LLOYDS BANKING GROUP

BANK OF AMERICA MERRILL LYNCH BANKING AND INSURANCE CEO CONFERENCE

28 September 2010

Eric Daniels

Group Chief Executive

TODAY'S AGENDA

- THE GROUP IS DELIVERING
- PUTTING IN PLACE THE BUILDING BLOCKS FOR GROWTH
- OUR CUSTOMER STRATEGY WILL DRIVE SUSTAINABLE RESULTS

A LEADING UK FINANCIAL SERVICES COMPANY
Valuable and broad customer franchises

LLOYDS BANKING GROUP

ENDURING BRANDS	Lloyds TSB; BANK OF SCOTLAND; HALIFAX; SCOTTISH WIDOWS
RETAIL	▪ 22 million current account customers - the UK's largest provider ▪ Provides mortgages to one in three borrowers in the UK ▪ The UK's largest retail branch network - c.2,900 branches
WHOLESALE	▪ Serving over 1 million businesses ▪ Targeting 100,000 new commercial accounts per annum ▪ Supporting customers 'through the cycle'
WEALTH AND INTERNATIONAL	▪ Private banking, Wealth and Asset Management services ▪ SWIP assets under management of £136 billion ▪ Operating in more than 30 countries around the world
INSURANCE	▪ One of the largest life & pensions providers in the UK ▪ The leading bancassurance provider ▪ Largest distributor of home insurance in the UK

GUIDANCE DELIVERED

Performed in line with, or better than, our former guidance

	OLD GUIDANCE	H2 2009[1]	H1 2010[1]
REVENUE GROWTH	High single digit growth within 2 years	✓	✓
MARGINS	Margin expected to increase to c.2%	✓✓	✓✓(2)
COST:INCOME RATIO	c.200 pa basis points improvement	✓✓	✓✓
INTEGRATION BENEFITS	Run rate savings of £2 billion pa by end of 2011	✓✓	✓(3)
IMPAIRMENTS	Half-yearly run rate improvement to continue through 2010	✓	✓✓
BALANCE SHEET REDUCTION	£200 billion asset reduction by 2014	✓	✓

✓ In-line with guidance ✓✓ Better than guidance

[1] Combined businesses basis [2] Margin guidance increased to c.2% at FY09 results
[3] Synergy target increased from £1.5 billion to £2.0 billion at FY09 results

THE BUILDING BLOCKS FOR A STRONG BUSINESS

Driving customer value, earnings, capital and returns

Value creation

SUSTAINABLE GROWTH

- Efficiency, effectiveness
- Customer value
- Deep relationships
- Quality market share

PROFITABILITY

- Complete integration
- Drive elements of profit model

CONTROL

- Liquidity profile
- Impairments
- Integration
- Risk framework
- Capital

2009 / 2010

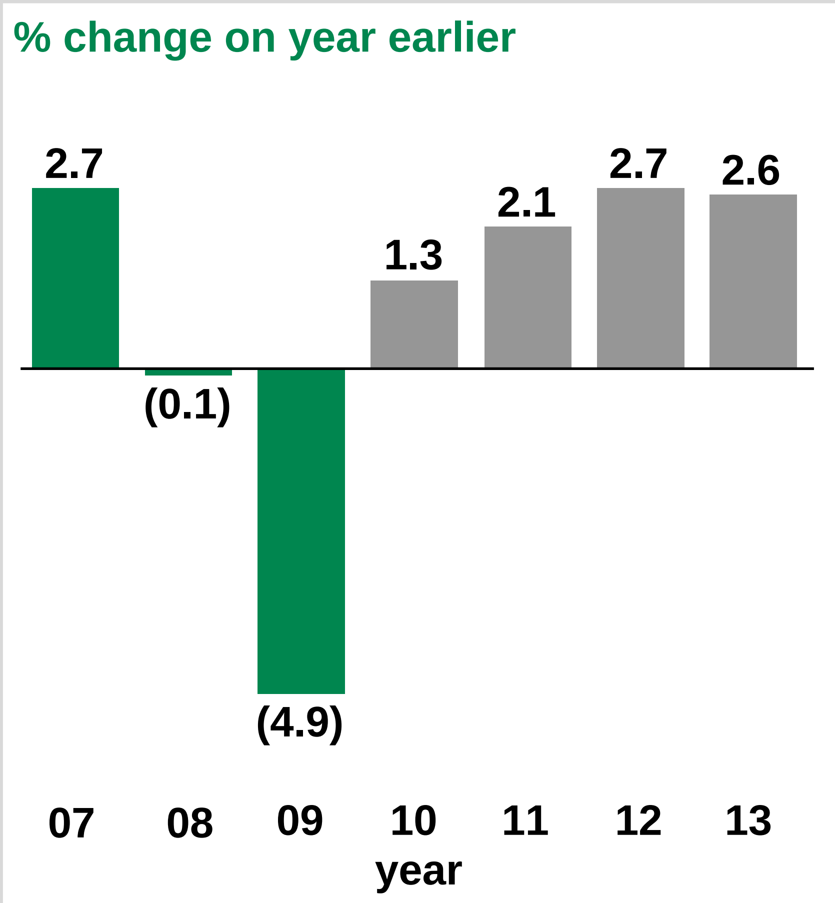
2010 / 2011

2011 onwards

ECONOMIC OUTLOOK

Gradual recovery remains the most likely scenario

GDP GROWTH IN CENTRAL SCENARIO

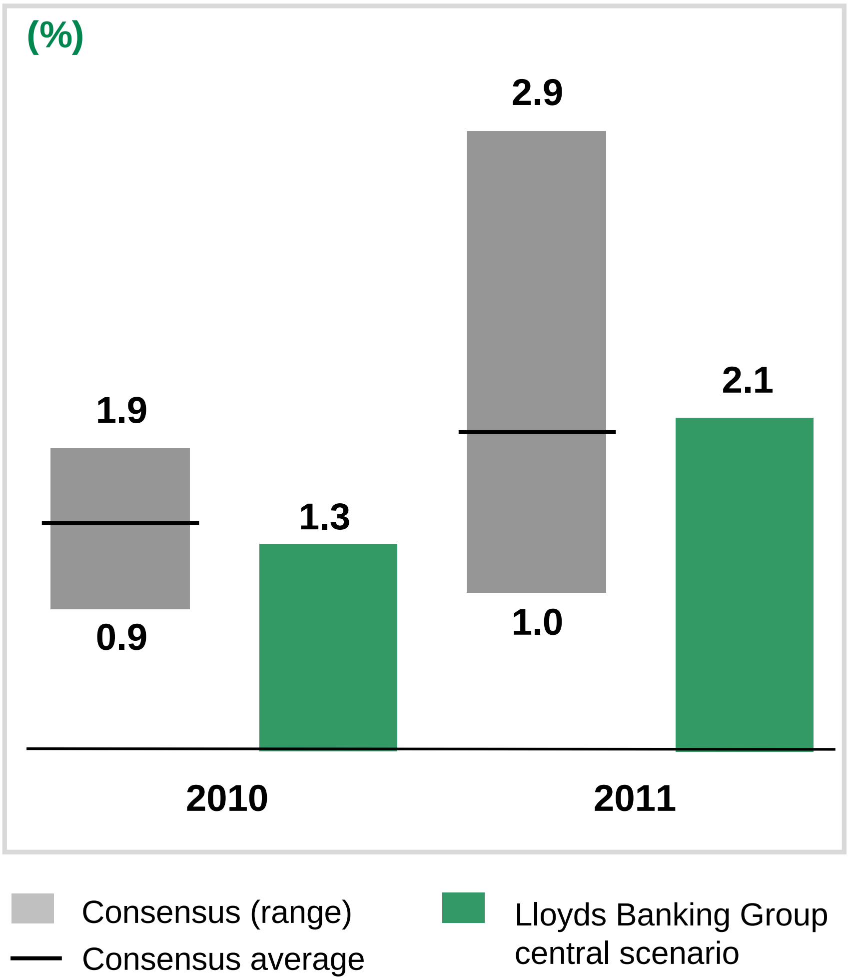


NEAR TERM IMPACT

- **House prices**
  - 0% in 2010
  - +3% in 2011
- **Commercial property values**
  - +6% in 2010
  - +2% in 2011
- **Company failures**
  - Peak in 2010
  - Lower rate than last recession
- **Unemployment**
  - Peak in 2010
  - Lower rate than last recession

ECONOMIC ASSUMPTIONS
Below consensus – a conservative approach

GDP FORECAST
CONSENSUS[1] vs. LLOYDS BANKING GROUP



- Below 2010 consensus for growth and in line with 2011 forecast
- Base rate assumptions are in line with market expectations
- We remain cognisant of the fragility of the economy
- We continue to believe that a gradual recovery is the most likely outcome

EXTERNAL BACKDROP
Challenging environment

- **Markets**
  - Sovereign risk and bank funding markets
- **Prudential regulation**
  - Basel III and Solvency II
  - Stress testing
- **New regulatory structures**
  - Role of the Bank of England; Consumer Protection and Markets Authority
  - European changes
- **External reviews**
  - Independent Banking Commission
  - Treasury Select Committee
  - Office of Fair Trading and European Union
- **Customer treatment**
  - Changing standards

BANKING NET INTEREST MARGIN

Over time, Group can return to generating margins over 2.5%

BASE RATE	▪ Slow and steady rises expected from Q1 2011 ▪ Rate reaches c.4% in 2014
ASSET / LIABILITY PRICING	▪ Asset repricing activity continues – majority already captured ▪ Proportion of mortgages on SVR to increase from 45% to 50% by end 2011 with movements thereafter driven by relative pricing ▪ Liability spreads increase as base rate increases
WHOLESALE FUNDING COSTS	▪ Blended average rate rises as funding source mix and duration evolves over plan period ▪ Reducing reliance on short term money markets

Margin expected to return to over 2.5% by c.2014

STRONG PERFORMANCE ON INTEGRATION

Delivering synergies and building a solid foundation

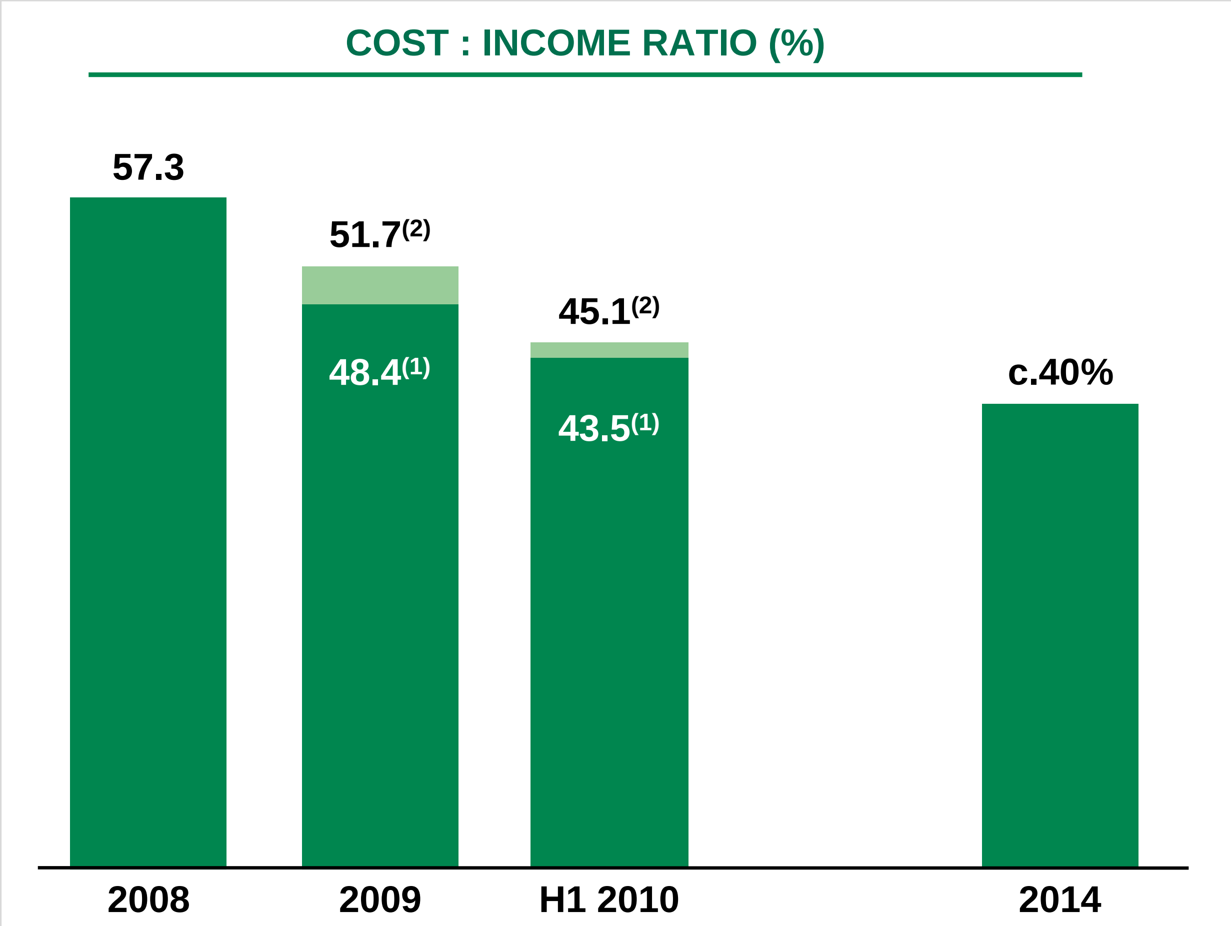
- Organisational design
- Systems and processes
- Property consolidation
- Procurement

- **Faster introduction of new and innovative products**
- **Enabling investment in better products that customers value**
- **Improved sales platforms and customer experience**

Building our capabilities to support our relationship strategy

TARGET COST : INCOME RATIO

Synergy and efficiency programmes allow for investment expenditure

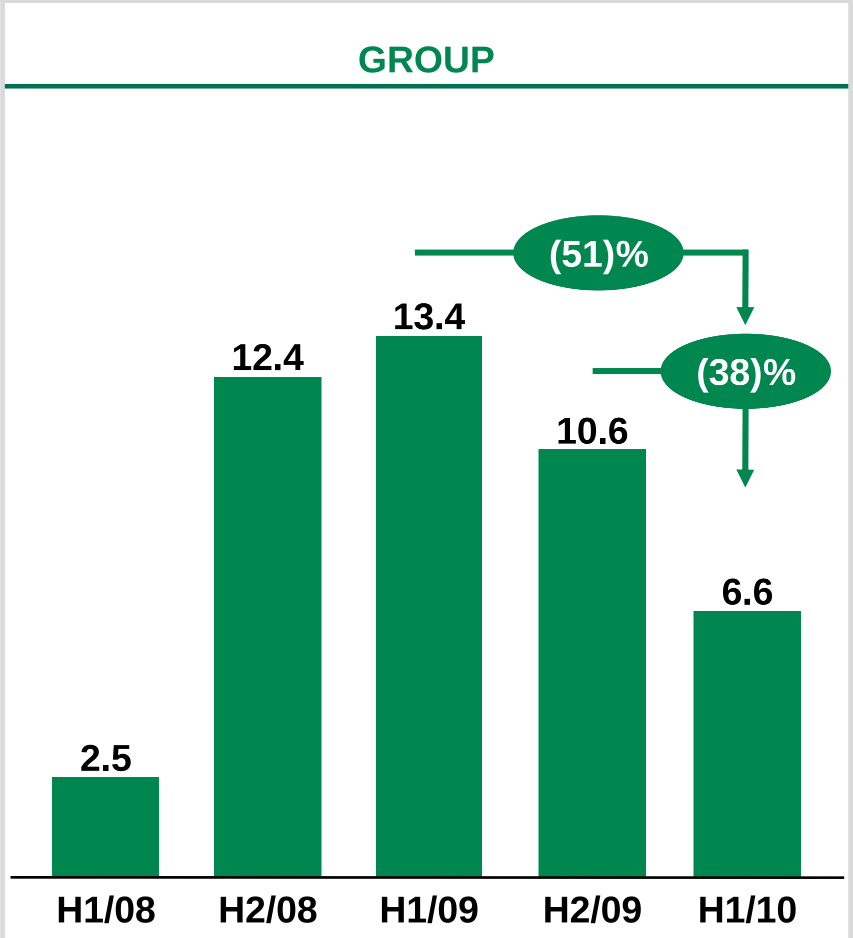


Cost : income ratio to reduce to c.40% by 2014

(1) Reported C:I ratio (2) Excluding gains from liability management transactions

IMPAIRMENTS – AHEAD OF RECENT GUIDANCE

Overall charges 51% lower than last year's peak



- **All divisions contributing to significant reduction in impairment charges**
- **Asset disposals being achieved within provision levels**
- **We expect a moderate reduction in the second half with further meaningful reductions in 2011 and beyond**

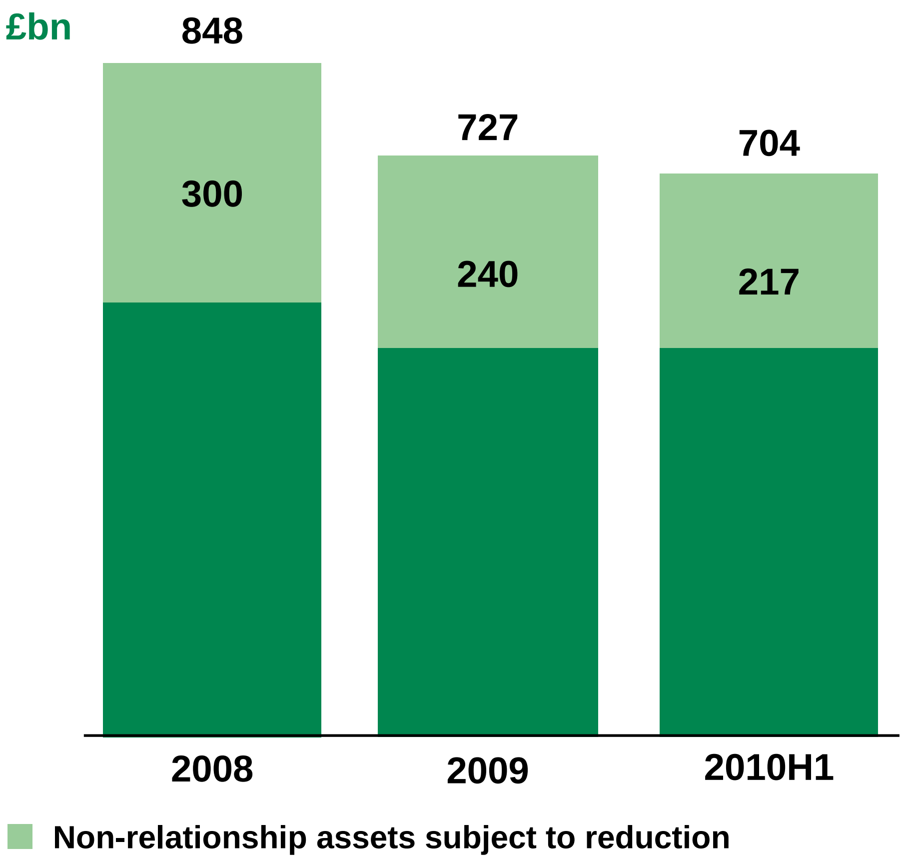
Group AQR expected to fall to 50 – 60 bps by 2014

REDUCING BALANCE SHEET

Banking balance sheet reduction continues as planned

LLOYDS BANKING GROUP

Banking assets less cash(1)



- £83 billion asset reduction since 2008 towards £200 billion target
- £23 billion achieved in H1/10
- RWAs reduced by 6% in H1/10 to £463 billion

Banking balance sheet reduction from asset disposals(2), customer repayment and impairment, partially offset by continued lending to core relationship customers

(1) Loans and advances to customers plus available-for-sale financial assets (2) In line with state aid commitments

FUNDING POSITION
Executing a broad funding strategy

LLOYDS BANKING GROUP

- **2010 public issuance already in excess of £25 billion[1], ahead of plan**
- **Reduced absolute level of wholesale funding**
- **Reducing reliance on short-term funding**
- **Good deposit growth**
- **Substantial liquid asset buffer maintained at £84 billion**
- **Reduced Government and central bank support by £25 billion**
- **Diverse range of funding products and sources**
- **Plans to reduce wholesale funding further while reinvesting for growth**

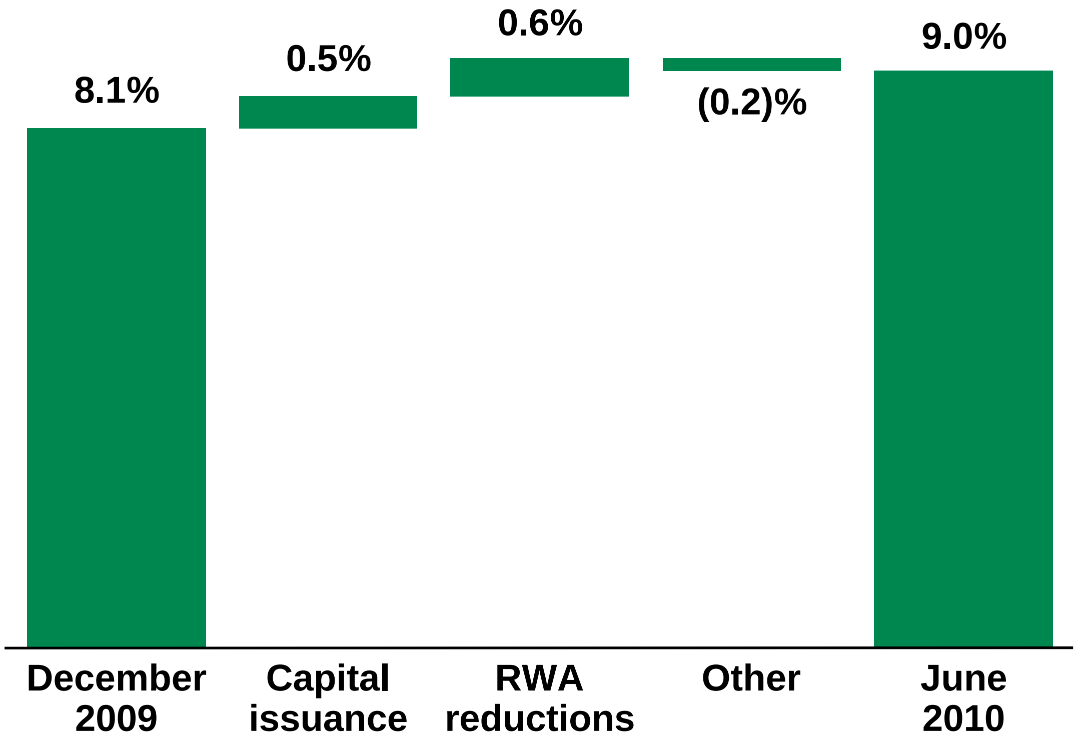
A strengthened funding position

All numbers as at 30 June 2010 unless stated
(1) as at 24 September 2010

A STRONG CAPITAL POSITION

Improving quality and quantity of capital

Core Tier 1 ratio (%)



- **Tier 1 ratio: 10.3%**
- **Total capital ratio: 13.4%**

- **Core tier 1 ratio including ECNs would be 10.5%**
- **Improved quality of capital base including Basel III mitigation**
- **Return to profitability accelerates deferred tax asset consumption**

UPDATE ON BASEL III

Basel Committee's consultative proposals

	December 2009	September 2010
Regulatory capital required	**Calibration and transition outstanding**	**Clarity: 4.5% minimum CT1, 2.5% Conservation buffer but overall calibration remains uncertain due to Countercyclical buffer and Systemic surcharge**
Raising the quality of the capital base		
Remove insurance capital from core tier 1 capital		- Allowance of up to 10% of equity - Insurance Capital transfer progressing - Deferred implementation beneficial
Deferred tax assets		- Profit accelerates DTA consumption - Deferred implementation beneficial
Other deductions from core tier 1 capital		- No change to potential procyclical effects in long term but longer transition mitigates short term impact
Capital securities		- Maximum 10 yr grandfathering and uncertainty on future definitions
Other areas		
Risk weightings on investment banking activities		- Not material
Leverage ratio		- Deferred to 2018
Net stable funding ratio		- Deferred to 2018. Improvement to weightings
Liquidity coverage ratio		- Deferral to 2015 implementation beneficial - Calibration remains outstanding

DELIVERING SUSTAINABLE GROWTH

How we will create value

A UNIQUE BUSINESS MODEL…	…DESIGNED TO DELIVER CUSTOMER VALUE…	…DRIVING LONG TERM SHAREHOLDER VALUE
▪ Industry-leading efficiency and effectiveness + ▪ Superior customer insight tools and relationship skills	▪ Better customer understanding ▪ Better product alignment to need ▪ Better pricing and service ▪ Through the cycle	▪ Stronger growth ▪ Lower risk ▪ More 'predictability' ▪ Better returns

DELIVERING SUSTAINABLE GROWTH

How we will measure and report progress

BUSINESS MODEL METRICS

- Operating leverage
- Cost:income
- Investment levels
- Loss ratios

+

- Target customer acquisition
- Relationship depth

CUSTOMER VALUE METRICS

- Net promoter score (customer satisfaction)
- Service quality
- Retention rates

SHAREHOLDER VALUE METRICS

- Return on equity
- EPS
- Dividend capacity

OUR NEW LONGER TERM GUIDANCE

Linking our strategy to our financials

	STRATEGY	EXPECTED RESULT
REVENUE GROWTH	▪ Relationship deepening ▪ Appropriate pricing for risk	▪ Growth 6-7%[(1)] ▪ Margin above 2.5%
EFFICIENCY	▪ Integration ▪ Operating leverage ▪ Efficiency & effectiveness	▪ Cost:income ratio c.40% ▪ Investment in growth
IMPAIRMENTS	▪ Through the cycle risk appetite ▪ Deep customer insight	▪ Impairments c.50-60bps
BALANCE SHEET REDUCTION	▪ Shrink, de-risk ▪ Reduce capital intensity ▪ Right funding balance	▪ RoE above 15% ▪ LTD ratio below 140% ▪ Dividend capacity

[(1)] From core businesses, partially offset by the impact of non-relationship asset reductions and before the effect of state aid driven retail divestment

SUMMARY
Building sustainable growth

- **The Group is delivering**
  - Strong first half of 2010 with £1.6 billion profit[(1)]
  - Continued momentum across the business
  - Old guidance met or exceeded
- **Putting in place the building blocks for growth**
  - Driving elements of the profit model
  - Strong performance in relationship businesses
  - Balance sheet control and funding strengthened
- **Our customer strategy will drive sustainable results**
  - Using our efficiency and effectiveness to deliver substantial customer value
  - Using our insight to build deep, valued, customer relationships

[(1)] Combined businesses basis

FORWARD LOOKING STATEMENTS

This announcement contains forward looking statements with respect to the business, strategy and plans of the Lloyds Banking Group, 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 the Group's 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 on circumstances that will occur in the future. The Group's actual future business, strategy, plans and/or results may differ materially from those expressed or implied in these forward looking statements as a result of a variety of risks, uncertainties and other factors, including, without limitation, UK domestic and global economic and business conditions; the ability to derive cost savings and other benefits, as well as the ability to integrate successfully the acquisition of HBOS; the ability to access sufficient funding to meet the Group's liquidity needs; changes to the Group's credit ratings; risks concerning borrower or counterparty credit quality; market related trends and developments; changing demographic trends; changes in customer preferences; changes to regulation, accounting standards or taxation, including changes to regulatory capital or liquidity requirements; the policies and actions of Governmental or regulatory authorities in the UK, the European Union, or jurisdictions outside the UK, including other European countries and the US; the ability to attract and retain senior management and other employees; requirements or limitations imposed on the Group as a result of HM Treasury's investment in the Group; the ability to complete satisfactorily the disposal of certain assets as part of the Group's EU State Aid obligations; the extent of any future impairment charges or write-downs caused by depressed asset valuations; exposure to regulatory scrutiny, legal proceedings or complaints, actions of competitors and other factors. Please refer to the latest Annual Report on form 20-F filed with the US Securities and Exchange Commission for a discussion of such factors together with examples of forward looking statements. The forward looking statements contained in this announcement are made as at the date of this announcement, and the Group undertakes no obligation to update any of its forward looking statements.

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