

LLOYDS  
BANKING  
GROUP



# CITI MARKETS GLOBAL FINANCIAL CONFERENCE

19 November 2014

**António Horta-Osório**  
Group Chief Executive

# FINANCIAL PERFORMANCE 2014 TO DATE

Continued successful execution of our strategy, profit and returns substantially improved and balance sheet further strengthened



|                                   |                                  |  |
|-----------------------------------|----------------------------------|--|
| <b>Income (excl SJP)</b>          | <b>£13.9bn</b><br><b>+3%</b> ↑   | <ul style="list-style-type: none"> <li>▪ <b>Further strategic progress</b> <ul style="list-style-type: none"> <li>– Reshaping the Group substantially complete</li> <li>– Lending growth in key customer segments, deposit growth driven by relationship brands</li> <li>– TSB shareholding successfully reduced to 50%</li> </ul> </li> <li>▪ <b>Income growth driven by 11% increase in net interest income</b> <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> <li>▪ <b>Underlying profit increased to £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> <li>▪ <b>RoRWA improvement driven by underlying profit increase and lower RWAs</b></li> <li>▪ <b>TNAV improved from 49.4p at the end of June 2014 to 51.8p at the end of September</b></li> </ul> |
| <b>Underlying profit</b>          | <b>£6.0bn</b><br><b>+35%</b> ↑   |  |
| <b>Statutory profit after tax</b> | <b>£1.4bn</b><br><b>+397%</b> ↑  |  |
| <b>Return on RWAs</b>             | <b>3.05%</b><br><b>+104bps</b> ↑ |  |
| <b>FL CET1 ratio</b>              | <b>12.0%</b><br><b>+1.7pp</b> ↑  |  |
| <b>Leverage ratio</b>             | <b>4.7%</b><br><b>+0.9pp</b> ↑   |  |

## UNIQUE POSITION IN THE UK MARKET

Our strength lies in our differentiated, multi brand, multi channel business model

LLOYDS  
BANKING  
GROUP



LLOYDS BANK



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



# UNIQUE POSITION IN THE UK MARKET

We remain committed to Helping Britain Prosper by becoming the best bank for customers and shareholders



## BEST BANK FOR CUSTOMERS

**Strong customer relationships**

**Customer focused people**

**Commitment to service and conduct**

**Multi channel distribution**

**Iconic brands**



## BEST BANK FOR SHAREHOLDERS

**Leading market positions**

**Growth in under represented areas**

**Prudent risk appetite and lower cost of equity**

**Cost leadership**

**Long term superior and sustainable returns**

# ACHIEVEMENTS SINCE 2011

Reshape and Strengthen – substantially complete

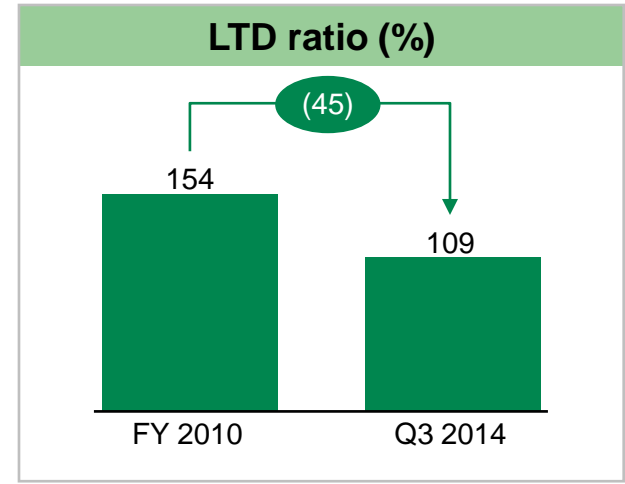
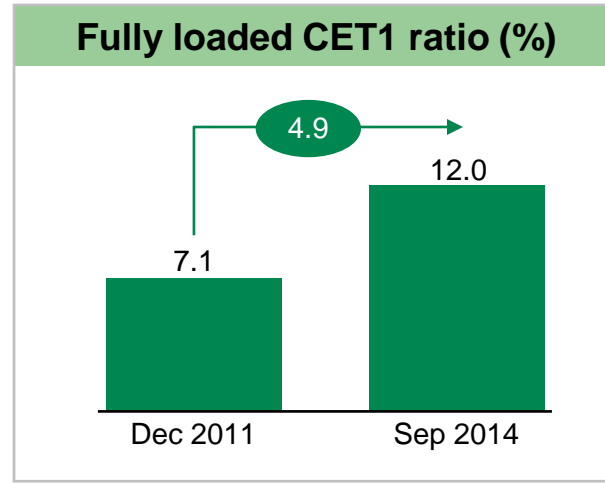
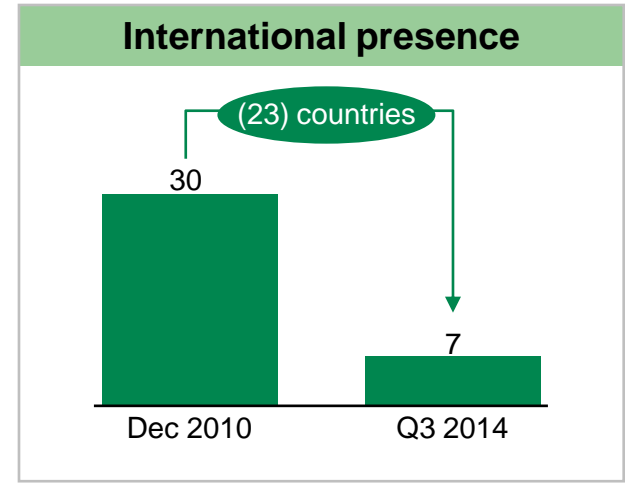
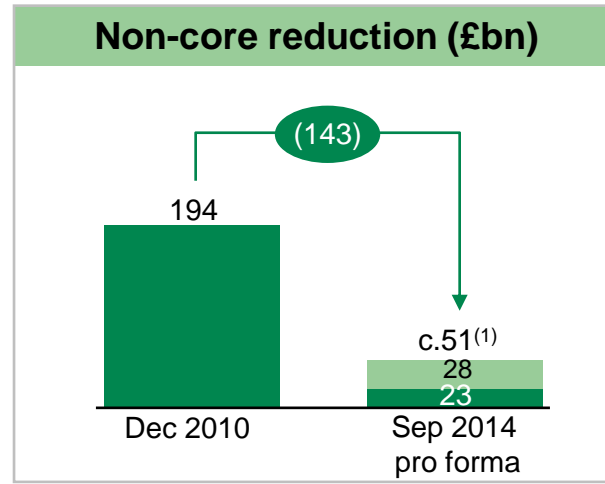


RESHAPE

STRENGTHEN

SIMPLIFY

INVEST



<sup>(1)</sup> Comprises £23bn of run-off portfolio and £28bn of assets previously classed as non-core.

# ACHIEVEMENTS SINCE 2011

Simplify and Invest – accelerated delivery of strategic objectives

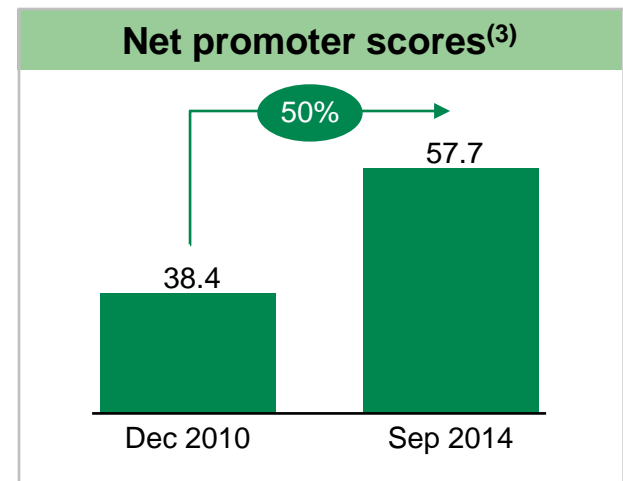
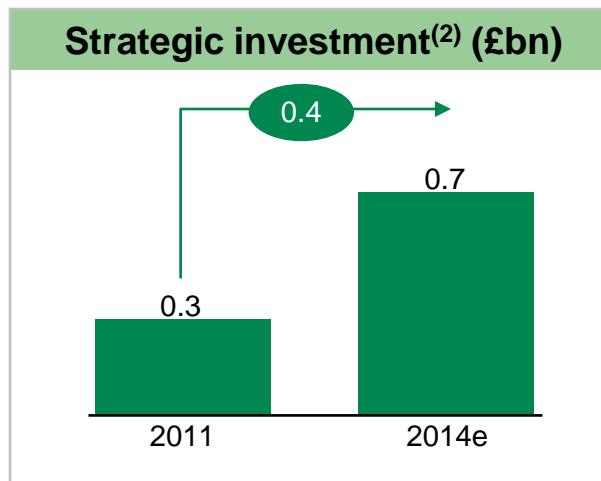
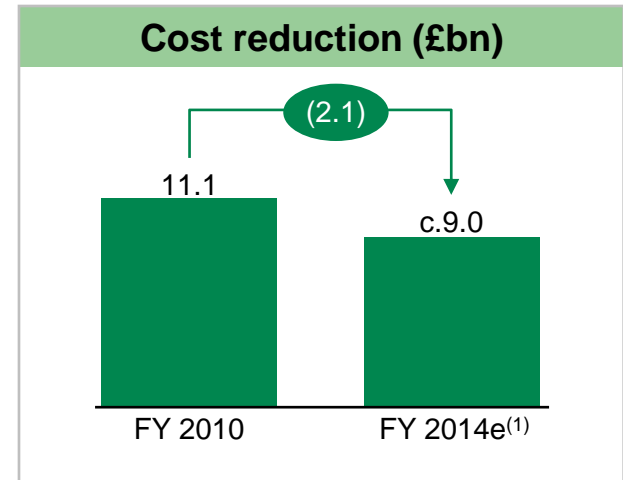
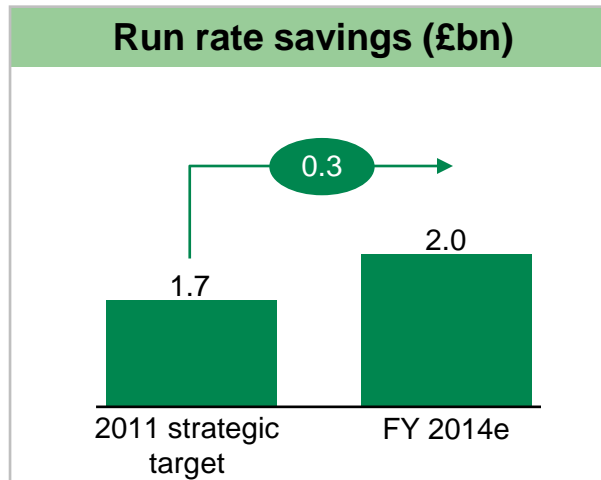


RESHAPE

STRENGTHEN

SIMPLIFY

INVEST



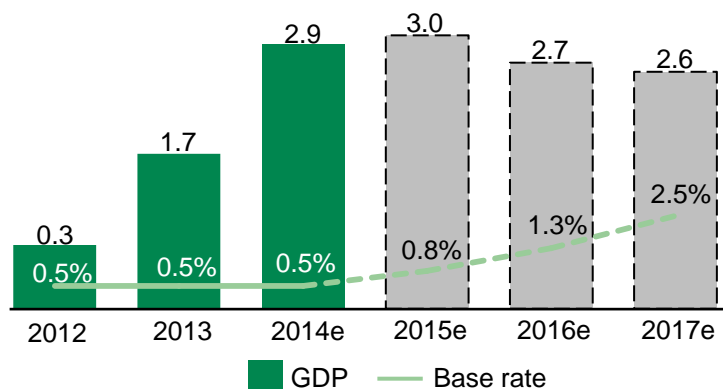
<sup>(1)</sup> Excludes TSB running costs. <sup>(2)</sup> Annual cash spend. <sup>(3)</sup> Weighted by brand and channel usage.

# ECONOMIC ENVIRONMENT

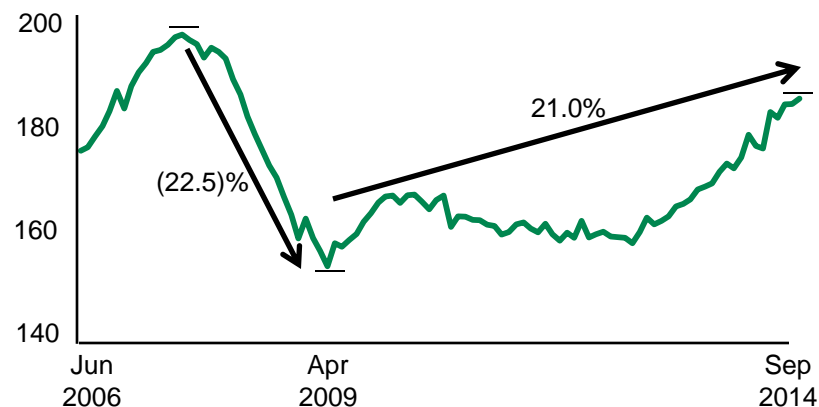
Strengthened economic environment although some uncertainty remains



## Sustainable economic growth (%)

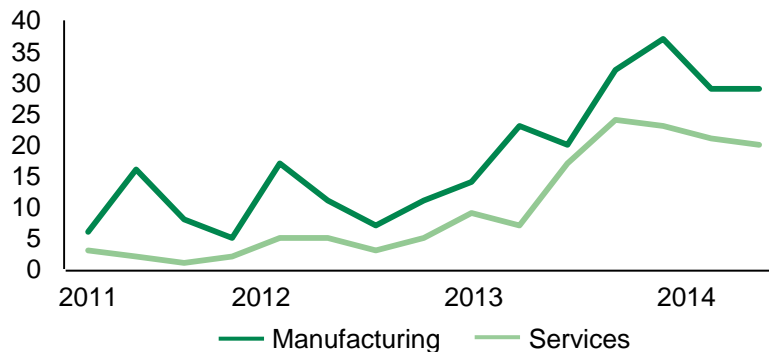


## House price index<sup>(1)</sup> (£'000)

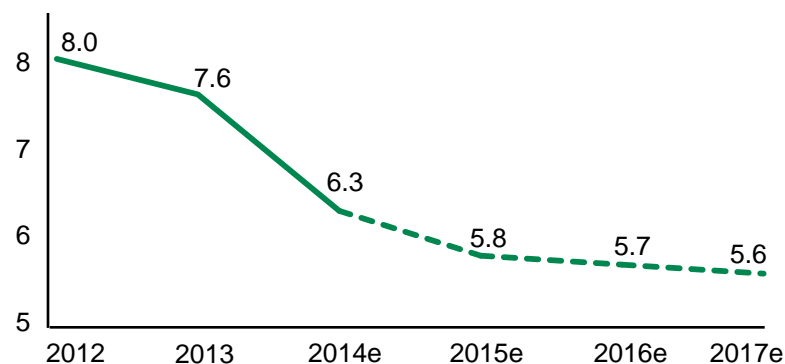


## Increased business confidence (%)

### Business investment<sup>(2)</sup>



## Unemployment rate falling (%)



(1) Halifax house price index (HPI). (2) Net balance of companies that say their investment in plant, machinery and equipment has increased over the past three months, source the British Chamber of Commerce.

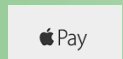
# NEW BANKING ENVIRONMENT

Opportunities and risks from an increasingly complex regulatory and competitive environment



## COMPETITION

## REGULATION



### Traditional competitors

- Increasing focus on UK retail and commercial market

### New banks

- Increasing customer choice and competition

### Technology entrants

- Creating new products and services, with potential for disintermediation

Greater choice and protection for customers, increased competition

### Prudential

- Basel III
- Solvency II
- Ring fencing and resolution
- Leverage ratio requirements
- Stress tests

### Conduct and Customer

- Mortgage Market review
- SME Lending reviews
- Credit cards review

### Competition

- CMA review of UK SME and PCA markets



BANK OF ENGLAND  
PRUDENTIAL REGULATION  
AUTHORITY





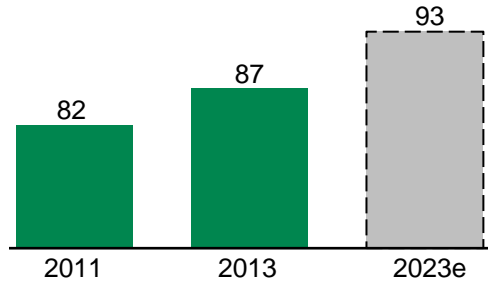
# CHANGING CUSTOMER TRENDS

Substantial change in digital adoption and demographics are changing customers' behaviours and expectations



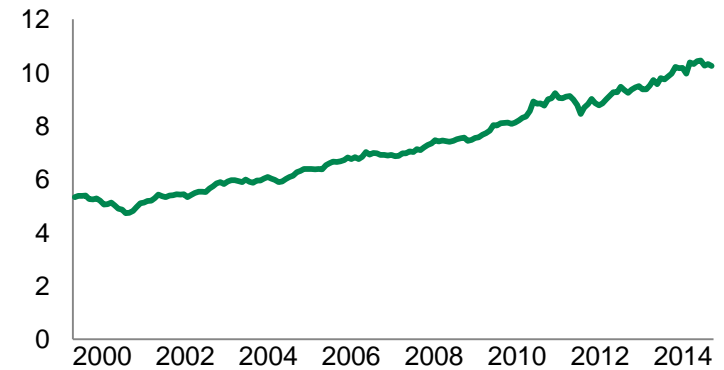
## Increased adoption of technology (%)

UK population that have internet access



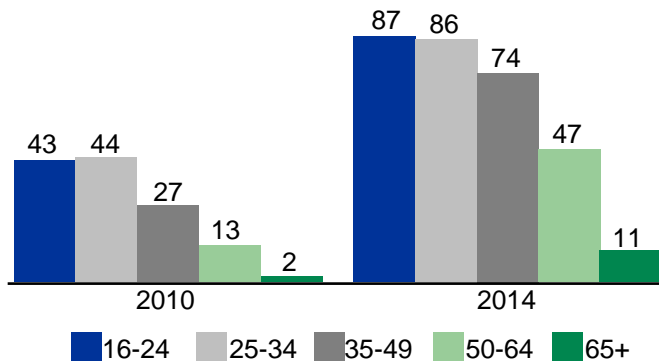
## People retiring later (%)

% of 65+ age group economically active



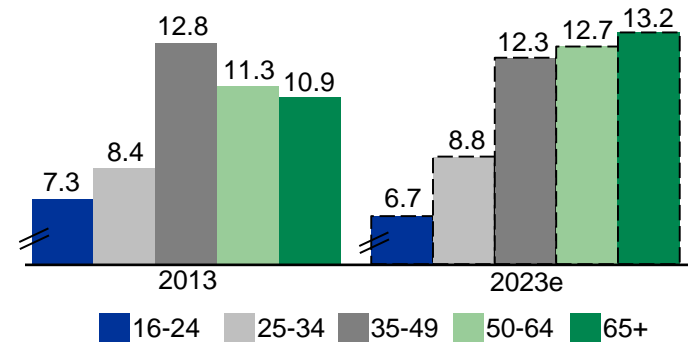
## Greater mobile use (%)

Internet use on a mobile phone



## Ageing population (m)

UK population



# 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

# CUSTOMER STRATEGY

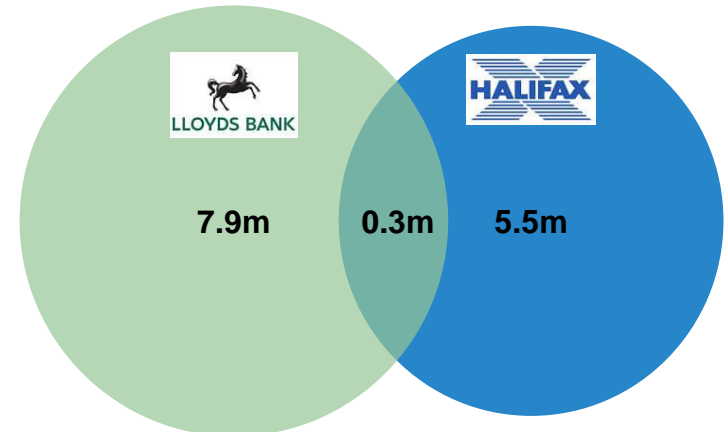
Our customer strategy is multi brand and multi channel



|                                   | <br>LLOYDS BANK<br>BANK OF SCOTLAND   | <br>HALIFAX                                       |
|-----------------------------------|--|--|
| <b>Clear positioning</b>          | <b>Service focused relationship brands</b>   | Value focused high street challenger<br>Leader in mortgages and savings  |
| <b>Distinct proposition</b>       | <ul style="list-style-type: none"> <li>Retail with specific segment focus (mass affluent, wealth and small business)</li> <li>Full service proposition including current account lifestyle benefits</li> </ul> | <ul style="list-style-type: none"> <li>Retail focus</li> <li>Simple, straightforward features and rewards</li> </ul>               |
| <b>Multi channel distribution</b> | <ul style="list-style-type: none"> <li>1,296 Lloyds brand branches</li> <li>293 BoS brand branches</li> <li>Digital</li> <li>Telephony</li> </ul>  | <ul style="list-style-type: none"> <li>663 branches</li> <li>Intermediary mortgages</li> <li>Digital</li> <li>Telephony</li> </ul> |

## Multi brand maximises Retail's reach...

### Active current account customers



## ...and supports flexibility for the Group

- Multi brand, including **Birmingham Midshires** and **Scottish Widows Bank**, offers pricing flexibility
- Common operations across brands minimises cost duplication

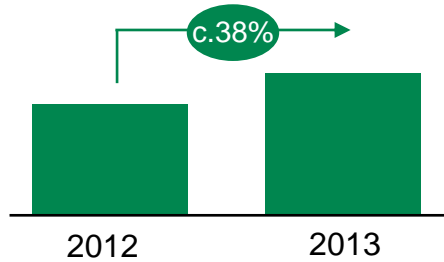
# MULTI CHANNEL CUSTOMERS

Customers are increasingly adopting a multi channel approach and multi channel customers create more value for the Group

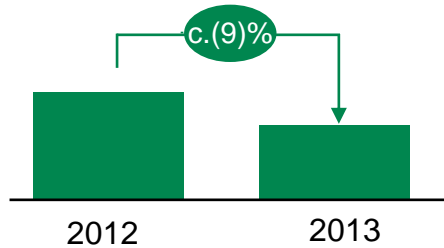


## Customers using different channels...

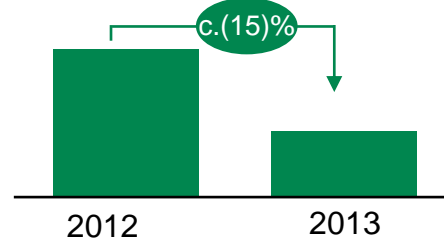
### Mobile usage



### Branch counter transactions

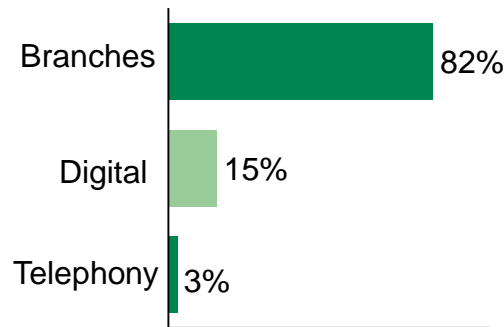


### Telephony volumes

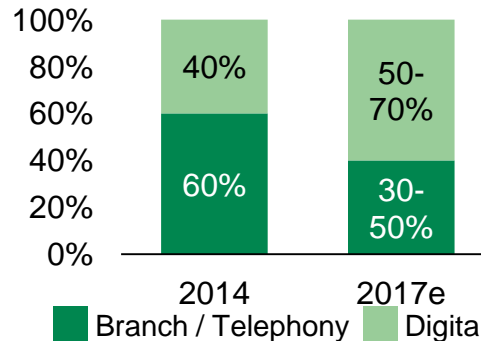


## ... But branches remain important...

### PCA % of new openings by channel (2013)

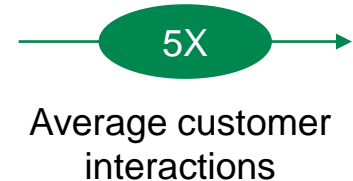
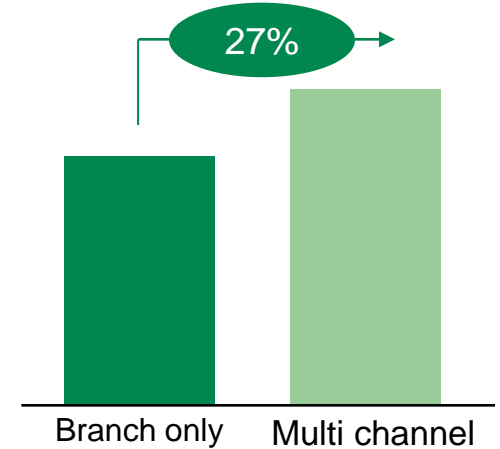


### % retail customer purchases by channel



## ...And Multi channel customers more valuable

### Average retail product holdings<sup>(1)</sup>, August 2014



# BUSINESS PRIORITIES: DIGITAL TRANSFORMATION

New digital propositions will transform customer interactions through a seamless online, mobile and branch experience



## Building on our digital strength

Since 2011...

- **>£750m** invested in digital
- **c.20% retail digital market share**
  - 10.3m active digital customers
  - 5m active mobile customers
  - £1.5tn in digital commercial client transactions
- **No.1 iOS rating** for consumer and SME apps (Oct 2014)

## Seamless multi channel interactions

By 2017...

- **c.£1bn** further investment in digital
- **Transformed customer experiences and efficiency**
  - Improved digital sales and service capability
  - Digitised end to end customer journeys
- **Extended multi brand multi channel capabilities**
  - Commitment to branch network
  - Increased self service and introduction of remote advice



New consumer digital platform



Upgraded self service machines



Remote advice and video conferencing



New commercial digital platform



New mobile apps

# CREATING THE BEST CUSTOMER EXPERIENCE

Our multi brand, multi channel strategy will continue to be focused on the needs of our customers and provide a platform for growth



## Because customers....

## We will...

...value different things from different brands

...keep our multi brand strategy

...demand seamless and integrated experiences across channels

...invest in digital for sales and service, and build our industry leading integrated multi channel platform

...continue to value the convenience of branches for advice and service

...increase our market share of branches although branch numbers will fall  
...multi skill our colleagues whilst reducing the number of people as activity migrates

...want the service model to be defined by their needs

...guide, educate and follow customers rather than restrict availability

...value our multi brand, multi channel approach

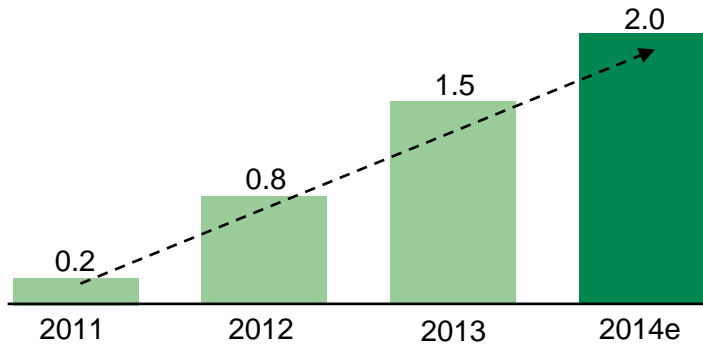
...continue to be well placed to retain existing customers and acquire new customers

# BECOMING SIMPLER AND MORE EFFICIENT

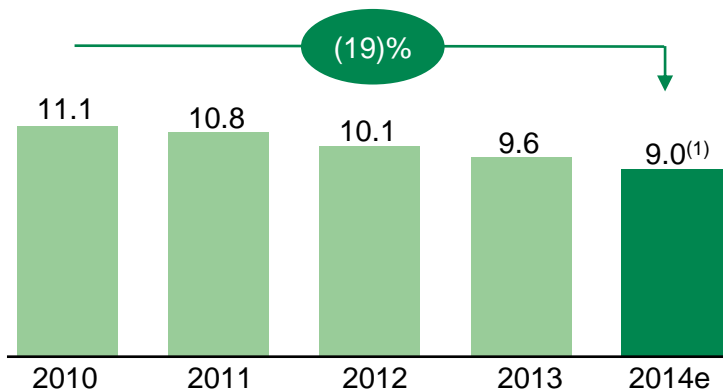
Strong track record of delivery: cost leadership achieved while improving customer experience, next phase will provide greater customer value



## Simplification run rate savings (£bn)



## Group cost base (£bn)



<sup>(1)</sup> Excluding TSB running costs. <sup>(2)</sup> From FY 2010 to Q3 2014. <sup>(3)</sup> Excludes PPI.

## Next phase 2015-2017

Indicative run rate savings

### Process redesign and automation

- Digital transformation of end to end journeys
- Further process simplification and automation

£0.4bn

### Sourcing

- Increased use of innovative solutions, e.g. e-Auctions
- Optimisation of supply chains

£0.3bn

### Organisation

- Efficiencies in head office, distribution and support functions
- More agile ways of working
- c.9,000 role reductions

£0.3bn

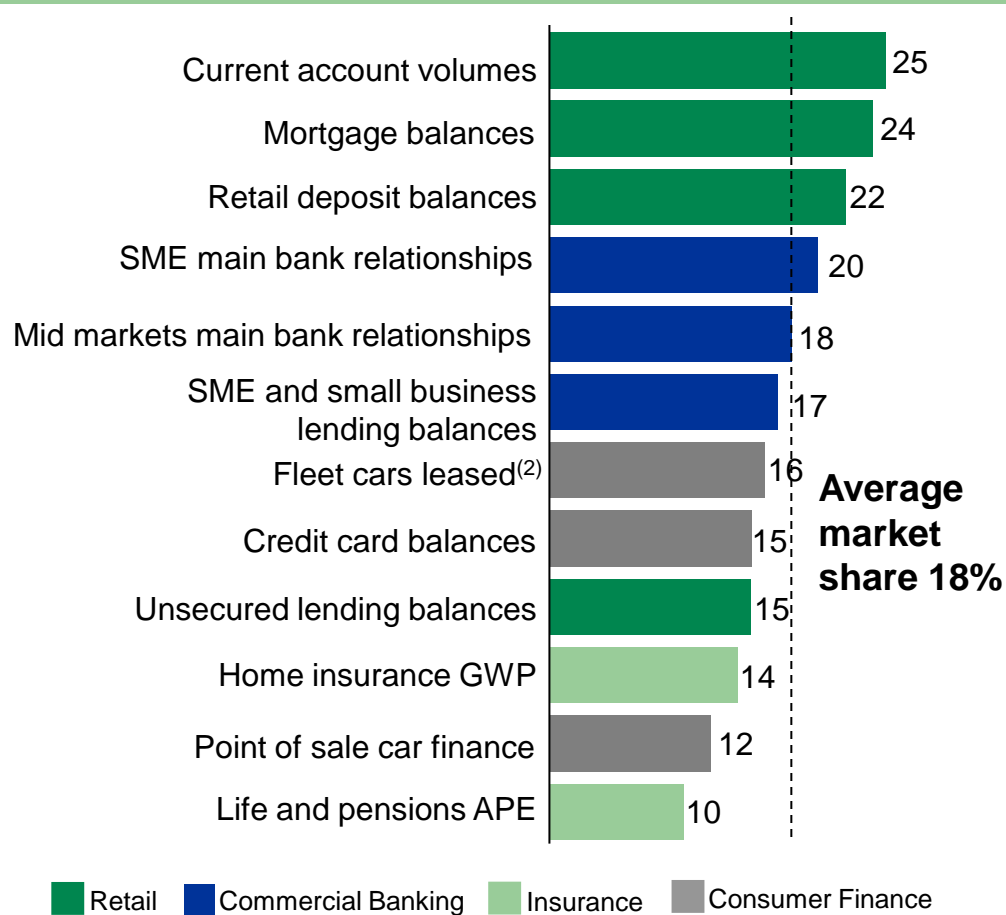
£1bn

# DELIVERING SUSTAINABLE GROWTH

We have multiple growth opportunities that build on our strengths and capabilities



## LBG market share, H1 2014<sup>(1)</sup> (%)



## Growth opportunity

- **Maintain market leadership in key retail business lines**
- **Grow above market in areas where we are under represented**
- **Pursue our growth opportunities within our prudent risk appetite**





### Our achievements

- **Capital and leverage positions strengthened**
  - 12.0% CET1 ratio
  - 21.0% total capital ratio
  - 4.7% leverage ratio
- **Stable funding base**
  - Wholesale funding reduced by more than half to less than £120bn
  - Short term money market funding reduced by over 75% to less than £20bn
  - 109% loan to deposit ratio
- **Fundamentally reshaped and simpler business**
  - Run-off portfolio reduced to £23bn, representing less than 4% of loans and advances
  - Significant reduction in international operations

### Maintaining balance sheet strength

- **Further reductions in run-off portfolio**
- **Wholesale funding requirement weighted to longer durations**
- **Loan to deposit ratio 105% – 110%**
- **Steady state CET1 ratio of around 11%**
- **Total capital ratio of at least 20%**
- **Leverage ratio of at least 4.5%**

# MEDIUM TERM FINANCIAL TARGETS

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



|                           | METRIC  | TARGETS  |
|---------------------------|---|--|
| <b>Efficiency</b>         | <b>Simplification savings</b><br><b>FTE reduction</b><br><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><br><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.

# SUMMARY

We will enhance our customer proposition while 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**

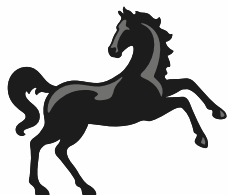
- Delivering superior and sustainable returns

## **Helping Britain Prosper**

- Supporting and benefiting from UK economic recovery

**WE ARE WELL POSITIONED TO DELIVER OUR STRATEGY GIVEN OUR TRACK RECORD AND STRONG DIFFERENTIATED BUSINESS MODEL**

# LLOYDS BANKING GROUP



Lloyds Banking Group is one of Britain's leading banking groups, made up of brands such as Halifax, Lloyds Bank, Bank of Scotland and Scottish Widows.

We have rebuilt our business to be stable, trusted and sustainable. We are deeply grateful for the support given to us by the UK and we are determined to play our part in helping Britain prosper. We'll do that with real pledges to help Britain's businesses, households and communities.



# Helping Britain prosper

## OUR PLEDGE TO BRITAIN'S HOUSEHOLDS:

We pledge to help more first time buyers than any other group in 2015, 2016 and 2017.



## OUR PLEDGE TO BRITAIN'S BUSINESSES:

We pledge to support 1 in 5 entrepreneurs in 2015, 2016 and 2017.



## OUR PLEDGE TO BRITAIN'S COMMUNITIES:

We pledge to maintain the UK's largest branch network in 2015, 2016 and 2017.



# FORWARD LOOKING STATEMENTS AND BASIS OF PRESENTATION

LLOYDS  
BANKING  
GROUP



## 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.