

**LLOYDS**  
BANKING GROUP



# BANK OF AMERICA MERRILL LYNCH FINANCIALS CONFERENCE

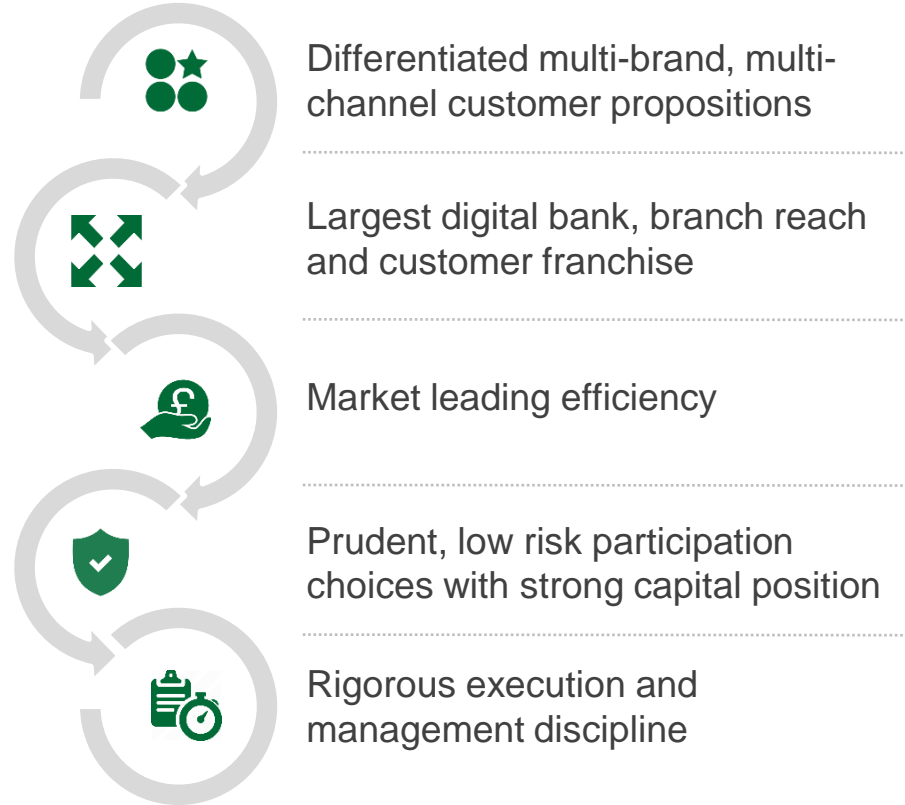
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George Culmer | 25 September 2018

# Unique business model generating strong and sustainable returns

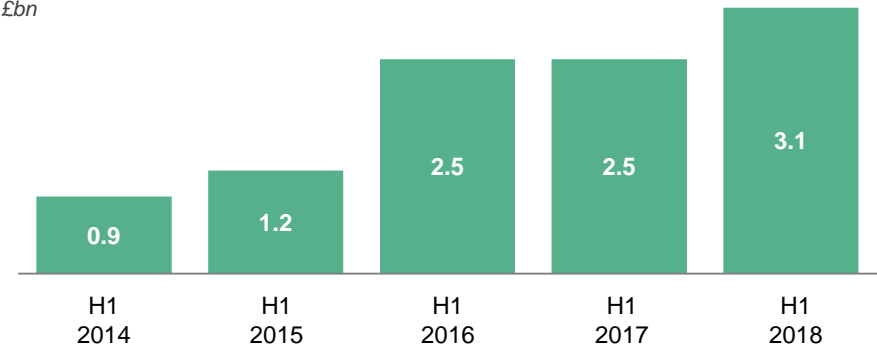


## Distinctive competitive strengths



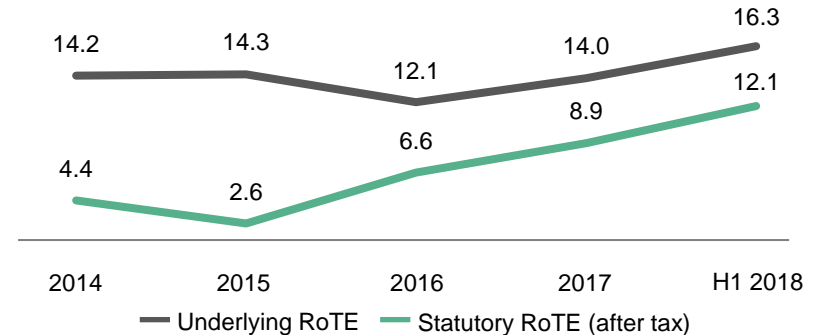
## Statutory profit before tax

£bn



## Return on tangible equity<sup>1</sup>

%



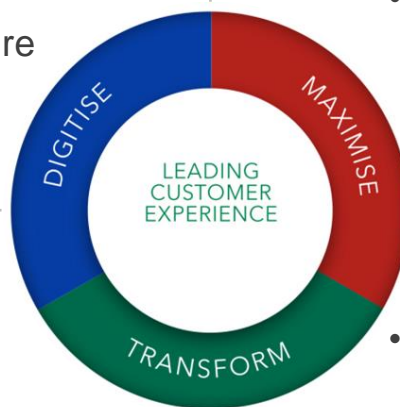
1 – 2014 to 2017 restated to show Remediation / Other Conduct within underlying profit.

## DIGITISING THE GROUP

- **End to end transformation** covering more than 70% of our cost base
- **Simplification** and **progressive modernisation** of IT and data architecture

## LEADING CUSTOMER EXPERIENCE

- **#1 UK digital bank**, with Open Banking functionality
- **#1 Branch network**, serving complex needs
- **Data-driven and personalised** customer propositions



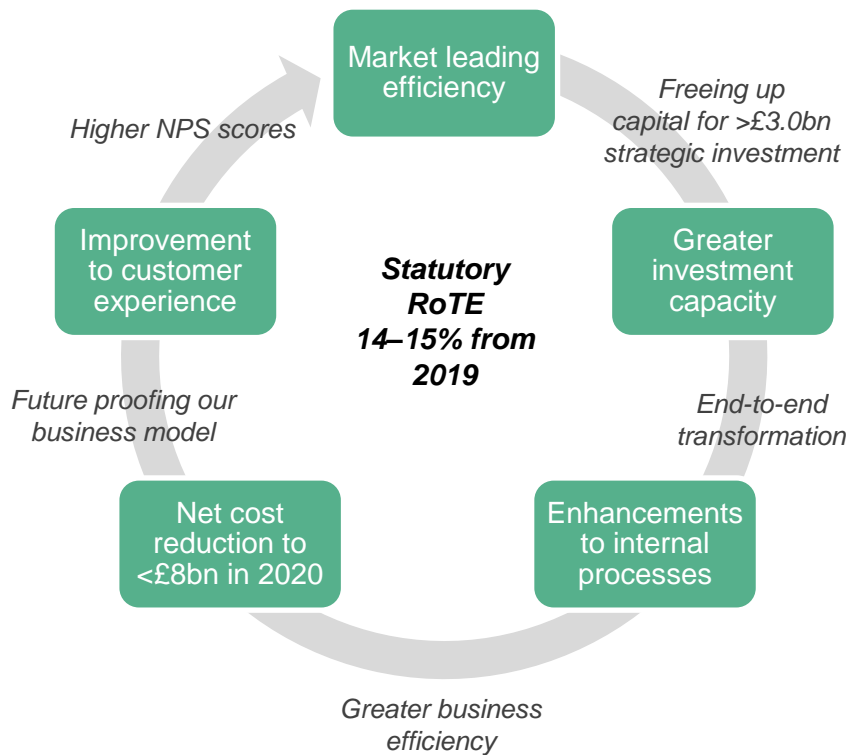
## MAXIMISING GROUP CAPABILITIES

- **£6bn loan growth in start-ups, SME and Mid Market** businesses
- Sole integrated UK banking and insurance provider targeting **>1m new pensions customers** and **£50bn AuA growth**

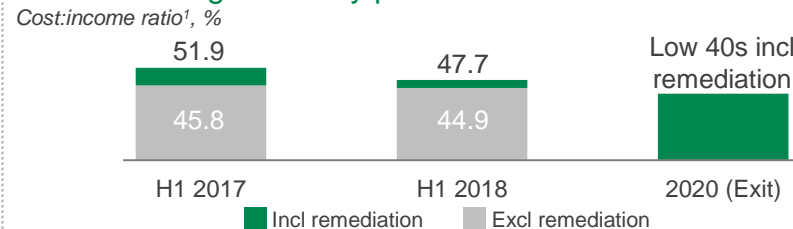
## TRANSFORMING WAYS OF WORKING

- **More than half** of transformation delivered through **Agile methodology**
- **Biggest ever investment in our People with 50% increase** in colleague training and development to **4.4m hours pa**

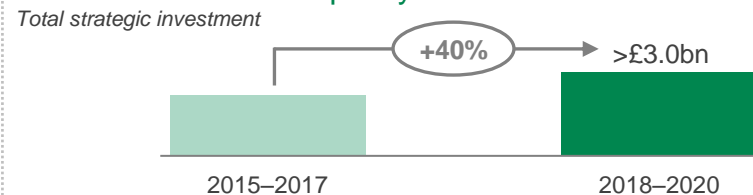
# Cost discipline enables greater investment capacity, improved customer experience and increased returns



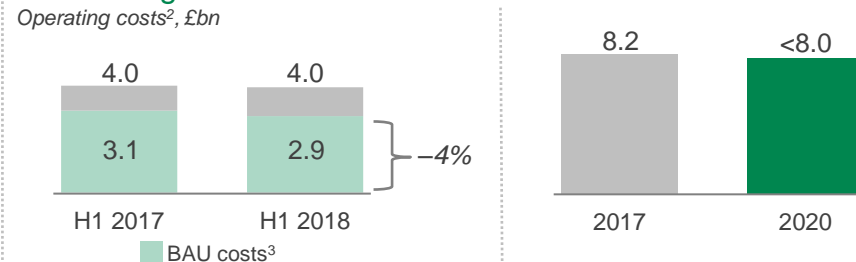
## Market leading efficiency position



## Greater investment capacity

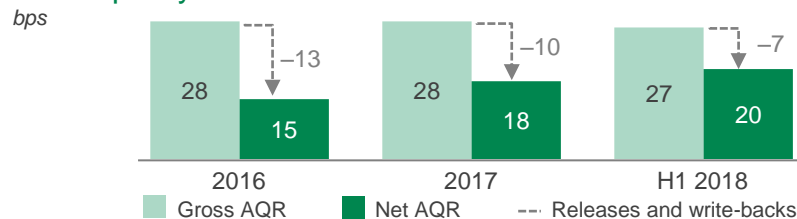


## Committing to net cost reductions

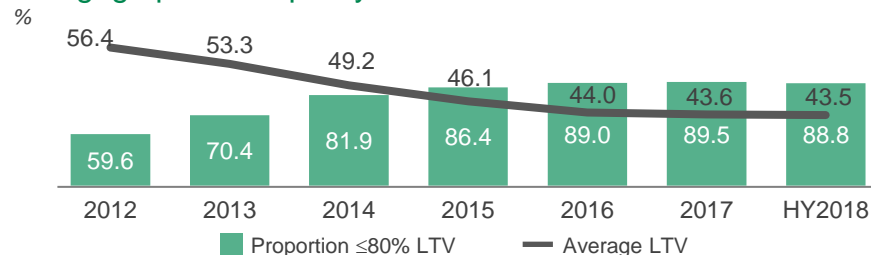


# Low risk business model underpinned by prudent participation choices and stringent underwriting

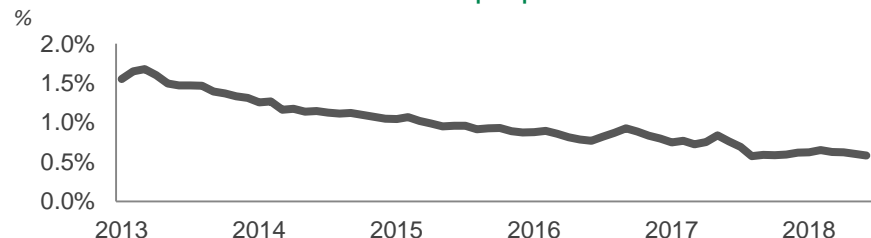
## Asset quality ratio



## Mortgage portfolio quality



## Credit cards – new to arrears as proportion of total book



1 – Share of stock; market based on CACI data for 2017.

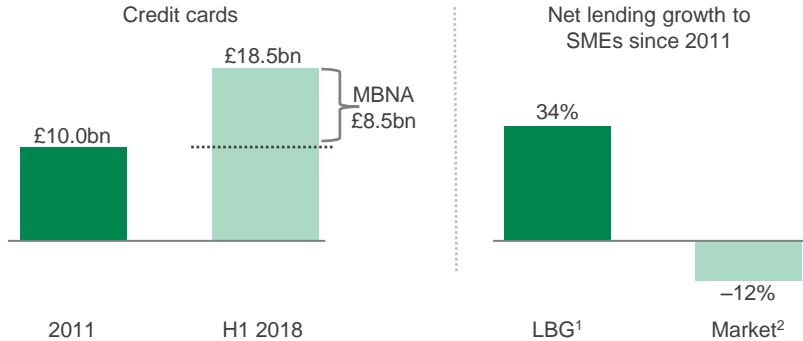
- **Gross AQR stable despite inclusion of MBNA; net AQR up due to lower releases and write-backs**
- **Underlying credit portfolio remains stable with no overall deterioration in credit risk indicators**
- **Prudent participation choices**
  - Over 95% of assets in the UK (AA rated) and secured assets represent over 2/3 of portfolio
  - Unsecured consumer portfolio c.6% of loans
  - Run off balances (<£4bn) subsumed within business
- **Continuing to benefit from low risk approach**
  - Strong mortgage affordability and LTV profiles
  - Low risk consumer lending; prudent residual values and prime credit card book with reducing arrears
  - Diversified and high quality Commercial portfolio
- **AQR expected to be <25bps in 2018 and <30bps over plan period**

# Supporting the UK economy with growth in key banking and insurance segments



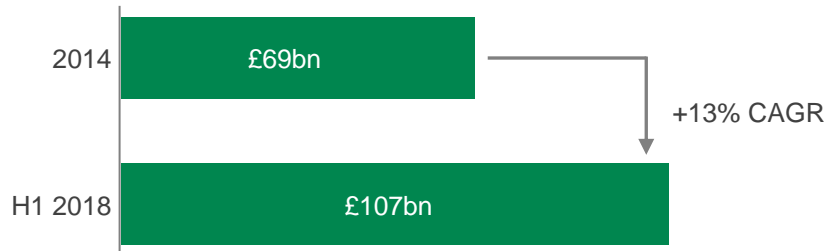
## Continued growth in targeted segments

£bn, %



## Growth in current accounts 2014 vs Jun 2018

£bn



- **Open mortgage book to grow moderately and expected to be slightly higher at year end vs previous year**
- **Continue to target prudent lending growth in consumer finance, SME and Mid Markets**
  - Motor Finance to continue growing ahead of market
  - Credit cards expected to grow in line with the market
  - £6bn growth in SME and Mid Markets by 2020
- **Strategy to grow current accounts, reduce tactical balances and optimise liability mix**
- **Sole integrated UK banking and insurance provider – targeting >1m new pensions customers and £50bn AuA growth by year end 2020**

# H1 2018 results: strong and sustainable financial performance



£m	H1 2018	H1 2017	Change
Net income	8,971	8,778	2%
Total costs	(4,281)	(4,558)	6%
Impairment	(456)	(268)	(70)%
<b>Underlying profit</b>	<b>4,234</b>	3,952	7%
Volatility and other items	(190)	(37)	–
Restructuring costs	(377)	(321)	(17)%
PPI	(550)	(1,050)	48%
<b>Statutory profit before tax</b>	<b>3,117</b>	2,544	23%
Net interest margin	2.93%	2.82%	11bp
Cost:income (incl remediation)	47.7%	51.9%	(4.2)pp
Asset quality ratio	0.20%	0.12%	8bp
Return on tangible equity	12.1%	8.2%	3.9pp

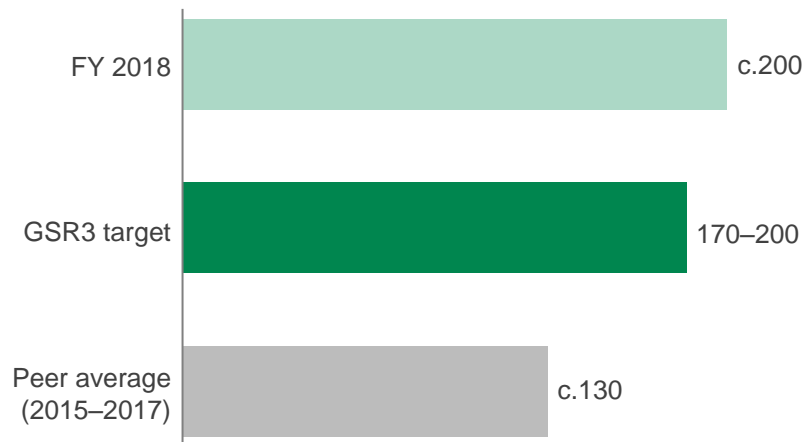
- **Robust underlying profit supported by**
  - Increasing income and margin
  - Lower costs despite increased investment and inclusion of MBNA; market leading cost:income ratio of 47.7%
  - Credit quality remaining strong with no overall deterioration in credit risk indicators
- **Strong statutory profit before tax of £3.1bn, up 23%**
  - Gap between underlying and statutory continues to fall
  - Targeting further strong statutory profit growth
- **Statutory return on tangible equity improved to 12.1%, up 3.9pp**

# Strong capital position and build enabling attractive shareholder returns



## Pre dividend capital build per annum

bps

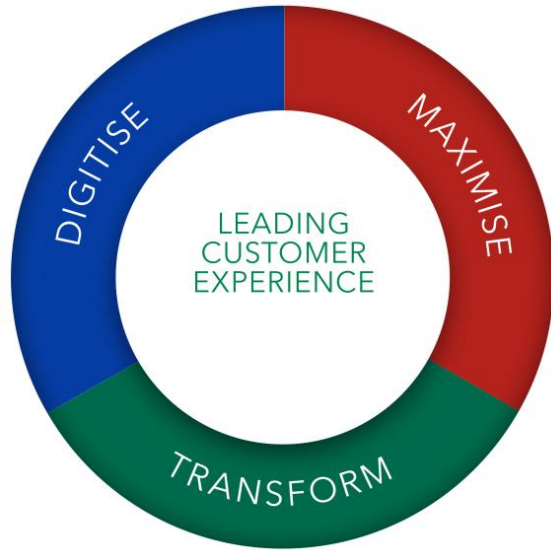


- **Business model remains strongly capital generative**
  - Pro forma<sup>1</sup> CET1 capital build of 121bps in H1
  - Capital build of c.200bps expected in 2018, pre dividend
  - Plan guidance of 170–200bps pa, pre dividend, after all known factors
- **Strong capital position**
  - Pro forma<sup>1</sup> H1 CET1 of 15.1% (pre dividend accrual)
- **Clear capital requirement**
  - CET1 target c.13% plus around 1% management buffer
  - Pillar 2A reduced by 30bps to 2.7%
  - Stress test results inform PRA buffer but no direct link
- **Clear framework for capital return**
  - Progressive and sustainable ordinary dividend policy
  - Flexibility to return surplus capital

1 – Pro forma the interim insurance dividend and the capital benefit from the sale of the Irish mortgage portfolio.



Clear strategy and competitive differentiation underpins financial guidance and delivery of strong and sustainable returns to shareholders



>£3bn strategic investment



- Targeted growth
- Resilient margin
- Market leading cost efficiency
- Strong asset quality
- Strong capital build
- Superior return on tangible equity
- Attractive capital returns

## Forward looking statements

This document contains certain forward looking statements with respect to the business, strategy, plans and /or results of Lloyds Banking Group (the “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’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 (including but not limited to the payment of dividends) to differ materially from 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 interest rates, inflation, 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 and other benefits including, but without limitation as a result of any acquisitions, disposals and other strategic transactions; 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, instability as a result of the exit by the UK from the European Union (EU) and the potential for other countries to exit the EU or the Eurozone and the impact of any sovereign credit rating downgrade or other sovereign financial issues; technological changes and risks to the security of IT and operational infrastructure, systems, data and information resulting from increased threat of cyber and other attacks; 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, practices and accounting standards or taxation, including as a result of the exit by the UK from the EU, or a further possible referendum on Scottish independence; 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 together with any resulting impact on the future structure of the Group; the ability to attract and retain senior management and other employees and meet its diversity objectives; 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 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, lending companies and digital innovators and disruptive technologies; 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 and risks 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 the Group expressly disclaims any obligation or undertaking to release publicly any updates or revisions to any forward looking statements contained in this document to reflect any change in the Group’s expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based. The information, statements and opinions contained in this document do not constitute a public offer under any applicable law or an offer to sell any securities or financial instruments or any advice or recommendation with respect to such securities or financial instruments.

## 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 2018 Half-Year Results News Release.