COMMERCIAL BANKING

ROUNDTABLE
"DER TREASURER"

September 2016

LLOYDS BANK
INTRODUCTION TO LLOYDS BANK
LLOYDS HISTORY

1765
Foundation of Lloyds Bank and opening of first Private Banking branch in Birmingham

1995
Merger with Trustee Savings Bank
Groupwide international Network of offices in 45 countries

2000
Lloyds TSB purchases Pensions and Investment Company ‘Scottish Widows’

2009
Lloyds TSB acquires Halifax Bank of Scotland

2009
Following the financial crisis, 43.4% of all Lloyds TSB shares are bought by the British Government

2014
Partial state ownership obliges Lloyds to reshape business portfolio. Non-core assets reduced by more than £140bn + International presence reduced from more than 30 countries to

2013
Divestment due to partial state ownership → Sale of Trustee Savings Bank

2015
Local German Trade Finance Team established

2015
Global Corporates office in Singapore is opened

Several acquisitions to broaden international footprint of the Group

Further broadening of international network

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## LLOYDS BANKING GROUP AT A GLANCE

### RETAIL BANKING

<table>
<thead>
<tr>
<th>BRANDS</th>
<th>KEY FACTS</th>
</tr>
</thead>
</table>
| **HALIFAX** | ~ 18 million customers  
| **BANK OF SCOTLAND** | 160 years of experience, today 660 branches in UK  
| **LLOYDS BANK** | Second oldest bank in the UK  

<table>
<thead>
<tr>
<th>KPI</th>
<th>H1 2016</th>
</tr>
</thead>
<tbody>
<tr>
<td><em>Underlying Profit</em>: £1,548m</td>
<td>Customer Deposits: £271.3bn</td>
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### COMMERCIAL BANKING

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<tr>
<th>BRANDS</th>
<th>KEY FACTS</th>
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| **LEX AUTOLEASE** | Leading Mid Market Private Equity House in the UK  
| **AMC** | Over 25,000 employees and £2bn equity investments held in over 80 UK businesses  
| **BLACKHORSE** | Network of 5,000 motor dealers  

<table>
<thead>
<tr>
<th>KPI</th>
<th>H1 2016</th>
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</thead>
<tbody>
<tr>
<td><em>Underlying Profit</em>: £1,236m</td>
<td>Customer Deposits: £141.4bn</td>
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### CONSUMER FINANCE

<table>
<thead>
<tr>
<th>BRANDS</th>
<th>KEY FACTS</th>
</tr>
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</table>
| **LEX AUTOLEASE** | >40,000 customers – growing fleet up to 330,000 vehicles  
| **AMC** | Responsible for 1 in 28 of the UK’s new car vehicles registered  
| **BLACKHORSE** | Financing 1m customers, worth £ 1.7bn per annum |

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<tr>
<th>KPI</th>
<th>H1 2016</th>
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<tbody>
<tr>
<td><em>Underlying Profit</em>: £690m</td>
<td>Customer Deposits: £9.1bn</td>
</tr>
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</table>

### INSURANCE

<table>
<thead>
<tr>
<th>BRANDS</th>
<th>KEY FACTS</th>
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| **SCOTTISH WIDOWS** | Operating since 1815  
| **COLLEYS** | Over 6m people hold a Scottish Widows manufactured product  

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<thead>
<tr>
<th>KPI</th>
<th>H1 2016</th>
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<tr>
<td>3.7m home insurance customers</td>
<td></td>
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*Underlying Profit = Statutory profit adjusted for certain items as detailed in the Basis of Preparation; Calculation: NII + Other Income less Operating Costs, Operating Lease depreciation and Impairments
LLOYDS BANKING GROUP AT A GLANCE

KEY FACTS & OPERATIONAL PERFORMANCE

Lloyds Banking Group Highlights H1 2016

- Strong balance sheet and liquidity position:
  - Total Capital Ratio of 21.8% and CET1 Ratio of 13.0% (after dividend)
  - Liquidity Coverage Ratio >100%; eligible assets increase to £142bn (FY 2015: £123bn)
- Robust underlying profit of £4.2bn (H1 2015: £4.3bn)
  with return on required equity of 14.0% (H1 2015: 16.2%)
- Statutory profit before tax more than doubled to £2.5bn
- Strong net interest margin of 2.74% (H1 2015: 2.62%)
- Market leading Cost Income Ratio of 47.8%

MARKET CAPITALISATION COMPARISON (EUROPEAN BANKS)

<table>
<thead>
<tr>
<th>Bank</th>
<th>Bloomberg, September 2016, in £ billion</th>
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<tr>
<td>HSBC</td>
<td>116.3</td>
</tr>
<tr>
<td>BNP</td>
<td>50.4</td>
</tr>
<tr>
<td>Santander</td>
<td>50.0</td>
</tr>
<tr>
<td>Lloyds Bank</td>
<td>43.7</td>
</tr>
<tr>
<td>UBS</td>
<td>42.8</td>
</tr>
<tr>
<td>ING</td>
<td>37.5</td>
</tr>
<tr>
<td>Barclays</td>
<td>29.6</td>
</tr>
<tr>
<td>RBS</td>
<td>24.1</td>
</tr>
<tr>
<td>Standard Chartered</td>
<td>21.8</td>
</tr>
<tr>
<td>Credit Suisse</td>
<td>20.9</td>
</tr>
<tr>
<td>Credit Agricole</td>
<td>20.6</td>
</tr>
<tr>
<td>Deutsche Bank</td>
<td>15.5</td>
</tr>
<tr>
<td>Unicredit</td>
<td>12.3</td>
</tr>
<tr>
<td>Commerzbank</td>
<td>6.9</td>
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RECENT PRESS & AWARDS

- Best Bank for Treasury & Cash Management in the UK 2015 and 2016
- Best Developed Markets Bank 2015
- #1 Large Corporate UK Cash Management 2016
- EMEA Structured Finance House of the Year 2015
- Business Bank of the Year 2005 - 2016
- Euromoney 2015 Awards for Operational Excellence
- Bank of the Year 2015
- Business Product Innovation of the Year 2015

UK PEER SENIOR BANK OPCO RATINGS COMPARISON

- S&P
- Moody’s
- Fitch
VALUE CREATION FROM SUSTAINABLE WORKING CAPITAL MANAGEMENT
MANAGING WORKING CAPITAL IS A CHALLENGE

Cash Conversion Cycle Annual Movement 2011-15

65% of German companies moved more than 10 days on average each year

Only 1% of German companies achieved consistent year on year efficiency improvements

82% of German companies decreased in efficiency more than once over 5 years

Note: Based on analysis of 2,100 companies headquartered in the Western Europe
Source: S&P Capital IQ
Comparing growth trends: Revenues and Working Capital

Revenue growth has decoupled from growth in revenues

Source: S&P Capital IQ
UNFOLDING THE WORKING CAPITAL COMPOSITION

Long-term evolution of ‘Days Outstanding’

Whilst inventory levels are fairly stable, companies collect receivables quicker, but also experience pressure to pay sooner.
Cash cycles indicate a significant tie-up of capital across sectors

Note: Graphs show 3-year averages for each respective industry
Source: S&P Capital IQ
DOES SIZE MATTER?

Comparing company size (Total Revenues) with the Cash Cycle

Leverage scale (and bargaining power) to achieve a shorter cash conversion cycle…and release capital

Note: Graph excludes Volkswagen and C.H. Boehringer (CCC: 395 days)
Source: S&P Capital IQ
KEY TO SUSTAINABLE IMPROVEMENTS

A comprehensive approach is required to ensure benefits are sustained. Successful businesses have detailed and automated MI, robust processes, defined working capital responsibilities and a focus on embedding skills.

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<tbody>
<tr>
<td>1</td>
<td>Cash and working capital has to be a <strong>business priority</strong> and a permanent agenda for boards and senior management</td>
</tr>
<tr>
<td>2</td>
<td><strong>Exclusively finance led initiatives fail.</strong> Working capital is driven cross-functionally. Successful working capital improvement programmes require broad engagement across the business and strong board and commercial sponsorship</td>
</tr>
<tr>
<td>3</td>
<td>Developments in <strong>analytical capabilities</strong> now enable companies to have access to real-time reporting and KPIs on working capital, including invoice level customer and supplier payment performance. This enhanced management information is being used to drive greater visibility and focus</td>
</tr>
<tr>
<td>4</td>
<td><strong>Responsibility and accountabilities for key areas of working capital are defined clearly.</strong> Business unit and individual performance management targets are utilised across the key cash cycle phases to focus on performance improvement</td>
</tr>
<tr>
<td>5</td>
<td>Greater focus on <strong>working capital training and embedding skills</strong> across the organisation. Helping commercial teams understand the impact of potential changes in working capital</td>
</tr>
<tr>
<td>6</td>
<td><strong>Well defined working capital policies</strong>, including the incorporation of cash and working capital profiles in business / investment cases. Enhanced review and challenge of cash and working capital in the annual planning cycle</td>
</tr>
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THE BUSINESS CASE FOR WORKING CAPITAL

A Driver of Long Term Cash Flow..

..And Broader Efficiency

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<tr>
<th>Industry in which working capital productivity doubled</th>
<th>Average improvement in labour productivity (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Computers</td>
<td>59</td>
</tr>
<tr>
<td>Construction equipment</td>
<td>57</td>
</tr>
<tr>
<td>Industrial gases</td>
<td>40</td>
</tr>
<tr>
<td>Air Conditioners</td>
<td>38</td>
</tr>
<tr>
<td>Automobiles</td>
<td>36</td>
</tr>
</tbody>
</table>

Source: Boston Consulting Group
VALUE CREATION – DISCOUNTED CASH FLOWS

Analysis: Free Cash Flow

Note: Graphs show the total (i.e. sum) respective figure of all German companies with more than €500m revenue, excl. financials (Total: 201)
Source: S&P Capital IQ
Analysis: Free Cash Flow

Consider Working Capital flows as **important value driver** besides EBITDA, Capex and Tax

Note: Graphs show the total (i.e. sum) respective figure of all German companies with more than €500m revenue, excl. financials (Total: 201)
Source: S&P Capital IQ
Analysis: Return on Capital Employed

Muted economic growth and the ready access to (cheap) debt have depressed returns

Note: Numbers in graphs all German companies with more than €500m revenue, excl. financials (Total: 201)
Source: S&P Capital IQ
FINANCIAL FLEXIBILITY

ROCE vs Total Debt/ EBITDA

Note: Graph adjusted to remove outliers | Business (Capex + Acquisitions) and Shareholder (Dividends + Share-Buybacks) allocation figures 3yr total 2013-2015
Source: S&P Capital IQ
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Source: S&P Capital IQ
FINANCIAL FLEXIBILITY

ROCE vs Total Debt/ EBITDA

Capital allocation policy drives flexibility for strategic actions

Note: Graph adjusted to remove outliers | Business (Capex + Acquisitions) and Shareholder (Dividends + Share-Buybacks) allocation figures 3yr total 2013-2015
Source: S&P Capital IQ
CONCLUSIONS

- Size does not (necessarily) matter – **operating efficiency** does
- Effective W/C management supports **sustainable Cash Flow generation**
- W/C is a **source of value creation** for the firm & its shareholders
- Disciplined (working) capital allocation facilitates overall **financial flexibility**
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