

**LLOYDS**  
BANKING GROUP



# FIXED INCOME INVESTOR PRESENTATION

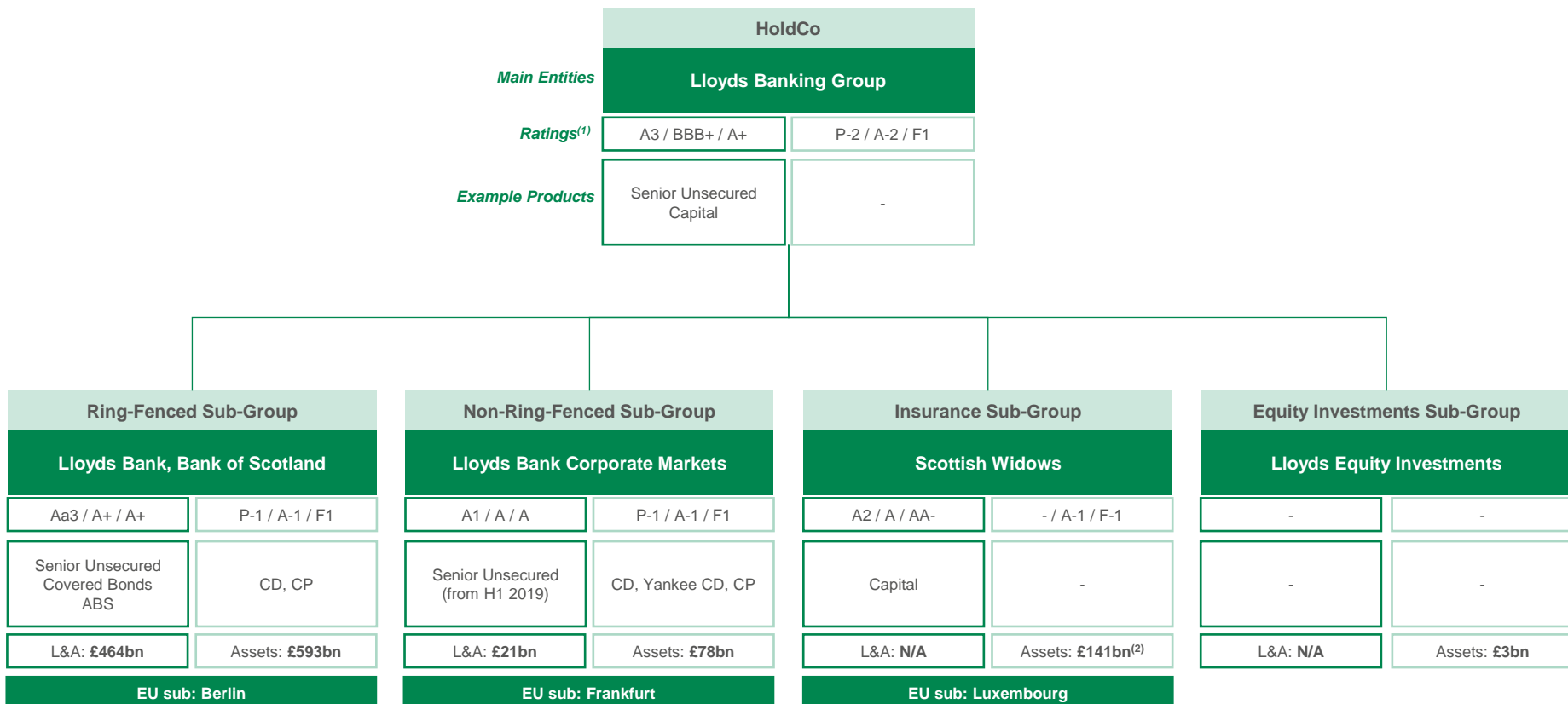
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H1 2019

# Group Overview



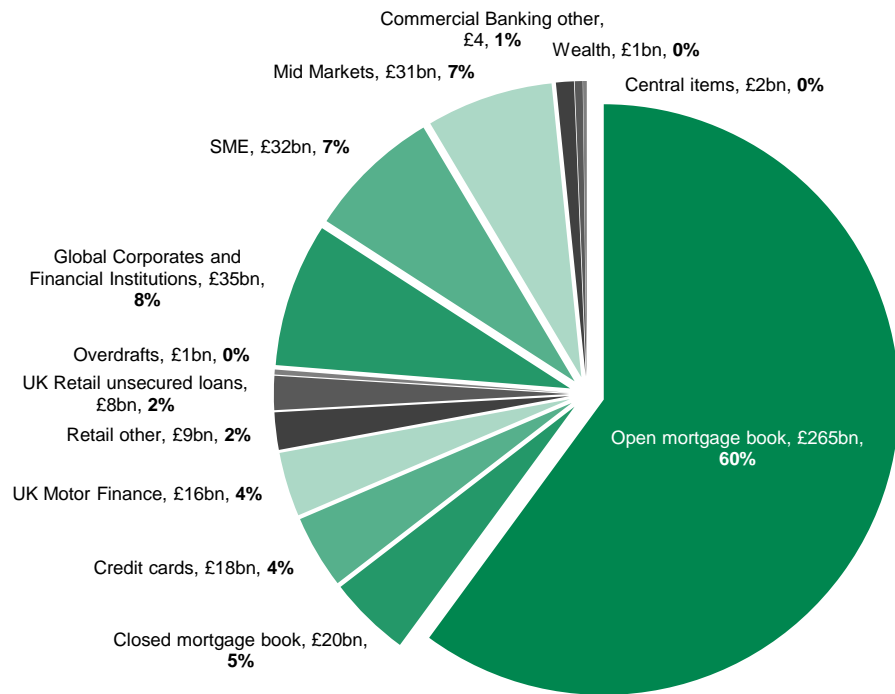
# Simple group structure with multiple issuance points





# Well diversified loan book of £441bn; credit quality remains strong

## H1 2019 Loans & Advances (£bn, %)



- Low risk book with over 75% of lending secured and underwriting discipline maintained
- Retail lending-focused loan book (77% of total lending)
- Secured mortgages represent 65% of total book with an average LTV of 43% (as at Jun-19)

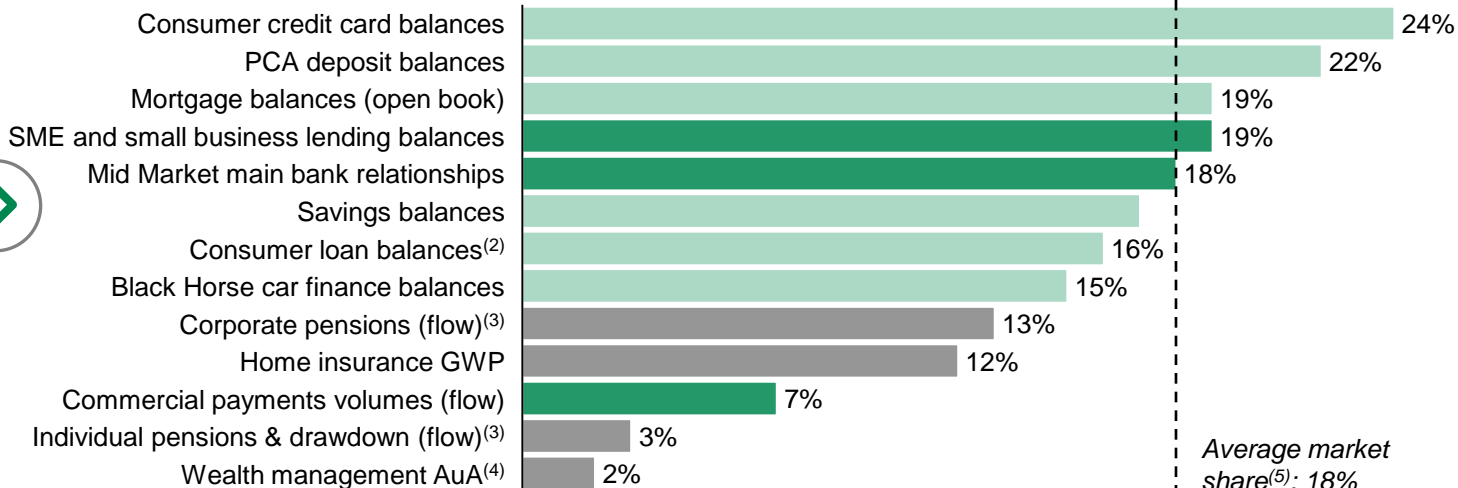


# Opportunities for growth in targeted key segments

## Channels market share



## Product market share



Channels Retail Commercial Banking Insurance & Wealth



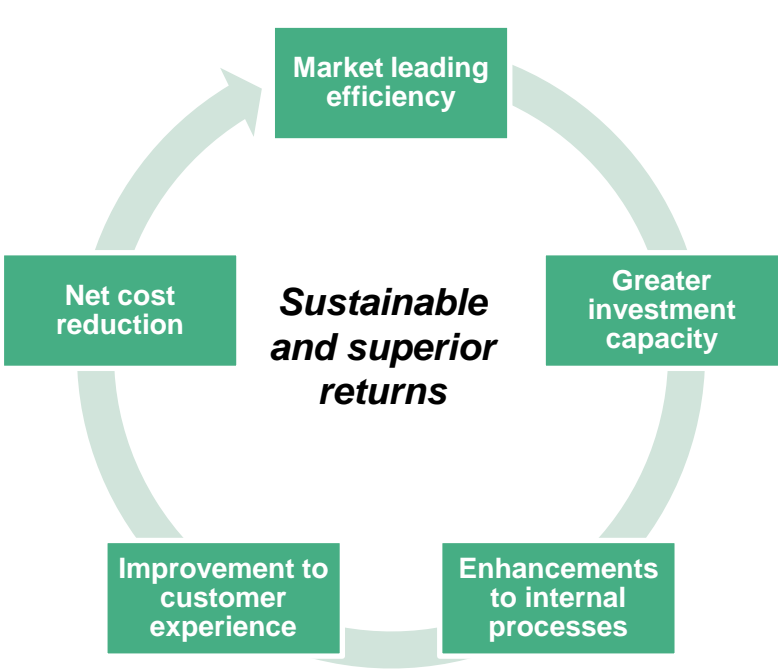
1 – Average volume share across PCAs, loans, savings, cards and home insurance. 2 – Comprises unsecured personal loans, overdrafts and Black Horse retail lending balances. 3 – Annualised Premium Equivalent new business on a whole of market basis. 4 – Excludes execution-only stockbrokers. 5 – Average market share calculated for core financial services products.

Market data sources: ABI, BoE, CACI, Compeer, eBenchmarks, Experian pH, FLA, Ipsos MORI FRS, PayUK, Spence Johnson and internal estimates.

Market shares as of May-19 YTD except (i) Mid market main bank relationships, home insurance GWP and individual pensions & drawdown (1Q19); (iii) Corporate pensions and wealth management AuA (FY18)



We are half way through GSR3, with strong progress to date positioning us well to respond to the changing environment



Delivering for customers	<b>Multi-brand, multi-channel distribution model</b>	<b>Data-driven personalised experiences</b>
Future proofing the business	<b>Market leading efficiency</b>	<b>Top quartile investment</b>
	<b>Low risk business model</b>	<b>Rigorous execution and management discipline</b>
Delivering for shareholders	<b>Consistent delivery of market leading returns</b>	

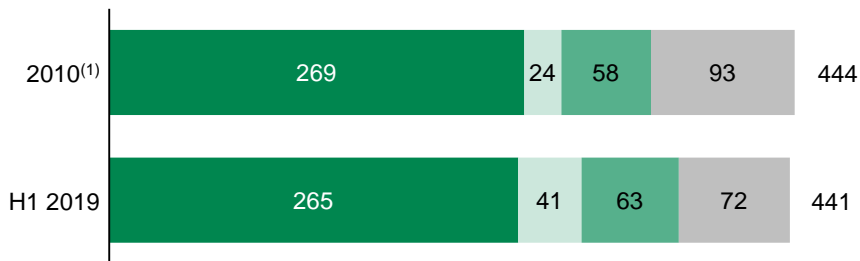
***Transforming the Group for success in a digital world***



# Significant transformation and unique operating model means the Group is well positioned for the future

## Stable core loan book with growth in targeted segments

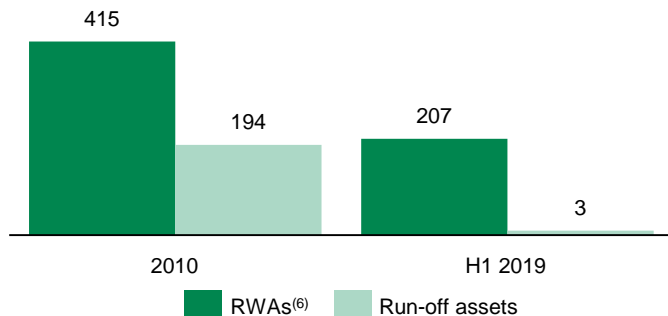
(£bn)



■ Open mortgages ■ Consumer<sup>(2)</sup> ■ SME & Mid Markets<sup>(3)</sup> ■ Other<sup>(4)</sup>

## Significant de-risking of the balance sheet

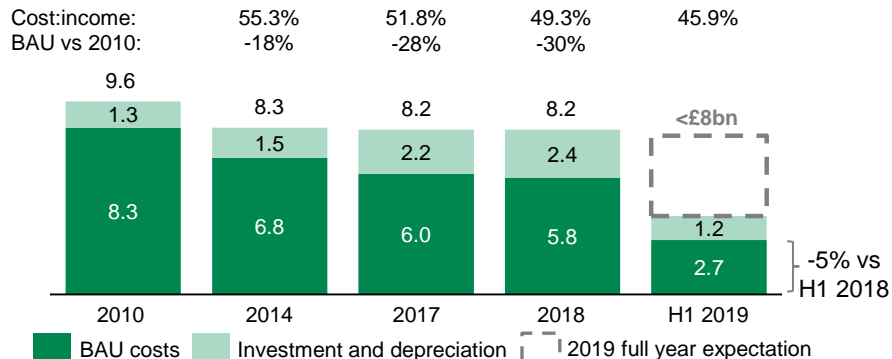
(£bn)



■ RWAs<sup>(6)</sup> ■ Run-off assets

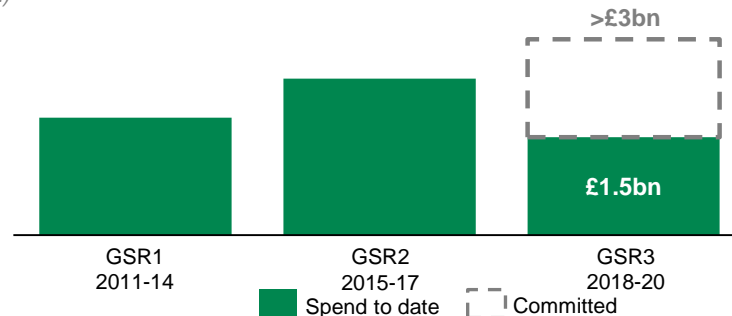
## Significant reduction in operating costs<sup>(5)</sup>

(£bn)



## Enabling increased strategic investment

(£bn)

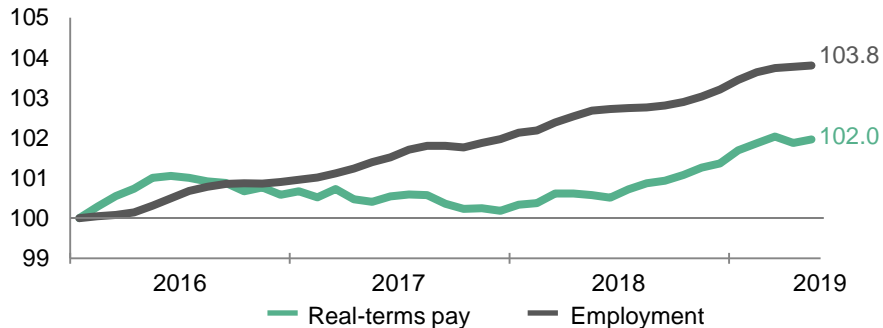




# UK economy has remained resilient but uncertainty remains

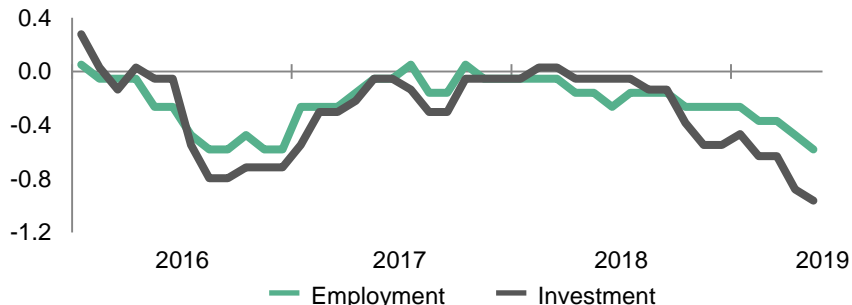
## Pay and employment

(Index level, 3 month average, Jan 2016=100)



## Companies' employment and investment intentions<sup>(2)</sup>

(Z-score)



- **Consumers remain well positioned**

- Employment continues to grow with real wages rising at >1% per year
- Consumption remains strong supporting GDP growth

- **Continued economic uncertainty resulting in some softening in business confidence**

- Companies' intentions for employment and investment deteriorated in the quarter
- PMI surveys declined in Q2, showing lower activity levels across business sectors

- **Global growth softened and interest rate expectations declined in the second quarter**



# H1 2019 Results



## Good financial performance with market leading efficiency and returns

Statutory profit after tax	£2.2bn (4)%
Return on tangible equity	11.5% (0.6)pp
Underlying profit	£4.2bn (1)%
Net income	£8.8bn (2)%
Total costs	£4.0bn 5%
Cost:income ratio	45.9% 1.8pp
Capital build	70bps
TNAV per share	53.0p –
Earnings per share	2.7p (7)%

- **Statutory profit after tax of £2.2bn with strong RoTE of 11.5%**
- **Robust underlying profit of £4.2bn**
  - Net income of £8.8bn, down 2% with resilient NIM of 2.90% and growth in targeted areas
  - Total costs of £4.0bn down 5% with BAU costs down 5%, market leading cost:income ratio further improved to 45.9% and jaws of +3%
  - Credit quality remains strong with net AQR of 26bps
- **Strong CET1 capital build of 70bps even after PPI (33bps) and implementation of IFRS 16 (11bps)**
  - CET1 ratio 14.0% post dividend accrual
  - Interim ordinary dividend 1.12p per share, up 5% on 2018 interim
- **TNAV per share 53.0p up 2.1p on year end 2018 before payment of the 2018 final dividend of 2.14p; EPS of 2.7p**

## Balance sheet – growth in targeted segments while optimising the portfolio

- **Loans and advances £441bn, flat on Q1**

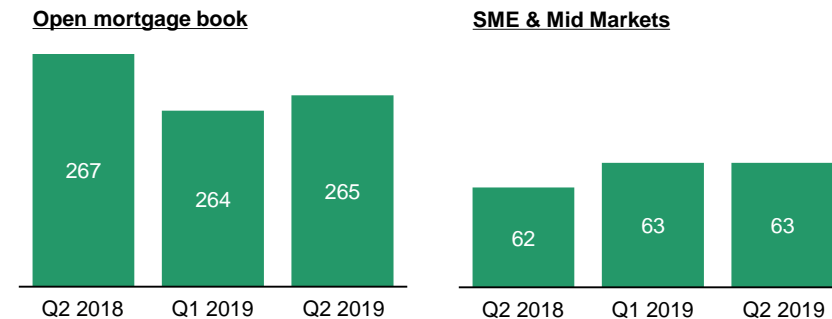
- Open mortgage book up £0.8bn on Q1 and expect to close 2019 in line with 2018
- Loan growth in targeted segments offsetting reduction in closed mortgage portfolio
- SME<sup>(1)</sup> growth continues ahead of the market
- Continued high-quality growth in consumer portfolio including £0.9bn in Motor Finance since year end

- **RWAs down £1bn in Q2 to £207bn**

- Improved capital returns and RWA efficiency through business mix optimisation

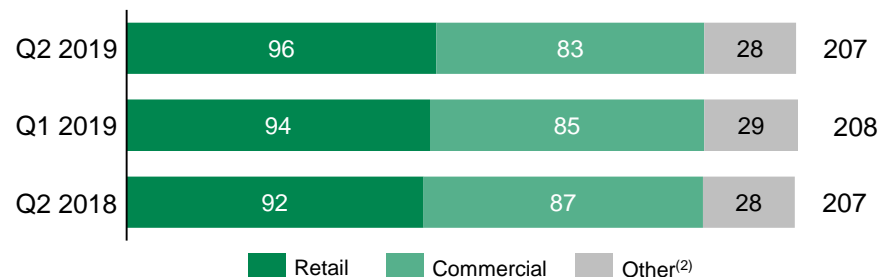
### Prudent growth in targeted segments in Q2

(£bn)



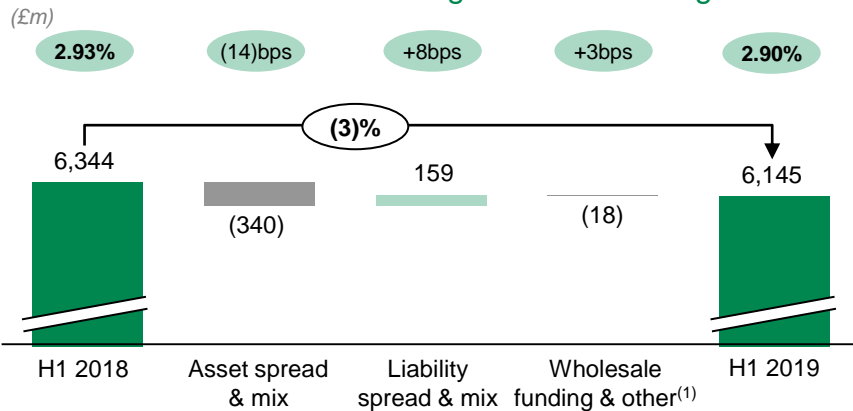
### Risk-weighted assets

(£bn)

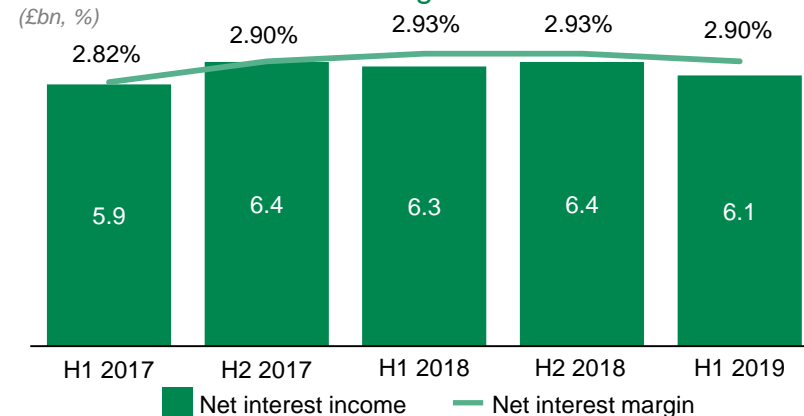


# Net interest income down slightly with resilient margin of 290 basis points

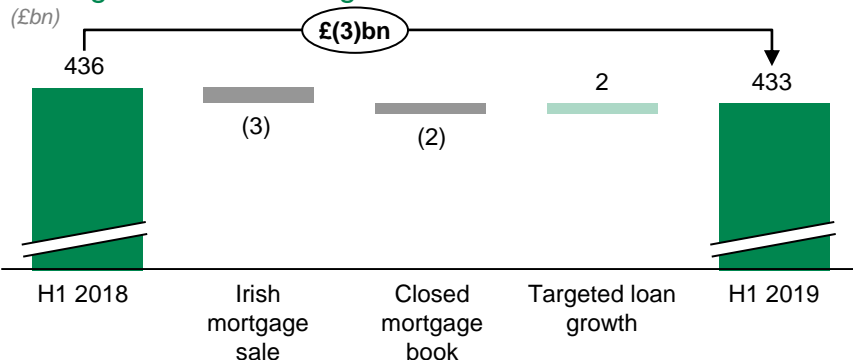
## Net interest income and banking net interest margin



## Net interest income and margin



## Average interest-earning assets



- **NII of £6.1bn with growth in targeted segments**
  - Improved deposit costs and positive mix change partially offset continued asset pricing pressure
  - AIEAs down £3bn on H1 2018 with growth in targeted segments offset by continued run off in closed mortgage book and sale of the Irish portfolio
- **Continue to expect NIM for 2019 to be c.2.90%**

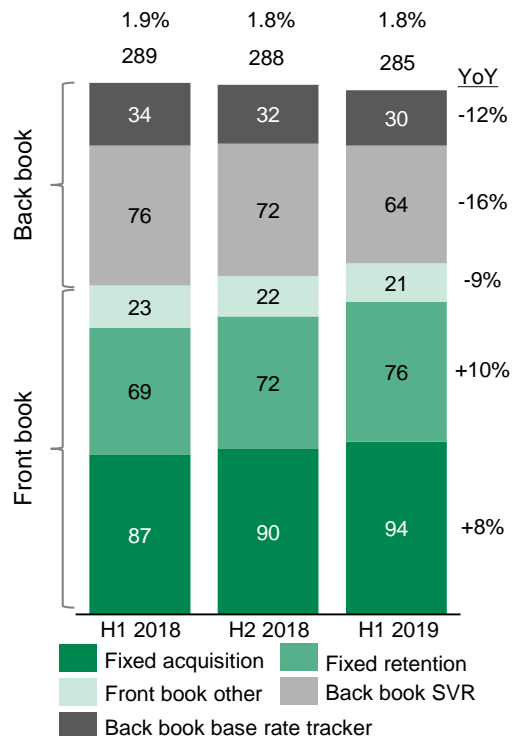
1 – Other includes non-banking net interest income.

# Asset pricing and mix: mortgage pricing remains competitive but margin resilient

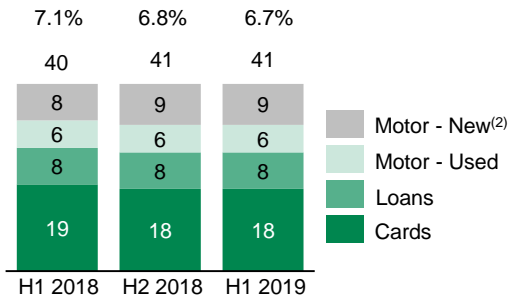
## Changing asset mix

(Book size £bn, Gross margin %(<sup>1</sup>))

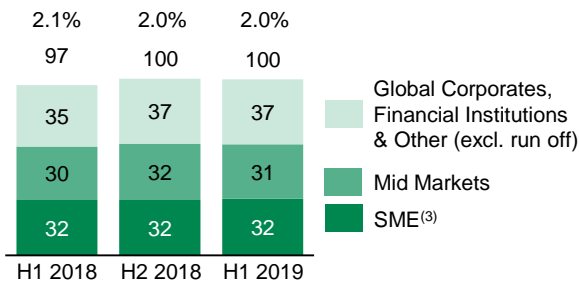
### Mortgage book



### UK consumer finance



### Commercial Banking incl. Retail Business Banking



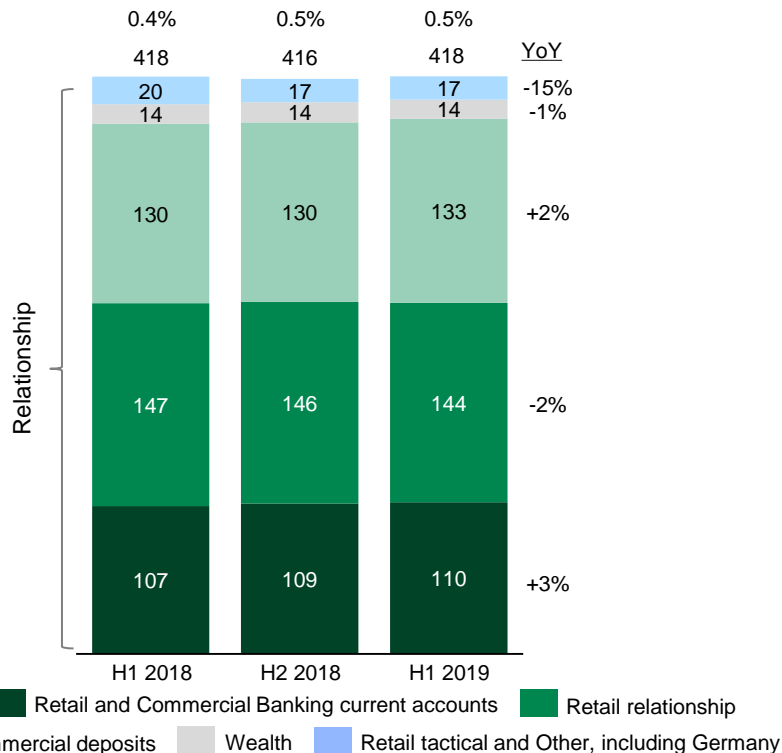
- **Mortgage market remains very competitive but Group margin resilient given targeted approach to pricing**
  - Continue to focus on margin ahead of volume
  - Annualised back book attrition increased slightly to c.15%
- **Targeted growth in higher margin consumer finance businesses**
  - Motor Finance up £0.9bn on year end
- **Continued SME balance growth in first half of 2019, up 2%**



# Liability pricing and mix: current account growth ahead of the market and prudent structural hedging programme

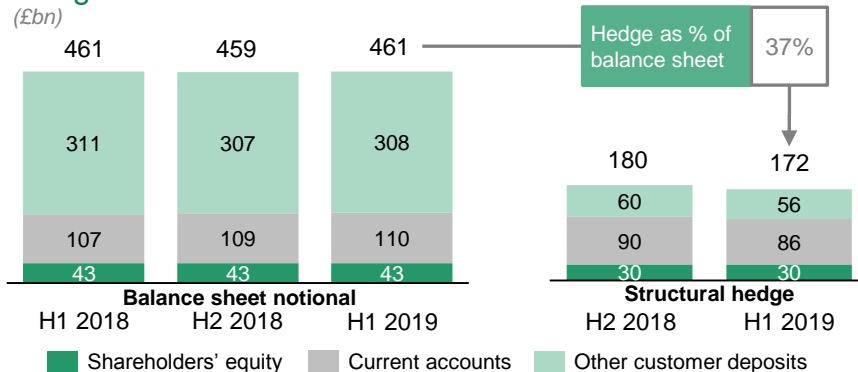
## Improving liability mix<sup>(1)</sup>

(Book size £bn, Gross margin %)



## Hedged balances<sup>(2)</sup>

(£bn)



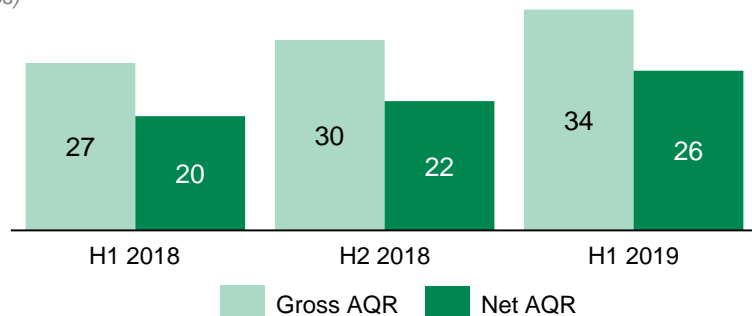
- **Stable liability margin with continued growth in targeted high quality current accounts**
  - Current accounts £110bn, up £1bn in H1 and continued reduction in tactical balances
- **Structural hedge £172bn; weighted average life c.3 years**
  - Not currently investing hedge capacity due to market rates; currently around 90% invested
  - £13bn hedgeable capacity available to invest



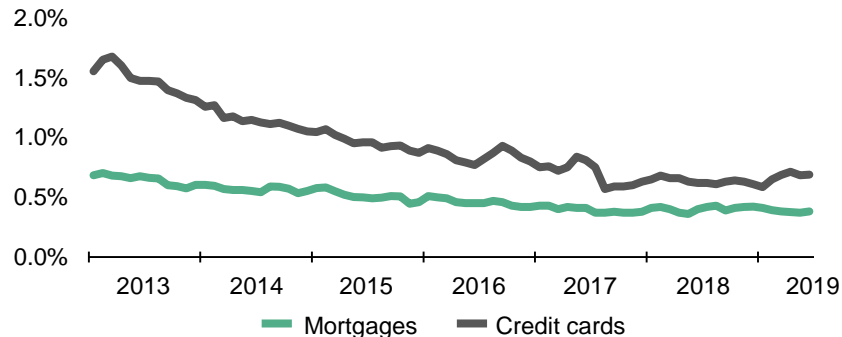
## Credit quality remains strong reflecting a continued prudent approach to risk

### Asset quality ratio

(bps)



### Mortgages and credit cards – new to arrears as proportion of total book



- **Low risk book with over 75% of lending secured and underwriting discipline maintained**
  - >60% of lending in UK mortgages
  - Motor Finance predominantly secured and subject to prudent assumptions and provisioning
  - Prime credit card book with conservative risk appetite
  - Diversified, high quality Commercial portfolio with prudent approach to sectors and significant collateral
- **Continue to expect net AQR <30bps in 2019**
- **Gross AQR higher than prior year at 34bps, largely due to alignment of credit card provisioning methodologies, softer used car prices and two corporate names**
- **Mortgage and credit card new to arrears remain low**

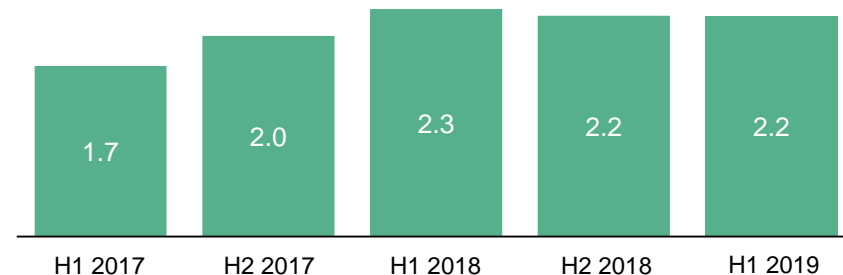


## Summary – well placed to deliver sustainable, superior performance

- **Strong strategic progress and the right strategy in the current environment**
- **Good financial performance supporting increased interim dividend**
- **Business model resilience reflected in 2019 guidance**
  - NIM to be around 290bps
  - Operating costs to be below £8bn
  - AQR to be less than 30bps
  - Capital build to be at the lower end of 170-200bps
  - Now expect 2019 RoTE of around 12%, below original guidance given below the line charges
- **Longer term targets remain unchanged, although continued economic uncertainty could impact outlook**
- **Well placed to continue supporting customers, Help Britain Prosper and deliver sustainable, superior returns**

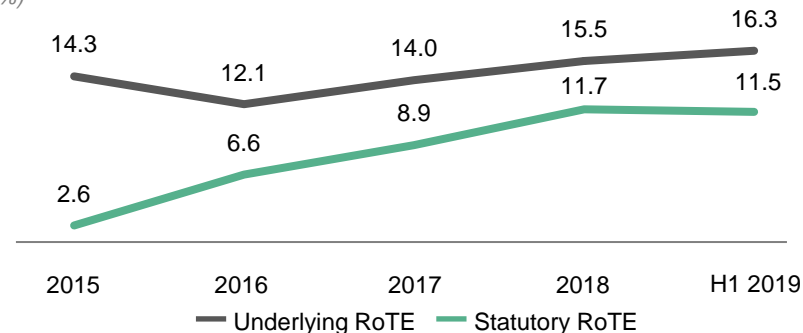
### Statutory profit after tax<sup>(1)</sup>

(£bn)



### Return on tangible equity<sup>(2)</sup>

(%)





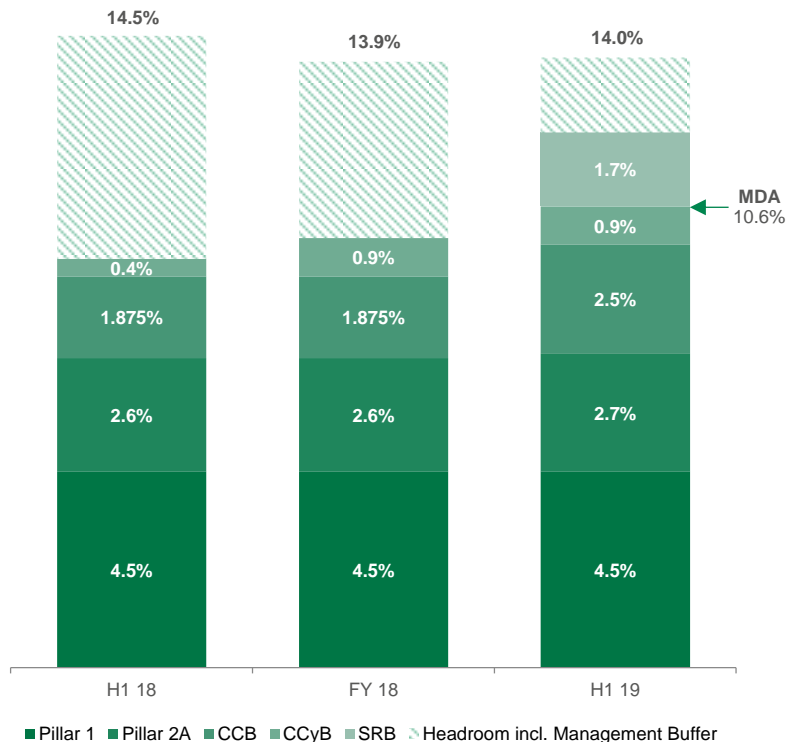
# Capital, Funding & Liquidity



# Strong capital build through H1, end state capital requirements confirmed

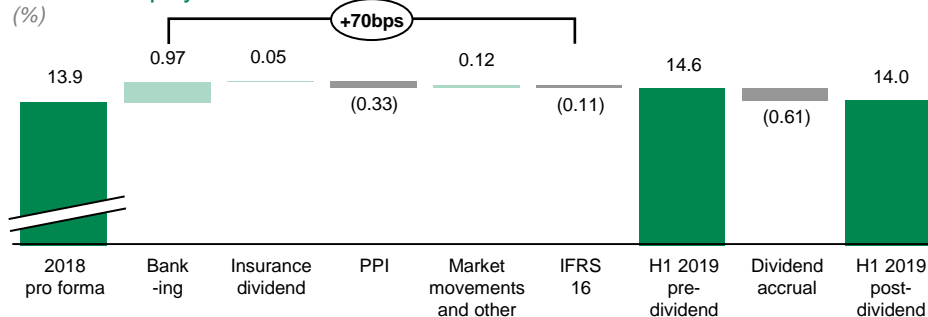


## CET1 Ratio



- **Systemic Risk Buffer confirmed at 2.0% for the ring-fenced subgroup (equivalent to 1.7% at Group)**
- **Capital build of 70bps in H1 (post. IFRS 16)**
- **CET1 guidance remains c.12.5%, plus a management buffer of c.1%**
- **Continue to expect ongoing capital build of 170-200bps p.a. - 2019 now expected to be towards the lower end of this range**

## Common equity tier 1 ratio

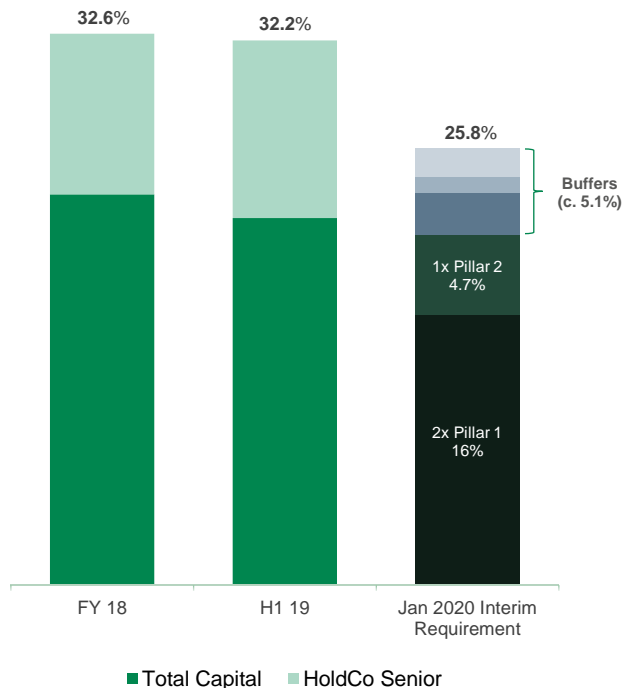


1 - Chart not to scale. 2 - Systemic Risk Buffer of 2.0%, applicable to the RFB sub-group, effective from 1 August. This equates to 1.7% at Group level. 3 - Pillar 2A reviewed annually by the PRA. 4 - FY 18 CET1 ratio of 13.9% is pro-forma, reflecting the Insurance dividend received in February 2019, ordinary dividends and the share buyback. 5 - Half year CET1 ratios are shown pro-forma for the insurance dividend received in July, post ordinary dividends and post the share buyback

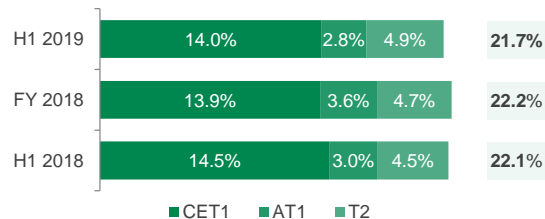
# MREL ratio ahead of interim requirement, well on-track for end-state



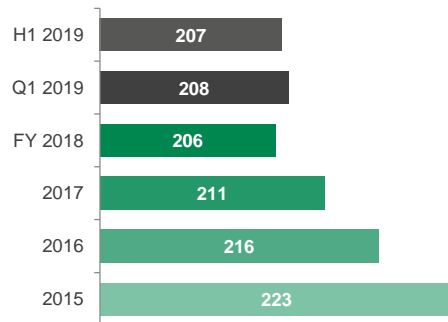
## Transitional MREL Ratio



## Total Capital Ratio



## RWAs (£bn)

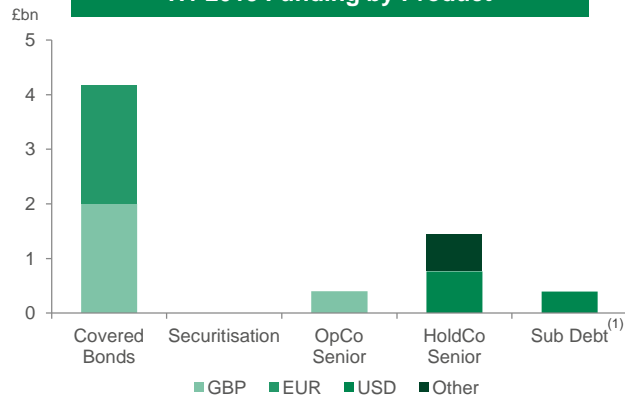


- Total capital remains strong at 21.7%
- £1,481m AT1 security called on June 27<sup>th</sup>
- Steady state MREL issuance of c.£5bn p.a. on average
- Total 2019 MREL issuance likely to be lower than average given current MREL position

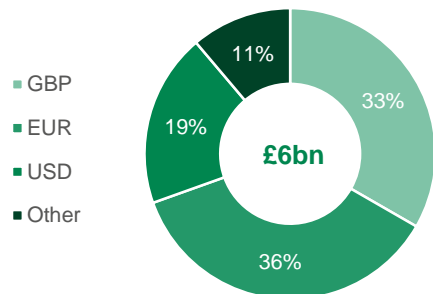
# Strong progress against funding plan; LBCM EMTN programme launched



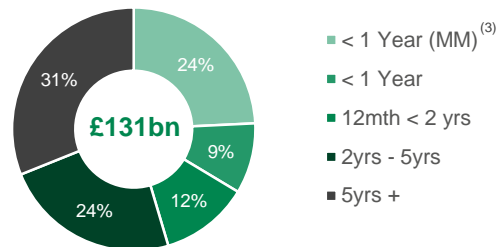
## H1 2019 Funding by Product



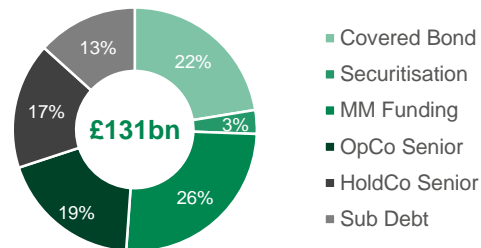
## H1 2019 Funding by Currency <sup>(2)</sup>



## Funding Portfolio by Maturity (at H1 19)



## Funding Portfolio by Product (at H1 19)



- c.£6bn sterling equivalent issued across 7 public transactions in H1
- Funding in H2 2019 will be focused on secured products and OpCo senior
- Continue to guide to a steady state funding requirement of £15-20bn per annum, diversified across:
  - Core markets - USD, EUR and GBP
  - Strategic markets - AUD, JPY, CAD and CHF
- We will consider pre-funding some of our 2020 issuance plan if markets are conducive

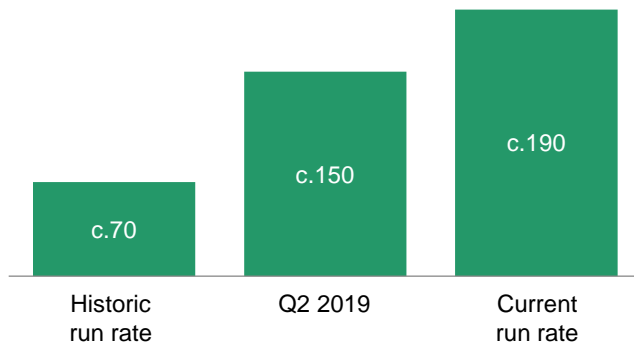
# Appendix



## PPI activity significantly increased in the second quarter

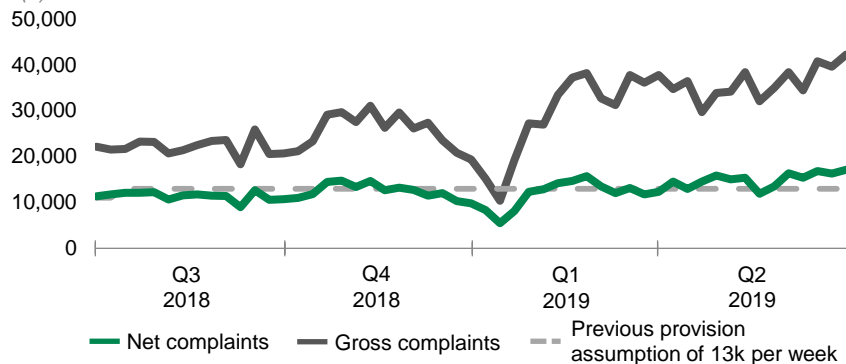
### PPI information requests received

(Average per week, #k)



### Net and gross PPI complaints

(#)



- £550m charge in Q2 primarily driven by significant increase in PPI information request (PIR) volumes
- PIRs are first stage in CMC complaints process
- Historic run rate of c.70k PIRs driving c.9k complaints per week with a further c.4k complaints coming direct
- Average c.150k PIRs per week in Q2 and c.190k currently; will drive higher complaints in Q3
- Outstanding provision of £1.1bn assumes 190k PIRs per week with lower quality until 29 August industry deadline
- PIR and complaint volumes remain uncertain

# Creating a market leading wealth proposition

## A full service offering for LBG clients

Partnership will provide a full service offering for LBG clients...



**Mass Market** – Digitally enabled direct FP&R offering

*<£100k investable assets or income (Execution only / robo-advice)*

*Market launch 2020*

**Schroders**  
personalwealth

**Mass Affluent** – 50.1% stake<sup>(1)</sup> in newly created JV

*>£100k investable assets or income, seeking advice*

*Market launch H2 2019*

**Cazenove**  
Capital

**HNW/UHNW** – 19.9% stake<sup>(1)</sup>; leading wealth management and investment business

*>£1m investable assets, with more complex needs*

*Live to customers*

## Supported by a number of key differentiators

Leveraging the strengths between two of the UK's strongest financial services businesses...

**Multi-channel distribution model**

Adviser access to **UK's largest branch network**

Largest digital bank in the UK

**Investment & wealth management expertise**

**400+** years of combined financial services experience

300 advisers from day 1, with ambition for future expansion

**Unique client base**

**£13bn** AuA from day 1

Access to LBG customer base through referrals

**Leading digital and expert technology capabilities**

**Award-winning** adviser platform technology deployed

Digital, real-time portfolio access for customers

<sup>1</sup> – To be effective from the point of investment in H2 2019. Reflects agreed investment in Schroders Personal Wealth and holding company of Schroders' UK wealth management business, which provides access to Cazenove Capital (both subject to regulatory approval).



# Group's strong focus on sustainability reflected in ESG ratings

## Environmental



### BUSINESS



### GREEN / SUSTAINABLE BONDS



### LBG FOOTPRINT

- £2bn Clean Growth Finance Initiative: Metroline low emission bus fleet; and the world's largest wind farm. Updated sector policies for Coal, Defence, Oil & Gas etc.
- €1bn Debut Green Senior Unsecured Bond for Telefonica, £300m Sustainability Bond for Co-operative Group. Published updated Sustainability Bond Framework
- RE100 accreditation: 97% of Group's electricity from renewables



## Social



### SOCIAL DISADVANTAGE



### DIVERSITY



### DEVELOPING SKILLS

- £56m community investment in 2018 through colleague time, direct donations and giving through Foundations. Over £8m raised for MentalHealth UK
- Ambitious targets for 2020: Senior roles to be 40% women and 8% BAME colleagues
- Pledged to train 750 apprentices, graduates and engineers through our £1m annual investment in Lloyds Bank Advanced Manufacturing Training Centre



## Governance



### ENHANCED GOVERNANCE



### AMBITIOUS, PUBLIC TARGETS



### CONTINUOUS INNOVATION

- Responsible Business Committee (Board sub-committee) and Group Executive Sustainability Committee. Build out of Responsible Business team
- 'Helping Britain Prosper Plan' mapped to UN Sustainable Development Goals. TCFD Working Group established
- Lloyds Banking Group Centre for Responsible Business joint venture with University of Birmingham Business School



## RECOGNITION

- MSCI - Received a rating of BBB (on a scale of AAA-CCC) in 2018
- Sustainalytics Risk Rating of 27 in 2018 (out of 100 where 0 is lowest risk)
- Only UK bank make the CDP 'A' List

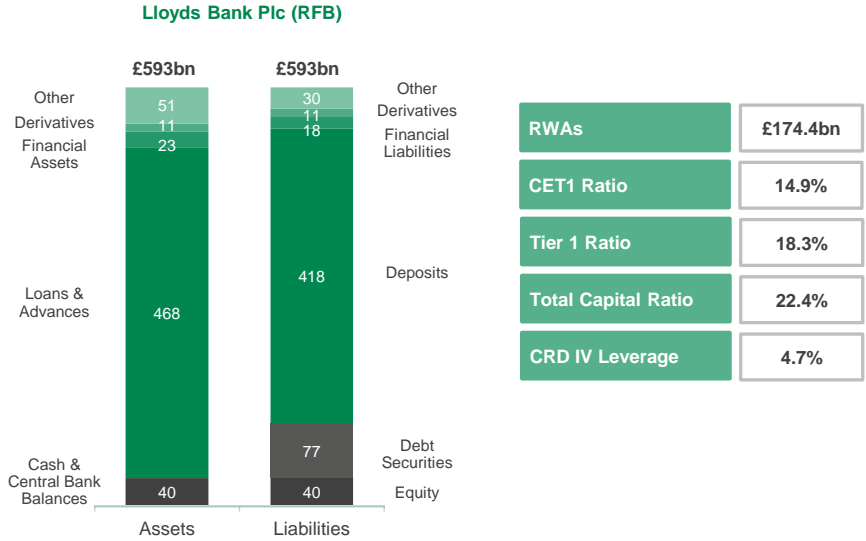




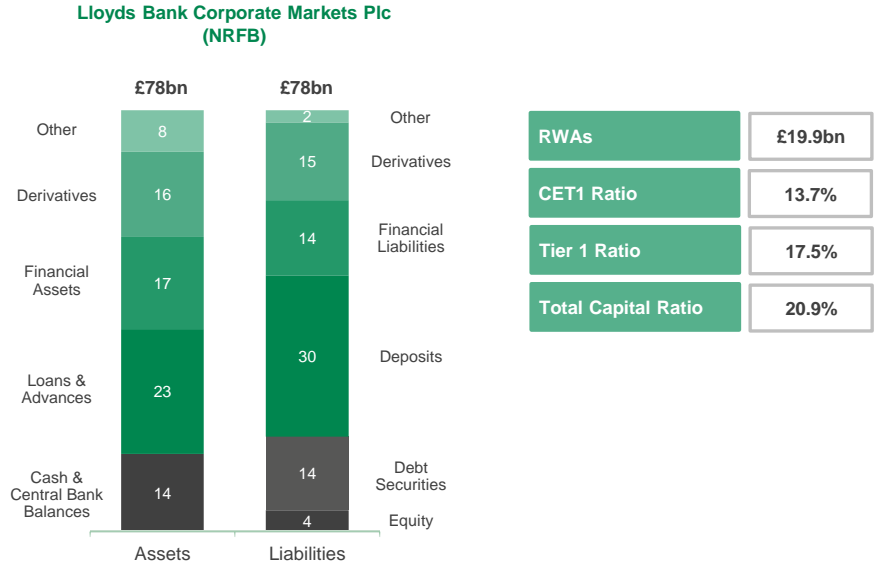
LBCM



# FY 2018 | Legal entity balance sheet analysis



- Over 95% of Group loans & advances remain within the ring-fenced bank
- Majority of Lloyds Bank, Bank of Scotland and Halifax banking activities including current accounts, savings and deposits

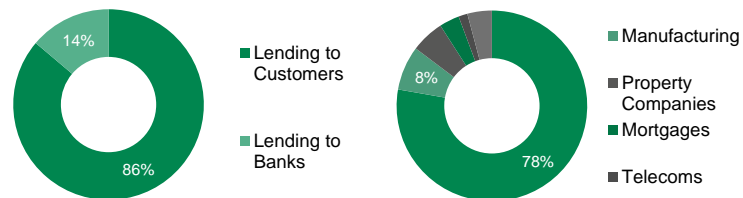


- Primary business lines include lending to financial institutions, capital markets and non-EEA activity
- Strong capital position with lower requirements than the RFB

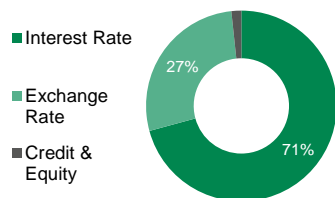
# FY 2018 | LBCM Balance Sheet



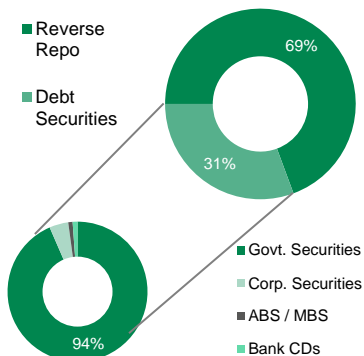
## Loans & Advances (ex. Reverse Repo) £19bn



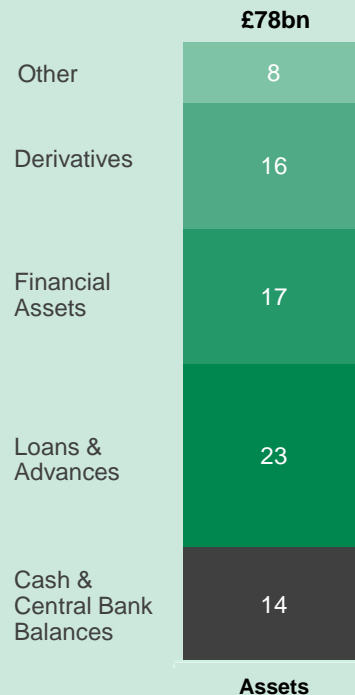
## Derivatives £16bn



## Financial Assets £17bn



## Assets £78bn

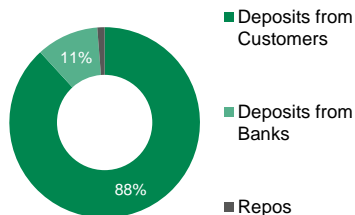


- Well diversified balance sheet; clear focus on **providing core distribution & financing solutions** to clients
- Large proportion of balance sheet is **secured; Repo franchise** operates as a matched funded business
- High quality investment grade loan book – 99% Stage 1
- 95% of derivative exposures are investment grade (incl. Lloyds)
- Large cash balances with additional Government securities demonstrate **prudent approach to liquidity**

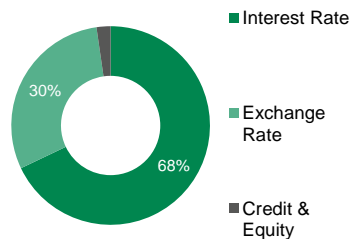
# FY 2018 | LBCM Balance Sheet



## Deposits £30bn



## Derivatives £15bn

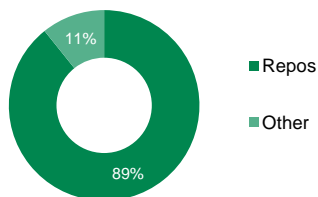


## Equity £4bn

## Debt Securities £14bn

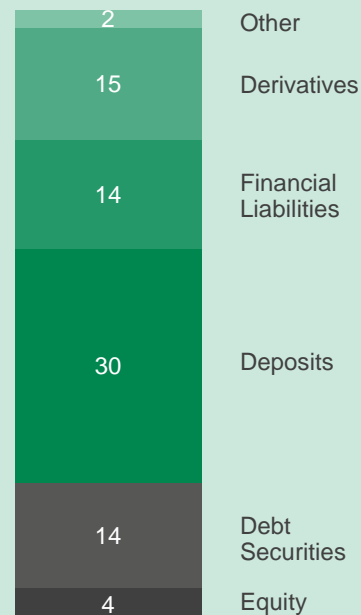
- All capital and MREL downstreamed from LBG
- £0.8bn of AT1 & £0.7bn of Tier 2 issued to LBG
- No legacy debt
- £6.4bn of loss-absorbing HoldCo Snr at FY18
- Excess LBG funding to be repaid following EMTN programme being established

## Financial Liabilities £14bn



## Liabilities

£78bn



Liabilities

- Commercial and non-EEA (mainly Crown Dependency) deposit base
- Derivatives business provides hedging solutions to customers – **no proprietary trading**
- EMTN programme established - expect **c.£2bn in 2019, 2-5y maturity, focus on G3 currencies**

# Notes



# Debt Investor Relations Contacts



Website: [www.lloydsbankinggroup.com/investors/fixed-income-investors](http://www.lloydsbankinggroup.com/investors/fixed-income-investors)

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# Forward looking statements and basis of presentation



## Forward looking statements

This document contains certain forward looking statements with respect to the business, strategy, plans and/or results of the Group and its current goals and expectations relating to its future financial condition and performance. Statements that are not historical facts, including statements about the 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; any impact of the transition from IBORs to alternative reference rates; 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; the ability to achieve strategic objectives; changing customer behaviour including consumer spending, saving and borrowing habits; changes to borrower or counterparty credit quality; concentration of financial exposure; management and monitoring of conduct risk; instability in the global financial markets, including Eurozone instability, instability as a result of uncertainty surrounding the exit by the UK from the European Union (EU) and as a result of such exit 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; political instability including as a result of any UK general election; 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; risks relating to climate change; changes in laws, regulations, practices and 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 and risks 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 the Group expressly disclaims any obligation or undertaking to release publicly any updates or revisions to any forward looking statements contained in this document to reflect any change in the Group's expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based. 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.

## 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 2019 Half-Year Results News Release.

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