

LLOYDS  
BANKING  
GROUP



# MORGAN STANLEY FINANCIALS CONFERENCE

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15 March 2016

# DELIVERING FOR OUR CUSTOMERS AND SHAREHOLDERS

Clear strategic focus and differentiated business model providing competitive advantage

LLOYDS  
BANKING  
GROUP



## Our business model

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

## Our strategic priorities

Creating the  
best  
customer  
experience

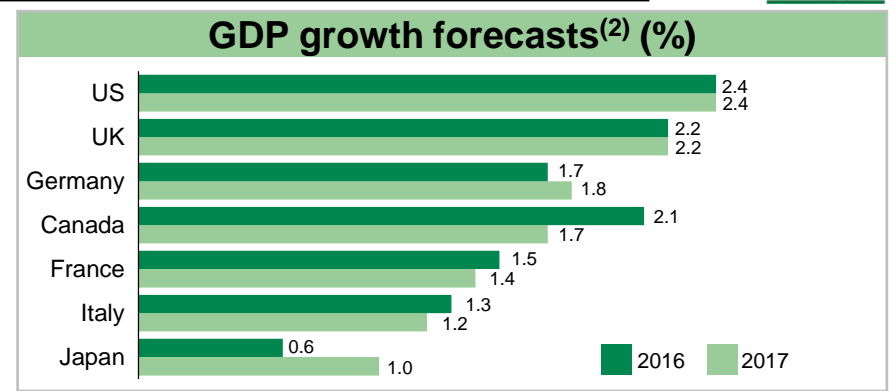
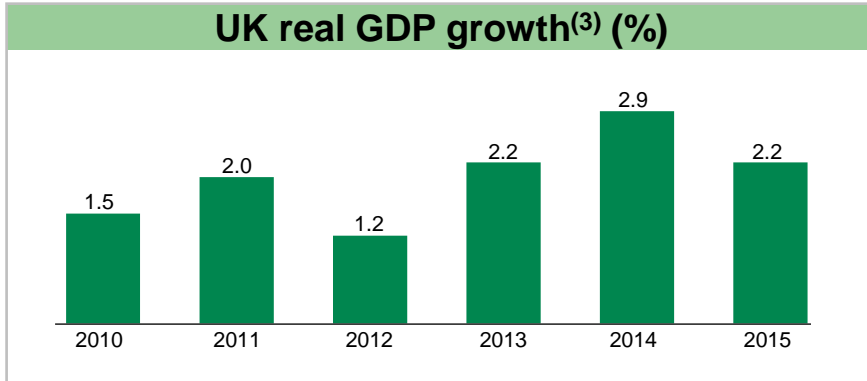
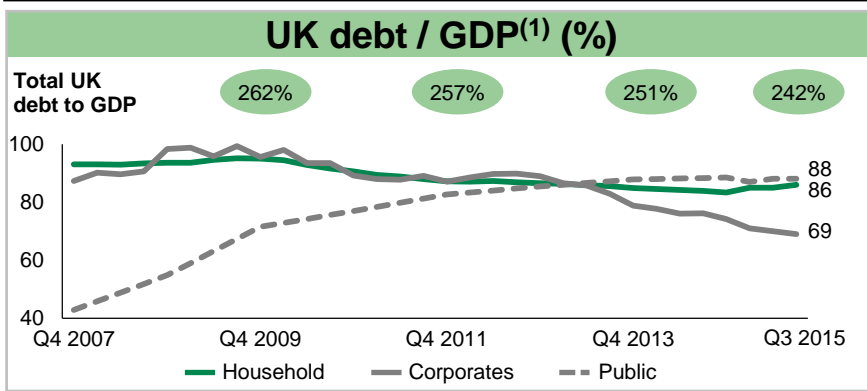
Becoming  
simpler and  
more  
efficient

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
- Strong capital generation
- Well positioned to meet regulatory requirements

# UK ECONOMY

UK economy continues to perform well despite market volatility



- Resilient UK GDP growth despite market volatility
- Sustainable recovery with continued deleveraging
- UK is expected to remain one of the fastest growing developed economies over the next couple of years
- Bank base rate lower for longer

<sup>(1)</sup> Source: debt data from Bank for International Settlements; GDP data from ONS. <sup>(2)</sup> Source: Bloomberg December 2015 consensus. <sup>(3)</sup> Source: ONS.

# BUSINESS TRANSFORMED WITH STRONG RELATIVE POSITIONING

Delivering improved earnings with superior and sustainable returns



## Underlying profit (£bn) & RoRE (%)

Return on  
required equity

3.8%

15.0%

£5.5bn

Underlying profit

2011

2015

2.6

8.1

## Returns – 2015 UK peer comparison<sup>(1)</sup> (%)

Underlying return on average shareholders equity

14.2

4.9

8.3

9.3

(0.4)

5.5

LBG

Bank A

Bank B

Bank C

Bank D

UK peer  
average

- Underlying profit and returns increased significantly over the last four years
- Simple operating model creates more stable / less volatile earnings
- Gap between underlying earnings and statutory earnings expected to reduce significantly
- Our business model delivers superior returns relative to our peers
- Continue to target RoRE of 13.5%–15.0%

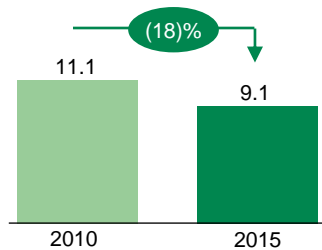
<sup>(1)</sup> Source: Reported company results, adjusted to include bank levy where applicable.

# BUSINESS TRANSFORMED WITH STRONG RELATIVE POSITIONING

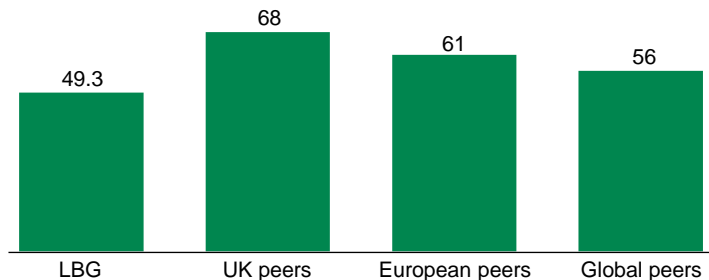
Market leading cost position providing competitive advantage



## Cost base (£bn)



## Cost:income ratio – 2015 peer comparison<sup>(1)</sup> (%)



- **Cost base reduced by £2bn over last 5 years, whilst significantly increasing NPS scores (up 50%)**
- **Simplification programme ahead of target in delivering £1bn run-rate savings by end of 2017**
- **Investment spend has doubled in last 5 years with >£1bn digital investment**
- **Market leading cost:income ratio of 49.3%, providing competitive advantage**
- **Targeting a c.45% cost:income ratio exiting 2019 based on current interest rate assumptions, with reductions every year**

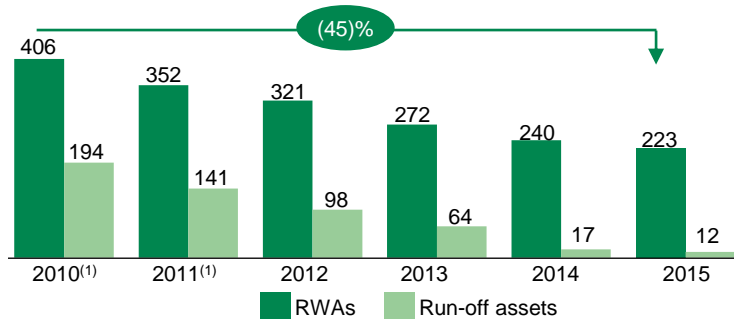
<sup>(1)</sup> Source: Reported company results. Average underlying cost:income ratio. UK peers excludes LBG, European peers: Eurostoxx top ten by market cap, Global peers: top ten banks by market cap (excludes UK and China).

# BUSINESS TRANSFORMED WITH STRONG RELATIVE POSITIONING

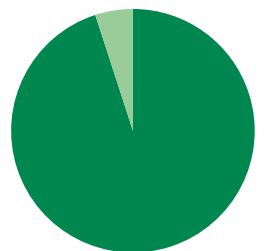
Simple retail and commercial business given restructuring largely complete



## RWAs & Run-off portfolio (£bn)

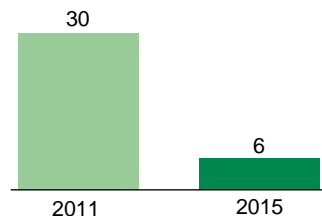


## Assets by geography



UK International

## International presence<sup>(2)</sup>



- Business transformed and reshaped since 2010
- Run-off assets now just £12bn or c.2% of Group loans and advances
- Over 95% of assets in the UK, having reduced international presence to 6 overseas jurisdictions
- Transformation complete enabling management to focus on business delivery
- Simple model aligned to ring fencing and resolution requirement (c.97% of loans and advances will sit within the ring-fenced bank)

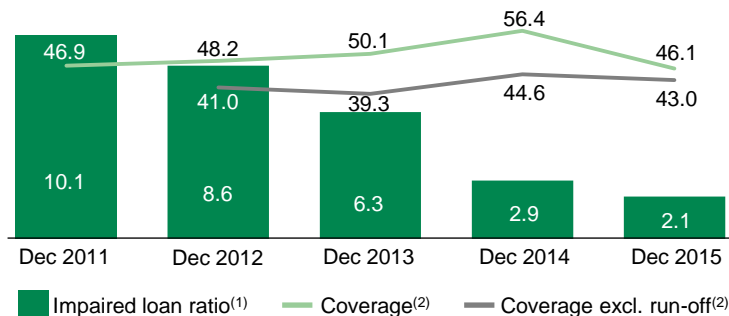
<sup>(1)</sup> Pre-CRD IV rules. <sup>(2)</sup> Number of countries LBG operates in.

# BUSINESS TRANSFORMED WITH STRONG RELATIVE POSITIONING

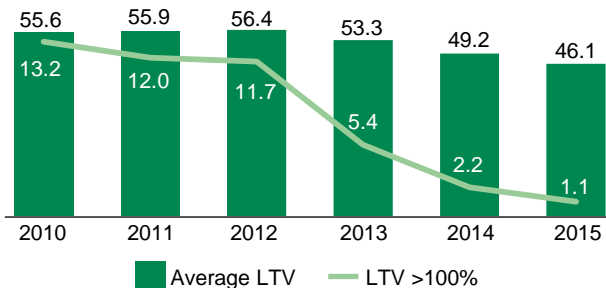
Low risk business model positions us well



## Impaired loan ratio & coverage (%)



## LBG mortgage portfolio trends (%)



- Impaired loan ratio improved significantly; coverage remains high at 46%
- Group asset quality ratio of 14bps: expected to be c.20bps in 2016, driven by lower releases and recoveries
- Mortgage credit quality continues to improve (c.1% of portfolio >100% LTV)
- PRA stress test results highlight resilience to severe stress

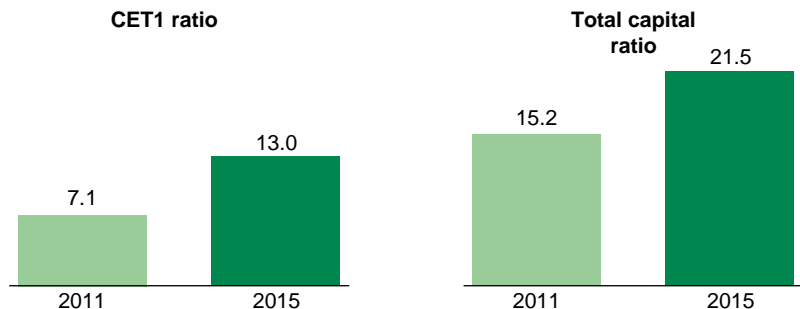
<sup>(1)</sup> Impaired loans as a percentage of closing loans and advances. <sup>(2)</sup> Impairment provisions as a percentage of impaired loans.

# BUSINESS TRANSFORMED WITH STRONG RELATIVE POSITIONING

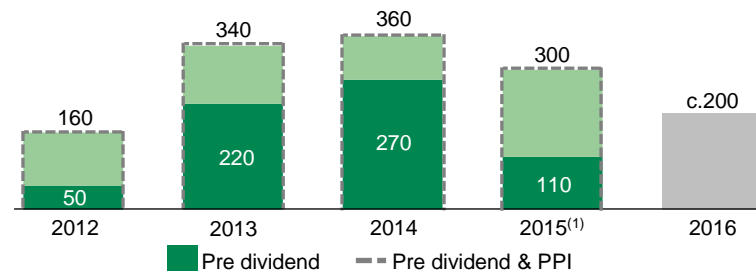
Balance sheet strength with strong capital generation



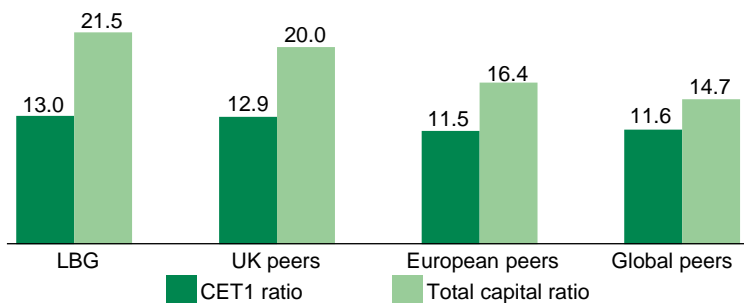
## Capital progress since 2011 (%)



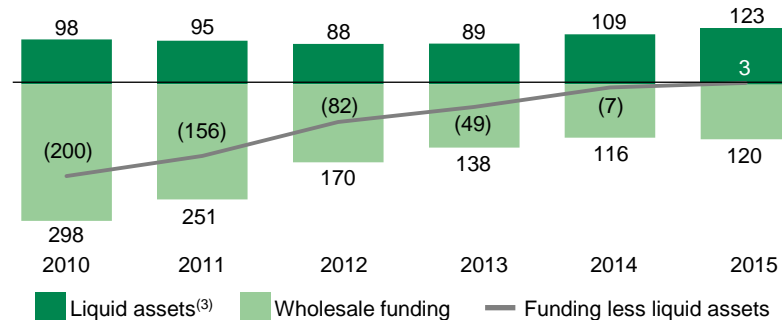
## Capital generation (bps)



## Capital ratios – 2015 peer comparison<sup>(2)</sup>(%)



## Wholesale funding and liquid assets (£bn)



<sup>(1)</sup> Pro forma, including Insurance dividend relating to 2015, paid in 2016. <sup>(2)</sup> Source: Reported company results. Average fully loaded CET1 ratio and transitional total capital ratio as reported by peers. US banks included using advanced approach. UK peers excludes LBG, European peers: Eurostoxx top ten by market cap, Global peers: top ten banks by market cap (excludes UK and China). <sup>(3)</sup> Liquid assets includes on and off balance sheet liquid assets; 2015 LCR eligible, 2010 – 2014 ILAS eligible liquid assets.

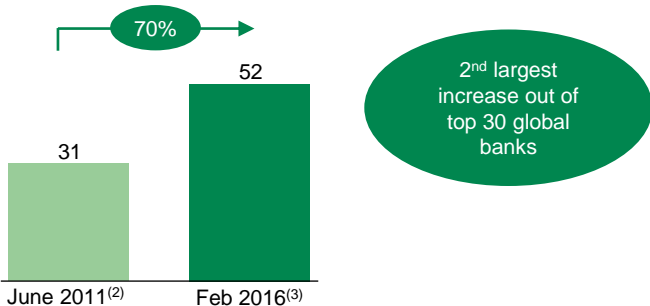


# BUSINESS TRANSFORMED WITH STRONG RELATIVE POSITIONING

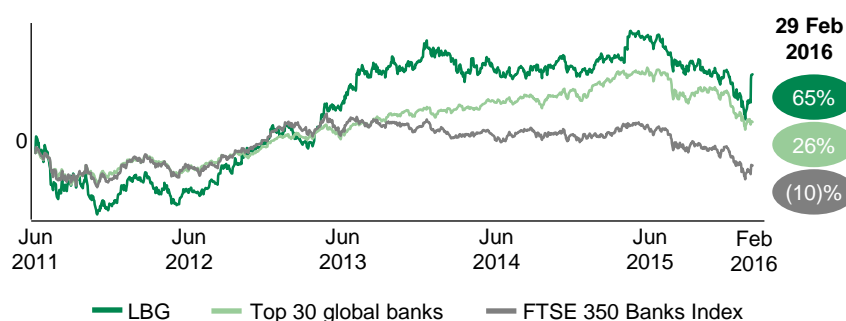
Strong performance versus top global banks<sup>(1)</sup>



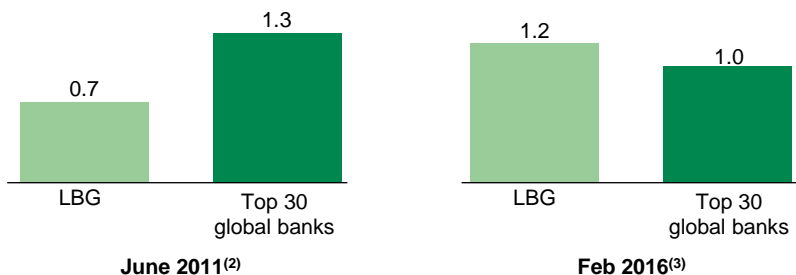
## Market capitalisation (£bn)



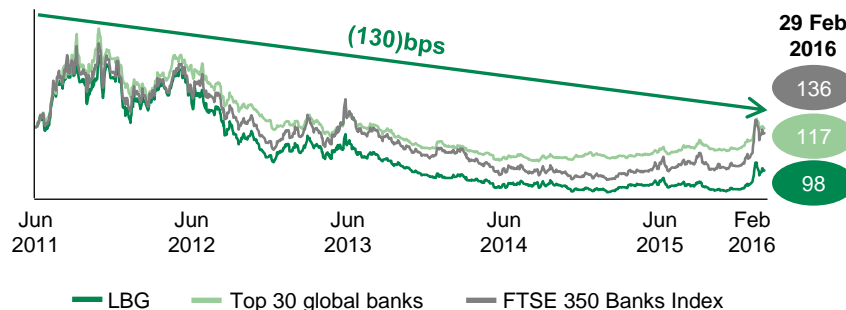
## Total shareholder return



## Evolution of price to book value



## CDS spreads (bps)



<sup>(1)</sup> Average of top 30 major global banks by market cap as at 29 February 2016. <sup>(2)</sup> 29 June 2011, immediately prior to LBG strategy review. <sup>(3)</sup> 29 February 2016.

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

# DIFFERENTIATED BUSINESS MODEL

Differentiated model enabling delivery of lower cost of equity



- **UK focused business (AAA rated country)**
- **Retail and commercial specialisation**
- **Leading cost position / lower operating leverage**
- **Lower financial leverage**
- **Lower risk appetite**

## LOW RISK BUSINESS MODEL

**LOWER COST OF EQUITY**

**LOWER COST OF DEBT**

**UNIQUE COMPETITIVE POSITION**

# PROGRESS AGAINST STRATEGIC PRIORITIES

Becoming the best bank for customers and shareholders



## Creating the best customer experience

- **Integrated multi-channel strategy**
- **Leading digital proposition**
- **Customer processes enhanced**
- **Net Promoter Score up >50% in last 5 years**
- **Customer complaints remain significantly lower than peer average<sup>(1)</sup>**

## Becoming simpler and more efficient

- **Cost leadership with continued reductions in cost:income ratio**
- **Actively responding to lower rates: accelerated cost delivery and targeting further savings**
- **Ahead of target in delivery of £1bn Simplification savings; £0.4bn achieved to date<sup>(2)</sup>**
- **Increased automation of end-to-end customer journeys**
- **Investment spend in last 5 years doubled with >£1bn digital investment**

## Delivering sustainable growth

- **Growth in targeted areas**
  - SME lending growth of 5% outperforming the market
  - Consumer Finance customer asset growth of £3.2bn
  - Execution of first external bulk annuity transaction
- **Maintain market leadership in key Retail business lines**
  - Largest lender to first-time buyers
- **Low risk profile maintained**

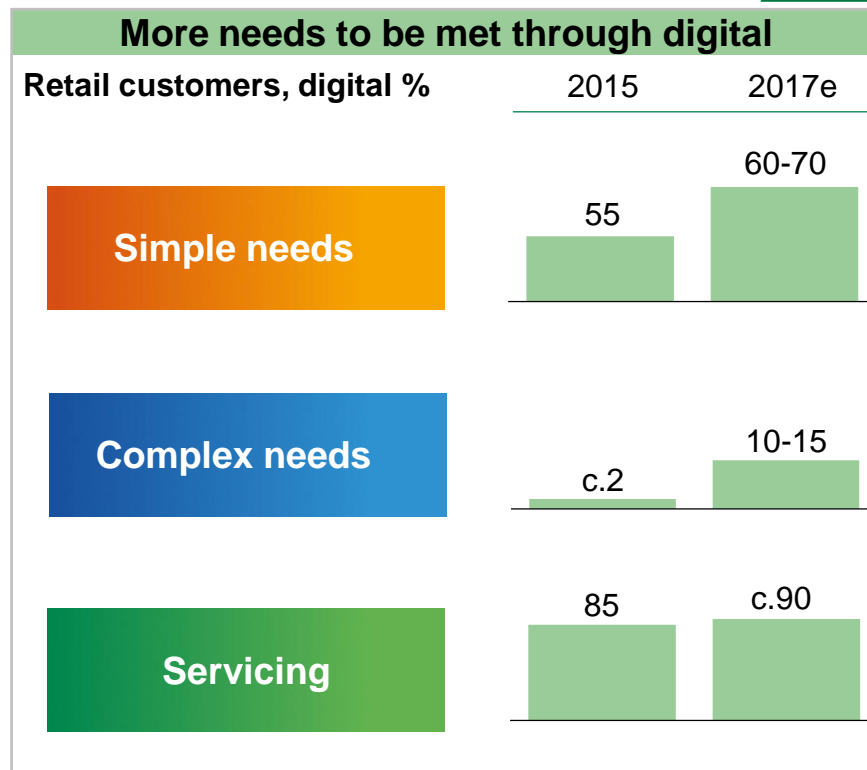
<sup>(1)</sup> FCA reportable complaints per 1,000 accounts, excluding PPI, comparison at H1 2015. <sup>(2)</sup> Annualised run-rate savings.

# DIGITAL

We operate the UK's largest digital bank which is fundamental to our integrated multi-channel strategy



- UK's largest digital bank with 11.5m active online users, including 6.6m mobile users
- Increasing digital market share (21%)(<sup>1</sup>)
- Focused digital investment of c.£1bn over 3 years
- Delivering customer centric digital propositions
  - Top rated mobile app with market leading functionality
  - >55% of customer needs now being met digitally
- Transforming customer journeys
  - Digitally enabled transformation of 10 customer journeys
- Enhancing digital capabilities and delivery
  - Digital is a Group division reporting direct to the CEO
  - Strategic partnerships with innovators



(<sup>1</sup>) Retail and Home Insurance H2 digital market share of new business flows (2014: 20%).

# FINANCIAL TARGETS

Guidance reflects confidence in the future



## Guidance

- **2016 NIM expected to be around 2.70%**
- **2016 full year asset quality ratio expected to be around 20bps**
- **Targeting cost:income ratio of around 45% exiting 2019, with reductions in each year**
- **Expect to generate around 2% of CET1 capital per annum (pre dividend)**
- **Expected return on required equity of 13.5–15% in 2018**

## Dividend Policy

- **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**
- **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; 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.