

LLOYDS  
BANKING  
GROUP



# GOLDMAN SACHS FINANCIALS CONFERENCE

George Culmer, Chief Financial Officer

Andrew Bester, Chief Executive Officer, Commercial Banking

17 June 2015



**Our differentiated business model**

**George Culmer**  
Chief Financial Officer

Commercial Banking update

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

Summary

**George Culmer**  
Chief Financial Officer

# STRATEGY

Best bank for customers



## Lloyds Bank



Simple, low risk, UK focused retail and commercial bank

Market leading distribution and cost position

## Bank of Scotland



## Scottish Widows



Creating sustainable value for shareholders and customers

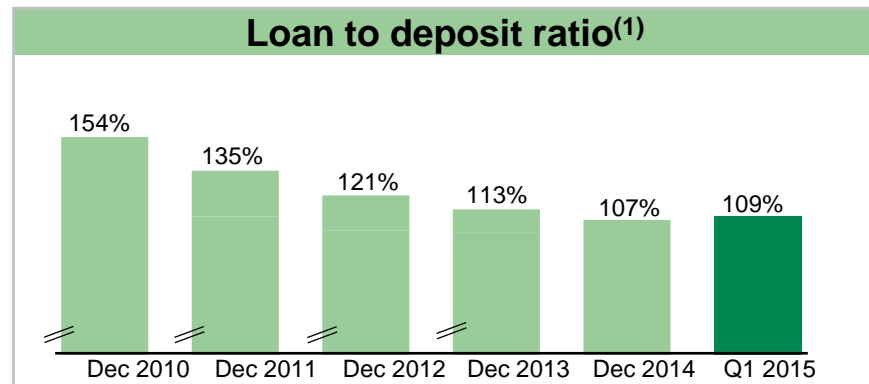
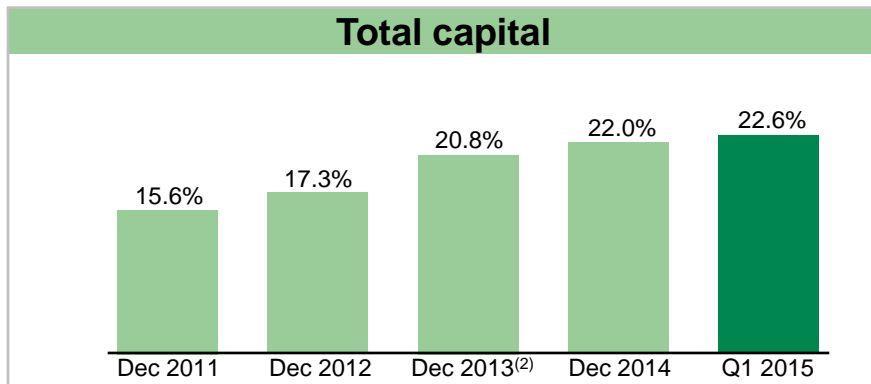
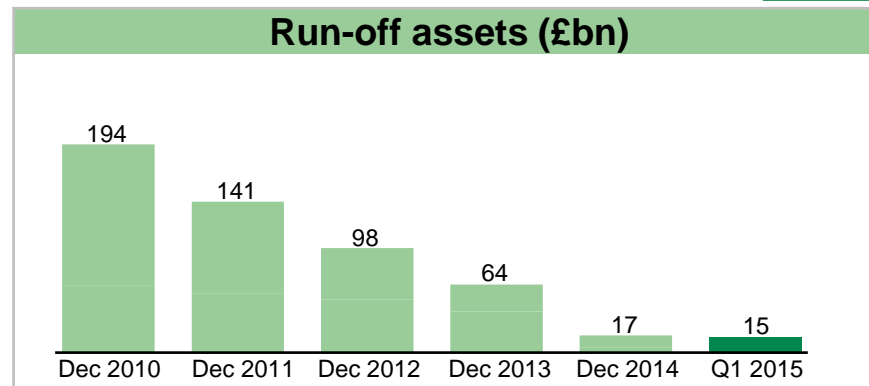
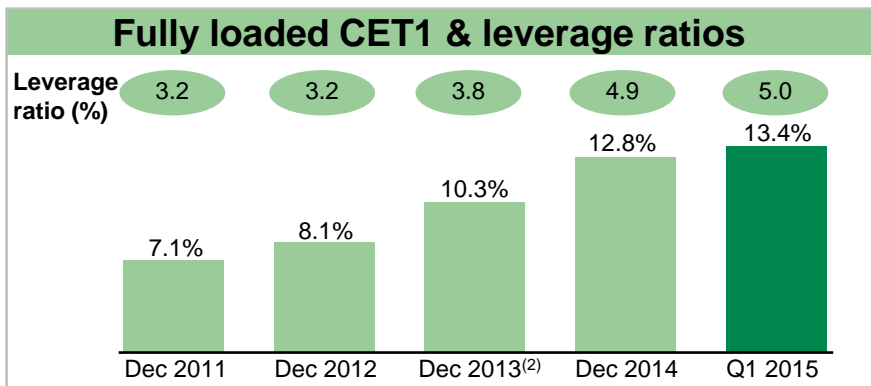
## Halifax



Helping Britain prosper through our unique competitive position

# DELIVERY OF STRATEGY HAS TRANSFORMED THE BUSINESS

We have significantly strengthened our capital and leverage ratios together with improving our loan deposit ratio



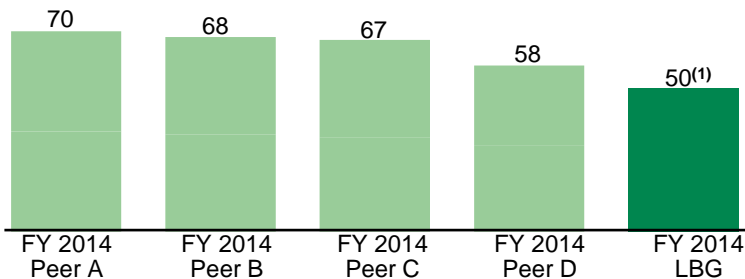
<sup>(1)</sup> Excluding repos and reverse repos. <sup>(2)</sup> Pro forma fully loaded common equity tier 1 capital ratio and leverage ratios.

# DELIVERY OF STRATEGY HAS TRANSFORMED THE BUSINESS

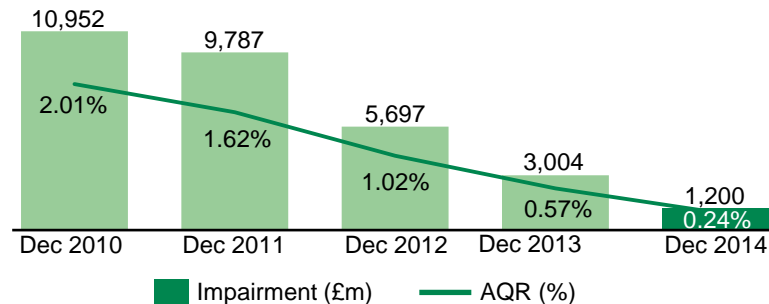
Significantly improved financial performance and better customer satisfaction with market leading cost position



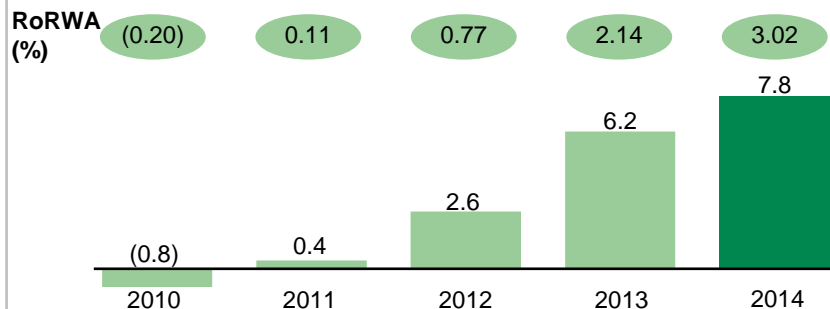
## Market leading cost:income ratio (%)



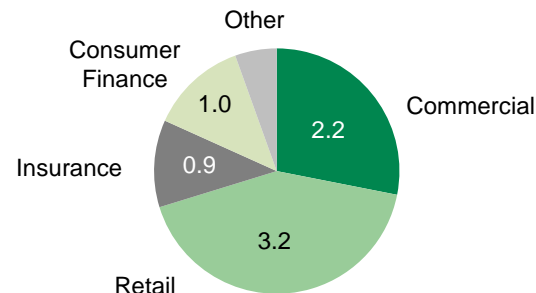
## Impairment (£m) & AQR (%)



## Underlying profit & RoRWA



## 2014 Underlying profit by division (£bn)



<sup>(1)</sup> Excluding operating lease depreciation deducted from income and costs and excluding TSB running costs.

# FINANCIAL PERFORMANCE – FIRST THREE MONTHS OF 2015

Profit and returns substantially improved and balance sheet further strengthened



<b>Income</b>	<b>£4.6bn</b> <b>+3%</b>	↑
<b>Underlying profit</b>	<b>£2.2bn</b> <b>+21%</b>	↑
<b>Statutory profit before tax</b>	<b>£1.2bn</b> <b>(11)%</b>	↓
<b>Underlying RoRE</b>	<b>16.0%</b> <b>+3.0pp</b>	↑
<b>CET1 ratio</b>	<b>13.4%</b> <b>+0.6pp</b>	↑
<b>Leverage ratio</b>	<b>5.0%</b> <b>+0.1pp</b>	↑

- **Total income increased 3% to £4.6bn**
  - Strong Net Interest Income performance, up 7%
  - Net Interest Margin increased to 2.65%
  - Other Income down 6% on Q1 2014 reflecting business disposals and lower retail fee income, but up 5% on Q4 2014
- **Underlying profit increased 21% to £2.2bn**
  - Costs flat vs. same period in 2014; cost:income ratio of 47.7%<sup>(1)</sup>
  - 59% reduction in impairment to £177m; AQR of 15bps
- **Statutory profit before tax of £1.2bn after charges of £660m from sale of TSB**
- **Underlying RoRE improvement to 16% reflecting the increase in underlying profit**
- **CET1 ratio improvement of 0.6% to 13.4% driven by underlying profit and lower RWAs, and despite net 0.2% impact of TSB sale**

<sup>(1)</sup> Adjusted for operating lease depreciation and excluding TSB.

# STRATEGIC FOCUS

Strengthening our unique capabilities to respond to the changing external environment



## Creating the best customer experience

- **Seamless multi-channel distribution across branch, online, mobile and telephony**
- **Tailor product propositions to meet customer needs more effectively**
- **Commitment to conduct and investment in service**

## Becoming simpler and more efficient

- **Re-engineer and simplify processes to deliver efficiency in a digital world**
- **Reduce third party spend**
- **Increase investment in IT efficiency and resilience**

## Delivering sustainable growth

- **Maintain market leading position in key retail business lines**
- **Leverage Group strengths to capture growth in underrepresented areas**

# FINANCIAL TARGETS

Guidance reflects confidence in the future

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- **2015 full year net interest margin now expected to exceed original guidance of around 2.55%**
- **Expect other income to be broadly stable in 2015**
- **2015 full year asset quality ratio now expected to be around 25 basis points**
- **Targeting cost:income ratio to exit 2017 at around 45%, with reductions in each year**
- **Expect to generate between 1.5 and 2% of common equity tier 1 per annum (pre dividend)**
- **Expected return on required equity of 13.5-15% by the end of the strategic plan period (2017)**





Our differentiated business model

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# COMMERCIAL BANKING

A low risk, UK-focused division offering sustainable returns and a key engine of growth for Lloyds Banking Group

LLOYDS  
BANKING  
GROUP



THE FDS'  
EXCELLENCE  
AWARDS



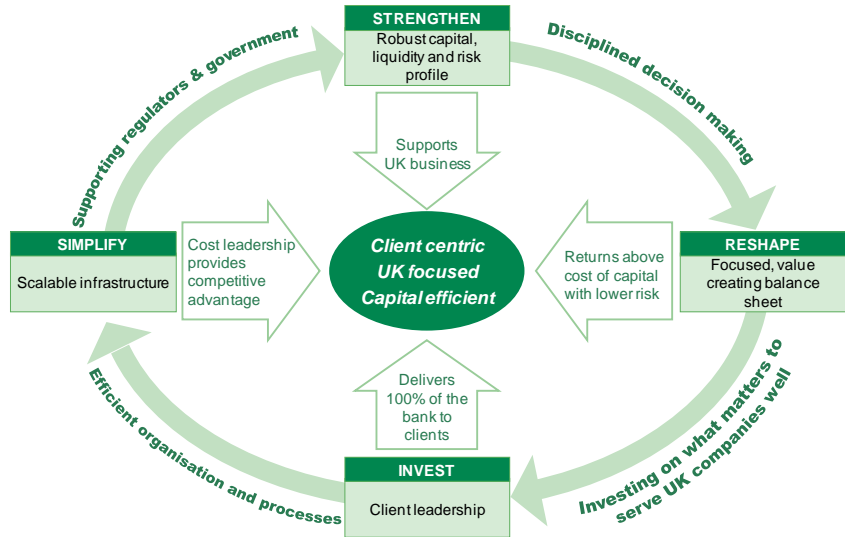
BUSINESS BANK OF  
THE YEAR 2005 - 2015



- ~110k SME clients, ~4,100 Mid Markets clients
- Global Corporates and Financial Institutions support >80% of the FTSE 100
- Relationships with >80% of FTSE 250
- >95% active users of digital channel
- 500 business centres across the UK
- Network of nearly 4,500 client facing staff



### Vision & strategy



- **Income growth**

- Normalisation of funding costs
- Strategic Investments in product capability
- Franchise growth in SME / Mid-Markets

- **Cost control**

- Simplification
- Scalable integrated platforms
- Centres of Excellence

- **Balance sheet & risk management**

- Capital optimisation
- Active portfolio management
- Lower risk origination discipline

**2015 Core RoRWA >2%**

# COMMERCIAL BANKING

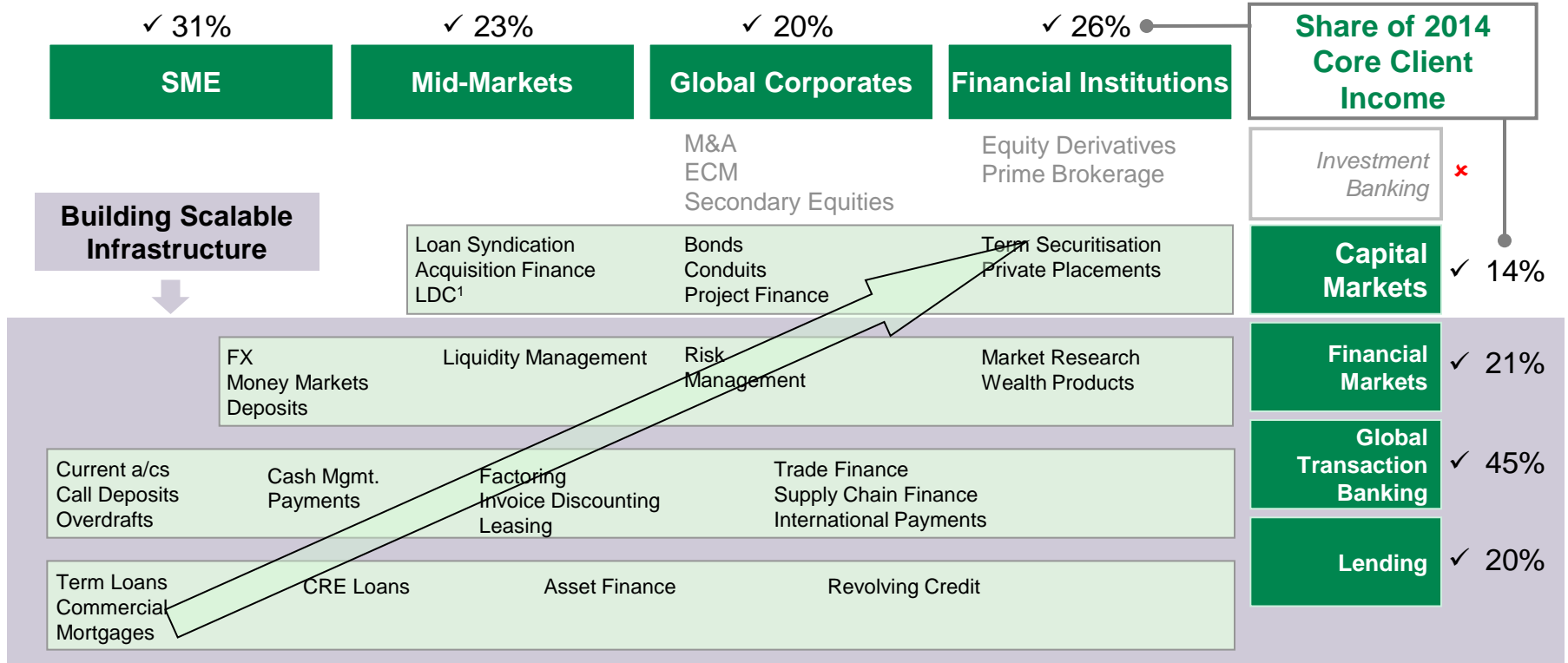
## What we did



**Relentless execution delivering client focussed scalable infrastructure**

# COMMERCIAL BANKING

Meeting client needs via a holistic, low-risk, client-centric model



(1) Focus on equity support into UK Mid-Markets companies

# COMMERCIAL BANKING

## Core financial performance



Commercial Banking			
	2014	2013	Change
<b>(£m)</b>			
Net interest income	2,480	2,113	17%
Other income	1,956	2,259	(13%)
<b>Underlying income</b>	<b>4,436</b>	<b>4,372</b>	<b>1%</b>
Total costs	(2,147)	(2,084)	3%
Impairment	(83)	(398)	(79%)
<b>Underlying profit</b>	<b>2,206</b>	<b>1,890</b>	<b>17%</b>
<b>(£bn)</b>			
L&A to customers	<b>100.9</b>	105.7	(5%)
Customer deposits	<b>119.9</b>	108.7	10%
Risk-weighted assets	<b>106.2</b>	124.0	(14%)
Net interest margin	<b>2.67%</b>	2.21%	46bps
RoRWA	<b>1.92%</b>	1.53%	39bps
Asset quality ratio	<b>0.08%</b>	0.37%	(29)bps

Core Commercial Banking only

### Income Growth

- Disciplined pricing and deposit growth
- Franchise growth SME / Mid-Markets / Financial Institutions
- Stabilised funding costs

### Cost Control

- Continued Simplification initiatives
- Reinvested cost savings into product capability

### Balance Sheet & Risk Management

- Capital optimisation
- Active portfolio management
- Lower risk origination discipline

# COMMERCIAL BANKING

Continuity in vision and strategy; fully aligned to group priorities



## Our vision



## Our strategic priorities



## Our objective



# COMMERCIAL BANKING

Deliver sustainable returns above the cost of equity



## Transformation Journey

### Income Growth

- Target growth in key segments and geographies
- Franchise growth in SME / Mid-Markets
- Better meet needs of new and existing clients

### Cost Control

- Create front line capacity through simplification and digital
- Improved on-boarding and servicing
- Continued investment in critical infrastructure

### Balance Sheet & Risk Management

- Maintain capital discipline and lending growth
- Continued low origination discipline

**2017 Core  
RoRWA  
>2.4%**





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# SUMMARY

Becoming the best bank for our customers and shareholders while supporting the UK economic recovery



- **The Group has a clear strategic focus and a differentiated business model**
- **Successful delivery of strategy has transformed the business, enabling dividend resumption**
- **Our strategic plan is expected to deliver sustainable growth and improved returns**
- **Well positioned for further progress in 2015**

## Best bank for customers

- **Delivering the best customer experience**

## Best bank for shareholders

- **Delivering strong and sustainable returns**

## Helping Britain Prosper

- **Supporting and benefiting from UK economic recovery**



## FORWARD LOOKING STATEMENTS

This document 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, the potential for one or more countries to exit the Eurozone and the impact of any sovereign credit rating downgrade or other sovereign financial issues; technological changes and risks to cyber security; pandemic, natural and other disasters, adverse weather and similar contingencies outside the Group's control; inadequate or failed internal or external processes or systems; acts of war, other acts of hostility, terrorist acts and responses to those acts, 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 caused by, but not limited to, depressed asset valuations, market disruptions and illiquid markets; 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 or competition scrutiny, legal proceedings, regulatory or 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 document 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. The principles adopted in the preparation of the underlying basis of reporting are set out on the inside front cover of the Q1 2015 Interim Management Statement