

LLOYDS
BANKING
GROUP



BANK OF AMERICA MERRILL LYNCH CEO CONFERENCE

António Horta-Osório

29 September 2015



A differentiated business model

Our successful transformation

The post-crisis UK environment

Current strategy and targets

DELIVERING FOR OUR CUSTOMERS AND SHAREHOLDERS

Clear strategic focus and differentiated business model providing competitive advantage



Our business model

**Simple, low risk, customer focused,
UK retail and commercial bank**

Our strategic priorities

**Creating the
best
customer
experience**

**Becoming
simpler and
more
efficient**

**Delivering
sustainable
growth**

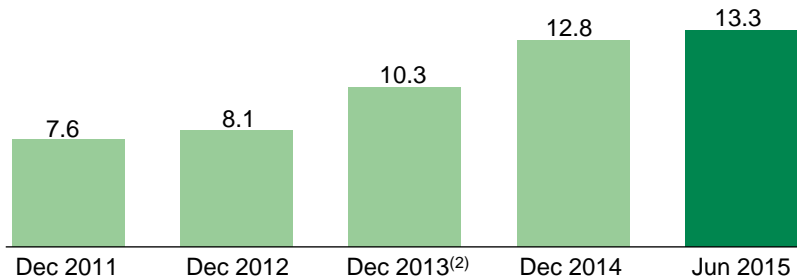
- **Clear strategy: UK retail and commercial focus**
- **Multi brand, multi channel distribution**
- **Market leading cost position**
- **Low risk, leading to lower cost of funds and equity**
- **Strong balance sheet and funding position**
- **Well positioned to meet regulatory requirements**

DELIVERY OF STRATEGY HAS TRANSFORMED THE BUSINESS

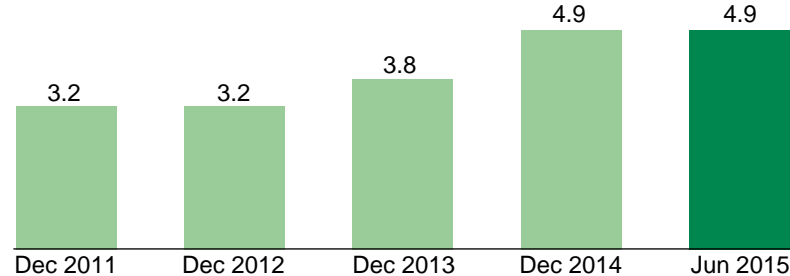
We have significantly strengthened our capital and leverage ratios together with improving our loan deposit ratio



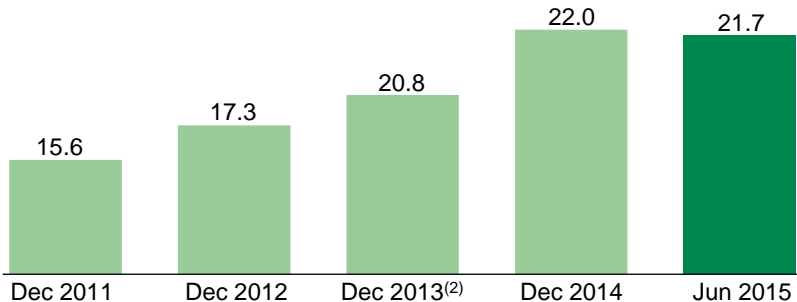
Fully loaded common equity tier 1 (%)



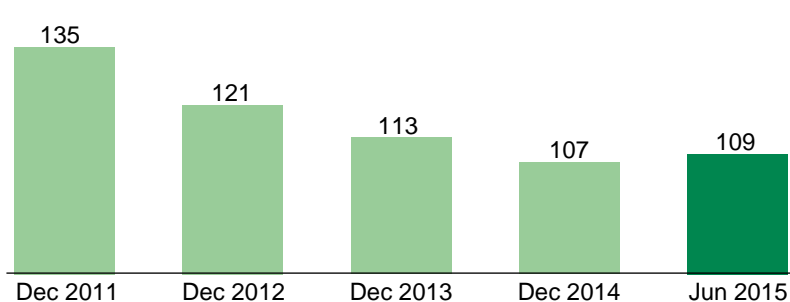
Leverage ratio (%)



Total capital (%)



Loan to deposit ratio⁽¹⁾ (%)



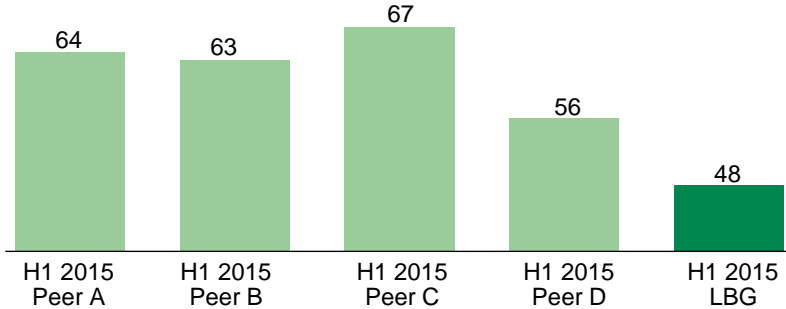
⁽¹⁾ Excluding repos and reverse repos. ⁽²⁾ Pro forma fully loaded common equity tier 1 capital ratio and leverage ratios.

DELIVERY OF STRATEGY HAS TRANSFORMED THE BUSINESS

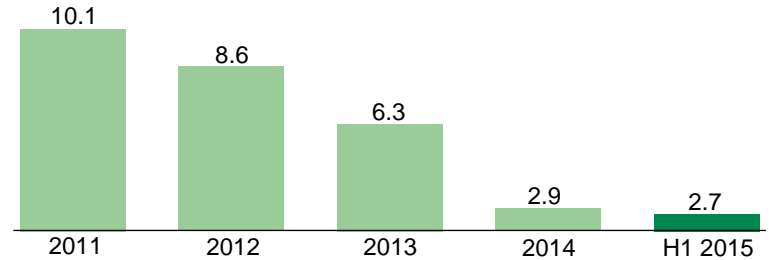
Significantly improved financial performance with market leading cost position and low risk business



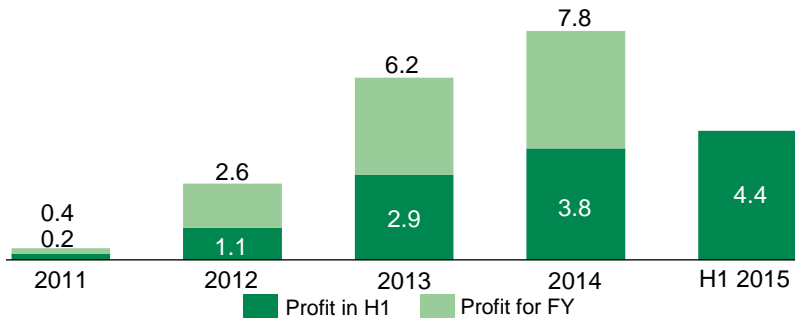
Market leading cost:income ratio (%)



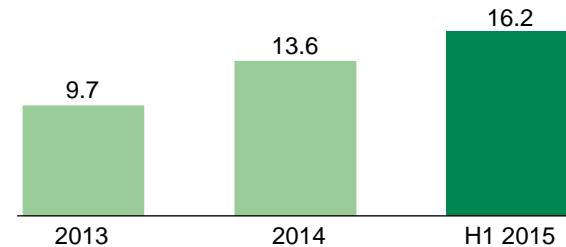
Impaired loan ratio (%)



Underlying profit (£bn)



Underlying return on equity (%)



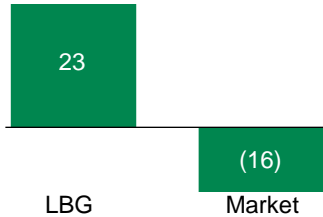
DELIVERING FOR OUR CUSTOMERS

We are focused on becoming the best bank for customers



Lending to SMEs & first time buyers (%)

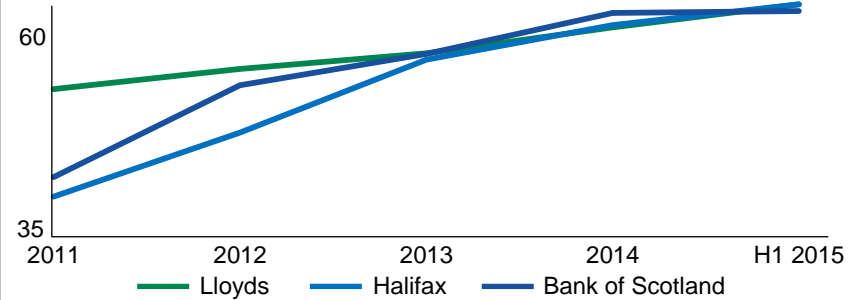
Net lending growth to SMEs since 2010



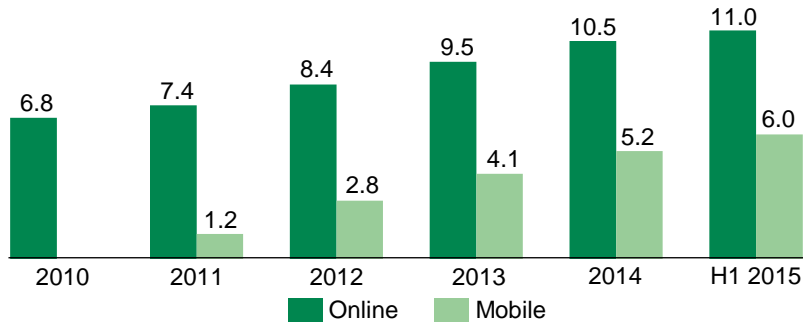
FTB customer growth 2010-2014



Increasing net promoter score (NPS)



Active digital users⁽¹⁾ (m)

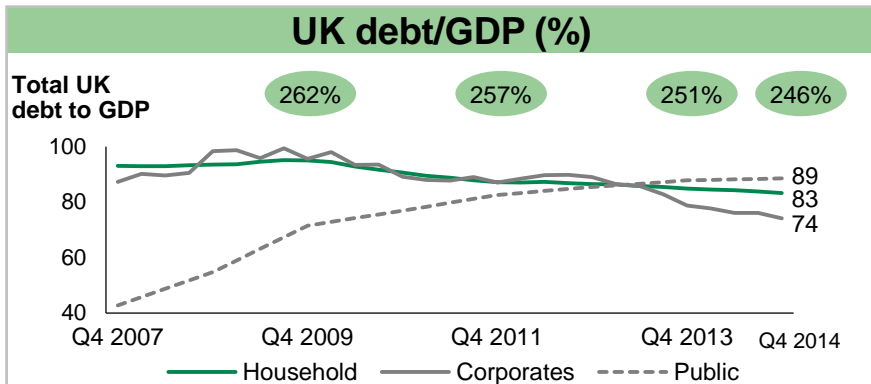
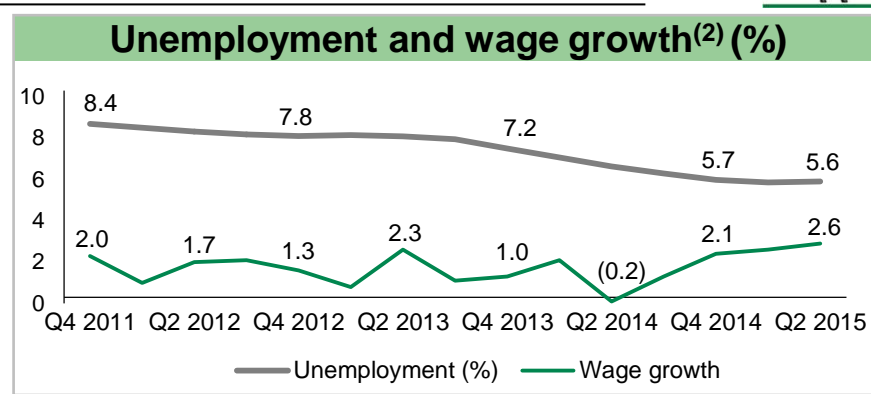
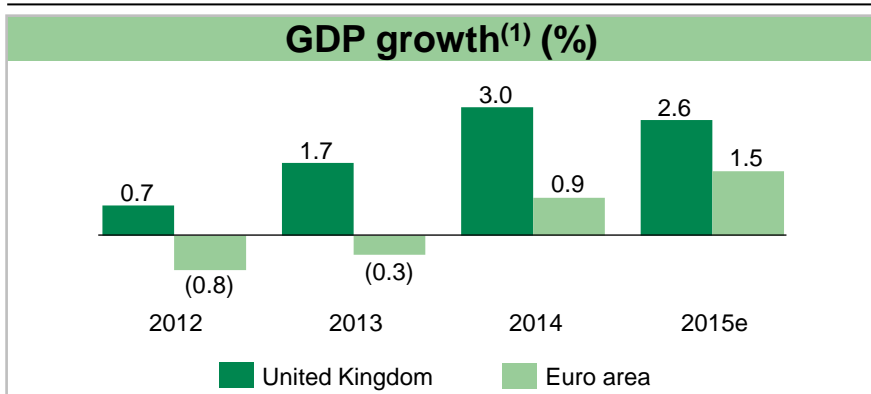


- Supporting the UK economy through increased lending to SMEs, significantly ahead of market growth
- The largest lender to first time buyers
- Digital investments prioritised within our multi-channel strategy - over 11m active online users and 6m mobile customers
- Increased customer advocacy during a period of simplification and cost management

⁽¹⁾ 2013 and 2014 actuals excluding TSB, 2010 – 2012 shown net of estimated TSB component.

UK ECONOMIC PERFORMANCE

Supporting and benefiting from sustainable UK economic recovery



- UK GDP has recovered strongly and is expected to continue to outperform the Euro area
- Unemployment has fallen significantly, down to 5.5% in July and wage growth has risen close to 3%
- Business confidence has increased over last 3 years
- Bank base rate rises expected to be slow and gradual
- UK household and corporate debt as a percentage of GDP has fallen from its 2009 peak

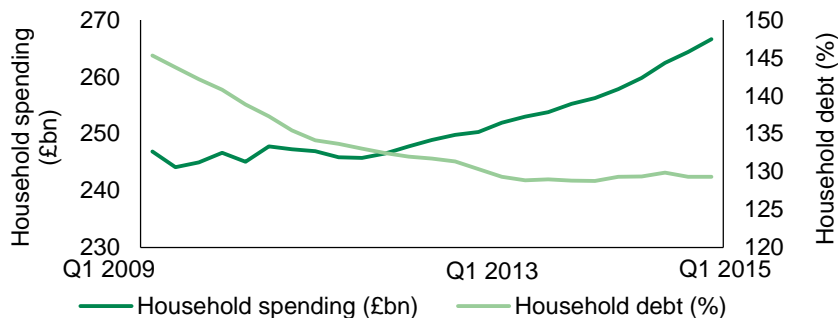
⁽¹⁾ GDP growth historical data from ONS and Eurostat. 2015 estimate for UK growth LBG and Eurozone forecast from IMF (July 2015). ⁽²⁾ Average weekly earnings (total pay) change on previous year, 3 month average – source: ONS.

UK ECONOMIC PERFORMANCE

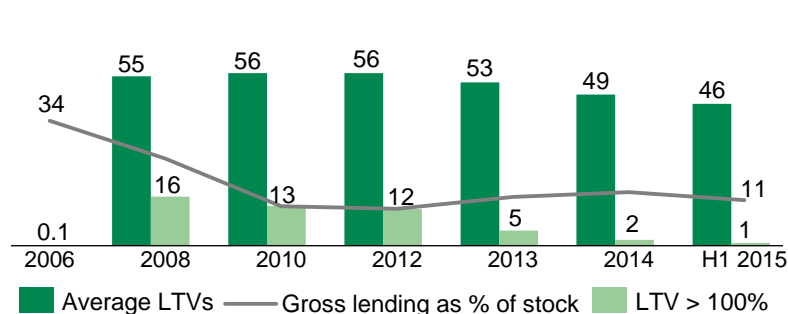
Supporting and benefiting from sustainable UK economic recovery



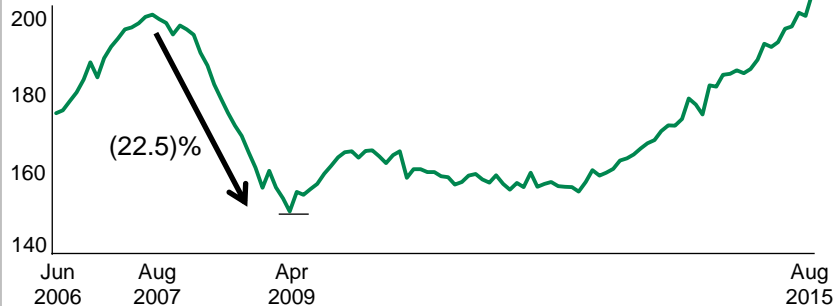
Household spending⁽¹⁾ (£bn) and debt⁽²⁾ (%)



LBG mortgage portfolio trends⁽⁴⁾ (%)



Average house price⁽³⁾ (£,000)



- **Sustainable and resilient recovery with consumers spending more but household indebtedness falling**
- **House prices have recovered and now exceed pre-crisis levels, resulting in reduced risk in the mortgage book, but remain lower in real terms**
- **Increased house prices and lower book turnover help maintain portfolio quality. Average LTV reduced to 45.9% from 56.4% in December 2012**

NEW BANKING ENVIRONMENT

Opportunities and risks from a complex regulatory and competitive environment



COMPETITION

REGULATION



Traditional competitors

- Increasing focus on UK retail and commercial market

New banks

- Increasing customer choice and competition

Technology entrants

- Creating new products and services, with potential for disintermediation

Greater choice and protection for customers, increased competition

Prudential

- Ring Fencing
- IFRS 9
- Basel III / Basel IV
- Stress tests

Conduct and Customer

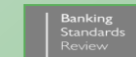
- PPI complaints handling
- SME Lending reviews
- Credit cards review

Competition

- CMA review of UK SME and PCA markets



BANK OF ENGLAND
PRUDENTIAL REGULATION
AUTHORITY



STRATEGIC FOCUS

Strengthening our unique capabilities to respond to the changing external environment



Our business model

**Simple,
low risk,
customer
focused,
UK retail and
commercial
bank**

Our strategic priorities

**Creating the
best customer
experience**

**Becoming
simpler and
more efficient**

**Delivering
sustainable
growth**

Our aim

**Best bank for
customers**

**Strong and
sustainable
shareholder
returns**

CREATING THE BEST CUSTOMER EXPERIENCE

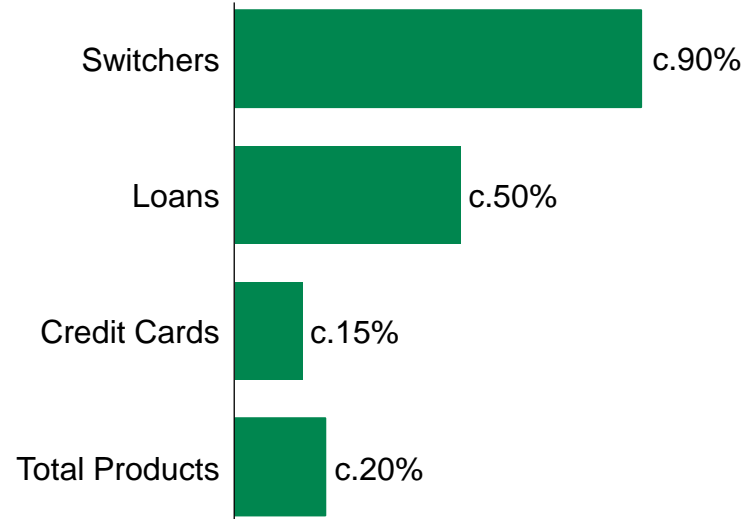
Multi channel focus: Accelerating digital whilst maintaining a significant branch network allows us to better meet customer needs and create value for the bank



Our strategy is multi brand and multi channel

- Branches focused on acquiring new relationships in high value areas eg current accounts & mortgages
- Branch footprint to be optimised
- Branches will focus on complex products and helping customers engage with digital
- >£750m invested in digital since 2011
- Delivery of agile, resilient and scalable digital platforms in Retail and in Commercial Banking
- Digital proposition development to be best bank for customers – Apple Pay now launched
- Further c.£1bn to be invested 2015-2017

2015 YTD Digital growth vs. prior year



BECOMING SIMPLER AND MORE EFFICIENT

Building on our cost leadership position we intend to further simplify the business while improving customer experience



Investment and operational efficiencies

- Investment in further simplification initiatives of £1.6bn over the plan period, £1.2bn above the line
- On track to deliver £1bn Simplification run-rate savings by end 2017, with £225m achieved as at June 2015
- Continued focus on costs will enable us to extend our competitive advantage
- Expect to deliver a cost:income ratio of around 45% exiting 2017, with reductions every year

Next phase 2015-2017

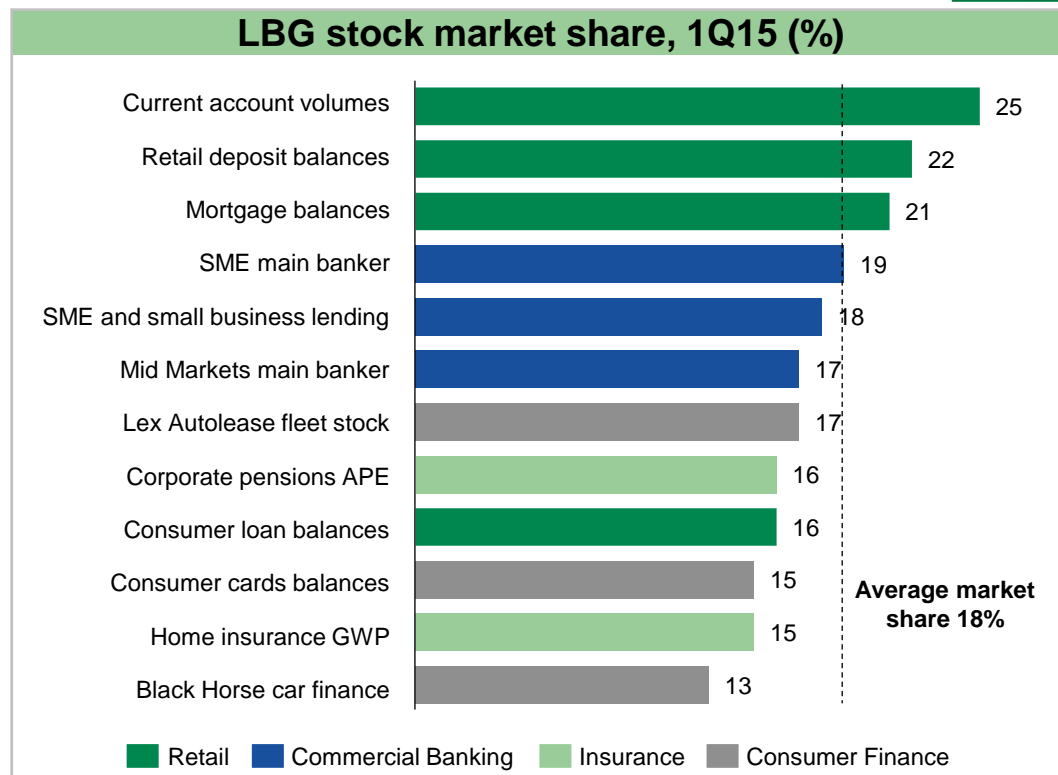
		Indicative run rate savings
Process redesign and automation	• Digital transformation of end to end journeys	£0.4bn
	• Further process simplification and automation	
Sourcing	• Increased use of innovative solutions, e.g. e-Auctions	£0.3bn
	• Optimisation of supply chains	
Organisation	• Efficiencies in head office, distribution and support functions	£0.3bn
	• More agile ways of working	
	• c.9,000 role reductions	
		£1bn

DELIVERING SUSTAINABLE GROWTH

Supporting the UK economy through loan growth in key customer segments



- **SME lending up 5% and Mid Market lending maintained; continue to outperform the market**
 - Supported 1 in 5 business start-ups in 2015
- **UK Consumer Finance growth of 17%**
 - 34% increase in motor finance
 - 5% increase in credit card balances
- **Mortgage market growth lower than expected**
 - £16bn gross lending in first six months, slightly below market growth, reflecting focus on margin
 - Remain the largest lender to first-time buyers



FINANCIAL TARGETS

Guidance reflects confidence in the future



Improved 2015 Guidance for NIM and AQR

- 2015 full year net interest margin guidance improved to around 2.60%
- Expect other income to be broadly stable in 2015
- 2015 full year asset quality ratio now expected to be around 15 basis points
- Targeting cost : Income ratio to exit 2017 at around 45%, with reductions in each year
- Expect to generate between 1.5 and 2% of common equity tier 1 per annum (pre dividend)
- Expected return on required equity of 13.5-15% by end of strategic plan period (2017)

Enhanced Dividend Policy

- Interim dividend of 0.75p per share
- Progressive and sustainable dividend policy
- Consideration of distribution of surplus capital through special dividends or share buy-backs
- Surplus capital represents amounts in excess of c.12% CET1 plus a further year's ordinary dividend

SUMMARY

Becoming the best bank for our customers and shareholders while supporting the UK economic recovery



- **The Group has a clear strategic focus and a differentiated business model**
- **Successful delivery of strategy has transformed the business, enabling dividend resumption**
- **Our strategic plan is expected to deliver sustainable growth and improved returns**
- **Well positioned for further progress**

Best bank for customers

- **Delivering the best customer experience**

Best bank for shareholders

- **Delivering strong and sustainable returns**

Helping Britain Prosper

- **Supporting and benefiting from UK economic recovery**



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 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 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; 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 potential for one or more countries to exit the Eurozone or European Union (EU) (including the UK as a result of a referendum on its EU membership) and the impact of any sovereign credit rating downgrade or other sovereign financial issues; technological changes and risks to cyber security; pandemic, natural 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 further Scottish devolution; 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 in the UK, the EU, the US or elsewhere including the implementation of key legislation and regulation; 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; 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 provision of banking operations services to TSB Banking Group plc; 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 and lending companies; 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.

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 2015 Half-Year Results News Release.