

LLOYDS
BANKING GROUP



FIXED INCOME INVESTOR PRESENTATION

FY 2018

Group Overview & Strategy



New Group structure with multiple issuance points across products and currencies



	HoldCo	
Main Entities	Lloyds Banking Group	
Ratings⁽¹⁾	A3 / BBB+ / A+	P-2 / A-2 / F1
Example Products	Senior Unsecured Capital	-

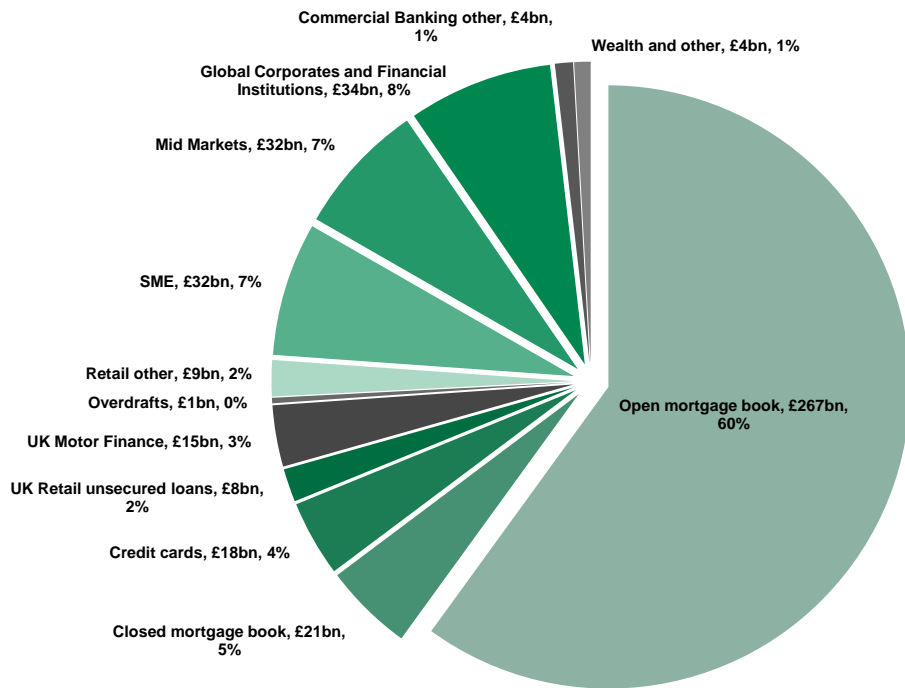
- Over 95% of Group loans & advances within Ring-Fenced sub-group
- Capital and MREL issued out of HoldCo
- Funding at OpCo level - LBCM EMTN programme to be established in H1
- EEA subsidiaries established within ring-fenced, non-ring-fenced and insurance subgroups

Ring-Fenced Sub-Group		Non-Ring-Fenced Sub-Group		Insurance Sub-Group		Equity Investments Sub-Group	
Lloyds Bank, Bank of Scotland		Lloyds Bank Corporate Markets		Scottish Widows		Lloyds Equity Investments	
Aa3 / A+ / A+	P-1 / A-1 / F1	A1 / A / A	P-1 / A-1 / F1	A2 / A / AA-	-	-	-
Senior Unsecured Covered Bonds ABS	CD, CP	Senior Unsecured (from H1 2019)	CD, Yankee CD, CP	Capital	-	-	-



Well diversified loan book of £444.4bn

YE2018 Loans & Advances (£bn, %)



- Retail lending-focused loan book (76% of total lending)
- Secured mortgages represent 65% of total book with an average LTV of 44%
- Credit quality remains strong; no deterioration in credit risk

Opportunities for growth in targeted key segments

Iconic brands

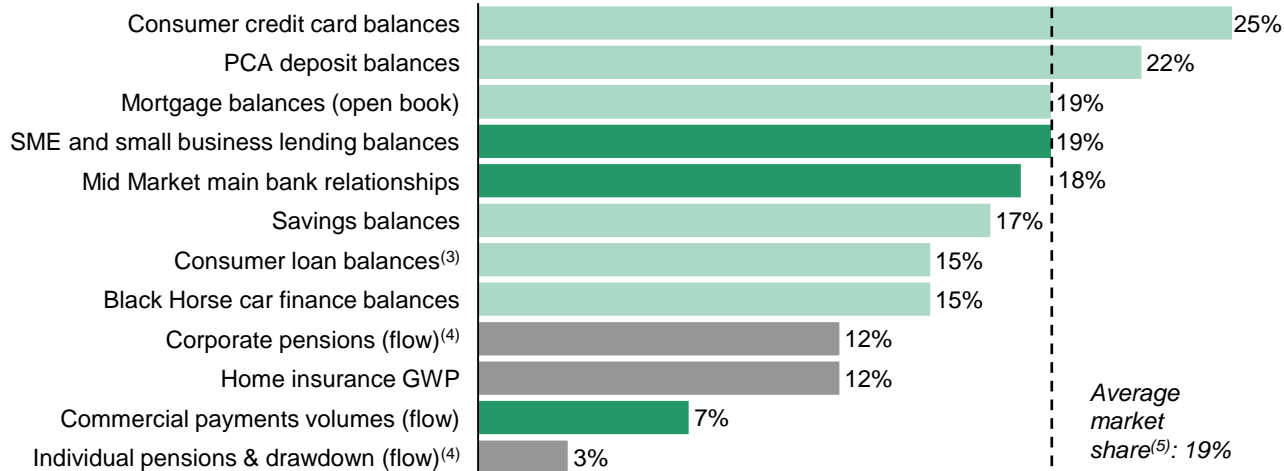


Strong franchise across key channels and products

Channels market share



Product market share



Channels Retail Commercial Banking Insurance & Wealth

1 – Volumes across PCAs, loans, savings, cards and home insurance. 2 – Based on CACI Branch Base data as at 1 December 2018 (excluding agency branches). 3 – Comprises unsecured personal loans, overdrafts and Black Horse retail lending balances. 4 – Annualised Premium Equivalent new business on a whole of market basis. 5 – Average market share calculated for core financial services products. Market data sources: ABI, BoE, CACI, eBenchmarkers, Experian pH, FLA, Ipsos MORI FRS, PayUK, Spence Johnson and internal estimates. All market shares FY18 except PCA & savings balances (Nov-18) and individual pensions & drawdown (9M18).



Clear strategic plan, delivering new sources of competitive advantage and future proofing our business model



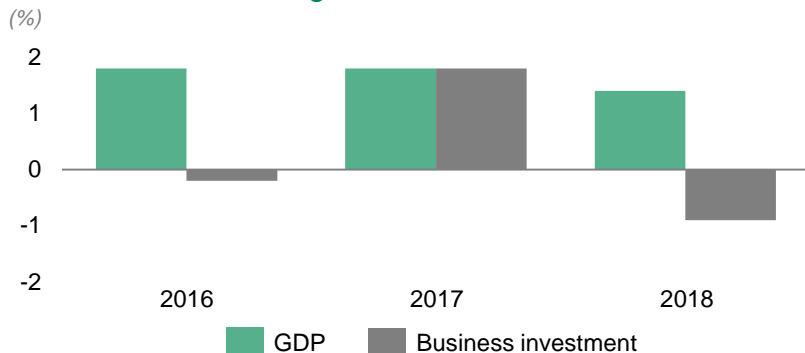
Transforming the Group for success in a digital world

- Number of deliverables achieved within first 12 months:
 - **Largest digital bank** in UK with **15.7m** digitally active users⁽¹⁾ and **74%**⁽²⁾ of products originated digitally, alongside **largest branch network in the UK**
 - Launched API-enabled **Open Banking aggregation** functionality
 - Provided differentiated **Single Customer View** to **>3m** customers⁽³⁾
 - **Building innovation pipeline** and collaborating with FinTechs to accelerate transformation, while announced strategic partnership with **Schroders** to create **market leading wealth proposition**
 - Delivered **targeted customer propositions** to better meet customer needs and grow in under represented segments
 - **£3bn** loan growth across **start-ups, SME and Mid-Markets**

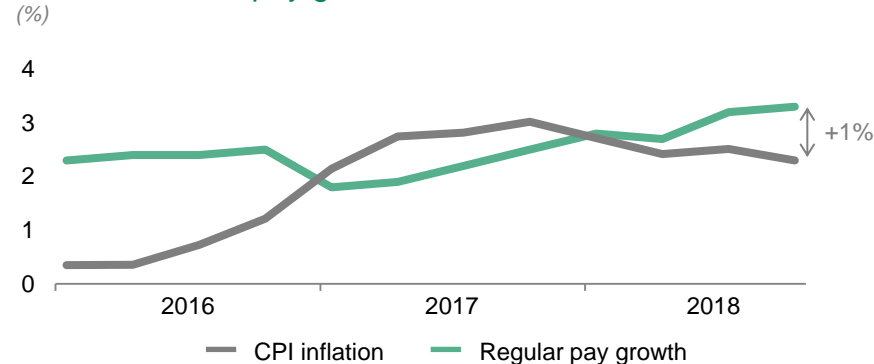


UK economy remains resilient despite heightened uncertainty

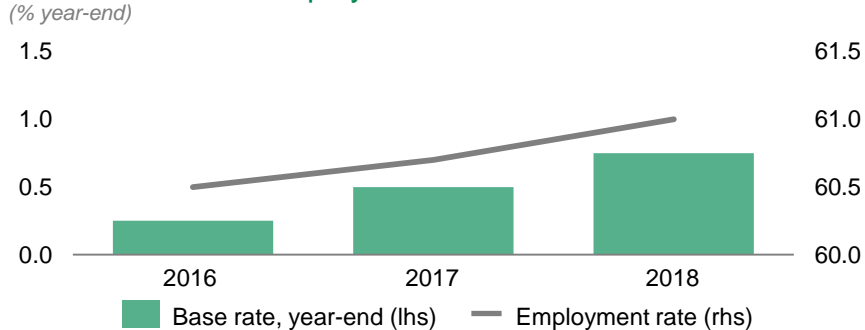
GDP and investment growth⁽¹⁾



CPI inflation and pay growth⁽¹⁾



Interest rates and employment^(1,2)



- Economic growth remains resilient and global growth forecast to slow slightly⁽³⁾
- Households benefiting from record employment rate and pay growth exceeding inflation
- Consumer indebtedness down 24% from pre-crisis
- Business investment lower in 2018
- Expect one 25bp rate rise per year to 2021



A number of key opportunities exist in 2019, building on our progress to date

OUR PURPOSE

Helping Britain Prosper

OUR AIM

Best bank for customers, colleagues and shareholders

OUR BUSINESS MODEL

Digitised, simple, low risk, customer focused, UK financial services provider

Transforming the Group for success in a digital world



- Well positioned to accelerate strategic delivery:
 - **Open Banking** aggregation functionality extended to all active mobile app customers and progressing towards >9m on **Single Customer View** by end of plan period
 - Building on **strong open book AuA customer net inflows** of £13bn in 2018⁽¹⁾, expect to generate c.£15bn in 2019⁽¹⁾
 - Developing **Scottish Widows Schroders** JV proposition ahead of planned launch by June 2019⁽²⁾:
 - To be branded **Schroders Personal Wealth** and aiming to become **a top 3 UK financial planning business within 5 years**
 - Broadening relationships with **targeted customer segments**, including recent launch of **Lend a Hand mortgage**
 - **Digitising credit decisioning** for **Business Banking and SME** clients, significantly reducing **time to cash**⁽³⁾

2018 Results





Strong financial performance with continued growth in profits and returns

Statutory profit after tax	£4.4bn +24%
Earnings per share	5.5p +27%
Underlying profit	£8.1bn +6%
Net income	£17.8bn +2%
Cost:income ratio (incl. remediation)	49.3% (2.5)pp
Cost:income ratio (excl. remediation)	46.0% (0.8)pp
Return on tangible equity	11.7% +2.8pp
Capital build (pre dividend and buyback)	210bps

- **Statutory profit after tax of £4.4bn up 24%, with EPS 27% higher**
- **Underlying profit up 6% at £8.1bn**
 - Net income of £17.8bn, 2% higher, with higher NIM of 2.93%
 - Cost:income ratio further improved to 49.3% with positive jaws of 5% and BAU costs⁽¹⁾ down 4%
 - Credit quality remains strong with gross AQR flat at 28bps and higher net AQR of 21bps due to lower write-backs and releases
- **Continued growth with loans up £4bn excluding the sale of Irish mortgages and current accounts £8bn higher in the year**
- **Increased return on tangible equity of 11.7%**
- **Strong CET1 capital increase of 210bps and CET1 ratio 13.9% post dividends and share buyback**
- **TNAV per share 53.0p up 1.3p after payment of dividends in 2018**

1 – Operating costs, less investment expensed and depreciation.



Balance sheet – quality of the portfolio continues to improve

- **Loans and advances £444bn, stable in 2018**

- Loan growth in targeted segments offsetting sale of the Irish mortgage portfolio
- Open mortgage book broadly flat while continuing to focus on the Group margin
- SME⁽¹⁾ growth 3% continues ahead of the market
- Continued high-quality growth in unsecured portfolio

- **Continued reduction in RWAs to £206bn**

- Continued de-risking of portfolio, including £4bn sale of Irish mortgage portfolio in 2018
- Improved capital returns and RWA efficiency through business mix optimisation

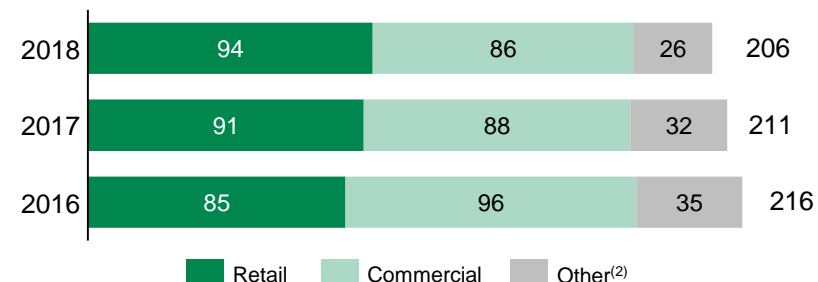
Loans and advances

(£bn)



Risk-weighted assets

(£bn)

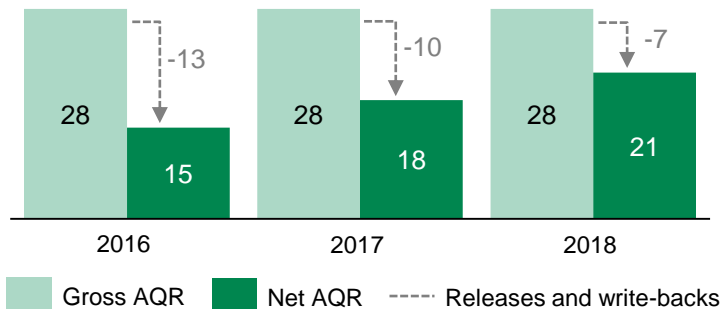




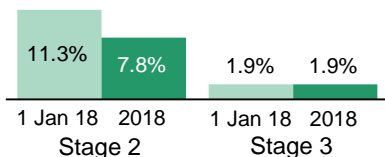
Credit quality remains strong reflecting a continued prudent approach to risk

Asset quality ratio

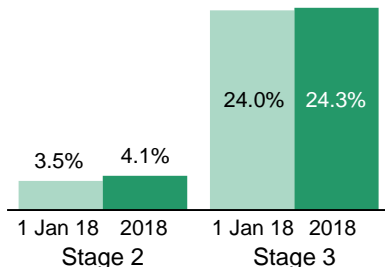
(bps)



IFRS 9 Stage 2 and 3 as proportion of total customer loans and advances⁽¹⁾



Stage 2/3 coverage^(1,2)

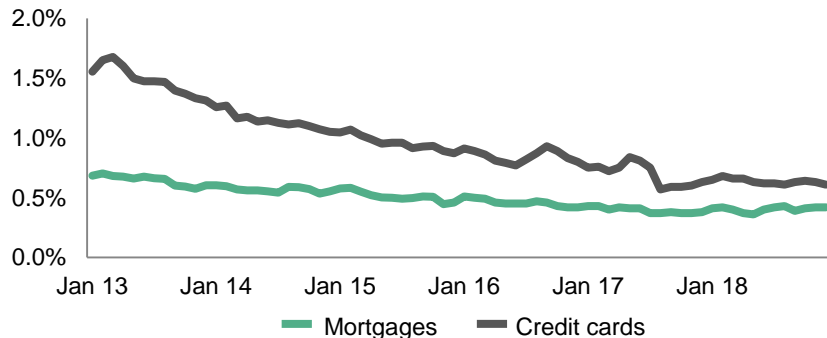


- **Gross AQR flat at 28bps with net AQR of 21bps up due to expected lower releases and write-backs**
- **Underlying credit portfolio remains stable**
- **Continuing to benefit from low risk approach**
- **Stage 2 and 3 balances down while expected credit loss coverage of Stages 2 and 3 increased**
- **Continue to expect AQR to be <30bps in 2019 and through the plan**

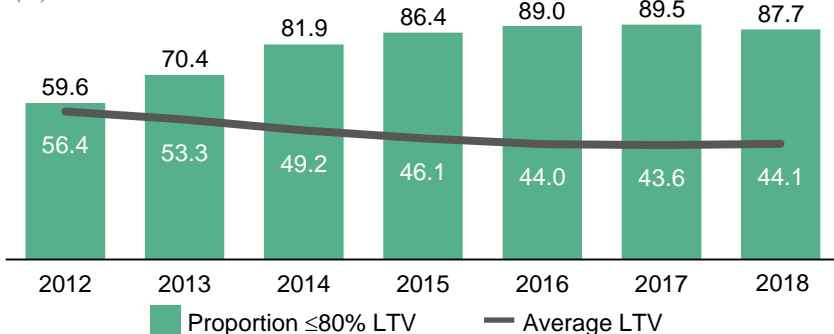


Diversified, high quality portfolios with new to arrears stable

Mortgages and credit cards – new to arrears as proportion of total book



Mortgage portfolio quality (%)



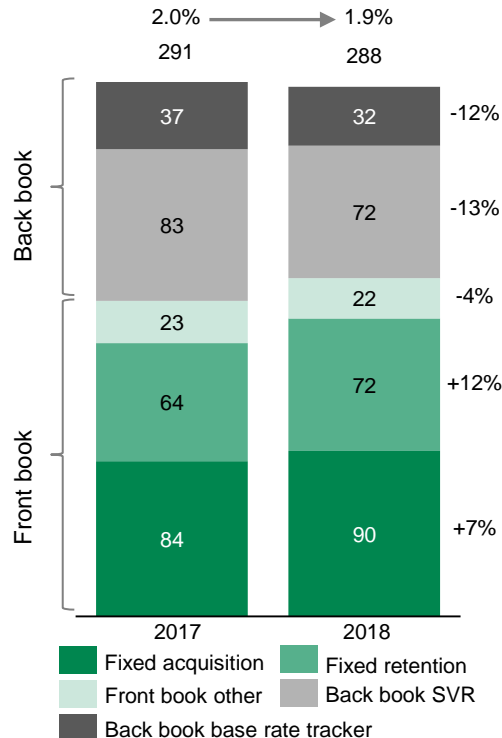
- **No deterioration in credit seen across mortgage portfolio with new to arrears remaining low**
- **High quality mortgage book; low average LTV 44.1%**
 - Legacy balances declining: pre-2009 vintages down 13% in 2018, including Specialist book down 11%
- **Diversified and high quality Commercial portfolio**
 - Prudent approach to vulnerable sectors/single names
- **Prime credit card book with conservative risk appetite**
 - New to arrears low and MBNA in line with expectations
- **Prudent approach to Motor Finance**
 - Continued profit on sale given prudent residual values
 - Maintained protection from c.£200m residual value and specific event provision



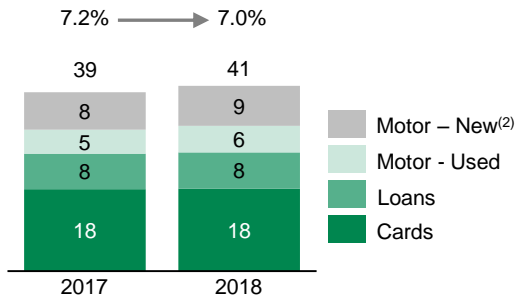
Asset pricing and mix: mortgage pricing remains competitive but margin resilient

(Book size £bn, Gross margin %⁽¹⁾)

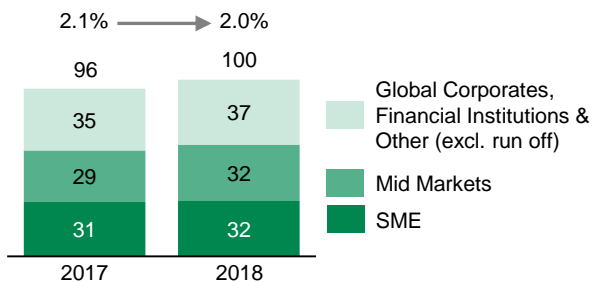
Mortgage book



UK consumer finance



Commercial Banking incl. Retail Business Banking⁽³⁾



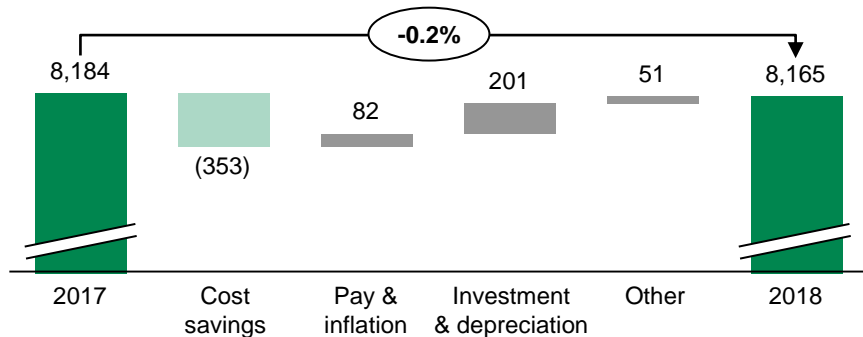
- Mortgage pricing remains competitive and focus remains on margin and risk ahead of volume
- Back book now £104bn with attrition stable at c.13%
 - Average back book rate c.3.7% and only 14% of customers pay >4.25%
 - c.£17bn of back book mortgages on balance of less than £50k
- Mix benefiting from c.75% retention
- Targeted growth in consumer finance supporting Group margin
- Resilient Commercial margin; targeted growth in SME and Mid Markets

1 – Gross margin is gross customers receivables or payables, less short term funding costs (LIBOR or relevant swap rates). 2 – Includes Fleet, Stocking and Lex Finance. 3 – Prior periods restated to reflect changes in operating structures.

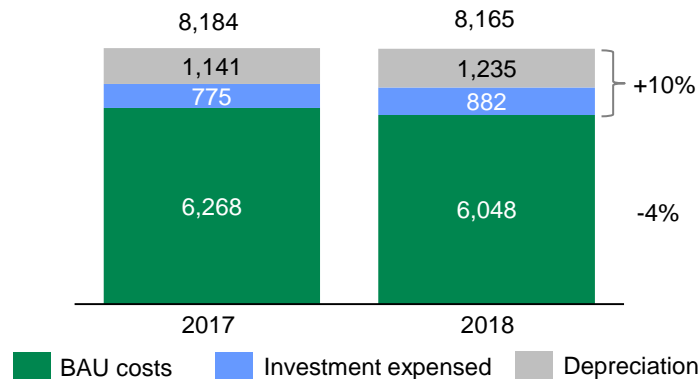


Operating costs continue to provide competitive advantage despite increased strategic investment

Operating costs⁽¹⁾
(£m)

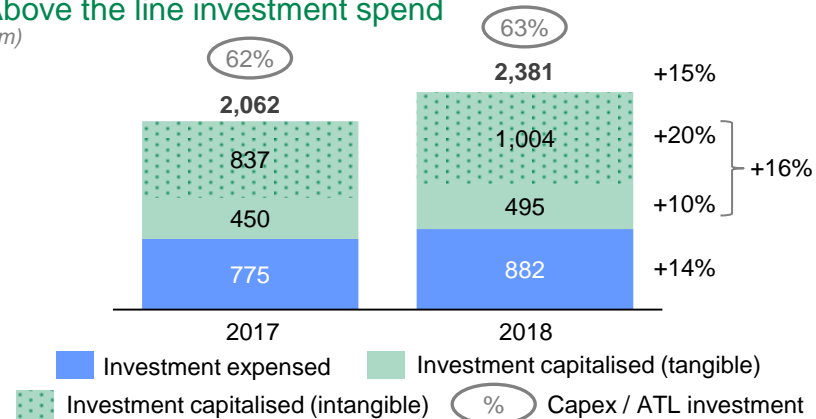


Operating costs⁽¹⁾
(£m)



- Operating costs down with BAU costs -4% and investment expensed and depreciation £2.1bn, +10%
- Above the line investment £2.4bn included c.£1bn of strategic investment; on track for >£3bn by end 2020
- Capitalisation broadly stable at c.60% of above the line investment or c.50% of total investment
- Remediation down 31% with further significant reduction expected in 2019
- Operating costs now expected to be <£8bn in 2019

Above the line investment spend
(£m)



1 – Operating costs exclude operating lease depreciation.



Market leading efficiency creates capacity for increased investment

Net cost reduction to <£8bn in 2019

Future proofing our business model

Market leading efficiency

Freeing up capital for >£3.0bn strategic investment

Greater investment capacity

Continued focus on BAU cost reduction

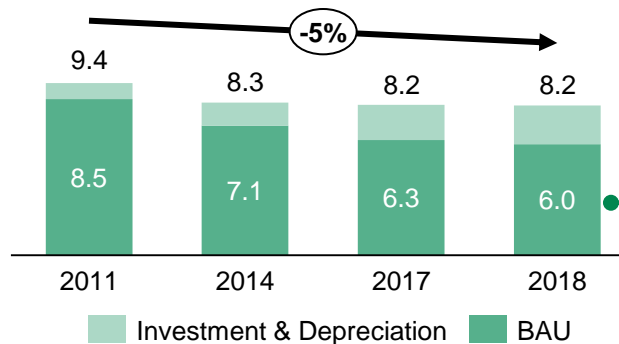
Operating costs⁽¹⁾, £bn

Cost:income ratio (%)⁽¹⁾:



BAU Costs CAGR

-5%



Selected examples:

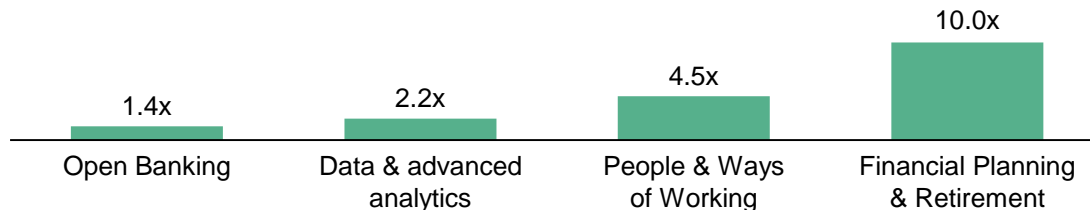
- Staff costs down 4% YoY
- General expenses down 7% YoY
- Professional services down 13% YoY

Low 40s
2020 Exit rate



Creating capacity for >£3bn strategic investment over plan period

2018 strategic investment as multiple of 2017 (Selected examples)

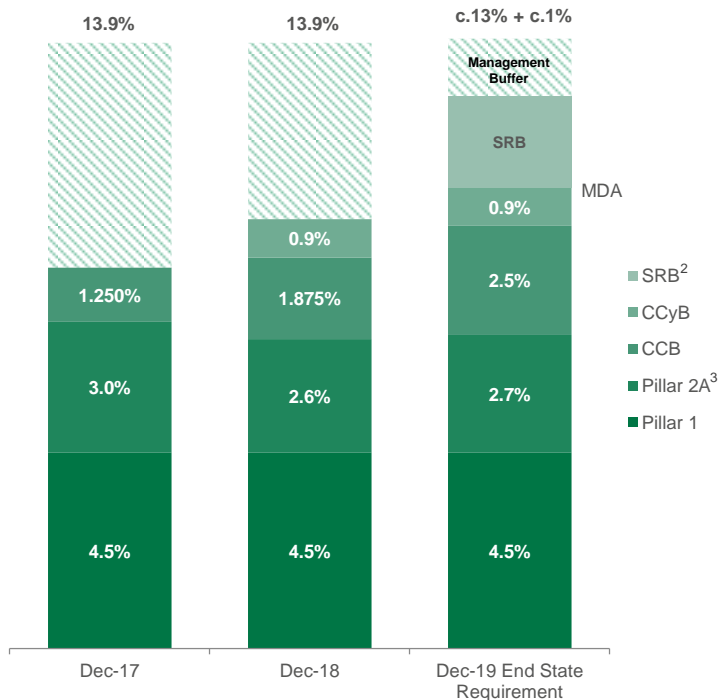


1 – Excludes TSB, includes remediation.

Capital, Funding & Liquidity

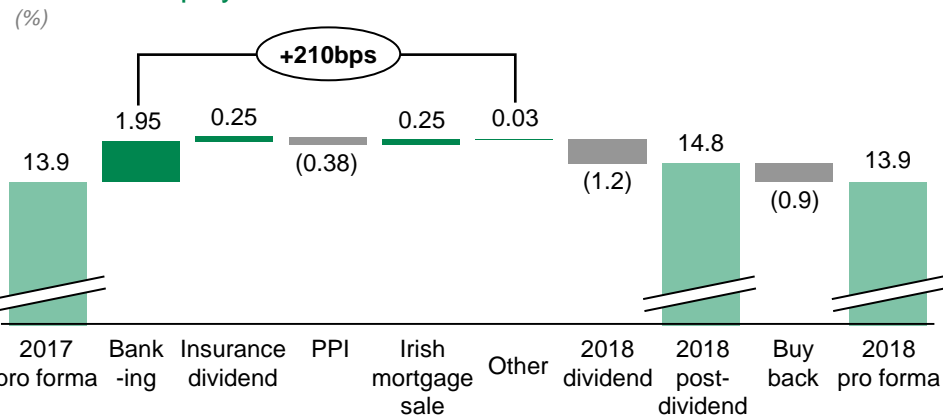


Robust capital buffers supported by strong capital build in 2018



- CET1 ratio of 13.9%⁴ post dividend accrual & share buyback
- 210bps of CET1 build (195bps from underlying performance); guidance remains at 170-200 bps p.a.
- CET1 target remains c.13% plus a management buffer of around 1%
- UK leverage ratio improved to 5.6%⁵

Common equity tier 1 ratio

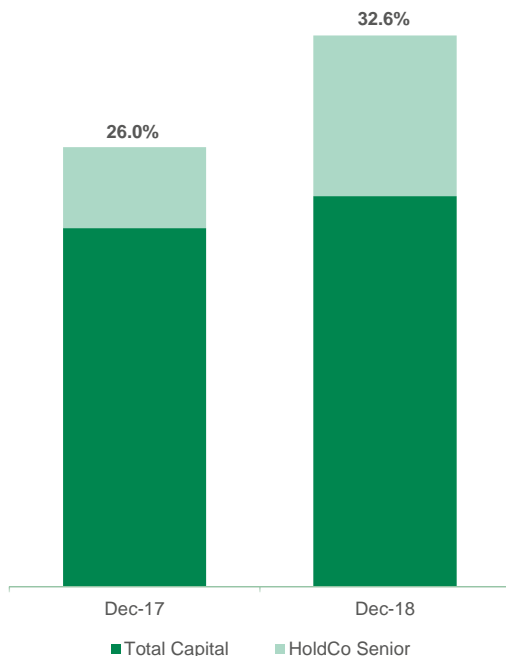


1 - Chart not to scale. 2 - Systemic Risk Buffer to be communicated by the PRA in 2019. Applicable to the RFB sub-group. 3 - Pillar 2A reviewed annually by the PRA. Dec-19 figure applicable as at 1 Jan 2019. 4 - The CET1 ratio of 13.9% is pro forma, reflecting the Insurance dividend to be received in February 2019, ordinary dividends and the share buyback. The Leverage ratio of 5.6% is pro forma, reflecting the Insurance dividend to be received in February 2019

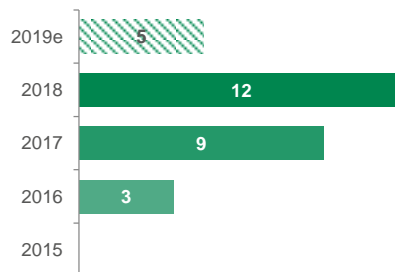
MREL ratio ahead of interim requirement, well on-track for end-state



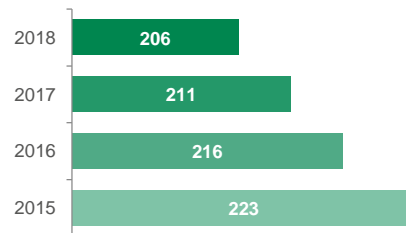
Transitional MREL Ratio



HoldCo Issuance (£bn)

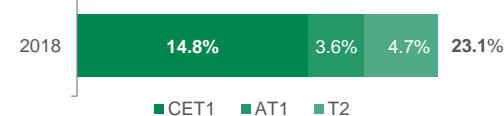


RWAs (£bn)



- Strong total capital ratio of 23.1% means minimal additional capital needs over 2019

Total Capital by Type

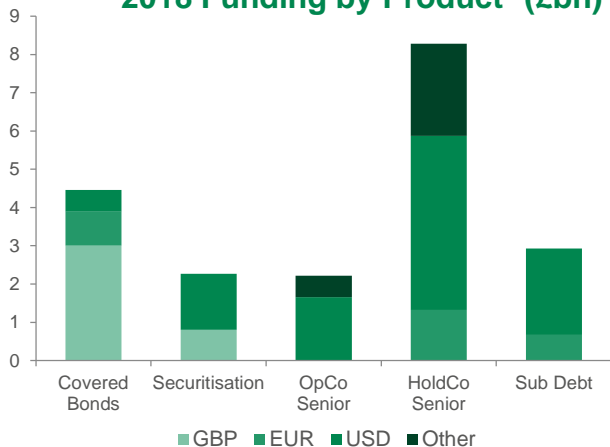


- MREL issuance steady state of c.£5bn p.a. on average

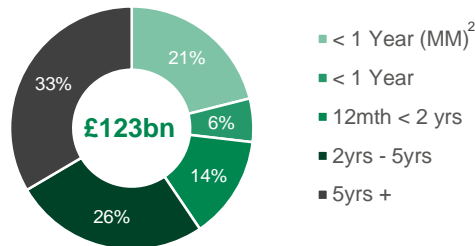


Successful year across capital markets, validating diversified funding model

2018 Funding by Product¹ (£bn)

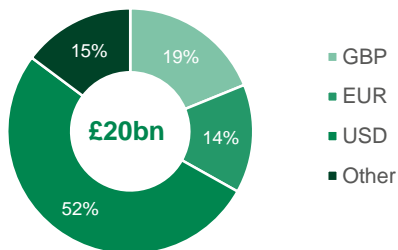


All Funding by Maturity

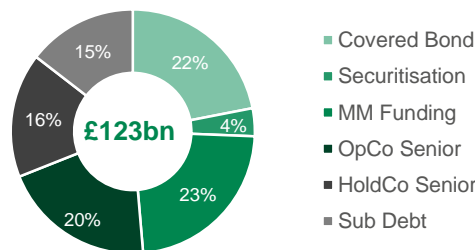


- £21.4bn raised during 2018 versus steady state requirements of £15-20bn p.a.
- 2019 expected to be closer to £15bn
- Diverse funding model:
 - Core markets: USD, EUR and GBP
 - Strategic markets AUD, JPY, CAD, NOK and CHF

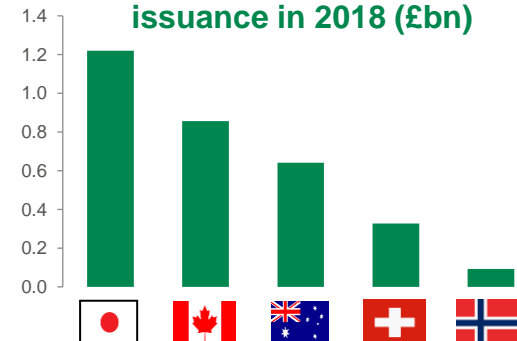
2018 Funding by Currency¹



All Funding by Product



c.£3bn strategic currency issuance in 2018 (£bn)



1 - Excludes Private Placements & Money Markets. £20.2bn Gross Public Issuance (£21.4bn incl. Private Placements), 2 - Includes margins & settlements

Appendix





Strong mortgage portfolio with continued low LTVs

£289bn gross lending; total market share 21% and 19% of open book

	Dec 2018				Dec 2017	Dec 2010
	Mainstream	Buy to let	Specialist	Total	Total	Total ⁽¹⁾
Average LTVs	42.5%	52.1%	45.8%	44.1%	43.6%	55.6%
New business LTVs	63.1%	58.6%	n/a	62.5%	63.0%	60.9%
≤ 80% LTV	86.1%	94.2%	88.2%	87.7%	89.5%	57.0%
>80–90% LTV	10.7%	4.6%	6.6%	9.4%	8.0%	16.2%
>90–100% LTV	2.8%	0.7%	2.0%	2.4%	1.9%	13.6%
>100% LTV	0.4%	0.5%	3.2%	0.5%	0.6%	13.2%
Value >80% LTV	£31.1bn	£3.0bn	£1.6bn	£35.7bn	£30.7bn	£146.6bn
Value >100% LTV	£0.8bn	£0.3bn	£0.4bn	£1.5bn	£1.8bn	£44.9bn
Gross lending	£223bn	£52bn	£14bn	£289bn	£292bn	£341bn

1 – 2010 LTVs include TSB.



Creating a market leading wealth proposition for customers



Clear rationale for strategic partnership between two of UK's strongest financial services businesses



Unique client base

Multi-channel distribution model with leading digital franchise

Schroders

Investment & wealth management expertise with well-established brand

Expert technology capabilities



Delivering significant growth in line with strategy

- Growth will be **in addition** to existing **£50bn FP&R open book AuA** growth target

Asset management capabilities covered by new long-term agreement

Market leading wealth proposition with full and unique market offering

Mass Market

- **Digitally enabled direct** Financial Planning & Retirement offer

Mass Affluent – Affluent

- Joint venture – 50.1% holding⁽¹⁾
- **Scottish Widows Schroders** planned launch by June 2019⁽¹⁾; JV to be branded **Schroders Personal Wealth**
- Aim to be **top-3 UK financial planning business** within 5 years
- c.300 advisors on day 1; expected to more than double within 3 years

High Net Worth Customers

- **19.9% stake in Cazenove Capital**
- Leading wealth management and investment funds business

Forward looking statements and basis of presentation



Forward looking statements

This document contains certain forward looking statements with respect to the business, strategy, plans and /or results of 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; the ability to achieve strategic objectives; changing customer behaviour including consumer spending, saving and borrowing habits; changes to borrower or counterparty credit quality; concentration of financial exposure; management and monitoring of conduct risk; instability in the global financial markets, including Eurozone instability, instability as a result of uncertainty surrounding the exit by the UK from the European Union (EU) and as a result of such exit 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; risks relating to climate change; 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 transition from IBORs to alternative reference rates; 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 Results News Release.

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Website: www.lloydsbankinggroup.com/investors/fixed-income-investors

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