

LLOYDS
BANKING
GROUP



dbAccess UK Retail Banks Conference

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2015 GROUP HIGHLIGHTS

Good strategic and financial progress as our differentiated UK focused model continues to deliver



- **Robust financial performance with increased underlying profits and returns**
 - Increased underlying profit with higher income, improved cost:income ratio and lower impairments
 - Statutory profit before tax of £1.6bn after £4.0bn for PPI and £0.7bn charge relating to the sale of TSB
 - Capital generation in year of 300bps, pre-dividends and PPI costs
- **Our differentiated UK focused business model continues to deliver**
 - Further strategic and financial progress
 - Low risk business model and cost discipline provide security and competitive advantage
 - Simple, UK focused, multi-brand model and actively responding to lower for longer interest rates
 - Return on required equity and cost:income guidance reaffirmed, though timing deferred
 - Capital generation will remain strong
- **Helping Britain Prosper through continued support to SMEs and first-time buyers**
- **Total ordinary dividend of 2.25p per share and a special dividend of 0.5p per share**

GROUP FINANCIAL PERFORMANCE

Underlying profit and returns improved with strong balance sheet and increased dividends



Income	£17.6bn 1%	↑
Underlying profit	£8.1bn 5%	↑
Underlying return on required equity	15.0% 1.4pp	↑
Statutory profit before tax	£1.6bn (7)%	↓
CET1 ratio ⁽¹⁾	13.0% 0.2pp	↑
Ordinary dividend	2.25p	↑
Special dividend	0.50p	↑

- **Underlying profit increased 5% to £8.1bn**
 - Income up 1% driven by 5% increase in net interest income
 - Recovery in other income in Q4, as expected
 - Cost:income ratio improved to 49.3%
 - 48% reduction in impairment charge, AQR of 14bps
- **Improved underlying return on required equity of 15.0% driven by underlying profit**
- **Statutory profit before tax of £1.6bn, after action on PPI and loss on sale of TSB**
- **CET1⁽¹⁾ ratio improved to 13.0% (13.9% pre-dividends), driven by underlying profit and reduction in RWAs**
- **Total ordinary dividend of 2.25p per share and a special dividend of 0.5p per share**

⁽¹⁾ Pro forma, including Insurance dividend relating to 2015, paid in 2016.

RETAIL BANKING

Core financial performance

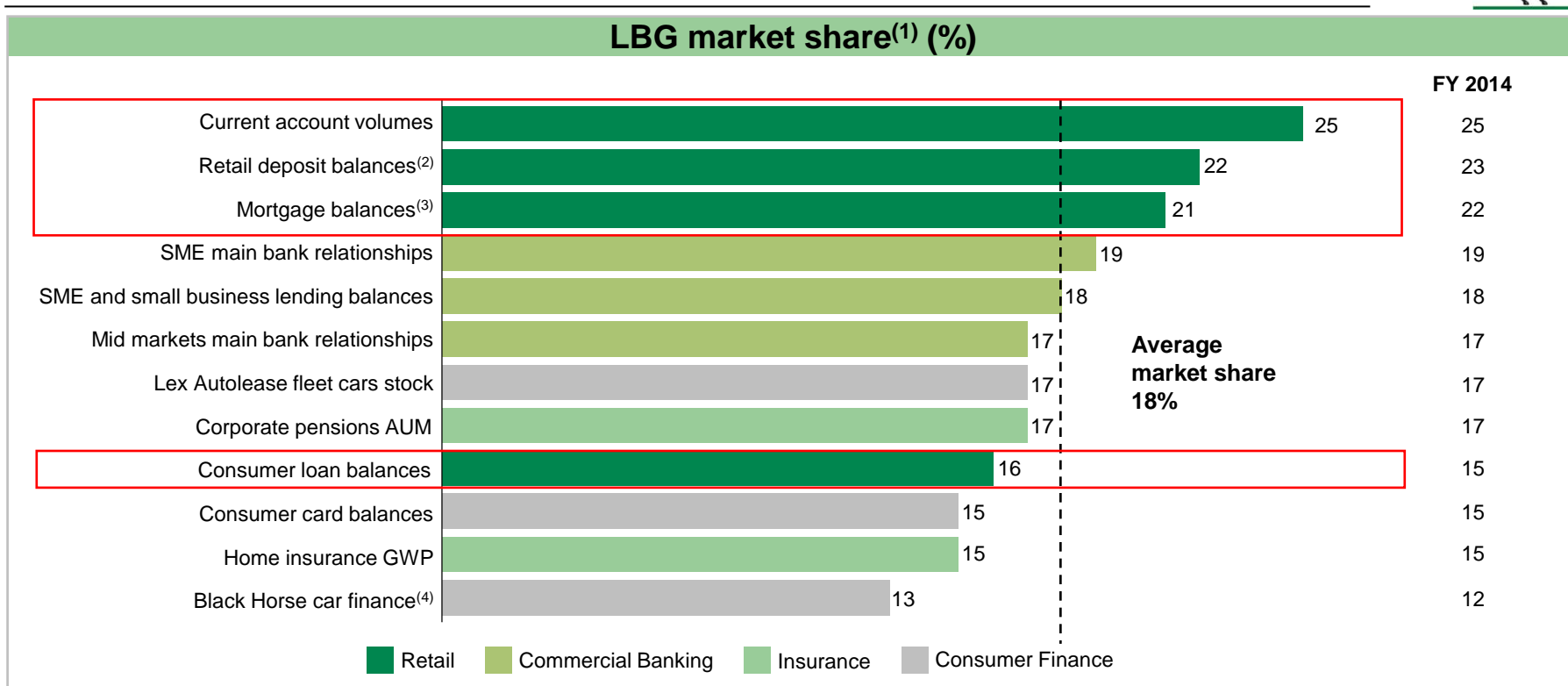


Retail Banking			
	2015	2014	Change
(£m)			
Net interest income	7,397	7,079	4%
Other income	1,122	1,212	(7%)
Total income	8,519	8,291	3%
Total costs	(4,573)	(4,464)	(2%)
Impairment	(432)	(599)	28%
Underlying profit	3,514	3,228	9%
(£bn)			
L&A to customers	314.1	315.2	-%
Customer deposits	279.5	285.5	(2%)
Risk-weighted assets	65.9	67.7	(3%)
Net interest margin	2.40%	2.29%	11bps
RoRWA	5.30%	4.60%	70bps
Asset quality ratio	0.14%	0.19%	(5)bps

- **Strong margin improvement in 2015, margin of 2.4% up 11bps on 2014, albeit asset pressures offsetting the benefit of reducing deposit cost payables**
- **Pricing managed on a weekly basis, balancing margin considerations with volume growth given market environment**
- **OOI remains under pressure given regulatory environment**
- **Over 7,700 FTTE reduction over the last 3 years across distribution channels, supporting profitability whilst delivering uplift in customer satisfaction**
- **Significant investment in to the franchise, including digital capability**
- **New business credit quality is strong, early arrears remain lower than pre-recessionary levels**
- **Impaired loans decreased by £433m in 2015 to £4,494m representing 1.4% of closing loans and advances to customers (Dec 14: 1.6%)**
- **Underlying profit of £3.5bn, up 9% compared to 2014**

MARKET SHARE

Retail market share

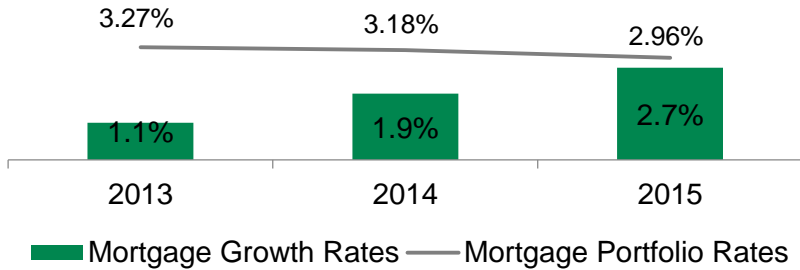


⁽¹⁾ Source: CACI, BoE, FLA, Experian, BBA, ABI. All positions at FY 2015, except current account volumes at November 2015 and Home Insurance. ⁽²⁾ Change in methodology versus previous versions to use 'individual deposits' in place of 'household deposits' and to include wealth balances. ⁽³⁾ Open book only. BoE restated mortgage market size in June 2015. ⁽⁴⁾ Black Horse point of sale new business flow share.

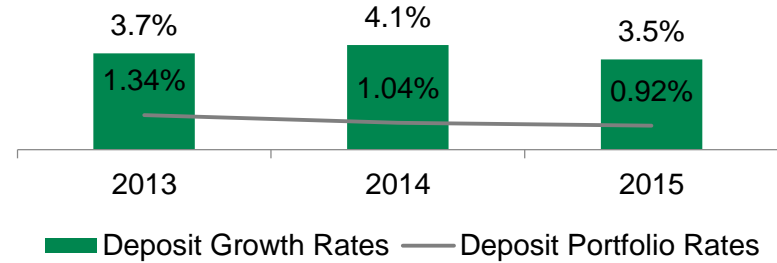
OVERVIEW OF CORE MARKETS



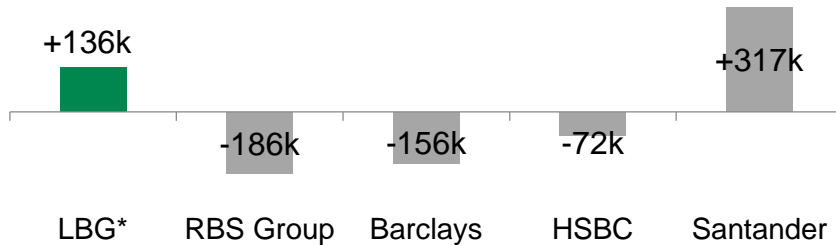
Mortgage Market



Deposit Market



PCA Switching



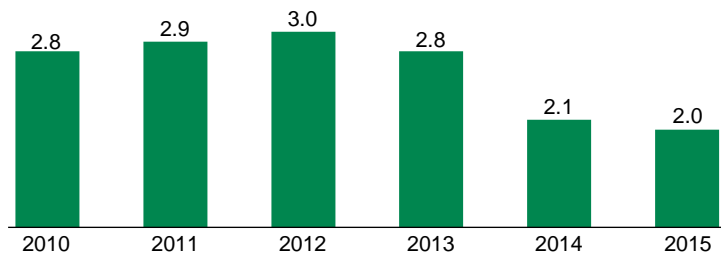
- **Mortgage Market:** Margins falling in low growth market, LBG managing growth within these constraints
- **Deposit Market:** Lower payables offset loan margin squeeze, LBG payables falling faster than the market
- **PCA Switching:** Competition is high. With the exception of Santander, LBG is the only major HSB to deliver net switching gains

MORTGAGE BOOK QUALITY

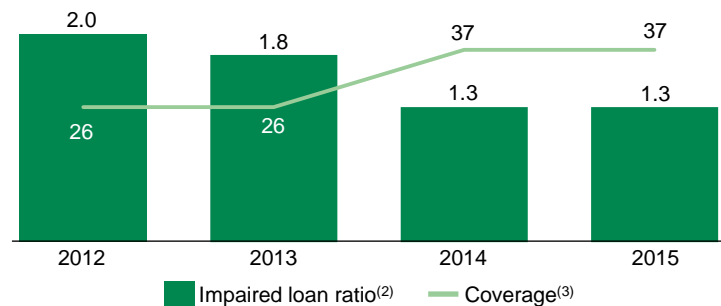
Continued improvement in risk profile of mortgage book



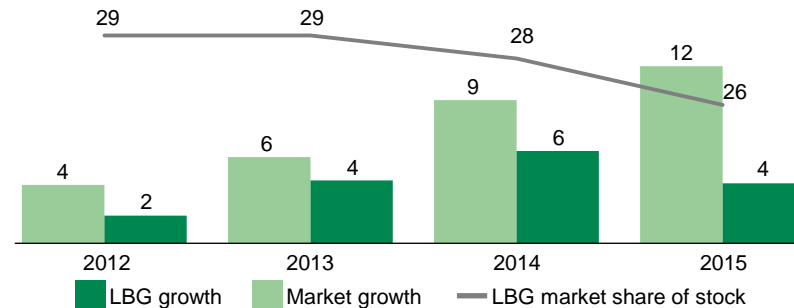
Mortgages greater than 3 months in arrears⁽¹⁾ (%)



Mortgages (%)



Buy-to-let growth vs. market (%)



- **Buy-to-let (BTL) growth significantly lower than market at 4%**
- **Market share of new BTL lending (19%) below mortgage market share (21%)**
- **Low risk approach applied to new BTL mortgages**
 - Max LTV of 75% with conservative rental coverage
 - Max customer exposure of £2m and 3 BTL properties
 - Arrears performance better than mainstream book

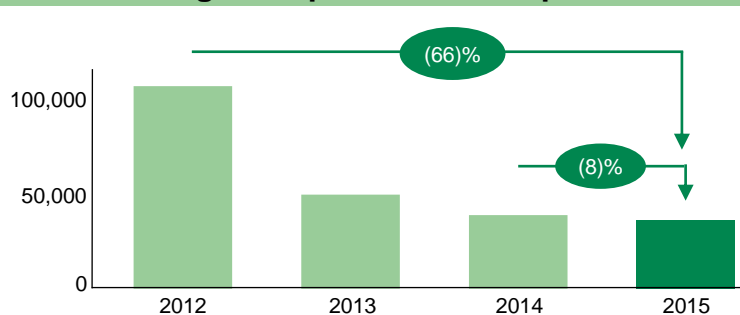
⁽¹⁾ 2010 – 2012 includes TSB. ⁽²⁾ Impaired loans as a percentage of closing loans and advances. ⁽³⁾ Impairment provisions as a percentage of impaired loans.

LEGACY ISSUES – PPI

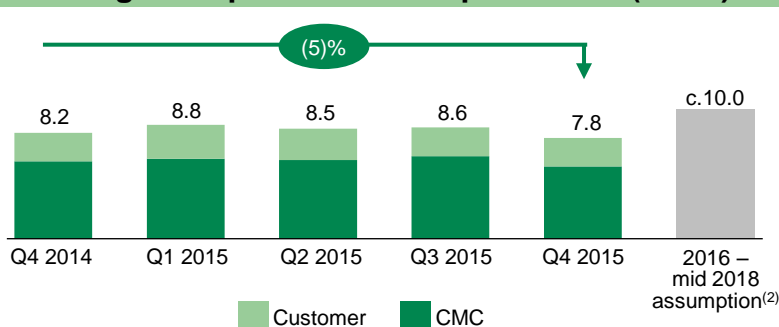
Provision of £4.0bn in 2015, including £2.1bn in Q4 due to FCA consultation



Average complaint volumes per month⁽¹⁾



Average complaint volumes per week⁽¹⁾ ('000s)



- Provision increased by £4.0bn in 2015, taking total provision to £16.0bn
- £2.1bn charge in Q4 largely reflecting action on proposed FCA time-bar and Plevin
- At 31 December 2015, £3.5bn provision is unutilised
- Assuming current FCA proposals and average of c.10,000 complaints per week, outstanding provision sufficient for future claims through to mid-2018
- Complaint levels could vary significantly during period
- Reactive complaint volumes continue to fall with CMC volumes broadly flat and direct customer complaints falling
- Impact of proposed fee cap and increased regulation on CMC volumes

⁽¹⁾ Excludes complaints where no PPI policy is held. ⁽²⁾ Includes Plevin related complaints.

DIFFERENTIATED BUSINESS MODEL

Our business model enables us to react effectively to the evolving operating environment



	Market trends	LBG business model
Customer	<ul style="list-style-type: none">• Expect full service proposition• Increased digital adoption	<ul style="list-style-type: none">• Leading multi-channel approach• UK's largest digital bank• Holding our share of branch network
Economy	<ul style="list-style-type: none">• Resilient UK economy but lower for longer interest rates• Current market volatility	<ul style="list-style-type: none">• Simple, UK focused, multi-brand model• Cost leadership• Low risk bank
Competition	<ul style="list-style-type: none">• Highly and increasingly competitive UK market	<ul style="list-style-type: none">• Multi-brand approach• Targeted growth• Low cost operating model
Regulation	<ul style="list-style-type: none">• Increased regulatory requirements• Capital framework• Ring-fencing	<ul style="list-style-type: none">• Financial strength (CET1 / leverage ratio)• Simple model, largely within ring-fence

RETAIL BANKING

Offering a broad range of financial service products, including current accounts, savings and mortgages, to UK personal customers, including Wealth and small business customers

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LLOYDS BANK



- **Multi brand, Multi channel, Multi segment**

- **Total network of 2,195 branches**

- **25m customers**

- **32,500 Retail Colleagues**

- **Telephony supported 100 million calls in 2015**

- **Digital banking acceleration focussed on Better Service, Greater Efficiency and Growth**

RETAIL PROGRESS AGAINST STRATEGIC PRIORITIES

Becoming the best bank for customers and shareholders



Creating the best customer experience

- **Net Promoter Score up >50% in last 5 years**
- **Customer processes enhanced**
- **Customer complaints remain significantly lower than peer average⁽²⁾**
- **Leading digital proposition**
 - 11.5m online /6.6m mobile users
 - c.55% needs met through digital
 - Increased market share (21%)⁽¹⁾
 - Investment advice through video conferencing

Becoming simpler and more efficient

- **Increased automation of end-to-end customer journeys**
- **Actively responding to lower rates: accelerated cost delivery and targeting further savings**
- **Investment spend in last 5 years doubled with >£1bn digital investment**
 - in 2016 we will support 1m web chats
- **Optimising our branch footprint**
 - Accelerating 200 closures
 - 230 refurb's in 2015
 - 70% branches Wi-Fi enabled

Delivering sustainable growth

- **Maintain market leadership in key Retail business lines**
 - Largest lender to first-time buyers at 1:4
 - Halifax attracted 1:5 customers switching in 2015
 - 100,000 business start up's in 2015 1:5
- **Low risk profile maintained**
- **Underlying profit up 9% compared with 2014**
- **New business account launched**

⁽¹⁾ Retail and Home Insurance H2 digital market share of new business flows (2014: 20%). ⁽²⁾ FCA reportable complaints per 1,000 accounts, excluding PPI, comparison at H1 2015.

OUR 3 YEAR PLAN WILL SEE FURTHER IMPROVEMENT OPPORTUNITIES FOR RETAIL



Multi-brand



Maximising the power of the Group's iconic brands

Multi-channel



Allowing customers to use the channel most convenient for them

Multi-segment



Tailoring propositions to best meet customers' needs



OUR MULTI-BRAND STRATEGY

Providing a comprehensive range of choices for our customers



The bank that goes further to better serve its customers

Leadership
Dedication
Integrity



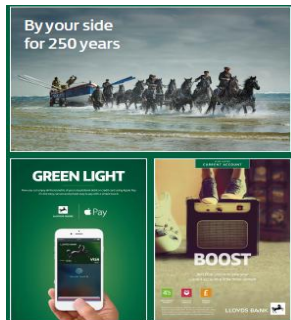
The bank that goes further to better serve Scotland

Leadership
Dedication
Integrity



The bank that gives you extra when it matters the most

Rewarding
Straightforward
Enthusiastic





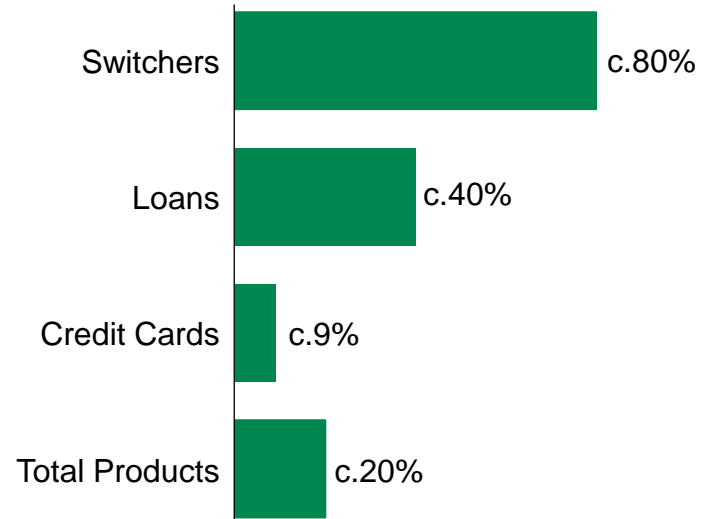
CREATING THE BEST CUSTOMER EXPERIENCE

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 Full Year Digital growth vs. prior year





A MODERN EFFICIENT BRANCH NETWORK

Retaining the convenience and reach of a branch network while realising significant efficiencies

Commitment to maintain share of branches with enhanced customer experience

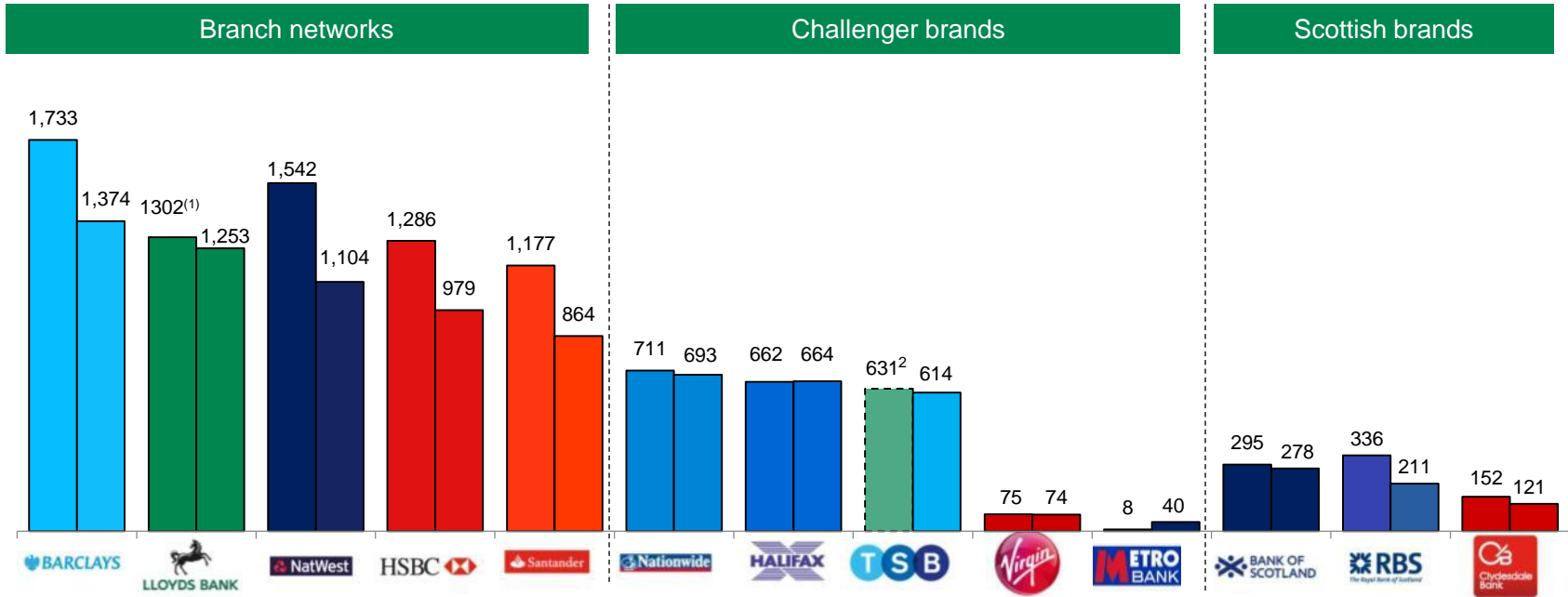
- **Customers value the convenience and reach of our multi brand branch network**
- **New modern branch formats with key location investment**
- **Branches will become champions for our multi channel strategy, focusing on complex products and helping customers with digital education and Moments of Truth**
- **Branch footprint optimisation with 200 branch closures being accelerated**
- **>90% of Lloyds and Bank of Scotland customers to continue to have a useable branch within five miles**

Increasing the efficiency of the branch network

- **Property costs are a small proportion of overall network costs**
- **Focus is on implementing a new operating model to increase productivity:**
 - Deploying additional self service capability, with greater functionality
 - Retraining colleagues to meet a wider range of customer needs
 - Deploying remote adviser capability to increase adviser utilisation and availability
 - Maximising the potential of our industry leading multi- channel platform
 - Piloting alternative formats
- **Over half of current counter transactions will be completed via self service or digital**

BRANCH PRESENCE

Multi-brand strategy serving different segments of the market



H1 2011 v H2 2015 branch presence by brand. Source CACI (Dec 215) Branch Base, except: Virgin, sourced company website, and Lloyds Banking Group own brand figures (Lloyds Bank, Halifax and BoS).

(1) Does not include 631 divested TSB branches.

(2) TSB did not exist in H1 2011, these 631 branches were part of Lloyds Banking Group



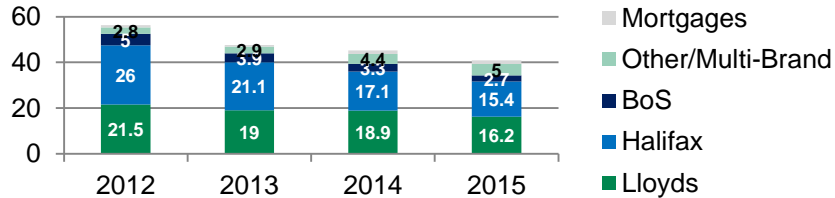
EVOLVING ROLE OF TELEPHONY

Telephony's core purpose will migrate from transaction enquiries to complex queries and supporting our multi channel strategy

The role of telephony is changing

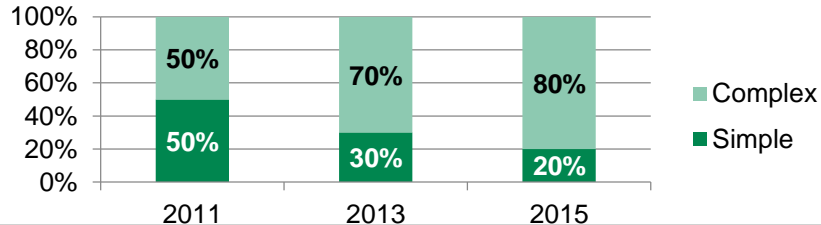
- Customer calls are reducing year on year by 10% on average and the type of call is changing.

Telephony Advisor Calls: 2012 – 2015



- Our customers call us for help with more complex queries and help in their moments of truth

Telephony agent demand: 2012 – 2015



We will offer broader customer support, not just telephony services

- Remote Advisor:** Offer the convenient service for our customers to call us, via video link, from their home or from a branch to support them with their mortgages or re-mortgage



- Web Chat:** Help a customer in key moments of need in their digital journey, carrying out test and learn at different points in the customer journey





INVESTING IN THE DIGITAL TRANSFORMATION OF BANKING

Historic investment in digital platforms and architecture for consumer and commercial clients allow us to now accelerate pace of customer innovation

Building on our digital strength

Since 2011...

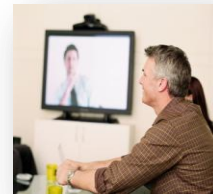
- **>£750m invested in digital**
- **£2bn Simplification 1 savings** achieved with a significant contribution from digitalisation
- **Agile consumer digital platform** – resilient, scalable, cross-channel
- **Digital proposition development** to be best bank for customers



New consumer digital platform



Upgraded self service machines



Remote advice and video conferencing



New mobile apps

Seamless multi channel interactions

By 2017...

- **>c.1bn further investment in digital**
- **Transformed customer experiences and efficiency**
 - Improved digital sales and service capability
 - Digitised end to end customer journeys
- **Extended multi brand multi channel capabilities**
 - Commitment to branch network
 - Increased self service and introduction of remote advice

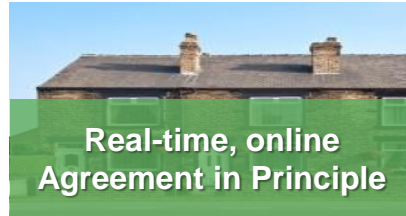


END-TO-END CUSTOMER JOURNEYS

Customer Journey Transformation programme underway, with customer and commercial benefits being delivered across seven journeys

- **7 out of 10 end-to-end journeys underway, remaining 3 launching in Q2 2016**
- **Contributing to £1bn cost commitment**
- **Instilling an agile way of working**

Example Journey delivery



From...



...To

- | | |
|---|---|
| <ul style="list-style-type: none"> • 90 question form to be completed online followed by a manual re-key • 2 days to return a lending decision | <ul style="list-style-type: none"> • Process completed online or on mobile – 40 questions • Real time decision |
| <ul style="list-style-type: none"> • Branch or phone appointment and physical presentation of documentation. Usually 2 week wait for appointment • 1 hour branch appointment for each child | <ul style="list-style-type: none"> • E2E journey completed online, including the remote upload of the child's passport or birth certificate • Online application in 10 minutes with 24/7 service availability |



SEGMENTATION STRATEGY

Attractive and competitive service treatment to suit customer needs using a clear internal operating model

<p>Business Banking</p>	<p>CUSTOMER NEED</p>	<ul style="list-style-type: none"> • Simple products and transparent pricing – new business account launched in October 2015 • Multi channel – Growing proportion of needs met via Digital in 2015, 97% of Business Instant access savings were met via digital
	<p>TYPE OF CUSTOMER</p>	<ul style="list-style-type: none"> • Start-ups – we helped over 100K new business get off the ground in 2015 • Small businesses with simple needs
<p>Wealth and Mass Affluent</p>	<p>PROPOSITION</p>	<ul style="list-style-type: none"> • Strong multi-channel experience – dedicated Wealth telephony team • Automated, straight through processes
	<p>CHANNELS</p>	<ul style="list-style-type: none"> • Digital and Branch led multi-channel • Credit risk automation • Accelerated self-serve
	<p>CUSTOMER</p>	<ul style="list-style-type: none"> • Best service standards in the bank • Leverage customer insight for better needs identification from within the group franchise • Reduce the cost of Advice
	<p>PROPOSITION</p>	<ul style="list-style-type: none"> • Align customer treatments for Lloyds / BoS high value segments. • Develop a customer treatment for high value Halifax customers
	<p>CHANNELS</p>	<ul style="list-style-type: none"> • Remote Advice and Relationship Manager - introducing video conferencing capability for up to 400 advisers and channel choice to customers • Digital



MARKET LEADING FRANCHISES

- Market leading share positions in PCA, Savings and Mortgages
- Halifax second only to Santander on PCA switchers and resumed leadership in Q4 2015
- Market leading supporter of first time buyer mortgages

CUSTOMER FOCUS

- Business investing in multi-channel capability
- Significant improvement in customer satisfaction
- Conduct agenda and cultural agenda is well advanced versus peers

STRONG PROFITABILITY

- Underlying profit in 2015 of £3.5bn, up 9% compared with 2014
- Margin 2.4%, up c11bps on 2014
- Over 7,700 FTE reduction over the last 3 years, supporting profitability whilst delivering uplift in customer satisfaction

LOW RISK UK BUSINESS

- New business quality is strong, early arrears remain lower than pre-recessionary levels
- Impaired loans decreased by £433m in 2015 to £4,494m representing 1.4% of closing loans and advances to customers at 31 December 2015. (December 2014: 1.6%)
- Average LTV for new residential mortgages written in 2015 was 64.7% compared with 64.8% for 2014



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; 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; 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 or courts in the UK, the EU, the US or elsewhere including the implementation and interpretation 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 Full Year Results News Release.