# UBS FINANCIAL SERVICES CONFERENCE

**New York**

**20 May 2014**

**George Culmer, Chief Financial Officer**

**Andrei Magasiner, Group Corporate Treasurer**

# AGENDA

## OUR BUSINESS MODEL

## Q1 2014 PERFORMANCE

## TREASURY UPDATE

## SUMMARY

# STRATEGY
## Best bank for customers

LLOYDS BANKING GROUP

**LLOYDS BANK**


**BANK OF SCOTLAND**


**SIMPLE, LOW RISK, UK FOCUSED RETAIL AND COMMERCIAL BANK**

**ICONIC AND DISTINCTIVE BRANDS**

**MULTI CHANNEL DISTRIBUTION**

**EFFICIENT SYSTEMS AND PROCESSES**

**HIGH QUALITY, COMMITTED COLLEAGUES**

**HALIFAX**


**SCOTTISH WIDOWS**


**HELPING BRITAIN PROSPER THROUGH OUR UNIQUE COMPETITIVE POSITION**

# STRATEGY
## Best bank for shareholders

LLOYDS BANKING GROUP

### 2011 STRATEGIC OBJECTIVES

| OBJECTIVES | |
|---|---|
| **RESHAPE** our business portfolio to fit our assets, capabilities and risk appetite | **STRENGTHEN** our balance sheet and liquidity position |
| **INVEST** to grow our core customer businesses | **SIMPLIFY** the Group to improve agility, service and efficiency |

### EFFICIENT, LOW RISK BUSINESS MODEL

**LEADING COST POSITION**

**LOWER RISK APPETITE**

**LOWER FINANCIAL LEVERAGE**

**UNIQUE COMPETITIVE POSITION**

**LOWER COST OF EQUITY**

**LOWER COST OF DEBT**

**CONFIDENT OF DELIVERING STRONG AND SUSTAINABLE ECONOMIC RETURNS**

# STRATEGY

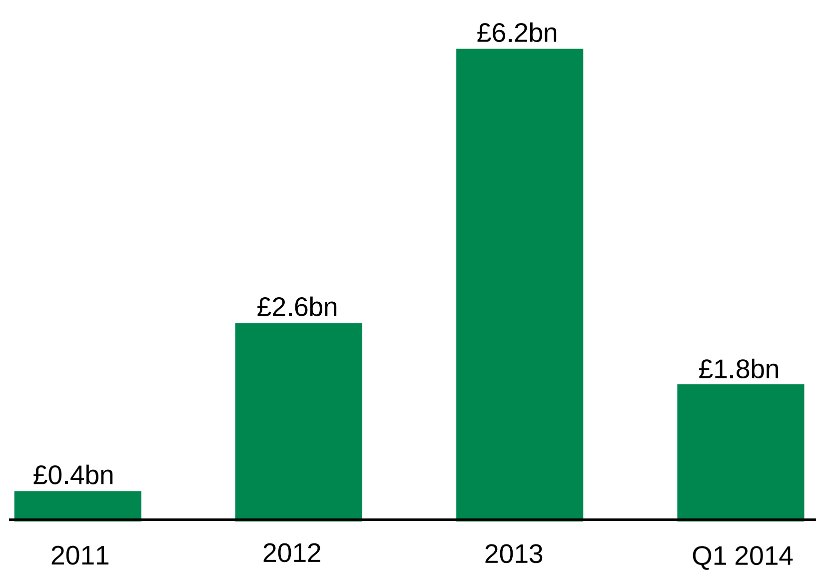
## Accelerated delivery of strategic objectives

| | |
|---|---|
| **ASSET REDUCTION** | ▪ Over £200bn of non-core asset reduction to end 2013<br>▪ Achieved EU commitment target 2 years ahead of plan |
| **INTERNATIONAL PRESENCE** | ▪ International presence significantly reduced<br>▪ Exited or announced exit from 21 countries, target of 10 or fewer in 2014 already achieved |
| **COST SAVINGS** | ▪ Strategic Review cost target of £10bn delivered 2 years ahead of plan<br>▪ 2014 FY costs of £9bn + TSB |
| **FUNDING** | ▪ Wholesale funding requirement reduced by more than £150bn since H1 2011<br>▪ Loan to deposit ratio now 111% from 135% at the end of 2011 |
| **CAPITAL RATIOS** | ▪ Significant increase to capital ratios, ahead of market expectations<br>▪ Pro forma fully loaded common equity tier 1 ratio 10.7% Q1 2014 |

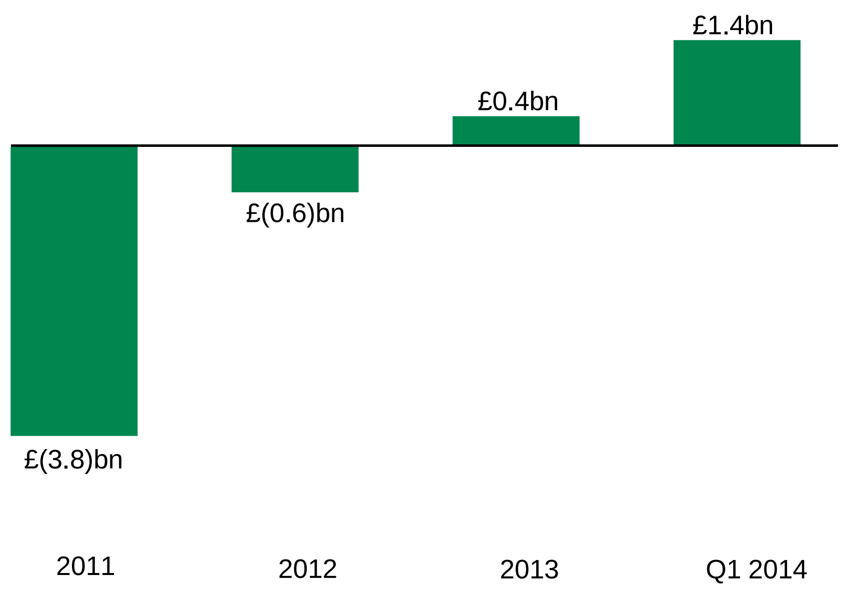
# STRATEGY

## A strong improvement to underlying and statutory profit

### UNDERLYING PROFIT[1]




### STATUTORY PROFIT BEFORE TAX[1]




[1] UK Reported.

# AGENDA

LLOYDS BANKING GROUP

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# HIGHLIGHTS FOR THE FIRST THREE MONTHS OF 2014

- **Continue to successfully execute on our strategy**
- **Underlying profit increased 22% to £1.8bn and statutory PBT of £1.4bn**
- **Lending and deposit growth in our key customer segments**
- **Customers at the heart of our business; launched Helping Britain Prosper plan**
- **Simplification driving further reduction in our market-leading cost:income ratio**
- **Capital position further strengthened and AT1 requirement now satisfied**
- **UK Government stake now reduced to 24.9%**
- **Supporting and benefiting from the UK economic recovery**

# FINANCIAL PERFORMANCE

## Profit and returns substantially improved and balance sheet strengthened

| | | |
|---|---|---|
| UNDERLYING PROFIT | £1.8bn 22% | ↑ |
| RETURN ON RWAs | 2.71% 75bp | ↑ |
| FL CET1 RATIO(1) | 10.7% 0.4pp | ↑ |
| FL LEVERAGE RATIO(2) | 4.5% 0.7pp | ↑ |

- **Group underlying profit increased to £1.8bn**
  - Net interest margin up 36bp to 2.32%
  - Simplification delivering further efficiencies; costs down 5%
  - Substantial 57% reduction in impairment charge
- **Statutory profit before tax of £1.4bn**
- **Strong loan growth in key customer segments**
- **Run-off portfolio reduced by £3.6bn to £29.7bn**
- **Deposits increased £5.3bn; loan to deposit ratio improved to 111%**
- **Fully loaded CET1 and leverage positions improved from underlying profit and management actions**

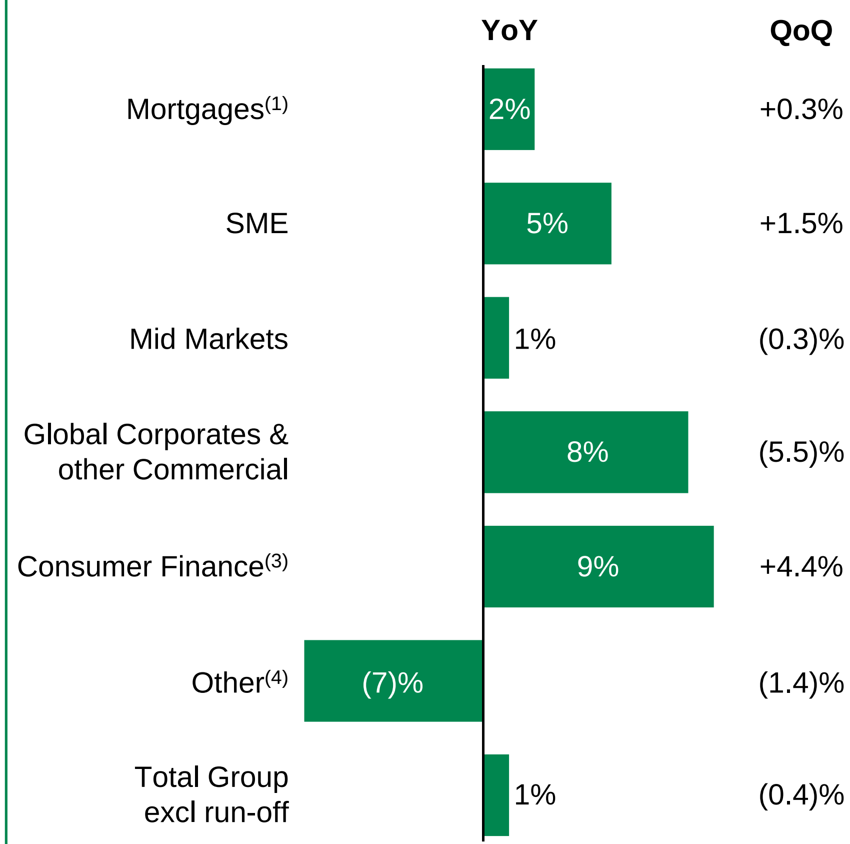
(1) Pro forma. (2) Pro forma Basel III leverage ratio estimated in accordance with Jan 2014 revised Basel III leverage ratio framework.

# SUPPORTING OUR CUSTOMERS AND THE UK ECONOMY

## Continued loan growth in key customer segments

- **Stronger UK economic growth**
  - Improving housing market
  - Unemployment falling
  - Strengthening consumer and business confidence
  - Disposable income growing
- **Mortgages[1] continue to grow, in line with stronger market**
  - Gross mortgage lending £9.8bn
  - Lent £2.6bn to more than 20,000 first-time buyers
- **Continued strong performance in SME lending**
  - SME lending up 5%
  - Supported c.29,000 start-ups in Q1
- **Mid Markets is gaining share in a contracting market[2]**
- **Global Corporates impacted by loan repayments in first quarter**
- **Substantial growth in UK Asset Finance**

### NET LENDING BALANCES (%)



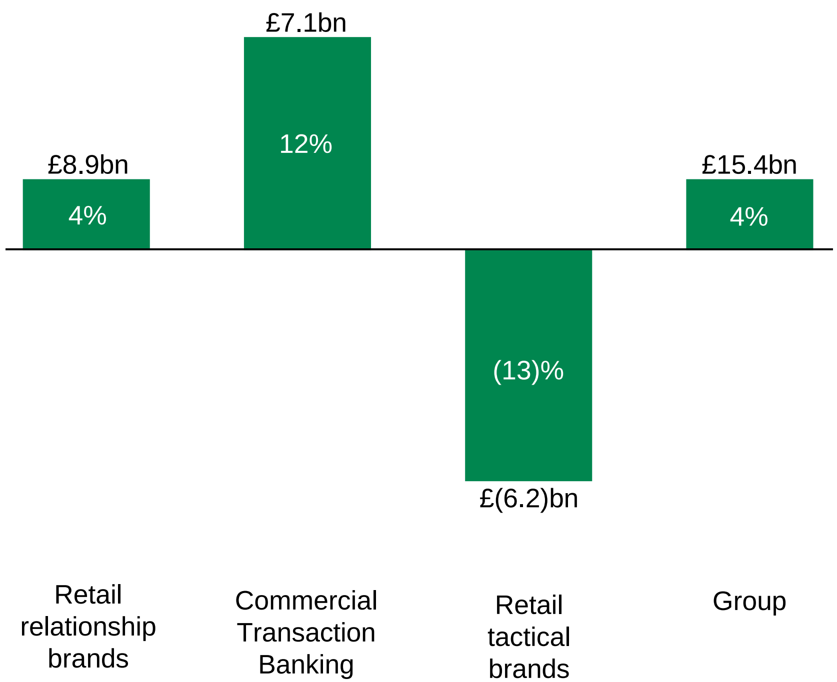

**LOAN GROWTH SUPPORTING UK ECONOMIC RECOVERY**

[1] Excludes specialist book and Intelligent Finance. [2] BoE Market Data – turnover >£25m. [3] UK Consumer Finance growth. [4] Other includes specialist book, Intelligent Finance, Dutch mortgages and other Retail lending.

# GOOD DEPOSIT GROWTH

## Relationship strategy continues to deliver

**DEPOSIT GROWTH (YoY)**

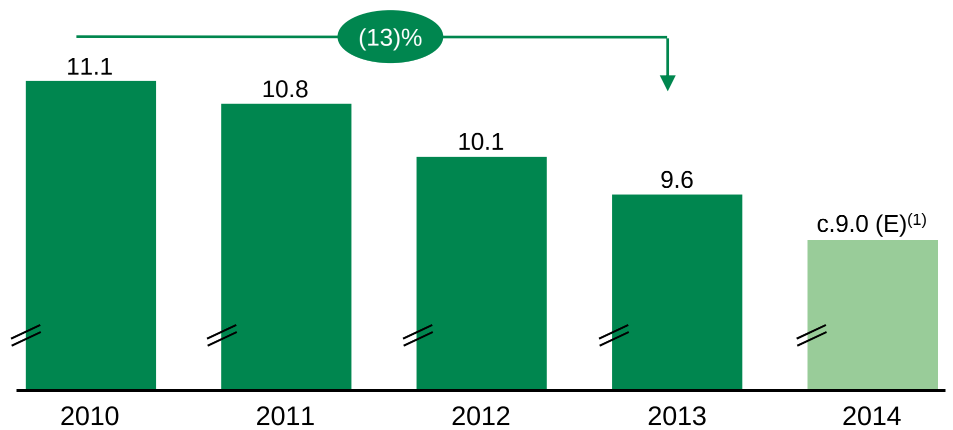



- **Deposit growth reflects strength of our customer franchise**
- **Retail relationship brands driving deposit growth in a low base rate environment**
- **Growth in high quality Transaction Banking deposits**
- **Tactical brands de-emphasised, down 13% in Retail**
- **Greater flexibility in deposit gathering benefiting Group cost of funds**

**DELIVERING THROUGH MULTI-BRAND STRATEGY**

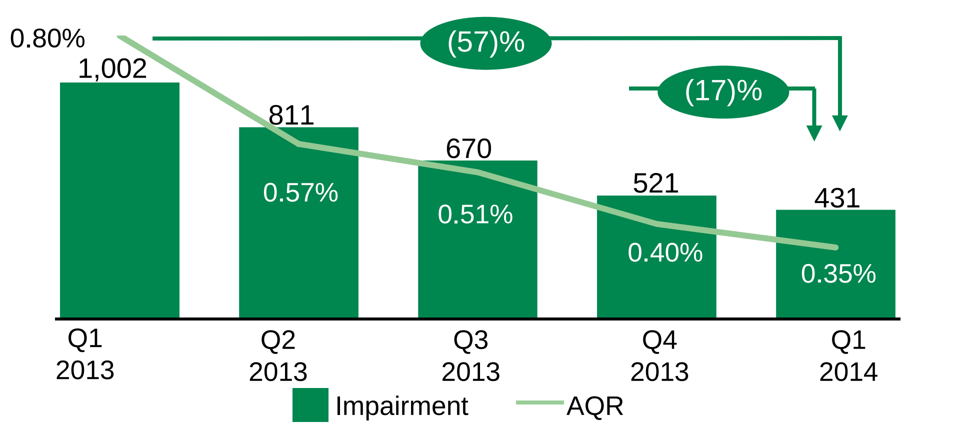
# FINANCIAL PERFORMANCE
## Maintaining the reducing cost trend

### TOTAL COSTS TREND (£bn)




- **5% cost reduction**
- **Simplification run-rate savings of £1.6bn; continue to target exit run-rate of £2bn by end 2014**
- **Continue to expect 2014 costs of around £9bn (excluding TSB costs)**

### IMPAIRMENT (£m)



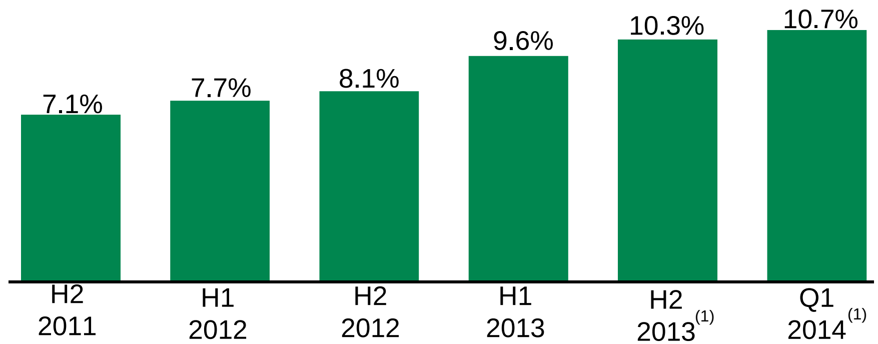

- **Impairment charge down 57% with reductions in all divisions**
- **Impairment driven by prudent credit risk appetite, provision releases and reductions in run-off portfolio**
- **Impaired loans as a percentage of total advances of 5.7% (Dec 2013: 6.3%)**
- **Coverage ratio of 51.1% (Dec 2013: 50.1%)**

Total costs 2010 – 2012 restated for impacts of IAS 19R. (1) Excluding TSB costs.

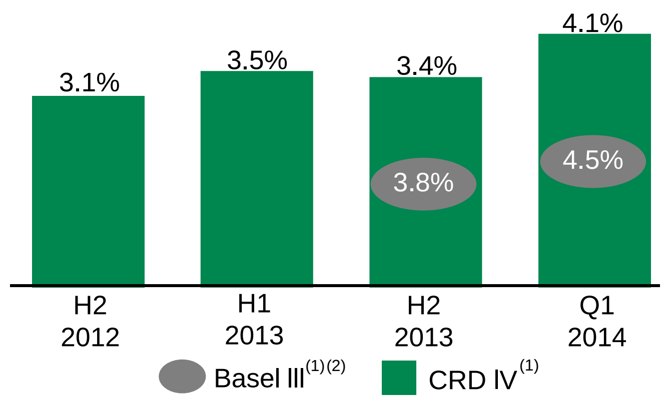
# FURTHER STRENGTHENING THE BALANCE SHEET

## Common equity tier 1 and leverage positions further strengthened

### FULLY LOADED COMMON EQUITY TIER 1 RATIO




### FULLY LOADED LEVERAGE RATIO




- **Stronger capital position principally driven by underlying profit**
  - £400m insurance dividend paid to Group in Q1
  - Pro forma ECN exchange effect partly offset by benefit of pension scheme change
- **Estimated pro forma fully loaded CET1 ratio improved to 10.7%**
- **Pro forma leverage ratio substantially improved through AT1 issuance**

**A STRONGLY CAPITAL GENERATIVE BUSINESS**

[1] Pro forma. [2] Estimated in accordance with January 2014 revised Basel III leverage ratio framework.

# AGENDA

OUR BUSINESS MODEL

Q1 2014 PERFORMANCE

TREASURY UPDATE

SUMMARY

# GROUP CORPORATE TREASURY (GCT)

## Supporting the delivery of a low risk business model

LLOYDS BANKING GROUP

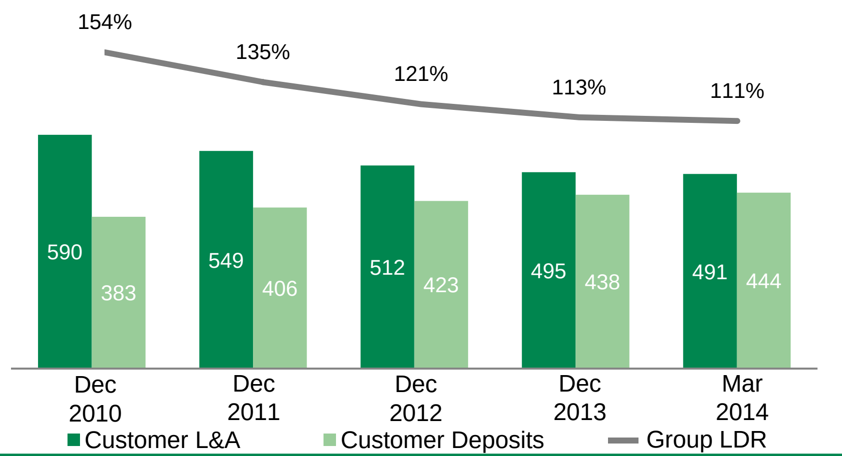
**Achieved by:**

- **Establishing a robust funding position and reducing the Group's funding costs**
- **Improving the quality of the capital base by satisfying the Group's AT1 requirements**
- **Driving a lower capital requirement and lower volatility capital ratio by de-risking the Group's defined benefit pension scheme**
- **Ensuring a low volatility NII earnings stream through the management of the structural hedge, and**
- **Improving the Group's credit ratings**

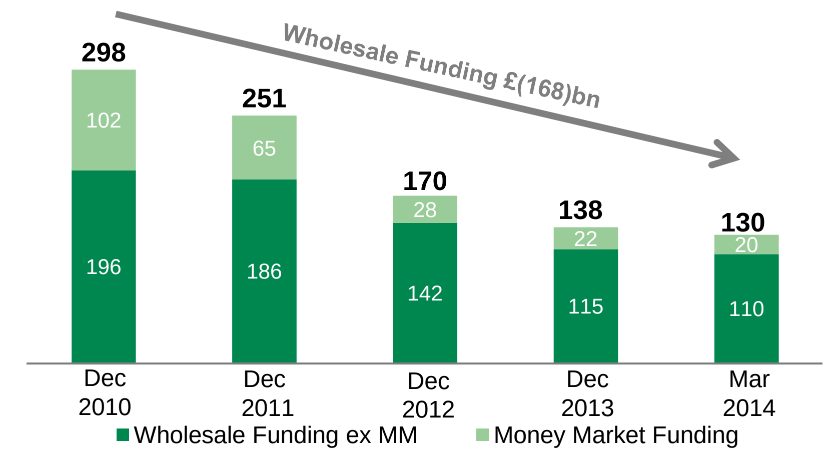
# ROBUST FUNDING POSITION

## The Group's funding transformation is now complete, which has resulted in significantly reduced funding costs

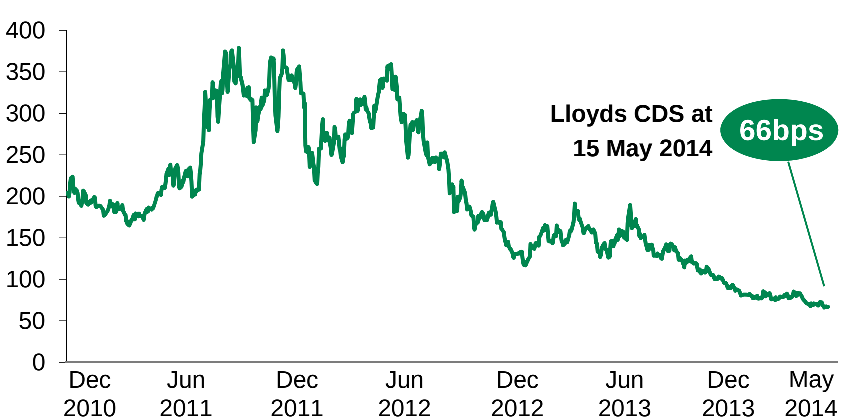
### CUSTOMER L&A, DEPOSITS AND LDR




### WHOLESALE FUNDING REDUCTION



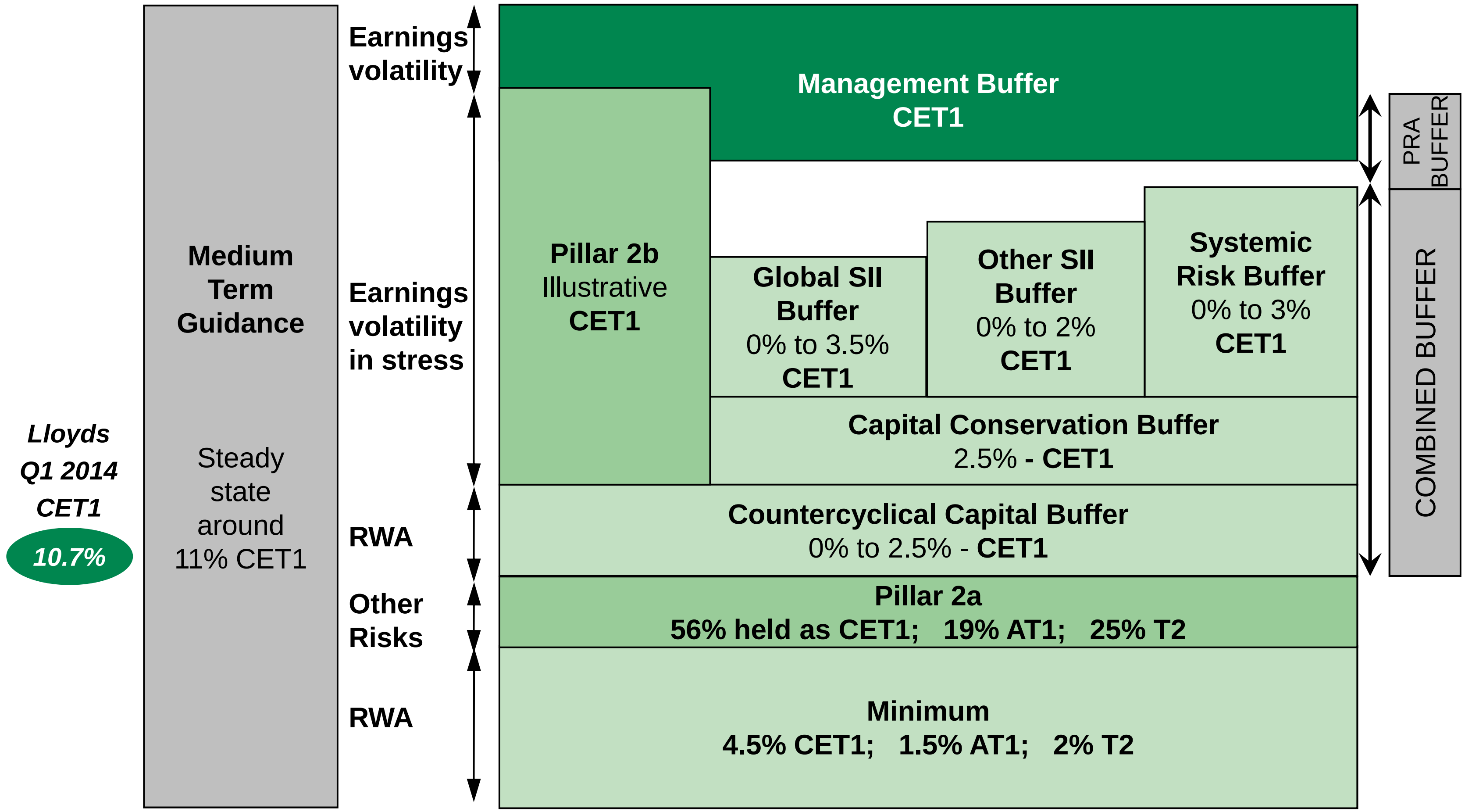

### LLOYDS CDS REDUCTION




- **The Group has significantly improved its LDR and future lending growth will be funded through deposits**
- **This has resulted in a materially lower wholesale funding requirement for the Group**
- **This strengthened and de-risked funding position has been validated by both the CDS market and demonstrated in recent issuance**
  - Oct 2013 Euro 5-yr unsecured priced at m/s + 63bps vs. previous Euro issue in Jan 2012 at m/s + 305bps

# IMPROVED CAPITAL BASE

## The Group is well placed as the regulatory framework is finalised...



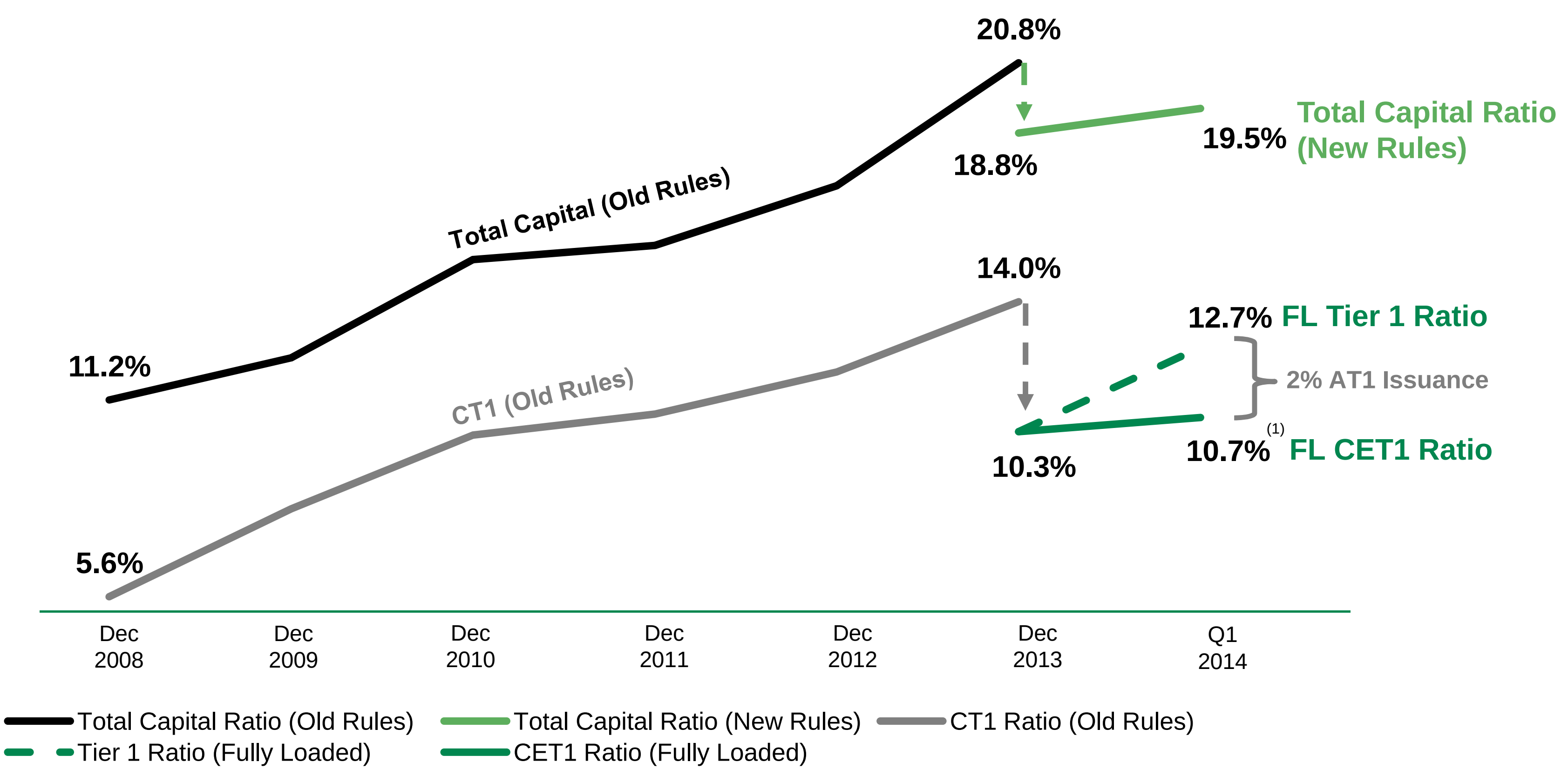

**WE EXPECT FURTHER CLARITY ON THE FRAMEWORK DURING THE COURSE OF 2014**

# IMPROVED CAPITAL BASE

## ...and has significantly improved the quality of its capital base over the past five years

### We have satisfied our steady-state AT1 requirement

IMPROVING CAPITAL RATIO




(1) 31 March 2014 pro forma ratios include the impact of AT1 issuance, pension curtailment and an additional dividend from Insurance, following the completed sale of Heidelberger Leben in March 2014. 31 December 2013 pro forma ratios included the benefit of the sales of Heidelberger Leben, Scottish Widows Investment Partnership and our 50% stake in Sainsbury's Bank.

# LOWER CAPITAL REQUIREMENT

## De-risking the Group's defined benefit pension scheme helps reduce capital requirements

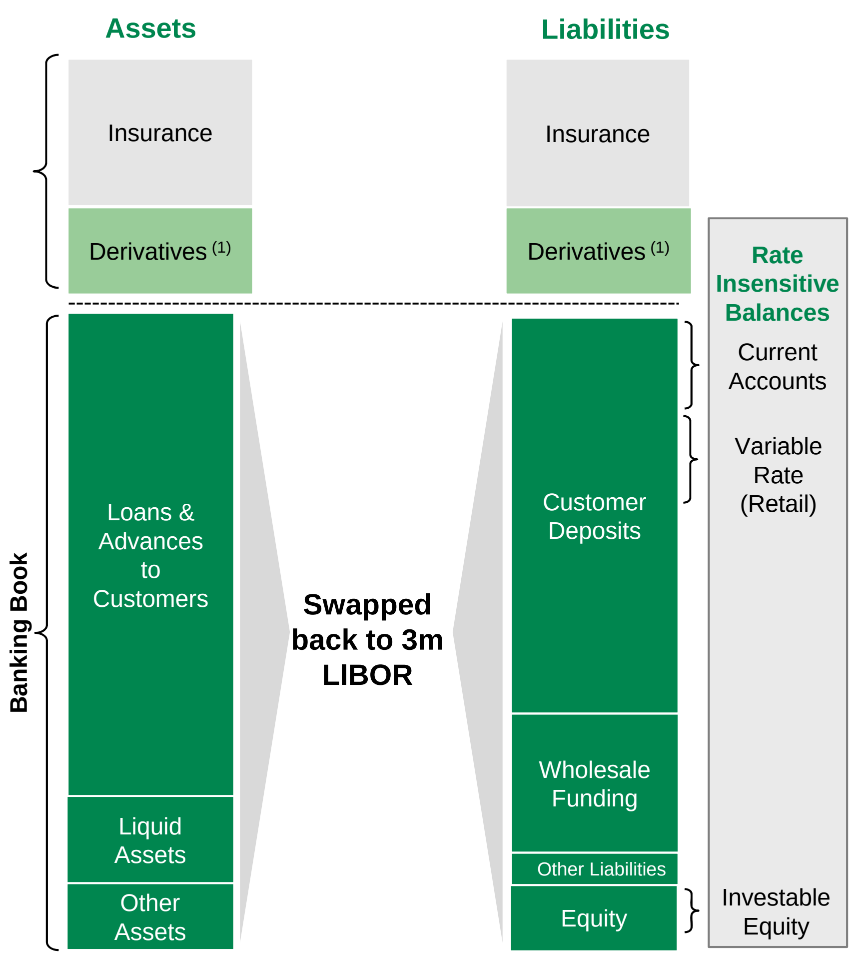
| | Dec 2012 | | Dec 2013 |
|---|---|---|---|
| % of assets held in Equities | 32% | ↓ | 18% |
| % of rates exposure hedged | 45% | ↑ | 54% |
| % of inflation exposure hedged | 54% | ↑ | 71% |

- **Scheme assets of c.£33bn, with around 250,000 members**
- **Working with the pension trustees, we have reduced the capital requirements generated by the Group's defined benefit staff pension scheme through:**
  - – Reducing the proportion of equities in the asset portfolio
  - – Increased hedging of rates and inflation exposures

# LOW VOLATILITY EARNINGS

## Using a structural hedge stabilises the Group's NII

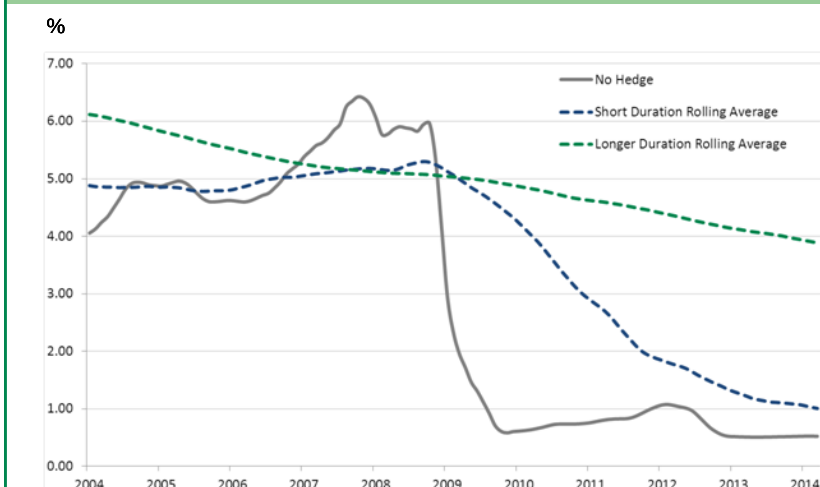
### GROUP BALANCE SHEET




### ROLLING STRUCTURAL HEDGE PROGRAMME

- **In the absence of a structural hedge programme, the Group NII would rise and fall with the prevailing level of three month LIBOR**
- **The structural hedge mitigates much of this volatility ensuring greater stability of through the cycle earnings**

### INDICATIVE INTEREST RATE PROFILES




[(1)] Derivatives and Other Assets/Liabilities at Fair Value.

# VALIDATION BY THE RATING AGENCIES

## The rating agencies are recognising the work being done by the Group to de-risk the bank

- **The Group is the first major UK focused bank to be upgraded by a major ratings agency since the start of the financial crisis**
- **Moody's upgraded Lloyds' Senior & Standalone ratings in May 2014 (to A1/baa1 from A2/baa2)**
- **Fitch upgraded Lloyds' Viability Rating in Sep 2013 (to bbb+ from bbb) and again in Mar 2014 (to a- from bbb+)**
- **S&P upgraded Lloyds' Stand Alone Credit Profile in Dec 2013 (to bbb+ from bbb)**
- **Lloyds' standalone rating improvements will help mitigate the expected diminishing sovereign support in ratings**

**RATING CHANGES SINCE 1 Jan 2013**

| | Standalone | Senior |
|---|---|---|
| LLOYDS BANKING GROUP | +4 | +1 |
| RBS The Royal Bank of Scotland | -2 | -3 |
| BARCLAYS | -2 | -2 |
| HSBC | -1 | -1 |
| Santander UK | | |

Source: S&P, Moody's, Fitch and DBRS data as at 14/05/2014
Rating changes for: Lloyds Bank PLC, The Royal Bank of Scotland PLC, Barclays Bank PLC, HSBC Holdings PLC and Santander UK PLC

**THE DE-RISKING OF THE BALANCE SHEET HAS POSITIONED THE GROUP TO APPLY TO THE PRA IN H2 2014 FOR PERMISSION TO RECOMMENCE DIVIDENDS**

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# LOOKING AHEAD
## Guidance for 2014

- **Loan growth in all key customer segments**
- **Full year 2014 net interest margin now expected to increase to around 2.40%**[1]
- **Other income will remain challenging**
- **Further benefits from Simplification; guidance for full year costs of £9bn excluding TSB unchanged**
- **Continued risk reduction; full year AQR now expected to reduce to around 45bp**
- **Run-off portfolio to reduce to around £23bn by end of year**
- **Expect to launch TSB IPO in summer, subject to regulatory approval and market conditions**

**WELL POSITIONED FOR FURTHER PROGRESS IN 2014**

[1] Excluding the effect of TSB disposal.

# SUMMARY

## Successful execution of our simple, clear strategy

- **Supporting our customers and helping Britain prosper**
- **UK economic recovery gathering momentum**
- **Financial performance further improved, with stronger underlying profitability**
- **Guidance for margin and impairments improved**
- **Continue to strengthen capital, medium-term AT1 requirement met**

**CONFIDENT IN DELIVERY OF STRONG AND SUSTAINABLE ECONOMIC RETURNS**

# FORWARD LOOKING STATEMENTS AND BASIS OF PRESENTATION

## FORWARD LOOKING STATEMENTS

This announcement contains forward looking statements with respect to the business, strategy and plans of the 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 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; the ability 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 as a possible result of the referendum on Scottish independence and also including changes to regulatory capital or liquidity requirements; the policies and actions of governmental or regulatory authorities in the UK and other jurisdictions in which the Group operates; the implementation of the Bank Recovery and Resolution Directive and Banking Reform Act; 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 and competition 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 announcement are made as at the date of this announcement, 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. Please refer to the Basis of Presentation in the Q1 2014 Interim Management Statement which sets out the principles adopted in the preparation of the underlying basis of reporting.