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# RESPONSIBLE BUSINESS PERFORMANCE AND HELPING BRITAIN PROSPER PLAN

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# STRATEGY

Best bank for customers

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**Lloyds Bank**



**SIMPLE, LOW RISK, UK FOCUSED RETAIL  
AND COMMERCIAL BANK**

**ICONIC AND DISTINCTIVE BRANDS**

**MULTI CHANNEL DISTRIBUTION**

**Halifax**



**MARKET LEADING COSTS**

**HIGH QUALITY, COMMITTED COLLEAGUES**

**Bank of Scotland**



**Scottish Widows**



**Helping Britain prosper through our unique competitive position**

# FINANCIAL PERFORMANCE 2014 TO DATE

Profit and returns substantially improved and balance sheet further strengthened



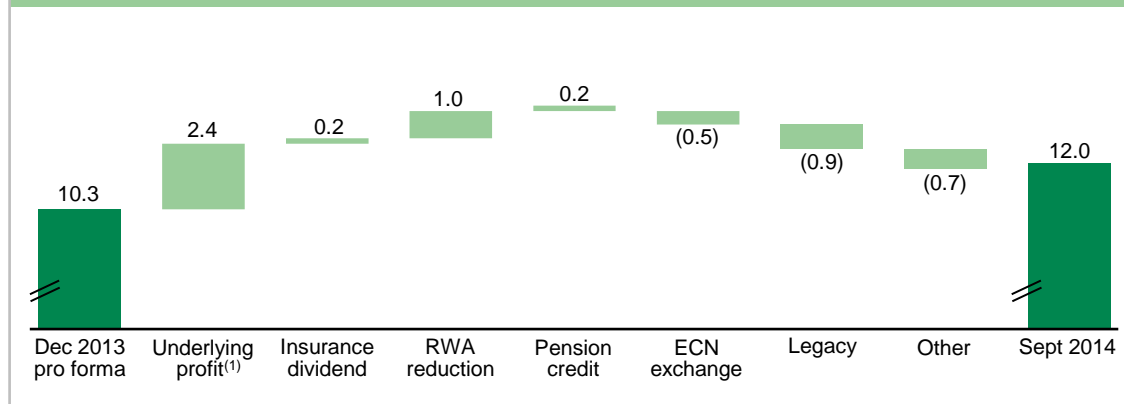
<b>Income (excl SJP)</b>	<b>£13.9bn</b> <b>+3%</b> ↑	<ul style="list-style-type: none"> <li>Income growth driven by 11% increase in net interest income                             <ul style="list-style-type: none"> <li>– Net interest margin of 2.44%, up 38bps</li> <li>– Loan growth in key customer segments</li> </ul> </li> </ul>
<b>Underlying profit</b>	<b>£6.0bn</b> <b>+35%</b> ↑	<ul style="list-style-type: none"> <li>Underlying profit increased to <b>£6.0bn</b> <ul style="list-style-type: none"> <li>– Costs excluding FSCS timing down 6%</li> <li>– 59% reduction in impairment; AQR of 27bps</li> </ul> </li> </ul>
<b>Statutory profit after tax</b>	<b>£1.4bn</b> <b>+397%</b> ↑	<ul style="list-style-type: none"> <li>Statutory profit after tax of <b>£1.4bn</b>, increased from <b>£0.3bn</b> in 2013</li> </ul>
<b>Return on RWAs</b>	<b>3.05%</b> <b>+104bps</b> ↑	<ul style="list-style-type: none"> <li>RoRWA improvement driven by underlying profit increase and lower RWAs</li> </ul>
<b>FL CET1 ratio</b>	<b>12.0%</b> <b>+1.7pp</b> ↑	<ul style="list-style-type: none"> <li>Fully loaded CET1 ratio improvement led by underlying profit</li> </ul>
<b>Leverage ratio</b>	<b>4.7%</b> <b>+0.9pp</b> ↑	<ul style="list-style-type: none"> <li>Fully loaded Basel III leverage ratio improvement driven by underlying profit and ECN / AT1 exchange</li> <li>TNAV improved from 49.4p at the end of June 2014 to 51.8p at the end of September</li> </ul>

# FURTHER STRENGTHENING THE BALANCE SHEET

## Common equity tier 1 and leverage ratios further strengthened

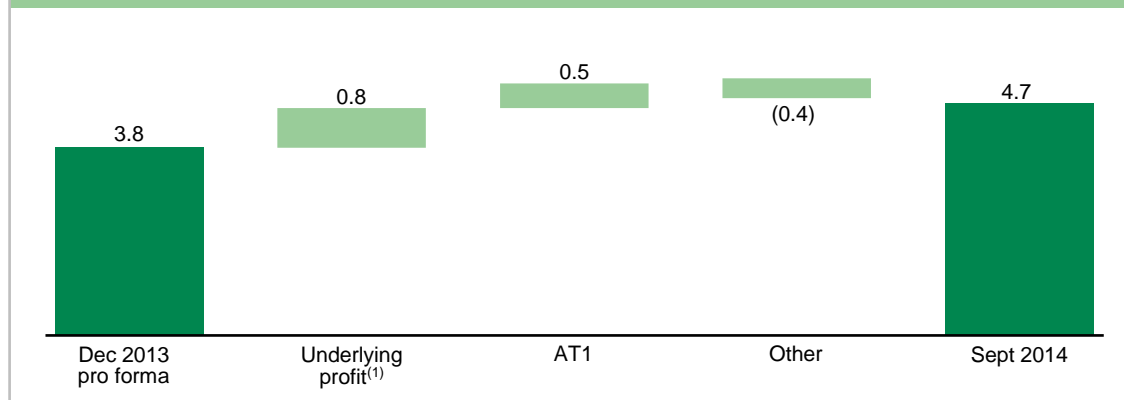


### Fully loaded common equity tier 1 ratio (%)



- Stronger capital position principally driven by underlying profit and RWA reduction
- Fully loaded CET1 ratio improved to 12.0%
- Improvement of 0.9% in the quarter driven by underlying earnings and further RWA reduction partly offset by legacy charge
- Leverage ratio substantially improved through profitability and AT1 issuance
- Well positioned in advance of changing regulatory requirements

### Fully loaded leverage ratio<sup>(2)</sup> (%)



## A STRONGLY CAPITAL GENERATIVE BUSINESS

<sup>(1)</sup> Excl profit in Insurance business. <sup>(2)</sup> Following PRA guidance, calculated in accordance with the January 2014 revised Basel III leverage ratio framework.

# STRATEGIC FOCUS

Strengthening our unique capabilities to respond to the changing external environment



## OUR BUSINESS MODEL

Low cost, low risk, customer focused, UK retail and commercial bank

## OUR STRATEGIC PRIORITIES

Creating the  
best customer  
experience

Becoming  
simpler and  
more efficient

Delivering  
sustainable  
growth

## OUR AIM

Best bank for customers

Superior and sustainable shareholder returns

## OUR COLLEAGUES

Engaged and customer focused colleagues

# MEDIUM TERM FINANCIAL TARGETS

Improved shareholder returns through sustainable growth, greater efficiency and lower risk



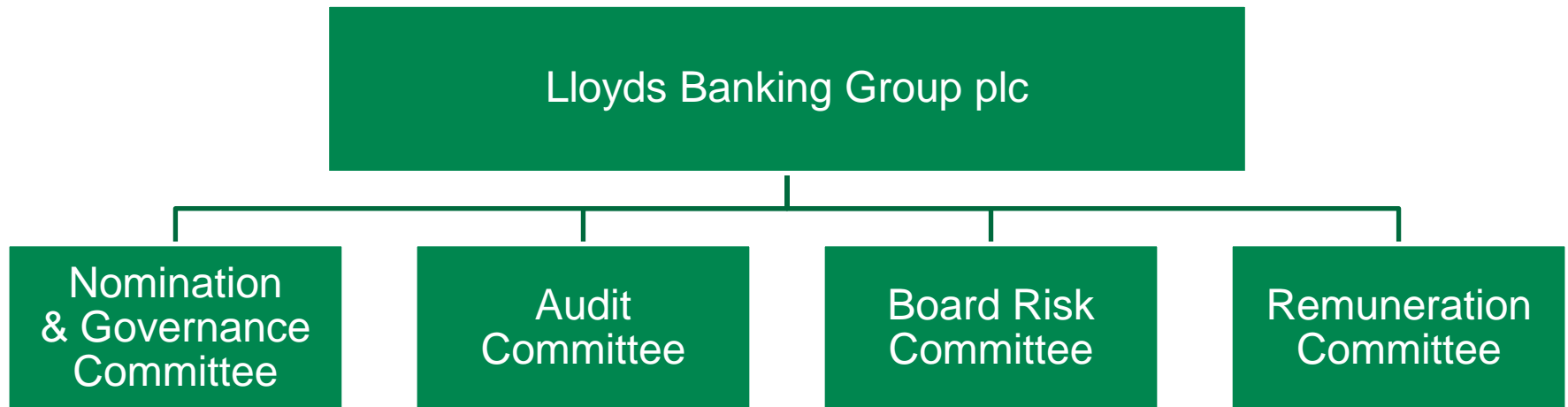
	METRIC	TARGETS
<b>Efficiency</b>	<b>Simplification savings</b> <b>FTE reduction</b> <b>Cost:income ratio</b>	<ul style="list-style-type: none"><li>▪ £1bn of further Simplification run rate savings by end of 2017</li><li>▪ c.9,000 role reduction across 2015 – 2017</li><li>▪ To exit 2017 at around 45%; targeting reductions in each year</li></ul>
<b>Risk appetite</b>	<b>Asset quality ratio</b>	<ul style="list-style-type: none"><li>▪ c.40bps target through the economic cycle and lower over the next three years</li></ul>
<b>Shareholder return</b>	<b>Return on required equity<sup>(1)</sup></b> <b>Dividend</b>	<ul style="list-style-type: none"><li>▪ 13.5% – 15% by the end of the strategic plan period and through the economic cycle</li><li>▪ Medium term payout ratio of at least 50%</li></ul>

<sup>(1)</sup> The shareholder return calculation has used an indicative required equity of 11.5% which is subject to evolving regulatory requirements.

# GOVERNANCE

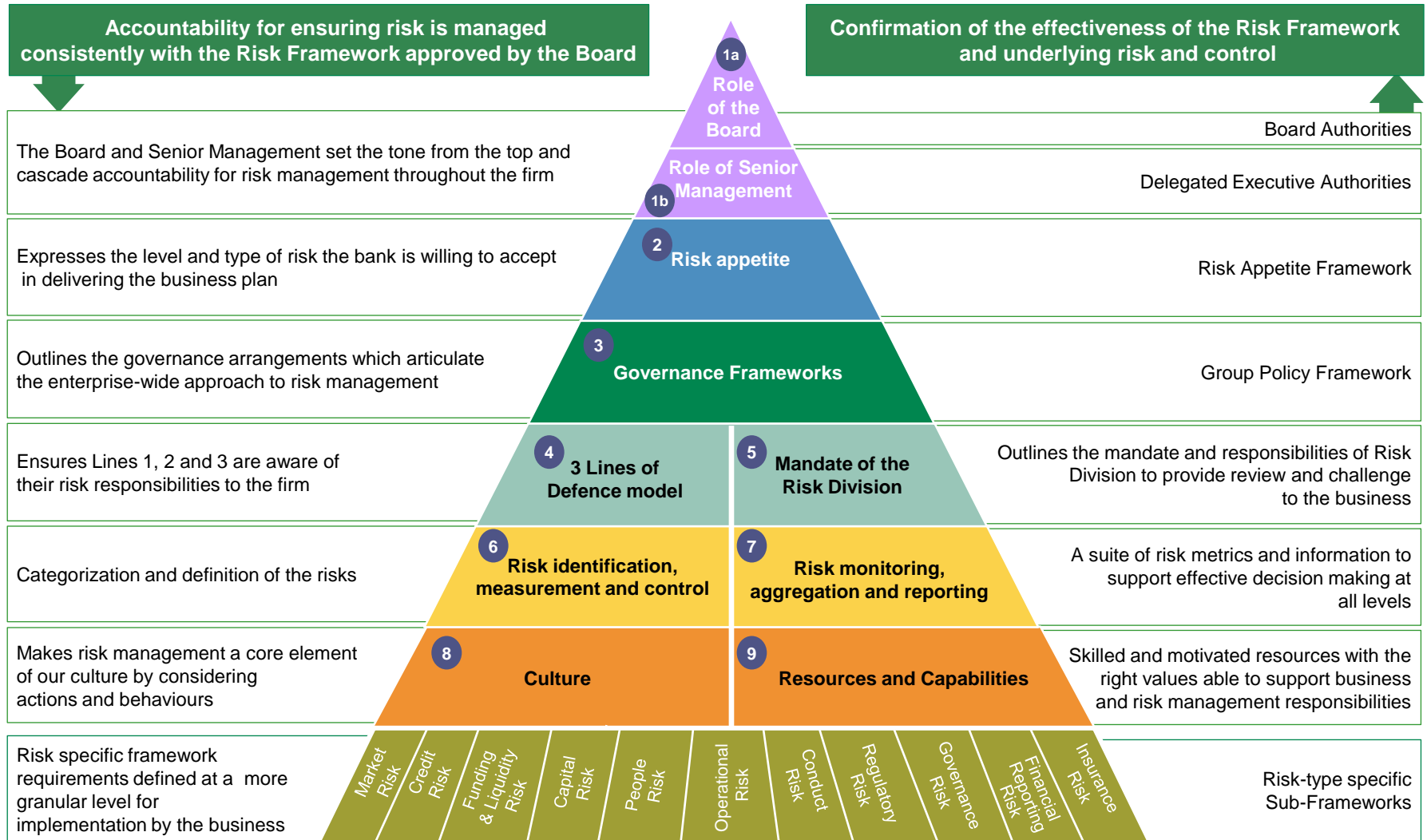
High standards of corporate governance

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# MANAGING RISK

## Risk management framework





# RE-BUILDING TRUST

Doing the right thing

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- Values
- Codes of Personal and Business Responsibility
- Culture Assessment
- Trust research and measurement



*“Trust is not a ‘nice to have’ – it is an essential part of our business success. We must continue to work together to ensure that, going forward, we always try to do the right thing by those that we deal with so as to rebuild trust in Lloyds Banking Group and be the best bank for customers”.*

**Lord Blackwell, Chairman, Lloyds Banking Group**

# HELPING BRITAIN PROSPER

The value of a purpose driven business

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**Our purpose : Helping Britain Prosper**



**Our vision : to be the best bank for customers**

**Our aim:**

- **Continuing to build safe solid foundations for the future through our low risk, efficient, UK focused retail and commercial business model.**
- **Making this the best bank for customers, delivering improved performance for shareholders, and ensuring we continue to help Britain prosper.**

# HELPING BRITAIN TO PROSPER

What are the big issues?



First time buyers currently have to save almost **80% of their annual income** to save a deposit to buy a home

Britain may face a **property shortage** of nearly 1 million homes by 2022



**21%** unemployment in 16-25 year olds in Britain

99% of all British businesses are **SMEs**

8 million people on lower incomes **couldn't access funding** from banks in 2013

# HELPING BRITAIN PROSPER PLAN

Supporting households, businesses and communities

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## The seven commitments

- We'll help more customers get on the housing ladder – and more customers climb up it
- We'll help our customers plan and save for later life
- We'll take a lead in financial inclusion to enable all individuals to access, and benefit from, the products and services they need to make the most of their money
- We'll help businesses to start up and scale up and we will procure responsibly
- We'll help businesses and individuals succeed with expert mentoring and training
- We'll be the banking group that brings communities closer together to help them thrive
- We'll better represent the diversity of our customer base and our communities at all levels of the Group



<b>1</b> <i>We'll help more customers get on the housing ladder – and more customers climb up it</i>		2014 target	2017 target
1.1	Number of first-time buyers supported through delivering the most comprehensive mortgage proposition in the UK mortgage market	>80,000	1 in 4
1.2	Share of new-build mortgages provided (for first-time buyers, second steppers and private rented)	1 in 4	1 in 4

### PROGRESS AGAINST TARGET:

- On track to meet target of over 80,000 first time buyers

- **60,000 new homes need to be built in Britain every year above the current level of supply to ease the country's housing shortage**
- **We have committed to a £50m equity fund next year for smaller house builders to help increase supply**

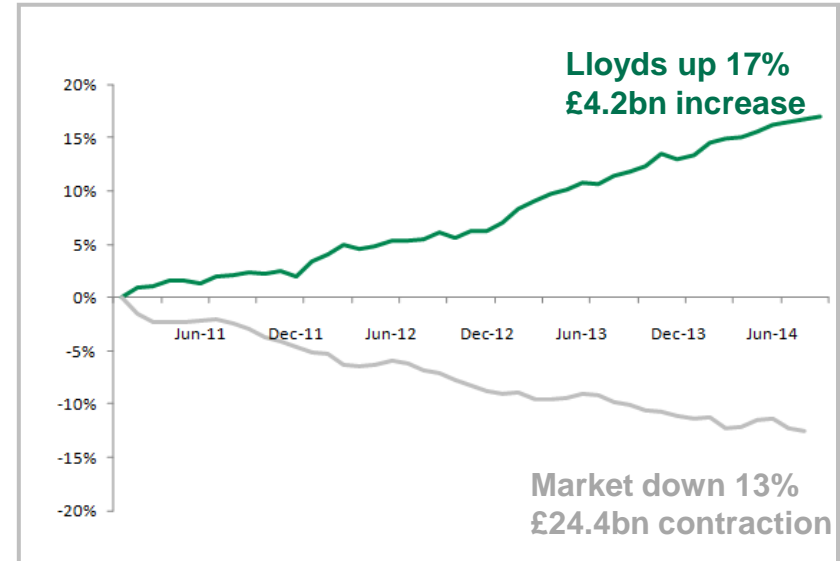


**4** *We'll help businesses to start up and scale up, and we will procure responsibly*

	2014 target	2017 target
4.1 Increased amount of net lending to SMEs on an annual basis (total cumulative)	>£1bn (£28bn)	>£1bn (>£31bn)
4.2 Number of start-up businesses we will help to get off the ground	>100k	1 in 5
4.3 Increased amount of new lending provided to support UK manufacturing businesses per year	£1bn	£4bn (cumulative)
4.4 Number of entrepreneurs supported through the Lloyds Bank and Bank of Scotland Social Entrepreneurs programmes	>750 (cumulative)	1,300 (cumulative)
4.5 % of supplier invoices paid within 30 days (% payment within 60 days)	95% (100%)	99% (100%)

### PROGRESS AGAINST TARGET:

- Last year we helped 120,000 SME's start up and on track to meet target again this year



- SME lending has continued to grow at 5% annually – by around 17% over our strategic plan period vs the market's 13% contraction**



**6** *We'll be the banking Group that brings communities closer together to help them thrive*

	2014 target	2020 target
6.1 Number of paid volunteer hours used by colleagues to support community projects	800,000 (cumulative)	>2.3 million (cumulative)
6.2 Number of community organisations supported by our volunteers or funding	6,500	10,000
6.3 £ donated to the Bank's Foundations to help tackle disadvantage	£16.5m	>£100m (cumulative)
6.4 £ raised by colleagues for our Charity of the Year (including Matched Giving) to support those in need in our communities	£1.7m	£12m (cumulative)

### Live Well



#### PROGRESS AGAINST TARGET:

- 930,000 volunteering hours achieved – 16% higher than end of year target
- £5.5m raised for our Charity of the Year – £1.3m higher than end of year target

#### COLLEAGUE ENGAGEMENT

- Employee engagement index 64%
- Performance excellence index 76%

# RESPONSIBLE BUSINESS REPORTING

Focus going forward

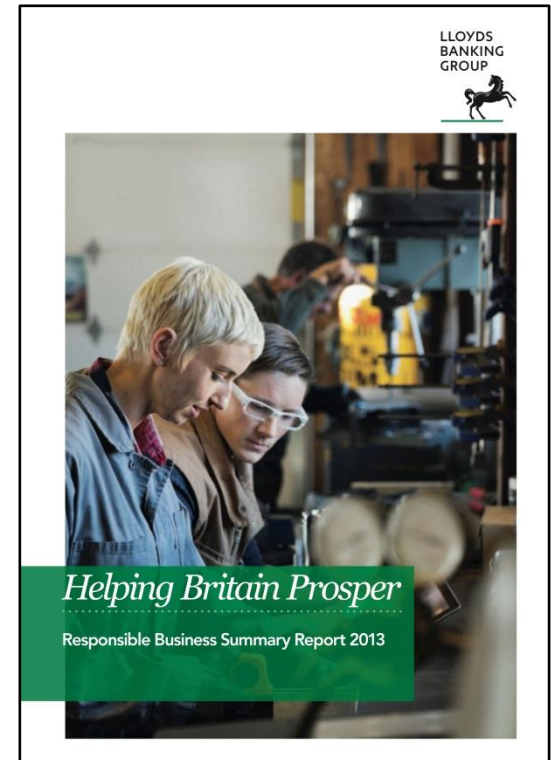
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Strategy and vision – Helping Britain Prosper Plan

Focus on ‘top tier’ material issues

Regulatory requirements





# SUMMARY

We will help Britain prosper, whilst enhancing our customer proposition and generating strong returns for shareholders



## ■ Unique assets

- Multi brand, multi channel distribution model
- Strong customer franchise
- Integrated insurance proposition
- Strong balance sheet / funding position

## ■ Differentiated business model

- Clear strategy: UK retail and commercial focus
- Leading cost position
- Low risk, leading to low cost of equity

## Best bank for customers

- Delivering the best customer experience

## Best bank for shareholders

- Delivering superior and sustainable returns

## Helping Britain Prosper

- Households, businesses and communities across the UK to prosper and together, benefit from UK economic recovery

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# QUESTIONS & ANSWERS

# FORWARD LOOKING STATEMENTS AND BASIS OF PRESENTATION

## FORWARD LOOKING STATEMENTS

This presentation contains certain forward looking statements with respect to the business, strategy and plans of Lloyds Banking Group and its current goals and expectations relating to its future financial condition and performance. Statements that are not historical facts, including statements about Lloyds Banking Group's or its directors' and/or management's beliefs and expectations, are forward looking statements. By their nature, forward looking statements involve risk and uncertainty because they relate to events and depend upon circumstances that will or may occur in the future. Factors that could cause actual business, strategy, plans and/or results to differ materially from the plans, objectives, expectations, estimates and intentions expressed in such forward looking statements made by the Group or on its behalf include, but are not limited to: general economic and business conditions in the UK and internationally; market related trends and developments fluctuations in exchange rates, stock markets and currencies; the ability to access sufficient sources of capital, liquidity and funding when required; changes to the Group's credit ratings; the ability to derive cost savings; changing customer behaviour including consumer spending, saving and borrowing habits; changes to 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; technological changes and risks to cyber security; natural, pandemic and other disasters, adverse weather and similar contingencies outside the Group's control; inadequate or failed internal or external processes or systems; terrorist acts, geopolitical events and other acts of war or hostility, geopolitical, pandemic or other such events; changes in laws, regulations, accounting standards or taxation, including as a result of further Scottish devolution; changes to regulatory capital or liquidity requirements and similar contingencies outside the Group's control; the policies, decisions and actions of governmental or regulatory authorities in the UK, the European Union (EU), the US or elsewhere including the implementation of key legislation and regulation; 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; actions or omissions by the Group's directors, management or employees including industrial action; changes to the Group's post-retirement defined benefit scheme obligations; the ability to complete satisfactorily the disposal of certain assets as part of the Group's EU State Aid obligations; the provision of banking operations services to TSB Banking Group plc; the extent of any future impairment charges or write-downs; the value and effectiveness of any credit protection purchased by the Group; the inability to hedge certain risks economically; the adequacy of loss reserves; the actions of competitors, including non-bank financial services and lending companies; and exposure to regulatory scrutiny, legal proceedings, regulatory and competition investigations or complaints. Please refer to the latest Annual Report on Form 20-F filed with the US Securities and Exchange Commission for a discussion of certain factors together with examples of forward looking statements. Except as required by any applicable law or regulation, the forward looking statements contained in this presentation are made as of today's date, and Lloyds Banking Group expressly disclaims any obligation or undertaking to release publicly any updates or revisions to any forward looking statements.

## BASIS OF PRESENTATION

The results of the Group and its business are presented in this presentation on a underlying basis. Please refer to the Basis of Presentation in the 2014 Q3 Interim Management Statement which sets out the principles adopted in the preparation of the underlying basis of reporting.