delivered (subsequent announcement of sale of Heidelberger Leben +£0.4bn CET1) • Expect to meet without recourse to further equity issuance or the utilisation of additional contingent capital securities
CET1	**> 10.0%**	• End 2013 target • 9.6% at June on a Fully Loaded CRD IV basis
TOTAL CAPITAL	**> 17%**	• Based upon our minimum buffer expectations • 20.4% at June on current rules basis (20.2% on transitional basis) • 15.5% at June on a Fully Loaded CRD IV basis
RAC	**> 7%**	• Standard & Poor's 'Risk Adjusted Capital' measure • 5.8% at end 2012

AGENDA

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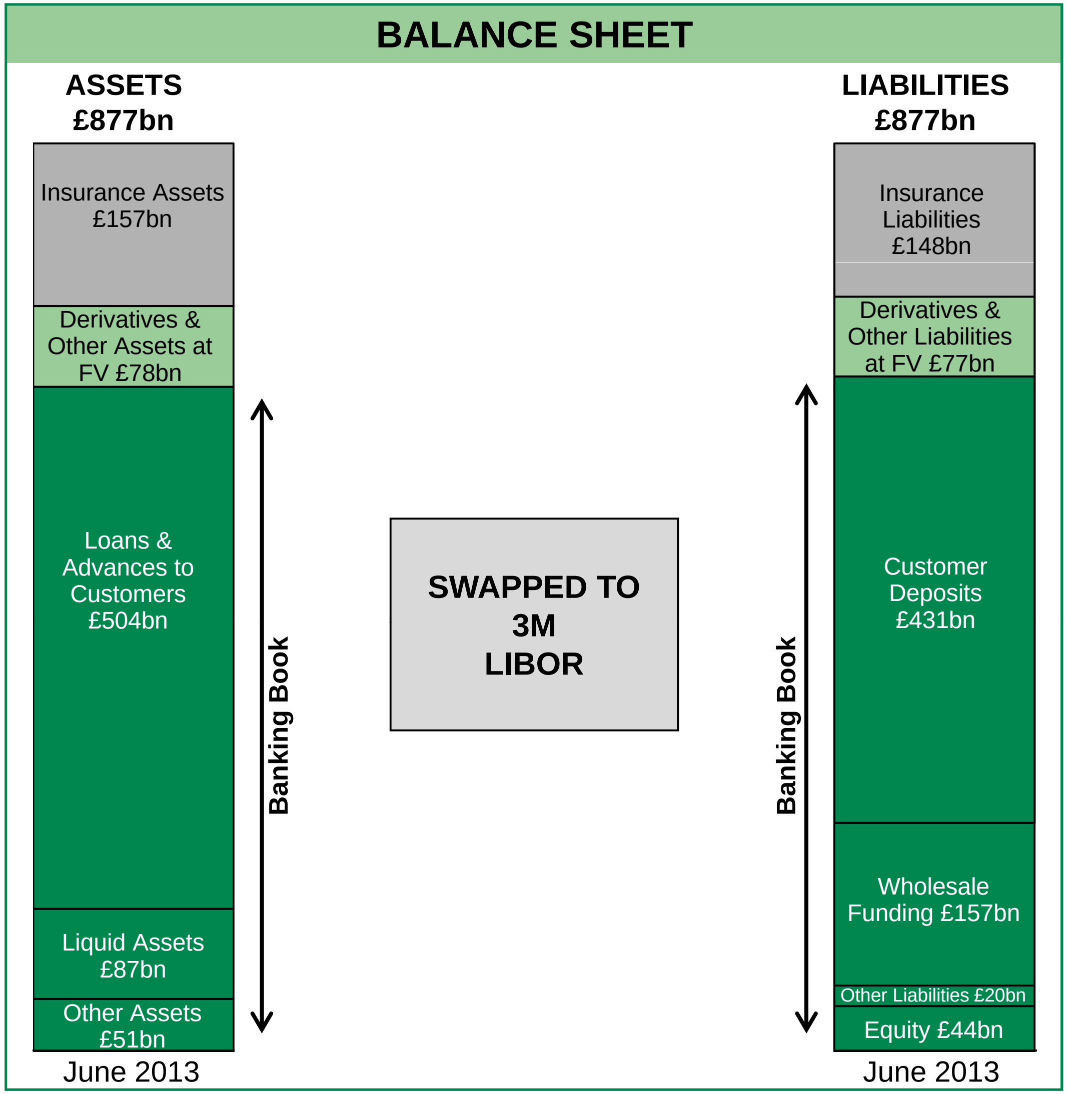
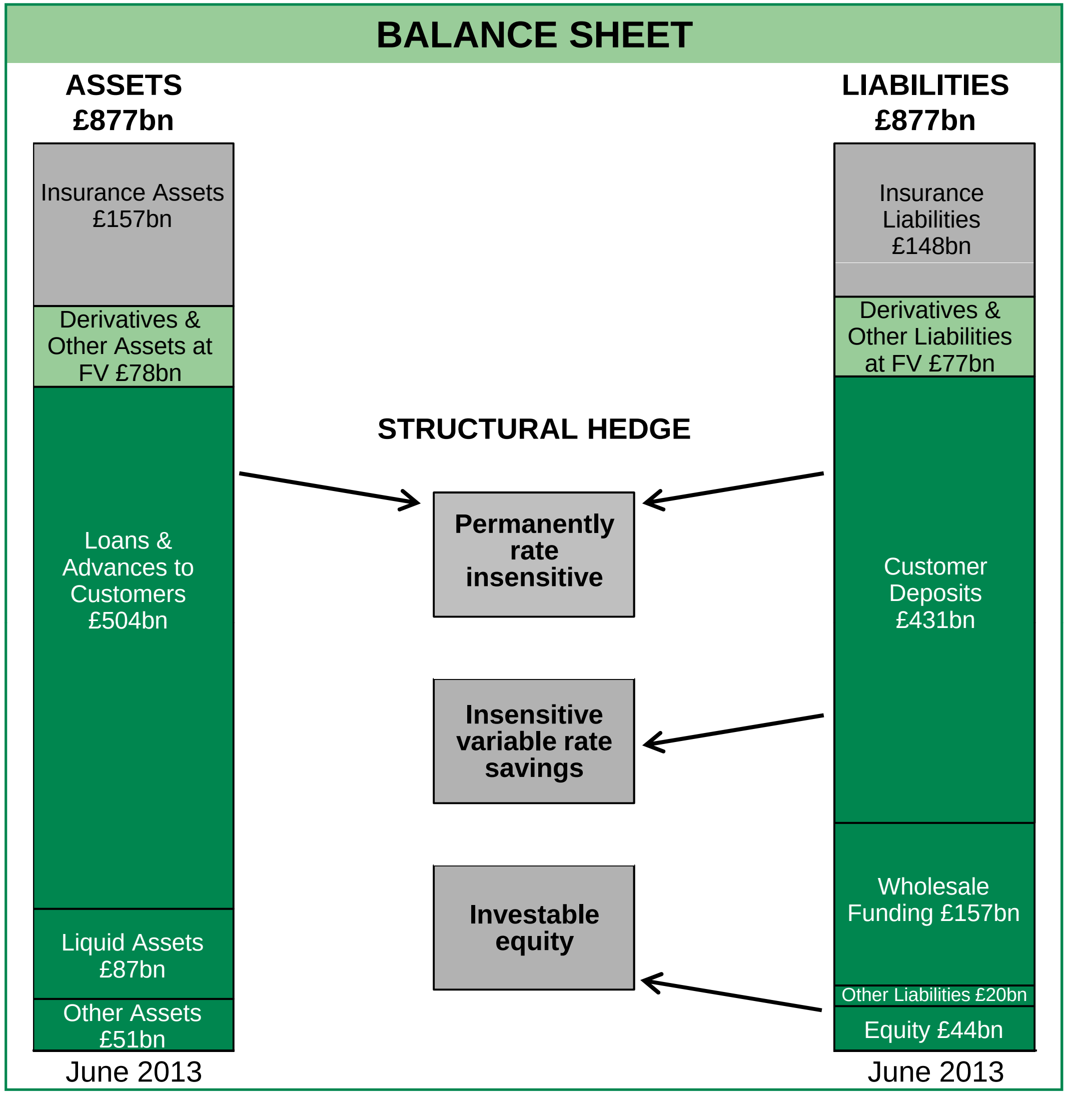
BALANCE SHEET RISK MANAGEMENT
Simple, low risk balance sheet



- **All assets and liabilities are charged/rewarded 3m LIBOR**
- **Where customer balances (loans or deposits) have fixed rates and known or predictable maturity dates, these are swapped to 3m LIBOR**
- **3m LIBOR on both sides of the balance sheet net to zero; leaves the Group with the net interest margin**
- **Residual net interest margin is insensitive to market rate movements**

BALANCE SHEET RISK MANAGEMENT
Behaviourally fixed rate portfolios



- **Customer balances without predictable maturity dates (e.g. current accounts and equity) and non-financial assets or liabilities have steady rates (sometimes at zero percent)**
- **These balances cause significant net interest margin sensitivity**
- **Given indeterminate maturity dates, the Group uses a structural hedge programme to stabilise net interest margin**

AGENDA

RESULTS OVERVIEW

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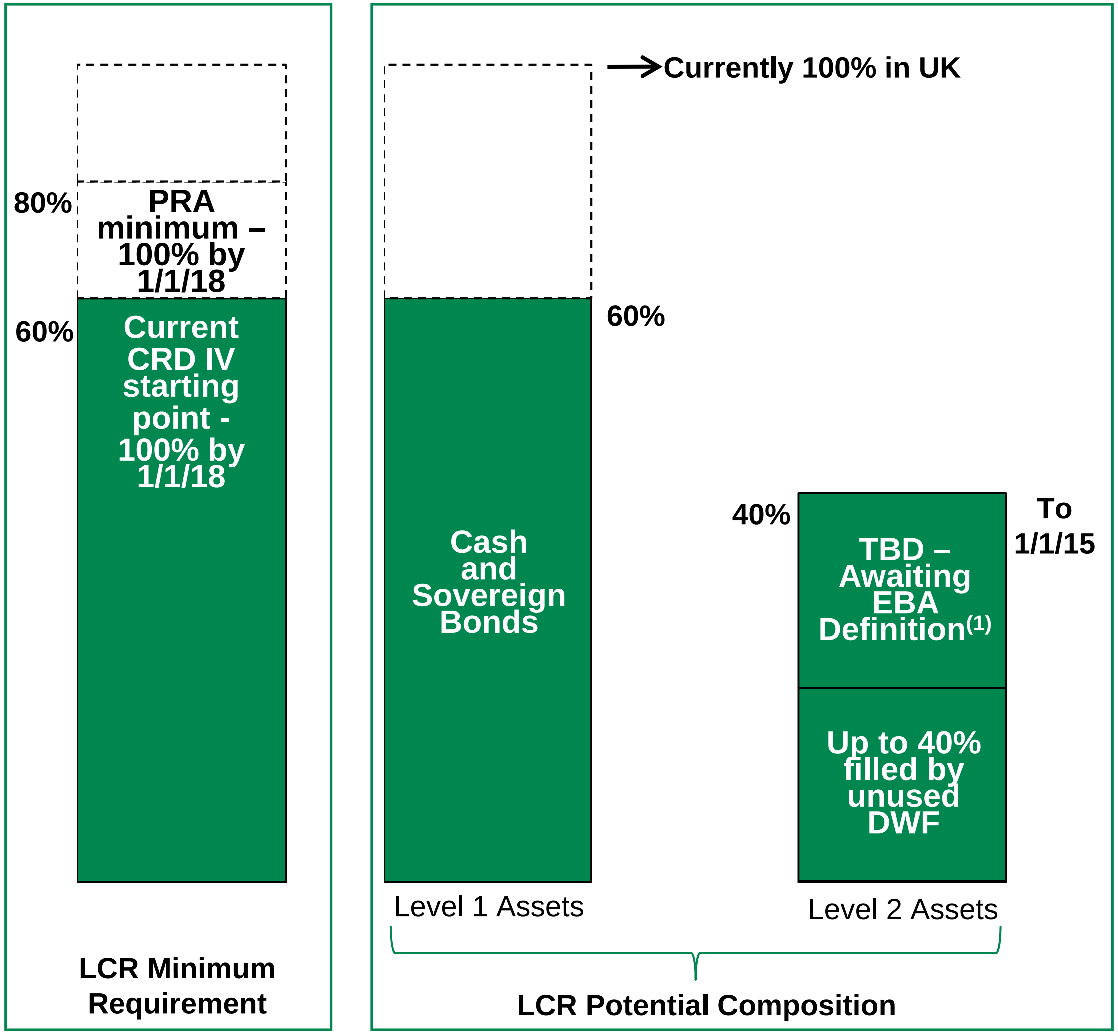
SUMMARY

Developments in Liquidity
Basel III to CRD IV Developments



- UK Banks currently hold primary liquidity in the form of cash and sovereign bonds
- Under CRD IV – LCR initially introduced at 60% with transition to 100% by 1/1/18
- PRA have introduced interim measures in the absence of a full EBA definition
- It is interesting to see that the PRA has linked funding, capital and liquidity
- We wait to see if Europe follows the thought leadership of the PRA/BoE and includes off balance sheet capacity (capped)
- Banks are challenged to determine whether new Level 2 assets are used to reduce funding, grow lending or maintain on balance sheet

(1) PRA interim guidance – also awaiting PRA to specify definition of level 2 assets

THE ROLE OF WHOLESALE FUNDING

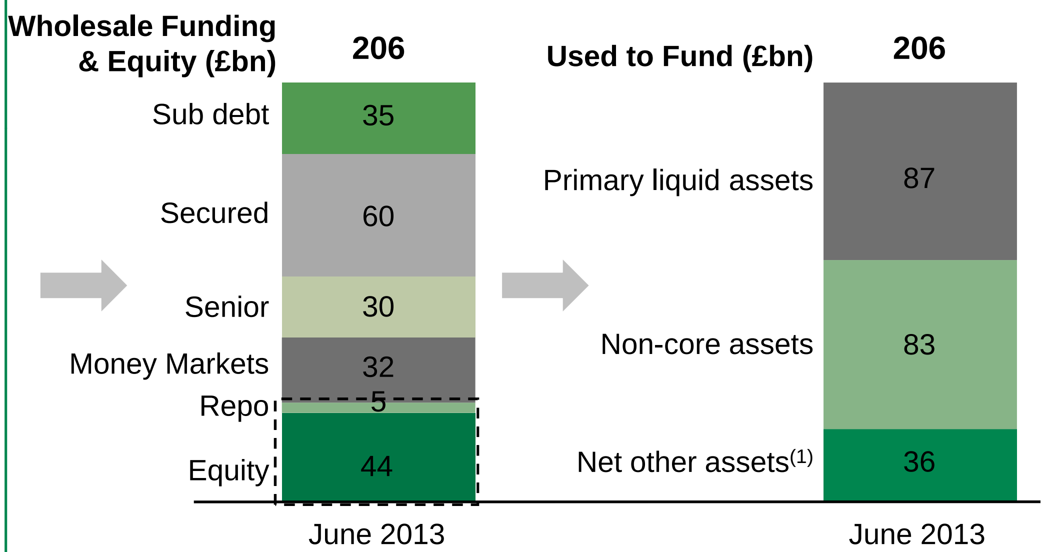
What is the role of Wholesale Funding going forward?

LLOYDS BANKING GROUP

WHOLESALE FUNDING REQUIREMENT

CORE CUSTOMER DEPOSITS → CORE LOAN TO DEPOSIT RATIO 100% ← CORE LOANS AND ADVANCES

FUNDING THE REST OF THE BALANCE SHEET



- Wholesale funding used to fund:
  - Primary Liquidity Buffer
  - Portion of Funded Assets not covered by Customer Deposits
  - Net Other Assets
- Amount of wholesale funding decreasing as funding requirements reduce and as equity increases
- Maintain access to diversified wholesale funding sources

→ Modest H2 funding requirement

(1) Other assets minus other liabilities and funded assets not covered by customer deposits

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- **Focused UK retail and commercial bank**
- **Expect to deliver strong, stable and sustainable returns for our shareholders**
- **Confident in our capital position as we work through the evolving regulatory landscape**
- **Opportunity to further optimise our capital structure as tier 1 and tier 2 capital requirements reduce**
- **Completed the transformation of our liquidity and funding positions last year. However, as we continue to de-risk the balance sheet, these positions will strengthen further**

FORWARD LOOKING STATEMENTS AND BASIS OF PRESENTATION

FORWARD LOOKING STATEMENTS

This presentation contains forward looking statements with respect to the business, strategy and plans of the Lloyds Banking Group, its current goals and expectations relating to its future financial condition and performance. Statements that are not historical facts, including statements about the Group or the Group's management's beliefs and expectations, are forward looking statements. By their nature, forward looking statements involve risk and uncertainty because they relate to future events and circumstances that will or may occur. The Group's actual future business, strategy, plans and/or results may differ materially from those expressed or implied in these forward looking statements as a result of a variety of factors, including, but not limited to, UK domestic and global economic and business conditions; the ability to derive cost savings and other benefits, including as a result of the Group's Simplification programme; and to access sufficient funding to meet the Group's liquidity needs; changes to the Group's credit ratings; risks concerning borrower or counterparty credit quality; instability in the global financial markets, including Eurozone instability and the impact of any sovereign credit rating downgrade or other sovereign financial issues; market-related risks including changes in interest rates and exchange rates; changing demographic and market-related trends; changes in customer preferences; changes to laws, regulation, accounting standards or taxation, including changes to regulatory capital or liquidity requirements; the policies and actions of governmental or regulatory authorities in the UK, the European Union, or other jurisdictions in which the Group operates, including the US; the implementation of Recovery and Resolution Directive and banking reform following the recommendations made by the Independent Commission on Banking; the ability to attract and retain senior management and other employees; requirements or limitations imposed on the Group as a result of HM Treasury's investment in the Group; the ability to satisfactorily dispose of certain assets or otherwise meet the Group's EC state aid obligations; the extent of any future impairment charges or write-downs caused by depressed asset valuations, market disruptions and illiquid markets; the effects of competition and the actions of competitors, including non-bank financial services and lending companies; exposure to regulatory scrutiny, legal proceedings, regulatory investigations or complaints, and other factors. 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. The forward looking statements contained in this presentation are made as at the date of this presentation, and the Group undertakes no obligation to update any of its forward looking statements.

BASIS OF PRESENTATION

The results of the Group and its business are presented in this presentation on a underlying basis and include certain income statement, balance sheet and regulatory capital analysis between core and non-core portfolios to enable a better understanding of the Group's core business trends and outlook. Please refer to the Basis of Presentation in the 2013 Half-Year Results which sets out the principles adopted in the preparation of the underlying basis of reporting as well as certain factors and methodologies regarding the allocation of income, expenses, assets and liabilities in respect of the Group's core and non-core portfolios.