

LLOYDS  
BANKING  
GROUP



# KEEFE, BRUYETTE & WOODS 2015 UK FINANCIALS DAY

George Culmer, Chief Financial Officer

14 September 2015



**Our differentiated business model**

**Recent financial performance**

**Strategy and targets**

# BUSINESS MODEL

Best bank for customers



## Lloyds Bank



Simple, low risk, UK focused retail and commercial bank

Market leading distribution and cost position

## Halifax



Creating sustainable value for shareholders and customers

## Bank of Scotland



## Scottish Widows



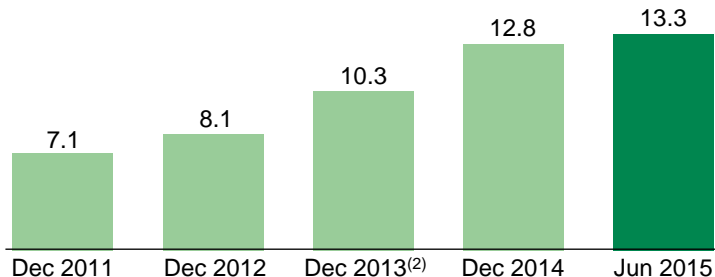
Helping Britain prosper through our unique competitive position

# DELIVERY OF STRATEGY HAS TRANSFORMED THE BUSINESS

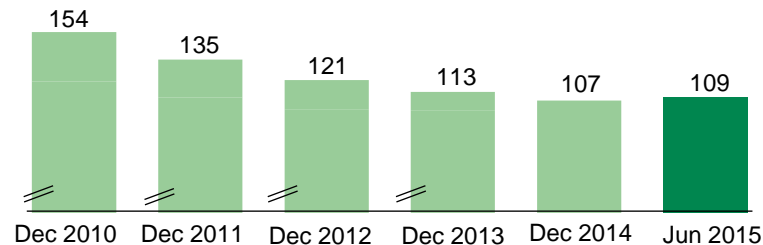
We have significantly strengthened our capital and leverage ratios together with improving our loan to deposit ratio



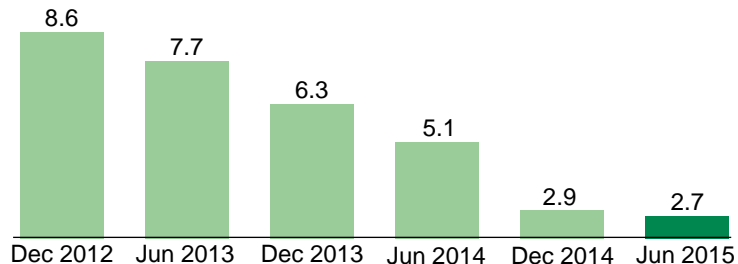
## Fully loaded common equity tier 1 (%)



## Loan to deposit ratio<sup>(1)</sup> (%)



## Impaired loan ratio (%)



- **Strong balance sheet with CET1 ratio 13.3%, Total Capital ratio of 21.7% and leverage ratio of 4.9%**
- **Asset quality continues to improve with commensurate reduction in funding costs**
- **Market leading CDS spread of c.60bps**
- **Credit Ratings upgraded or reaffirmed in H1 2015, now positively differentiated versus UK peers**

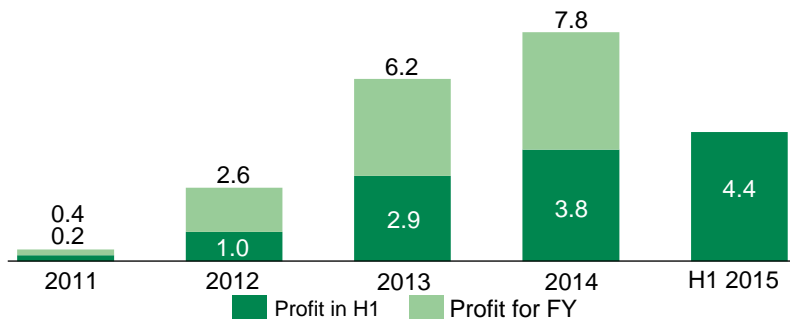
<sup>(1)</sup> Excluding repos and reverse repos. <sup>(2)</sup> Pro forma fully loaded common equity tier 1 capital ratio and leverage ratios.

# DELIVERY OF STRATEGY HAS TRANSFORMED THE BUSINESS

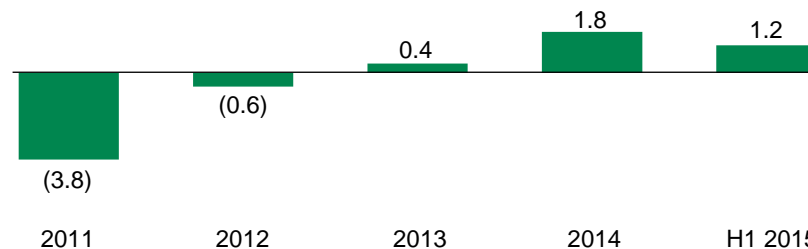
Significantly improved financial performance with market leading cost position



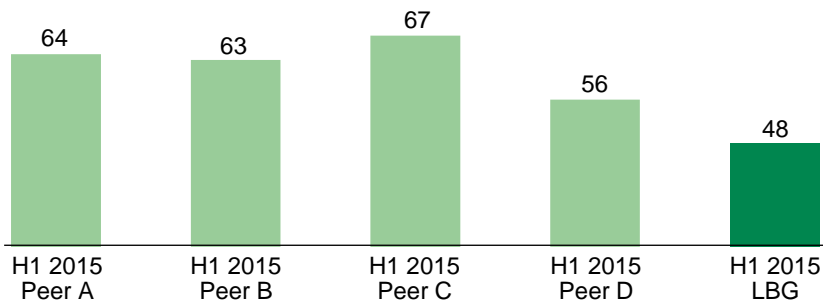
## Underlying profit (£bn)



## Statutory profit before tax (£bn)



## Market leading cost:income ratio (%)



- Substantial improvement in underlying profit driven by cost reductions and lower impairments
- Continued improvement in statutory profit with further increases expected as below the line items reduce
- Market leading cost:income ratio of 48.3%
- Significantly improved Asset Quality Ratio

# FINANCIAL PERFORMANCE FOR THE FIRST HALF OF 2015

Profit and returns substantially improved and balance sheet further strengthened



<b>Income</b>	<b>£9.0bn</b> <b>+2%</b> ↑
<b>Underlying profit</b>	<b>£4.4bn</b> <b>+15%</b> ↑
<b>Underlying return on required equity</b>	<b>16.2%</b> <b>+2.2pp</b> ↑
<b>Statutory profit before tax</b>	<b>£1.2bn</b> <b>+38%</b> ↑
<b>CET1 ratio</b>	<b>13.3%</b> <b>+0.5pp</b> ↑

- **Underlying profit increased 15% to £4.4bn**
  - Income up 2% driven by 6% increase in net interest income
  - 75% reduction in impairment charge, AQR of 9bps
  - Cost:income ratio strengthened to 48.3%
- **Underlying return on required equity of 16.2% with improvement primarily driven by underlying profit**
- **Return on risk weighted assets improved to 3.78% including strong improvements in Retail and Commercial Banking**
- **Statutory profit before tax of £1.2bn, despite loss on sale of TSB and conduct charges including £1.4bn relating to PPI**
- **Statutory return on required equity of 3.7%, up from 3.1%**
- **CET1 ratio improved to 13.3% (post-dividend) from 12.8% at year end, driven by underlying profit and a reduction in RWAs**

# 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

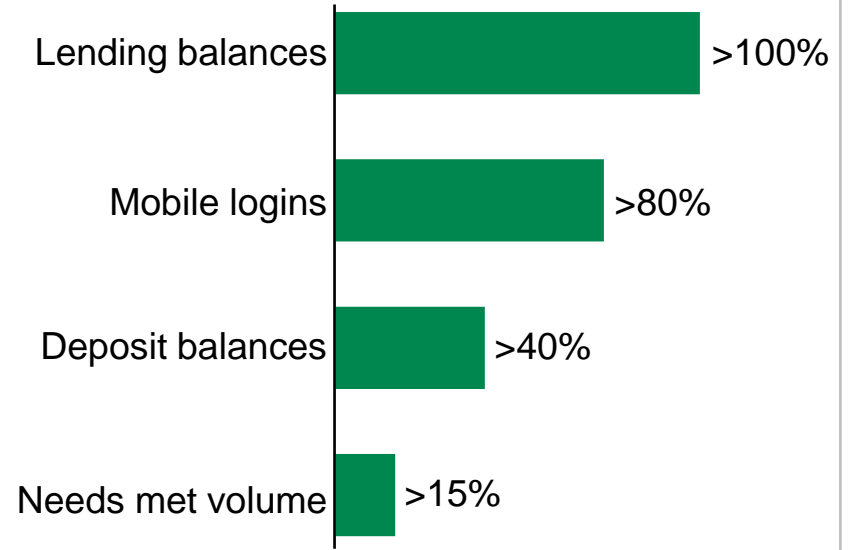
Accelerating digital whilst maintaining a significant branch network allows us to better meet customer needs and create value for the bank



## Our strategy is multi brand and multi channel

- **Customers value the convenience and reach of our multi brand branch network**
- **Branch footprint to be optimised:**
  - 150 net branch consolidations
  - Branch openings will focus on London and South East as well as Halifax in Scotland
- **Branches will focus on complex products and helping customers with digital education**
- **>£750m invested in digital since 2011**
- **Delivery of agile, resilient and scalable digital platforms in Retail and in Commercial Banking**
- **c.11m active digital users and c.6m active mobile users**
- **Further c.£1bn to be invested by the end of 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

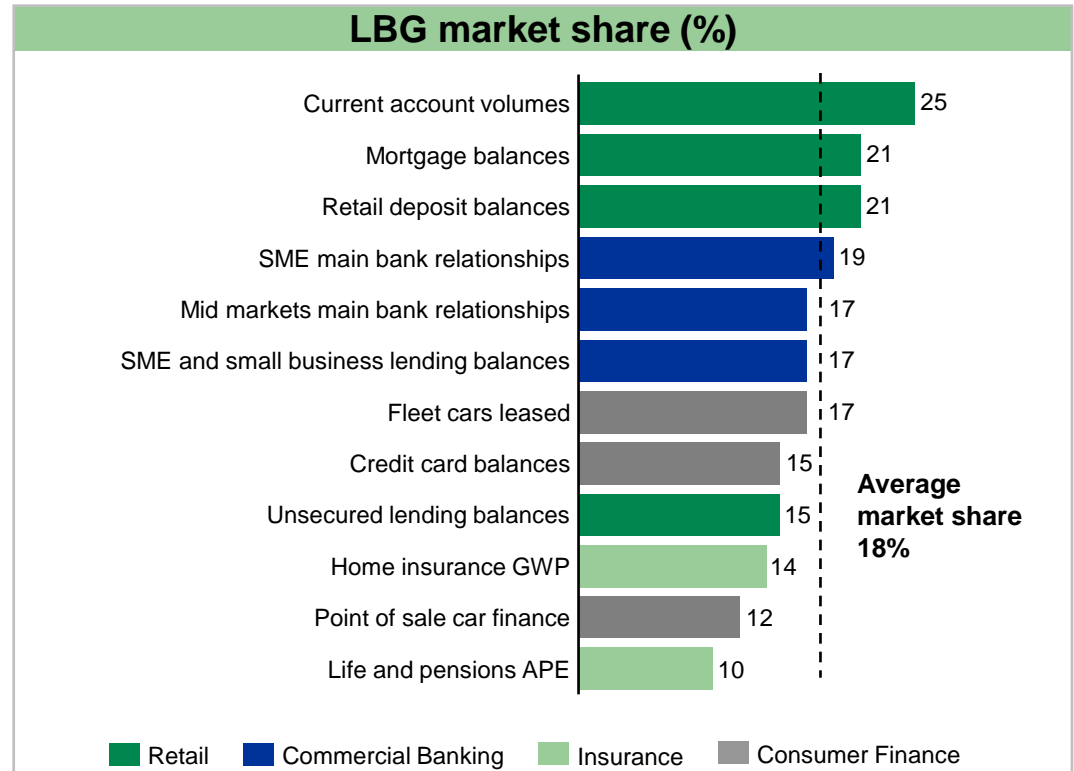
		Indicative run rate savings
<b>Process redesign and automation</b>	• Digital transformation of end to end journeys	
	• Further process simplification and automation	
<b>Sourcing</b>	• Increased use of innovative solutions, e.g. e-Auctions	
	• Optimisation of supply chains	
<b>Organisation</b>	• Efficiencies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

# 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 revised market growth, reflecting focus on margin
  - Remain the largest lender to first-time buyers



# FINANCIAL TARGETS

Guidance reflects confidence in the future

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- **2015 full year net interest margin improved to around 2.60%**
- **Expect other income to be broadly stable in 2015**
- **2015 full year asset quality ratio improved to around 15 basis points**
- **Targeting cost:income ratio to exit 2017 at around 45%, with reductions in each year**
- **Progressive and sustainable dividend policy. Consideration of distribution of surplus capital through special dividends or share buy-backs**
- **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 the end of the strategic plan period (2017)**

# 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 in 2015**

## **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**

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# QUESTIONS & ANSWERS



## 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.