

LLOYDS  
BANKING  
GROUP



# BANK OF AMERICA MERRILL LYNCH CEO CONFERENCE

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# CLEAR STRATEGIC FOCUS

Differentiated business model continues to deliver competitive advantage



## 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**

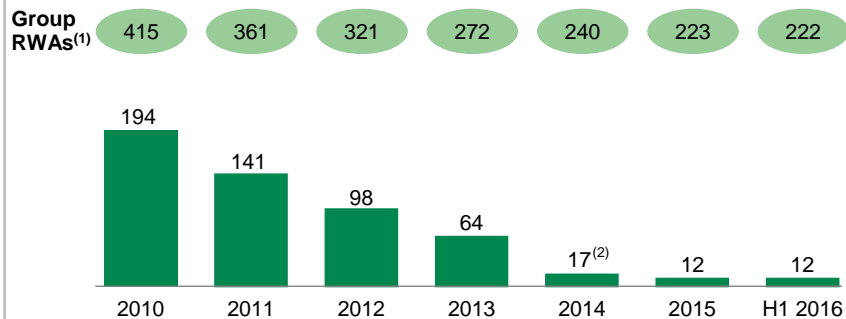
**Helping Britain prosper through our unique competitive position**

# TRANSFORMATION OF THE BUSINESS POSITIONS US WELL

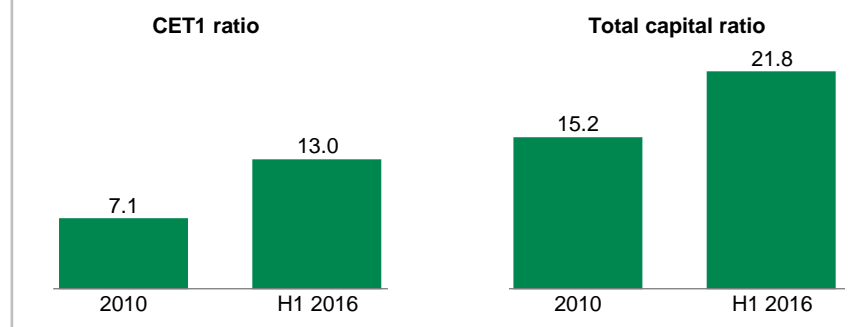
Balance sheet strengthened and business de-risked through successful execution of strategy



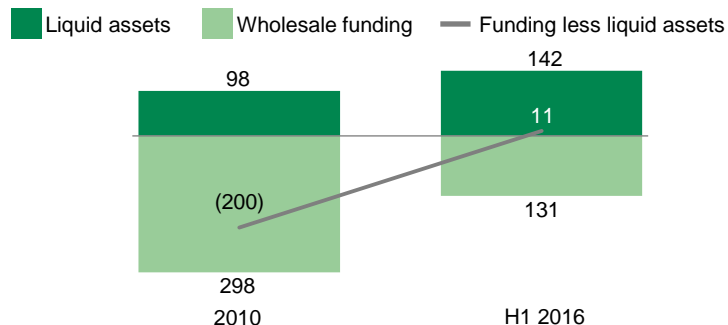
## Run-off assets & RWAs (£bn)



## Capital progress (%)



## Wholesale funding & liquid assets<sup>(3)</sup> (£bn)

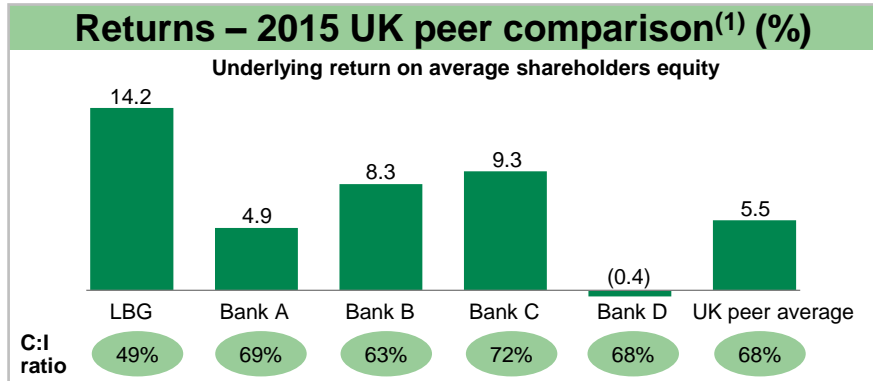
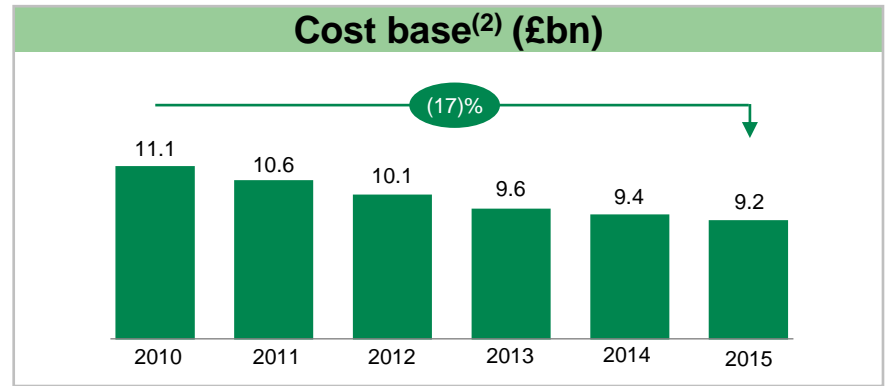
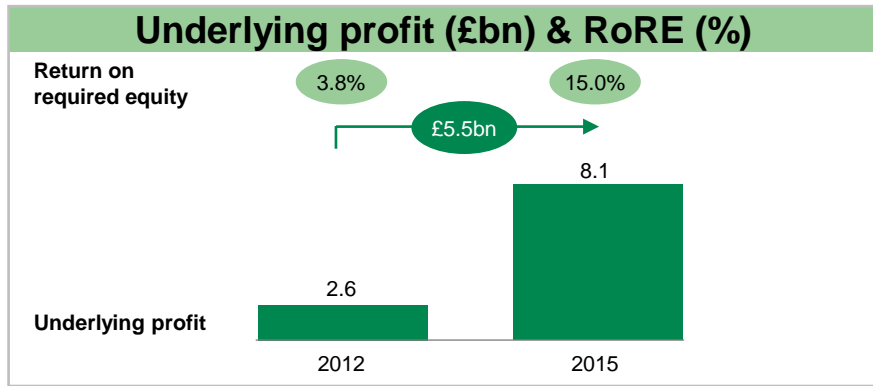


- Run-off assets have reduced by c.£180bn since 2010, with Group RWAs nearly halved
- Significantly improved capital position; now one of the best capitalised banks globally
- Wholesale funding significantly reduced to c.£130bn. Liquid assets of c.£140bn now exceed wholesale funding

<sup>(1)</sup> RWAs for 2010 – 2013 reflect CRD IV rules as implemented by PRA at 1 Jan 2014, on a fully loaded basis. <sup>(2)</sup> After reclassification of £28bn into core business. <sup>(3)</sup> 2010 ILAS eligible liquid assets; 2016 LCR eligible.

# TRANSFORMATION OF THE BUSINESS POSITIONS US WELL

Delivering superior and sustainable returns, with improved earnings and a significantly reduced cost base



- Underlying profit and returns increased significantly
- Simple operating model creates more stable / less volatile earnings
- Cost base reduced by c.£2bn over last 5 years, with a market leading cost position

<sup>(1)</sup> Source: Reported company results, adjusted to include bank levy where applicable. <sup>(2)</sup> Includes TSB running costs.

# FINANCIAL PERFORMANCE IN THE FIRST HALF

Good financial performance in the first half with robust underlying profit, improved statutory profit and strong returns



<b>Income</b>	<b>£8.9bn</b>
<b>Cost:income ratio</b>	<b>47.8%</b>
<b>Underlying profit</b>	<b>£4.2bn</b>
<b>Underlying return on required equity</b>	<b>14.0%</b>
<b>Statutory profit before tax</b>	<b>£2.5bn</b>
<b>CET1 ratio</b>	<b>13.0%</b>
<b>Ordinary dividend per share</b>	<b>0.85p</b>

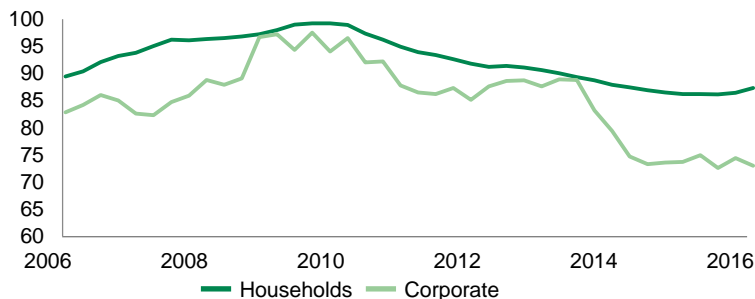
- **Underlying profit of £4.2bn**
  - Income 1% lower with increased NII driven by improved NIM of 2.74%, offset by 5% decrease in other income
  - Operating costs 3% lower with cost:income ratio further improved after acceleration of cost initiatives. Positive operating jaws achieved.
  - Asset quality remains strong with AQR of 11bps
- **Statutory profit before tax more than doubled to £2.5bn, with statutory return on required equity of 8.3%**
- **CET1 ratio of 13.0% post dividend accrual of 50bps, with capital generation of 50bps in the second quarter**

# UK ECONOMY

Well positioned for a period of uncertainty given sustainable economic recovery in recent years. Business volumes have remained resilient



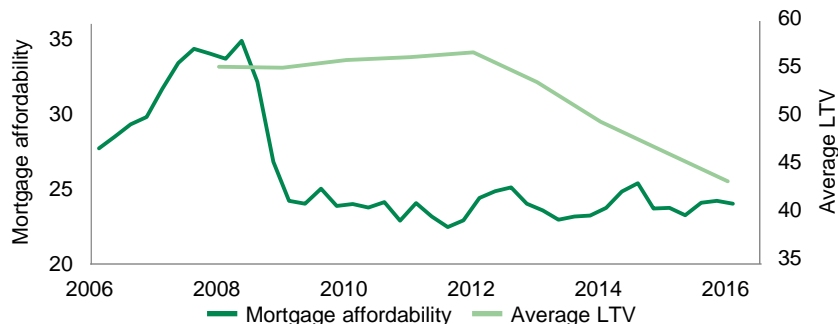
## UK private sector debt / GDP<sup>(1)</sup> (%)



## Unemployment rate<sup>(2)</sup> (%)



## UK mortgage affordability<sup>(3)</sup> & average LTV<sup>(4)</sup> (%)



- **Sustainable recovery means economy enters this period of uncertainty from a position of strength**
  - Continued private sector deleveraging
  - Low growth mortgage market with affordability improved
  - Low unemployment levels in recent years
- **Our business volumes have remained resilient post referendum, although a deceleration in the UK economy is anticipated**

# STRENGTHS OF THE UK OPERATING ENVIRONMENT

Well positioned given the structural strengths of the UK

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- **Robust and transparent legal and regulatory environment**
- **Stable, open, highly developed economy**
- **A hub for global talent; diverse, skilled workforce supported by a world class academic system**
- **Flexible labour market**
- **Destination of choice for innovation**
- **Low cost of doing business**
- **Language and time zone advantages**

# DIFFERENTIATED BUSINESS MODEL

Our business model enables us to react effectively to the uncertain operating environment



	Operating environment	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>
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>• Lowest cost provider</li></ul>
Regulation	<ul style="list-style-type: none"><li>• Regulatory requirements</li><li>• Capital framework</li><li>• Ring-fencing / resolution</li></ul>	<ul style="list-style-type: none"><li>• Financial strength (CET1 / leverage ratio)</li><li>• Simple model, largely within ring-fence</li></ul>
Economy	<ul style="list-style-type: none"><li>• Lower for longer interest rates</li><li>• Current market volatility</li><li>• Uncertain economic outlook</li></ul>	<ul style="list-style-type: none"><li>• Simple, UK focused, multi-brand model</li><li>• Low cost business model</li><li>• Low risk bank</li></ul>

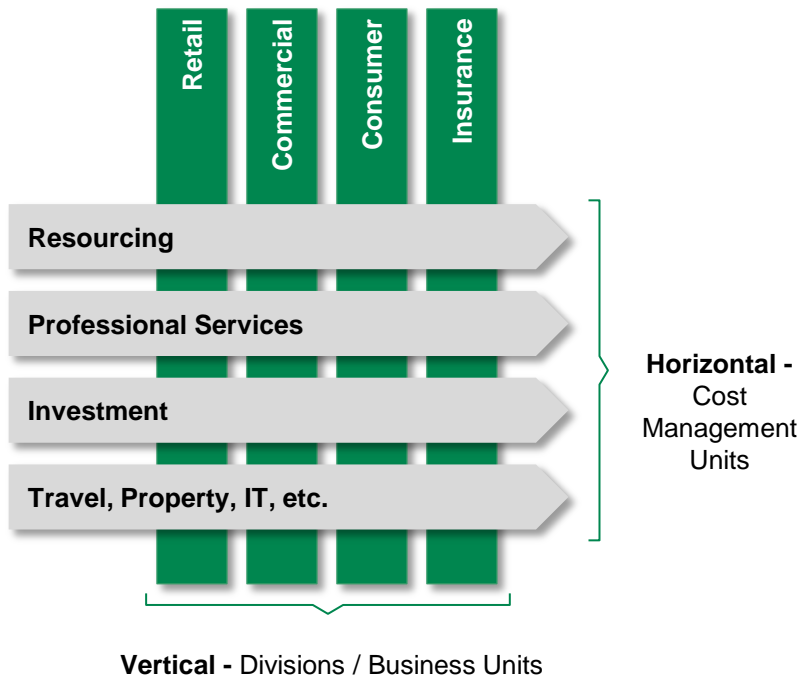


# LOW COST BUSINESS MODEL

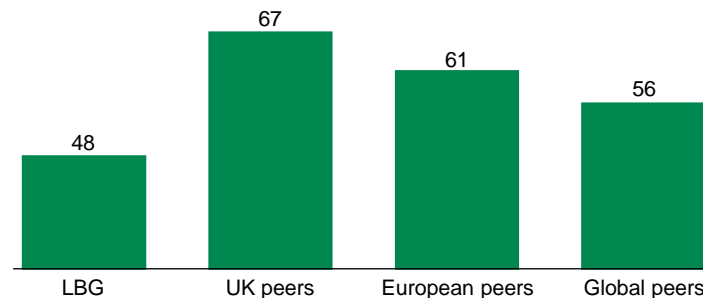
Market leading cost position and rigorous cost management process provide competitive advantage



## Matrix management approach to costs



## Cost:income ratio – H1 2016 peer comparison<sup>(1)</sup> (%)



- **Market leading cost:income ratio of 47.8%, providing competitive advantage**
- **Rigorous and proven cost management process**
- **Matrix management approach with executive responsibility for 10 cost management units (CMUs)**

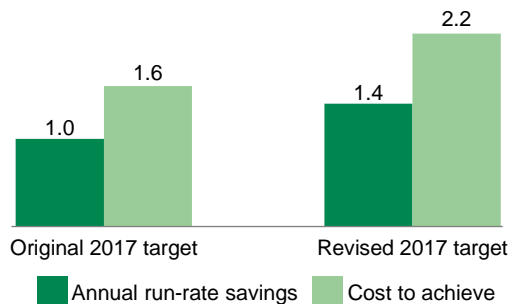
<sup>(1)</sup> Source: Reported company results. Average underlying cost:income ratio (includes levies and systemic charges, and excludes notable items as highlighted by each institution). UK peers excludes LBG, European peers: Eurostoxx top ten by market cap, Global peers: top ten by market cap (excludes UK and China).

# LOW COST BUSINESS MODEL

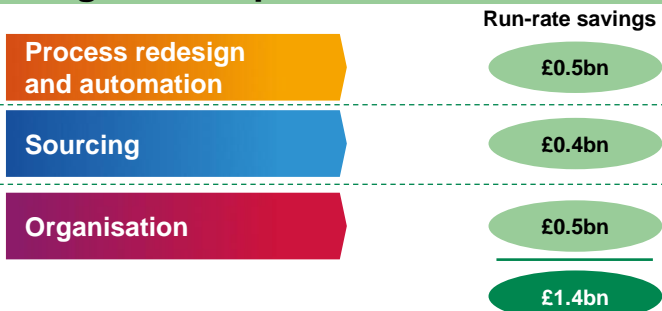
Actively responding to changing customer behaviours with further efficiency savings targeted



## Simplification savings and cost spend (£bn)



## Targeted Simplification run-rate savings



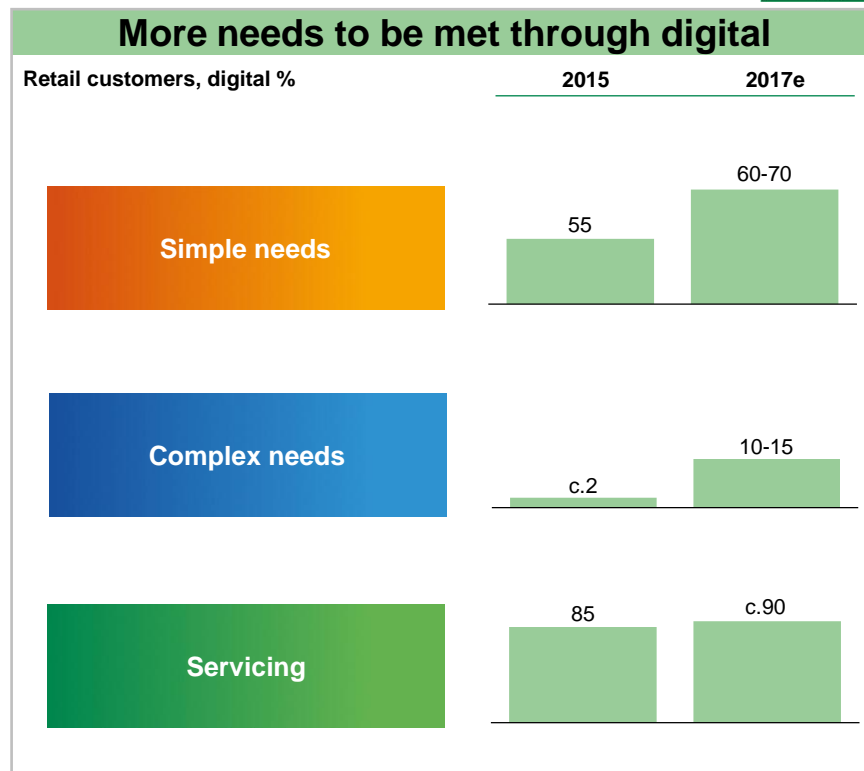
- Simplification programme is delivering ahead of schedule
- Further efficiency savings now targeted
  - Additional c.200 branch closures by end of 2017
  - Additional c.3,000 role reductions by end of 2017
- Now targeting £1.4bn of annual run-rate savings by end of 2017 at a cost of £2.2bn
- End-to-end process re-engineering and simplification provide significant opportunities
- In addition, a further £100m of run-rate savings will be delivered through a 30% footprint reduction in the non-branch property portfolio by end of 2018

# MARKET LEADING DIGITAL PROPOSITION

We operate the UK's largest digital bank which is fundamental to our integrated multi-channel strategy



- UK's largest digital bank with 12m active online users, including 7m mobile users
- Increasing digital market share (21%)<sup>(1)</sup>
- Focused digital investment of c.£1bn over 3 years
- Delivering customer centric digital propositions
  - Top rated mobile app with market leading functionality
  - >60% of customer needs now being met digitally
- Transforming customer journeys
  - Digitally enabled transformation of 10 customer journeys
- Enhancing digital capabilities and delivery
  - Digital is a Group division reporting direct to the CEO
  - Strategic partnerships with innovators



<sup>(1)</sup> Retail and Home Insurance H2 2015 digital market share of new business flows (2014: 20%).

# LOW RISK BANK

Differentiated low risk business model enabling delivery of lower cost of equity



- **Simple, UK focused business**
- **Retail and commercial specialisation**
- **Leading cost position / lower operating leverage**
- **Lower financial leverage**
- **High quality assets / non core “exited”**

## LOW RISK BUSINESS MODEL

**LOWER COST OF EQUITY**

**LOWER COST OF DEBT**

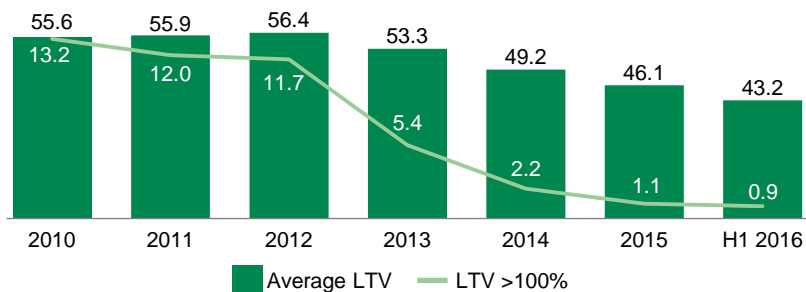
**UNIQUE COMPETITIVE POSITION**

# LOW RISK BANK

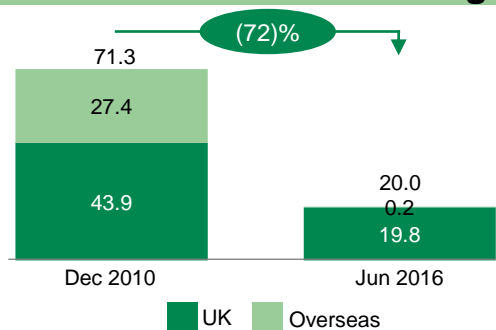
Asset quality remains strong with no signs of deterioration in the portfolios



## Mortgage portfolio trends (%)



## Commercial real estate lending<sup>(1)</sup> (£bn)



<sup>(1)</sup> Excludes CRE lending in Wealth (Jun 2016: £0.5bn).

- **Continued improvement in mortgage book risk profile**
  - Average LTV of 43%, with less than 10% >80% LTV
  - Buy-to-let growth significantly lower than market
  - Restricted share of mortgage flow in London since 2014
- **Commercial Banking book substantially de-risked**
  - Low risk appetite for commercial real estate (CRE)
  - Strong credit quality with improved CRE LTV profile
  - Limited exposure to higher risk segments
- **Consumer Finance: prudent risk appetite**
  - Motor Finance UK growth largely driven by Jaguar Land Rover relationship

# SUMMARY

Our differentiated business model is delivering and given the transformation of the business and prudent approach to risk we are well placed



- **Our differentiated business model is delivering**

- Cost discipline and low risk business model continue to provide competitive advantage
- Continued successful execution of strategy
- Generating strong profits and returns

- **Following the EU referendum the outlook for the UK economy is uncertain and we anticipate a deceleration of economic growth, however**

- The UK enters this period of uncertainty from a position of strength
- Structural strengths of the UK likely to continue
- Transformation of our business and low risk model position us well

## Helping Britain Prosper

- **Remain open for business and committed to supporting the UK economy**

## Best bank for customers

- **Delivering the best customer experience**

## Best bank for shareholders

- **Delivering superior and sustainable returns**
- **Progressive and sustainable dividend policy with interim dividend of 0.85p**



## 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 an 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 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 the inside front cover of the 2016 Half-Year Results News Release.