

LLOYDS  
BANKING  
GROUP



# ACQUISITION OF MBNA

Presentation to Analysts and Investors

20 December 2016

# TRANSACTION OVERVIEW

Value generating acquisition of a prime credit card portfolio supporting our strategic goal to grow in consumer finance

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## TRANSACTION

- £7bn prime credit card book with strong asset quality primarily operating under MBNA brand
- Consideration of £1.9bn: reflecting 15% premium over gross receivables
- Expected to complete by the end of H1 2017, subject to receipt of competition and regulatory approval

## RATIONALE

- Creation of best in class credit card offering with combined portfolio of £16bn
  - Addition of strong MBNA brand, propositions and analytical capability; digital led multi-channel model
- Supports stated strategic goal to grow in consumer finance
- Strong financial returns with significant shareholder value creation
  - Significant opportunity for cost synergies, leveraging LBG cost advantage and capability
  - Enhances future earnings and capital generation
- Funded through organic capital generation; CET1 impact of approximately 80bps

# ACQUISITION RATIONALE

Creating shareholder value through strengthening our Consumer Finance business



## 1 Best in class UK credit card business

- c.£16bn prime credit card portfolio<sup>(1)</sup>
- Low risk portfolio with strong asset quality
- Cost advantage further enhanced
- Enhanced customer proposition/ analytical capabilities with digital led distribution model
- Multi brand strategy

## 2 Strategic goal to grow in consumer finance

- Delivers sustainable growth through multi-brand strategy
- Profitable and growing sector
- Combined market share of 26%<sup>(2)</sup>
- Diversification of group earnings

## 3 Strong financial returns with significant shareholder value creation

- Underlying RoI exceeds cost of equity in first full year and increases to c.17% in second full year post acquisition
- Statutory EPS accretion of c.3% in first and c.5% in second full year post acquisition
- Cost synergies of c.£100m pa (c.30% of MBNA 2015 cost base)

## 4 Funded through organic capital generation

- Expected to utilise c.80bps of CET1, further enhancing future earnings and capital generation
- Continue to expect c.160bps of capital generation in 2016, pre dividend
- In line with policy, our approach to surplus capital distribution at year end will give due consideration to regulatory requirements, uncertainties and business growth, and will include the capital impact of this transaction

<sup>(1)</sup> As at 30 Jun 2016. <sup>(2)</sup> As at 31 Dec 2015.

# CREATING A 'BEST IN CLASS' UK CREDIT CARD BUSINESS

Low risk, customer-centric business with enhanced digital capabilities



## High quality customer base underpinned by sound risk management

### Demographics

- Prime customer base, with higher than average affluence
- No subprime or credit repair cards

### Asset Quality

- New business quality in line with LBG
- 2015 AQR consistent with LBG
- MBNA portfolio remains profitable over plan period, even under severe stress conditions<sup>(1)</sup>

### Conduct

- PPI exposure capped at £240m and included in purchase price

## Customer-centric business with diversified distribution model

### Multi-brand strategy

- MBNA brand maintained as challenger brand

### Customer-led proposition

- Additional propositions allowing LBG to meet more customer needs

### Additional capabilities

- Strong data analytics capabilities

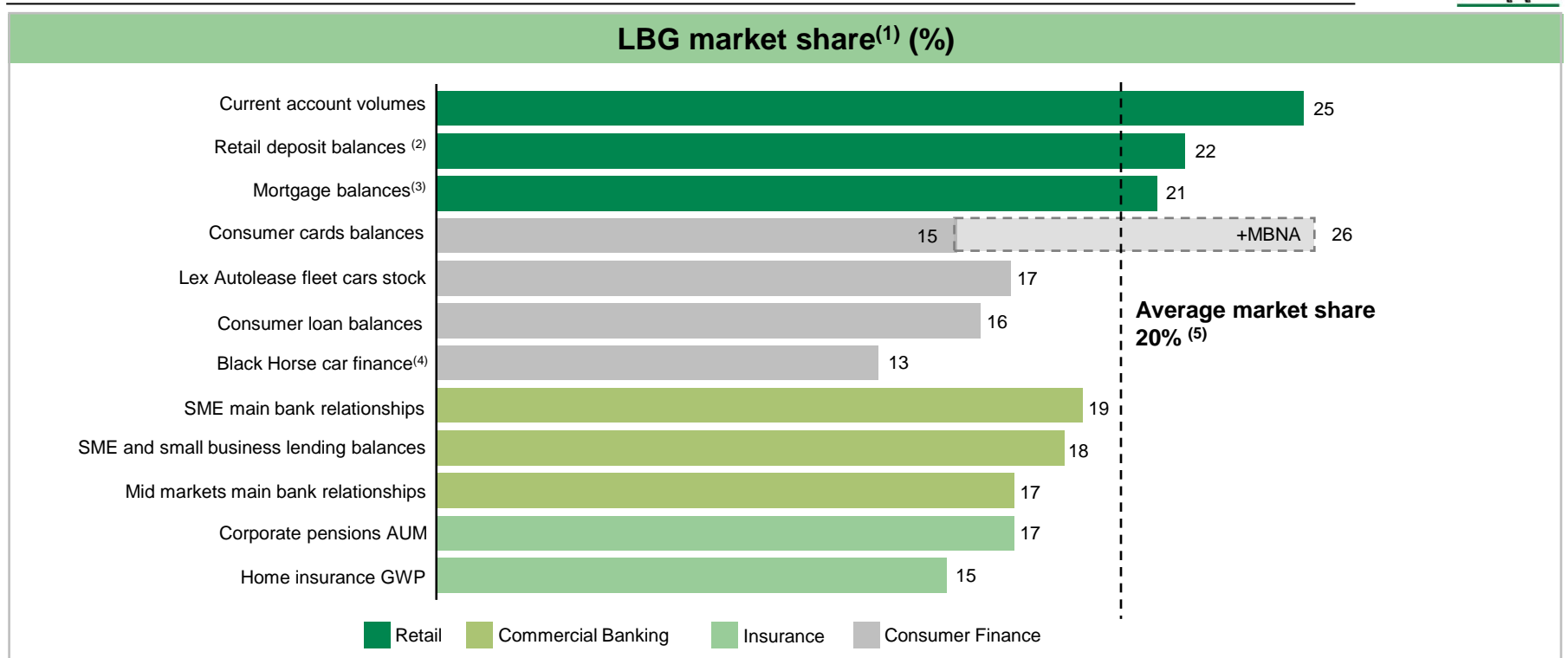
### Diversified distribution model

- Digital-led multichannel acquisition and servicing capabilities

<sup>(1)</sup> 2016 PRA stress test parameters, including unemployment of 9.5% in 2017.

# SUPPORTS STRATEGIC GOAL TO GROW IN CONSUMER FINANCE

Strengthening our customer proposition in an under-represented product area



<sup>(1)</sup> Source: CACI, BoE, FLA, Experian, BBA, ABI. All positions at FY 2015, except current account volumes at November 15 and Home Insurance. <sup>(2)</sup> Change in methodology versus previous versions to use 'individual deposits' in place of 'household deposits' and to include wealth balances. <sup>(3)</sup> Open book only. BoE restated mortgage market size in June 2015. <sup>(4)</sup> Black Horse point of sale new business flow share. <sup>(5)</sup> Average market share calculated for 'core banking products'.

# CREATING SIGNIFICANT VALUE FOR SHAREHOLDERS

Strong financial returns supported by sizeable opportunity for synergies



<b>Income</b>	<b>+£650m</b>	<ul style="list-style-type: none"> <li>✓ Overall impact on total Group revenues of c.£650m</li> <li>✓ Enhances Group net interest margin by c.10bps per annum</li> <li>✓ Potential for revenue synergies, but not currently included in financials</li> </ul>
<b>Costs savings</b>	<b>c.£100m pa (run rate)</b>	<ul style="list-style-type: none"> <li>✓ Cost synergies of c.30% of MBNA 2015 cost base                             <ul style="list-style-type: none"> <li>– achieved through consolidation of IT infrastructure, marketing, property consolidation and operational efficiencies</li> </ul> </li> </ul>
<b>Costs to achieve</b>	<b>c.£200m</b>	<ul style="list-style-type: none"> <li>✓ Migration expertise enables savings to be achieved within 2 years of completion</li> <li>✓ Cost to achieve integration of c.£200m over next 2 years (65% in 2017), taken below the line</li> </ul>
<b>EPS accretion</b>	<b>c.3% yr1 c.5% yr2</b>	<ul style="list-style-type: none"> <li>✓ c.3% Group statutory EPS accretion in the first full year post acquisition<sup>(1)</sup></li> <li>✓ c.5% Group statutory EPS accretion in the second full year post acquisition<sup>(1)</sup></li> </ul>
<b>Attractive multiples</b>	<b>c.6x P/E 2.3x BV</b>	<ul style="list-style-type: none"> <li>✓ Consideration represents c.6x MBNA 2016 estimated earnings (including anticipated run-rate synergies)<sup>(2)</sup></li> <li>✓ Equivalent to 2.3x BV as at H1 2016</li> </ul>
<b>Return on investment</b>	<b>17%</b>	<ul style="list-style-type: none"> <li>✓ Underlying Return on Investment expected to exceed cost of equity in first full year post acquisition</li> <li>✓ 17% Return on Investment in the second full year post acquisition<sup>(3)</sup></li> </ul>

<sup>(1)</sup> Group statutory profit based on analysts consensus compiled by LBG. <sup>(2)</sup> LBG estimate of MBNA 2016 net income including run-rate synergies and excluding restructuring costs.

<sup>(3)</sup> Based on underlying profit for MBNA.

# TRANSACTION FUNDED THROUGH ORGANIC CAPITAL GENERATION

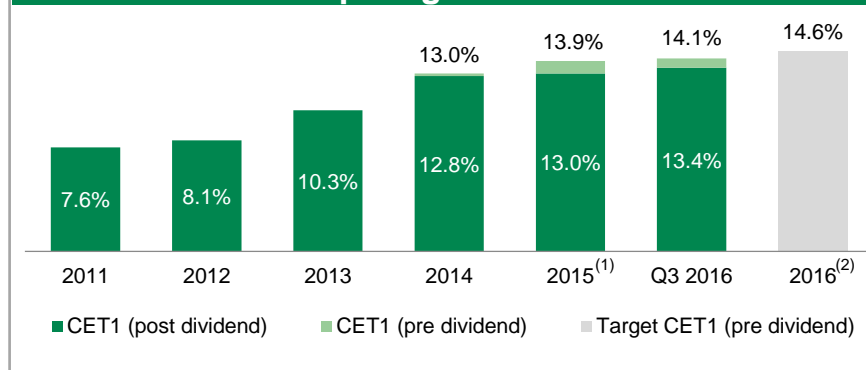
Strong balance sheet and capital generation provides strategic optionality



## Impact on capital

- Expected to utilise approximately 80bps of CET1 capital on completion in 2017, further enhancing future earnings and capital generation
- Continue to expect c.160bps of capital generation in 2016, pre dividend
- In line with policy, our approach to surplus capital distribution at year end will give due consideration to regulatory requirements, uncertainties and business growth, and will include the capital impact of this transaction

## Strong capital position and ongoing capital generation



- The Group remains confident in delivering a progressive and sustainable ordinary dividend in 2016 and continues to target a payout ratio of at least 50% of sustainable earnings over the medium term
- In line with our policy, the Group's approach to surplus capital distribution at the end of the year will give due consideration to the Board's view of the current level of capital required to meet regulatory requirements, cover uncertainties and grow the business, which will include the capital impact of this transaction.

<sup>(1)</sup> Pro-forma. <sup>(2)</sup> Pro-forma year end 2016 CET1 ratio based on stated company guidance of c160bps pre-dividend capital generation

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# APPENDIX



# OVERVIEW OF MBNA CARD BUSINESS

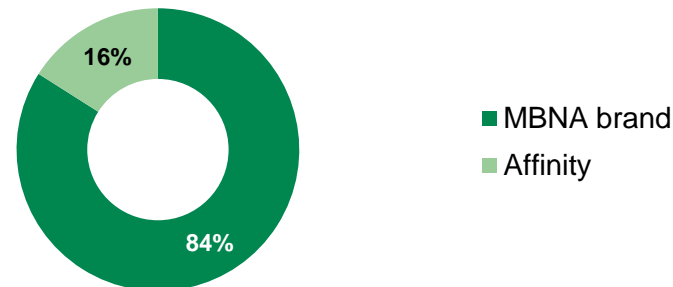
Efficient, customer focused, credit card business with high quality, low risk portfolio well aligned to Lloyds existing proposition



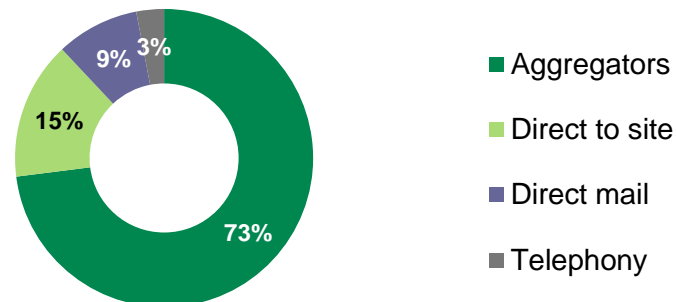
## MBNA

- UK's #1 mono-line credit card issuer by balances
- Total balances outstanding of c.£7.0bn as at Jun 2016 (£6.2bn RWAs)
- Sizeable customer base (c.2.8m active accounts)
- Customer-led product proposition with strong brand and significant analytical capability
- Low cost operating model (c.90% of account acquisition and c.70% of customer service through digital channels)
- Low risk book with strong asset quality:
  - Credit risk profile consistent with LBG
  - No sub-prime lending or credit repair cards

## Portfolio breakdown<sup>(1)</sup>



## Multi channel distribution<sup>(2)</sup>



<sup>(1)</sup> Portfolio split for 2015. <sup>(2)</sup> Source eBenchmarkers.



## 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 (including but not limited to the payment of dividends) 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 interest rates (including low or negative rates), 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 exit by the UK from the European Union (EU) and the potential for one or more other countries to exit the EU or the Eurozone 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; 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 the exit by the UK from the EU, a further possible referendum on Scottish independence; 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 or courts in the UK, the EU, the US or elsewhere including the implementation and interpretation of key legislation and regulation; the ability to attract and retain senior management and other employees; requirements or limitations 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 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, lending companies and digital innovators and disruptive technologies; and exposure to regulatory or competition scrutiny, legal, regulatory or competition proceedings, 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. The information, statements and opinions contained in this document do not constitute a public offer under any applicable law or an offer to sell any securities or financial instruments or any advice or recommendation with respect to such securities or financial instruments.