LLOYDS BANKING GROUP

MORGAN STANLEY EUROPEAN FINANCIALS CONFERENCE

2 April 2009

London

Eric Daniels

Group Chief Executive

OVERVIEW

- Strongly capitalised
- De-risked balance sheet
- Significant synergy opportunities
- Opportunity to redeploy capital
- Diverse funding sources with an improving maturity profile
- Experienced management team

A compelling case for long term growth

DRIVING A SMOOTH INTEGRATION PROCESS

LLOYDS BANKING GROUP

Pre-acquisition

- **Appointed executive management team**
- **Over 5,000 days of due diligence completed**
- **Over 7,000 tasks undertaken**
- **Strong initial view of synergies**

16 JANUARY 2009 – ACQUISITION COMPLETED

Post-acquisition

- **Appointed Top 500 executives – now managing combined business**
- **New business unit structure embedded**
- **Rules, governance, values and vision in place**
- **Initial synergies starting to be captured**

THE UK'S LEADING FINANCIAL SERVICES COMPANY

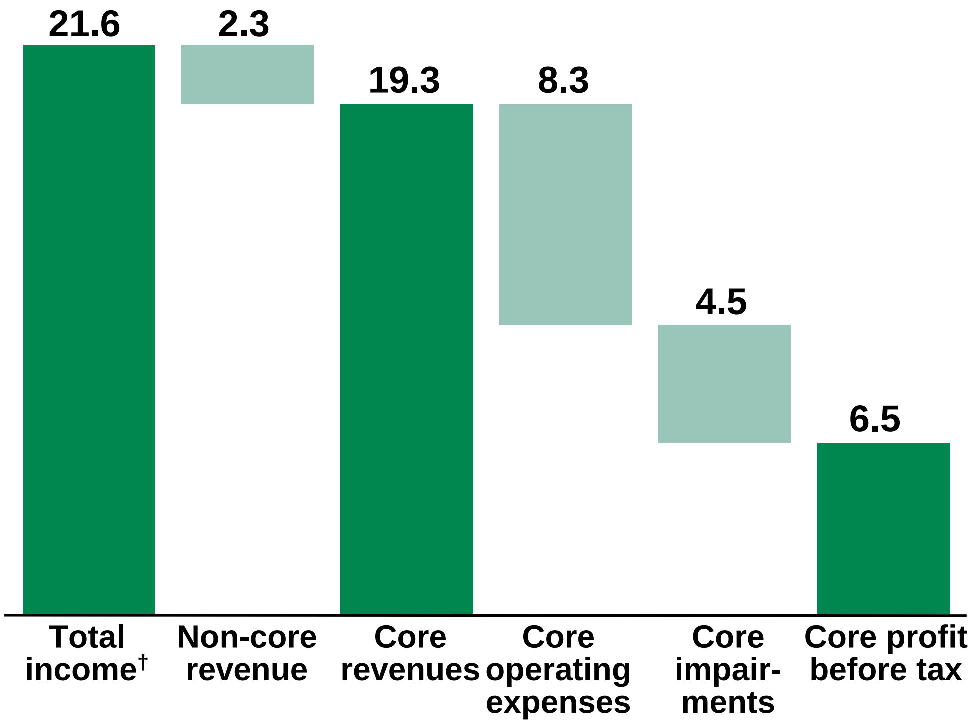
	Lloyds TSB		HBOS		Lloyds Banking Group	
	Share	Position	Share	Position	Share	Position
Current accounts	17%	#1	14%	#4	31%	#1
Savings	8%	#5	15%	#2	23%	#1
Credit cards	12%	#3	12%	#3	24%	#1
Mortgages	11%	#4	19%	#1	30%	#1
Personal lending	14%	#1	5%	#3	19%	#1
SME's	18%	#=2	4%	#5	22%	#2
Life assurance & pensions	6%		6%			
Home insurance distributor	8%	#1	6%	#2	14%	#1
Mid-large corporate	14%	#3	8%	#5	22%	#3

Notes: All figures based on 31 December 2008 and represent share of product stock
Sources: GfK FRS, ABI, TNS, Bank of England, CACI, SME's - companies with turnover £0-15m,

CORE BUSINESSES WILL DRIVE LOW RISK GROWTH

LLOYDS BANKING GROUP

2008 Pro forma: core vs non-core* (£bn)



% capital 45.7% 54.3%

* Lloyds Banking Group estimates
† Continuing basis

Growth drivers

- Growth in core markets
- Cost synergies
- Revenue synergies
- Redeployed capital
- Normalised impairments

STRONG PROGRESS ON DELIVERING COST SYNERGY VALUE

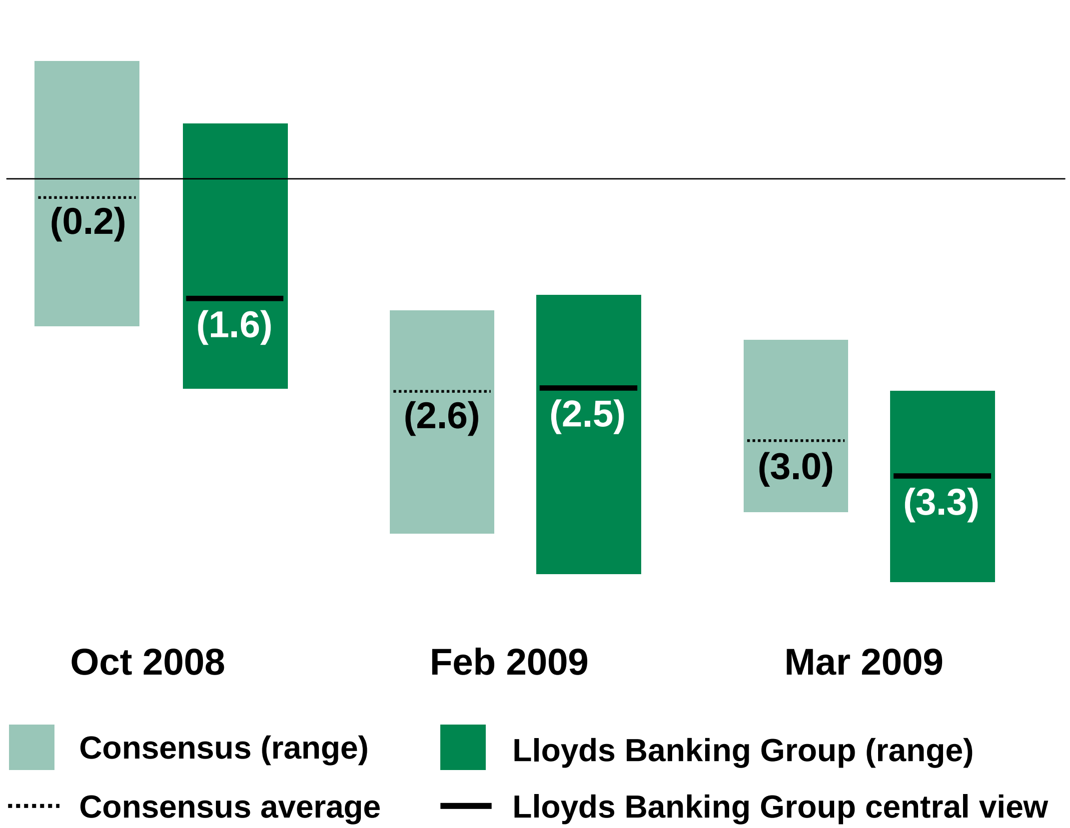
	2011 run rate	Delivery commenced
1. Procurement rationalisation	300	✓
2. Business unit consolidation	200	✓
3. Rationalisation of IT	130	✓
4. Management & support (ex branch)	115	✓
5. Business discontinuance	100	✓
	c.845 c.55% of total run rate	

WE HAVE IDENTIFIED SIGNIFICANT REVENUE SYNERGIES

Selected examples	Preliminary estimate PBT impact (£m)
1. Increasing cross-sell in HBOS retail	80 – 120
2. Conversion of HBOS retail customers to SME	80 – 120
3. Increase cross-sell in HBOS commercial	40 – 80
4. Extend private banking services to Lloyds Banking Group existing customers	40 – 80

THE ECONOMIC ENVIRONMENT WILL REMAIN DIFFICULT

GDP growth forecast 2009 (%)
Consensus vs Lloyds Banking Group



- House prices will continue to fall through 2009
- Unemployment will continue to rise
- Consumer spending will slow further

* Source: Consensus Economics Inc

UNDERSTANDING THE HBOS LOAN BOOK

£bn	Retail	Corporate	International	Total
Total loans	255	116	61	432
Outside Lloyds TSB risk appetite	~65	~80	~20	~165

GROUP WIDE ACTIONS TAKEN TO MANAGE RISK

In divisions

- Stopped flow of new high risk lending
- Identified the higher risk assets
- Undertaking detailed review of those assets
- Managing intensively the high risk books

At Group level

- Applying Lloyds TSB risk governance, appetite and sanctioning
- Conducting central checks of divisional risk activities
- Repetitive 5 year stress testing of HBOS credit and financial performance
- Applying Lloyds TSB conservative economic assumptions and stress testing methodologies

ASSET PROTECTION SCHEME – KEY DETAILS

- **De-risks up to £260 billion Group assets**
- **Approximately £194 billion RWA relief**
- **Increases pro-forma adjusted* core tier 1 capital ratio to 14.5%, total capital ratio of 20.5%†**
- **Lloyds retains £25 billion 'first loss'**
- **Subsequent losses shared 90/10 between HMT and Lloyds**

The initial portfolio comprises:

	£bn
Retail – mortgages	74
Retail – unsecured personal loans	18
Corporate/Commercial‡	151
Treasury Assets	17
Total	260

- **Assets predominantly represent higher risk and concentrated portfolios**

* Adjusted for capital raisings in January 2009 and net negative capital adjustments arising on acquisition of HBOS
† Includes impact of conversion of the £4 billion HMT preference shares
‡ Including UK and International Commercial Real Estate and Leveraged Finance

A SIGNIFICANTLY DE-RISKED AND IMPROVED CAPITAL POSITION

LLOYDS BANKING GROUP

At 31 December 2008	Before*	After*	Change
Risk-weighted assets (£bn)	498	304	(39%)
Core tier 1 capital (£bn)†	32.1	44.0	37%
Core tier 1 capital ratio (%)†	6.4	14.5	+810bps
Tier 1 capital (£bn)	48.8	56.7	16%
Tier 1 capital ratio (%)	9.8	18.7	+890bps

* Proforma adjusted for capital raisings in January 2009 and net negative capital adjustments arising on acquisition of HBOS. Based on initial APS portfolio analysis

† After first loss deduction which is reduced by impairment and fair value adjustments for the insured element of the APS portfolio, 50% of which is taken against core tier 1. Includes impact of conversion of the £4 billion HMT preference shares

A DIVERSE FUNDING PROFILE

LLOYDS BANKING GROUP

- Core customer deposit base
- Diverse wholesale funding profile
- Measured use of Government schemes
- Significant Central Bank eligible collateral
- Continuing full access to global markets
- Extending maturity

Strong funding and liquidity profile

DIVERSE FUNDING SOURCES WITH PRUDENT MATURITY PROFILE

£bn	31 Dec 2008
Bank deposits	41.6
Customer deposits	72.7
Certificates of deposit	72.4
Medium-term notes	61.5
Covered bonds	29.1
Commercial paper	28.8
Securitisation	45.6
Subordinated debt	38.1
Other	52.8
Total Wholesale	442.6
Retail	281.3
Total Group funding	723.9

	31 Dec 2008
Less than one year	285.9
One to two years	30.9
Two to five years	62.2
More than five years	63.6
	442.6

SUMMARY

- **Market leading positions throughout the UK Financial Services market – a powerful franchise**
- **Strengthened capital base**
- **Significantly de-risked balance sheet**
- **Excellent synergy opportunities, both cost and revenue**
- **Substantial opportunity to redirect capital to more productive areas**
- **Diverse funding sources with an improving maturity profile**

A compelling case for long term growth

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