

**LLOYDS  
BANKING  
GROUP**



# **GOLDMAN SACHS EUROPEAN FINANCIALS CONFERENCE**

**12 June 2013**

**George Culmer, Group Finance Director**

**Andrew Bester, Chief Executive, Commercial Banking**

# LLOYDS BANKING GROUP

A differentiated UK-focused Retail and Commercial bank

LLOYDS  
BANKING  
GROUP



- Largest retail bank in the UK
- Multi-brand strategy, with leading financial services brands
- Customer-focused, serving over 30m customers
- Voted 'Bank of the Year' for ninth consecutive year by UK corporates
- Commercial Banking strategy launched



Lloyds TSB



✦ BANK OF SCOTLAND



A leading UK franchise focused on serving our customers' needs

# LLOYDS BANKING GROUP

## Four strong divisions

LLOYDS  
BANKING  
GROUP



### RETAIL

UK's largest retail bank serving >30m customers, through telephony, digital and 2,900 branches

A leading provider of current accounts, savings, personal loans, credit cards, and mortgages

### COMMERCIAL BANKING

Supports our business clients from small businesses to large corporates

Primarily focused on UK business and businesses with strong links to the UK

Provides core banking products and expertise in capital & financial markets and private equity

**LLOYDS  
BANKING  
GROUP**

### WEALTH, ASSET FINANCE AND INTERNATIONAL

Wealth comprises our UK and international private banking businesses and SWIP asset management

Asset Finance consists of UK and Australian leasing and speciality lending businesses, as well as our German on-line deposit business

### INSURANCE

Provides long-term savings, protection and investment products and general insurance products to customers in the UK and Europe

Scottish Widows is a leading UK life and savings company

# DELIVERING ON OUR STRATEGIC PLAN

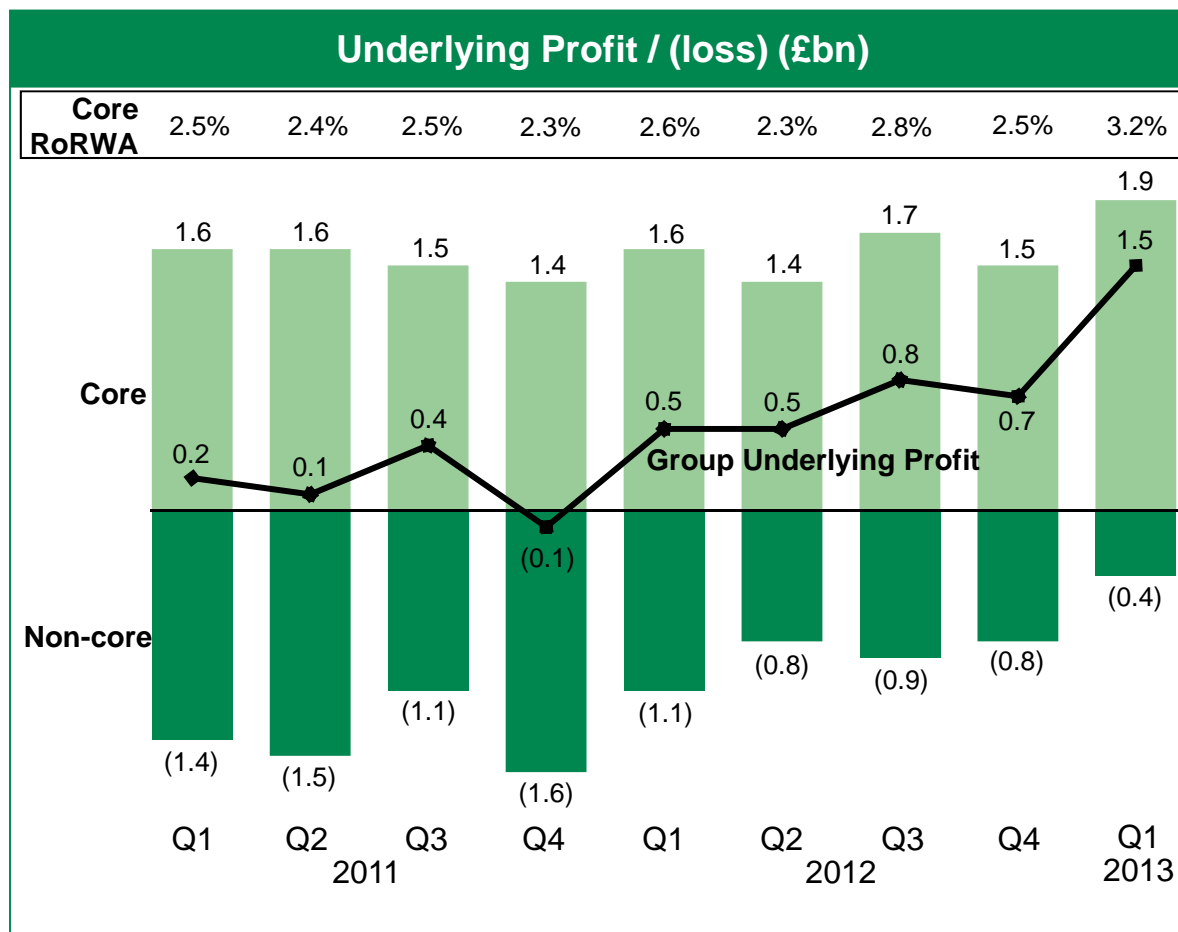
## Ahead of plan to transform the Group



<b>Reshape</b>	<ul style="list-style-type: none"><li>✓ Over £200 billion non core assets reduction</li><li>✓ 12 countries exited</li><li>✓ Core AQR 0.51%, Group at 0.80%, and falling</li></ul>
<b>Strengthen</b>	<ul style="list-style-type: none"><li>✓ Capital ratio improved to 12.5%; 8.1% on fully-loaded basis</li><li>✓ 100 per cent core loan to deposit ratio</li><li>✓ Over £130bn reduction in wholesale funding</li><li>✓ Liquid assets 4-times maturing wholesale funding</li></ul>
<b>Simplify</b>	<ul style="list-style-type: none"><li>✓ Over 200 initiatives delivered across the Group</li><li>✓ Costs reduced by £1bn since 2010; further c.£1bn cost reduction by 2014</li><li>✓ Best bank for customer service</li></ul>
<b>Invest</b>	<ul style="list-style-type: none"><li>✓ Investing in customer-focused products and capabilities</li><li>– Remain confident in achieving income related targets in medium-term</li></ul>

# FINANCIAL PERFORMANCE

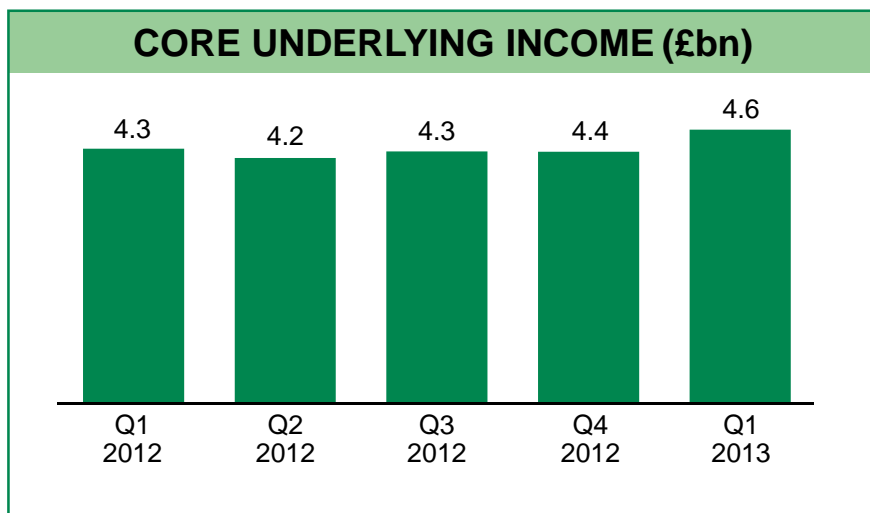
## Profitability substantially improved



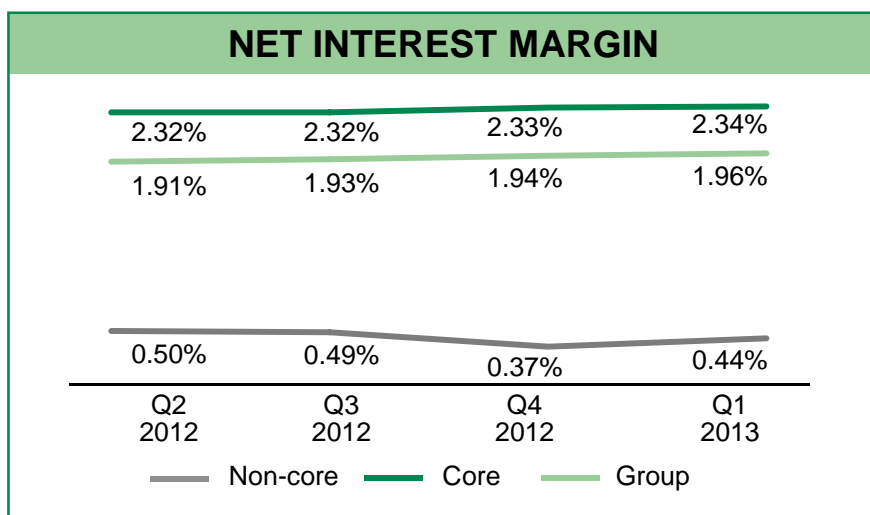
- Drivers**
- Higher income
    - Group NIM increasing
    - Q1 2013 includes gain on sale of St James’s Place
  - Continued improvements in cost efficiencies profitability
  - Substantial reduction in impairment charges
    - Further significant improvements in non-core
  - Progressing resolution of legacy issues

# FINANCIAL PERFORMANCE

## Stabilising income trends and improved margin



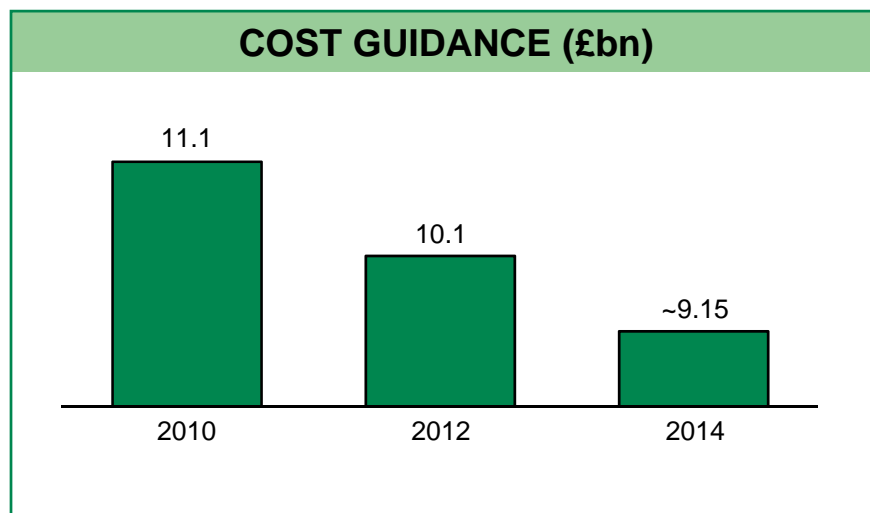
- Core income of £4.6bn, up 7% year-on-year
- Core lending returning to growth from Q1 2013



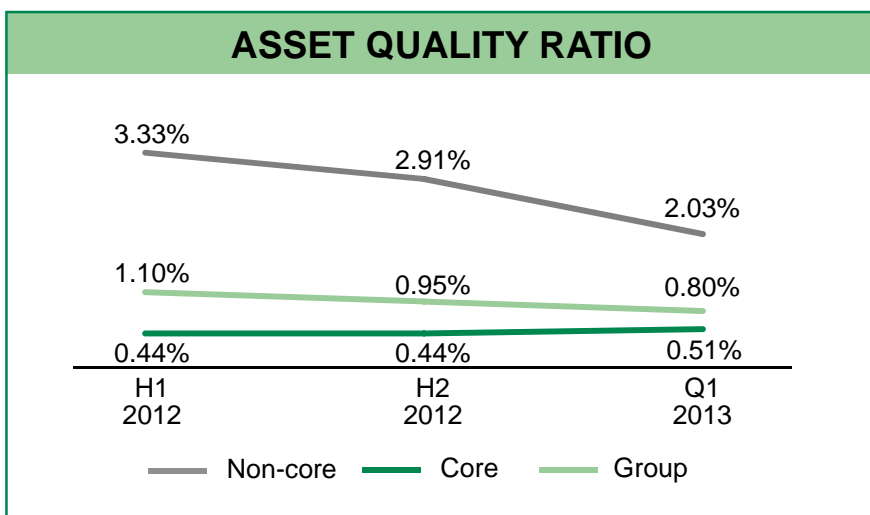
- Group margin improved to 1.96% in the quarter consistent with guidance of c.1.98% for 2013
- Core NIM increased to 2.34% driven by improved deposit margin in the quarter

# FINANCIAL PERFORMANCE

## Further reduction in Group costs and impairment



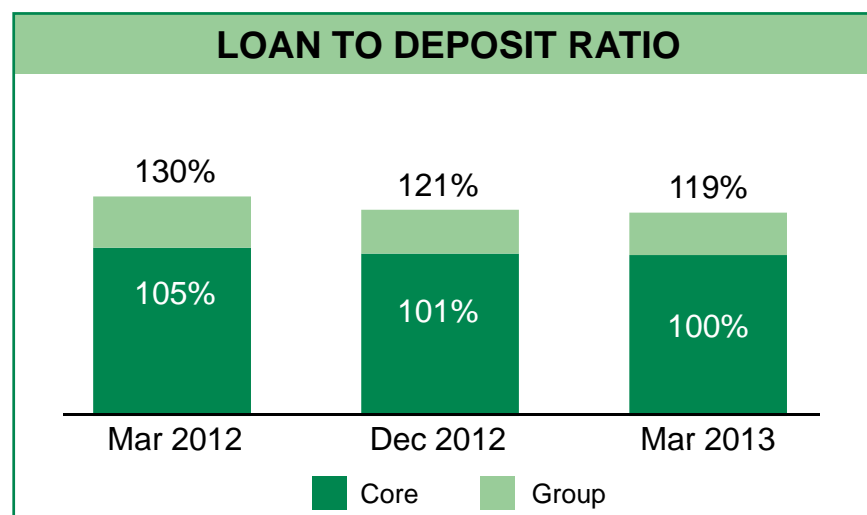
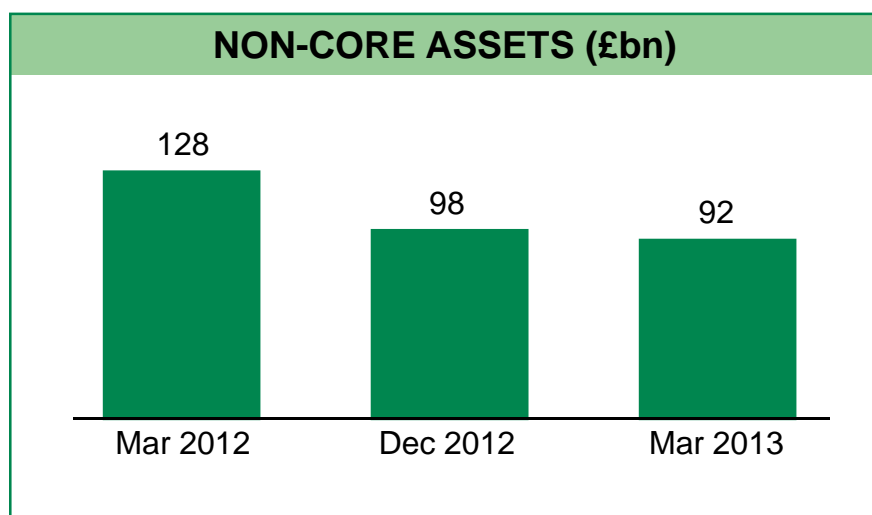
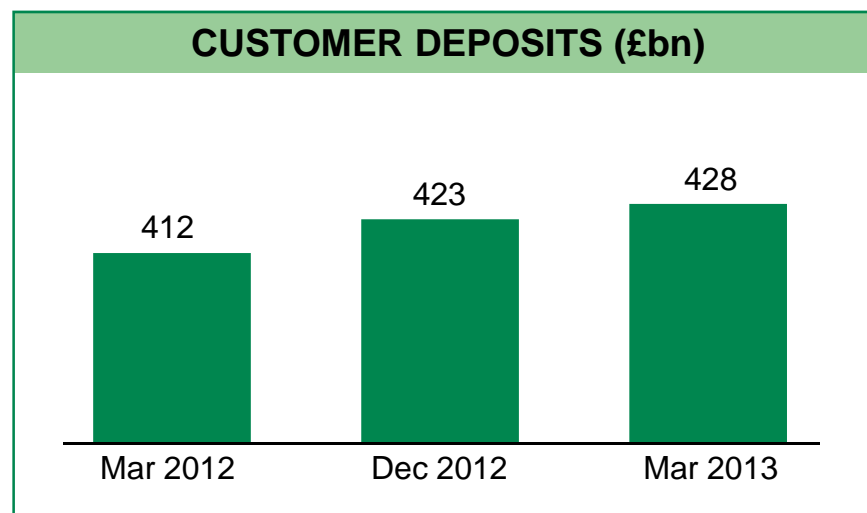
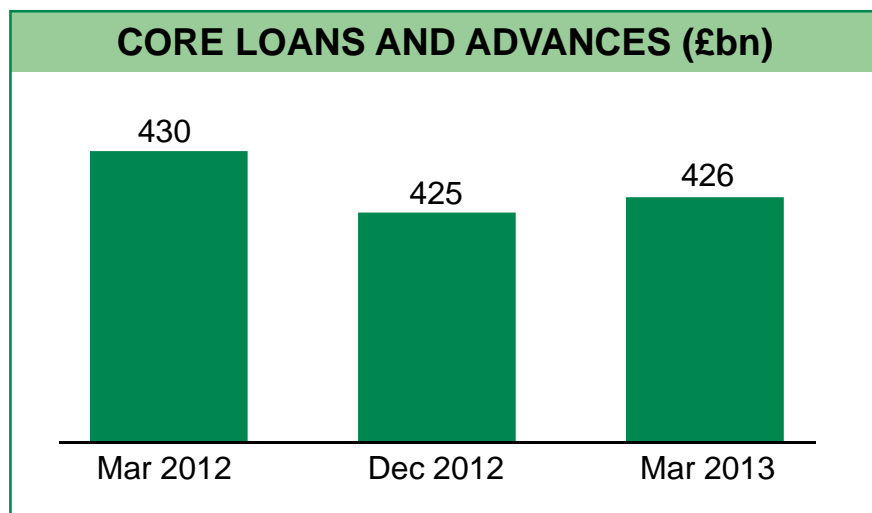
- Total costs decreased by 6% vs. Q1 2012
- Group total costs target c.£9.6bn in 2013 and c.£9.15bn in 2014
  - Reflects Simplification and other savings
  - Assumes Verde IPO in mid 2014



- Impairment charge down by 40% vs. Q1 2012
  - Further improvement in portfolio and asset quality
  - Non-core asset reduction
- Remain confident of attaining Group AQR of 50-60 bps in 2014

# BALANCE SHEET

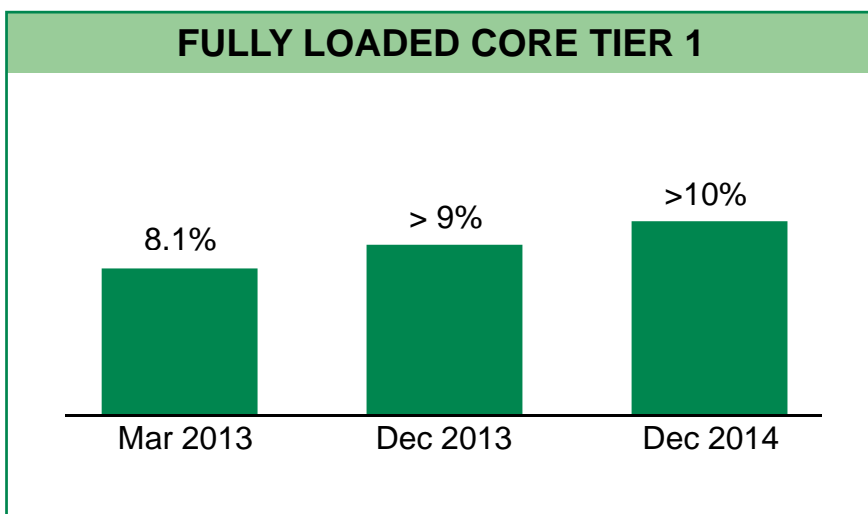
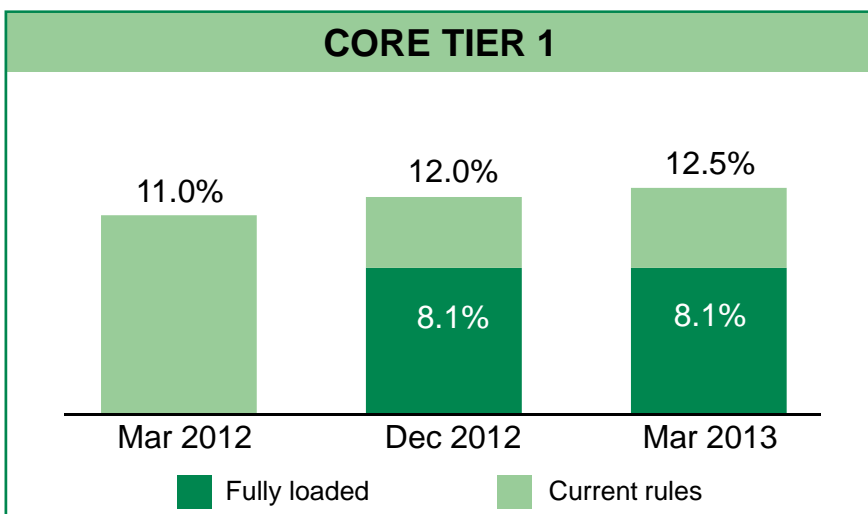
## Balance sheet further strengthened





# CAPITAL

## Strongly capital generative business, remain confident in our capital position



- Strongly capital-generative core business, continued capital-accretive reduction of non-core portfolio
- No equity / Coco issuance required to meet Additional PRA capital requirements
- Management actions in Q2 2013 benefiting the Group's fully loaded CT1 capital
- Expect fully loaded CT1 capital ratio above 9% by end 2013 and above 10% by end 2014
- Positive signs of recovery for the UK Economy

# COMMERCIAL BANKING

## Building the best bank for clients



**LLOYDS BANK** 

**BANK OF SCOTLAND**



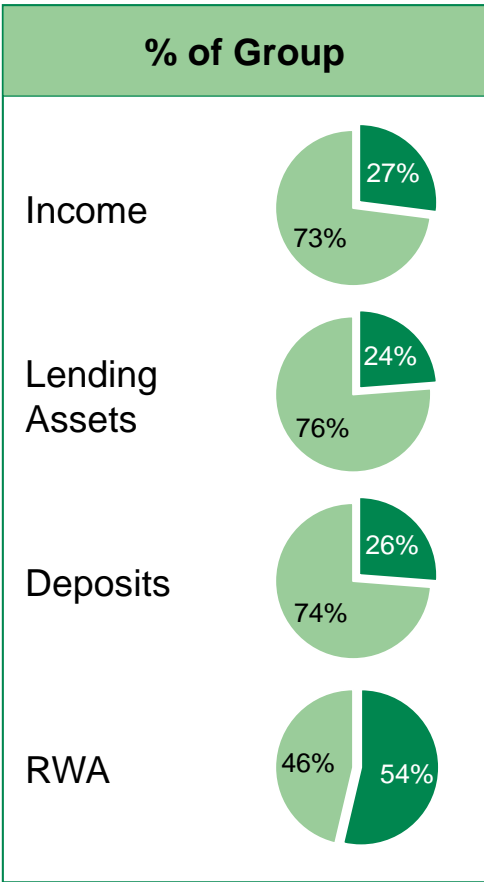
- 1.25m SME clients
- Relationships with 91% of FTSE 100
- Relationships with 83% of FTSE 250
- c.40% active users of digital channel
- 500 business centres across the UK
- Network of over 4,000 client facing staff

# COMMERCIAL BANKING

## Supporting all of the Group's business clients



### Lloyds Banking Group



**Commercial Banking**

	SME		Mid-Markets	Global Corporates	Financial Institutions
	£0-1m t/o	£1-25m t/o	£25m-£750m t/o	£750m+ t/o	
<b>No. of clients</b>	~1m	~250k	~5,000	~850	~2,000
<b>Income split</b>	37%		24%	23%	16%
<b>Lending assets</b>	27%		33%	30%	10%
<b>Core RoRWA</b>					

**Client at the centre of our model**

■ Commercial Banking ■ Rest of Group

# COMMERCIAL BANKING

## Actions to date



### Achieved already

- Strategic review
- Aligned 16 business lines
- New coverage model
- Appointed management team
- Re-segmentation
- Performance management tools

### What is different

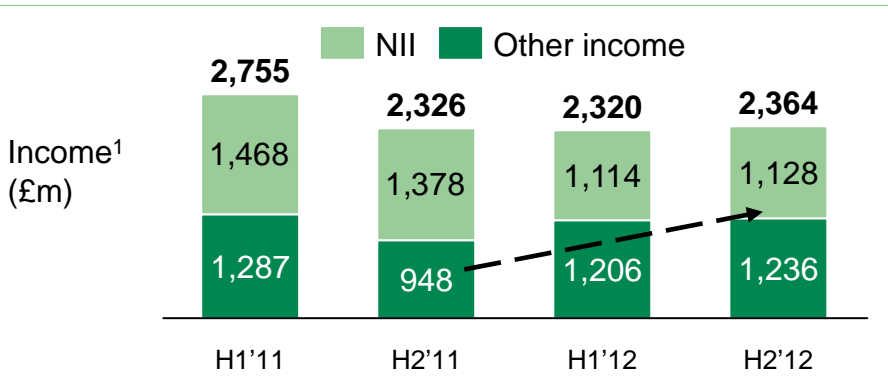
- Relentless execution of strategy
- Integrated daily P&L
- Performance management framework
- Pricing independence
- Business model drives collaboration
- Disciplined investment & participation

# COMMERCIAL BANKING

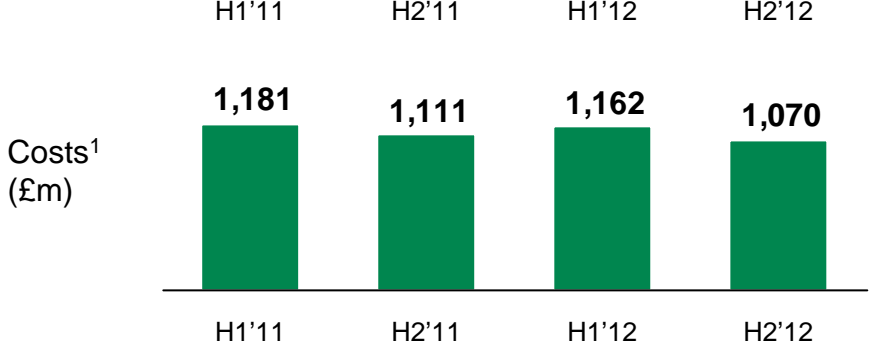
## Half yearly performance



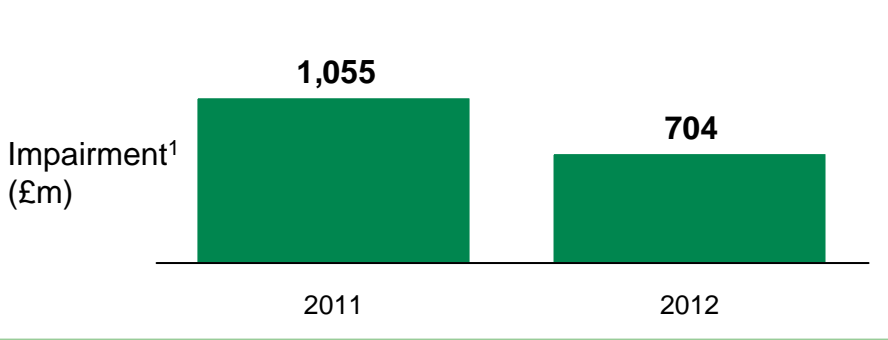
### Income Growth



### Cost Control



### Balance Sheet & Risk Mgt



- Legacy issues driving margin compression
- Other Income progression

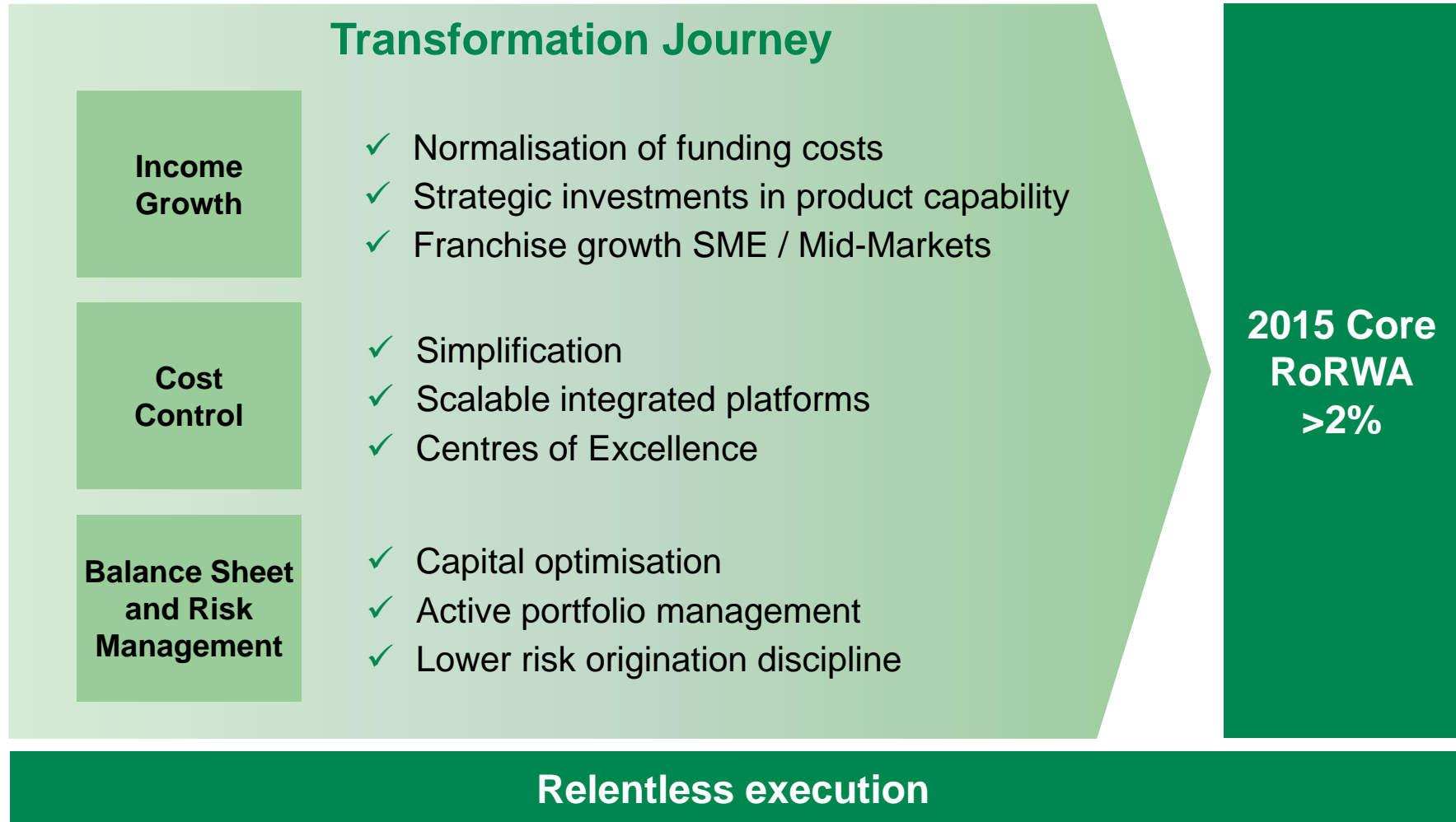
- Strict cost discipline
- Simplification creates capacity

- 33% YoY fall in impairments
- AQR of 67bps
- Impairments normalising

1. Core Commercial Banking only

# COMMERCIAL BANKING

Deliver sustainable returns above the cost of equity



# SUMMARY

LLOYDS  
BANKING  
GROUP



- **Strong performance in the first three months of 2013; on track to meet guidance for the year**
- **Substantial transformation of the Group**
- **Corporate lending driving return to growth in core loan book, ahead of guidance**
- **Strongly capital generative business; remain confident in capital position**
- **Expect fully loaded CT1 capital ratio above 9% by end 2013 and above 10% by end 2014**

**We remain confident of delivering our medium-term financial targets**

# FORWARD LOOKING STATEMENTS AND BASIS OF PRESENTATION

LLOYDS  
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## FORWARD LOOKING STATEMENTS

This presentation contains forward looking statements with respect to the business, strategy and plans of the Lloyds Banking Group, its current goals and expectations relating to its future financial condition and performance. Statements that are not historical facts, including statements about the Group or the Group's management's beliefs and expectations, are forward looking statements. By their nature, forward looking statements involve risk and uncertainty because they relate to events and depend on circumstances that will or may occur in the future. The Group's actual future business, strategy, plans and/or results may differ materially from those expressed or implied in these forward looking statements as a result of a variety of risks, uncertainties and other factors, including, but not limited to, UK domestic and global economic and business conditions; the ability to derive cost savings and other benefits, including as a result of the Group's Simplification programme; the ability to access sufficient funding to meet the Group's liquidity needs; changes to the Group's credit ratings; risks concerning borrower or counterparty credit quality; instability in the global financial markets, including Eurozone instability and the impact of any sovereign credit rating downgrade or other sovereign financial issues; market related risks including, but not limited to, changes in interest rates and exchange rates; changing demographic and market related trends; changes in customer preferences; changes to laws, regulation, accounting standards or taxation, including changes to regulatory capital or liquidity requirements; the policies and actions of governmental or regulatory authorities in the UK, the European Union, or jurisdictions outside the UK in which the Group operates, including other European countries and the US; the implementation of the draft EU crisis management framework directive and banking reform following the recommendations made by the Independent Commission on Banking; the ability to attract and retain senior management and other employees; requirements or limitations imposed on the Group as a result of HM Treasury's investment in the Group; the ability to complete satisfactorily the disposal of certain assets as part of the Group's EC state aid obligations; the extent of any future impairment charges or write-downs caused by depressed asset valuations, market disruptions and illiquid markets; the effects of competition and the actions of competitors, including non-bank financial services and lending companies; exposure to regulatory scrutiny, legal proceedings, regulatory investigations or complaints, and other factors. Please refer to the latest Annual Report on Form 20-F filed with the US Securities and Exchange Commission for a discussion of certain factors together with examples of forward looking statements. The forward looking statements contained in this presentation are made as at the date of this presentation, and the Group undertakes no obligation to update any of its forward looking statements.

## BASIS OF PRESENTATION

The results of the Group and its business are presented in this presentation on a underlying basis and include certain income statement, balance sheet and regulatory capital analysis between core and non-core portfolios to enable a better understanding of the Group's core business trends and outlook. Please refer to the Basis of Presentation in the Q1 2013 Interim Management Statement which sets out the principles adopted in the preparation of the underlying basis of reporting as well as certain factors and methodologies regarding the allocation of income, expenses, assets and liabilities in respect of the Group's core and non-core portfolios.