LLOYDS BANKING GROUP

STRATEGIC REVIEW
Presentation to Analysts & Investors

July 14, 2011
New York

STRATEGIC REVIEW
Strategy & Guidance
July 14, 2011

António Horta-Osório
Group Chief Executive

AGENDA

Strategy & Guidance	**António Horta-Osório**
Simplification	**Mark Fisher**
Finance	**Tim Tookey**
Q&A	

ICONIC BRANDS WITH RICH HISTORY AND IMMENSE POTENTIAL TO DELIVER FOR BOTH CUSTOMERS AND SHAREHOLDERS

LLOYDS BANKING GROUP

HALIFAX

BANK OF SCOTLAND

Lloyds TSB

SCOTTISH WIDOWS

AGENDA

First 100 Days

Strategy

Action Plan

Guidance

FIRST 100 DAYS

Rapid, focused actions taken since March

- Strengthened executive leadership team
- New, more agile organisation in place
- Accelerated pay down of government and central bank funding
- Disciplined sale of non-core assets
- Accelerating EU/HMT-mandated branch sale programme
- Renewed focus on and improvement in customer satisfaction
- Committed to Halifax as a leading challenger brand
- Actively supporting SME lending
- Provided clarity on PPI provisioning
- On schedule to substantially complete Integration in Q3 2011
- Completed 100 day strategic review

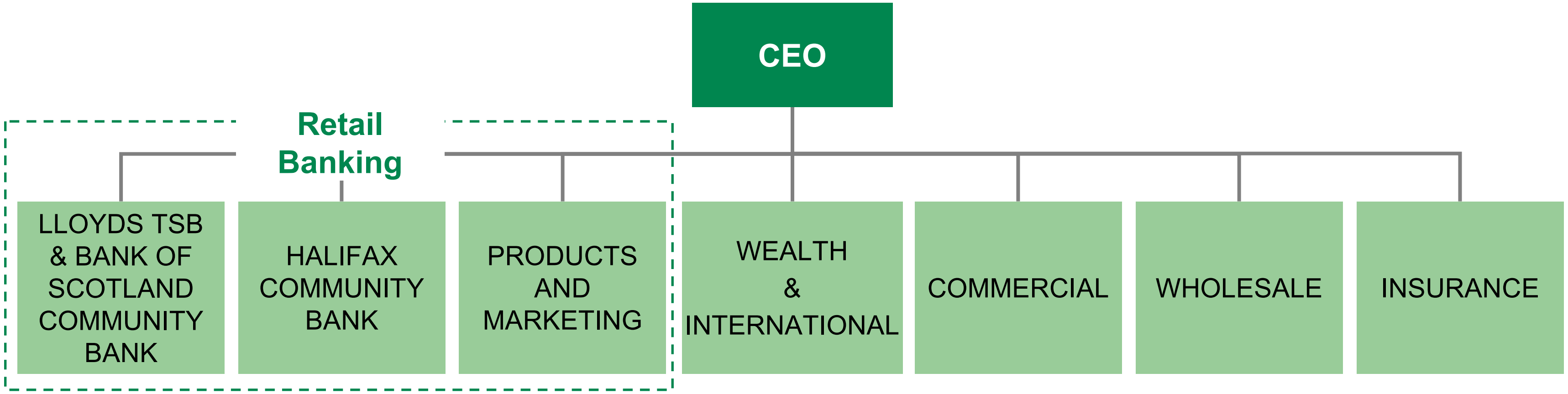
OLD 'FEDERAL' MANAGEMENT STRUCTURE DUPLICATED RESOURCES WITH TOO MANY LAYERS

CEO

RETAIL BANKING	WHOLESALE	WEALTH & INTERNATIONAL	INSURANCE	GROUP OPERATIONS /IT	GROUP HR	GROUP FINANCE	GROUP RISK
Lloyds/ Bank of Scotland	**Commercial**	**International**	**L, P & I**	**Risk**	**Risk**	**Risk**	**Finance**
Halifax	**Corporate**	**UK Wealth & Private Banking**	**GI**	**Finance**	**Finance**	**HR**	**HR**
Products & Marketing	**Treasury**	**Products & Marketing**	**Products & Marketing**	**HR**	**Audit**	**Audit**	**Audit**
Operations	**Wholesale Markets**	**Operations**	**Operations**	**Audit**	**Comms**	**Comms**	**Comms**
Risk	**Asset Finance**	**Risk**	**Risk**	**Comms**			
Finance	**Operations**	**Finance**	**Finance**				
HR	**Risk**	**HR**	**HR**				
Audit	**Finance**	**Audit**	**Audit**				
Comms	**HR**	**Comms**	**Comms**				
	Audit						
	Comms						

FIRST 100 DAYS

A new, more agile organisation in place – creating a high performance culture



Operations and IT

Finance

Risk Management

Other functions (HR, Internal Audit, Legal, Corporate Affairs, Strategy)

- **Flatter Organisation –** Top team closer to customers
- **Additions to Top Team –** Higher visibility for business units and stronger control functions
- **Centralised Support Functions –** Improved control, efficiency and service
- **New Governance for Pricing, Cost, Investment, Non-Core –** Weekly committees, cross-functional, faster decisions
- **New Performance Culture –** Clear accountability and individual goals
- **International Business Reshaped** – Clear downsizing from 30 to <15 countries, split between Wealth and Wholesale

AGENDA

- First 100 Days
- **Strategy**
- Action Plan
- Guidance

STRATEGY

Key trends shaping strategic context

1 INCREASING CUSTOMER EXPECTATIONS

- Want simplicity and transparency
- Demand a quality, multi-channel customer service experience
- Growing demand for advice to plan/save for retirement
- Increasingly demand better value for their money

2 INCREASING CLARITY ON REGULATION

- Stringent UK capital and liquidity standards
- More focus on consumer protection and transparency
- Recovery and resolution mechanisms and Retail ring-fencing
- Awaiting ICB final recommendations in September
- Already-competitive market with new challengers and more switching

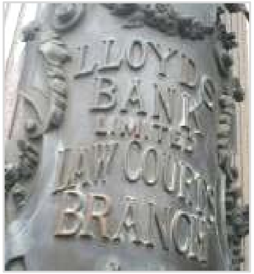
3 CHALLENGING OPERATING ENVIRONMENT

- Continued cautious outlook on prospects for the UK economy
- De-leveraging combined with inflation, so cost efficiency imperative
- Managing and correctly pricing risk a major differentiator
- Healthy returns across segments, though lower than pre-crisis

ACTIONS ACCELERATED IN RESPONSE TO CHALLENGING ENVIRONMENT

STRATEGY

Today, the Group has unique assets but faces some important challenges



UNIQUE ASSETS

- Valuable customer franchise and market position
- Well-recognised and respected brands in all markets
- Broad, multi-channel distribution
- High quality, committed people
- Change management capability, proven through Integration

KEY CHALLENGES

- State Aid and associated sales
- Addressing funding structure
- Limited investment for growth over a number of years
- Inefficient organisation and processes, resulting in higher cost structure than necessary
- Continued exposure to non-core assets

CLEAR PRIORITY TO SUPPORT CUSTOMERS, DRIVE EFFICIENCY AND INVEST FOR GROWTH

STRATEGY

The Group's strategy fits with our distinctive assets and capabilities

THE BEST BANK FOR CUSTOMERS

Create shareholder value by simplifying the way we work and investing where we can make a real difference

STRONG CUSTOMER RELATION-SHIPS	STRONG ICONIC BRANDS	BROAD MULTI-CHANNEL DISTRIBUTION	CUSTOMER FOCUSED PEOPLE	INTEGRATED PLATFORM
~30 million customers	**#1** brand for customer consideration	**27%** year on year growth in Internet banking usage	**80%** colleague engagement	**£2bn** integration savings nearing completion

STRATEGY

This strategy will deliver shareholder value

THE BEST BANK FOR SHAREHOLDERS

Reinstate dividend after regulatory capital requirements
are defined and prudently met, and return to full private ownership

CUSTOMER-DRIVEN, DIVERSIFIED INCOME	POSITIVE OPERATING JAWS	CAPITAL ALLOCATED TO CORE BUSINESS	PRUDENT RISK APPETITE	STRONG STABLE FUNDING	DISCIPLINED HIGH-RETURN INVESTING

AGENDA

First 100 Days

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OUR ACTION PLAN WILL ENSURE STRONG, STABLE RETURNS FOR OUR SHAREHOLDERS OVER THE NEXT 3 YEARS AND BEYOND

LLOYDS BANKING GROUP

RESHAPE **our business portfolio to fit our assets, capabilities and risk appetite**	**Sustainable, predictable *RoE*, in excess of our CoE**
SIMPLIFY **the Group to improve agility, service, and efficiency**	**Significant cost savings and positive operating *JAWS***
INVEST **to grow our core customer businesses**	**Strong, stable, high quality *EARNINGS* streams**
Continue to *STRENGTHEN* our balance sheet and liquidity position	**Robust *CORE TIER 1 RATIO* and stable funding base**

RESHAPE OUR PORTFOLIO

We will focus investments on attractive UK customer segments and the products they need

	DECISION CRITERIA	ACTIONS
CORE	▪ Strong, above-hurdle returns ▪ Attractive growth prospects ▪ Liquidity/capital efficient ▪ Sustainable competitive advantage ▪ Fits with core customer strategy	▪ SME lending ▪ CA and Savings ▪ Transaction banking ▪ Debt financing, Fixed Income & rates ▪ Bancassurance ▪ Mass affluent ▪ Wealth
NON-CORE	▪ Below-hurdle returns ▪ Outside risk appetite &/or distressed ▪ Unclear value proposition ▪ Subscale market position ▪ Poor fit with core customer strategy	▪ Ireland ▪ Retail self-certified mortgages ▪ Shipping ▪ Aerospace ▪ International footprint cut in half

RESHAPE OUR PORTFOLIO

Disciplined approach to manage and reduce non-core assets

- Adequate coverage ratios for all non-performing assets
- Organisational model:
  - Dedicated workout unit under Risk for non-performing CRE and corporate loans
  - Other non-strategic activities managed in a dedicated way within Retail, Wholesale and Wealth until run off or sold
- Senior management oversight by Group Asset Review Forum
- Experienced transactions team focused on asset sales
- Balanced scorecards and individual incentives tied to portfolio objectives

RESHAPE OUR PORTFOLIO

We will invest to be the best bank for personal customers

RETAIL BANKING

HALIFAX

- A leading challenger brand on the High Street
- Recognised by industry and media as a value for money leader (e.g. 'Moneyfacts' Best ISA and Best Current Account Provider 2011)
- Game-changing products, like the new ISA Promise
- Simple, efficient and fair customer experience

LLOYDS & BANK OF SCOTLAND

- Leading relationship brands in UK retail banking
- Focused on recognising and rewarding customer loyalty
- Committed, experienced customer-facing colleagues
- Investing in branches, new channels and services like Money Manager to deliver a customer experience we can be proud of

WEALTH MANAGEMENT

- Aspire to become a wealth advisor to our existing UK customers – in mass affluent, affluent and HNW segments
- Refocusing International on UK customers, expats and other anglophile wealth customers - reducing locations by half
- Creating new service models, electronic capabilities and investment platforms with SWIP and others' products

RESHAPE OUR PORTFOLIO

We will invest to be the best through-the-cycle partner for business customers

COMMERCIAL BANKING

- A leader in fuelling UK economic recovery and integral to our customers' communities
- Best through-the-cycle banking partner to UK SMEs
- New relationship and service model, better on-line and phone support, delivering efficiency and better customer value
- Delivering the whole Group – Retail, Insurance, and Wealth products and advice

WHOLESALE BANKING

- Leading through-the-cycle partner to UK companies & institutions (e.g. Voted by UK FDs as the Leading Corporate Bank 7 years running)
- Two major investments
  - Transaction banking
  - DCM, Fixed Income and Rates
- Selective international presence and products to support corporates with UK connectivity

RESHAPE OUR PORTFOLIO

Bancassurance is a core part of our strategy and a solid financial contributor to the Group

LIFE, PENSIONS & INVESTMENTS

- Scottish Widows – the UK's most trusted and preferred brand
- Top 3 provider in Life, Pensions & Investments with 10% market share
- 43% of new business with existing bank customers
- New sales model and propositions to take advantage of Retail Distribution Review
- Industry-leading cost performance, recognised for top quality products and service

GENERAL INSURANCE

- Top 3 provider in Home Insurance with 5% market share across all personal lines
- 82% of new business with existing bank customers
- Investing in our proposition for and distribution to SMEs
- Industry-leading combined ratio, with sophisticated underwriting and claims management

BANCASSURANCE OFFERS A DISTINCTIVE OPPORTUNITY TO GENERATE DIVERSIFIED HIGH RETURNS, LIQUIDITY-FREE EARNINGS AND CASH RELEASE FOR THE GROUP

SIMPLIFY THE GROUP

Post-integration, simplify the Group to improve service and reduce costs by £1.5bn annually

TARGET OUTCOMES	ACTIONS	
▪ **£1.5bn** in annual cost savings in 2014 (on top of integration synergies) ▪ Proven ability to execute, built through integration ▪ Cost savings will enable: – Investment in new channels, services and capabilities – Best-in-market customer experience – The right tools our colleagues need to do their jobs well ▪ Using attrition and redeployment not redundancy where possible	OPERATIONS & PROCESSES ✓	▪ **Implement workflow, automate, improve IT landscape, establish centres of excellence**
	SOURCING ✓	▪ **Improve demand management, simplify specification, strengthen supplier relationships**
	ORGANISATION ✓	▪ **Flatten organisational structure, bringing top team closer to customers and front-line staff**
	DISTRIBUTION & CHANNELS ✓	▪ **Continue to innovate, reduce product variants, increase pricing flexibility**

✓ Already in progress

INVEST IN OUR CORE BUSINESS

Reinvest £500m annually to improve our customer proposition and grow core income

TARGET OUTCOMES	ACTIONS OUR CUSTOMERS WILL VALUE	
▪ **Reinvest 1/3 of savings from Simplification** – By 2014, invest **£500m**[1] annually in core businesses – In addition to BAU, Run-the-Bank, and mandatory investing ▪ **Investing in initiatives to grow income, especially OOI** ▪ **Disciplined investment tests** – Fit with 'the Best Bank for Customers' strategy – Attractive financial returns – Risk appetite – Ability to execute	**PRODUCTS THAT CUSTOMERS NEED**	▪ Simple retail product portfolio ▪ New transaction banking, financing and risk management for corporates ▪ Better investment propositions
	FAIR, SIMPLE TO UNDERSTAND PRICES	▪ Low costs, enabling challenger pricing ▪ Rewards for customer loyalty ▪ Simple pricing structures
	TRUSTED ADVICE AND SERVICE	▪ New models for bancassurance, mass affluent and affluent ▪ Through-the-cycle partner to business ▪ Insight from a single customer view
	ACCESS THAT SUITS OUR CUSTOMERS	▪ SME e-portal and direct model ▪ Multi-channel integration and mobile ▪ New electronic platform for corporates and financial institutions

[1] **Investment over 2011 to 2014 of £2.0bn including capital expenditure will result in up to £0.5 million per annum expenses in the income statement**

INVEST IN OUR CORE BUSINESS

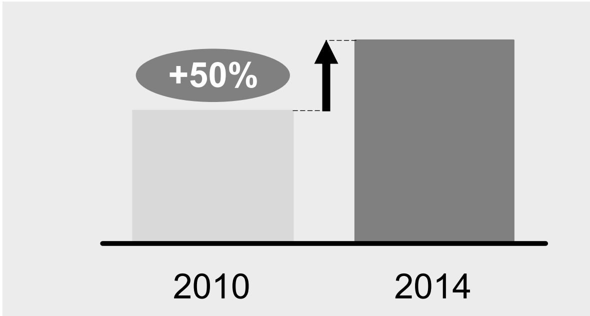
Case study: Halifax will be a market challenger for today's high street

- New challenger products, including radical new Savings offer, to drive increasing volume and profit
- All branches open on Saturday
- Active on-line customers grow from 3.1 - 5.4m to drive lower costs
- Brand re-launch and exciting new marketing campaign
- A leading alternative to the 'Big-4' current account providers
- Engaged colleagues who identify with their customers

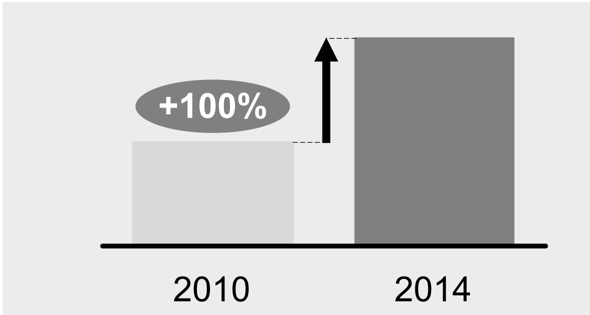
INVEST IN OUR CORE BUSINESS

Case study: The UK's leading Retail Bancassurance provider

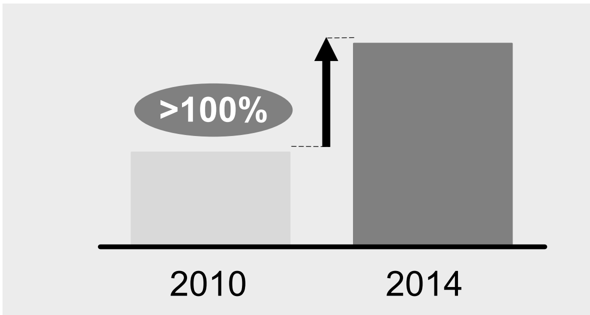
CUSTOMERS



SALES



PROFIT BEFORE TAX

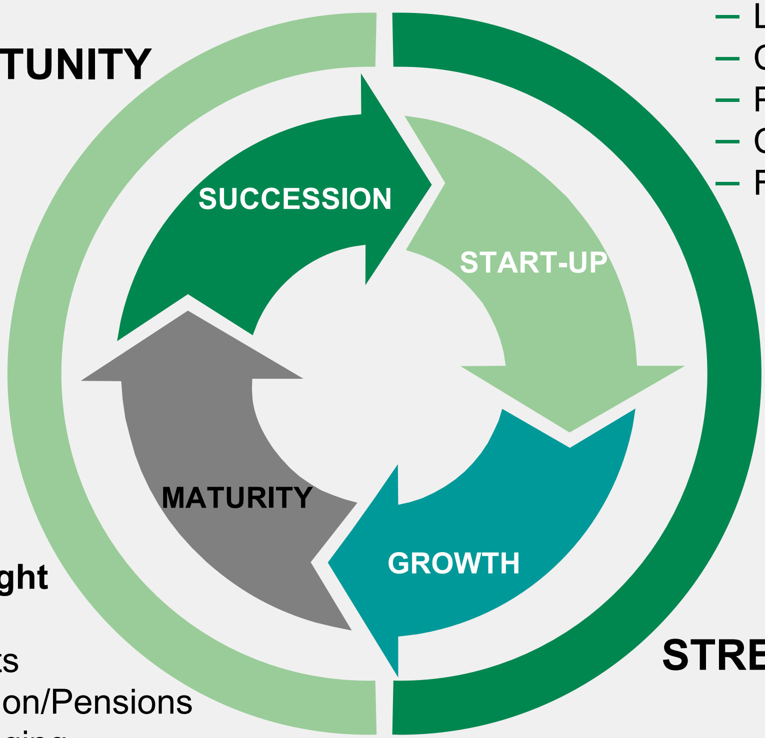


- Growing need for advice to plan/save for retirement/future
- Specialised advisor teams better able to help customers meet their protection and investment needs
- Ability to quickly develop products and services in response to identified customer need in an integrated manner
- Low-cost and capital efficient manufacturing utilising a leading brand
- Range of channels, including branch, e-commerce and telephony, to meet different customer segment needs
- Improved customer insight with single customer view at an integrated level

INVEST IN OUR CORE BUSINESS

Case study: Leading through-the-cycle partner to UK SMEs

Balance sheet-driven banking
- Loans
- Current A/C
- Payments
- Cards
- Factoring



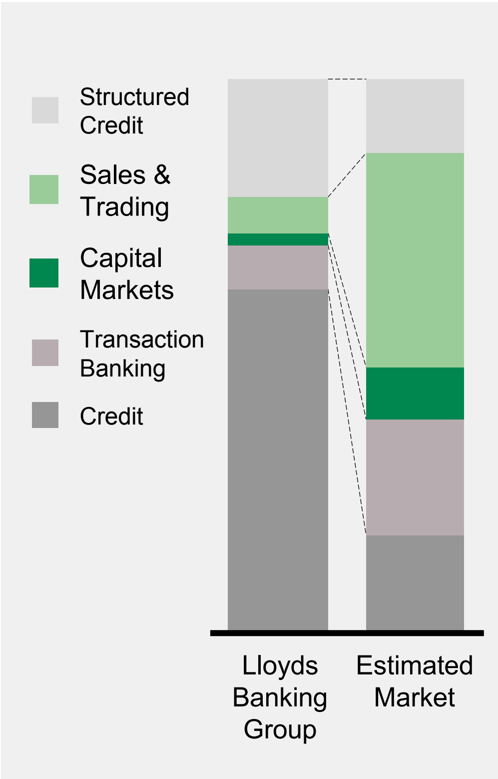
Capital-light solutions
- Deposits
- Protection/Pensions
- FX/Hedging
- Business insurance
- Wealth

- Our highly rated RM’s will have 100% more time with customers
- Time-to-cash for loans reduced by over 50%
- Targeted, informed propositions matched with customer life-stage
- Direct Relationship Bank to align service with customer needs, value and preference
- Delivering a comprehensive suite of products and services using unique customer insights

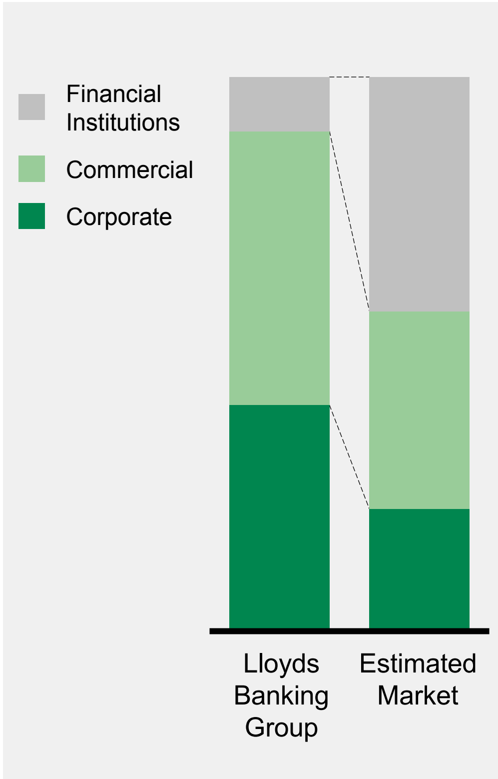
INVEST IN OUR CORE BUSINESS

Case study: Developing our wholesale markets business to capitalise on our corporate lending relationships

REVENUE BY PRODUCT



CUSTOMER-DRIVEN REVENUE BY SEGMENT



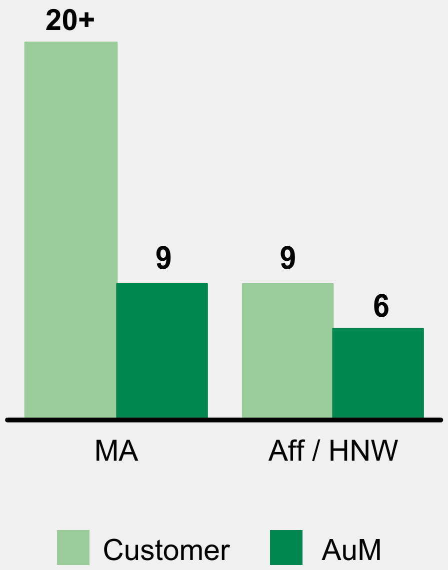
- Enhanced 'capital-light' offerings – Debt financing, Fixed Income and Rates to complement lending product and increase OOI
- Deepen existing corporate relationships across new product suite and expand distribution to cover UK insurers and asset managers
- More effective and efficient connectivity with customers via new Arena e-commerce platform (launching in September 2011)

INVEST IN OUR CORE BUSINESS

Case study: New propositions will help affluent, HNW and mass affluent customers meet their financial goals

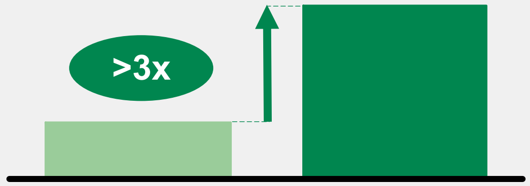
CURRENTLY LOW WALLET SHARE AMONGST KEY SEGMENTS

Segment share of customers and assets (%)

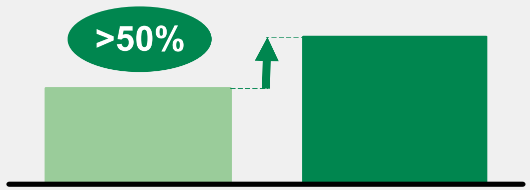


GROW CUSTOMERS IN PROPOSITION AND WALLET SHARE

Number of in-proposition customers



Income per customer



- Realigned segmentation, propositions and coverage to better serve customers
- Improved on-line channel and execution-only offer
- Deeper customer insight with more effective lead generation
- Investment in infrastructure to deliver a holistic financial planning service
- Enhancements grow:
  - Ability to service wealth and currently underserved mass affluent customers
  - Share of investment wallet earned from existing clients

(1) AuM represents savings and investments

AGENDA

First 100 Days

Strategy

Action Plan

Guidance

GUIDANCE

Group Financial Targets, 2014 (1 of 2)

CUSTOMER-DRIVEN DIVERSIFIED INCOME	Additional discretionary investment to grow our core customer franchise	£500m pa by 2014
	Core income growth	> nominal GDP Growth
	OOI as % of total income[1]	c50% of Group income
	Net interest margin	2.15 - 2.30%; core business higher than Group
POSITIVE OPERATING JAWS	Sustainable cost savings (over and above £2bn integration savings and pre discretionary investment)	£1.5 bn annual savings in 2014 (£1.7bn run-rate savings by end 2014)
	Cost : income ratio	42 - 44%[2]
CAPITAL ALLOCATED TO CORE BUSINESS	Required capital for non-core	Net capital generative over the period 2012 to 2014
	Non-core assets reduced	≤£90bn in 2014, accounting for ≤65bn of RWA

[1] OOI Net of Insurance claims
[2] Following adjustments to include the net of operating lease income and depreciation in Group Income this would be 39-41%

GUIDANCE

Group Financial Targets, 2014 (2 of 2)

PRUDENT RISK APPETITE	Average AQR	50 - 60bps Core business AQR expected to be at the bottom end of this range
STRONG STABLE FUNDING	Loan-to-deposit ratio	≤130% Group, ≤ 120% Core
	LCR & NSFR	Requirements met ahead of regulatory implementation dates
DISCIPLINED HIGH-RETURN INVESTING	Statutory return on equity	12.5 – 14.5%
	Core tier 1 capital	Target core tier 1 capital ratio prudently in excess of 10% from 1 Jan 2013 when transition to Basel 3 commences

GUIDANCE

Delivering a strategy that is best for shareholders

Enhanced and resilient earnings

- Strong EPS progression will support share price growth ✓
- Simplifying the business will lower costs ✓
- Lower costs will create capacity for strategic investment ✓
- Focus on less capital intensive activities ✓
- Operating within the new risk appetite to drive less volatile earnings ✓

Building a strong capital position

- Ratios in excess of regulatory requirements ✓
- Improved ability to withstand stress scenarios ✓
- Capacity to pay dividends ✓

Improving the funding profile further

- Lower wholesale funding requirements ✓
- Lower loan to deposit ratios ✓
- Focus on retail and commercial deposits ✓

LLOYDS
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GROUP

STRATEGIC REVIEW

Strategy & Guidance

July 14, 2011

António Horta-Osório
Group Chief Executive

STRATEGIC REVIEW
Integration & Simplification
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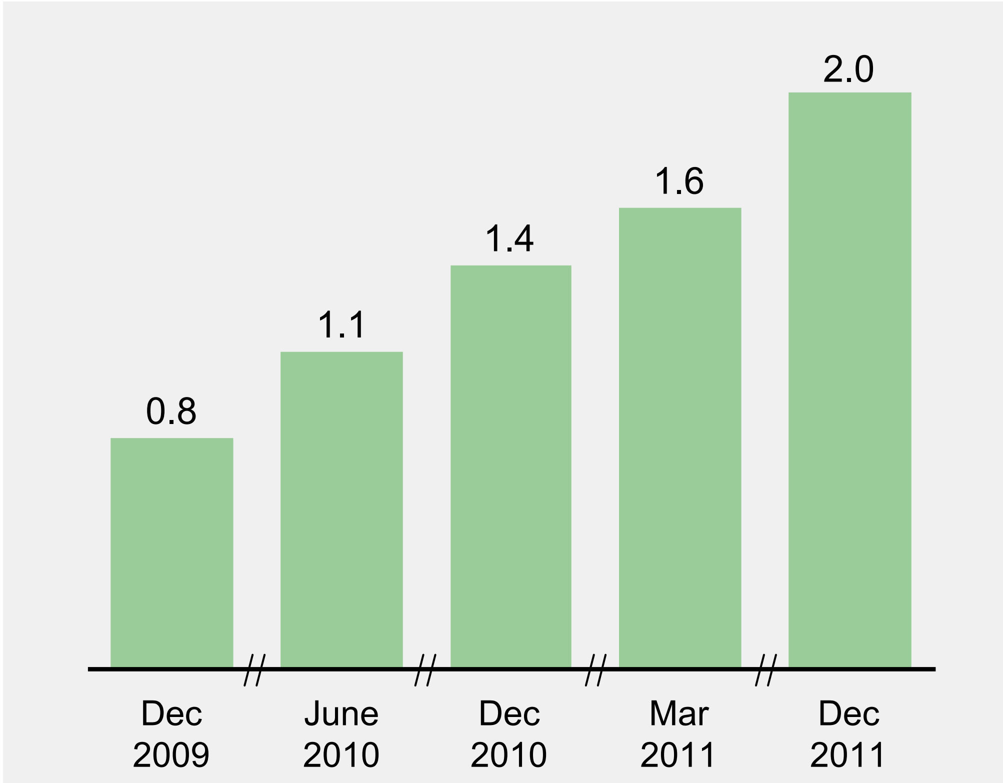
Mark Fisher
Director, Group Operations

MOVING FROM INTEGRATION TO TRANSFORMATION

- Integration Programme will complete within the original three year target
- Run rate benefits of £2bn well on track
- **Integration was not transformation**
  - **Moved the Group to a single platform**
  - **Single platform a necessary first step to transformation**

RUN-RATE SYNERGY BENEFITS (£bn)



SIMPLIFICATION IS AT THE HEART OF BECOMING THE BEST BANK FOR CUSTOMERS AND A HIGH PERFORMING ORGANISATION

LLOYDS BANKING GROUP

SIMPLIFYING OUR BUSINESS

- Improve customer service
- Become more efficient
- Capture scale benefits
- Ensure transparency
- Save to invest
- Empower managers and colleagues
- A permanent feature of the way we operate, not just another programme

WE HAVE MADE GREAT STRIDES ALREADY – BUT SIGNIFICANT POTENTIAL REMAINS

EXAMPLE INTEGRATION ACHIEVEMENT

- ~60% reduction in the number of office locations (from ~450 to ~170)

	BEST IN CLASS	CURRENT LLOYDS BANKING GROUP POSITION
END-TO-END PROCESSES	▪ <5% rework in operational processes ▪ <7 days commercial loan 'time to cash'	▪ >20% rework in some operational processes ▪ 4 - 10 weeks commercial loan 'time to cash'
LOCATION FOOTPRINT	▪ <20 UK 'head office' premises	▪ ~170 office locations
IT APPLICATIONS	▪ <1,500 IT applications	▪ ~2,500 IT applications
PRODUCT OFFERING	▪ <100 products (eg 9 loan products, 6 mortgage products)	▪ ~2,000 legacy products remain post integration
COMMITTEES	▪ <20 committees per functional area	▪ 100+ committees for Risk

SIMPLIFICATION WILL DELIVER £1.5BN SAVINGS IN 2014 AND A 2014 EXIT RUN RATE OF £1.7BN PER ANNUM

- Invest significantly in technology, people and processes to deliver Simplification
- Deliver £1.5bn savings in 2014

4 KEY WORKSTREAMS	EXIT-RATE SAVINGS £BN BY 2014	NUMBER OF INITIATIVES
Operations and Processes Implement workflow, automate, improve IT landscape, establish centres of excellence	0.6	25
Sourcing Improve demand management, simplify specification, strengthen supplier relationships	0.5	23
Organisation Flatten organisational structure, consolidate / rationalise international business	0.3	34
Distribution and Channels Continue to innovate, reduce product variants, increase pricing flexibility	0.3	29
Total	**1.7**	**111**

OPERATIONS AND PROCESSES:
Simplification will deliver significant benefits to our colleagues and customers

WHAT WILL THE PROGRAMME DELIVER?

- Simplify end-to-end processes
  - Automation
  - Image and workflow
  - First touch execution
- Set up centres of excellence
  - Multi-skilled
  - Reduced handoffs
  - Redeployment

BENEFITS

CUSTOMER IMPACT	▪ Accelerated fulfilment of requests ▪ Reduced errors and complaints
COLLEAGUE IMPACT	▪ Eliminated highly manual tasks ▪ Increased focus on skill building ▪ Redeployment
FINANCIAL BENEFITS	▪ Increased productivity ▪ Reduced risk ▪ Reduced complexity ▪ Reduced cost

OPERATIONS AND PROCESSES:
Structured approach across over 200 groups of services

WHAT WILL THE PROGRAMME DELIVER?

- End-to-end redesign across over 200 groups of services
- Structured and standard approach
- Already underway

EXAMPLES

ACCOUNT SWITCHING	▪ Reduced end-to-end time by c30% ▪ Forms validated/submitted electronically, reducing input errors by c60% ▪ Automation leading to c70% reduction in manual re-entry ▪ Overall c68% reduction in operator touch time
COMMERCIAL LENDING	▪ Reduced time to drawdown by over 50% ▪ 25% increase in customer facing time for front office staff ▪ 90%+ first-time right applications ▪ Fewer, simpler customer forms ▪ Improved risk and credit analytics

SOURCING:

Further real potential for simplification building on integration

LLOYDS BANKING GROUP

APPROACH

- Demand management - simpler specifications
- Relationship restructure - deeper and closer working with preferred suppliers
- Further volume concentration and supplier rationalisation
- Improved market expertise and practices

SIMPLER SUPPLY CHAINS

PROCUREMENT

SPECIFICATION SIMPLIFICATION

DEMAND MANAGEMENT

OUTCOME

CURRENT POSITION	▪ 1,000 suppliers with ~94% spend ▪ 17,000 suppliers with ~6% spend
TARGET POSITION	▪ ~100 lead suppliers ▪ <10,000 overall suppliers
BENEFITS	▪ ~15% saving on addressable spend

ORGANISATION:
Simplify organisation and governance structures

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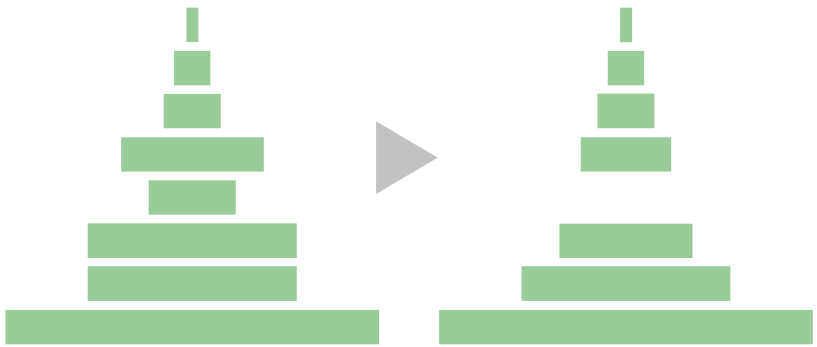
REDUCE MANAGEMENT SPANS AND LAYERS

From:	To:
8 LAYERS X SPAN OF 8	7 LAYERS X SPAN OF 10



- Focus on middle management reduction
- Stronger, more effective functions

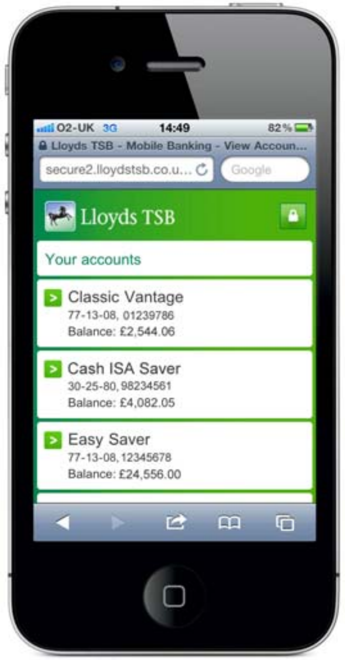
CONSOLIDATE AND RATIONALISE INTERNATIONAL BUSINESSES

DISTRIBUTION AND CHANNELS:

Actively manage distribution and channels, deliver an improved customer experience

BUILD ON STRENGTHS AND CONTINUE TO INNOVATE

- Increased and enhanced functionality
  - Internet
  - Mobile
  - Telephony
- Active management of channel usage
- Increase internet banking usage to 13 million
- Product simplification and pricing flexibility



EXPERIENCED TEAM AND STRONG CAPABILITIES IN PLACE TO DELIVER SIMPLIFICATION

DELIVERY CONTROL	▪ Strong control and co-ordination – as with integration ▪ Rigorous planning and milestone tracking
ACCOUNTABILITY	▪ Accountable Executives already in place, high-level plans developed for key initiatives, and quick wins started ▪ Ramping up now – as integration completes
CLEAR PATH FORWARD	▪ Quick-wins already being delivered (eg flattened organisation structure) ▪ Detailed planning and building delivery teams

WE WILL LEVERAGE OUR EXPERIENCE WITH INTEGRATION TO DELIVER THE BEST BANK FOR CUSTOMERS AND SHAREHOLDERS

LLOYDS BANKING GROUP

STRATEGIC REVIEW

Integration & Simplification

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Mark Fisher
Director, Group Operations

LLOYDS BANKING GROUP

STRATEGIC REVIEW

Finance

July 14, 2011

Tim Tookey
Group Finance Director

2011 GUIDANCE – BROADLY UNCHANGED

	Previous guidance	Additional comments
Net interest margin	▪ 2.07% in Q1 2011 with some headwinds for the year	▪ Expect NIM to be just above 2% in 2011
Income	▪ Trends reflect customer deleveraging and subdued demand	▪ Broadly unchanged but non-core reductions will further reduce the balance sheet size and thus income
Costs	▪ Broadly flat v. 2010	▪ Down slightly due to new cost actions
Synergies	▪ On track for £2bn run rate by end 2011	▪ Unchanged
Impairment	▪ Reductions in 2011 set out by book within Q1 IMS	▪ Unchanged
Funding	▪ N/A	▪ Government and Central Bank debt materially reduced already ▪ June 2011 loan to deposit ratio c146% (Dec 2010: 154%)

THE BEST BANK FOR CUSTOMERS

OUR ACTION PLAN WILL ENSURE STRONG, STABLE RETURNS FOR OUR SHAREHOLDERS OVER THE NEXT 3 YEARS AND BEYOND

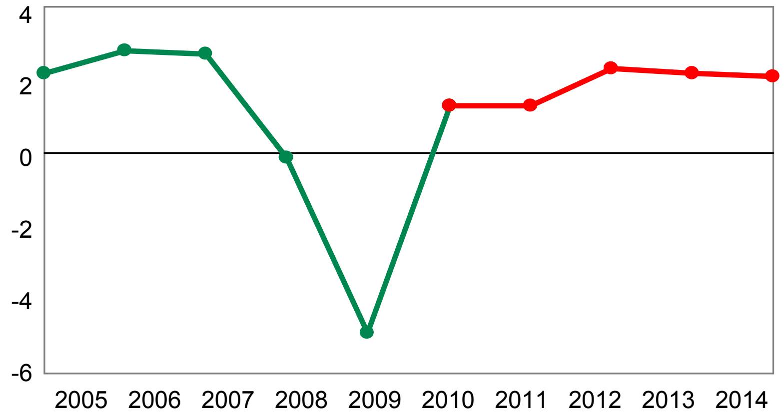
RESHAPE our business portfolio to fit our assets, capabilities and risk appetite	Sustainable, predictable ***RoE***, in excess of our CoE
SIMPLIFY the Group to improve agility, service, and efficiency	Significant cost savings and positive operating ***JAWS***
INVEST to grow our core customer businesses	Strong, stable, high quality ***EARNINGS*** streams
Continue to ***STRENGTHEN*** our balance sheet and liquidity position	Robust ***CORE TIER 1 RATIO*** and stable funding base

ECONOMIC BACKDROP AND KEY ASSUMPTIONS

A cautious outlook for the UK economy

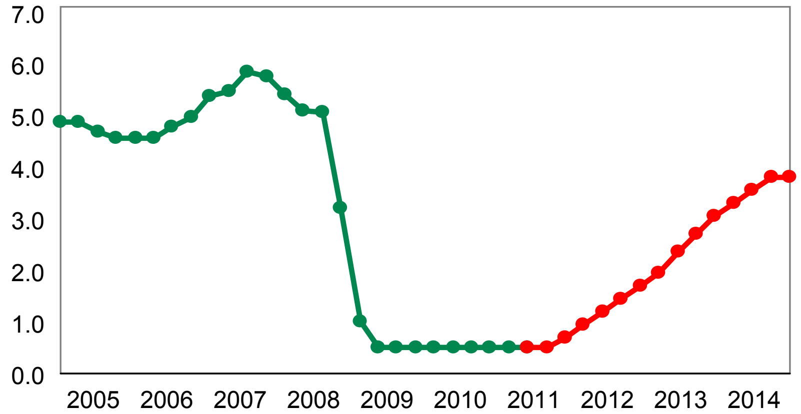
NORMALISING REAL GROWTH

REAL GDP GROWTH (%)



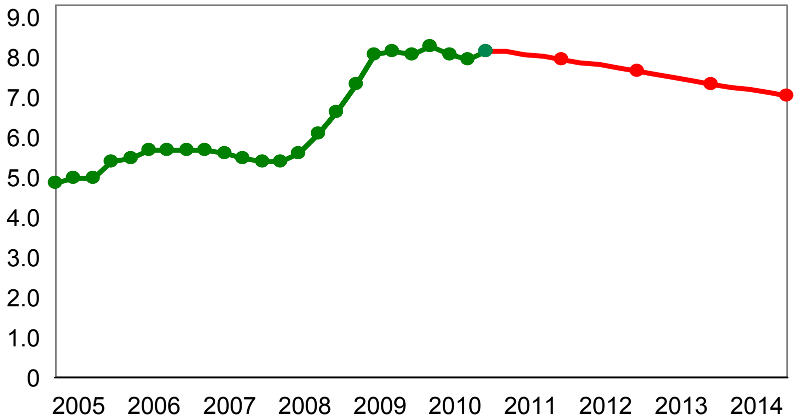
RISING BASE RATES

BANK OF ENGLAND BASE RATE (%)



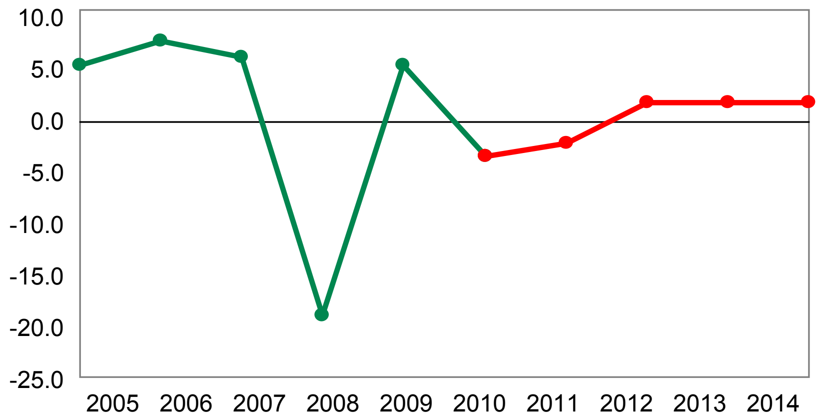
IMPROVING UNEMPLOYMENT

ILO[1] UNEMPLOYMENT RATE (%)



STABILISING PROPERTY VALUES

HALIFAX PRICE INDEX



(1) ILO – International Labour Organisation

PERFORMANCE DRIVERS – EARNINGS

Focus on relationship driven earnings

INVEST IN OUR CORE BUSINESS

Case study: Halifax will be a market challenger for today's high street

- New challenger products, including radical new Savings offer, to drive increasing volume and profit
- All branches open on Saturday
- Active on-line customers grow from 3.1 - 5.4m to drive lower costs
- Brand re-launch and exciting new marketing campaign
- A leading alternative to the 'Big-4' current account providers
- Engaged colleagues who identify with their customers

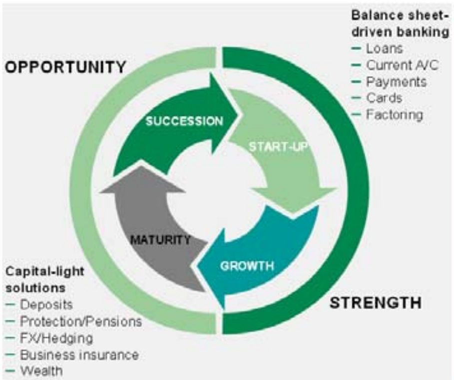
INVEST IN OUR CORE BUSINESS

Case study: The UK's leading Retail Bancassurance provider

- Growing need for advice to plan/save for retirement/future
- Specialised advisor teams better able to help customers meet their protection and investment needs
- Ability to quickly develop products and services in response to identified customer need in an integrated manner
- Low-cost and capital efficient manufacturing utilising a leading brand
- Range of channels, including branch, e-commerce and telephony, to meet different customer segment needs
- Improved customer insight with single customer view at an integrated level

INVEST IN OUR CORE BUSINESS

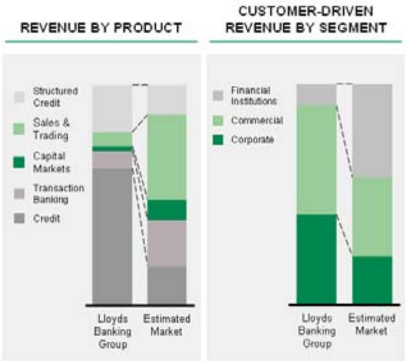
Case study: Leading through-the-cycle partner to UK SMEs



- Our highly rated RM's will have 100% more time with customers
- Time-to-cash for loans reduced by over 50%
- Targeted, informed propositions matched with customer life-stage
- Direct Relationship Bank to align service with customer needs, value and preference
- Delivering a comprehensive suite of products and services using unique customer insights

INVEST IN OUR CORE BUSINESS

Case study: Developing our wholesale markets business to capitalise on our corporate lending relationships



- Enhanced 'capital-light' offerings – Debt financing, Fixed Income and Rates to complement lending product and increase OOI
- Deepen existing corporate relationships across new product suite and expand distribution to cover UK insurers and asset managers
- More effective and efficient connectivity with customers via new Arena e-commerce platform (launching in September)

PERFORMANCE DRIVERS – INCOME

Delivering sustainable, less capital intensive earnings

	2010		FOCUS AND DRIVERS	2014	
OOI	41%	VERDE AND NON CORE DISPOSALS	Bancassurance; DCM / Corporate cross sales; Affluent and wealthy customers; UK SMEs	c50%	OOI
NII	59%		Lower risk, less capital intensive balance sheet; Margin impact from increased regulatory cost of liquidity; Funding costs higher for longer; Base rates lower for longer	c50%	NII
	Total Income			Total Income	

CORE INCOME TO GROW FASTER THAN NOMINAL GDP, PRIMARILY DRIVEN BY OOI[1]

[1] OOI is shown net of insurance claims

PERFORMANCE DRIVERS – NET INTEREST MARGIN

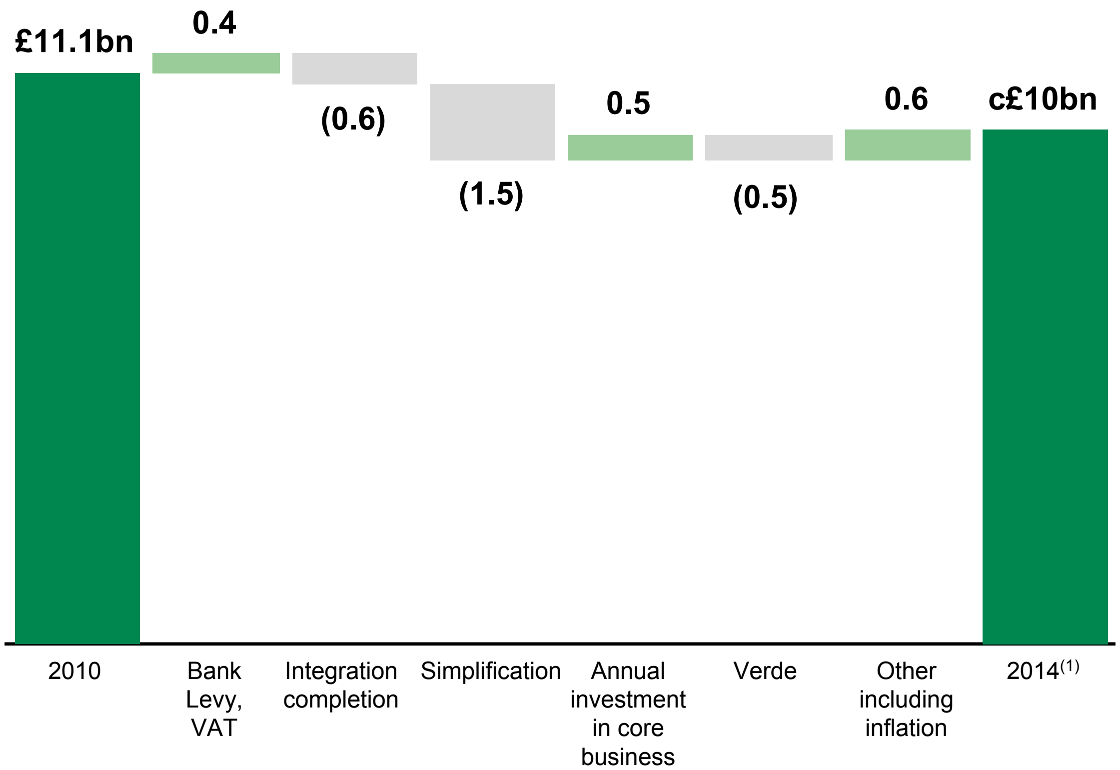
Trends continue to be dominated by external factors

INTERNAL ('Inside' Management Control)	**EXTERNAL** ('Outside' Management Control)
▪ Pricing of new business and repricing of existing book ▪ Sharing of base rate rises benefit ▪ Reduced wholesale funding issuance allows greater control over costs going forward ▪ Improved funding position provides greater flexibility over mix of funding sources	▪ Base rate lower for longer ▪ Wholesale funding costs remain higher for longer ▪ Competition for deposits ▪ Increasing regulatory liquidity requirements

2011	**NIM expected to be >200bps based on current assumptions**
2014	**Group NIM 215-230bps based on business and macro assumptions** **Core business NIM will exceed Group margin**

PERFORMANCE DRIVERS – COSTS

Driving efficiency through simplification whilst increasing investment



- Integration on track to complete with £2bn pa of savings by end of 2011
- Simplification programme to achieve £1.5bn of savings before £0.5bn re-investment in growth initiatives by end of 2014
- Target cost : income ratio (Group) 42 - 44% by end of 2014 (39 - 41% excluding operating leases[2])
- Total costs of 'simplification' initiatives expected to be c£2.3bn (including capex) of which c£1.5bn will be reported below the line over the next few years

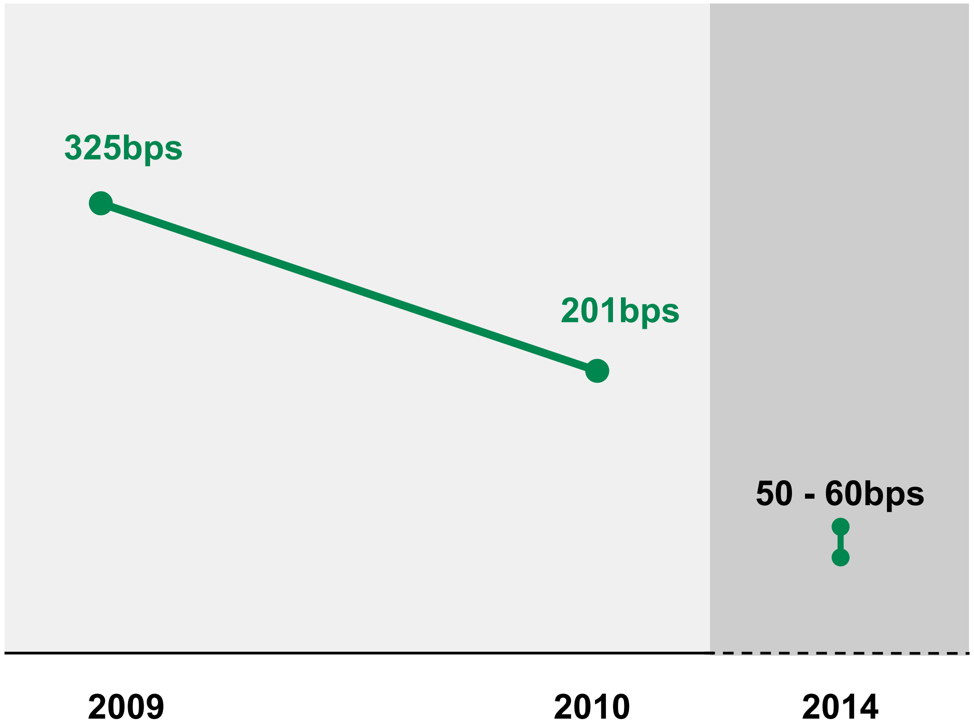
(1) Excludes additional run rate savings from simplification initiatives in 2015 of £0.2bn

(2) Adjusted to include the net of operating lease income and depreciation in Group Income

PERFORMANCE DRIVERS – IMPAIRMENT

Continued reduction in impairment charge

GROUP ASSET QUALITY RATIO

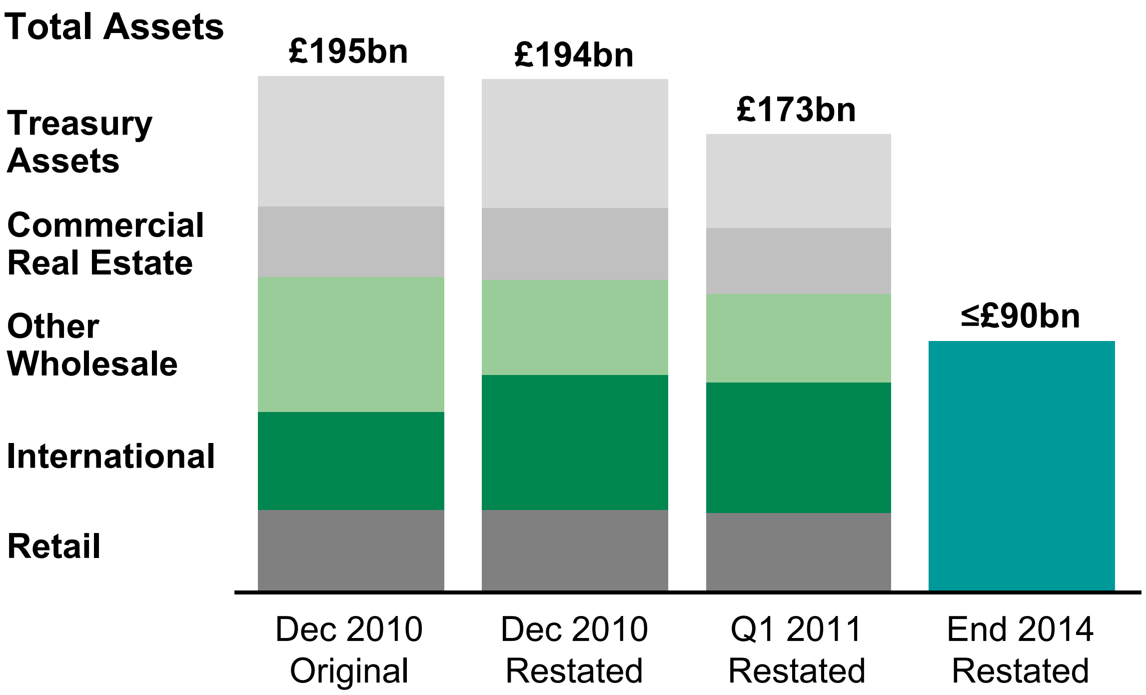


- All portfolios reviewed and confirmed as adequately provisioned
- Previous guidance for 2011 remains valid:
  - Retail – modest reduction
  - Wholesale – modest reduction
  - International – initial concerns addressed with Q1 provisioning but downside risks remain
- Heritage Lloyds TSB, more conservative approach to risk fully embedded
- Disciplined controls over risk profile of all new business
- Target normalised Group AQR range of 50 - 60bps with core business towards the lower end of the range

NON CORE PORTFOLIO – EXCLUDING VERDE

Continued disciplined reductions in non core portfolio

Income[1]	£4.3bn	£3.8bn	£0.5bn	
Impairment	£9.1bn	£9.2bn	£1.9bn	
RWAs	£141bn	£142bn	£129bn	≤£65bn



- Portfolio changes as a result of the strategic review include:
  - Lex Autolease and social housing now core
  - Selected overseas businesses now non-core
- Not separating business into good bank and bad bank
- Non-core disposals will continue to be considered on a value basis balancing:
  - Risk exposure
  - Capital
  - Liquidity
  - Income statement impacts of rundown
- Run off satisfies EU requirements

[1] **Underlying income**

NON CORE PORTFOLIO – VERDE PROFILE

The Verde disposal continues to progress at pace

FINANCIALS: INDICATIVE IMPACT OF VERDE DISPOSAL

(2011 illustration) on Lloyds Banking Group financials based on EU term sheet agreement

Income	**c£1.2bn**
Expenses	**c£0.5bn**
Impairment	**c£0.2bn**
PBT	**c£0.5bn**
RWAs	**c£16bn**
Assets	**c£64bn**
Liabilities	**c£32bn**

- Verde disposal process accelerated
- The business is the seventh largest bank in the UK
- Information Memorandum now issued to prospective buyers
- Expect to identify purchaser by the end of 2011
- Total implementation costs will vary depending upon the nature of the buyer but could be up to £1bn

THE BEST BANK FOR CUSTOMERS

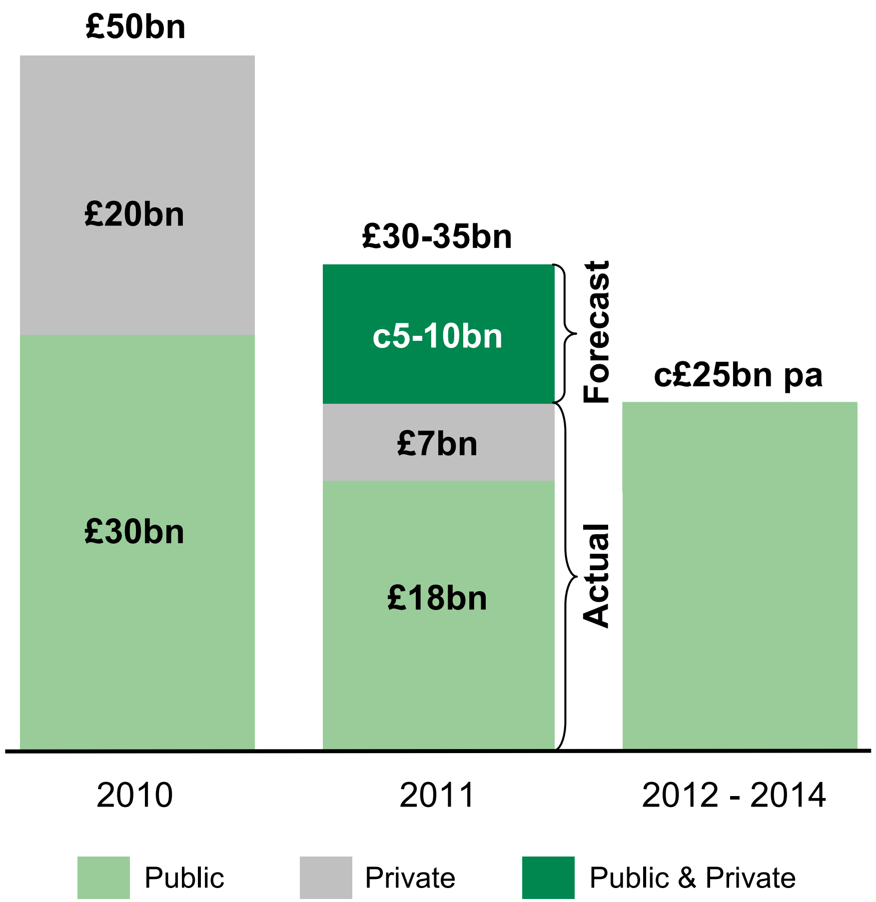
Delivers significant scope for prudent core business growth

LLOYDS BANKING GROUP

SOURCES	APPLICATIONS	RESULT
▪ Non core asset run off and disposals ▪ Verde disposals ▪ Growth in relationship customer deposits	▪ Significant net new core business growth capacity ▪ Increasing liquid assets to meet LCR and NSFR requirements ▪ Prudent reduction in wholesale funding issuance (c£25bn pa) ▪ Loan to deposit ratio ≤130% (Core: ≤120%)	▪ Prudent funding profile ▪ Less capital intensive earnings ▪ Slightly smaller balance sheet

FUNDING

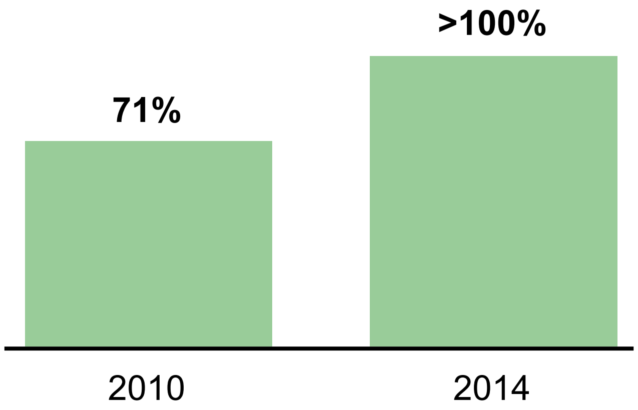
Annual wholesale issuance requirement continues to fall



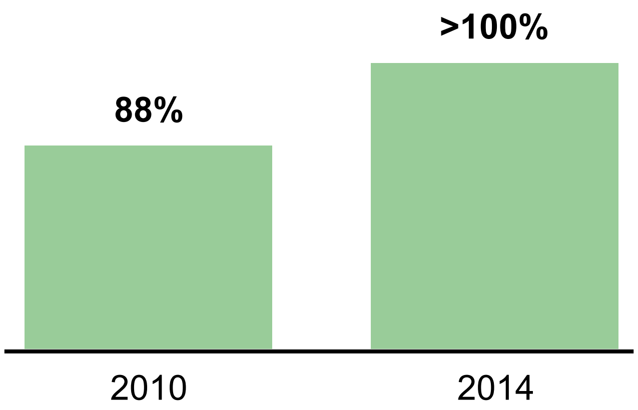
- Previous guidance of £20 - 25bn public pa over the next few years
- Future public term issuance requirements now reduced to c£15 - 20bn pa for 2012 - 2014
- Strength of funding facilitated an early paydown of central bank funding
- Funding will be from a diverse range of funding products and sources:
  - Tenors
  - Structures
  - Currencies
  - Geographies

LIQUIDITY
Exceeding regulatory liquidity requirements

LIQUIDITY COVERAGE RATIO



NET STABLE FUNDING RATIO



- Increasing regulatory liquidity requirements
- Meeting LCR and NSFR by 2014 (in advance of regulatory requirements)

CAPITAL: BASEL 2.5 / 3.0 IMPACT

Maintaining modest but prudent capital reserves over regulatory requirements

LLOYDS BANKING GROUP

		IMPLEMENTATION
Basel 2.5 **-0.2% c£10bn**	RWA increase primarily from Market Risk in the trading book	December 2011
Basel 3 **-0.6% c£30bn**	RWA increase largely from credit valuation adjustment, securitisation and insurance allowances[1]	January 2013
Transitional rules	Insurance deduction (-0.2%pa) Other transitional adjustments (-0.2%pa) Largely excess expected loss Any residual deferred tax losses	2014 - 2018
Verde	RWA Benefit	From disposal date (by November 2013)
Non-core run down and disposals	RWA Benefit	Ongoing

TARGET CORE TIER 1 CAPITAL RATIO PRUDENTLY IN EXCESS OF 10% FROM 1 JANUARY 2013 WHEN TRANSITION TO BASEL 3 COMMENCES

(1) **Securitisation partially offset by removal of core tier 1 deduction**

GUIDANCE

Group Financial Targets, 2014

CUSTOMER-DRIVEN DIVERSIFIED INCOME	▪ Additional discretionary investment to grow our core customer franchise ▪ Core income growth ▪ OOI as % of total income(1) ▪ Net interest margin	£500m pa by 2014 > nominal GDP growth c50% of Group income 2.15 – 2.30%; core business higher than Group
POSITIVE OPERATING JAWS	▪ Sustainable cost savings (over and above £2bn integration savings and pre discretionary investment ▪ Cost : income ratio	£1.5bn annual savings in 2014 (£1.7bn run-rate savings by end 2014) 42 – 44%(2)
CAPITAL ALLOCATED TO CORE BUSINESS	▪ Required capital for non-core ▪ Non-core assets reduced	Net capital generative over the period 2012 to 2014 ≤£90bn in 2014, accounting for ≤£65bn of RWA
PRUDENT RISK APPETITE	▪ Average AQR	50 – 60bps Core business AQR expected to be at the bottom end of this range
STRONG STABLE FUNDING	▪ Loan-to-deposit ratio ▪ LCR & NSFR	≤130% Group, ≤120% Core Requirements met ahead of regulatory implementation dates
DISCIPLINED HIGH-RETURN INVESTING	▪ Statutory return on equity ▪ Core tier 1 capital	12.5 – 14.5% Target core tier 1 capital ratio prudently in excess of 10% from 1 Jan 2013 when transition to Basel 3 commences

(1) OOI Net of Insurance claims
(2) Following adjustments to include the net of operating lease income and depreciation in Group Income this would be 39-41%

THE BEST BANK FOR CUSTOMERS

Delivering strong, stable returns for shareholders

- **Smaller balance sheet, robust capital structure and stronger funding platform**
- **Reduced capital intensity**
- **Slimmer, more agile and efficient operating model**
- **Earnings based on our ability to drive growth above nominal GDP**
- **Lower volatility, lower risk, sustainable and more resilient earnings above the cost of equity**
- **Earnings momentum to 2015 and beyond**

- Sustainable returns on equity of 12.5 – 14.5% by 2014 with positive momentum into 2015
- Restarting dividends under a sustainable progressive dividend policy
- Returning the Group to full private ownership

LLOYDS BANKING GROUP

STRATEGIC REVIEW

Finance

July 14, 2011

Tim Tookey
Group Finance Director

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 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.

STRATEGIC REVIEW

Q & A