

LLOYDS
BANKING
GROUP



BANK OF AMERICA MERRILL LYNCH
19th Annual Banking & Insurance
CEO Conference

30 September 2014

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Group Chief Financial Officer



OUR BUSINESS MODEL

DELIVERY AGAINST 2011 STRATEGY

H1 2014 RESULTS OVERVIEW

SUMMARY

STRATEGY

Best bank for customers



LLOYDS BANK



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

ICONIC AND DISTINCTIVE BRANDS

MULTI CHANNEL DISTRIBUTION

MARKET LEADING COSTS

HIGH QUALITY, COMMITTED COLLEAGUES

BANK OF SCOTLAND



HALIFAX



SCOTTISH WIDOWS



HELPING BRITAIN PROSPER THROUGH OUR UNIQUE COMPETITIVE POSITION



2011 STRATEGIC OBJECTIVES

OBJECTIVES	
RESHAPE our business to fit our risk appetite	STRENGTHEN our balance sheet and liquidity position
INVEST to grow our core customer businesses	SIMPLIFY to improve agility, service and efficiency

EFFICIENT, LOW RISK BUSINESS MODEL

LEADING COST POSITION
LOWER RISK APPETITE
LOWER FINANCIAL LEVERAGE
UNIQUE COMPETITIVE POSITION
LOWER COST OF EQUITY
LOWER COST OF DEBT

CONFIDENT OF DELIVERING STRONG AND SUSTAINABLE ECONOMIC RETURNS



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ASSET REDUCTION

- Over £200bn of non-core asset reduction
- Achieved EU commitment target 2 years ahead of plan

INTERNATIONAL PRESENCE

- International presence significantly reduced
- Exited or announced exit from 21 countries, target of 10 or fewer in 2014 already achieved

COST SAVINGS

- Strategic Review cost target of £10bn delivered 2 years ahead of plan
- 2014 full year costs of £9bn plus TSB

FUNDING

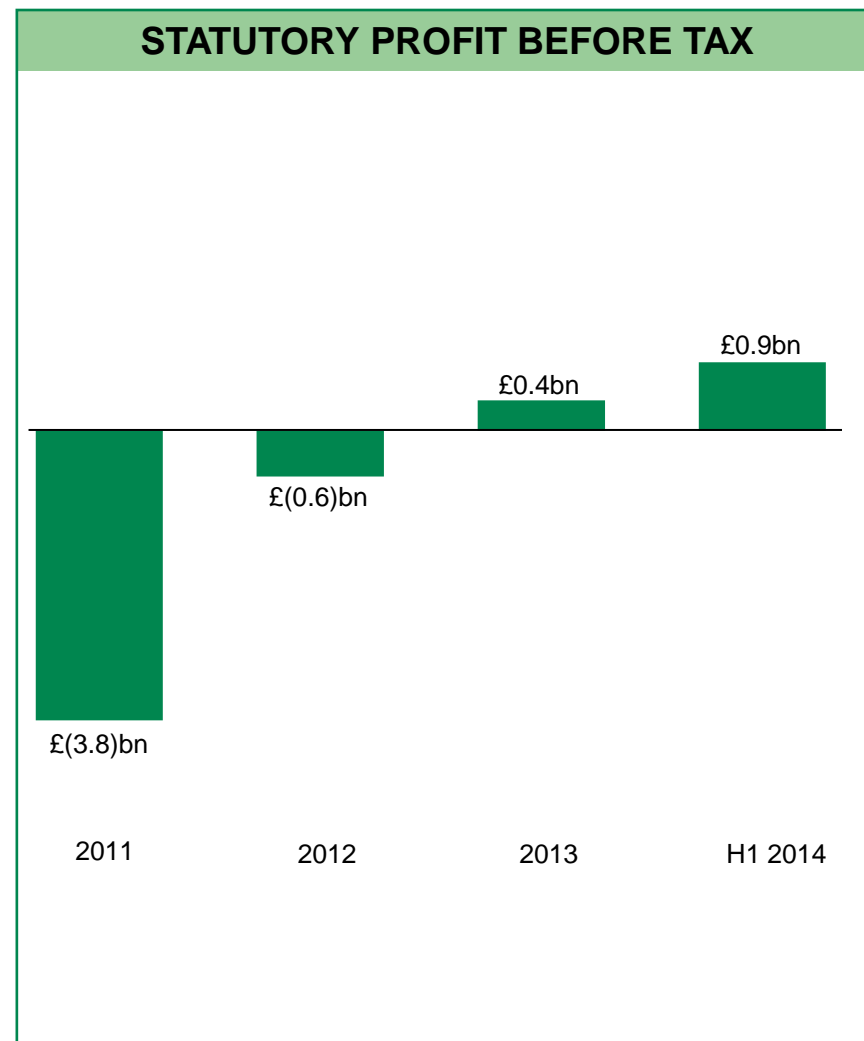
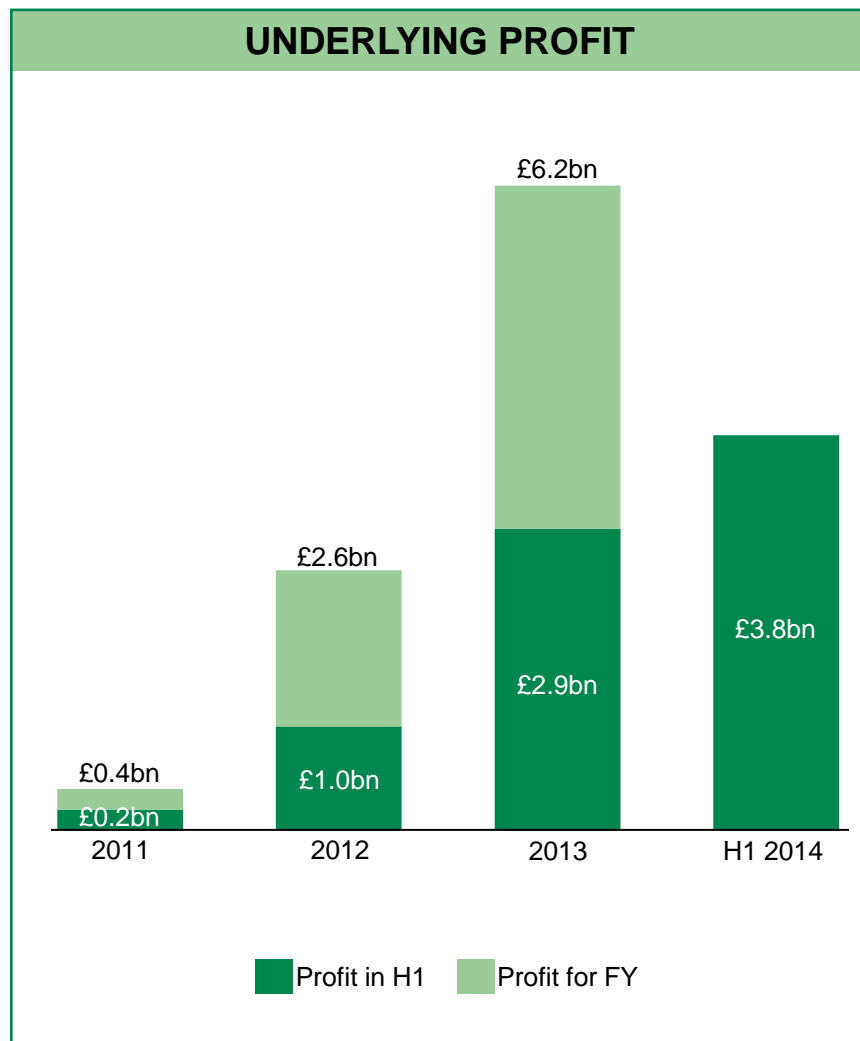
- Wholesale funding requirement reduced by more than £150bn since H1 2011
- Loan to deposit ratio now 109% from 135% at the end of 2011

CAPITAL RATIOS

- Significant increase to capital ratios, ahead of market expectations
- Fully loaded common equity tier 1 ratio 11.1% H1 2014

STRATEGY

A strong improvement to underlying and statutory profit





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FINANCIAL PERFORMANCE

Profit and returns substantially improved and balance sheet further strengthened



INCOME (excl SJP)	£9.3bn +4% ↑	<ul style="list-style-type: none">▪ Income growth driven by 12% increase in net interest income<ul style="list-style-type: none">– Net interest margin of 2.40%, up 39bps– Loan growth in targeted segments▪ Underlying profit increased to £3.8bn<ul style="list-style-type: none">– Costs excluding FSCS timing down 6%– 58% reduction in impairment; AQR of 30bps
UNDERLYING PROFIT	£3.8bn +32% ↑	<ul style="list-style-type: none">▪ RoRWA improvement driven by underlying profit increase and lower RWAs
RETURN ON RWAs	2.90% +95bps ↑	<ul style="list-style-type: none">▪ Loan to deposit ratio improved to 109%
FL CET1 RATIO	11.1% +0.8pp ↑	<ul style="list-style-type: none">▪ Fully loaded CET1 ratio improvement led by underlying profit
LEVERAGE RATIO	4.5% +0.7pp ↑	<ul style="list-style-type: none">▪ Fully loaded Basel III leverage ratio improvement driven by underlying profit and AT1 issuance

FINANCIAL PERFORMANCE

Substantial increase in underlying profit



(£m)	H1 2014	H1 2013	Change
Net interest income	5,804	5,205	12%
Other income	3,448	3,729	(8)%
	9,252	8,934	4%
SJP	–	530	
Underlying income	9,252	9,464	(2)%
Costs	(4,675)	(4,749)	2%
Impairment	(758)	(1,813)	58%
Underlying profit	3,819	2,902	32%
Statutory profit before tax	863	2,134	(60)%
Statutory profit after tax	699	1,578	(56)%

- Total income excluding SJP up 4%
- Strong NII performance, up 12%, driven by higher margins
- Other income up 1% in second quarter
- Continued strong progress on costs
 - 6% reduction (excluding FSCS timing)
 - 8% underlying positive jaws, excluding SJP
- Impairment down 58%, AQR of 30bps
- Underlying profit up 32%; up 58% excluding SJP
- Statutory profit includes ECN exchange, legacy and Simplification costs



RETAIL

- Strong financial performance; underlying profit up 32%
- Supported over 43,000 first time buyers and 52,000 new business start-ups
- Innovative product launches including Club Lloyds

COMMERCIAL BANKING

- RoRWAs increased to 1.96%; underlying profit up 35%
- Supporting the UK economy, over £6.5bn of FLS lending in the first half
- Helped clients access £3.9bn of non-bank lending

INSURANCE

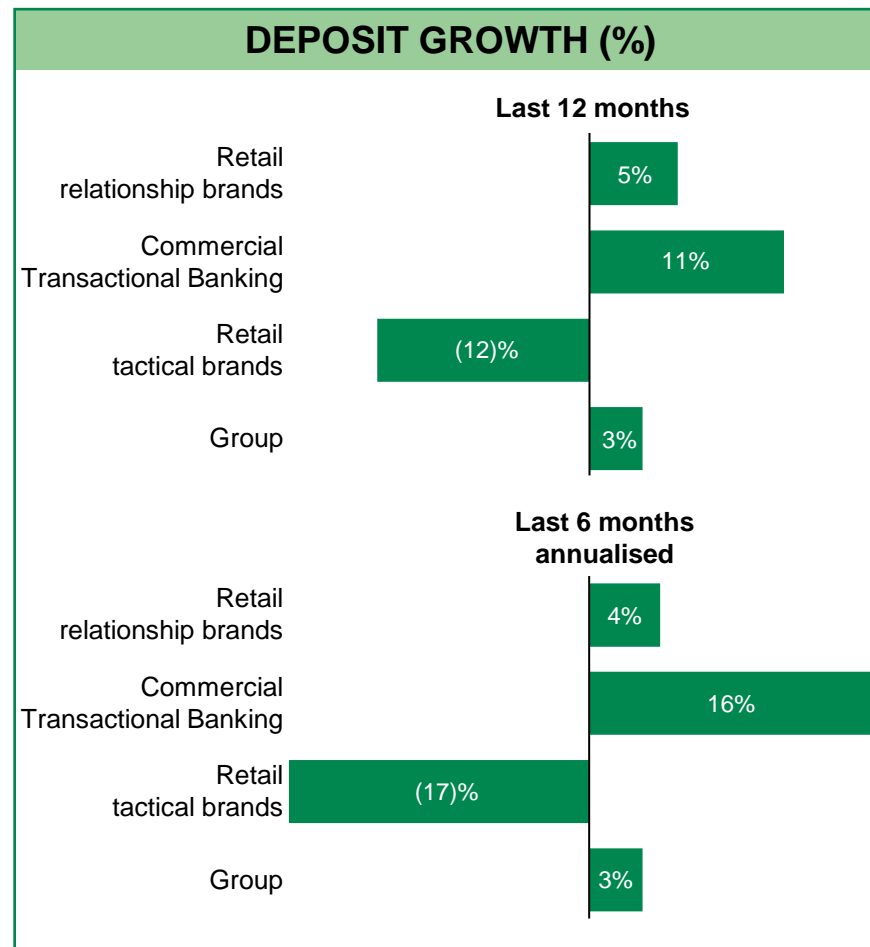
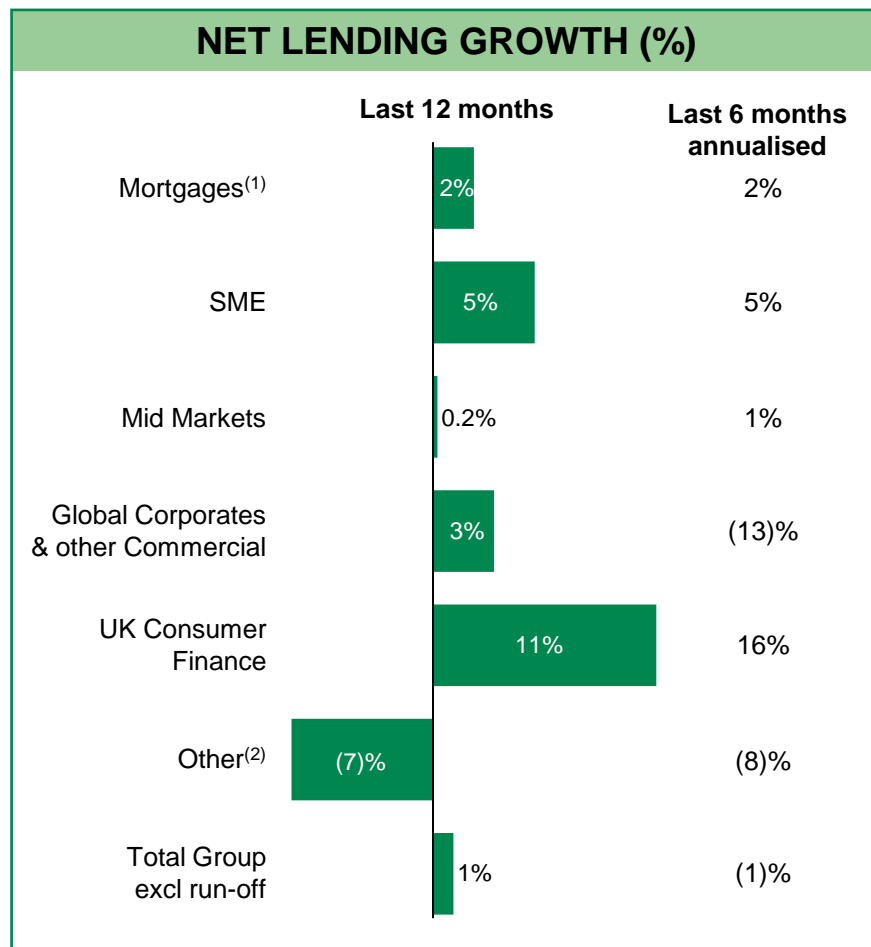
- Resilient performance in challenging market conditions
- Leveraging Group synergies through operational and balance sheet efficiency
- Dividends of £0.7bn to Group; £2.9bn over the last 18 months

CONSUMER FINANCE

- Underlying profit increased 5%; 11% UK loan growth
- 5% increase in new credit cards; 11% increase in balance transfer volumes
- 17% growth in Lex deliveries; 70% increase in Black Horse new business

SUPPORTING OUR CUSTOMERS AND THE UK ECONOMY

Continued loan growth in key customer segments and deposit growth in relationship brands



LOAN GROWTH SUPPORTING UK ECONOMIC RECOVERY

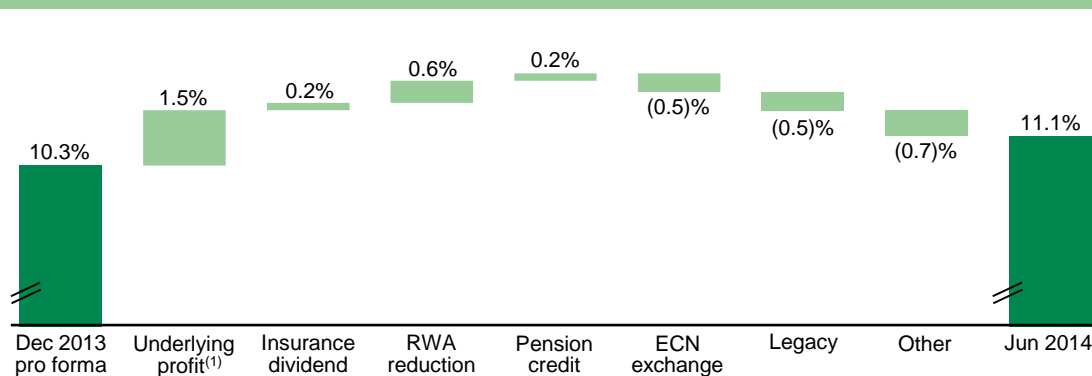
⁽¹⁾ Excludes specialist book, Intelligent Finance and TSB. ⁽²⁾ Other includes specialist book, Intelligent Finance, Dutch mortgages, TSB and other Retail lending.

FURTHER STRENGTHENING THE BALANCE SHEET

Common equity tier 1 and leverage positions further strengthened



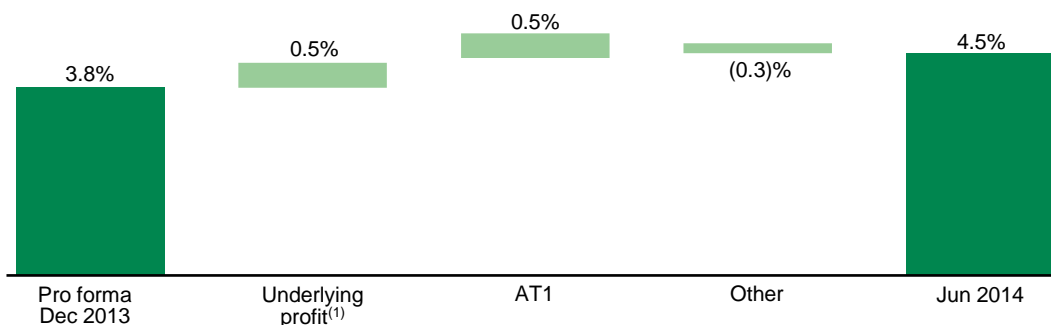
FULLY LOADED COMMON EQUITY TIER 1 RATIO



- **Stronger capital position principally driven by underlying profit**

- Insurance dividends paid to Group in first quarter
- ECN exchange effect partly offset by pension credit

FULLY LOADED LEVERAGE RATIO⁽²⁾



- **Fully loaded CET1 ratio improved to 11.1%**

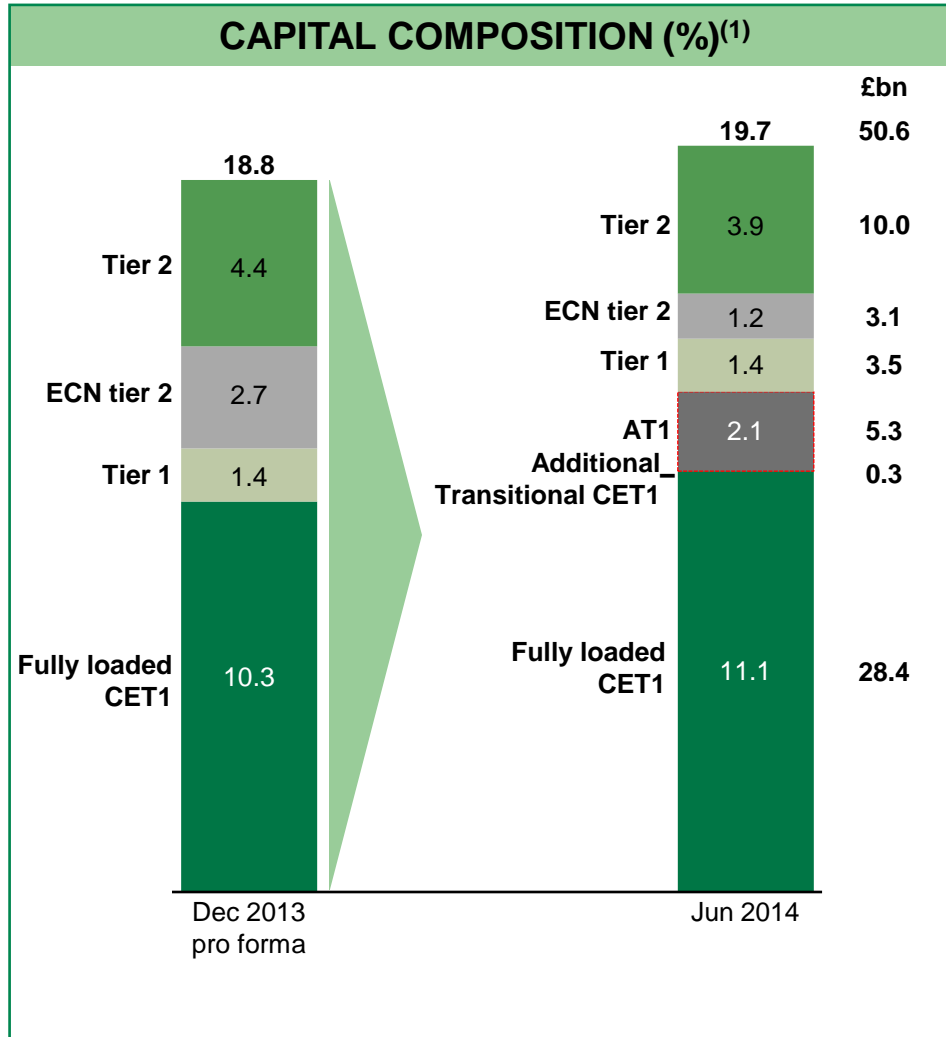
- **Leverage ratio substantially improved through profitability and AT1 issuance**

A STRONGLY CAPITAL GENERATIVE BUSINESS

⁽¹⁾ Excl profit in Insurance business. ⁽²⁾ Estimated in accordance with the revised Basel III leverage ratio framework issued in January 2014.

FURTHER STRENGTHENING THE BALANCE SHEET

Strong capital position with medium term AT1 requirement met through ECN exchange



- Strong total capital ratio of 19.7%
- Substantially improved quality of capital with c.£5.3bn of new AT1 (2.1% of RWAs)
- Improved leverage and rating agency capital measures
- Continue to review capital base to meet regulatory requirements and optimise costs
- Will apply to the PRA in the second half to restart dividend payments

⁽¹⁾ As a percentage of risk-weighted assets; includes grandfathered capital securities.



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Supporting and benefiting from the UK economic recovery



- **2011-2014 strategic plan now substantially delivered**
- **Continued successful execution of strategy**
 - Continued loan growth in key customer segments
 - 32% increase in underlying profit to £3.8bn; 58% increase excluding SJP
 - Substantial increase in returns, with RoRWA of 2.90%
- **Well positioned in evolving regulatory environment**
 - Further strengthening of capital position, with fully loaded CET1 ratio of 11.1%
 - Leverage ratio of 4.5%
- **UK government stake reduced to 24.9%**
- **Will apply to the PRA in the second half of 2014 to restart dividend payments**
- **Strategic update to be presented to the market in the Autumn**

CONFIDENT IN DELIVERY OF STRONG AND SUSTAINABLE RETURNS



FORWARD LOOKING STATEMENTS

This announcement contains forward looking statements with respect to the business, strategy and plans of the 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 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 future events and circumstances that will or may occur. 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 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 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 as a result of the referendum on Scottish independence and also including changes to regulatory capital or liquidity requirements; the policies, decisions and actions of governmental or regulatory authorities in the UK and other jurisdictions in which the Group operates; the implementation of the Bank Recovery and Resolution Directive and Banking Reform Act; 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 satisfactorily dispose of certain assets or otherwise meet the Group's EC State aid obligations; the provision of a range of banking operations services to TSB; 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 and competition 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 announcement are made as at the date of this announcement, 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. Please refer to the Basis of Presentation in the 2014 Half-Year Results which sets out the principles adopted in the preparation of the underlying basis of reporting.