

**LLOYDS**  
BANKING GROUP



# FIXED INCOME INVESTOR PRESENTATION

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FY 2019

# Group Overview & Strategy





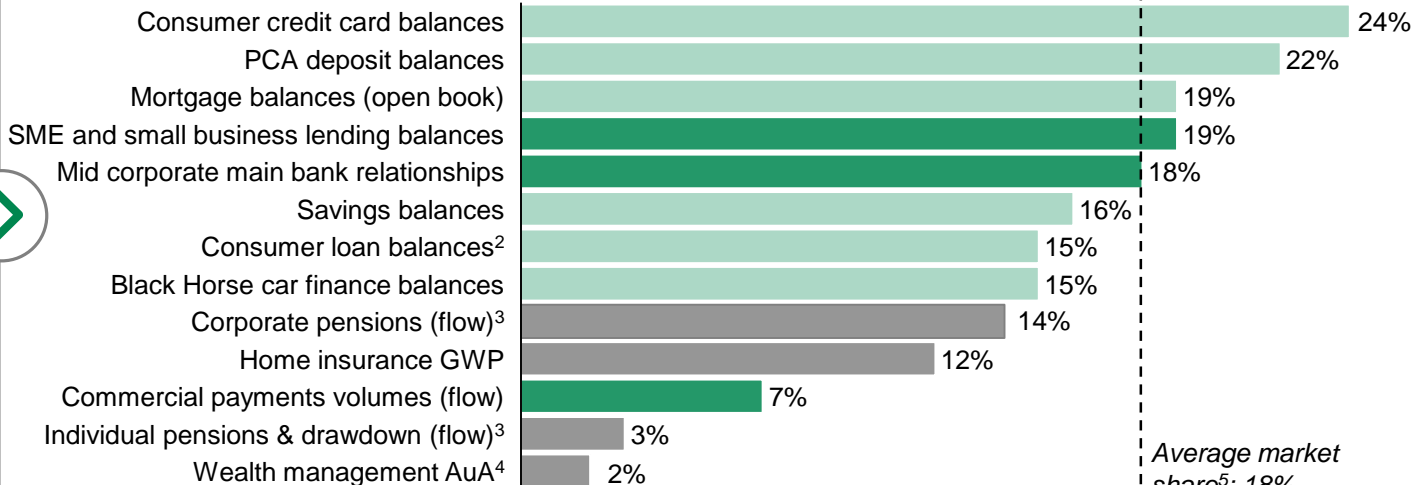


# Market shares - opportunities for growth in targeted key segments

## Channels market share



## Product market share



Channels Retail Commercial Banking Insurance & Wealth



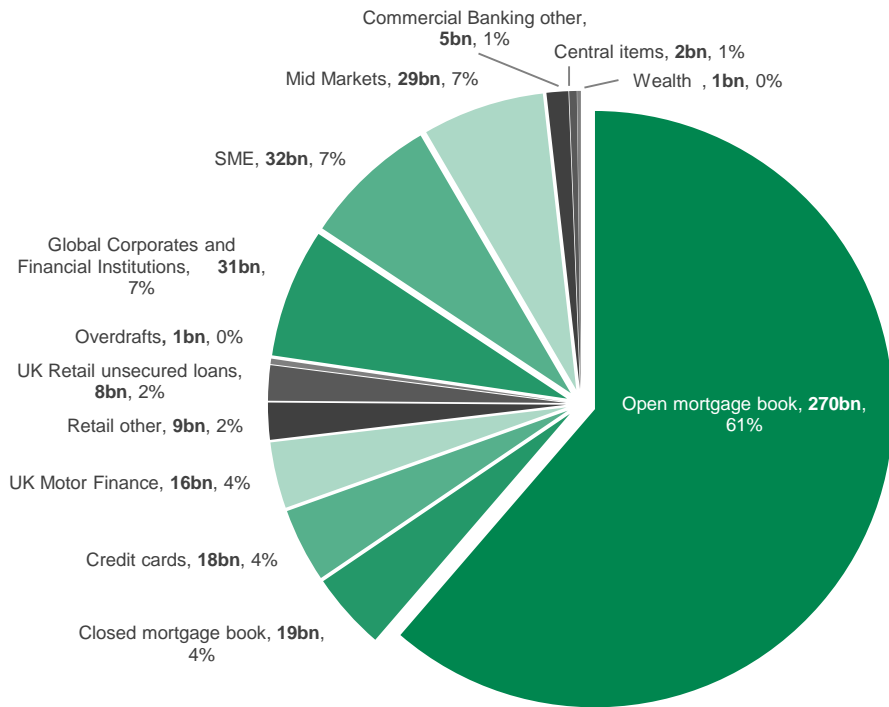
1 – Average volume share across whole of market basis. 4 – Excludes execution-only stockbrokers. 5 – Average market share calculated for core financial services products.

Market PCAs, loans, savings, cards and home insurance. 2 – Comprises unsecured personal loans, overdrafts and Black Horse retail lending balances. 3 – Annualised Premium Equivalent new business on an estimated data sources: ABI, BoE, CACI, Compeer, eBenchmarkers, Experian pH, FLA, Ipsos MORI FRS, PayUK, Spence Johnson and internal estimates. Note: Market shares as of FY 2019 with exception of PCA and Savings balances (Nov 2019), Home insurance GWP and Individual Pensions and Drawdown (Sep 2019) and Wealth management AuA (Dec 2018).



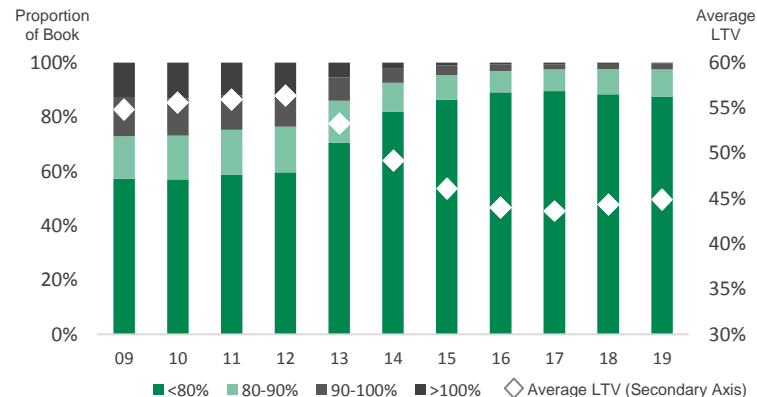
# Well diversified loan book of £440bn

## YE2019 Loans & Advances of £440bn



- Retail lending-focused loan book (77% of total lending)
- Continued reduction in mortgage LTV to 44.9% with only 2.5% of book >90% LTV

## Mortgage Book LTV evolution<sup>4</sup>



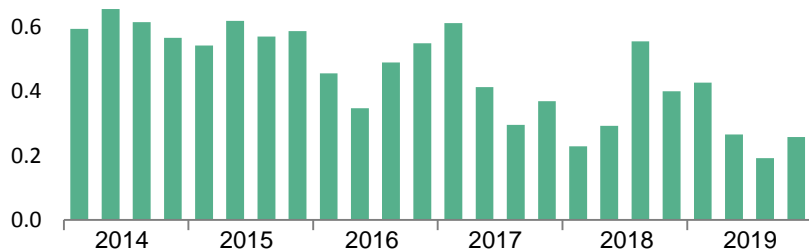
1 - Excludes Reverse Repos of £55.6bn. 2 - SME Includes Retail Business Banking. 3 - Retail Other primarily includes Europe. 4 - 2018-2019 LTVs use Markit's 2019 Halifax Price Index. Prior years use Markit's pre-2019 Halifax House price index and includes TSB



# UK economy resilient in 2019 with some signs of improving outlook

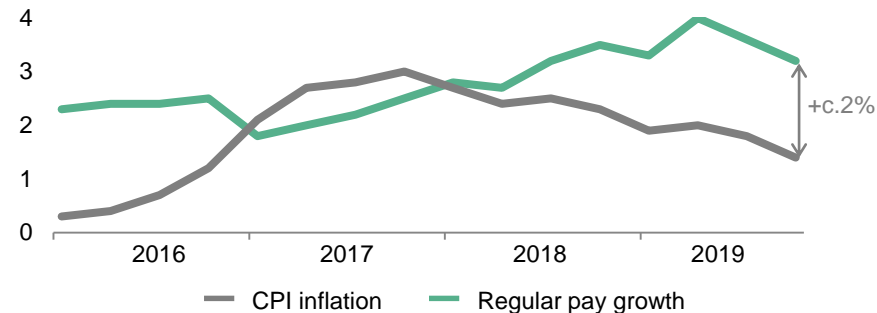
## GDP growth<sup>1,2</sup>

(% growth vs. previous quarter)



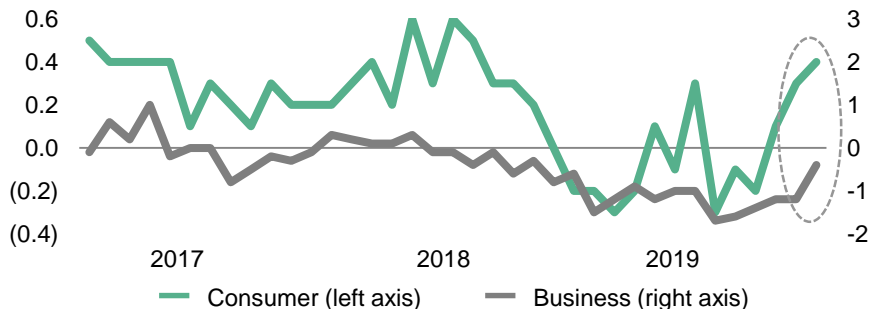
## CPI inflation and pay growth<sup>2</sup>

(%)



## Business and consumer confidence<sup>3,4</sup>

(# standard deviations from average since 2002)



- **Economy resilient to slowing global growth and elevated political uncertainty during 2019**
- **Some signs of gradually improving outlook**
  - Business and consumer confidence beginning to recover
  - Households' spending power continuing to rise
  - Early signs of upturn in housing market activity and prices
- **Outlook not yet reflected in interest rate yield curves**
- **Uncertainty remains given ongoing trade deal negotiations**



# Transforming the Group for success in a digital world

## Targeted outcomes (2020)

**#1 UK digital bank**

**Maintain #1 branch network**

**More personalised** customer propositions

**Supporting** start-ups, SME and MM **businesses**

Sole **integrated UK banking and insurance** provider

End-to-end transformation covering **>70%** of cost base

**Simplification** and **modernisation** of IT architecture

**Biggest ever investment** in our People

## Progress to date

**16.4m** digitally active users

**#1** branch network

**>£9bn** balance growth in targeted segments<sup>1</sup>

SME growth **ahead of market**

**>1m** new pension customers target surpassed

**55%** of cost base covered by transformation

**>1m** cumulative hours saved through **automation**

**3.2m** additional training hours delivered

**33%** of change delivered by Agile methodologies



**Leading  
Customer  
Experience**

**Maximising  
Group  
Capabilities**

**Digitising the  
Group  
&  
Transforming  
Ways  
of Working**

# Significant ESG delivery, supported by Helping Britain Prosper plan



## A proven track record

### Environmental



- Raised **>£2.8bn in green bonds** for UK corporate issuers, more than any other UK bank
- One of the UK's **leading low emission fleet** through Lex Autolease
- Group carbon emissions **down 63%** since 2009, achieving 2030 target **11 years early**
- One of the **first** businesses to sign up to all three of **The Climate Group's** campaigns

### Social



- The **first FTSE100 company** to set public diversity goals on **gender** and **ethnicity**
- **37%** of senior roles held by women, **up 8pp** from 2014; 7% by BAME colleagues
- Donated **>£100m** since 2014 to our **four independent charitable Foundations**
- **Highest corporate payer**<sup>1</sup> of UK taxes **over the last four years**
- **Leading SME lender**, increasing market share by c.6pp to 19% since 2010<sup>2</sup>

### Governance



- Dedicated Board-level **Responsible Business Committee** established in 2015
- **Robust governance structures** to protect customers and their data
- **Comprehensive stakeholder consultation** across a variety of topics, including remuneration

## New ambitious goal

*We aim to help reduce the emissions we finance by*

**>50%**  
**by 2030**

**'Our approach to ESG topics'**

*Investor presentation launched today*





# 2019 Results



## Resilient underlying performance in a challenging environment

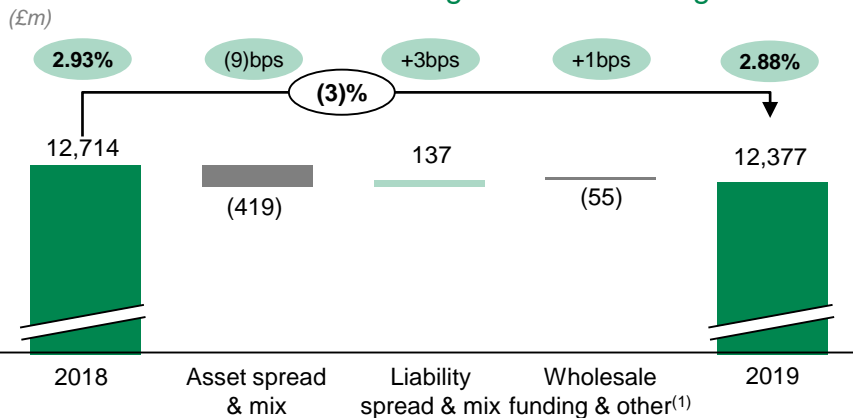
(£m)	2019	2018	Change
Net interest income	12,377	12,714	(3)%
Other income (incl. Vocalink)	5,732	6,010	(5)%
Operating lease depreciation	(967)	(956)	(1)%
<b>Net income</b>	<b>17,142</b>	<b>17,768</b>	<b>(4)%</b>
Operating costs	(7,875)	(8,165)	4%
Remediation	(445)	(600)	26%
<b>Total costs</b>	<b>(8,320)</b>	<b>(8,765)</b>	<b>5%</b>
<b>Trading surplus</b>	<b>8,822</b>	<b>9,003</b>	<b>(2)%</b>
Impairment	(1,291)	(937)	(38)%
<b>Underlying profit</b>	<b>7,531</b>	<b>8,066</b>	<b>(7)%</b>
PPI	(2,450)	(750)	
Other below the line items	(688)	(1,356)	(49)%
<b>Statutory profit before tax</b>	<b>4,393</b>	<b>5,960</b>	<b>(26)%</b>
Earnings per share	3.5p	5.5p	(36)%
Net interest margin	2.88%	2.93%	(5)bp
Cost:income (incl. remediation)	48.5%	49.3%	(0.8)pp
Asset quality ratio	0.29%	0.21%	8bp

- **Net income down 4% at £17.1bn**
  - NII 3% lower; stable AIEAs, resilient NIM
  - Other income of £5.7bn; Insurance growth offset by lower Commercial Banking revenues and gilt gains
- **Total costs reduced by 5%**
  - Operating costs <£7.9bn, down 4%
  - Continued significant investment in business
  - Remediation down 26%
  - Cost:income ratio of 48.5%, below prior year
- **Solid trading surplus of £8.8bn**
- **Credit quality strong with net AQR of 29bps**
- **Underlying profit of £7.5bn, down 7%**
- **Statutory PBT of £4.4bn, down 26%, impacted by PPI**

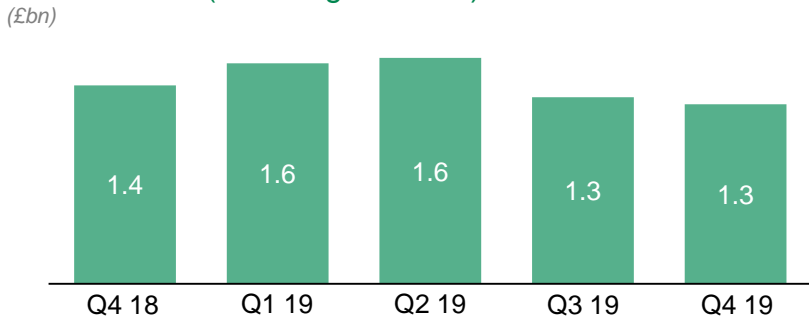


# Resilient NIM; challenging other income; continued delivery on costs

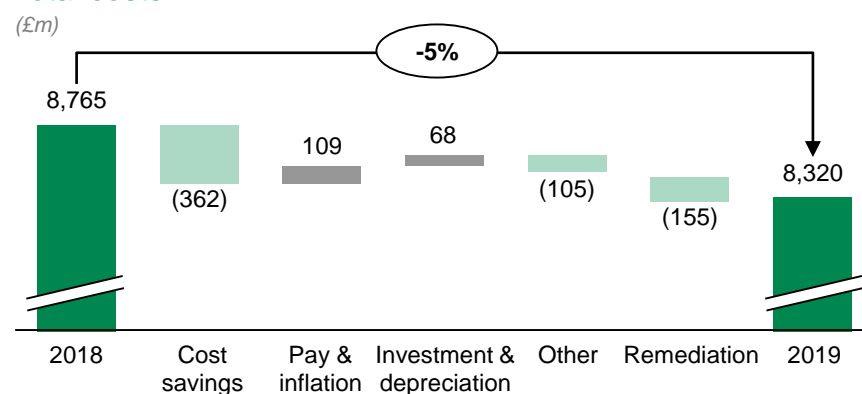
## Net interest income and banking net interest margin



## Other Income (including Vocalink)



## Total costs<sup>(2)</sup>



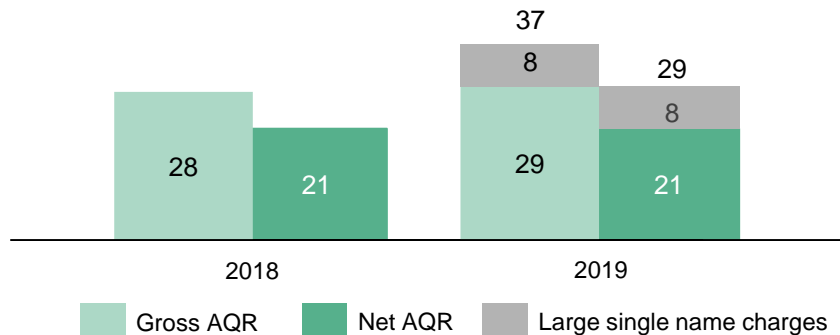
- **NII down slightly, resilient NIM and stable AIEAs**
  - Asset pricing pressure partly offset by lower deposit costs
  - Targeted asset growth vs. closed book run off and Irish mortgage book sale
- **Other income challenging in prevailing environment**
- **Continued delivery on operating costs while maintaining strategic investment**

1 – Other includes non-banking net interest income. 2 – 2018 adjusted to reflect impact of IFRS16.

# Asset quality remains strong reflecting prudent approach to risk

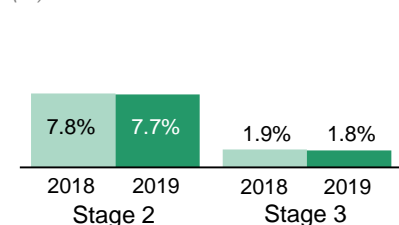
## Asset quality ratio

(bps)



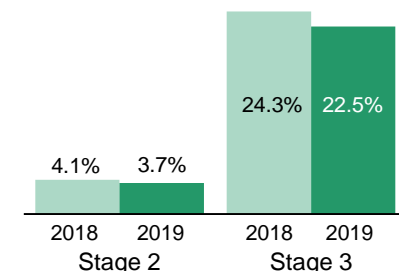
## IFRS 9 Stage 2 and 3 as proportion of total customer loans and advances<sup>1</sup>

(%)



## Stage 2/3 coverage<sup>1,2</sup>

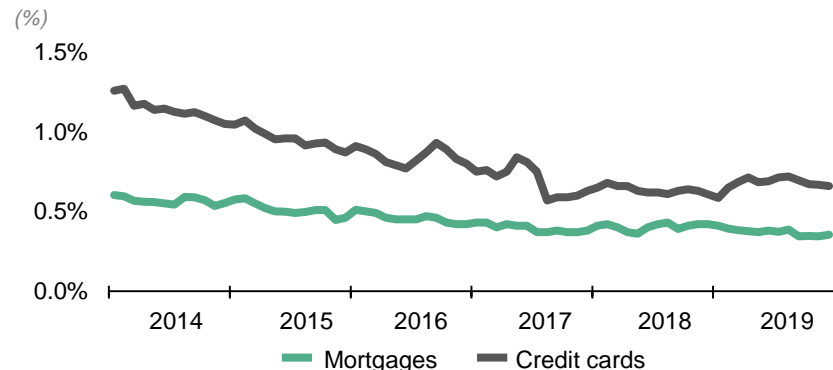
(%)



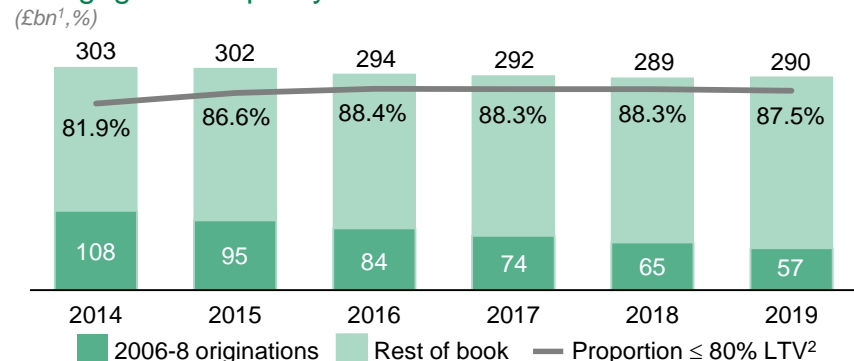
- **Gross AQR of 37bps, net AQR of 29bps**
  - Asset quality remains stable excluding two material corporate cases
  - Benefit from continued debt sales, write backs
- **Stage 2 and 3 balances as % of Group lending broadly stable, coverage slightly lower**
  - Stage 2 coverage at 3.7% due to IFRS 9 methodology refinements across Commercial portfolios
  - Stage 3 coverage at 22.5% due to change in asset mix in Stage 3 in Commercial Banking
- **Underlying credit portfolio remains strong**
- **Expect net AQR to be less than 30bps in 2020**

# Credit quality remains strong across all portfolios

## New to arrears as proportion of total book



## Mortgage book quality



- **Strong credit performance across Mortgage portfolio, new to arrears remain low**
  - Low average LTV of <45%; average LTV of new business c.64% and c.90% of portfolio has LTV ≤80%<sup>2</sup>
  - Legacy balances declining: 2006-8 originations down 12% in 2019
- **Prime Credit Card book**
  - New to arrears remain low, charge-off rates stable
- **Prudent approach to Motor Finance**
  - Predominantly secured with conservative provisioning; used car prices stabilised in Q4
- **Diversified and high quality Commercial portfolio**
  - SME portfolio largely secured
  - Prudent approach to vulnerable sectors; CRE exposure reduced to <£15bn with LTVs improved
  - Large single name charges not typical of wider portfolio

## Strategic progress alongside solid financial performance

- Group continues to Help Britain Prosper, whilst building strategic advantage and delivering strong and sustainable returns
- Significant progress against strategic priorities with £2bn investment since launch of GSR3
- Solid financial returns in challenging environment with resilient underlying performance offset by PPI charges
- Progressive and sustainable total ordinary dividend of 3.37p, up 5%; quarterly dividends commence at Q1 2020
- Guidance for 2020 reflects confidence in business model and future performance



### Guidance for 2020

- NIM of 2.75 – 2.80%
- Operating costs less than £7.7bn with cost:income ratio lower than in 2019
- Net AQR ratio less than 30bps
- Capital build expected within the Group's ongoing guidance of 170 – 200bps p.a.
- RWAs to be broadly in line with 2019
- Statutory RoTE of 12 – 13%, driven by resilient underlying profit and lower below the line charges



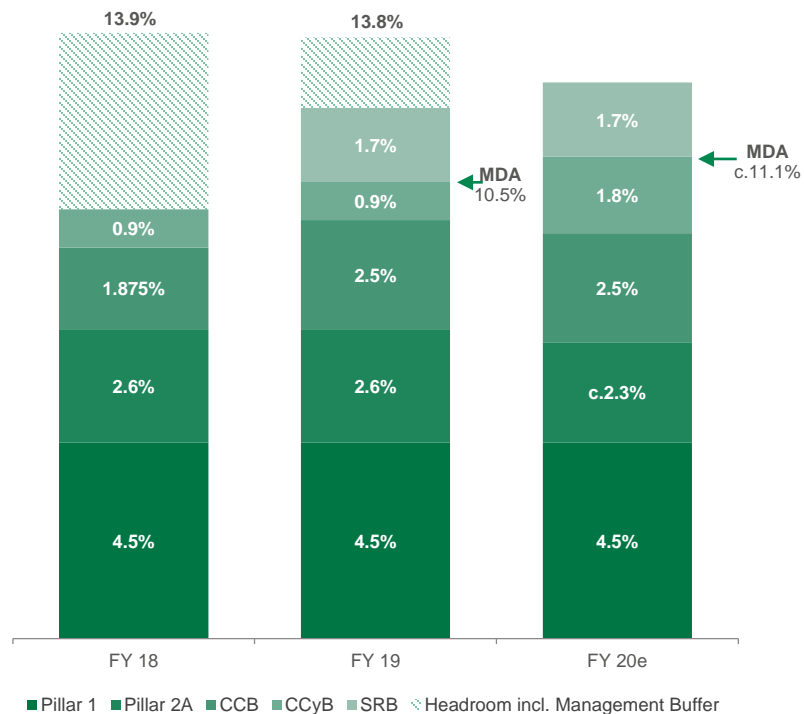
# Capital, Funding & Liquidity



# Robust capital position supported by strong capital generation

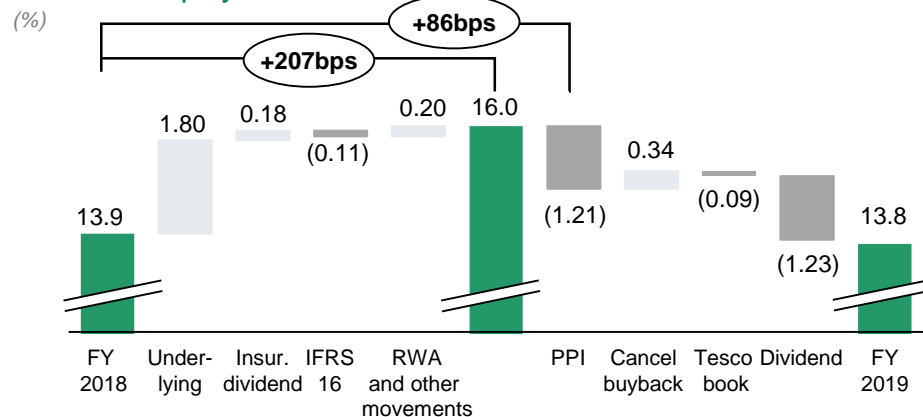


## CET1 Ratio



- Ongoing CET1 target unchanged at around 12.5% plus a management buffer of around 1%
- Some movement in capital requirements over 2019:
  - Pillar 2A reduced 10bps to 2.6% in 2019
  - CCyB to increase to 1.8% at end-2020, partially offset by expected c.25bps decrease in P2A
- Free capital build of 207bps pre-PPI ; 86bps after PPI
  - Total PPI charge of £2.45bn (-121 bps)

## Common equity tier 1 ratio

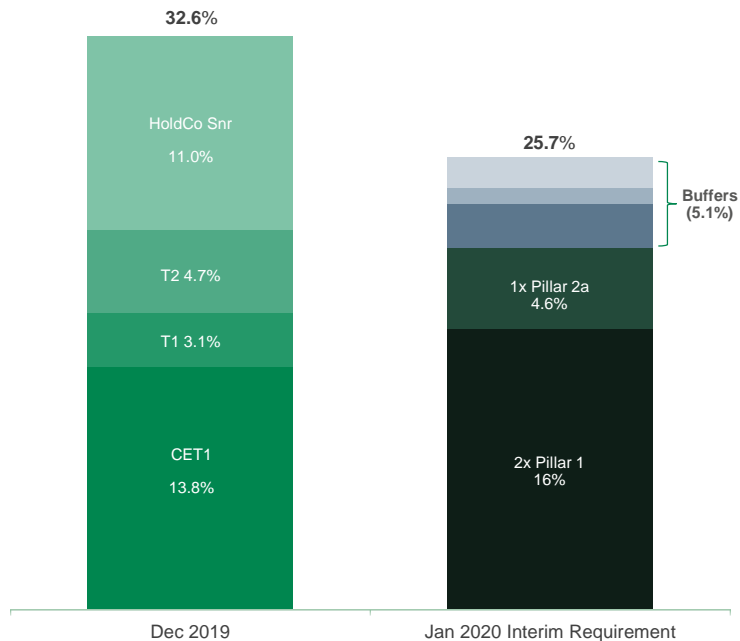




# Interim MREL requirement met at 1 Jan 2020; on track for end-state



## Transitional MREL Ratio

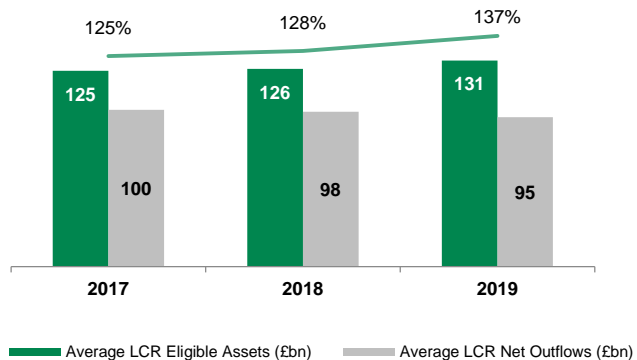


- Transitional MREL ratio of 32.6% and in excess of Jan 2020 interim requirement
- On track to meet final 2022 requirements which will be set by the Bank of England in 2020 following their review of MREL calibration
- Future capital and MREL issuance needs focused on maintaining prudent buffers to regulatory requirements given current strong ratios

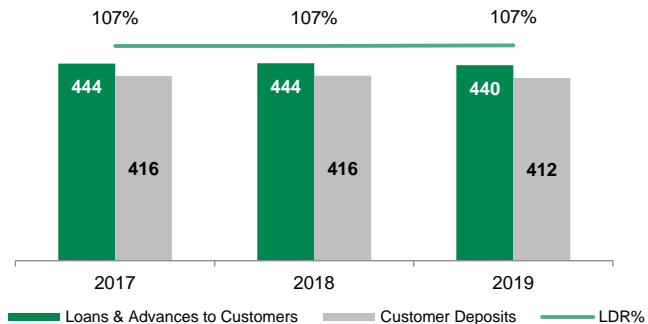
# Strong liquidity position and stable LDR supported by robust core deposit base



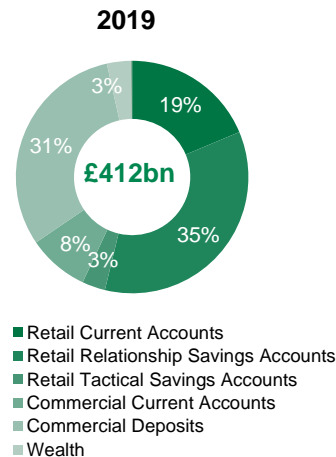
## LCR well above regulatory minimum



## Stable LDR



## Robust core deposit base

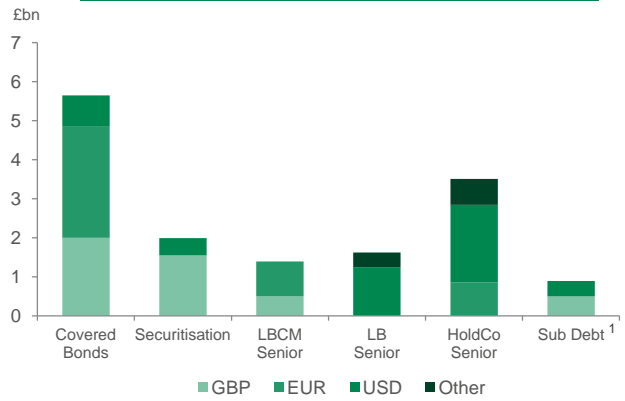


- Average LCR % increased to 137% over 2019
- Mainly driven by a reduction in average LCR outflows
- LDR remains stable
- £4bn reduction in both Loans and Deposits from 2018
- Recent growth in current accounts with c60% of balances from retail customers

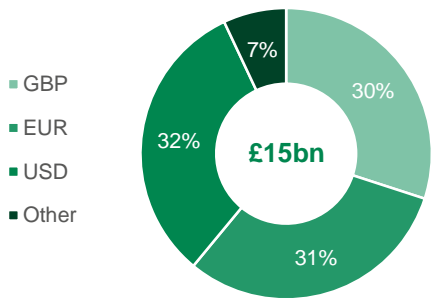
# Successful execution of 2019 funding plan with continued diversification



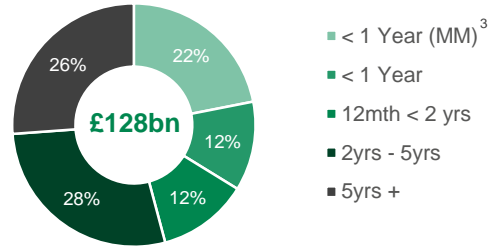
## 2019 Public Funding by Product<sup>2</sup>



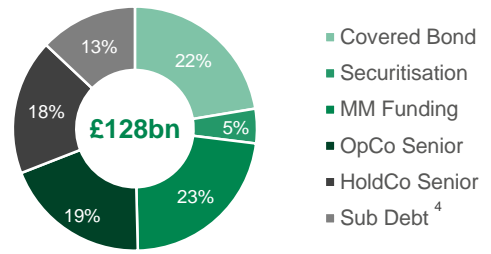
## 2019 Public Funding by Currency<sup>2</sup>



## Funding Portfolio by Maturity



## Funding Portfolio by Product



- **Successful execution of plan over 2019**
- **Steady-state requirements remain c.£15-20bn p.a.**
- **Currently expect 2020 to be in the £10-15bn range**
- **Continue to implement a diversified funding plan across:**
  - Core markets - USD, EUR and GBP
  - Strategic markets - AUD, JPY, CAD and CHF

1 – Includes AT1. 2 - Excludes private placements; total 2019 wholesale funding = £16.4bn. 3 – Includes margins & settlements. 4 – Excludes AT1

# IBOR transition progressing well



## External market

**FCA has reiterated need for firms to accelerate transition to ensure they are prepared for LIBOR cessation by end-2021**

**Bonds: New issuance has transitioned to SONIA**

**Derivatives: Good volumes being seen in SONIA swaps**

**Loans: FCA promoting cessation of new lending against LIBOR from end Q3 2020**

**Back book migration needs careful industry co-ordination**

## LBG progress so far

**First bank to issue SONIA-linked bonds, no more term LIBOR issuance**

**Successful Covered Bond Consent Solicitation (Dec 19)**

**Successful Securitisation Consent Solicitation (Nov 19)**

**Further consent solicitations underway**

**Customer communication programme in place for new product and legacy contracts**



## LBG focus in 2020

**Continue to assess opportunities to transition back-book securities**

**Continued engagement with the industry and regulator to assess the impact on back-book and new business**

**Closely involved with official sector and trade bodies to achieve effective transition**

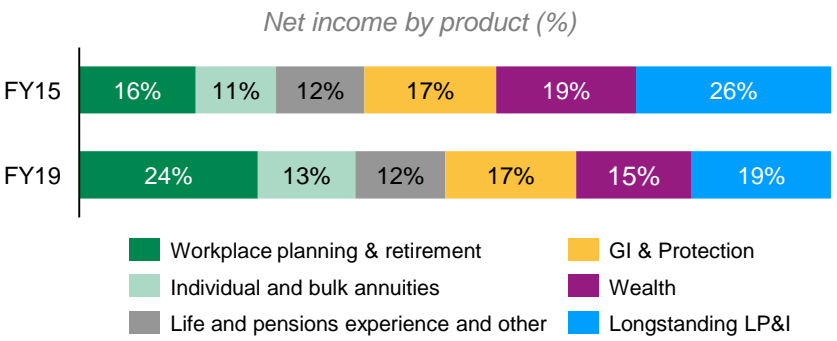
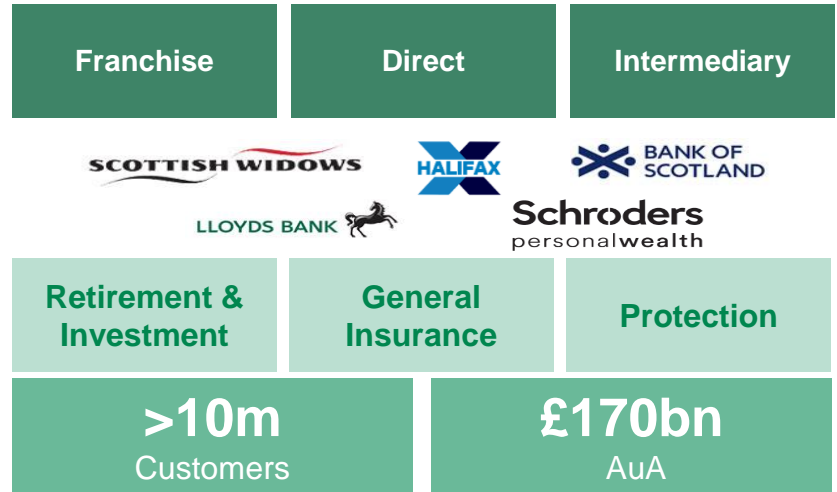
**Progressing with plans for RFR compliant products**

# Appendix

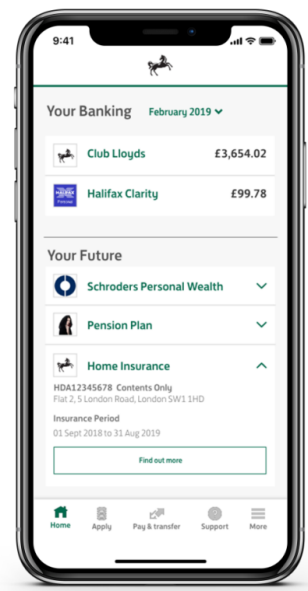




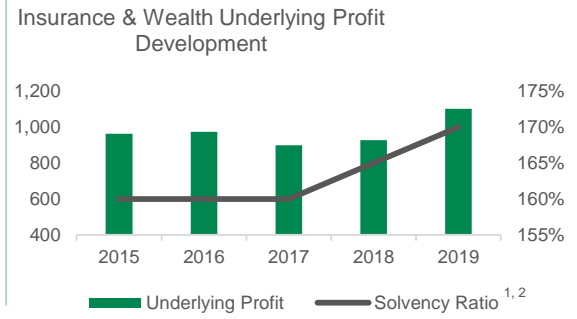
# Strong Insurance & Wealth performance



## Single Customer View



- Strong 2019 performance following significant Group investment
- Schrodgers Personal Wealth launched – ambition to become Top 3 player by 2023
- Over 5m customers now able to access insurance products through Single Customer View

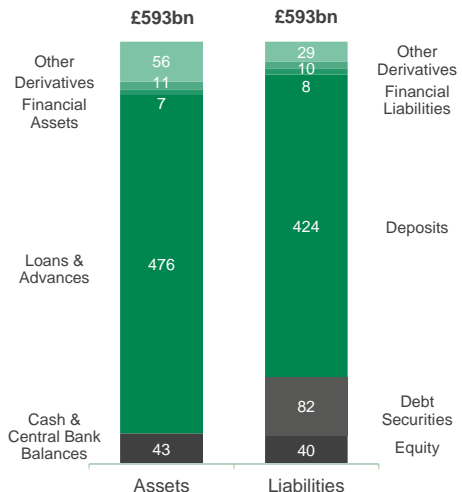


1 – Pre final dividend shareholder view Solvency II ratio. 2 – Solvency Ratio relates to Insurance business only

# Legal entity balance sheet analysis (H1 2019)

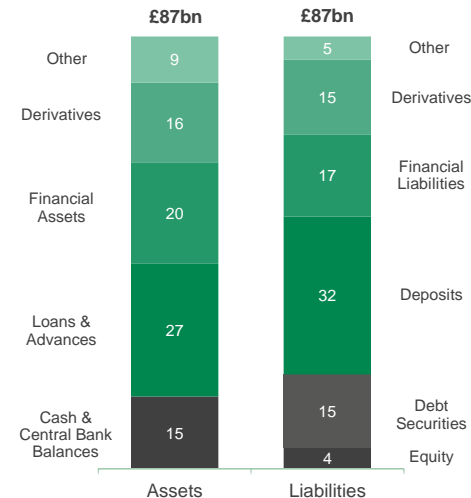


**Lloyds Bank Plc (RFB)**



<b>RWAs</b>	<b>£173.8bn</b>
<b>CET1 Ratio</b>	<b>14.4%</b>
<b>Tier 1 Ratio</b>	<b>17.5%</b>
<b>Total Capital Ratio</b>	<b>21.0%</b>
<b>CRD IV Leverage</b>	<b>4.5%</b>

**Lloyds Bank Corporate Markets Plc (NRFB)**



<b>RWAs</b>	<b>£19.7bn</b>
<b>CET1 Ratio</b>	<b>14.6%</b>
<b>Tier 1 Ratio</b>	<b>18.4%</b>
<b>Total Capital Ratio</b>	<b>21.8%</b>

- 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

- Provides products/services to Group customers which cannot be provided by the RFB, for example lending to financial institutions, capital markets and non-EEA activity
- Strong capital position with lower requirements than the RFB

# Notes





# 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 and basis of presentation



## Forward looking statements

This document contains certain forward looking statements within the meaning of Section 21E of the US Securities Exchange Act of 1934, as amended, and section 27A of the US Securities Act of 1933, as amended, with respect to the business, strategy, plans and/or results of Lloyds Banking Group plc together with its subsidiaries (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. Words such as 'believes', 'anticipates', 'estimates', 'expects', 'intends', 'aims', 'potential', 'will', 'would', 'could', 'considered', 'likely', 'estimate' and variations of these words and similar future or conditional expressions are intended to identify forward looking statements but are not the exclusive means of identifying such statements. Examples of such forward looking statements include, but are not limited to: projections or expectations of the Group's future financial position including profit attributable to shareholders, provisions, economic profit, dividends, capital structure, portfolios, net interest margin, capital ratios, liquidity, risk-weighted assets (RWAs), expenditures or any other financial items or ratios; litigation, regulatory and governmental investigations; the Group's future financial performance; the level and extent of future impairments and write-downs; statements of plans, objectives or goals of the Group or its management including in respect of statements about the future business and economic environments in the UK and elsewhere including, but not limited to, future trends in interest rates, foreign exchange rates, credit and equity market levels and demographic developments; statements about competition, regulation, disposals and consolidation or technological developments in the financial services industry; and statements of assumptions underlying such 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; any impact of the transition from IBORs to alternative reference rates; 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; political instability including as a result of any UK general election; 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 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 or Form 20-F filed by Lloyds Banking Group plc with the US Securities and Exchange Commission for a discussion of certain factors and risks together with examples of forward looking statements. Lloyds Banking Group may also make or disclose written and/or oral forward looking statements in reports filed with or furnished to the US Securities and Exchange Commission, Lloyds Banking Group annual reviews, half-year announcements, proxy statements, offering circulars, prospectuses, press releases and other written materials and in oral statements made by the directors, officers or employees of Lloyds Banking Group to third parties, including financial analysts. 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## 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 Results News Release (2019 News Release). This presentation is derived from the 2019 News Release and readers of this presentation should refer to the 2019 News Release for the underlying information.