

LLOYDS  
BANKING GROUP



# MORGAN STANLEY FINANCIALS CONFERENCE

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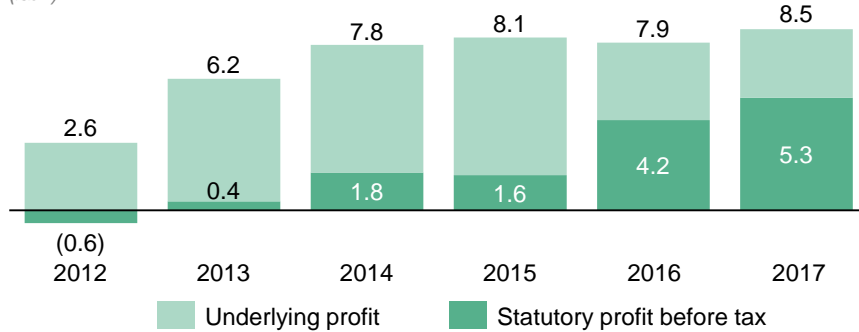
António Horta-Osório | 20 March 2018



# Business model delivering increased profits and returns

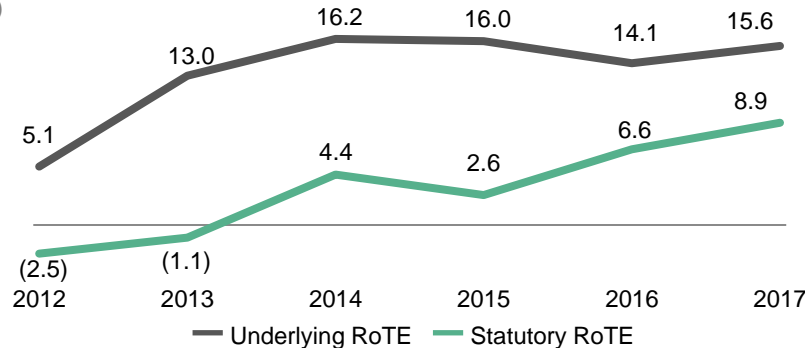
## Profit progression

(£bn)



## Returns progression

(%)

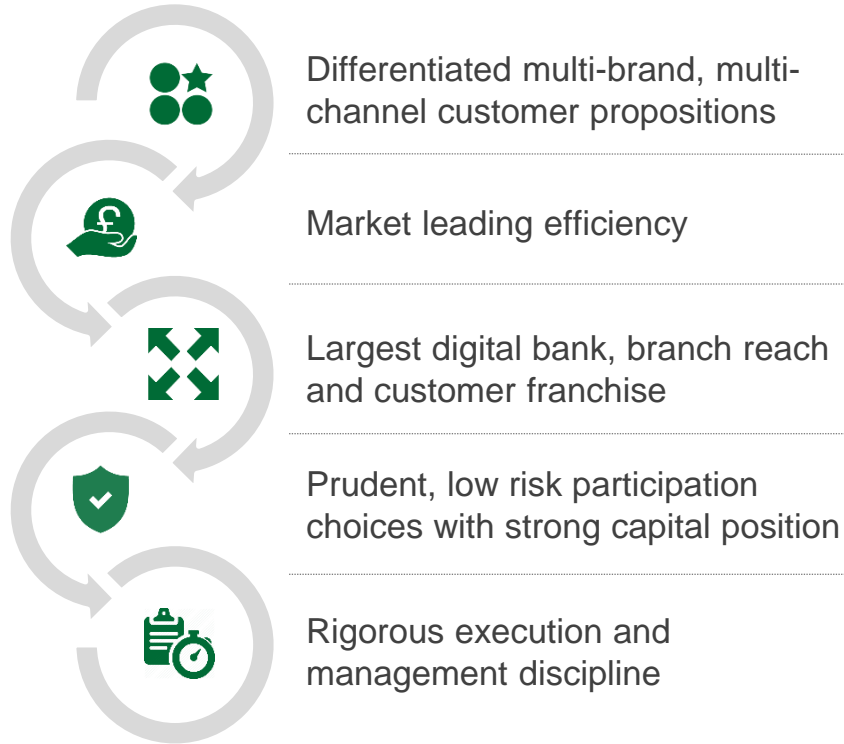


- **Statutory profit increasing: growth in underlying profit and reduction in below the line charges despite higher PPI cost**
- **Consistent strong underlying profit**
  - Net income growth of 5%, NIM up to 2.86%
  - Market-leading cost:income ratio of 46.8% and strong asset quality with AQR of 18bps
  - Moody's upgraded Lloyds Bank's rating to Aa3 and S&P improved outlook to positive
  - Loan growth of £6bn in targeted segments
- **Strong underlying RoTE of 15.6%, with the statutory RoTE increasing to 8.9%**
- **Strong capital generation of 245bps with 20% increase in ordinary dividend to 3.05p per share and a share buyback of up to £1bn**

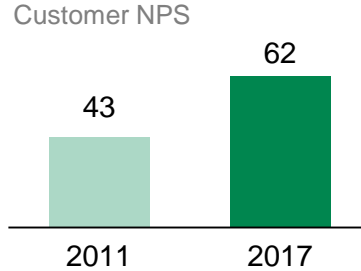
# Solid foundations underpinning our customer centric business model



## Distinctive competitive strengths

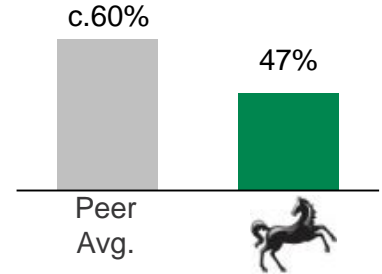


## Best-in-class customer experience

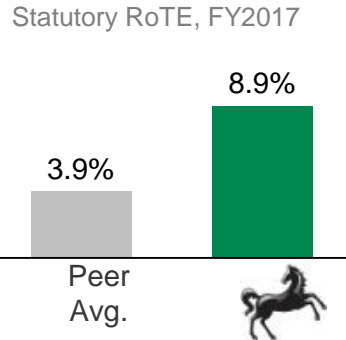


## Highly efficient

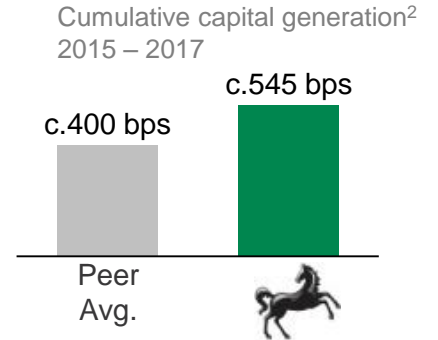
Cost:income Ratio<sup>1</sup>, FY2017



## Strong profitability



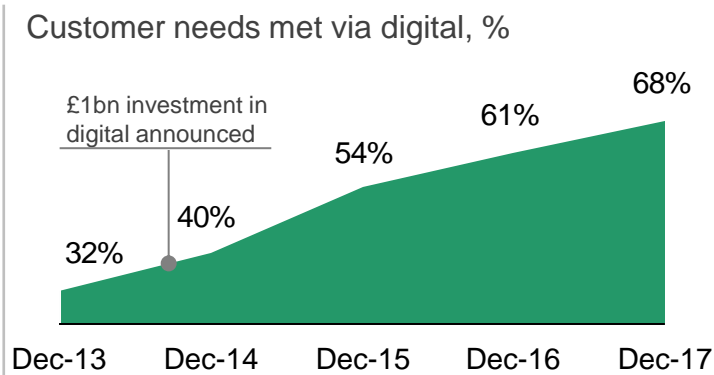
## Capital generative



# Largest digital bank in the UK, delivering market leading experience



Largest digital bank in the UK

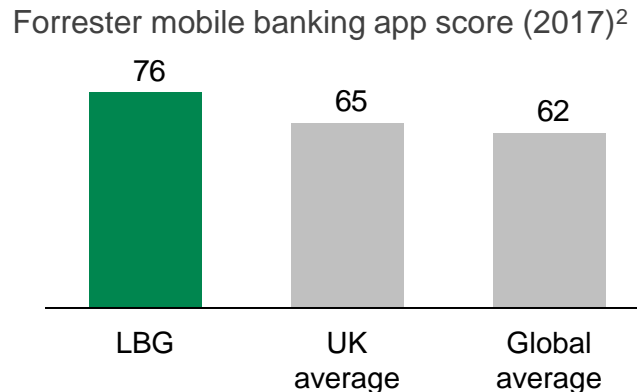


>13m digitally active customers

209m digital visits per month

#1 rated UK mobile app since 2015<sup>1</sup>

Leading functionality



- **“Excels at usability”**: easy enrolment/ login, seamless navigation, context-sensitive help function
- **“Outstanding marketing and sales functionality”**: tailored product offers, comparison tools, third-party offers
- **“Wide range of touchpoints”**: mobile-optimised website, SMS interactions, Facebook Messenger
- **“Excellent cross-channel guidance”**: branch appointment scheduling function

# Low risk business model underpinned by prudent participation choices driving sustainable earnings

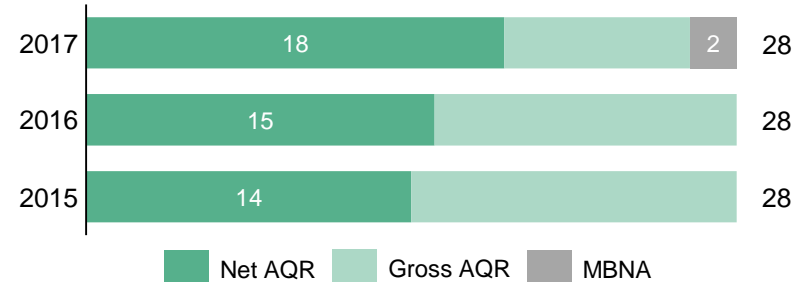


Low risk business model reflecting portfolio de-risking and our prudent participation choices

- Over 95% of assets in UK **(AA rated) and secured** assets represent **over 2/3 of portfolio**
- Consumer finance **c.6%** of loans, (c.4% in 2014)
- **Stringent underwriting** with **targeted growth**
- Run off **down 95%** from peak, just c.2% of loans
- Low risk model generates **sustainable earnings**
  - A 10% fall in house prices would increase Group RWAs by less than £1bn
  - Through the cycle AQR c.35bps and <30bps for 2018-20

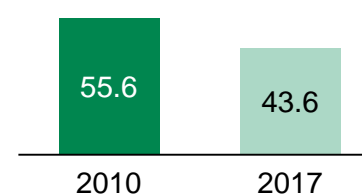
## Asset quality ratio

(bps)



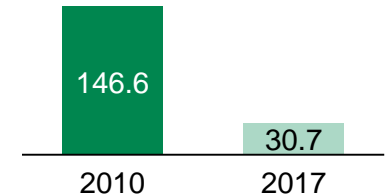
## Average mortgage LTVs

(%)



## Mortgages >80% LTV

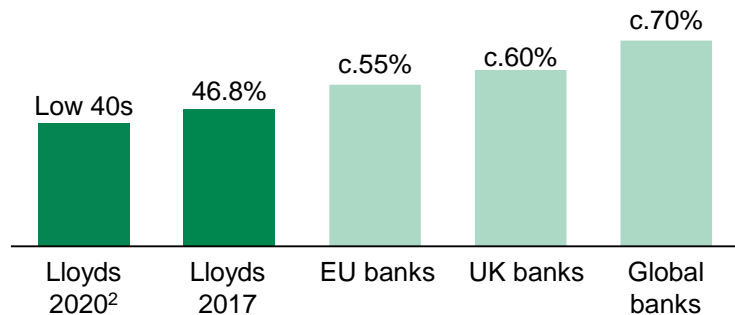
(£bn)



# Greater investment capacity allowed by market leading efficiency

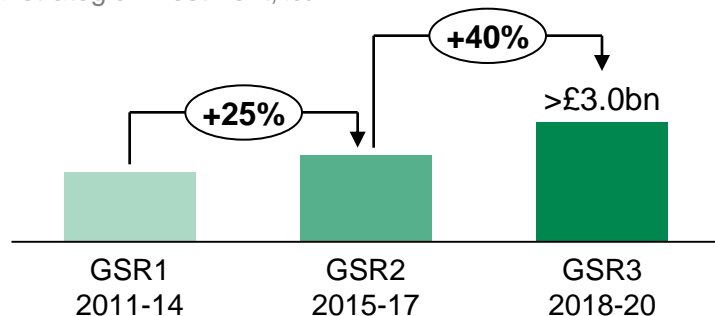
## Strong position to compete

Cost:income ratio<sup>1</sup>, %

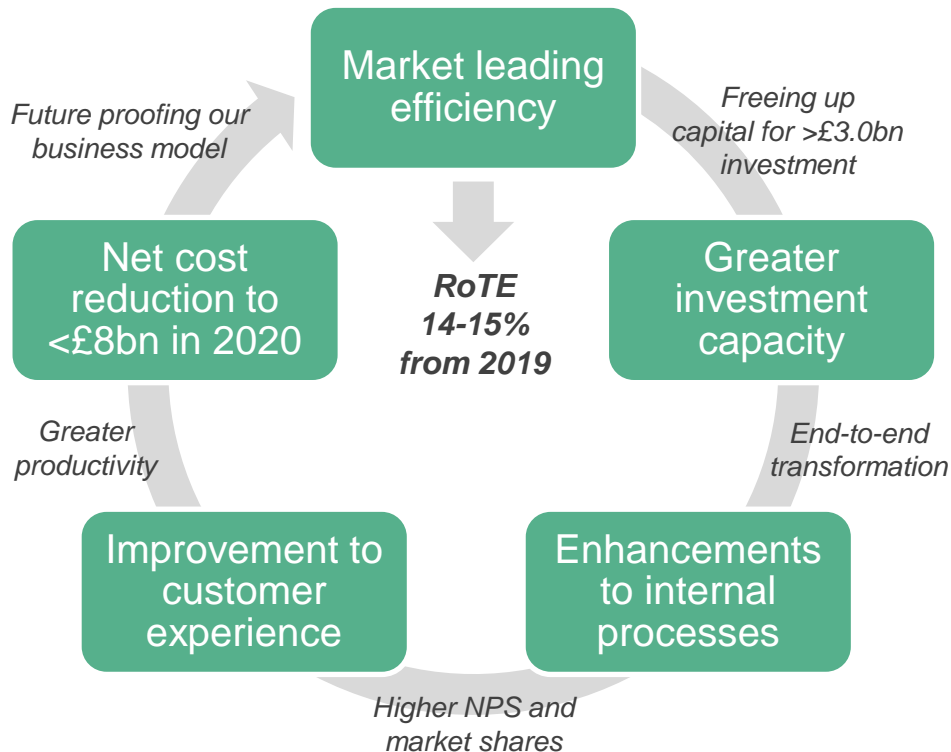


## Increased investment capacity

Total strategic investment, £bn



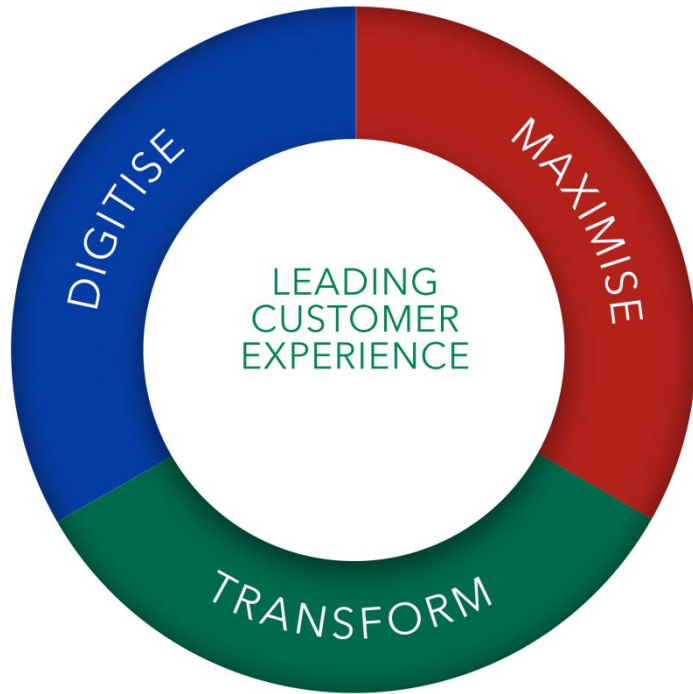
## Virtuous cycle of efficiency



# More than £3bn strategic investment to deliver a significant transformation and future proof our business



## Strategic priorities



## Developing new sources of competitive advantage



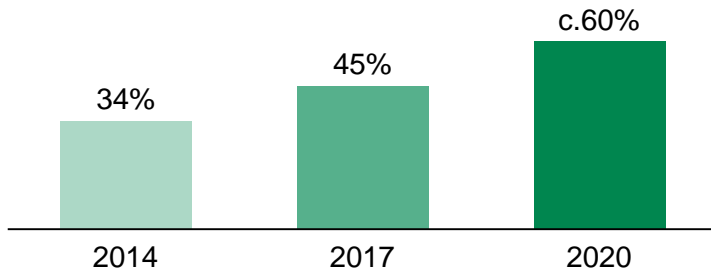
# Delivering a leading customer experience, with seamless multi-channel propositions



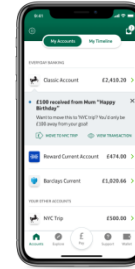
## LEADING CUSTOMER EXPERIENCE

- **#1 UK digital bank** with 22% share of new business, with Open Banking functionality
- **#1 Branch network**, serving complex needs
- **Data-driven and personalised** customer propositions

Focusing branches on complex needs  
Customer-facing time on complex needs<sup>1</sup>

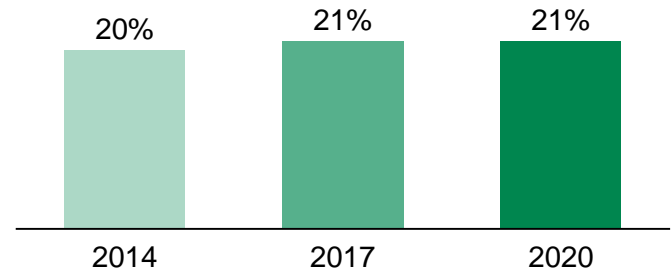


Remaining the best digital banking app



- **Everything in one place**
- **New propositions**
- **Innovative tools**
- **Security a shared priority**

Maintaining physical reach  
Branch market share, %





# Digitising the Group to deliver an end-to-end transformation



## DIGITISING THE GROUP

- **End to end transformation** covering more than 70% of our cost base
- **Simplification** and **progressive modernisation** of IT and data architecture

## Selective upgrades to core IT systems



Channel technology

- **API enabled** channel to exploit Open Banking and FinTech



Insight and data

- **Insight powered** customer experiences



Infrastructure

- **Automated software development** processes
- **Leveraging hybrid cloud** and software as a service



## Broader and deeper transformation ...

Journeys transformed<sup>1</sup>



GSR2



GSR3

- **End-to-end transformation** of our customer journeys
- **~20 additional customer journeys**
- **~15 enterprise journeys to digitise central functions**

## ... covering more of our cost base

Cost base transformed<sup>2</sup>



GSR2



GSR3

- **More activities covered** along the value chain (e.g. control functions and operations)
- **Manual processes re-engineered** across our central functions

<sup>1</sup> – Includes customer and enterprise journeys. <sup>2</sup> – Operating cost base covered by journey transformation.

# Maximising our capabilities to bring the best of the Group to our customers and drive growth

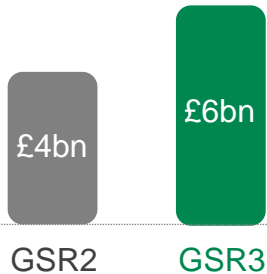


## MAXIMISING GROUP CAPABILITIES

- **£6bn loan growth in start-ups, SME and Mid Market** businesses
- Sole integrated UK banking and insurance provider targeting **>1m new pensions customers** and **£50bn AuA growth**

## Invest and grow in SME and Mid Markets

Growth in net lending to Start-ups, SMEs and Mid Markets

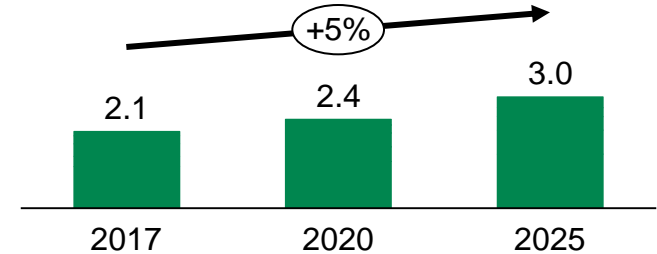


- Digitise client experience
- Improve product range
- Simplify onboarding and servicing



## Significant market opportunity in Insurance

Market AuA, Financial Planning & Retirement products, £tn<sup>1</sup>



## Unique position as an integrated bank/insurer



Capture the **Corporate Pensions** opportunity, leveraging the Zurich acquisition



Offer customers a **single home for their banking and insurance needs**



Strong distribution model to **drive growth across intermediary and relationship channels**

1 – Provider results, ABI, Compeer, Fundscape, HMRC, Investment Association, Money Management and Spence Johnson. Includes drawdown, Individual annuities, individual pensions, investments and corporate pensions.

# Transforming our ways of working and build greater in-house capabilities



## TRANSFORMING WAYS OF WORKING

- **More than half** of transformation delivered through **Agile methodology**
- **Biggest ever investment in our people with 50% increase** in colleague training and development to **4.4m hours p.a.**

## Building in-house capabilities

**30%**

Reduction in external resources in Change

**2x**

Increase in digital experience designers and robotics/AI engineers



## Deploying Agile to >50% of our transformation

- Iterative approach with short development sprints
- Continuous customer feedback
- Cross-functional and co-located
- Outcome focused with end-to-end accountability

**Up to 30%**  
Change resource efficiency improvement

## Investing in our People



Upskill and retrain our colleagues



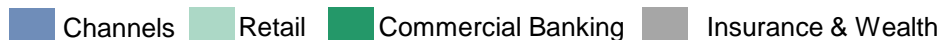
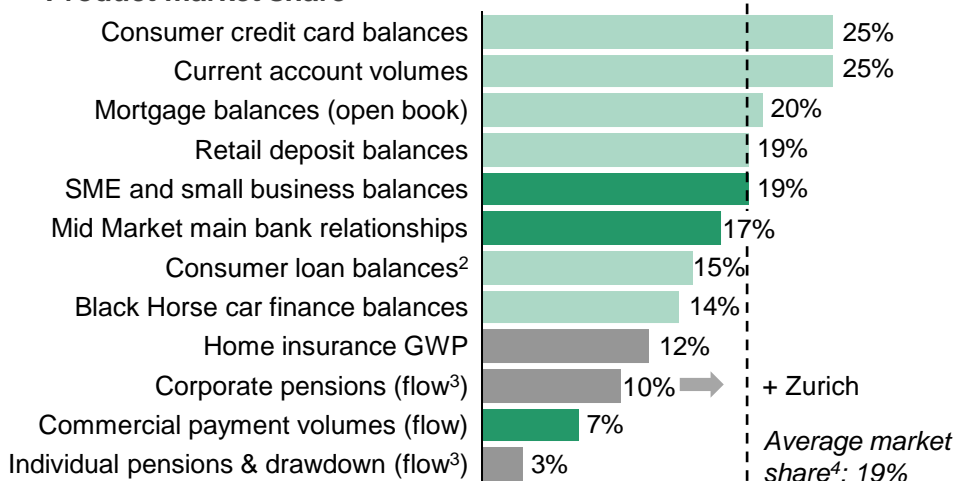
Attract new top talent and specialist resource

## Strong franchise across key channels and products

### Channels market share



### Product market share



## ➤ Further growth opportunities

- Targeting further **strong statutory profit growth**, driven by targeted growth, resilient NIM, low risk business model, and lower operating and remediation costs
- **Organic growth in targeted key segments**
- **Inorganic growth:**
  - Consider 'bolt-on' acquisitions in **segments and/or capabilities** where appropriate
  - **Innovation growth opportunities** through strategic partnerships and FinTech engagement
- No change to **prudent risk appetite**

<sup>1</sup> – Volumes across PCAs, loans, savings, cards and home insurance. <sup>2</sup> - Comprises unsecured personal loans, overdrafts, and Black Horse retail lending balance share. <sup>3</sup> - Annualised Premium Equivalent new business. Corporate Pensions previously disclosed as stock market share of a smaller addressable market. <sup>4</sup> – Average market share calculated for core financial services products. Market data sources: ABI, BoE, CACI, eBenchmarks, Experian pH, FLA, Spence Johnson, UK Finance. All market shares as at FY17 except individual pensions & drawdown (9M17).

# Capital generative business model with clear framework for capital return



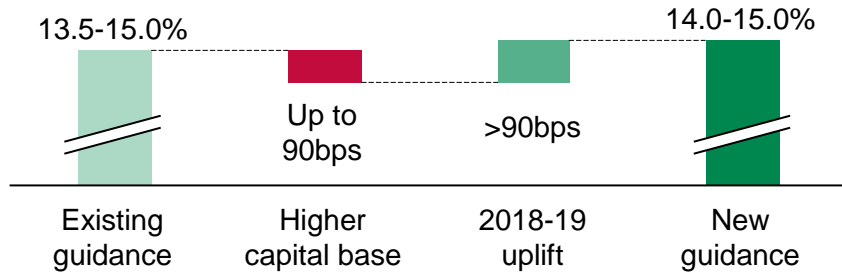
## Consistent capital generation

Pre-dividend capital generation per annum, bps1



## Impact of higher capital base fully absorbed

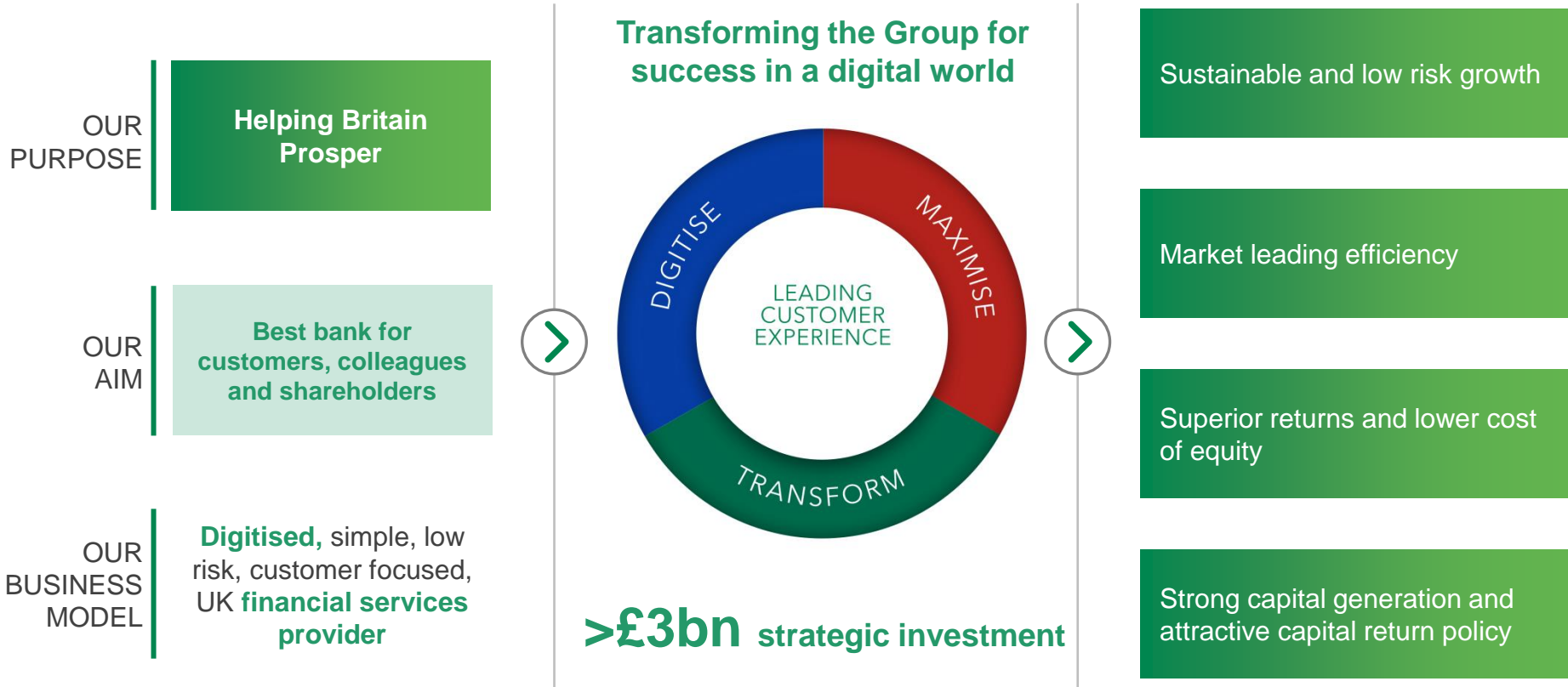
Return on tangible equity, %



## Enabling superior shareholder returns

- **CET1 target c.13% plus around 1% management buffer**
  - Includes all known future developments such as SRB and CCyB
- **Expect capital generation of 170-200bps p.a. pre-dividend including**
  - Strong underlying profitability and insurance dividend
  - RWA inflation with growth in targeted segments
  - Renegotiated pension contributions and software capitalisation
  - IFRS 9 and Basel IV reforms
- **Progressive and sustainable** ordinary dividend policy with flexibility to **return surplus capital**

# Clear strategy that will underpin the delivery of superior returns and create greater value for shareholders



# Questions & Answers



## Forward looking statement

This document contains certain forward looking statements with respect to the business, strategy, plans and /or results 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 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, inflation, 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 and other benefits including, but without limitation as a result of any acquisitions, disposals and other strategic transactions; 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, instability as a result of the exit by the UK from the European Union (EU) and the potential for 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 the security of IT and operational infrastructure, systems, data and information resulting from increased threat of cyber and other attacks; 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, or 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 together with any resulting impact on the future structure of the Group; the ability to attract and retain senior management and other employees and meet its diversity objectives; 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 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.