

**LLOYDS**  
BANKING GROUP



# FIXED INCOME INVESTOR PRESENTATION

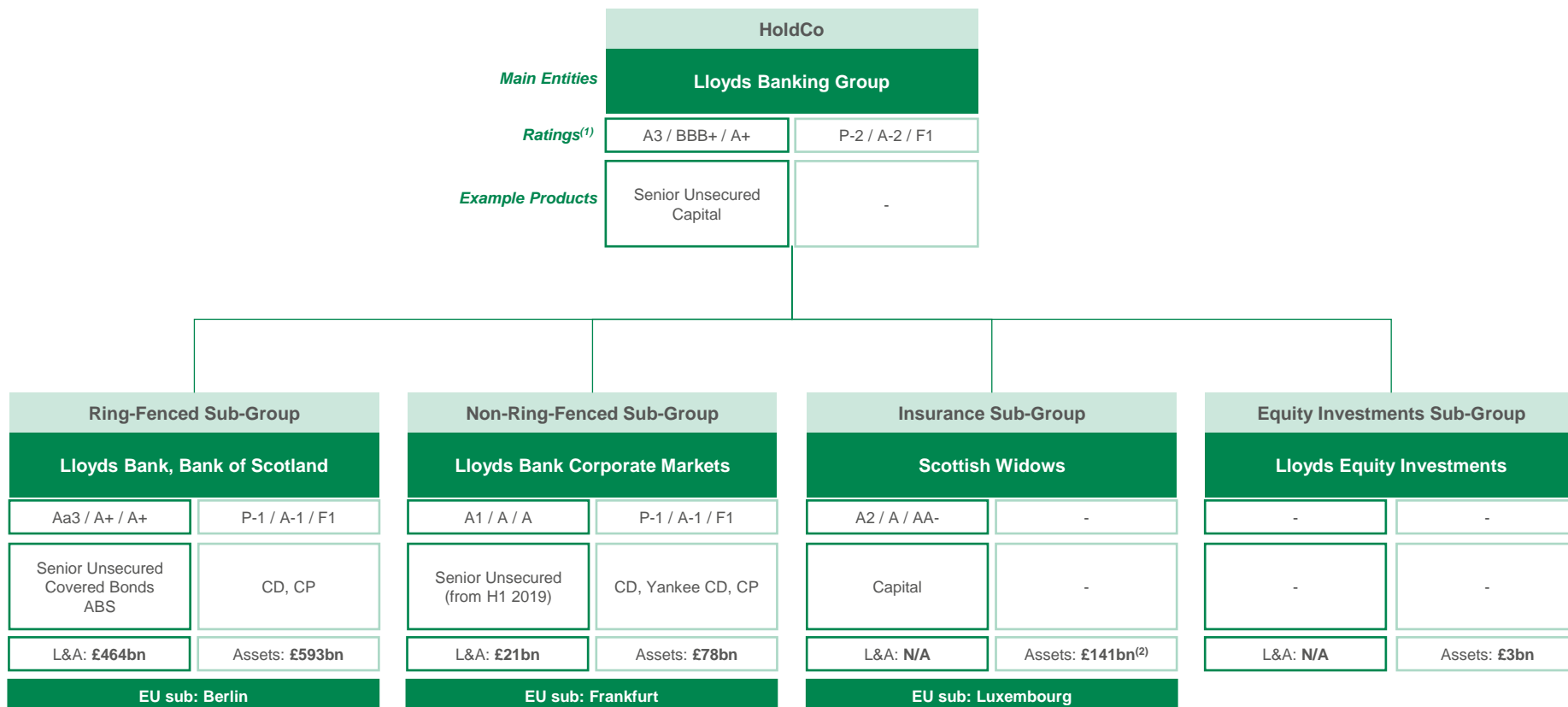
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Q1 2019

# Group Overview

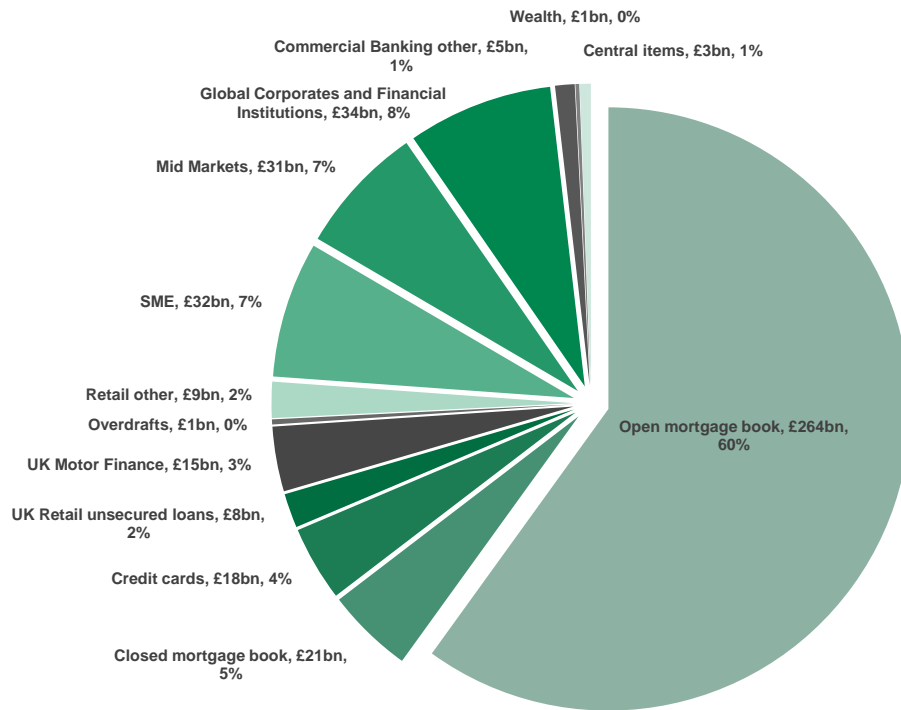


# Simple group structure with multiple issuance points



# Well diversified loan book of £441bn

## Q1 2019 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% (as at Dec-18)
- Credit quality remains strong; no deterioration in credit risk



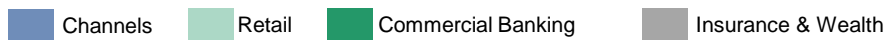
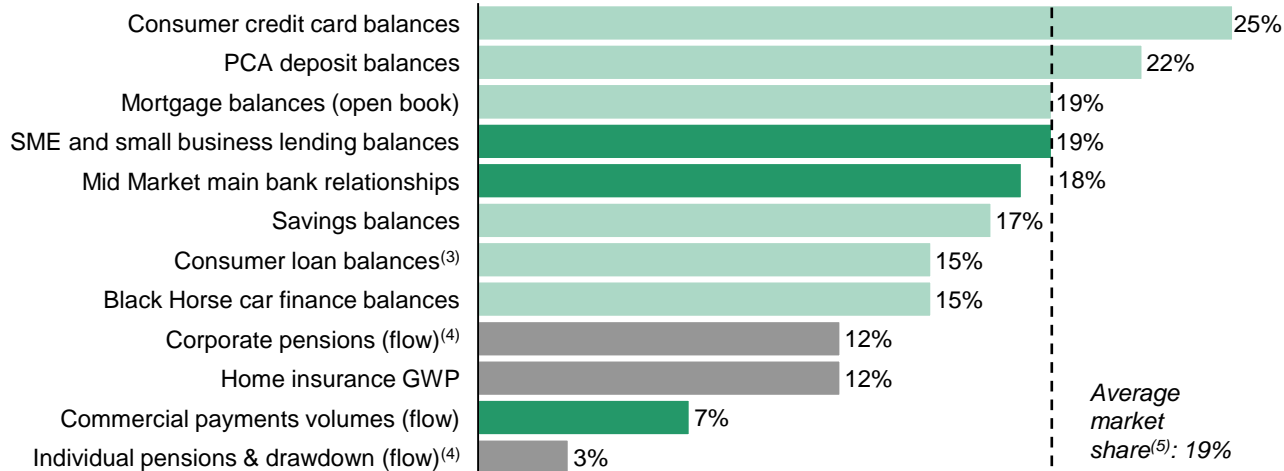
# Iconic brands with strong multichannel franchise



## Channels market share



## Product market share

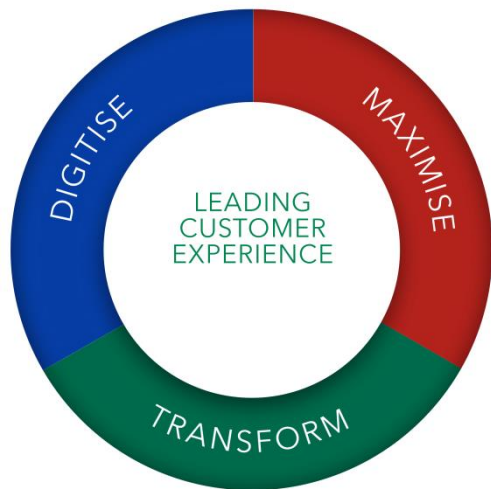


1 – Volumes across PCAs, loans, savings, cards and home insurance. 2 – Based on CACI Branch Base data as at 1 December 2018 (excluding agency branches). 3 – Comprises unsecured personal loans, overdrafts and Black Horse retail lending balances. 4 – Annualised Premium Equivalent new business on a whole 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).



# Strong start to the second year of the Group's current strategic plan

## Transforming the Group for success in a digital world



**>£3bn** strategic investment  
2018 – 2020

### Further progress on digitising the Group and enhancing customer propositions

- **Strategic investment of £1.2bn** to date; technology spend 17% of operating costs
- **MBNA migration** completed ahead of schedule; increased RoI of 18% expected
- **Schroders Personal Wealth** on track to launch in Q2 2019
- Launched **self-serve Business Banking loans**, reducing application time to 6 minutes; new **digitised SME lending tool** reducing RM time by >30%<sup>(1)</sup>
- Digitised **insurance claims** process launched, with >50% claimant usage
- **Single Customer View** providing unique integrated access to banking and insurance products; continued roll out of **Open Banking** with 60,000 users
- **15.9m digitally active users**, up 0.2m in Q1 2019
- Overall **NPS** improved from 62 to 64, driven by Branch and Digital channels
- Introduced **cloud-based HR system**, enabling consolidation of 60 systems and processes
- Use of **e-auctions** driving average contract renewal cost savings of >10%

# Q1 2019 Results



# Strong business performance with increased profits and market leading returns



<b>Net income</b>	<b>£4.4bn</b> <b>+2%</b>
<b>Cost:income ratio (incl. remediation)</b>	<b>44.7%</b> <b>(3.1)pp</b>
<b>Cost:income ratio (excl. remediation)</b>	<b>44.3%</b> <b>(2.1)pp</b>
<b>Underlying profit</b>	<b>£2.2bn</b> <b>+8%</b>
<b>Statutory profit after tax</b>	<b>£1.2bn</b> <b>+2%</b>
<b>Earnings per share</b>	<b>1.49p</b> <b>+2%</b>
<b>Return on tangible equity</b>	<b>12.5%</b> <b>+0.2pp</b>
<b>Capital build (pre-dividend accrual)</b>	<b>31bps</b> <i>after 11bps for IFRS 16</i>

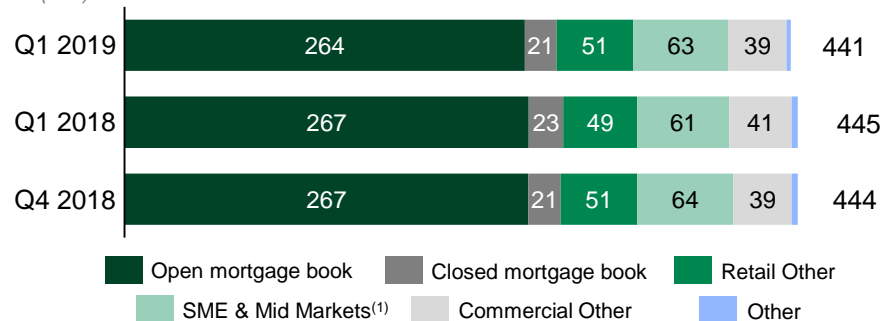
- **Statutory profit after tax of £1.2bn up 2% with strong RoTE of 12.5% and EPS up 2% to 1.49p; TNAV up 0.4p on year end to 53.4p**
- **Underlying profit of £2.2bn up 8%**
  - Increased net income with NIM robust at 291bps
  - Lower costs with cost:income ratio further improved to 44.7%
- **Credit quality remains strong; net AQR of 25bps up on Q4 reflecting expected lower releases and write backs**
  - Gross AQR of 30bps stable on Q4 2018
- **Capital build of 31bps after 11bps expected one-off IFRS 16 impact**
- **Reduced CET1 guidance of c.12.5% plus a management buffer of c.1% following Systemic Risk Buffer notification and lower Pillar 2A**



# Continued growth in targeted segments while continuing to optimise the portfolio

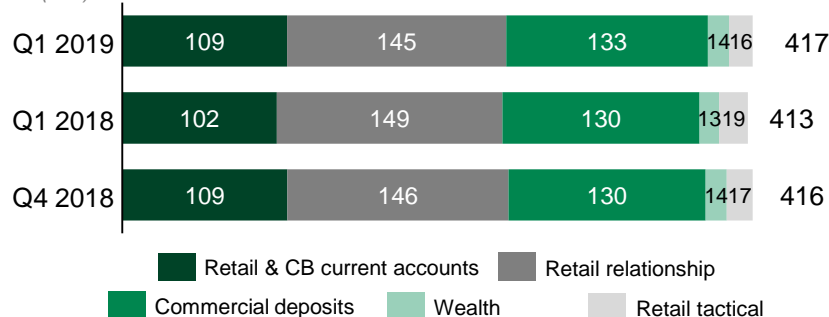
## Loans and advances

(£bn)



## Liability mix

(£bn)



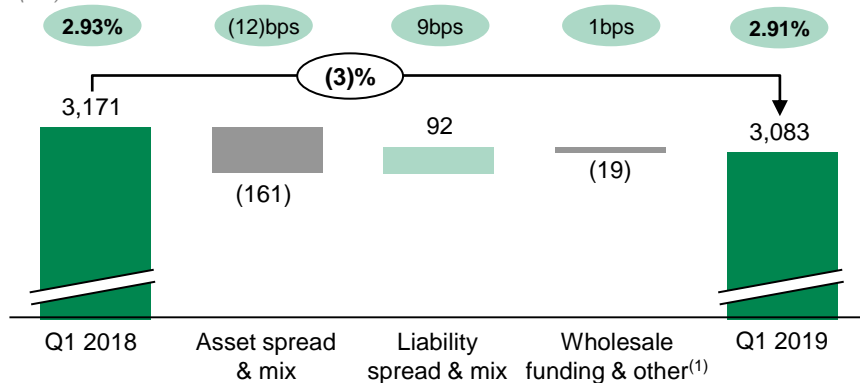
- **Prudent lending growth in targeted segments**
  - Open mortgage book reduction due to expected maturities and ongoing pricing discipline; continue to expect balances to close 2019 in line with end 2018
  - Continued SME growth, +£0.7bn on Q1 2018<sup>(1)</sup>
  - Motor Finance growth continuing ahead of market with increase of £1.5bn on Q1 2018
- **Continue to target current account balances, reduce tactical balances and optimise mix**
  - Current account balances up £6.7bn on Q1 2018 with increases in both Retail and Commercial
- **RWAs up on Q4 2018 at £208bn with reductions in low risk-weighted mortgages offset by IFRS 16 increase**

# Strong financial performance with resilient margin and reducing costs



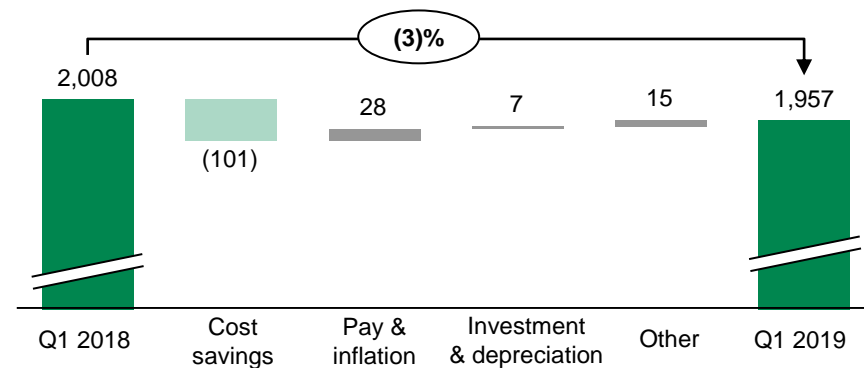
## Net interest income

(£m)



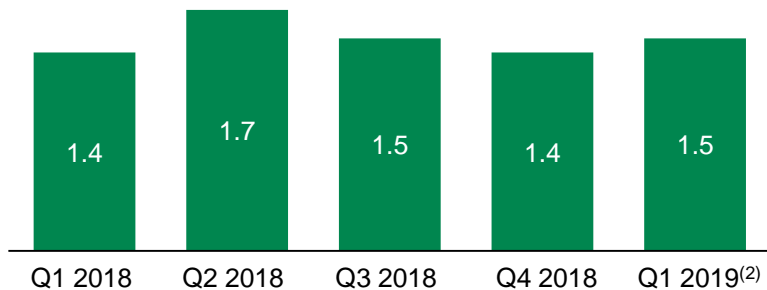
## Operating costs

(£m)



## Other income

(£bn)



- Net income of £4.4 billion up 2%**

- NII down with robust NIM of 2.91% and AIEAs down 1%
- Other income up with lower investment management charges
- Lower operating lease depreciation of £219m mainly reflecting robust used car prices

- Total costs of £1,977m down 4% with lower operating costs (down 3% to £1,957m) and lower remediation charges; cost:income ratio improved to 44.7%**

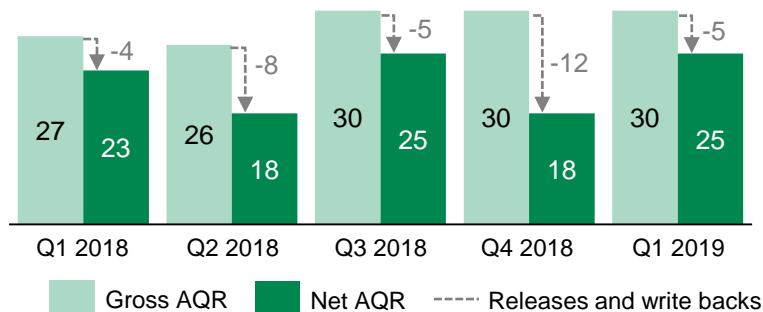
1 – Other includes non-banking net interest income. 2 – Q1 2019 excludes Vocalink gain of £50m.

# Low risk business model with prudent participation choices

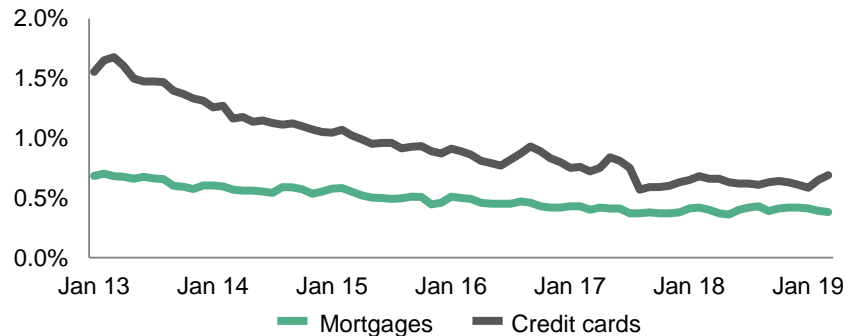


## Asset quality ratio

(bps)



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

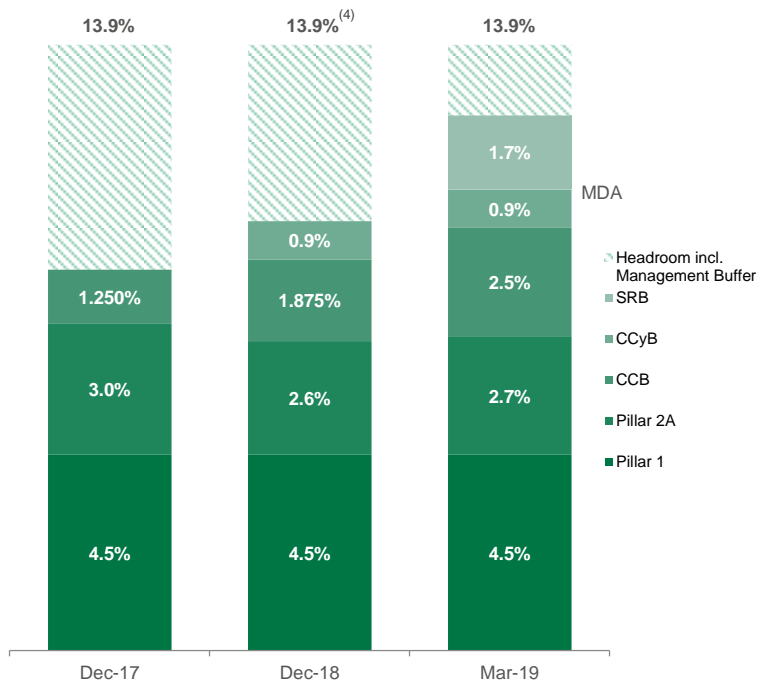


- **Gross AQR stable on Q4 2018 at 30bps; net AQR up on Q4 due to expected lower releases and write backs**
- **Underlying credit quality remains strong with no deterioration in credit risk though Brexit uncertainty persists**
  - Low average mortgage LTV of 43% with stable new to arrears; new business average LTV 62% and c.89% of portfolio continues to have LTV ≤80%
  - Prime credit card business with conservative underwriting and new to arrears remaining low
  - Motor finance book largely secured lending with prudent residual values
  - Diversified and high quality Commercial portfolio with impairments remaining low

# Q1: Capital, Funding & Liquidity

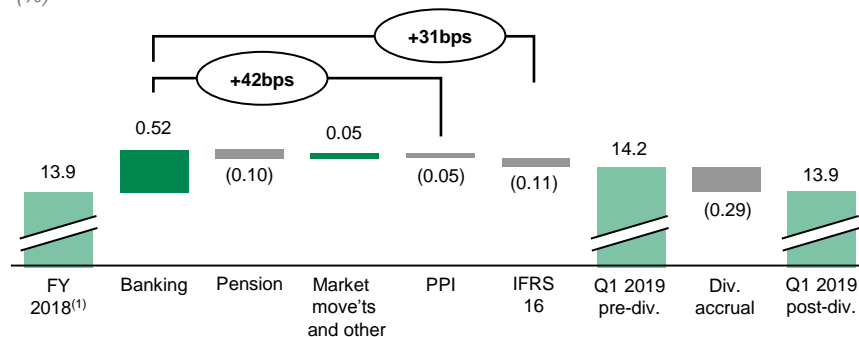


# Updated capital requirements; continued strong capital build



- Systemic Risk Buffer confirmed at 2.0% for the ring-fenced subgroup (equivalent to 1.7% at Group)
- Pillar 2A reduced by 30bps in 2018
- CET1 guidance has reduced from c.13% to c.12.5%, plus a management buffer of c.1%
- Capital distribution policy unchanged
- Capital build of 31bps in Q1 (post impact of IFRS 16), and expected ongoing capital build of 170-200bps per annum

## Common equity tier 1 ratio (%)

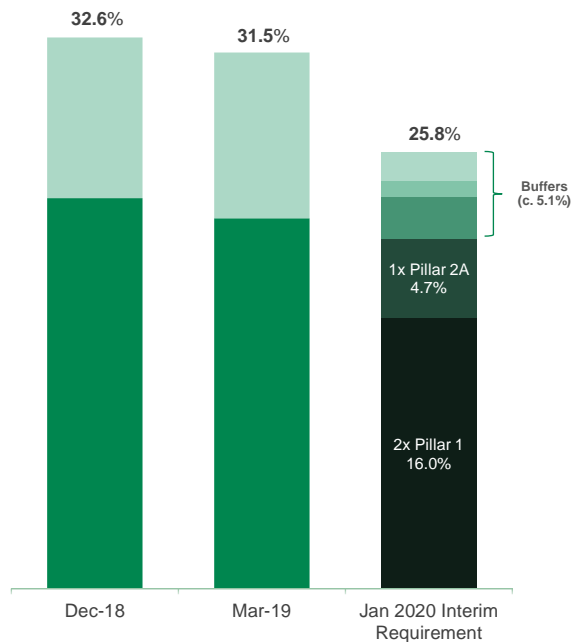


1 - Chart not to scale. 2 - Systemic Risk Buffer of 2.0%, applicable to the RFB sub-group, effective from 1 August. This equates to 1.7% at Group level. 3 - Pillar 2A reviewed annually by the PRA. 4 - The Dec-19 CET1 ratio of 13.9% is pro forma, reflecting the Insurance dividend to be received in February 2019, ordinary dividends and the share buyback.

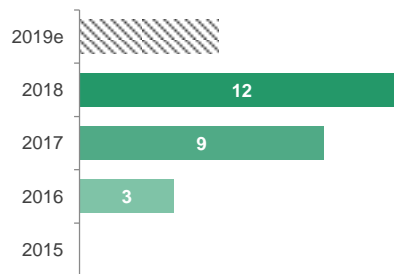
# MREL ratio ahead of interim requirement, well on-track for end-state



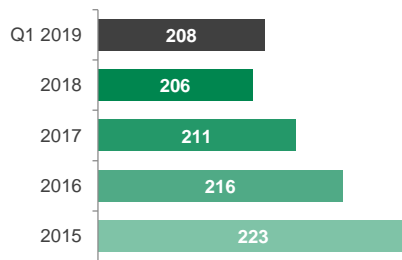
## Transitional MREL Ratio



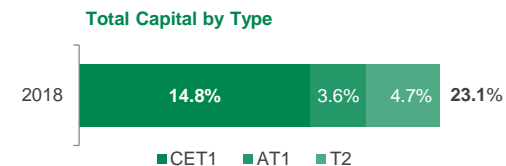
## HoldCo Issuance (£bn)



## RWAs (£bn)

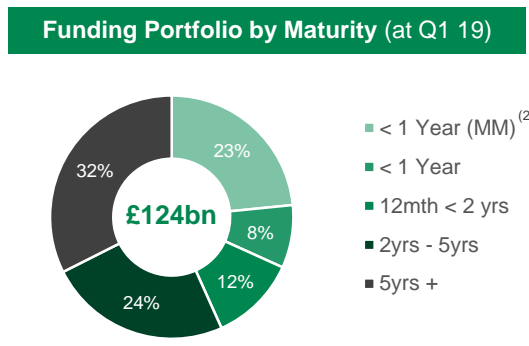
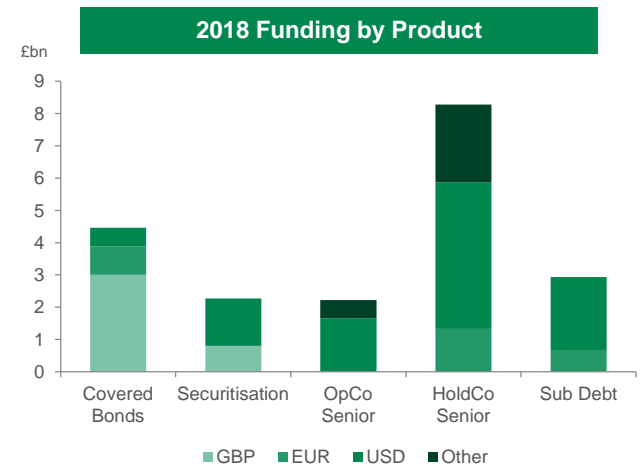


- Strong total capital ratio of 23.1% at FY 2018 means minimal additional capital needs over 2019

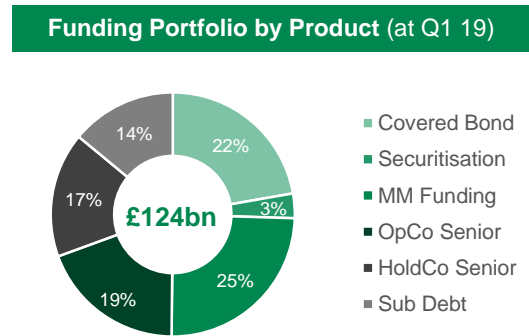
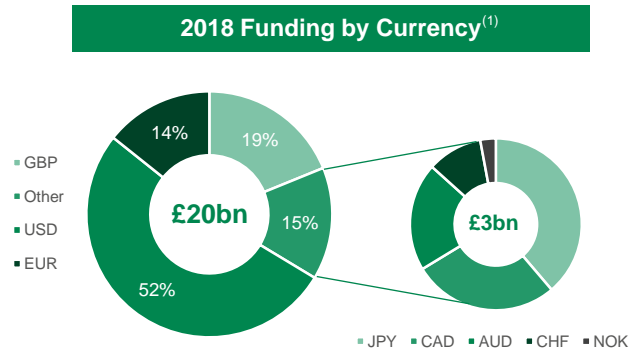


- Steady state MREL issuance of c.£5bn p.a. on average
- \$1bn HoldCo Senior issuance in Q1 2019

# Good progress on 2019 funding plan, building on a successful 2018



- **£21.4bn raised during 2018, inclusive of pre-funding for 2019**
- **£2.8bn equivalent issued across 3 trades in Q1 2019**
- **Steady state funding requirement of £15-20bn per annum, diversified across:**



- **Core markets - USD, EUR and GBP**
- **Strategic markets - AUD, JPY, CAD, NOK and CHF**

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

# 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

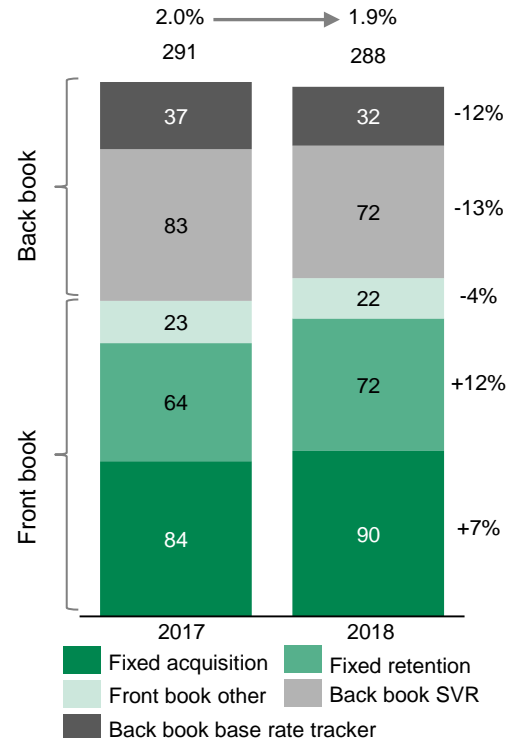
- **Statutory profit after tax of £4.4bn up 24%, with EPS 27% higher**
- **Underlying profit up 6% at £8.1bn**
  - Net income of £17.8bn, 2% higher, with higher NIM of 2.93%
  - Cost:income ratio further improved to 49.3% with positive jaws of 5% and BAU costs<sup>(1)</sup> down 4%
  - Credit quality 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.

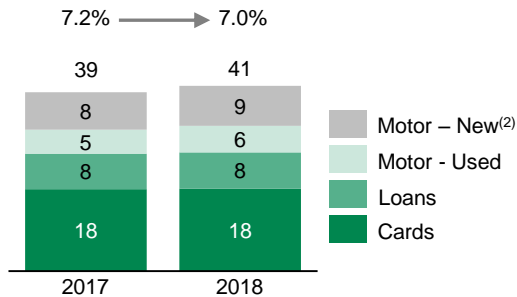
# Asset pricing and mix: mortgage pricing remains competitive but margin resilient

(Book size £bn, Gross margin %<sup>(1)</sup>)

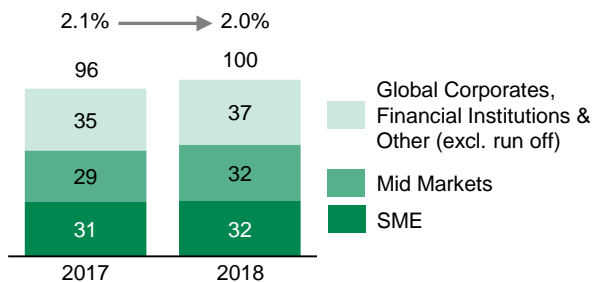
## Mortgage book



## UK consumer finance



## Commercial Banking incl. Retail Business Banking<sup>(3)</sup>



- 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.

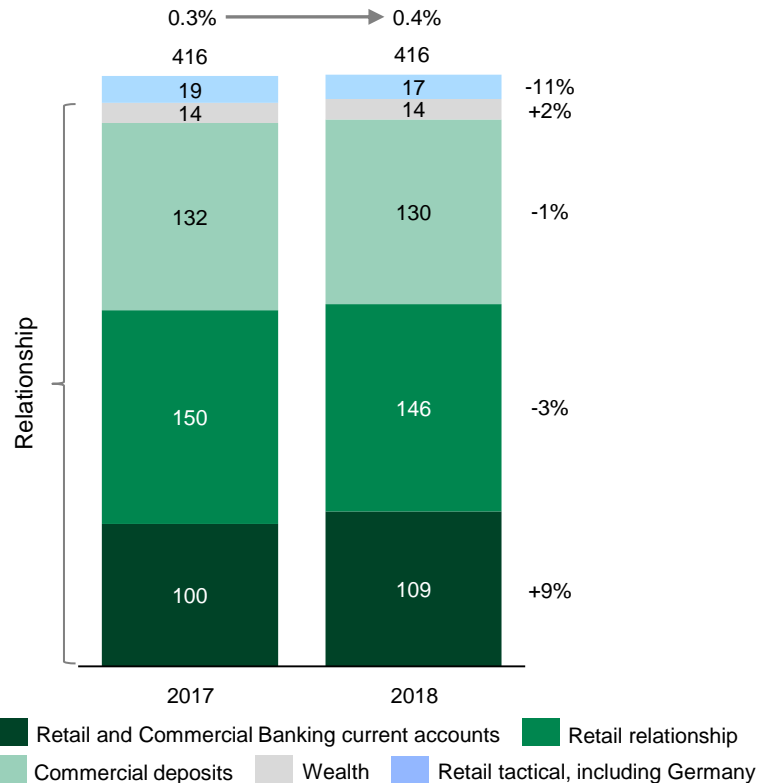
3 – Prior periods restated to reflect changes in operating structures.



# Liability pricing and mix: current account growth and prudent structural hedging programme

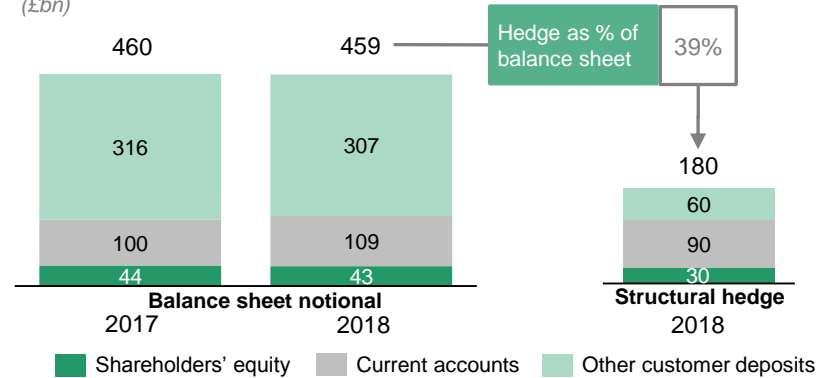
## Improving liability mix<sup>(1)</sup>

(Book size £bn, Gross margin %)



## Hedged balances<sup>(2)</sup>

(£bn)



- Increased liability margin due to mix shifting to high quality current accounts**
  - Current accounts £109bn, 9% higher and tactical balances £17bn, down 11%; loan to deposit ratio stable
- Structural hedge £180bn; weighted average life c.4 years**
  - Hedge balance earnings of 0.7% or £1.4bn over LIBOR and £2.7bn in total; will continue to support NIM over the plan
  - 1pp move in curve drives c.£1.8bn increase in NII in time

1 – Includes Retail Business Banking within SME and other reclassifications. 2 – Equity, savings and current accounts have a behavioural life of 10, 5 and 10 years respectively.

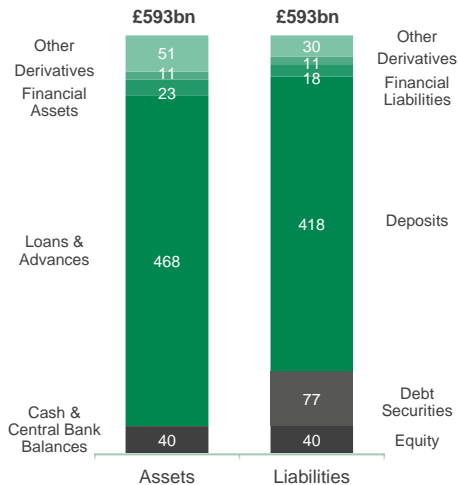
# Appendix



# FY 2018 | Legal entity balance sheet analysis

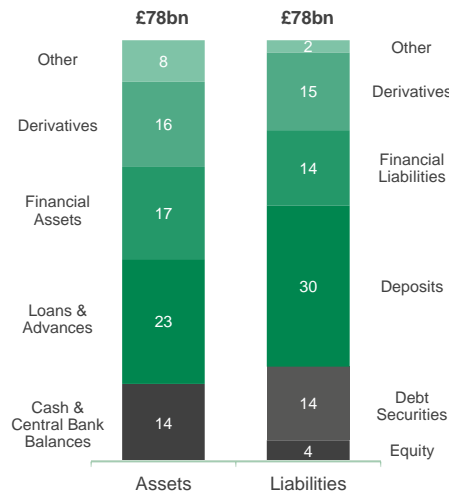


## Lloyds Bank Plc (RFB)



RWAs	£174.4bn
CET1 Ratio	14.9%
Tier 1 Ratio	18.3%
Total Capital Ratio	22.4%
CRD IV Leverage	4.7%

## Lloyds Bank Corporate Markets Plc (NRFB)



RWAs	£19.9bn
CET1 Ratio	13.7%
Tier 1 Ratio	17.5%
Total Capital Ratio	20.9%

- Over 95% of Group loans & advances remain within the ring-fenced bank
- Majority of Lloyds Bank, Bank of Scotland and Halifax banking activities including current accounts, savings and deposits

- Primary business lines include lending to financial institutions, capital markets and non-EEA activity
- Strong capital position with lower requirements than the RFB



## Strong mortgage portfolio with continued low LTVs

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

# 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<sup>(1)</sup>
- **Scottish Widows Schroders** planned launch by June 2019<sup>(1)</sup>; 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





# Debt Investor Relations Contacts



Website: [www.lloydsbankinggroup.com/investors/fixed-income-investors](http://www.lloydsbankinggroup.com/investors/fixed-income-investors)

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## 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 within the 2019 Q1 Interim Management Statement.

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