LLOYDS BANKING GROUP PLC – COMMERCIAL BANKING UPDATE

TUESDAY 16 APRIL 2013

António Horta-Osório – Group Chief Executive

Good afternoon everyone and welcome to the first of a series of seminars we intend to hold about every six months, which will focus on particular areas of the Group, to give insight into their operations and plans.

We have chosen Commercial Banking as the first of these, partly because it is a newly created division under a new management team, but also because I know from my conversations with you that you want to know in greater detail how we will grow income and enhance operational cost and capital efficiency to improve returns.

Since we created the division at the end of last year to bring together all of the Group's businesses focused on business clients, Andrew and his team have developed and are now implementing a detailed plan which they will describe to you today.

Their focus will be on the core Commercial Banking business, given the substantial progress we have made in reducing our non-core assets, and our confidence that the non-retail element of non-core will represent less than £35 billion of our assets by the end of next year as you well know.

But before I hand over to Andrew, let me take a moment to look at the division from a Group perspective.

As you will hear, Commercial Banking has a strong franchise focused on meeting the financial needs of UK and UK linked corporates, from the smallest start-ups to the largest multinationals. The strength of our franchise is evidenced by the Bank of the Year award, which we have now won for the 8th year running.

It is therefore, consistent with our Group objectives, a key part of the support we can give to the UK economic recovery.

And while the core business accounts for around a quarter of our income, deposits and assets, returns remain below the cost of equity.

But we know from our experience with SMEs, that, even in the current challenging economic environments, we can grow net lending and income, increasing returns through the application of our lower risk, cost efficient and customer focused model. In fact, I am pleased to report that our core net lending in Commercial Banking, including mid-sized and large corporates has already turned positive in Q1 this year, which. As you know, is ahead of our plan.

So Andrew and his team are, in line with our Group strategy, reshaping Commercial Banking to focus on core client areas, simplifying the business to reduce costs and provide fuel for investment in products and capabilities to serve our clients better.

And because the plan is consistent with our Group strategy, we will also be able to drive costs and operational synergies with the rest of the Group and diversify our income streams. We will do this, for example, by leveraging best practices in Simplification and the Group's operational capabilities, and by leveraging Commercial Banking's expertise in managing the Group's assets and liabilities.

I am therefore, confident that this plan will make a substantial contribution to our overall Group objective to deliver strong, stable and sustainable returns above the cost of equity to our shareholders.

And with that, over to Andrew. Thank you very much.

Andrew Bester – Chief Executive, Commercial Banking

Good afternoon. Thank you very much for making the time to join us this afternoon so we can give you a comprehensive update on our Commercial Banking business. My name is Andrew Bester, as António said, and I am Chief Executive of the Commercial Banking Business.

A little bit about me first. I spent 22 years in financial services, the majority of that in the City of London. I have worked across client, product, finance and general management. And I have to say through my own personal career journey have seen the good, the bad and everything in between across all those dimensions. And that includes SME, Mid-Markets, Global Corporates and Financial Institutions. My experience is effectively across Africa, Asia and indeed Europe. And I have spent most of my career doing what I really enjoy, working as a senior manager transforming businesses. And I am absolutely delighted to be joining Lloyds after António tracked me down in Singapore where I was Global Chief Operating Officer of Standard Chartered Banks Consumer Bank. And I am very excited to be back in the UK

So what I am hoping to try and do as a team over the next couple of hours is run you through what we are trying to do from a business point of view. I am going to give you some sense of what we are doing in our strategy but equally actually what we have been doing in execution in our business over the last nine months since I joined. Nick Slape, who is there on my left, our Finance Director, will give you a sense and indeed give you some new disclosures so you can start to understand our business and what we are trying to do. Stephen Shelley, Chief Risk Officer, will also run through how we are managing our risk appropriately in the Commercial Banking Division. And then what we are going to do is dial up a few examples of what we are doing both in current execution and how the strategy is coming to life across our client segments. David Oldfield, in the front here, who runs our SME and mid-market business, will give you a sense of how we are executing across the UK geographically. And then effectively the key enablers of our strategy around Transaction Banking that António articulated when he first joined, building our Transaction Banking capability. Andrew England will go through that. We will then have Richard Moore talk about what we are doing in Financial Markets and James Garvey talking about Capital Markets, key enablers against our client strategy. And my other colleagues who run our business are, most of them are here except Clare Francis who is on leave this week. We will then wrap it up with some closing remarks and a good opportunity for questions. We should run about two hours.

So if I start firstly with what is this all about? I think the first thing to say is absolutely a recognition that the returns in the commercial banking business today are unacceptable. And what we are focused on is how we can effectively target a sufficient return to this business by 2015 and effectively ensure we can get a return on risk weighted assets of greater than 2 per cent. And this is going to get achieved not through PowerPoint presentations like today, it is going to get achieved through relentless, relentless focus on execution.

And how are we going to do that? António alluded to it. Focusing on the pockets where we can see income growth in our platform, continue to drive on the great work that Mark has led around creating cost efficiency in our business and then indeed creating opportunity to invest in the future platform of our business. And last but not least, a relentless focus on how we deploy our capital and our balance sheet against the opportunities we see.

So that is the core hypothesis of what we are looking to drive and hopefully we will run you through how we are going to do that.

So if I turn to clients. The first thing to say for somebody who has recently first worked for Lloyds and indeed Lloyds was my core bank when I was Group Finance Director of Exchanging. This is a really interesting scene. This is a phenomenal franchise. The Lloyds banking brand going back some 250 years and Bank of Scotland over 300 years and I have to say, ahead of my expectations, a phenomenal client franchise. We have 1.25 million SME clients. We bank 91 per cent of the FTSE, 83 per cent of the FTSE 250 and indeed 40 per cent of all those clients are really active in digital channels with us. And we mobilise those teams across some 500 business centres in the UK. And that is a network of some 4,000 bankers out there working with clients every single day.

The other interesting part about Lloyds and what we are doing is a few interesting features and you heard Antonio talk about us being voted for the 8th year in a row, the best bank by Finance Directors. Finance Directors of the UK regard us as the best business bank. And indeed Greenwich recognise us as the leading bank for relationship quality. So this is a bank that has a very deeply imbued relationship culture. People care deeply about clients and actually, equally interestingly and importantly, they care deeply about the Bank. And for me in driving a commercial bank in transformation post the financial crisis, those are absolutely the cultural ingredients and the right platform from which to seek to grow a business.

So I thought I would give you a few personal reflections on what I saw in the business as I arrived. As I said earlier, a unique client franchise. Some pockets of actually really interesting and very strong product capability. And the question is how to unleash some of that capability. Themes as I said with strong client relationship orientation. And even a very collegiate relationship orientated culture. But against that I had to think through some of the macro economic factors that are driving our industry. Firstly some interesting things that are positive. As banks retreat they effectively focus more on local champions and therefore more wallet shifting from those clients and that is a positive. But equally regulation changing and we had to build a plan that we could ensure could sustain the regulatory evolution of our industry. And obviously this is a lower growth environment, having spent seven years in Asia where the lowest GDP got to was 4 per cent in all my time, adjusting to an environment that has subdued GDP growth. And how do you ensure? You create a plan that can adjust to that evolving environment. And actually on the financial lens and for someone who has effectively done 8 traverses between finance jobs and business jobs, the financials were simply not satisfactory. NIM not strong enough, a large consumer of risk weighted assets and making inadequate returns.

So the transformation needed some ingredients. It needed to start to work out how to effectively, as the balance sheet started to normalise, start to create value. How we can ensure we can address the legacy issues in the Bank. And I have to say for somebody who came new into Lloyds Banking Group in July, the rigour and process with which Antonio has driven the legacy issues in the Bank and the way we work at those as a Group Executive Committee, I have to say, is absolutely outstanding. In the context of the business that I run, working on the non-core assets that effectively Andy Cumming has done a phenomenal job on. Juan Colombas driving them, so coming in new, very impressive. Indeed the way we think about the SME legacy issues. Even beyond just as a member of our Management Committee, dealing with the PPI issues, really rigorous deep processes and thinking through how we fix the legacy issues. Creating a more integrated franchise and I will talk about that in a second. Working out how to leverage pockets of opportunity and growth as they exist, but also ensuring cost discipline with that and recognising that simply too much capital is being deployed in the business. And effectively what I wanted to do and we did last year, is focus on planning but then actually get our teams out mobilised, executing a plan, all with that objective of getting ourselves to a point we are generating sufficient returns for our shareholders.

So, 9½ months in, this has not been 9½ months preparing a presentation for today. We have been very busy. We started a strategic review process, which actually started the Friday before I joined on 1 July with Sir Winfried Bischoff who is in the back, our non-Executive Directors and from Antonio and my GEC colleagues, effectively created the blueprint for how we saw the transformation of this business. But indeed one of the slides you see later was actually presented before I joined the bank in June last year.

What did we have to do? We had to effectively bring together, best described, 2½ divisions, the legacy Commercial division, WBM and some of the international businesses were there. But what I actually discovered as I came in was 16 discreet business lines operating almost in a conglomerate with very deep capability, but not naturally reaching across each other, something we needed to start to tackle. And what we have tackled is how do we get those teams aligned, working towards helping clients. And new coverage models really defined, where we get a relationship manager at the centre of every relationship to ensure we leverage off our client orientated strength. I effectively appointed a management team early Q4 which is effectively the team that you will see shortly. We then started, very unemotionally, looking at the segmentation of the bank. Did we have our bank focused in the right way against the clients and the segments? And effectively we learnt some stuff from them and I will share a bit about that later. But a huge process of looking at how we serve our clients.

Quite quickly, as you can imagine, we needed to get hold of the tactical levers to drive the performance management of the business. And effectively ensure that we cross this enlarged Commercial Banking business, we are delivering our commitments as it related to the Group's performance in 2012. And I am happy to report that we were able to ensure that we created sequential growth in income in Q3 over Q2. We then followed that by creating sequential growth in Q4 versus Q3. And what I can tell you that is new information is that we have actually been able to get sequential growth into Q1 off Q4 as well and effectively some indication the teams are starting to pull together and so that is good news.

So what is different you may ask. And I know lots of people will say, I have heard these sorts of things from Lloyds before. Firstly this is an execution plan. This is about how we bring this to light as a management team across our whole Commercial Banking platform and it is going to be relentless in our execution. Secondly we have completely changed the tools, the daily tools so we can see what is happening across our business, across every client segment and every product area every single day at good granularity and good depth.

We then wanted to create a performance framework that effectively wasn't simply a financial framework. That started to pull together how you bring to life a new model, a new way of working. And as I talk you through all the concepts that are effectively underpinning our plan, effectively the tools have been built to do that. That not only is finance, it is how we reward our teams. We rewarded our teams last year, recognising how they were deploying capital in our business. Also thinking about how we apply risk appetite that Stephen thinks about our business. We started creating completely different frameworks for assessing pricing and again Stephen will talk about what we are doing in portfolio management.

And we also needed to create a more modern, what I describe as a hierarchy way of working, that ultimately builds on collaboration. We have the relationship strength, but we needed to create a business model that can foster the relationship strength of the Bank that where colleagues collaborate to drive better outcomes for clients. And then ensure we continue to make some very disciplined choices on where we invest and which clients we operate with.

This is our Management Team, and again those circled in red will be coming up later, but again a very pure model anchored around how we work with clients, supported by product management teams that bring to bear their product capability against our clients in a way that is agnostic of the client segments they provide. And then a delivery organisation that can effectively ensure we deliver our organisation. And underpinned clearly by very strong, robust, independent functions across finance and risk. And you will hear from all of these colleagues later.

So what is the strategy and its essence? And this is actually the slide that I presented last June. Firstly it is completely consistent with the principles enshrined in his original strategic plan around how we strengthen the Bank, reshape it, invest and indeed simplify.

So firstly, strengthening. Commercial Banking business does need robust capital and liquidity to operate effectively and I think huge progress made and I think that one of the things where I do feel my timing was fortunate is actually the core liquidity of the Bank had got to a good place. And one of the first, in fact the second Group Asset & Liability Committee I went to actually starting to look at how we start thinking about the buying back of some of our bonds as the liquidity of the bank normalises. And this is critical because we have a balance sheet now that effectively have the makings of being able to create value. Really important with a reshaped balance sheet. And from there start to invest in areas where we can serve UK companies. And therefore also use the institutional client leadership strength of our bank. So the plan building on that.

But equally at the same time, effectively working out how to create far more scalable infrastructure to support this platform, and effectively ensure we will be able to recreate efficiency. From that we create a business that supports UK business, that absolutely creates returns above its cost to capital. We work out how we can deliver 100 per cent of our bank to our clients. And ultimately we create cost leadership which creates ultimately competitive advantage.

So those were the ingredients. And then very simple effectively building on that from a client centric point of view, absolutely building on the UK strength of Lloyds as an iconic British institution and effectively recognise that our decisions have to be made in a capital efficient way.

So I will now peel below that and start to give you some insight as to effectively what the business is. So again let's anchor what is actually in the Commercial Banking division. We represent broadly a quarter of the income, a quarter of the assets and a quarter of the deposits of the Group. But we deploy in the core business over 50 per cent of the risk weighted assets and again just that graph highlights how much work we need to do to drive efficiency in our business.

So the first lens is what I have across the top as we start to think about how we can go to market. And effectively what we have done is we looked, as I said earlier, looked at our segmentation and effectively went back to first principles on how we can optimise our bank across SME, Mid-Markets, Global Corporates and Financial Institutions. Four discrete segments. Effectively and within that we re-cut the boundaries and thought about how we get the best out of our business. So for example in the sub-£1 million how could I work with Alison Brittain to start to ensure that we can create better partnerships around bringing the absolute best of digital capability and retail capability to bear on our sub-million pound clients. And that is what we are working with and David Oldfield is helping work on that with some of our Retail colleagues.

We re-cut our segmentation, our SME franchise up to £25 million and you will see a little bit more later on the opportunity that creates, and the running room it creates, for some of our bankers. In Mid-Markets we looked both up and down, where effectively there were opportunities to ensure that some clients went down to our SME franchise. And actually we found in aspects of our segmentation there were some SME clients that needed to move up into our Mid-Market franchise. And then beyond there, thinking about the larger Global Corporate clients where actually local relationship coverage in the UK was more appropriate and the plan also moved those clients. And then interestingly what was previously known, for some of you who have covered us for a long time, as CIB, what we also did was more split Global Corporates and Financial Institutions, and certainly from my own personal experience, absolutely feel that the way that those segments operate, you need to create different approaches and give them the respect of need, focus.

The biggest thing you need to take away from this slide are the Harvey Balls at the bottom. And let me just explain what is there. Existing returns on risk weighted assets. The returns we make today in our SME business are good. We are easily meeting our return on capital requirements there. Within Mid-Markets it is broadly good except we have the legacy social housing book which creates a financial drag as they reflect a very long duration of that book. And you are going to see how our bankers are working with the social housing sector to evolve and help them as those financing needs change over time as the source of banking finance becomes less accessible certainly for the duration they are used to funding.

Global Corporates starting to think about that, above £750 million and that business in return terms is simply not acceptable. And effectively what we are doing is working. And Clare Francis took over this business just before I joined and she is working to create plans with me and we are executing a plan that starts to make some participation choices there.

And then Financial Institutions actually personally was a bit of a gem in the sense that one of the things I learned through that phase is the very deep history of Lloyds International as a major inbound financial bank for inbound financial services companies. And actually a business that today makes adequate returns. Basically provides basic bread and butter banking. Also interestingly the leading bank of the Lloyds of London Insurance Market and all the participants in that market. And that is led by Ed Thurman who is here today and you can have a chat with him afterwards.

So within that effectively, what one needs to also think about is the segments. And this is the new disclosure as we start to see it on the income lends. You can start to see effectively where and how we earn our income across our clients. And you can see 37 per cent SME, 24 per cent Mid-Markets. So this business is 60 per cent around helping Mid-Market and SME clients. And then Global Corporates represents about 23 per cent revenue and Financial Institutions, 16 per cent.

But any discussion about a Commercial Banking business and how you make sure you capture wallet, one needs to understand the client journey from the start up company that has very basic needs and as a company grows and it evolves through the sectors into Mid-Market and Global Corporates, their product needs become ever more sophisticated. And implicit in any client journey is how we in our bank mobilise capability to support clients as they move up that value chain.

So new information, and I think a surprise to some, when we think about the real cost of goods sold in our business, we only make 13 per cent of our income in Commercial Banking today doing lending. It is a very important area, it is a gateway to a relationship and we absolutely committed to doing it. But what that does for the vast majority of our relationships, actually creates a base on which we help them more broadly and help them service their needs across our platform. And you can see why Antonio was keen to make sure we invested in our Transaction Banking business. 50 per cent of our revenue comes out of Transaction Banking, it is basically doing the basic bread and butter banking for our clients. Whether that is effectively managing their cash, organising their payments, arranging their trade finance, helping with their supply chains, the basic bread and butter of banking, that is 50 per cent of the revenue of the business.

The Financial Markets business, well you will get to hear later is about 23 per cent of our business. This is basic activity around foreign exchange, money market deposits our clients have, dealing with risk management, interest rate hedging. And that is effectively 23 per cent of our business. And at the top of our value chain is Capital Markets under James Garvey, this is in the Board Room with Finance Directors helping them with their more strategic financing needs be that syndicated loans, bonds, project finance.

We are not an investment bank and we have absolutely no aspiration to be an investment bank. We do not and will not play in mergers and acquisitions, equity capital markets.

So if I turn to our strategy and in summary. I am not going to dive into these particularly, but effectively this provides a nice headline summary of what we are doing across these various sectors. But effectively the major headlines you need to take away are SME and Mid-Market is going to be about local execution across the UK. How do we ensure that we can out execute our competitors geographically? Global Corporates, different participation choices, how do we be very disciplined about how we effectively work with clients where we can get the requisite returns. And Financial Institutions, Ed is leading and shaping that business and also being very clear in how we participate and how we can build on as I say what is a very long legacy strength of Lloyds as a financial institution that does basic bread and butter banking for clients in the UK and does have some very interesting product capability that supports and grew out of some of the requirements of Lloyds Banking Group since the financial crisis.

So you are going to get to hear more about SME from David, but effectively this is effectively, I have got a couple of insights I wanted to share with you here. But this is again as I said earlier all about partnership with Alison. We have some aspects of this business where we need to get our own cost to serve lower and we need to get our best of breed capability in place. And that is really around these sub-million pound turnover companies and there are some very good activity happening to start to work out how we can do that. And then as I say, the £1-25 million clients where we can start executing. And again if you look at the bottom half you can see what is happening in market share. We have about 21 per cent market share in clients up to £2 million and then it falls away down to 17 per cent in £10-25 million. And this is interesting and I have seen it in my own career that often at the frontier of the segmentation. We have previously segmented at £15 million, there is space where they are not getting covered by the Mid-Market segment. And effectively what you do is create space for our bankers to execute into. And effectively we feel there is an opportunity. And you will get a little bit more richness on both this and the geographic lens from David later.

If I turn to Mid-Markets, this business, some interesting insight hopefully for you that you have not seen before. Effectively the business cuts a quarter-quarter, Medium Size companies, that being between £25 million and £100 million, and effectively Mid-Cap companies between £100 and £750 million of turnover. And again the other part of this business is social housing. 29 per cent of our asset book today in Mid-Markets. This business effectively is a legacy area of the portfolio we are continuing and are very committed to it. But effectively it was born out of an age effectively when Lloyds had a AAA rating and effectively what we had was two very large portfolios that got to about £15 billion of assets and as the banking industry evolved effectively source for new finance in this industry changed. And what we have done is help work through and evolve the needs of those clients and you will see a bit more of that later.

But this is also about us investing in a targeted way to ensure that we can drive share and again you can see market leader has 29 per cent and we have 19 per cent share. And we see opportunity to grow and we are hiring selectively to win across the UK geographically here.

If I turn to Global Corporates, again as I said earlier, Clare Francis and I have been doing a huge amount of work with our teams to work out how we can effectively ensure we can win in this area. And we went through our planning processes and worked in a very rigorous way to look at how we might prioritise where our clients were. And the first lens we applied was to start to look at, why do people bank with Lloyds bank? And typically they bank with Lloyds Bank because they want a core bank provider in the UK that is the leading commercial retail and commercial bank. So we effectively took that lens and we said to ourselves, let’s ensure we prioritise the future activity against Lloyds, in clients where effectively we can make a difference.

The second area we said is based on our opportunity and where our product capability was against those clients. Did we feel that effectively we had an opportunity over time to create value from those clients? And then last but not least, where were we making the returns? And again what we do internally is we recognise absolutely the fully loaded cost of funding as we need to do in a commercial bank and we apply the capital being deployed in those relationships. This was built by 19 sector teams that then went into 4 segments and effectively then created a perimeter around prioritising our clients. And again this is interesting in the sense of what we can see from that is there are a group of clients where we earn strong seven digit income from them, our capability works extremely well, we generate good returns. We are important to our clients, they are important to us and absolutely indicates that when Lloyds Banking Group gets it right in Global Corporates there are good mutual opportunities.

But we also recognised that effectively we have a number of clients who we need to think more actively about, how we optimise them, how we are clear whether we can really lift the returns or indeed we need to think about how we might bank those. The first axis of that are clients that don’t fit into our geographic future footprint. And by way of example we sold a very interesting business in Houston which does reserve based lending in the Gulf of Mexico. We sold that business in March on the basis we could not see a fit to the UK business. So effectively how do we optimise our capital and really focus what is limited capital against clients that can create and build on our UK focus and UK strength.

When we looked at the product penetration, some interesting features were not unsurprising, we are well penetrated across the lending product. But some quite interesting in that value change journey I described earlier, some interesting inconsistencies. James Garvey in our Capital Markets team, as you will see later, really have had some really good successes in working with UK clients in providing Capital Markets activity, particularly in the UK. And yet as you would think in a value chain, effectively our Transaction Banking capability and Financial Markets capability would be on a par with that. So we are effectively, simply put, we are in the Board Room helping our clients with their debt financing and yet actually they are not using us for some of their bread and butter banking. And again Clare and I and the teams and all our product partners that you will meet and see today are working with how we can ensure that we can work more effectively with our clients and our plans are all about how we can do that.

So turning to Ed Thurman's business, the Financial Institutions business, again across seven client segments, we applied the same broad process . I am not going to repeat the pyramid work we did, but suffice to say, a slightly different lens. The first lens and he is in the front row here Andrei Magasiner The first thing that did happen and this build great capability in our Group was James Garvey working with the huge financing requirements of Lloyds Banking Group, has effectively helped build our franchise and create very interesting capability. So we have a lens across who we work with that again supports our own needs.

The second was effectively ensuring that the client base we had in Financial Institutions also supports our corporate franchise in terms of being able to provide distribution for clients. And then last, but not least as I alluded to earlier, we do have a very vibrant and broader based business than I would have perceived coming in, that supports the Financial Services industry in the UK and we need to build on that. We are very fortunate at Lloyds having Lloyds as a major bank in the City of London, we have a great franchise and interestingly again, good penetration in Transaction Banking, good targeted capability that we are demonstrating in Capital Markets. And suffice to say, we are making good returns in this business. And Ed is building plans across the same pyramid to do that. Some differences in the hierarchy as you would expect, effectively the inbound correspondent banking business, how you work with institutional clients. But building a very client orientated focus. Relationship Managers working with every single client in this area. And again Ed is going through the same process that Clare is going through, let's be clear who are our best clients? How can we make a strategic difference? And the same thing, and this is a theme we see through Lloyds, when we get it right, it works extraordinarily well. And the challenge for us is how do we get that happening more consistently, and this is the work the teams are driving.

But no conversation would be complete without effectively understanding how also we make sure we sustain our discipline. And working with Mark and Mark's teams and lots of colleagues across the Group, very focused on driving simplification in our business. That is all about the themes you have heard over the years; re-engineering our processes end to end, delayering some of our organisation and again, as we brought together these businesses, how can we create an opportunity to be more efficient across that business. And within that comes efficiencies. We also looked across 11 Centres of Excellence that we deemed were activities that defined the future successes of a commercial bank and created plans that we can execute and are executing against to create specific Centres of Excellence. Also working with my Group Executive Committee colleagues who represent a number of our functions as how could we create a very pure functional model where we work out what we can centralise to create greater efficiency. A very simple example just to give you some specific insight on that, last month we transferred 400 colleagues to Mark Fisher's operations organisation to both create and build on a Centre of Excellence that leverages the great skills that Mark has but ultimately this was about how we get our people best deployed to drive the bank efficiently.

And again consistent with the Group themes, this is all about how we also effectively create capacity and optionality on how we invest in the platform. Simply put, SME enabling self service, and again you will see that is not just effectively improving cost to serve, but it is actually creating more capacity for Relationship Managers to be out there with clients.

And Mid-Markets, effectively hiring more Relationship Managers, and you will hear more about that, so we can effectively ensure we have got our teams out there winning. In Transaction Banking, building the platform but actually also effectively creating specialist sales teams to support our front line, our Relationship Managers, so we can be more effective in capturing some of these gaps in terms of capability and indeed income that we are missing. Then the markets platform that both underpins Richard Moore's world and James Garvey's world in our financial markets capital and capital markets, creating and supporting the migration to digital channels and then targeted capability build.

So I am hoping that what you have got a sense of is what we are trying to do from an execution perspective. It is going to be against those three levers. Income, and there are pockets of growth despite the economic environment that we see, we absolutely are going to continue to focus behind and put funding behind those opportunities but at the same time with relentless cost discipline and focus. And then really working with our balance sheet to work out how we better deploy our capital. We have implemented a number of new disciplines to be sure we are clear how we deploy that capital, equally working very actively at the balance sheet lever of our business makes sure we understand how our balance sheet creates value. And also crucially under Stephen's leadership, ensuring we do that in a way that is low risk.

Ultimately we are going to let relentless execution drive us towards getting towards a satisfactory return for our shareholders in 2015 of greater than 2 per cent.

And with that I will pass you to Nick to run through the financials.

Nick Slape – Finance Director, Commercial Banking

Thanks Andrew. Good Afternoon. My name is Nick Slape and 6 months ago I joined Lloyds as Finance Director for Commercial Banking, having spent the last 25 years in a number of senior investment banking finance roles.

To pick up on two of the points that Andrew mentioned as having been already achieved, I recall when he and I first sat down, before I came on board, we discussed the immediate need to build a strategic plan together that underpinned and supported what António had already put in place for the Group and secondly, to develop the financial tools that we would need to monitor and measure success.

Well, we have already delivered a financially robust strategic plan aligned to the Group, and on which today's guidance is based.

We have also already implemented a tool that provides a single, daily view of financial performance by both product and coverage, and are now delivering the detailed management information needed to measure returns on a client by client basis.

As we now turn to the financials, I would like to make it clear that we are sharing some new information with you today about the division and this will aid your understanding of what the division is, and where it is going.

As Andrew has already told you, our strategy for the division will deliver returns on risk weighted assets in excess of 2 per cent in 2015, through relentless execution.

I will set the scene by briefly talking you through the 2012 results and recent trends before explaining how we will achieve our returns guidance through three key areas:

1. Income growth
2. Cost control and
3. Balance sheet & risk management.

So, here are our Commercial Banking Core results for 2012 as previously disclosed.

Despite the challenging market environment, Commercial Banking has delivered a stable underlying profit before tax of £1.75 billion and although our returns are not where they need to be, our return on risk weighted assets did improve slightly by 4 basis points to 1.36 per cent.

Income declined by 8 per cent year on year. This was driven by lower net interest income given a smaller book, reflecting subdued customer demand, albeit with positive growth in our SME business, and a compressed margin which I will explain in greater detail in a few moments.

There are, however, some emerging positive trends in Other Income which rose by 9 per cent in the year, signalling that our investment in products and deepening of relationships are already starting to reflect in the P&L.

We have made excellent progress on costs which are down 3 per cent driven through our Simplification program under Mark Fisher, and the savings from which more than offset investment and inflation.

Impairments are down 33 per cent reflecting the improving credit quality of the book which means our AQR has improved by 28 basis points to 67 basis points and Stephen Shelley will talk about this in a few moments.

Our customer deposits reduction of 6 per cent reflects real growth in SME and Mid-Markets of around £5 billion whilst reducing our use of shorter term deposits by £11 billion as we focused on improving the liquidity value of the book.

And finally risk weighted assets reduced by 1 per cent to £128 billion but when compared to our loans & advances of £102 billion, this looks particularly high and I will explain the make-up of our risk weighted assets shortly, so that you can more accurately compare us to peers.

So if we take a look at recent trends for a moment. Total Income has been stable over the last 3 halves. NII declined from H1 11 levels of about £1.5 billion to H1 12 at £1.1 billion. I will discuss the legacy issues driving margin compression and how the margin will improve in a few moments.

As you can see, Other Income has grown across the most recent three half years. Actually, beneath this lies quarter on quarter sequential growth that Andrew mentioned and we have seen this trend continue into the first quarter of 2013.

Costs continue to be managed with discipline, remaining broadly flat over recent periods as the Simplification programme creates headroom for investment, and I will expand on this shortly. And, as already mentioned, impairments fell by £351 million in the year as they normalise.

So now, focusing on Income, and before we move on to how we grow, I thought it would be useful to give you a little insight and some new information around the franchise and income mix.

90 per cent of our income is client driven. The remaining 10 per cent comes from Lloyds Development Capital which primarily provides equity support to our Mid-Markets franchise, and Financial Markets Residual Risk Management which reflects our hedging activity.

Our average value at risk usage for 2012 was £7 million. And as Andrew said, we are not an investment Bank. We are a conservative commercial bank delivering stable recurring revenue streams. We have a diverse, low risk and simple product offering that suits our client's needs.

On a product view you can see that Transaction Banking, which helps our customers with their working capital needs, accounts for 50 per cent of client income, and Andrew England will talk more about this in a few moments.

Financial Markets accounts for 23 per cent and Capital Markets 14 per cent, and again you'll also hear greater detail from both Richard and James shortly.

Our income is also diversified across our Client Segments. Combined, SME and Mid-Markets represents more than 60 per cent of our client income, and both are now under the leadership of David Oldfield who will explain his plans to grow these segments.

Let me tell you now what we are going to do to improve returns; first starting with Income and Net Interest Margin and there are two aspects that need to be considered here. Firstly, increased cost of funding towards the end of 2011 and in the first half of 2012 where you can see Lloyds CDS spreads widening had a negative impact on our NIM.

With disciplines that Andrew has already talked about and put in place, there is a much better understanding of the cost of funding and this enhanced commercial behaviour alongside funding costs becoming more normalised is now improving our NIM.

And secondly, as you can see in the pie chart approximately 18 per cent of our lending consists of longer dated Social Housing and Structured Finance portfolios. These longer duration legacy assets present us with a margin drag. For example the Social Housing portfolio which is about £10 billion has a negative margin of 135 basis points. This alone represents a drag to our NIM of 14 basis points.

There is significant portfolio management focus and attention in this area with the aim of improving returns through re-pricing and distribution opportunities. For example, client teams work closely with James Garvey's capital markets team and in a number of cases this results in bond issuances. We won nine Social Housing Bond mandates in 2012 – No1 in the League Table. We have helped our clients raise £883 million of funding, resulting in £780 million of repayments. In other cases we have the opportunity to re-price and reduce duration.

There are also distribution opportunities where there is interest from insurance companies and Japanese buyers in this type of longer dated assets.

In summary I am confident that the combination of enhanced commercial behaviour, normalised cost of funding and our legacy focus on the back book will improve our NIM.

Also want to note that we are passing on the full benefit of cheaper FLS funding to our clients, and FLS is not part of our improved net interest margin story.

Turning now to Other Income and how, as I mentioned, we have grown by 9 per cent through 2012, a trend that we are seeing continue into 2013. The pie chart shows you that we have approximately a third of Other Income coming from each of Transaction Banking, Capital Markets and Financial Markets with only a very small percentage related to lending fees.

We already have some strong pockets of product capability but there is more we can do. We are investing in capital light client focused products and capabilities in these areas and I would expect to grow each of the Transaction Banking, Capital Markets and Financial Markets as a result.

This will be reinforced by our client management Information which focuses on returns on risk weighted assets and will provide our Relationship Managers with the discipline and the tools to drive increased wallet and reduce RWA.

But overall, I want to stress that what we are not doing is growing Other Income by increasing risk. We are focused on the growth of stable, sustainable and capital-light income streams.

So turning to Cost Control. We have over 100 projects aligned to the Simplification banner under Mark Fisher. Within Commercial Banking, we are leveraging Group expertise in areas such as process automation, while creating Centres of Excellence to delayer and reduce headcount.

Andrew has already mentioned the example of where we are looking to work with the wider Group to drive efficiency and consolidation of our loan & market operations into the Group, again driving efficiency from a larger platform and common systems. In all, we expect to deliver £200 million per annum of run rate savings by the end of 2014 from these initiatives. In turn, these will give us the headroom for selective, return enhancing investment, and we have targeted £500 million of cash spend over the plan, and we will be flexible depending on the opportunities that we see.

These investments are focused on building our Transaction Banking, Capital Markets and Financial Markets capability, through better systems and processes, more front line colleagues, and an enhance product offering. These will expand our reach with clients and the range and depth of products we offer to them.

Finally moving onto the balance sheet and risk and particularly risk weighted assets. Our Loans & Advances to Customers for 2012 is £102 billion compared to our risk weighted assets of £128 billion. However, to make us more directly comparable to peers, I have split out the £38 billion of non lending risk weighted assets, which includes our Financial Markets credit risk and market risk-weighted assets of around £26 billion. So, when comparing us to peers it might be better to think of us in terms of £90 - £100 billion of risk weighted assets.

After the modest impact of CRD IV and other regulatory change we expect to reduce our core risk-weighted assets by around 10 per cent despite the growth in the lending book. And this will come from disciplined new business participation and optimisation of the back book as you have heard Andrew and myself.

And our specific initiatives will focus on reducing the overall maturity of the portfolio and changing our business mix. We will rigorously review the portfolio through a lens of credit quality and duration to optimise capital efficiency, in areas such as structured finance. We will also make participation choices, and I would expect these, for example, to have the effect of reducing our undrawn commitments, which utilise capital while earning low returns, as well as some of the non-relationship risk-weighted assets that I have mentioned.

To sum up, disciplined participation and active portfolio management will create capacity for us to grow lending, support our clients and our FLS commitment.

So in summary the objective is to deliver sustainable returns above the cost of equity. It is a transformation journey. We will grow income through normalised funding costs, investment in product capability and franchise growth in SME and Mid- Markets. We will continue our focus on costs through Simplification to build scalable integrated platforms. We will carefully manage our balance sheet usage through active portfolio management and lower risk origination discipline. And together with relentless execution that Andrew mentioned, Returns on risk weighted assets will exceed 2 per cent in 2015.

We don't intend to give further specific guidance, but we have the flexibility to achieve this through a combination of levers. We will improve our NIM. We will grow underlying income and we will increase Other Income as a percentage of total income. Reduce our cost of income ratio and our AQR.

Thank you for listening. I will now hand over to Stephen Shelley, Risk Director.

Stephen Shelley, Risk Director, Commercial Banking

Thanks Nick. Good afternoon everyone, my name is Stephen Shelley and as the Risk Director for Commercial Banking I am responsible for the enterprise wide risks in the business. I joined Lloyds nearly 2 years ago but prior to that I had a 22 year career at Barclays with the last five as the Divisional CRO for their UK Corporate business.

From a credit perspective my focus is on the core business, my colleague Andy Cumming in the front, is the one tasked with reducing the non-core business at a rapid pace!

I don't propose to dwell on the mechanics of the risk function itself but it is worth commenting that we have aligned the credit functions to the segments you have heard about from Andrew and Nick. We now have separate and dedicated credit and workout teams for SME, Mid-Markets, Global Corporates and Financial Institutions, with each one having their own Chief Credit Officer with deep functional expertise in that area. What I would like to share with you today is how we manage risk to deliver sustainable growth in our Commercial Banking business.

Now quite simply, my mission is to build a more resilient and less volatile portfolio. We operate what I would describe as a "church and state" model with the risk function independent of the business but with a strong sense of partnership, starting with Andrew and myself.

There are three points to highlight. First, we have developed a sensible, clearly articulated risk appetite so our colleagues are clear about what the playing field looks like, so all parties know the rules of the road.

Second, the reshaping of the business is creating a lower risk portfolio. It doesn't mean risk free but it does mean we are limiting ourselves to operating in areas and sectors that we know and understand.

Third, portfolio management which was a new concept for the Group from both a credit and business perspective, the teams were formed in 2012 to manage risk and capital better in order to increase returns. In short far more discipline is being applied to the use of capital.

As you know we have had vastly different experiences of the two different heritages. You are familiar with the HBOS origination issues with the concentration in property and acquisition finance as well as the very large single name holds. By contrast, the LTSB approach was successfully designed to work through the cycle by paying close attention to the underlying cashflows that service a loan.

You can see from the graph how the different heritage wholesale portfolios performed during the challenging years of 2008 and 2009. Not surprisingly therefore the principles behind the heritage LTSB approach remain alive and well in the business today and indeed, the core portfolio is dominated by heritage LTSB assets.

However, not all was perfect about the heritage LTSB approach. Whilst very sensible from a credit perspective, the AAA heritage was embedded in the psyche which meant it was ill disciplined with pricing, took large holds on strong credits irrespective of wallet share, it didn't really worry too much about tenor and avoiding underwriting risk, largely restricting itself to a participation strategy, effectively acting as a “stuffy” bank with a subsequent impact on business opportunities.

Now a combination of these factors has adversely impacted returns but the good news is it is relatively easy to fix and James will highlight later the progress we are now making in leveraging the very use of that balance sheet.

Now Commercial Banking needs to manage all risk types but key for this business is Credit and Conduct. Market risk is very small versus peers, with low trading Value at Risk and critically a simple product range, dominated by FX and rates, reflecting the principle of operating in areas that we know and understand. I will discuss Credit and Conduct risk in more detail but two points I would like to emphasise. With Credit risk, the setting of risk appetite is independent of the business and in the Audit function, there is a dedicated team to review and test the appropriateness of impairments as well as the right classification of watch list assets.

With conduct risk, recent events have led to a comprehensive end to end review of our strategy in this area group wide. Indeed the appetite for conduct risk which has been set at Board level is essentially zero for our flow business. There has been a huge change of emphasis in this area and the tone from the top is driving a very different culture. I see four key elements to how we are bringing this new conduct risk strategy to life. First, robust product governance so that we make sure the design of products works for clients, that sales processes clearly explain the product and we test ongoing usage by clients. Secondly, do we meet our client's needs and sell them the right product with the right outcomes? Even in areas such as lending we now review whether the client has been given the right product for their needs. For example, should it have been an overdraft or invoice discounting. Thirdly the risk function now reviews how we target, measure and reward our people and assesses the impact that has on behaviours and the culture we are creating. Last but not least, using complaints to identify any issues at the earliest opportunity. In short, this is all about putting the client first and being able to evidence that we do so.

Now we employ a three stage approach to managing credit risk, the first two of which were ill formed, even in heritage LTSB. Firstly, as mentioned earlier, the introduction of a clear risk appetite to define the playing field, the quality of business we want, the portfolio mix, in terms of rating, product, geography or industry. Second, hold policies which vary from formal caps for high risk sectors to single name concentrations by Probability of Default ratings, all designed to reflect the lessons of the past 30 years. For example, our average hold in acquisition finance over the last two years is £20 million which is materially lower than in previous years and with little deviation from the norm. Thirdly, an area where Lloyds has historically been strong, a function of the experienced and capable credit officers I inherited, are our detailed credit policies with specific parameters for the different industry and asset classes such as loan to value, leverage multiples, debt service coverage ratios, etc.

Now this overall approach is not only good for risk management, it is good for the business and good for the client, as it means when a Relationship Manager is sitting with a client, they know what sort of business we will do and what sort of business we won't do and therefore they can speak with authority. From the client's perspective, it makes us easy to do business with and critically, from their perspective it makes us predictable. Our objective is to have a credit risk appetite that is through the cycle, retains our UK centricity and focuses on asset classes we know and understand.

Now as you can see from the graph at the top, or just about, it tracks our portfolio by ratings, the credit profile of the core business improved in 2012 which is no mean feat. We are starting to enjoy the benefits of the new approach to credit I outlined earlier with robust control over the quality of new business we originate. For example in Mid-Markets100 per cent, of our new business in 2012 was within our predefined ratings.

Our flows into workout team fell 37 per cent last year and we have not changed any standards to achieve FLS targets. We have though been able to grow our SME portfolio by 4 per cent.

I am conscious of the focus on real estate and the slide highlights our corporate property exposure group wide. I won't dwell on the overseas element as it is dominated by the Irish story with which you are familiar but the Irish property book is 91 per cent impaired with a coverage ratio of 70 per cent.

In the UK, the net exposure in our workout to Group is £8.8 billion at year end with a coverage ratio of 42 per cent. We have an excellent team, with a strong track record on disposals and a healthy pipeline. The core UK "good book" property exposure is £18 billion, £5 billion of which is in Residential where the fundamental shortage of housing in the UK has seen this element of the portfolio perform strongly. £9 billion of the remaining £13 billion in Commercial Property are heritage LTSB assets.

Now all of this manifests itself in lower impairment, which fell 33 per cent in the core business in 2012. With an AQR of 67 basis points the core portfolio is displaying behaviours we would expect as if we were operating in a benign economic environment but we are conscious that our "debt clients" are benefiting from sustained low interest rates.

However, as we further change the shape and quality of the portfolio, as I have described, we are confident we will see some modest further improvement in impairment from here. Our objective and indeed our belief is that the approach we are taking will minimise future volatility in impairment in the portfolio as economic cycles inevitably turn.

Now portfolio management is not restricted to credit risk. Under Andrew's leadership a separate and dedicated team to manage the allocation of capital and drive up returns has been created to operate Commercial Banking wide.

With flow business we have strengthened our discipline in pricing with new hurdle rates, pricing models to reflect the new regulation and independent oversight and approval from the coverage bankers.

Managing the back book is key and the Portfolio Management team review the feasibility of enhancing returns on those clients that fail to meet our target return hurdles, testing whether we really can deepen wallet share, whether we can re-price or indeed whether an exit strategy or secondary debt sale is more appropriate.

There is a particular focus on legacy low margin, long dated but high quality credit assets and given the search for yield in the market generally and the inflation proof nature of some of these assets, there are some options open and available to us.

This is about how we can meet our client needs with the minimal use of capital "originate and distribute" rather than "take and hold" albeit always mindful that markets might shut and we might be left holding the baby!

In summary therefore, our whole mindset is about three simple things. One, operating in areas we know and understand. Two, improving the discipline around the allocation of capital and thirdly, seeking to grow the business in a sustainable way.

At that point I would like to handover to David who will bring the business to life for you.

David Oldfield – Commercial Banking

Thanks Stephen. Good afternoon to you. My name is David Oldfield. I am unusual to those you have seen so far in that I am somewhat a veteran campaigner for the organisation. I joined Lloyds Banking Group as a graduate 28 years ago, now Managing Director for SME & Mid-Markets, but I have worked around the entire organisation I think in that time. Most recently I was Managing Director for Asset Finance, before that Chief Operating Officer for the Wholesale Bank. I ran the Offshore Banking business before that so I kind of get the DNA of the Group.

So you have heard a couple of times, we have growth plans for SME & Mid Markets and I stand here feeling confident they are integrated and joined up across this business and they are very client focused. So I am pleased to be playing my part in terms of bringing that strategy to life.

So the bottom line for me, let me cut to the punch line for you. SME and Mid-Markets are crucial segments for the UK. Very much of course the life blood of the economy. They are important to us as a bank. You have heard already that they contribute 60 per cent of the income of Commercial Banking and two-thirds of our people work in these two areas. We have a great geographic footprint up and down the county. I will show you a really strong customer franchise, but some real opportunities to grow. We have a strong lending business across these segments, but it is also very deposit rich. And Andrew asked me to create a single integrated approach to running SME and Mid-Markets so there is opportunity and upside too from that best practice approach.

So let me show you the SME side of things. Again you have heard already, we have £1 million SME customers, small in size with simple banking needs. So typically less than £1 million turnover, low borrowing needs, low deposits, no complex products. So those are the customers for whom we can leverage in the Retail Banking expertise. They have scale and capability in telephony and online. And by doing that, by enabling more self serve for that large segment we create time and space for our network Relationship Managers to spend time and focus on the larger customers.

So what you have got there is the picture of the geographic footprint of the face to face business for SMEs. So we have 250,000 SME customers from £1 million up to £25 million turnover these days. It was £15 million. We have 2,500 Relationship Managers and their customer facing teams across 500 business centres across the UK, split into 20 Area Director groups. And for us we very much see these Relationship Managers as part of their local communities. They are very active voices in their local business forums and we get great feedback from customers in terms of that close working relationship. We believe in local lending discretion, so SME senior managers have authority to lend up to £500,000, so local decisions, local communities. And over and above that geographical coverage we focus on key markets. So we have some key markets expertise. So in SME we cover professionals, education, property, manufacture, agriculture, healthcare and in SME there is huge opportunity for product collaboration. So you will hear from Andrew England shortly in terms of Transactional Banking, but we work closely in terms of thinking about deposit and broader banking income needs for these SME customers.

So again, Andrew said earlier, we are making good returns in SME today, but we recognise we have headroom to grow, both by customer segment and by geography. So if you look on the right hand side of that chart you will see, and Andrew showed you this, we have an overall SME market share of 19 per cent, but real opportunity in that higher value segment, the £10 million to £25 million turnover band where we are at 17 per cent. So that was the one previously on the cusp of the segmentation with Mid-Markets. So it is already today an area of focus. We are creating capacity for Relationship Managers in that space and today we are already a net gainer or switchers in that £10 million to £25 million piece.

And the piece below that looks at region, so again 19 per cent overall. Compare that with the market leadership position of 33 per cent. So we have headroom and in some GDP heavy areas, London and the South-East we are 19 per cent, so there is more we can do there. And Midlands and North we are 16 per cent, so again we are creating opportunities here to deploy Relationship Managers in areas of opportunity.

Let me move to Mid-Markets. We are very much looking to use this same SME model to grow our Mid-Markets franchise. So 5,000 Mid-Market customers, you have heard already, split into medium sized businesses and mid-cap. Same geographic kind of sense as the SME, 165 Relationship Managers on this one, up and down the country. 20 Area Director groups. In many cases they share the same building as the SME Relationship Managers. So again opportunity for joined up working in a cohesive face to marketplace. And again we have key markets expertise in Mid-Markets. So hotels, healthcare professionals, educational charities, government and so on, supporting the geographical coverage model.

Now these customers have more sophisticated product needs. So an opportunity to dial up the way we work with product partners. So Richard Moore you will hear from later in terms of Financial Markets, deposits, FX and rates. James Garvey on Capital Markets, Andrew has already talked about and Nick social housing. So James will talk about some of the bond issuance we have used to eliminate the drag on the social housing book. Andrew in terms of Transaction Banking and Stephen talked about Portfolio Management in terms of front book pricing and back book returns.

So looking at Mid-Markets by geography, unsurprisingly 40 per cent of our income generated from London and the South-East and 30 per cent Midlands, East and South West. But again when you look at the opportunities for targeted expansion, we are 19 per cent overall market share plays market leader at 29 per cent. So headroom for growth, London and the South-East again were 15 per cent. So more we can do. The North was 17 per cent.

Andrew said, we are recruiting. So we are recruiting 80 new Relationship Managers and support teams. We are about half way through that process and we are deploying these folks into these areas of greatest opportunity.

So that is Mid-Markets, let me now talk about the Relationship Managers because they really are core to our customer proposition. We believe we have the best Relationship Managers who truly understand our business. So we have more than 1,500 really experienced Relationship Managers up and down the country. They have got fantastic relationships. Many like me have spent more than 20 years in the organisation so they know our bank deeply. Regularly rated number one by both Greenwich Associates and Charterhouse Research. They have dedicated portfolios. They know their customers, they know their patches and we win switchers today because of them. They actively target and work with potential prospects as you would expect, many take years of course. But what I hear time and time again is that our Relationship Managers spend more time with these potential clients than some of their current banks do with them. So there is a real opportunity there for switchers.

Our Relationship Managers are helping Britain prosper with a focus on lending. So SME lending at the end of last year was 4 per cent up in a market that declined by 4 per cent. You heard from Stephen we had an independent credit risk function so we grew the book without compromise to the bottom line or to our risk profile. And we are now going to look to leverage that momentum and indeed you heard from Antonio up front that we already are in terms of deriving net positive lending growth in Mid-Markets this year. And finally we support start ups. We have supported more than 350,000 SME's get off the ground since January 2010.

Relationship Managers are the gateway to expertise. They very much help us access the power and advice of the bank and we have a number of industry accredited Relationship Managers, real experts in those markets I talked about. So the bottom line of this, this is not a complex business. This is all about focusing and winning through our geographic footprint. It is about using our highly prized Relationship Managers and out executing the competition every day in every location.

Let me say a little bit more about lending. SME and Mid-Markets are deposit rich. We have more deposits than we do lending, but lending, as you have heard before, is often the gateway to a broader, richer relationship with our customers. And not forgetting, one in five SME's and Mid Corporate customers bank with us so we absolutely recognise our role in supporting the Government schemes to stimulate the economy.

So of course, FLS, we are passing on the 1 per cent discount to our customers through this scheme. We were the first bank of course to participate. We committed £11 billion of FLS lending in Quarter 4 last year. And we are committed to alternative sources of finance including asset backed lending, factoring, invoice discounting.

We have the Enterprise Finance Guarantee Scheme. We are a very active contributor and by the end of last year we have leant more than 5,200 EFG loans, more than 26 per cent of the total.

We are very active on the Government Business Finance Taskforce. We are 42 per cent of the entire population of business volunteer mentors. We've published just recently the updated SME Charter and we have published a new Mid-Markets Charter outlining our commitments to our customers. We lead the way on lending appeals and we held 200 customer outreach events last year to help our business customers to meet key bank staff and professionals.

And we are active with UK Business Angels. We are the only bank on the Board. And we are active similarly on the Business Growth Fund for larger corporate customers. So lending is important.

Let me finish now with a couple of examples. Three examples of where we are winning in terms of our specific key markets. So firstly, agriculture. SME is absolutely winning in agriculture today, through the Agricultural Mortgage Corporation and through the Lloyds agriculture business. We are the largest provider of finance to UK farmers, with 34per cent share of lending. We get decent returns. We get extremely low impairments, these are very loyal clients and they generate great opportunities for us in terms of wealth and estate planning particularly. And importantly our customers recognise our real expertise in this market. So I met Adam Henson recently from BBC's Countryfile. Adam has banked with us since 2002. He is the Lloyds Banking Group's Farming Ambassador and he says it's our relationship banking approach and our market expertise that really makes a difference to these customers.

Looking at schools. In schools we bank 1,500 academies up and down the country, 57 per cent of the total. And fairly recently one city in Yorkshire ran a tender exercise and 82 per cent of all schools chose us versus the competition. And of course schools are very liability rich segments.

And then finally manufacturing. Manufacturing is a key a priority for us. It is of course the UK PLC. We are on track to deliver the £1 billion of extra lending that we committed. We have trained over 100 SME Relationship Managers and we are now training Mid-Markets Relationship Managers to give them an even better understanding of this important sector. And there was a great case study recently where we attracted a particular food manufacturer and they had banked with their previous bank for more than 150 years and they came to our Mid-Markets team, given our reputation and our knowledge of the sector.

So before I conclude and hand over to Andrew England on Transactional Banking, let me just stress four points. So firstly, we've got this really strong geographical footprint and we have got a terrific franchise in SME and Mid-Markets. We stand out today already through our locally based, empowered, Relationship Managers who want to do business. We have more Relationship Managers on the ground in more locations than any other UK commercial bank. We can leverage management and best practice by looking across SME and Mid-Markets together and you can see already we have got headroom to grow both by value segment and by geography.

Thank you very much, Andrew.

Andrew England – Commercial Banking

Good afternoon. My name is Andrew England. I look after Transactional Banking. I joined the Group at the end of March last year and really have occupied before that a number of senior roles in Transaction Banking across a number of major banks. So Citibank, Deutsche Bank and more latterly I was responsible for building up the Transactional Bank in Uni-Credit. And I suppose you know in terms of background what I really saw in Lloyds was the opportunity to really build a strong Transaction Bank, and actually from a personal perspective I really believed it was one of the very, very few challenges left in the Transactions Banking space overall.

So I think you heard today you know we are on a trajectory. We are sort of 18 months in. And I can say that we really are operating as an end-to-end business really servicing the client segments that you have heard. So that's David's franchise, it is the Global Corporate and Financial Institutions. And we are you know an important pillar, but what I like to highlight is we are also in a major period of change.

So we have constructed the business really around four key pillars. So we have Cash Management & Payments, we have a Trade business, we have a Card business and we also have a business around clearing to financial institutions. And as I said, even if we are going through a period of change, we still manage to keep I think our eye on the ball last year. So we managed to grow our core domestic payments business by 4 per cent against the industry growth of 1 per cent. We also got recognition for being the best domestic trade bank from *Euromoney Trade Finance,* which was in the first quarter of 2012. And more latterly we have been given the award for Best Merchant Banking Initiative from the Cards and Payment Awards scheme for the most innovative cards acquiring proposition. And that was for the work that we undertook to support the Olympics, very much in terms of processing, ticketing and the spend on the sites themselves.

But behind that, what I would really like to stress, and I think it is very important for the audience here is that we want to focus on the core. And it is very important that we understand this core. Because the core is really, how do we respond to the day to day operational requirements of our customers. So that is around domestic payments, it is around international payments, around supporting them in trade, the liquidity management solutions and their cards business. And of course behind this, we also have a role to support them for their work in capital needs and that is an area that we are looking to develop as we create more value there.

So I mention the period of change. And I think earlier on in the presentations we have highlighted the investment in Transaction Banking overall. Over the three year period 2012 to 2014 we will be spending or investing £220 million. So how are we investing this money? Well I think first and foremost and very important for any Transaction Banking business we really have to get the right infrastructure supporting the business. Transaction Banking is a scalable business, it requires very solid infrastructure. We have heard from Stephen earlier on that we have come from previous pasts. What we are trying to do working with Mark Fisher's team is build a very logical and comprehensive and simple structure which enables the business to grow in a robust way. So that is consolidating; building single accounts, single billing, single liquidity, single payments infrastructures to enable our customers to grow with us. So that is I think one very, very important message. We have to get the right infrastructure and we are working hard to do that today. And as you can see in the 2012/2013 phase, we are at a critical point.

We also need to invest in product feature functionality and of course in our human capital. So I think here what is important to stress is we want to go further up the value chain. We have to work further and harder in developing a working capital proposition. We have to intermediate better in the buyer/supplier chains. And we have to up skill and strengthen our risk management propositions overall. We have to do this very specifically to respond to the upper market in terms of middle-markets and very specifically for Global Corporates and for sophisticated Financial Institutions.

So this is what we are looking to do. And very specifically we are developing an enriched payments capability and this is a really truly interlocked payments capability with our operations partners. With respect to trade, we not only came from a different past I highlighted, but even within Lloyds we had two different trade businesses. So we are creating a really strong interlocked end to end business around trade. As well as creating and building the necessary cards capabilities and rounding out our liquidity management capability as well.

We are developing a new online channel, what we call the strategic online channel and through the integration work I have highlighted, we will be getting our customers onto a single sterling platform, very importantly providing real time information to our clients. And with those capabilities, we will have a very different way in which we can articulate our proposition to UK treasurers. So I am also conscious that we have a currency need from our customers. So we are also working on building out some of our core currencies that are relevant for trade. And we are also looking to leverage our Financial Institution relationships with banks around the world, since we recognise that many of our customers need to have an extended proposition to cover their trading requirements.

Notwithstanding what I have said around product and infrastructure, we are also investing in human capital. Andrew mentioned earlier how it was that the product teams were investing in sales, we are investing heavily in product sales. We are working more intensely with our relationship teams. And we have to do this to proactively raise the way in which we have our discussions and dialogues with customers. So I am very confident after this first period of investment, that we will visibly be able to show our customers a different experience. Through better capability, through better feature functionality, through better channels, through more scalable infrastructure and a much wider product proposition.

So let me perhaps bring that a bit to life with highlighting a couple of case examples that are relevant today. So one important customer of Lloyds, Virgin Atlantic, really a very long-standing customer who really see us as a major partner. And really what they were trying to do was to simplify their technology infrastructure, and actually standardise their banking interfaces overall with us, creating improvements in their operational workflows and overall control around their liquidity management actually in line with market trends for that type of customer. They needed to replace an existing 3rd party proposition which was actually no longer being supported. So we worked very closely with them to enable them to really connect with us around their own objectives.

We were able to actually offer them a flexible and scalable solution, providing direct access to them to all of their payment needs, which supported their standards for messaging and connectivity. So this solution actually allowed us to deepen our relationship with this customer and we are actually working across a number of areas with them in terms of liquidity, merchant services and indeed in trade. The service actually went on to win Virgin Atlantic the Adam Smith award for *"Enhancing the power of technology".*

So that is one instance. The second instance which I like very much, and David mentioned manufacturing, a case really around a major UK manufacturer in the North of England, very fast growing historically, very ambitious to grow in the future. And they really needed a bank to support this growth. As well as really understand I suppose what it was they were trying to achieve. And really when we came to look at their needs, they actually needed a high volume Trade Finance facility, and this ended up being their preferred way of financing their business. So we were able to look at their business, provide them with a transactionally-controlled Trade Lending capability with real visibility of purpose, control over their receivables and actually would also give them early-warning to any issues that they might have around their credits with their counterparties because they actually operated across many, many markets with at least 90 per cent of their total invoicing being invoiced to foreign markets. So I think this is a great example because we actually had to go in, we had to understand the full needs of the customer from how it was that they stocked, how it was that they sold, how it was that they had to provide more and more credit to their own customers and we worked very closely with the Relationship teams who understood the clients with Credit and also with our Trade specialists. And we actually won the whole business from a competitor. So this is an example of winning a new business to a growth company.

So really in conclusion I would like to leave the audience here with three points. We are actually undergoing in Transaction Banking a major amount of change and investment. However even during this period of change, we are continuing to be very relevant to our customers in the UK and supporting the UK Economy overall. Secondly, our investments in infrastructure, product capability and people will continue to drive performance and I believe will actually underpin our aspiration to be a really major UK Transaction Banking power house. Thirdly, and finally as I have tried to highlight, even today we are really performing well in terms of offering client centric solutions to enable customers to support their strategies, and with that help us meet their needs and deepen our relationships with them overall.

So with that I would like to conclude and hand over to Richard Moore, Managing Director for Financial Markets.

Richard Moore – Financial Markets

Good afternoon. My name is Richard Moore and I joined Lloyds Banking Group in March of 2012, after a 25 year career in Financial Services, principally at Citigroup. About 100 per cent of those 25 years has been spent in the dealing room, about 100 per cent of those 25 years has been spent in sales and trading and 100 per cent of those 25 years even more sadly has been spent in fixed income. So depending on your viewpoint, that is either a deep and rich expertise or a career completely lacking in versatility and diversity!

What I am going to try and do today and following on from Andrew Bester's presentation, is to give you a sense of the role that Financial Markets plays in commercial banking. Simply put, Financial Markets provides access to the fixed income, foreign exchange and interest rate markets for our selective clients and also the Lloyds Banking Group. Over the past year we have eliminated one or two hobbies and organised ourselves around five core products; interest rates, foreign exchange, credit, collateral and repo management and money markets. And two client types firstly, corporations, those who need finance, you heard from David, SMEs and Mid-Markets, Global Corporates, you heard from Andrew and secondly Financial Institutions, those that have and provide capital. And our client selection, our client prioritisation and accordingly the products we provide are all decisions reached after a careful consideration of where Lloyds has a competitive Financial Markets proposition. We are not seeking to be a full service provider of all Financial Markets products. Our focus will be on the UK economy. It will be on UK products and it will be on the UK customer segments that you have heard about.

So what is different about this plan? I think historically Lloyds bank has used its balance sheet, its financial capital to support its clients. The AAA heritage, the AAA culture you heard about from Stephen has meant that it was less effective in winning ancillary business in Financial Market products. Candidly it didn't need to. I think we have now built a focus product capability to reverse this trend. So perhaps one of the first points I would like to leave you with is to emphasise that Financial Markets, in order to deliver on the medium term plan you heard from Nick, we don't need to expand geographically into new countries or territories, nor do we need to make progress in particularly new client segments, nor do we need to develop new and complex products. This is a simple plan with low execution. We will deliver on our part of the bargain by extracting our fair share of Financial Markets wallet from our existing customers with our existing products.

So how are we going to do this? 2013 will see us largely complete a multi-year build out of our core Financial Markets infrastructure and target very, very precisely as Andrew described, a leading position with our customers. It is this second point I would like to spend some time on. Financial Markets is a relatively low risk business deriving the majority of its revenues from transacting business with and on behalf of our customers. A very small proportion of revenues are dependent on our own account risk taking. And of course we do not run any stand alone proprietary activity. This makes it mission critical that we acquire and sustain a leading position with our clients as it is the principal and candidly the majority source of recurring and predictable revenue streams. At Lloyds a poor client quarter cannot and will not be masked with proprietary trading success. Therefore our top three position targeting 80 per cent of addressable wallet is an absolute must for us.

As you have heard, we have four client segments, SME, Mid-Market, David Oldfield talked about those, Global Corporates and Financial Institutions, Andrew Bester talked about those. Financial Markets serves exactly those customer groups with our core products. More than half our product revenues are derived from providing simple FX, interest rate and money market products to our smaller SME and Mid-Market clients. Of course with Global Corporates and Financial Institutions, both size and sophistication of the product will tend to grow. This does not mean however that our underlying risk needs to grow to support our medium term plan or customer aspirations. By carefully selecting financial institutions that are keen to buy UK corporate debt, we are able to connect the UK corporations that need finance with relevant UK focused investors that are willing to provide finance.

Accordingly, we do not need to take significant market risk to support our customer aspirations. Over the course of the past year and despite growing our core franchise in Financial and Capital Markets, we have not increased our risk limits, nor have we increased the usage of our existing limits. By taking the same clients through the capital raising and risk distribution journey, we believe we are on route to establish ourselves as one of the go to venues for insight, research and execution on UK related products.

And I would like to close by taking you through some examples hopefully to illustrate that point.

On the left let me begin with an example of where our infrastructure spend has had a real and direct customer impact. Beginning with its launch in 2011, Arena has established itself among our SME, larger SME and Mid-Market client groups as an essential tool for managing simple foreign exchange, money market deposits as well as allowing us to distribute our research product. Today there are more than 2,500 users and we can see in our trends we are dealing more and more of our business electronically.

A recent example in Global Corporates is Arqiva debt refinancing, led by James Garvey's Capital Markets team who you will hear from shortly. Arqiva is a significant communications infrastructure company providing the backbone on which we all receive our TV services. Major customers include the BBC, Sky and ITV. It is an interesting deal because it illustrates the importance of real insight into the sterling debt and credit markets. As well as the importance of an integrated Capital Markets proposition that you will hear from James. We need to be joined up. As financial arrangers to Arqiva, Lloyds supported the refinancing of a £3.6 billion debt facility. Critical to the success of the underwrite was the confidence that we had that our investor sales team in Financial Markets could build a book of business with our investor clients that allowed us to confidently underwrite the issue. We were able to build that book of business as well as provide our Arqiva with a series of important interest rate hedging transactions.

And lastly on the far right, and perhaps most remarkably, Lloyds only became a Gilt Edged Market Maker as recently as August 2011. Assisting the UK Government in issuing and managing its debt is a core capability for any institution that focuses on the UK economy. Lloyds is now firmly established as a top tier player in the GEMM marketplace and a go to provider of insight and liquidity for our financial institution clients. In 2012 we were rewarded with the privilege of leading a £4 billion gilt issuance on behalf of the UK debt management office. An obvious illustration of the progress we are making developing our UK proposition.

So before handing over to James, I would like to leave you with three points. Financial Markets you should think of as a simple extension of our service proposition to clients that will typically begin with a lending or debt capital markets conversation. Secondly, Financial Markets is a low risk execution plan. We simply need to extract our proper share of wallet consistent with our lending commitments today. And thirdly, Financial Markets is very much a client focused business with the majority of our revenues dependent on our clients not own account risk taking activity.

So with that, I would like to introduce you to James Garvey who runs our Capital Markets business.

James Garvey – Capital Markets

Thank you Richard. And good afternoon everybody. My name is James Garvey and I am conscious I am bringing up the rear here so I will try and keep this as punchy as possible. I have been at Lloyds for just over three years and have spent 22 years working in Capital Markets. So I would like to point out I am slightly more diverse than my sister Richard! Prior to Lloyds I spent 10 years at Goldman Sachs where I ran European Debt Capital Markets and before that at UBS for also close to ten years.

We have been building a Capital Markets business at Lloyds probably most likely under your radar screens over the last couple of years. And we have established some good momentum in these early days which I would like to tell you about. When I joined Lloyds I discovered a couple of things. We have the most amazing relationships, they are simply amazing client relationships both in terms of the longevity and the quality. But our product range was very narrow. It was storage space as you heard from some of my colleagues and it was very balance sheet intensive. So we have been busy building capabilities in a comprehensive range of suitable and appropriate products for our clients.

So let me tell you how that looks on the ground at Lloyds. We run Capital Markets as an integrated and interlocked partnership with the Relationship Management teams and with Richard's Financial Markets teams. We design products and client strategies with them which are then sanctioned by our Risk colleagues through their product governance and control. So our primary aim is to support Relationship Managers and their client franchise ambitions. Secondly, we focus on a simple range of products. We focus on debt financing and risk management. As Andrew Bester said earlier, we don't do equity nor corporate finance nor M&A. We are more than willing to finance a debt finance corporate events. Recent deals for Mid Caps included acquisition finance packages for DS Smith and Mitie. And I will come to the Mitie case study shortly. Thirdly we partner with our coverage teams in Financial Markets to drive distribution to support the origination and distribute model. We seek to maximise share of wallet by addressing client needs. And finally we have a very conservative risk profile with strong oversight and control. We are a fully private side business in order to protect the material and non public information that our clients regularly choose to share with us. But we cannot take any risk locally without clearance from Stephen Shelley and his Credit Compliance and Risk colleagues.

So how do we support our clients? Well you probably don't know this, but we are the largest provider of syndicated lending to the UK economy. And syndicated lending and that relationship lending is the stickiest gateway product you can have as a banker. We now have an established corporate bond franchise. We are also the leading UK corporate risk management solutions team for the FTSE 250 and we help our clients manage their balance sheet risks with simple hedging tools. We are also up-tiering this core capability and designing enhanced financing risk management solutions for our clients.

And how are we structured to proceed? Well we are fortunate in having had a unique opportunity to lay down the foundation of an efficient business model that is appropriate for these financial times. We only started this very recently and our basic building blocks are all forms of debt financing, be they loans, be they bonds, be they secured financing. And on the risk management side, simple products around interest rate and currency hedging.

Soon after he joined, Andrew Bester asked me to create a more integrated approach by incorporating the Infrastructure and Energy and Acquisition Finance businesses into Capital Markets. This was a natural next step in our evolution and we seek to bring new ideas to these clients with more diversified forums of non balance sheet financing.

Our competition is in general maybe over engineered and over resourced for the current business environment. We traditionally have been under-engineered and under resourced but we had the opportunity to build a sustainable business suitable for quite a changed business world both in terms of regulation and also a world with very different conduct standards.

I worried a little when we embarked on this journey that our clients might not be receptive to our overtures. They have after all many choices and many existing service providers. On the contrary the sort of feedback we got was very much an open door feedback, common initial feedback I received from clients as I articulated our ambition was, "where have you been?", "About time!". And "good news." One CFO said to me, "as I always know where I stand with Lloyds." We have never asked for this business before. We didn't have the capability to be in the position to ask for it. But we are now.

The Greenwich Associates surveys our clients annually on the capability of their banks and you can see here some of the recent progress we have made. We get a snapshot of our progress versus peers. The 2012 survey showed the strong progress we have made in DCM where we are now among the top three players with the largest improvement of any European DCM franchise last year. And in risk management solutions for FTSE 250 names, we are in the top two with particular success in those identified categories.

What is interesting about our journey is the increasingly senior entry point that we are carving out for our Relationship Managers, especially with larger accounts. When you are offering them basic balance sheet products you dial out with assistant treasurers, when you are talking about higher value added financing options with associated hedging strategies you meet with treasurers, CFOs and CEOs.

Some colleagues have mentioned the Housing Association sector in the past and I want to give you a real example of how I think we have created extra value for this client segment and how we can do so for the evolution of other UK industries and client segments. The Mid-Markets Housing Association Sector provides low cost social housing for people, I am sure you are familiar with the concept. They are incidentally now the largest UK provider of new houses for rent.

Traditionally financing came via long dated on balance sheet lending from banks. Andrew and Nick both mentioned earlier the drag on the returns of the portfolio that this generates for us. So in effect Lloyds helped create a new bond solution for the Housing Association Sector just over a year ago. And effectively a new asset class also for pension companies and insurance bond investors. We ended up the 2012 number one in the Housing Association League table from a standing start. The £883 million is our contribution in the bond deals, in total there was about £2.5 billion executed across the, sorry £2.8 billion, excuse me, across the whole sector. And this helped our clients access an alternative diversified form of long dated financing. We are particularly happy with Saxon Weald where we did the credit rating for the Saxon Weald issuer. Saxon Weald provides close to 6,000 affordable homes in Sussex and Hampshire. But this also helped improve the duration and returns statistics in our portfolio.

Finally I am sure you see deal tombstones on a fairly frequent basis, but these bond case studies I hope will give you a better sense of where Lloyds is growing its capability. And it is also an illustration of the type of engagement we are having with our clients, the types of business we are doing for them and the markets we are operating in on their behalf. What you see is a selection of bond deals we have executed for Mid-Cap companies, for Global Corporates and for Financial Institution clients. Now I increasingly see it as a challenge for my Capital Markets team to push the frontiers of some of these products deeper into the belly of this economy to ever smaller companies.

Mitie is a good case in point here. A relationship with Lloyds for over ten years, an underrated name. The CFO hired us late last year to provide an acquisition financing bridge facility for his acquisition in Enara Healthcare. We led the bond, we led the Capital Markets takeout in the US dollar private placement market where he got a better economics than any other market, even sterling. And then we organised a swap back of his $200 million into sterling.

Jaguar Landrover is another good example. I mean Lloyds has banked Jaguar and Landrover in its various incarnations, for over 25 years. British Leyland we banked for over 30 years and we followed Jaguar Landrover through the ownership with Ford and more recently Tata. So they looked to us for financing solutions late last year and after surveying all the major markets, sterling, euros and dollars, we decided that the US dollar market represented the best financing value and then launched a $500 million successful deal earlier this year.

The London Stock Exchange is another good example. A client of Lloyds for just under 25 years. It selected us to lead manage their largest ever sterling retail bond deal to date, this is the largest in the market, £300 million. A perfect single name for retail ISAs. A lot of single name purchasing in ISAs going on at the moment. And we led that deal ourselves.

I will also mention BHP Billiton. Might surprise you. We do reach some of the largest corporates in the world. They hired us as the only UK domestic bank to lead their sterling market debut, £1.75 billion. And it turned out to be the largest ever sterling debut bond in the market.

Somebody asked me why Telefonica? Well you might ask why. We banked O^2 for years and the mothership had selected us to lead a euro deal earlier this month. That was our fourth bond deal for Telefonica in the last 18 months. Initially they picked us for sterling and then again for sterling. They liked what they saw, they picked us in Euros and now we have got another deal in Euros. So I am very proud of, if we are given the chance we can show high quality distribution and execution and we get a good amount of repeat business.

I will also focus on HS1, we are a very large provider of financing into the UK infrastructure project finance industry. High speed 1, HS1, funded the concession that they acquired from the UK Government and that is the channel tunnel rail link from St Pancras down to the coast. We bridge funded the sponsors, Borealis and Ontario Teachers Fund and then turned that bridge in the bond market earlier this year and executed conventional and inflational linked hedges on the back of the deal.

And finally I will just mention another financial institutional bond at Standard Charter in January who launched a three quarter of a billion, 25 year deal for them which was a new venture for them in terms of size and maturity.

So in conclusion and it seems to be popular, I will stress a couple of points, I will make it four this time. We have the relationships, we have the market access. We have the execution capability and we continue to up-tier that capability. And as we assist our clients and help to get the UK economy moving, we have a lot of growth potential.

Thank you. I would now like to hand over to Andrew Bester for some closing remarks prior to our Q&A, thank you.

Andrew Bester – Chief Executive, Commercial Banking

What you have heard is a very comprehensive summary of what we are trying to do. And hopefully through that you got a sense, not only of what we are trying to do strategically, but actually blow the bonnet on what is happening as we drive and think about our execution. It absolutely builds on what is a great institutional strength, our relationship orientation in the Bank and it builds on our UK strength as an iconic British institution. It recognises we have lots to do across capital efficiency. But we are driving hard across income, costs and our balance sheet to effectively create a low risk business that effectively can get back to acceptable returns to shareholders and for us that is getting returns above 2 per cent in 2015.

And with that I would like to turn it over to questions. And we will take any questions you have.

Question & Answer Session

Question 1: J P Crutchley, UBS
Two related questions if I can. Firstly I wonder if you could maybe, we have heard a lot about your micro detail in terms of strategy and how you are going to execute, but maybe say a few words about the broader picture in terms of how competitive the landscape is and how you expect the revenue environment in particular to shift over the next few years and what that may mean for competition?

And secondly, in that last conversation, I was wondering about the political narrative as well. Clearly there is a lot of political narrative about banks lending or not lending or whatever. And clearly if you take a slightly broader view of what you do for your clients, you know lending is not the only solution as you demonstrated in terms of taking clients to bond market which in some cases may of course lead to a smaller balance sheet. I just wondered is that something which you could maybe explain on the bigger picture so that you know it is not just talking about lending?

Answer: Andrew Bester
Thanks. I mean firstly in answer to the broader macro trend, what we do see is clearly the economy is broadly relatively muted. So we see our clients seeing an environment that is stable. The challenge for them is they investing in the next part. So broadly at a macro level the environment as we talked declined. It is not one of vibrant growth. Having said that, we have seen and you heard David Oldfield talk through locally what we can see even in holding our underwriting standards very firmly, that is we can see growth. So effectively the 4 per cent lending growth we saw and Antonio alluded to, we can see that happening. And that is holding credit standards. That is an execution driven activity that we are driving and certainly one of the first things I was asked to do when I arrived was to operationalise Funding for Lending. And we have ensured that we can get the value we see from that. So the overall environment is still relatively low. Our planning assumptions as we built the plan is not one that makes assumptions on big changes in growth happening. We absolutely recognise, and why I wanted to be quite textured about recognising, we know we need to pull different levers over time depending on how the environment does play out. So we do need to make some trade-offs around where we see income opportunity. But what is interesting as we worked as a team is we do see some opportunities for targeted growth.

In terms of the political narrative as you describe it, I mean for us, we absolutely are looking and are committed to helping more broadly. What we are trying to do in our strategy is really focus on what our clients' needs are and how we support those clients and how we can mobilise our capability against that. And the social housing example is a good one. That industry has evolved and what the teams are doing is actually focusing on what the needs of those clients are and how we can help them sustain their financing. So, we are committed and effectively we do see growth at a targeted way across SME and Mid-Markets in our lending book and indeed across our platform. But it is about running and creating a safe bank for the long-term.

Question 2: Andrew Coombs, Citigroup
Hi, it's Andrew Coombs from Citigroup, perhaps I could ask a couple of questions on slide 12 and then one on 29 as well please? On slide 12 you provide the revenue split by product segment, I wonder if you could provide a split on the £130 billion RWAs by the same product areas?

And then secondly what do you envisage as the right split of client income between the product areas by 2015?

Answer: Andrew Bester
Firstly we wanted to give you some additional insight across the client areas and across the segments. We are not going to be disclosing the RWA we do deploy against every segment specifically. But suffice to say we are creating a process across the bank that does ensure we are deploying. So we are not going to disclose that today, but rest assured around the portfolio disciplines that Stephen has described, what we do want to do is make sure that we can build on what we can see are already very good returns in our SME business, actually broadly across our Mid-Market business, good returns of Financial Institutions. And we do think as we focus our anticipation around our UK strength that we can get returns out of Global Corporates. So I think that for me that is the first thing.
In terms of the disclosure within that sort of matrix again, we provided this data to give you some additional insight and be very clear about where the revenue drivers are we will then think about how that evolves over time.

Further question
Turning to slide 29, you talk about improving the cost:income ratio and loan/loss ratio, the interest margin and OOI so almost a tick in every box. When you do peer groups comparison if you look at the best in class peers, 45 per cent cost:income ratio seems to be best in class and 60 basis points loan/loss ratio. On those two metrics you are there or thereabouts. So would it be fair to assume that the majority of improvement to get to a 2 per cent pre-tax profit to RWA target is revenue driven and backing out it seems to imply high single digit revenue growth possibly over an annualised basis. Is that a fair conclusion to make?

Answer: Andrew Bester
I think the guidance we have given is around the RWA broad target that we have and the returns on RWA. And as I said earlier, we absolutely recognise we need to flex some of those different levers depending on how the environment evolves. And the fact is that the economy does remain relatively muted and we have a conservative plan, but we do recognise that over time we need to pull those different levers to try and get these returns back to an acceptable level in 2015. So we are not going to give exact guidance, albeit what we have tried to do is indicate the shape it may evolve without giving exactly how we pull those levers. And that is just because you know we are a business that wants to build on our UK strength and we ultimately have a business that is UK focused and we know that we will need to pull different levers. Potentially pace investment, make different cost choices depending on how the environment plays out.

Question 3: Jason Napier, Deutsche Bank
Jason Napier, Deutsche Bank. Two please. The first on the build out. Each one of you has given us a sense that those investments and a broader product range available now perhaps than there was in the past, but there is a reasonable amount of the presentation that is reminiscent of Steve's target ten years ago basically, heavy in lending, the market share deteriorates in terms of high fee products, the bigger the customers get and so on. So I wonder if you could give us a sense as to how much work has been done on things like repricing and getting rid of RWA hog so far? How much of the adjustment have you done on old style problems before looking at new products?

Answer: Andrew Bester
It's a great question. Firstly in terms of the presentation 10 years ago, I wasn't here at the time so in terms of exactly how that played and what happened I can't comment. What I can tell you is that what we can see as we have worked through this as a team is there are a number of tools that we definitely need to bring to bear that effectively ensure that we understand where we are deploying our capital very clearly, that we absolutely understand how we are generating value in our client relationships. And those tools are not at the level certainly that I would have expected. So we need to keep doing that.

And your point on product investment. There is opportunities to invest, but effectively what we are doing, and this is where the real trade off comes in working with Mark is making sure we are absolutely clear how we can create some opportunities through our Simplification initiatives and then think in a very paced way about where and how we pace our investments. So, there is opportunity to invest and we are and are very committed to the Transaction Banking build. And effectively aspects of what Andrew England is driving in his capability build is ensuring that as we bring together aspects of HBOS and Lloyds platforms we actually create some opportunities in certain areas to actually prod our competitors in terms of our capability.

And then in terms of repricing, you heard Stephen talk through the portfolio management disciplines that is what we need to bring to bear in the business. I think that effectively what is happening in the way we work, the way the bank is operating now, is effectively we have very pure models and understanding of the cost of money internally in the bank. And effectively what we are doing is bringing those to bear for our bankers so they really understand effectively when they are pricing them and what the real cost of money is to the bank for that. And that is what is driving the discipline particularly in Global Corporates.

And as I say, Clare Francis unfortunately is not here, she is on leave this week. The level of rigour we are looking at is very deep to work out that we can absolutely stay very focused. And part of, again the UK focus of the strategy is also to make sure we prioritise and deploy our capital in areas that create maximum value and leverage of our UK strength.

Further question
And the second one if I might, the sort of latter build out of Capital Markets, in particular perhaps gives you more optionality than some of your larger peers in this space and looking at regulatory change. I just wonder how you see the sort of future of rates, margins and spreads and also the impact of the FTT on things like Repo and money market products over the next sort of five years?

Answer: Andrew Bester

Well let me kick that off and I will ask James to give his views. Certainly in terms of the overall plan when we went over the plan last year, we absolutely wanted to ensure that our plan captured the evolving regulatory backdrop as we saw it. So the plan looked at all aspects of regulation, be that ring fencing, be that aspects of DoddFrank. And what we did in our plan, the strategy was to effectively create a commercial bank that we feel effectively builds on the strength of Lloyds. And then we looked at what the incremental regulatory costs associated with that. The plan has worked through and obviously there are some aspects that are not absolutely certain. And I think that the theme James raised, I think we do feel that we have got a good platform that is very focused on driving good value for our clients. It is a relatively lower cost model than some of our competitors and I think James has gone a great job in building that capability. You know, in terms of longer term margins and pricing, I am not sure that we want to comment. James is there anything you want to add more broadly in terms of the evolving backdrop and what you see in your business?

Answer: James Garvey

It is very early to give a sense exactly. The regulator is still moving around and so on. I think as I said I think we are less invested in some of these products than our peers and probably less impacted by any negative movements. I mean some of the problems in Capital Markets is in a static environment. So effectively I suppose we have been taking market share from existing incumbents. And I think there is a lot of road for us to travel on before we touch the sides of our normalised market share in some of these products. But as it impacts regulation, we are in dialogue with HMT and certainly pertaining to the ICB and as I say I think there will be an impact but probably less so on us than it might be on others.

Answer: Richard Moore

I would add a couple of things, I don't know where the question came from. I think we have in many respects last mover advantage. If we were doing this five to six years ago we could possibly have built a very large single deal platform that connected with clients electronically. Those platforms are going to migrate into multi dealer venues, into SEFs so on and so forth. So I think we have an advantage putting it out in a 2013 environment as we don't have to ditch a lot of our old infrastructure, certainly in Financial Markets. So I think, I see that as an edge and an advantage and an opportunity to build new capability around the management of our collateral. I think that is going to be a key skill for any successful Financial Service firm in a way that it wasn't probably five or six years ago.

Question 4: Yulia di Mambro, Barclays

I have a couple of questions on slide 25 please. On the lending maturity profile would you be able to break down the under five year category into 1, 2, 3, 4 and 5 year buckets? Or just give an idea of what the average would be?

Answer:

I'll answer that one, no.

Further question

Any idea what the average duration is?

Answer: Andrew Bester

The average duration of that is around three years for the core corporate book and then we have some aspects of our book have a much longer duration. We talked about the theming in social housing where we still have part of our book that needs to reprice over multiple years.

Further question

Okay, and just on the social housing actually and other loans which are in the over five year category. How quickly and how much do you expect to reprice or restructure these loans?

Answer: Andrew Bester

Effectively we are working through that and these are very high quality loans. Stephen made the point earlier about ont of the benefits in search for yield in some areas is actually these assets, we can start seeing some target opportunities to distribute down these assets. We are very focused on it and you heard the theming around portfolio management looking at our backbook and looking at opportunities to reprice. But effectively part of what we want to help you understand is there are some aspects of our book that on longer duration certainly relative to some of my own personal experiences historically longer duration than sort of I have been used to, but effectively we have good disciplines in place. We understand within the own internal dynamic of our business what the yield cost of funding those assets is and effectively from our point of view we just work through it client by client, but with good discipline and good rigour. And I think that is the lens we have put onto the teams. And we will just keep working our way through it. But they are high quality assets, just long duration.

Further question

Thank you for that and just one more question. On CDS spread actually and lower funding costs. So it seems that commercial is now predominantly deposit funded. So there are £107 billion of deposits supporting £102 billion of customer loans. So when you talk about CDS spreads, are you referring to what is happening in the wholesale funding costs base or is this indicative of what happened to deposit pricing as well?

Answer: Andrew Bester

I think a couple of comments are needed to understand this. One of the things that Antonio did drive in the back end of 2011 was a very comprehensive review of our internal cost of funding. And effectively ensure that as we worked internally we really understood the cost of funds internally. And what we have effectively been doing is looking at that. When we make tradeoffs and George is here with Antonio and our Group Executive Committee, we think about the bank in a more integrated way. It isn't just simply our business operating and funding itself. It is actually our business effectively part of the broader bank. So sometimes when one looks at effectively how we fund ourselves we look more broadly and more strategically across the whole bank's balance sheet. What I can tell you is we do have a balance sheet now where we can start to optimise and ensure that we can start looking at how we reduce the cost of our deposits. So effectively I think that the point I was making earlier was the balance sheet now is at a point where it can start to create value.

Question 5: Chintan Joshi, Nomura

Just a question on slide 28. You highlight discipline participation reduction of £15 to 20 billion. Which areas is this in? Social housing particularly seems to be one of those. But if you could just highlight where this reduction in RWAs is coming from?

Answer: Andrew Bester

Effectively as you would expect it is aimed at the areas where we need to effectively create higher returns. So it has been clear for example like Global Corporate and I use the example of reserve based lending business in Houston where effectively it is not part of effectively the Lloyds bank that builds on its UK strength needs to be. But a good business, but it will be a whole series of initiatives across our major segments. But effectively what we also want to make sure is areas where we are making good returns in SME and effectively as we start getting the execution drive under David's leadership in Mid-Markets that we can effectively deploy capital. So for us it is effectively being tough in the areas where we are not getting the returns, but offsetting that against areas where we see opportunity to grow.

Further question

And just a second, fairly related. I mean if I think about Lloyds franchise kind of number four player in the UK. If I think about your return on risk weighted assets about 1.3 to 1.4 per cent, trying to get to 2 per cent. And as Andrew pointed out, seems to be more revenue driven. It seems like you have a lot of execution to be done in the next three years, but against competitors who are already dominant in the top three. So I am just trying to think could we think about this and think about more cutting if things are not shaping up well? Clearly Global Corporates for example?

Answer: Andrew Bester

I think as I said, part of why we wanted to be clear about and focus on the returns is there are different trade-offs we need to make depending on how the environment evolves. And I think for us in the environment we have today, we absolutely recognise we need to be very targeted on where we do and don't participate. And that does involve potential trade-offs on cost, effectively pacing our investment depending on what we see and also making different capital trades. What we wanted to try and articulate was that we want our beacon to be, how do we get 2 per cent higher on our RWA and we absolutely know as a team, we know we need to execute relentlessly relatively to our competitors to get there.

Further question

Just to put it another way, 2 per cent is more important than £125 billion clearly?

Answer: Andrew Bester

We want to get adequate returns for shareholders.

Question 6: Manus Costello, Autonomous

It is kind of only one. You're one of a very few banks, very few wholesale banks internationally to use the foundation IRB approach for your risk-weighting. I wondered why it is you adopt that approach and if you have any intention of migrating to advanced any time soon?

Answer: Stephen Shelley

It is largely a function of history why we are foundation. But we are building the sort of the models that you would use to be an advanced bank internally, we are in the middle of doing that. And we are going to use that to help inform our internal pricing decisions and how we price the market. But there is no short-term or indeed medium term aspiration to move to advance and I think, when you think about this sort of like the capital regime that we are operating under with the regulator, I don't think they are going to allow any bank to make changes that is going to mean releasing capital. So I think it will be an academic debate. But what is important is that we have that capability internally in order so that we can price our decisions and our participation strategies around how we deploy our capital, are informed on an economic basis rather than a regulatory basis. And that discipline that is what we are in the middle of building and that is really important to us. Moving from foundation to advanced in itself I don't see as being on the table.

Question 7: Michael Helsby, BAML

Just a couple. Firstly on product pricing actually. Deposit pricing has seen a big shift in the retail side. So I was wondering if you could talk a little bit about what you are seeing on the commercial side on deposit pricing?

And secondly, I think you have seen and clearly quite proud that you are seeing a sequential pick-up in revenue growth now for three quarters on a row. Has there been a notable shift in Q1? And is there any particular product area that is standing out in a drive in that growth? Thanks.

Answer: Andrew Bester

Firstly, and linked to your question on margins, we do as I said earlier, do have a balance sheet we can start looking more actively at our pricing and actually when we think about it, as I said earlier, we think across the Group on deposit pricing. And as effectively the liquidity of the bank really starts to get to a good place in not long after I arrived, really making trade-offs across the Group to optimise deposits, I think that within that clearly we look at our deposit pricing and that is how we create value between the value of our deposits and the price of our assets and effectively the deposit side does create value.

In answer to your second question in terms of income, we are not giving any more guidance than we gave suffice to say that you know we feel encouraged that we are seeing sequential growth, but equally we do recognise that we need to keep working and delivering.

Okay, we will continue this over a drink I think. We have some glasses of wine and other things outside. So thank you very much.

End of Q&A