

LLOYDS  
BANKING  
GROUP



# MORGAN STANLEY FINANCIALS CONFERENCE

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24 March 2015



**OUR BUSINESS MODEL**

**THE UK ENVIRONMENT**

**DELIVERING FOR OUR STAKEHOLDERS**

**SUSTAINABLE GROWTH**

# CLEAR STRATEGIC FOCUS & DIFFERENTIATED BUSINESS MODEL

Successfully transformed the business and well positioned to continue to deliver our strategy given our track record and clear differentiated business model

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- **Low cost, low risk, UK focused retail and commercial bank**
- **Customers remain at the heart of our strategy**
- **Digital capability positions us well for the future**
- **Multi brand, multi channel model to optimise customer reach**
- **Simple, efficient processes and operations**
- **We have significantly improved the Group's financial performance and have a proven track record of delivery**

## Our strategic priorities



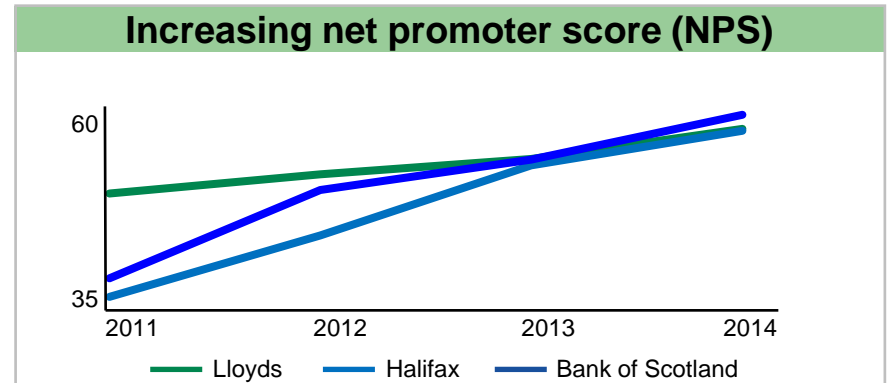
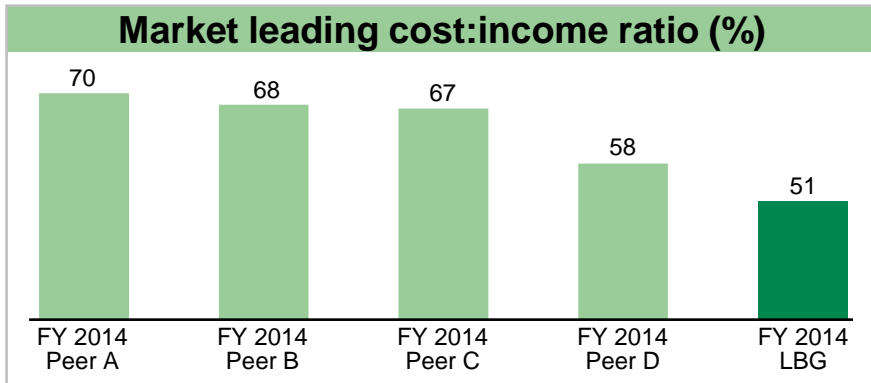
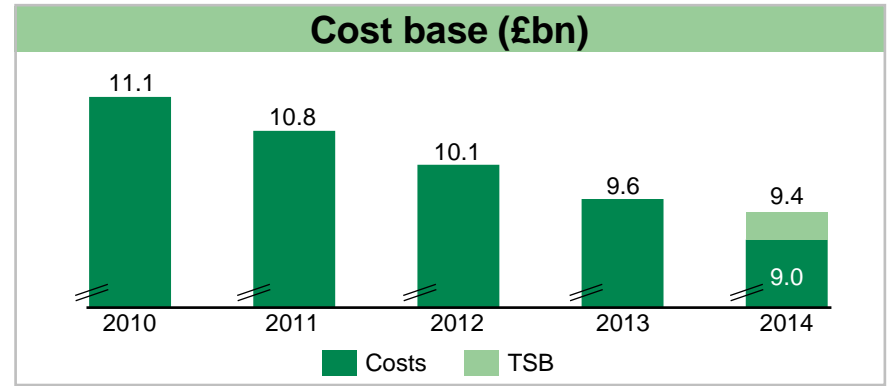
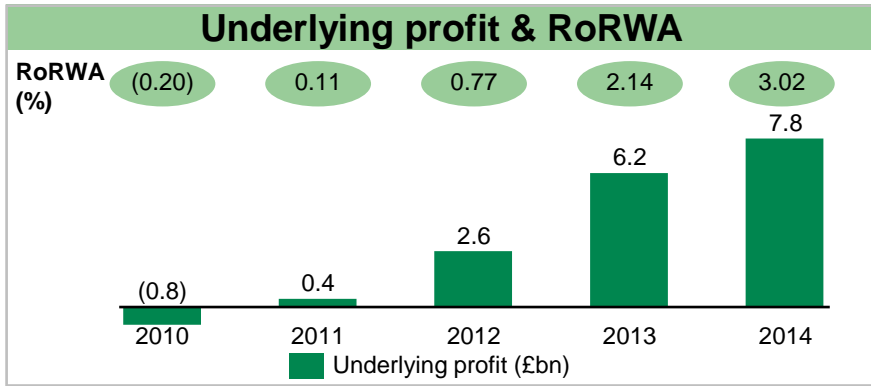
**Creating the best customer experience**

**Becoming simpler and more efficient**

**Delivering sustainable growth**

# DELIVERY OF STRATEGY HAS TRANSFORMED THE BUSINESS

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

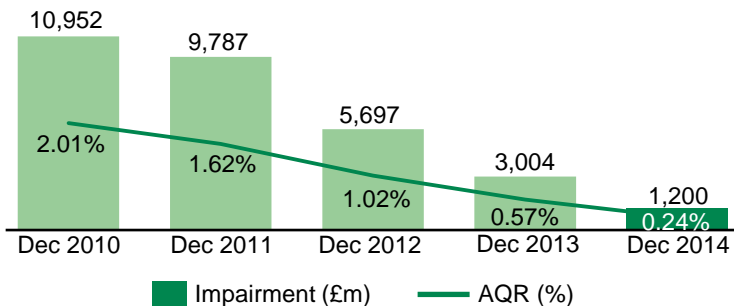


# DELIVERY OF STRATEGY HAS TRANSFORMED THE BUSINESS

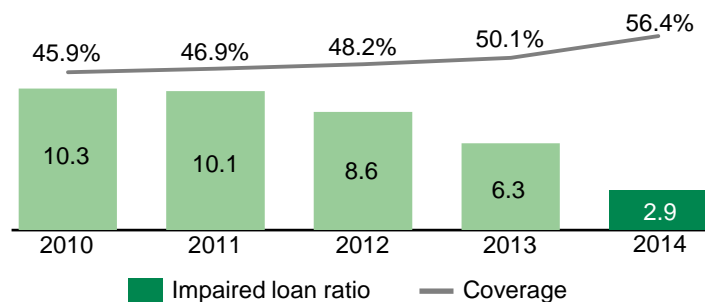
Successful execution of the strategy has enabled us to create a low risk bank



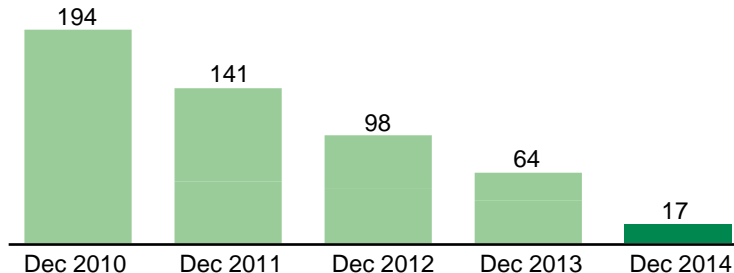
## Impairment (£m) & AQR (%)



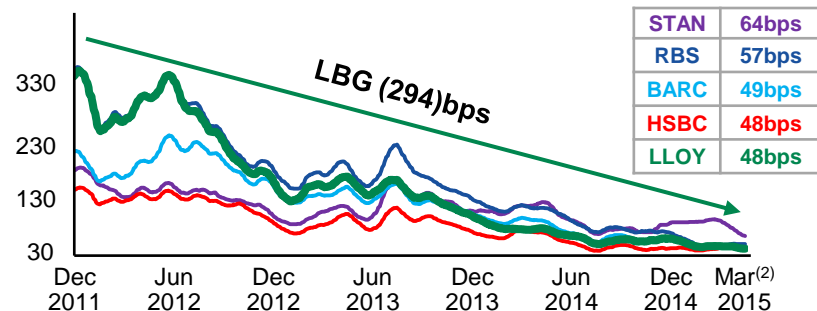
## Impaired loan ratio & coverage (%)



## Run-off assets (£bn)



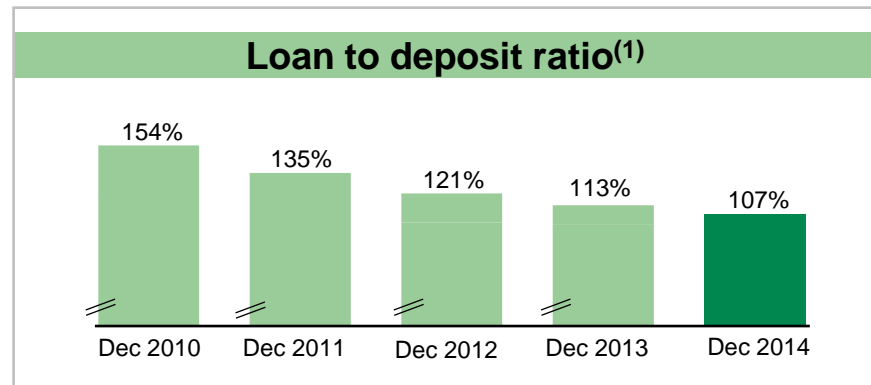
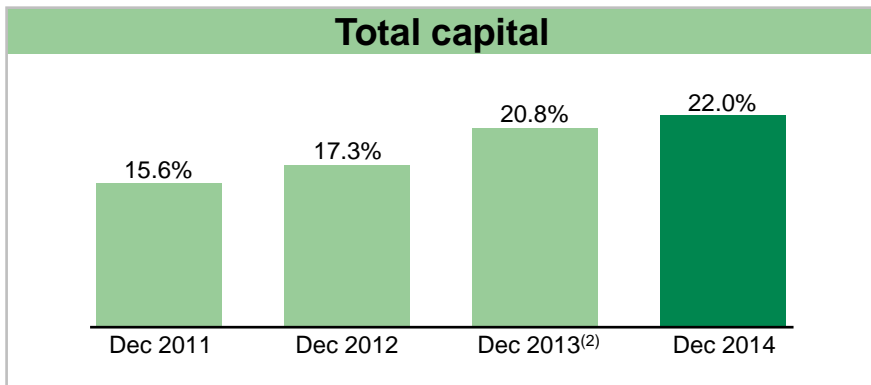
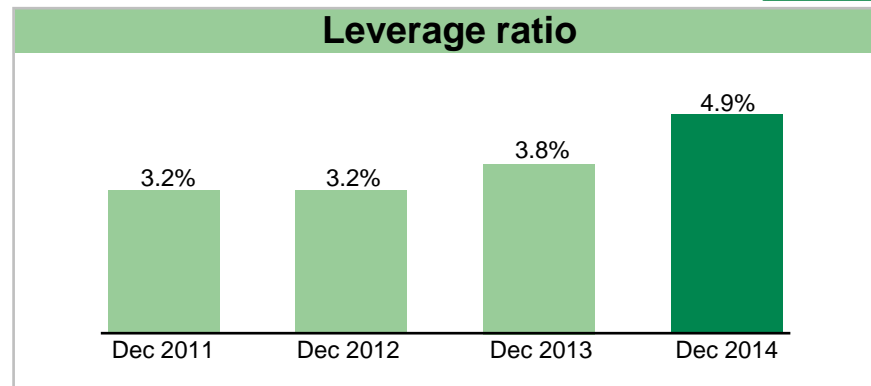
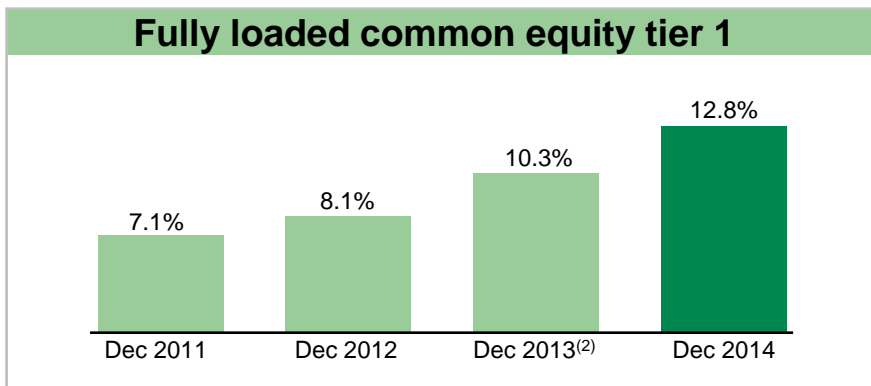
## UK bank CDS<sup>(1)</sup>



<sup>(1)</sup> Source: Bloomberg 5 year senior mid (4 week rolling average). <sup>(2)</sup> As at 19 March 2015

# 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.

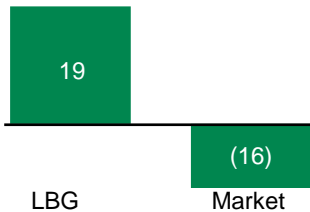
# DELIVERING FOR OUR CUSTOMERS

We are focused on becoming the best bank for customers

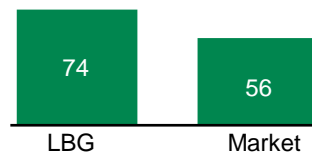


## Lending to SMEs & first time buyers (%)

Net lending growth to  
SMEs since 2010



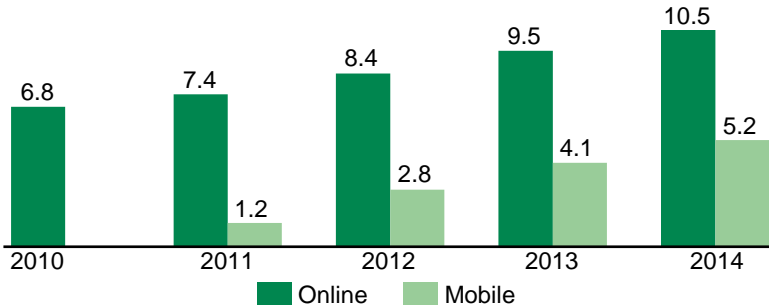
FTB customer growth  
since 2010



- **Supporting households, businesses and communities over the past 4 years in line with our Helping Britain Prosper plan**

- We have helped over 275,000 first time buyers to get onto the housing ladder
- Over 470,000 start-up businesses supported, and £5bn of net lending to SMEs

## Active digital users<sup>(1)</sup> (m)



- **We are investing in our multi-channel proposition to meet the changing needs of customers**

- 1/3 of Simplification savings reinvested into the business
- Customer benefits include convenience, efficiency and reduced processing times
- Digital prioritised to reflect customers' evolving preferences – 10.5m active online users and 5.2m mobile customers

<sup>(1)</sup> 2013 and 2014 actuals excluding TSB, 2010 – 2012 shown net of estimated TSB component.

# SUPPORTING THE UK ECONOMY AND HELPING BRITAIN PROSPER

Helping Britain Prosper is integral to our strategy



## Our seven commitments

- **Help more first time buyers get on the housing ladder and customers progress up the ladder**
- **Support our customers in planning and saving for later life**
- **Support businesses to start up and scale up**
- **Ensure individuals have access to products to make the most of their money**
- **Help businesses and individuals succeed with expert mentoring and training**
- **Be the bank that brings communities together to help them thrive**
- **Better represent the diversity of our customer base and communities at all levels of the Group**

## Deliverables

- **Helped >89,000 customers buy their first home in 2014 and provided 1 in 5 of all mortgages**
- **Supported 1.4m customers via corporate pension schemes**
- **Supported >100,000 new business start ups**
- **Provided >940,000 paid volunteer hours to support local communities over last year**
- **Created >2,000 new Group apprenticeship positions**
- **Provided £1m additional funding to support credit unions each year**
- **Around 30% of senior roles held by women**

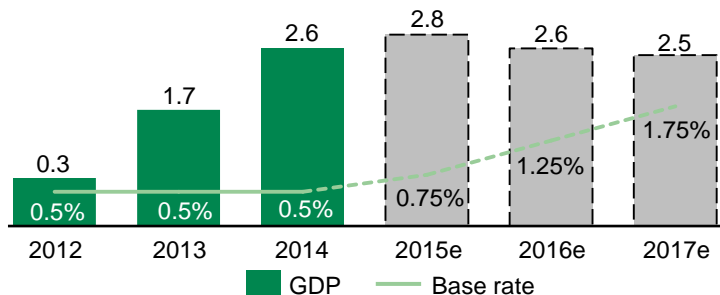


# CHANGING MARKET DYNAMICS – ECONOMIC ENVIRONMENT

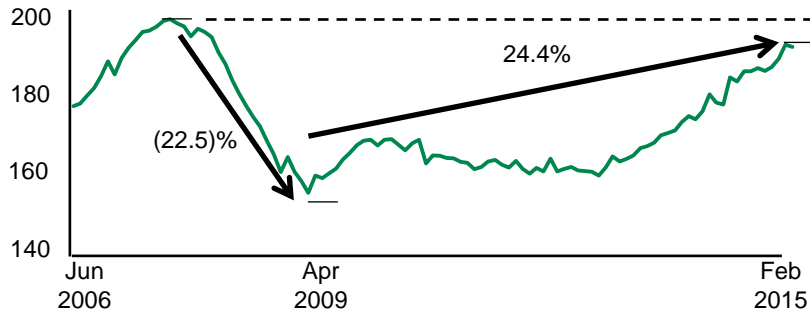
Strengthened economic environment although some uncertainty remains



## Sustainable economic growth (%)<sup>(1)</sup>



## House price index<sup>(2)</sup> (£'000)



- The pace of deleveraging has eased, supporting the UK economic recovery
- UK economy likely to reaccelerate following the Q4 slowdown with real incomes boosted by the oil price
- Increasing GDP, reducing unemployment levels boosts consumer and business confidence
- Consumers are spending more but household debt over GDP is falling
- Household debt to net wealth has improved to pre crisis levels
- UK growth amongst the strongest in the developed world

<sup>(1)</sup> Internal forecasts. <sup>(2)</sup> Halifax house price index (HPI).

# CHANGING MARKET DYNAMICS – COMPETITIVE ENVIRONMENT

Increased competition provides greater choice for customers and is healthy for the sector and economy



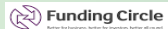
The Royal Bank of Scotland



## Traditional competitors



## New challenger banks



## Technology entrants

- Increasing focus on the UK and the retail and commercial market
- Challenger banks targeting market share growth
- Innovative new products and services, with potential for disintermediation
- Customer value increasingly important
- Competitive differentiation is key to success

# CHANGING MARKET DYNAMICS – REGULATORY ENVIRONMENT

Increasing clarity on regulatory requirements, with particular focus on customer protection, capital and competition



BANK OF ENGLAND  
PRUDENTIAL REGULATION  
AUTHORITY



## Prudential

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



## Conduct and Customer

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



## Competition

- CMA review of UK SME and PCA markets



- **Our simple UK focused model provides real advantage**
  - Majority of business to be within ring fence
  - No exposure to investment banking activities
  - No balkanisation of capital
  - G-Sifi requirements not applicable for the Group
- **Customer focused business model supports regulatory developments**

# 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**

**Strong and  
sustainable  
shareholder  
returns**

# CREATING THE BEST CUSTOMER EXPERIENCE

Digital in a multi channel context allows us to better meet customer needs and create value for the bank



## Commitment to maintain or grow share of branches with enhanced customer experience

- Customers value the convenience and reach of our multi brand branch network
- New modern branch formats with key location investment
- Branches will become champions for our multi channel strategy, focusing on complex products and helping customers with digital education
- Branch footprint to be optimised:
  - 150 net branch consolidations will focus on urban overlaps
  - Branch openings will focus on London and South East as well as Halifax in Scotland
- **Maintain Halifax branch coverage; >90% of Lloyds and BOS customers to continue to have a useable branch within five miles**

## Invest in digital to provide customers with the propositions they expect

- Deliver customer centric digital propositions
- Enhance our existing capabilities
- Transform customer journeys end to end



New mobile apps



New consumer digital platform



Upgraded self service machines

# BECOMING SIMPLER AND MORE EFFICIENT

Building on our cost leadership position we intend to further simplify the business while improving customer experience



## Investment and operational efficiencies

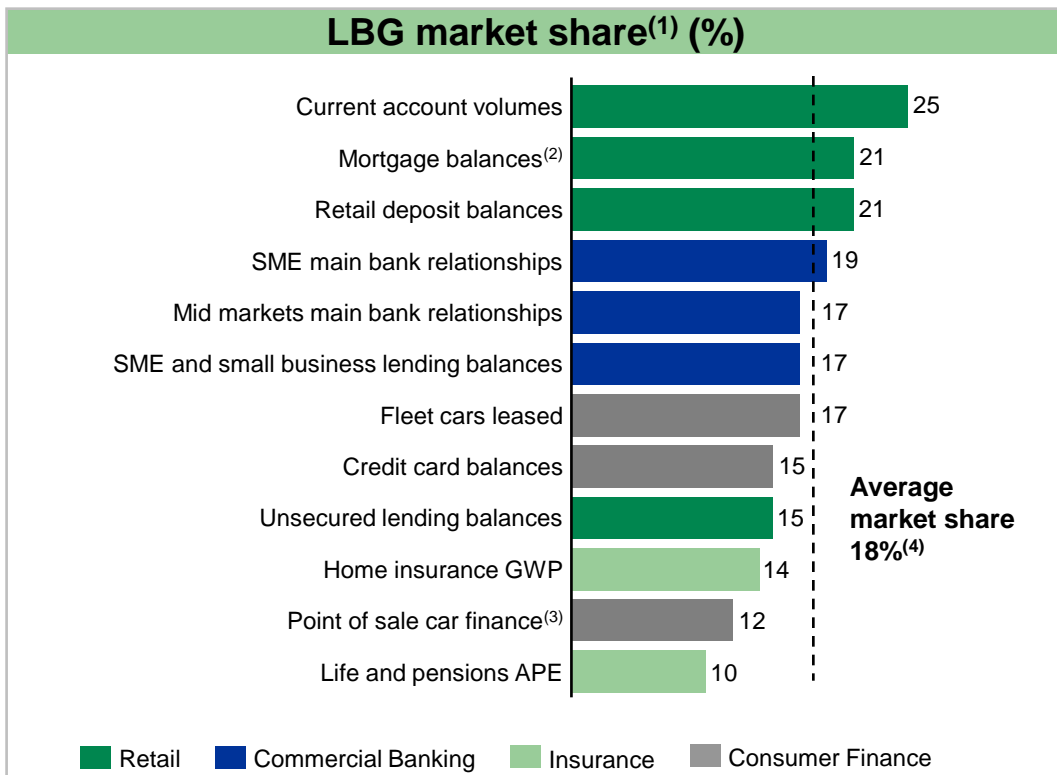
- Investment in further simplification initiatives of £1.6bn over the plan period, £1.2bn above the line
- Expected to generate an additional £1bn of annual savings
- Continued focus on costs will enable us to extend our competitive advantage
- Expect to deliver a cost:income ratio of around 45% exiting 2017, with reductions every year

## Next phase 2015-2017

		Indicative run rate savings
<b>Process redesign and automation</b>	<ul style="list-style-type: none"><li>• Digital transformation of end to end journeys</li><li>• Further process simplification and automation</li></ul>	£0.4bn
<b>Sourcing</b>	<ul style="list-style-type: none"><li>• Increased use of innovative solutions, e.g. e-Auctions</li><li>• Optimisation of supply chains</li></ul>	£0.3bn
<b>Organisation</b>	<ul style="list-style-type: none"><li>• Efficiencies in head office, distribution and support functions</li><li>• More agile ways of working</li><li>• c.9,000 role reductions</li></ul>	£0.3bn
		<b>£1bn</b>

# DELIVERING SUSTAINABLE GROWTH

Supporting UK economic growth – significant opportunities within our prudent risk appetite



- Targeting total growth of £30bn in net lending over the next 3 years
- We target to maintain market leadership in key retail business lines
  - Growing in line with the market in current accounts and mortgages
- We intend to grow above the market in areas where we are under represented
  - Increasing net lending by over £3bn in both SME and Mid Markets by 2017
  - Increasing UK customer assets in Consumer Finance by over £6bn by 2017
  - Supporting our customers in retirement planning, increasing customer assets by over £10bn

# 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 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 2014 Full Year Results News Release.