

LLOYDS  
BANKING  
GROUP



# GOLDMAN SACHS FINANCIALS CONFERENCE

George Culmer, Chief Financial Officer

Andrew Bester, Chief Executive Officer, Commercial Banking

9 June 2016



**Our differentiated business model**

**George Culmer**  
Chief Financial Officer

**Commercial Banking update**

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

# A UK FOCUSED, MULTI BRANDED, RETAIL AND COMMERCIAL BANK, WITH MARKET LEADING DISTRIBUTION



## Lloyds Bank



## Bank of Scotland



**Simple, UK focused retail and commercial bank**

**Multi-brand and multi-channel distribution**

## Halifax



## Scottish Widows



**Low risk and low cost business model provides competitive advantage**

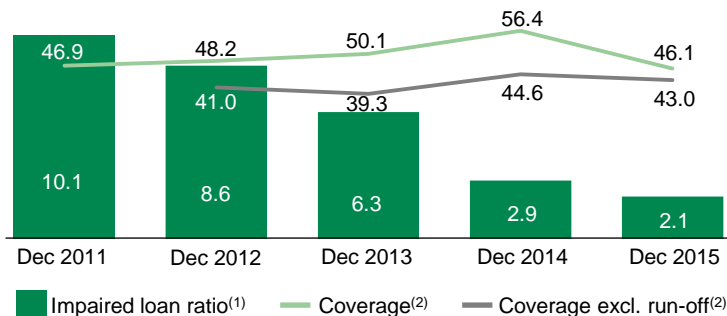
**Creating sustainable value for shareholders and customers**

**Helping Britain prosper through our unique competitive position**

# LOW RISK BUSINESS MODEL PROVIDES SECURITY AND POSITIONS US WELL



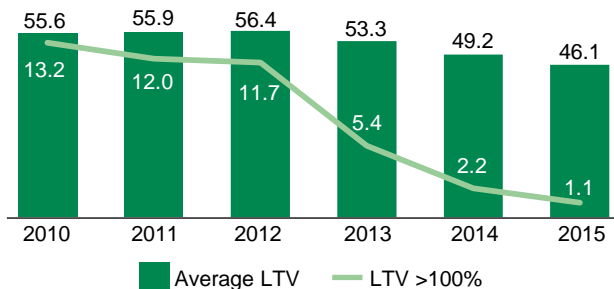
## Impaired loan ratio & coverage (%)



- Impaired loan ratio improved significantly; coverage remains high at 46%

- Group asset quality ratio of 14bps: expected to be c.20bps in 2016, driven by lower releases and recoveries

## LBG mortgage portfolio trends (%)



- Mortgage credit quality continues to improve (c.1% of portfolio >100% LTV)

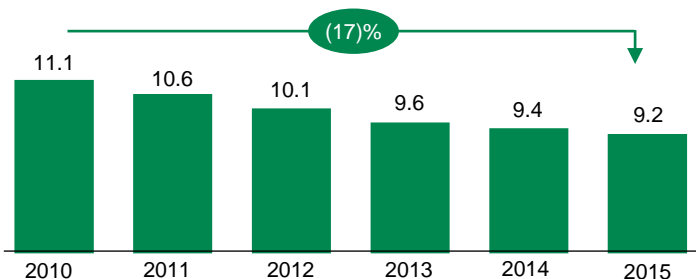
- PRA stress test results highlight resilience to severe stress

<sup>(1)</sup> Impaired loans as a percentage of closing loans and advances. <sup>(2)</sup> Impairment provisions as a percentage of impaired loans.

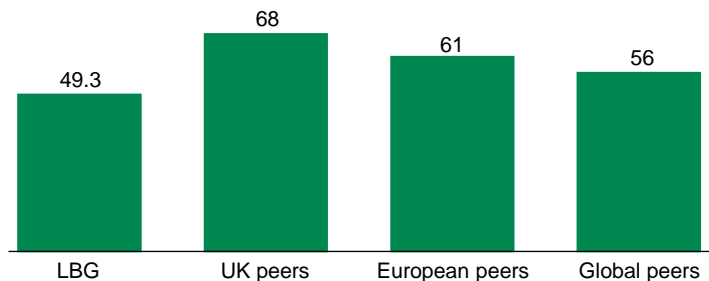
# MARKET LEADING COST POSITION PROVIDING COMPETITIVE ADVANTAGE



## Cost base<sup>(1)</sup> (£bn)



## Cost:income ratio – 2015 peer comparison<sup>(2)</sup> (%)



- **Cost base reduced by c.£2bn over last 5 years, whilst significantly increasing NPS scores (up 50%)**
- **Simplification programme ahead of target in delivering £1bn run-rate savings by end of 2017**
- **Investment spend has doubled in last 5 years with >£1bn digital investment**
- **Market leading cost:income ratio of 49.3%, providing competitive advantage**
- **Targeting a c.45% cost:income ratio exiting 2019 based on the Group's current interest rate assumptions, with reductions every year**

# OUR DIFFERENTIATED BUSINESS MODEL ENABLES US TO REACT EFFECTIVELY TO THE EVOLVING OPERATING ENVIRONMENT



	Market trends	LBG business model
Customer	<ul style="list-style-type: none"><li>• Expect full service proposition</li><li>• Increased digital adoption</li></ul>	<ul style="list-style-type: none"><li>• Leading multi-channel approach</li><li>• UK's largest digital bank</li></ul>
Economy	<ul style="list-style-type: none"><li>• Lower for longer interest rates</li><li>• Current market volatility</li></ul>	<ul style="list-style-type: none"><li>• Simple, UK focused, multi-brand model</li><li>• Cost leadership</li><li>• Low risk bank</li></ul>
Competition	<ul style="list-style-type: none"><li>• Highly and increasingly competitive UK market</li></ul>	<ul style="list-style-type: none"><li>• Multi-brand approach</li><li>• Targeted growth</li><li>• Low cost operating model</li></ul>
Regulation	<ul style="list-style-type: none"><li>• Increased regulatory requirements</li><li>• Capital framework</li><li>• Ring-fencing</li></ul>	<ul style="list-style-type: none"><li>• Financial strength (CET1 / leverage ratio)</li><li>• Simple model, largely within ring-fence</li></ul>

# WE ARE MAKING GOOD PROGRESS AGAINST OUR STRATEGIC PRIORITIES



## Creating the best customer experience

- **Integrated multi-channel strategy**
- **Leading digital proposition with 12m active online users, including over 7m mobile users**
- **Customer processes enhanced**
- **Net Promoter Score up >50% in last 5 years**
- **Customer complaints remain significantly lower than peer average<sup>(1)</sup>**

## Becoming simpler and more efficient

- **Cost leadership with continued reductions in cost:income ratio**
- **Actively responding to lower rates: accelerated cost delivery and targeting further savings**
- **Ahead of target in delivery of £1bn Simplification savings; £0.5bn achieved to date<sup>(2)</sup>**
- **Increased automation of end-to-end customer journeys**
- **Investment spend in last 5 years doubled with >£1bn digital investment**

## Delivering sustainable growth

- **Growth in targeted areas**
  - SME lending growth of 5% outperforming the market
  - Consumer Finance customer asset growth of £3.2bn
  - Execution of first external bulk annuity transaction
- **Maintain market leadership in key Retail business lines**
  - Largest lender to first-time buyers
- **Low risk profile maintained**

<sup>(1)</sup> FCA reportable complaints per 1,000 accounts, excluding PPI, comparison at H1 2015. <sup>(2)</sup> Annualised run-rate savings as at Q1 2016.

# FINANCIAL PERFORMANCE – FIRST THREE MONTHS OF 2016

Robust financial performance in a challenging operating environment



<b>Income</b>	<b>£4.4bn</b> <b>(1)%</b>
<b>Operating costs</b>	<b>£(2.0)bn</b> <b>2%</b>
<b>Underlying profit</b>	<b>£2.1bn</b> <b>–</b>
<b>Underlying capital generation</b>	<b>c.60bps</b>
<b>CET1 ratio (pre dividend accrual)</b>	<b>13.0%</b>
<b>Total capital ratio</b>	<b>21.4%</b>

- **Underlying profit stable at £2.1bn with an underlying return on required equity of 13.8%**
  - Income decreased 1%; 3% improvement in NII reflecting a margin of 2.74%, offset by a decline in other income
  - Operating costs down 2%; actively responding to market conditions through accelerated delivery of cost initiatives
  - Positive operating jaws of 1% achieved, with the cost:income ratio improving to 47.4%
  - Credit quality remains strong; 6% reduction in impairment charge, with an asset quality ratio of 14bps
- **CET1 ratio maintained at 13.0% pre-dividend. Strong underlying capital generation of c.60bps was largely offset by ECN redemption charge**
- **A strong total capital ratio of 21.4% positions the Group well for future regulatory requirements**

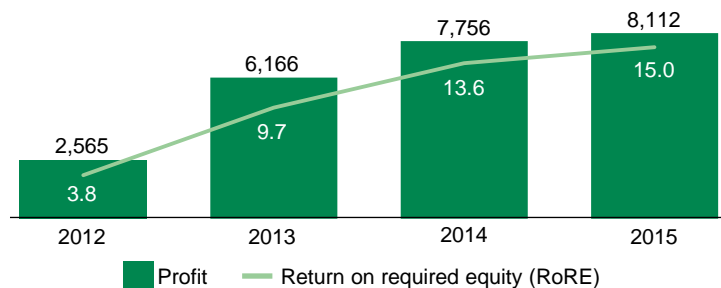


# DELIVERING SUPERIOR AND SUSTAINABLE RETURNS

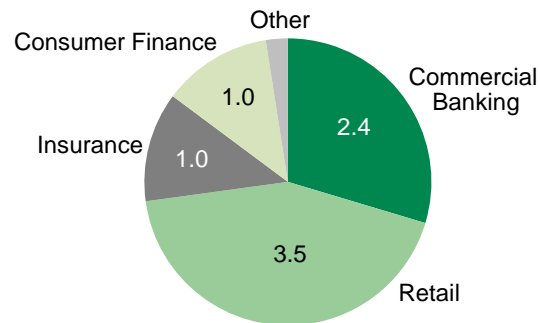
Underlying profit and returns significantly improved with strong capital generation



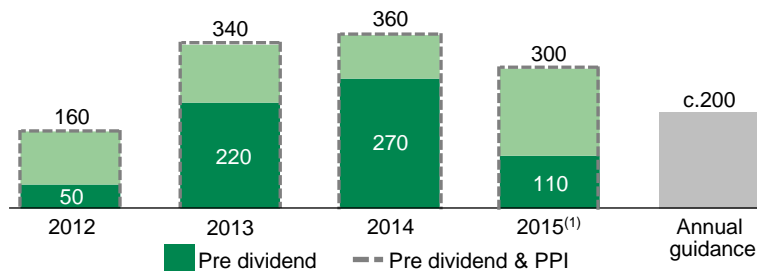
## Underlying profit (£m) and RoRE (%)



## 2015 underlying profit by division (£bn)



## Capital generation (bps)



- **Cost discipline and low risk business model providing competitive advantage**
- **Simple, UK focused, multi-brand model and actively responding to lower for longer interest rates**
- **Capital generation strong: expect to generate around 200bps CET1 per annum pre-dividend**
- **Well positioned to deliver sustainable growth and superior returns**

# SUMMARY – BECOMING THE BEST BANK FOR OUR CUSTOMERS AND SHAREHOLDERS WHILE SUPPORTING THE UK ECONOMY



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

## **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**



**Our differentiated business model**

**George Culmer**  
Chief Financial Officer

**Commercial Banking update**

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

# COMMERCIAL BANKING

Building strongly on a proud heritage

LLOYDS  
BANKING  
GROUP



## LLOYDS BANK



- ✓ Relationships with over **80% of the FTSE 100**
- ✓ Our Global Corporate clients account for **>55% of UK employment**
- ✓ **103k start-ups** supported in 2015
- ✓ **£11.3bn of financing** for UK infrastructure projects



## ✧ BANK OF SCOTLAND

- ✓ Network of **4,500 client-facing staff**
- ✓ **500 business centres** in the UK
- ✓ **103k SME** clients, **4,300 MM** clients, **1,400 GC** clients, **1,200 FI** clients

rb  
THE FDS'  
EXCELLENCE  
AWARDS  
2005-2016

**BUSINESS  
BANK OF  
THE YEAR**

**Risk  
Awards**  
2016  
Winner

Lloyds Bank  
Commercial  
Banking  
Credit portfolio  
manager of the year



# COMMERCIAL BANKING

Continuity in vision and strategy; fully aligned to Group priorities



## Our vision



## Our strategic priorities

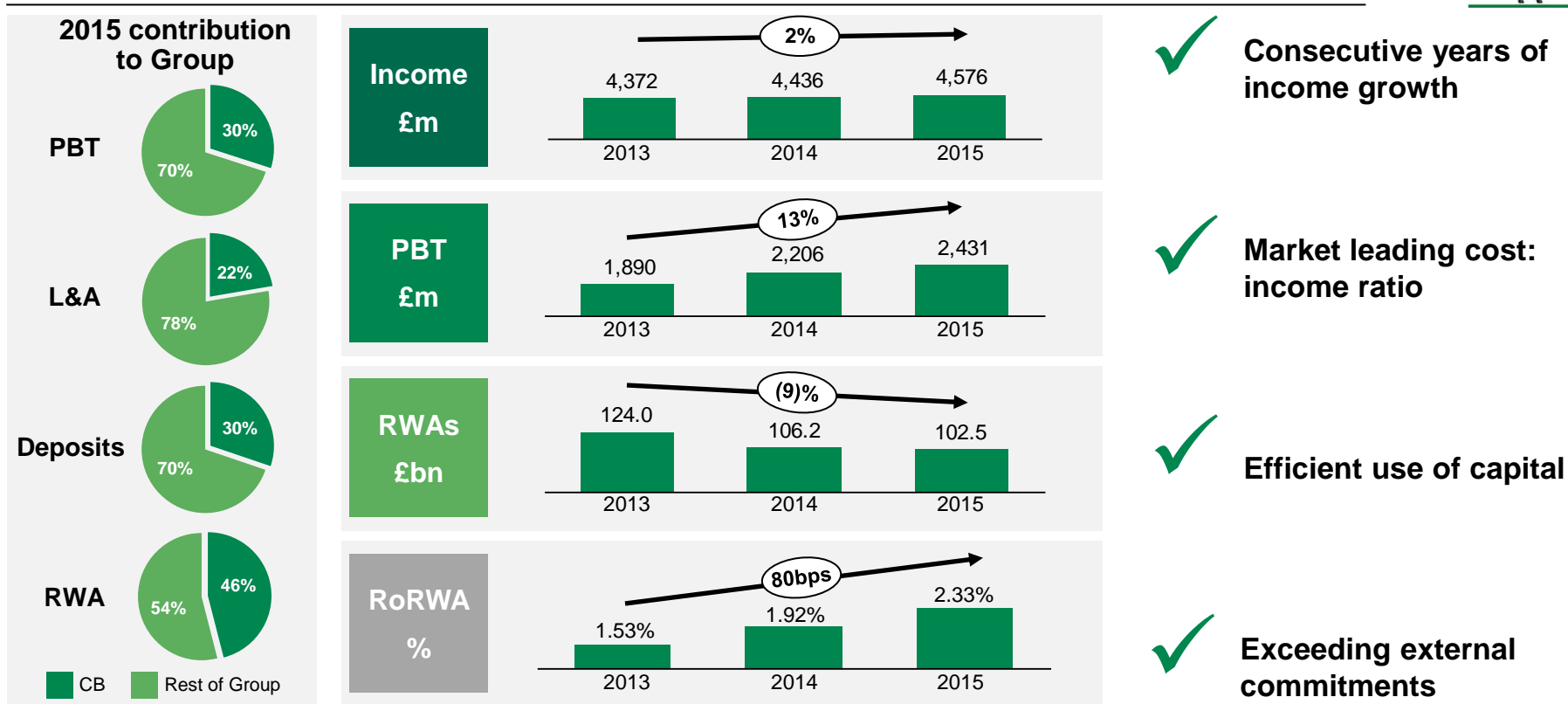


## Our objective



# COMMERCIAL BANKING

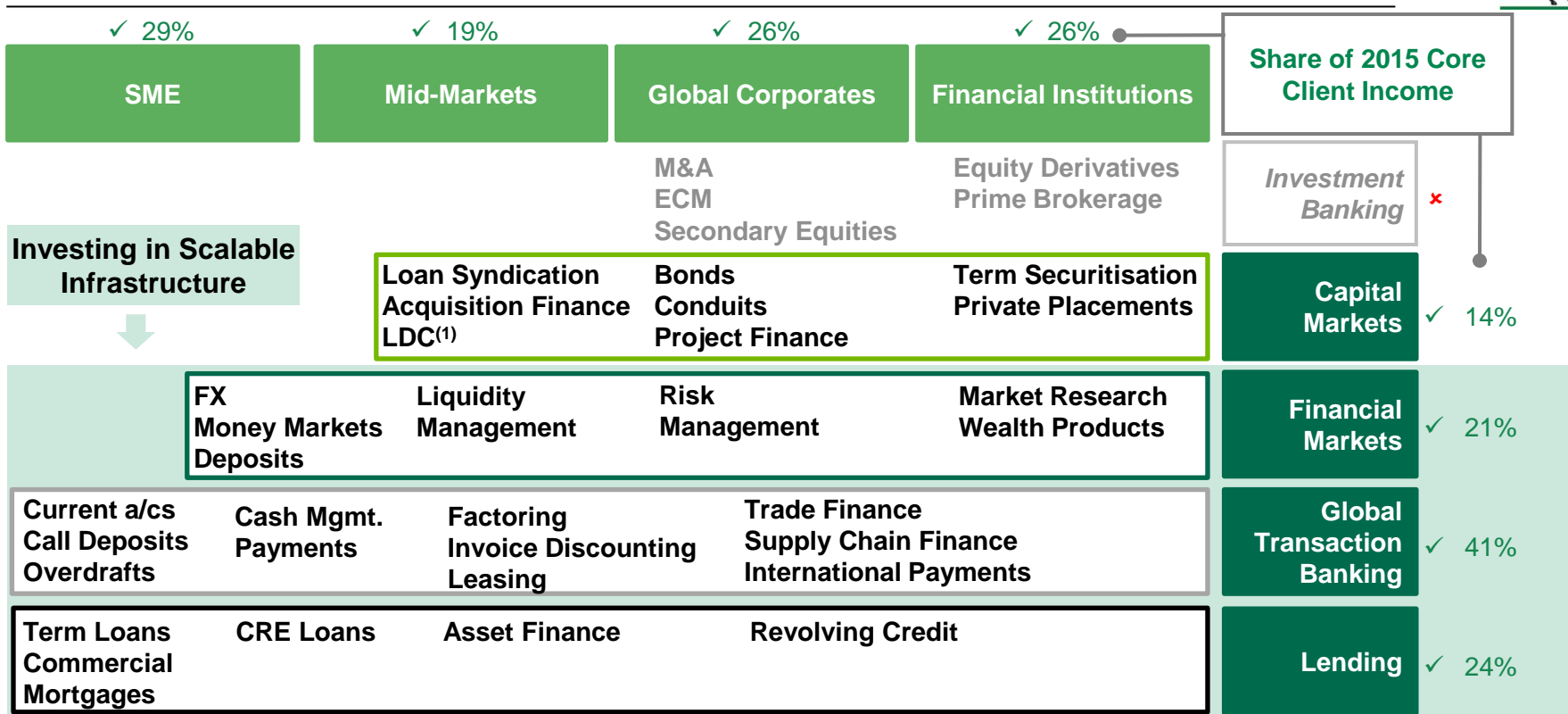
A critical component and driver of growth for the Group



2013 – 2015 % growth represents CAGR

# COMMERCIAL BANKING

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



<sup>(1)</sup> Focus on equity support into UK Mid-Markets companies.

# COMMERCIAL BANKING

We have made good progress against our strategic priorities



## Enhance front line capacity via simplification & digital investments

- ✓ Transforming and simplifying client onboarding
- ✓ Improving processes, reducing bureaucracy
- ✓ Client insight and analytics
- ✓ Saving front-line time

## Deliver growth in key segments & geographies

- ✓ Growing and optimising deposits
- ✓ SME & MM lending outperforming the market
- ✓ Collaborate with strong group brands
- ✓ International – new European model and Asian office opened

## Invest in critical scalable infrastructure

- ✓ Commercial Banking Online – new digital platform piloted
- ✓ Continued investment in transaction banking capability
- ✓ Evolving Financial Markets platform

## Maintain capital discipline & increase balance sheet velocity

- ✓ Continue to drive capital efficiency and optimise for liquidity and leverage
- ✓ RWAs reduced
- ✓ Credit Portfolio Manager of the Year – Risk Awards 2016



# COMMERCIAL BANKING

Digital strategy – putting clients and colleagues at the centre of everything we do



**Better engagement & connectivity**

- ✓ **Single point of access to all banking needs**
- ✓ **Day-to-day needs serviced digitally**



**Instant & transparent delivery**

- ✓ **Simple, quick onboarding**
- ✓ **Instant support whenever needed**



**Better decision making**

- ✓ **The bank 'knows my business' – proactive alerts**
- ✓ **Relationship teams with effective digital tools**



**Innovation in products & services**

- ✓ **Complete range of products**
- ✓ **Simple and easy to use**

# COMMERCIAL BANKING

We aim to deliver sustainable returns above the cost of equity



## Transformed, delivering improving returns

### Income Growth

- ✓ Core client franchise income growth despite market volatility and uncertainty
- ✓ Strategic investments in product & digital capability
- ✓ Collaborate with Group partners to deepen Client relationships

### Cost Control

- ✓ Strict cost discipline and simplification
- ✓ Scalable integrated platforms & digital investment
- ✓ Industry-leading cost: income ratio

### Balance Sheet and Risk Management

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

2017 Core  
RoRWA  
>2.4%



## 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 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 or European Union (EU) (including the UK as a result of a referendum on its EU membership) 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 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 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 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 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, 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 and subsequent discussion 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.

## BASIS OF PRESENTATION

The results of the Group and its business are presented in this presentation on an underlying basis. The principles adopted in the preparation of the underlying basis of reporting are set out on page 11 of the Q1 2016 Interim Management Statement.