

**LLOYDS
BANKING
GROUP**



**PRESENTATION TO THE UBS GLOBAL
FINANCIAL SERVICES CONFERENCE**

8 May 2012

New York

Andrei Magasiner

Group Corporate Treasurer

AGENDA

LLOYDS
BANKING
GROUP



UK ECONOMIC OUTLOOK

THE UK BANKING SECTOR

LLOYDS' TRAJECTORY

ON THE HORIZON

SUMMARY

UK ECONOMIC OUTLOOK

Overview



STRUCTURAL STRENGTHS

- Growth driven by a diversified business mix
- Ease of doing business is high
- Floating currency provides flexibility

MANAGEABLE GOVERNMENT FINANCES

- Despite the crisis, government finances are manageable
- Political and social will to manage debt down
- Long maturities and deep sovereign debt market

POSITIVE OUTLOOK

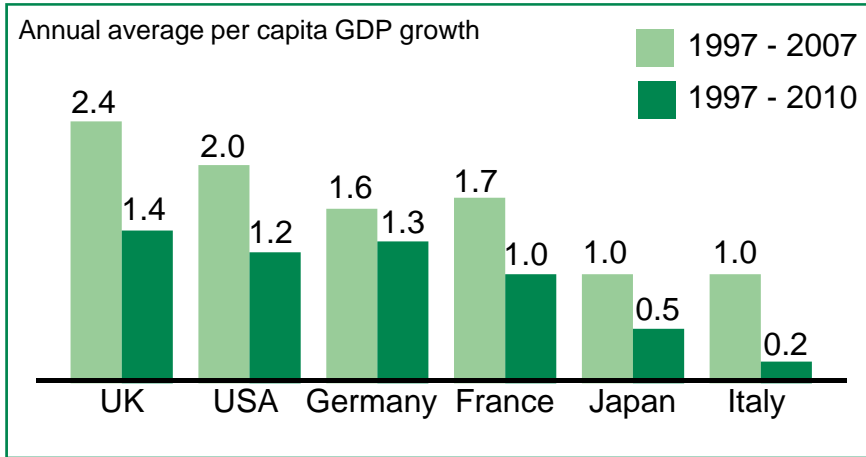
- Consensus expectation: UK is diverging from Eurozone
- Slow but steady recovery in the UK

FAVOURABLE FUNDAMENTALS HELP THE UK OUTLOOK

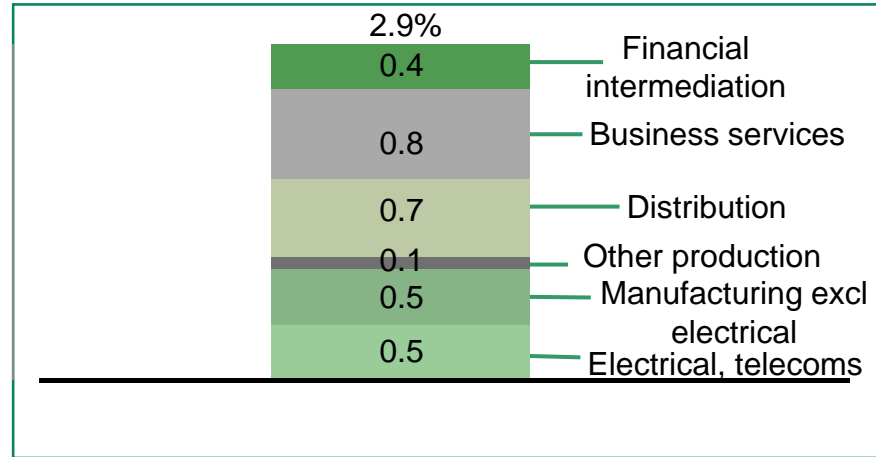
The UK has a strong productivity record, is well diversified and conducive for business



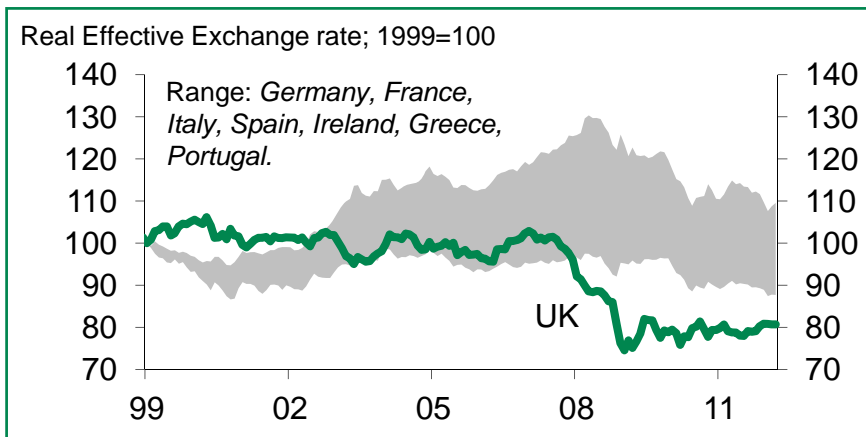
PRE-CRISIS UK GROWTH WAS STRONG....⁽¹⁾



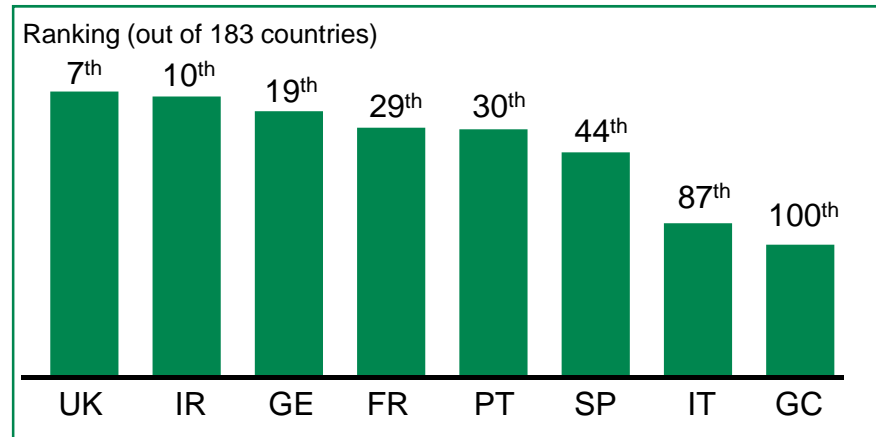
....ACROSS A BROAD BASE⁽²⁾



£ DEPRECIATION HELPS COMPETITIVENESS



EASE OF DOING BUSINESS IN UK HIGHER⁽³⁾



⁽¹⁾ Source: Centre for Economic Performance – LSE

⁽²⁾ Source: GVA, market economy

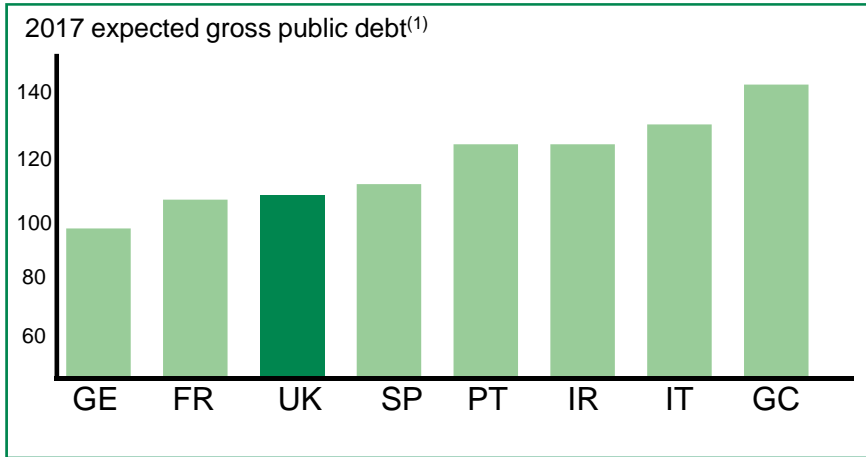
⁽³⁾ World Bank Oct 2011 'Doing Business' report

MANAGEABLE GOVERNMENT FINANCES IN THE UK

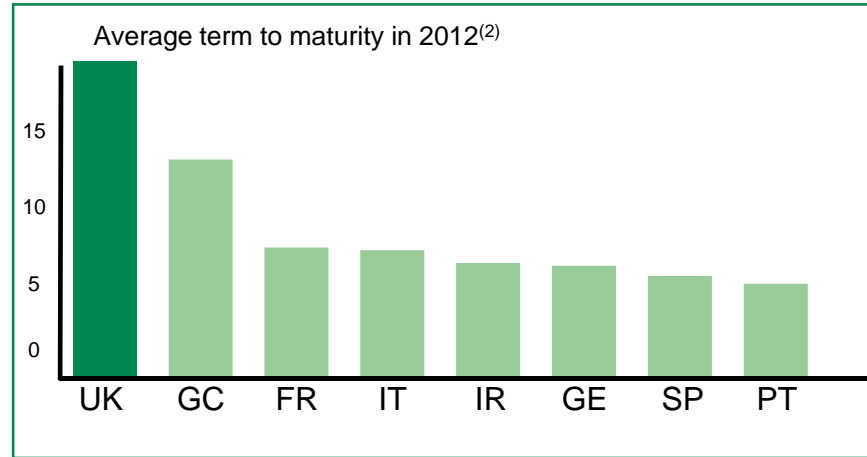
Relatively low public debt, long debt maturity and low debt servicing costs help make UK's fiscal adjustment manageable



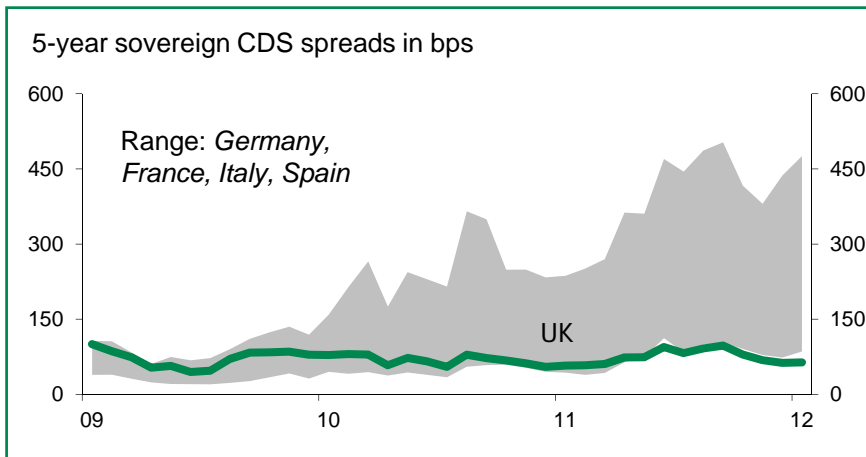
UK DEBT AT MANAGEABLE LEVELS....



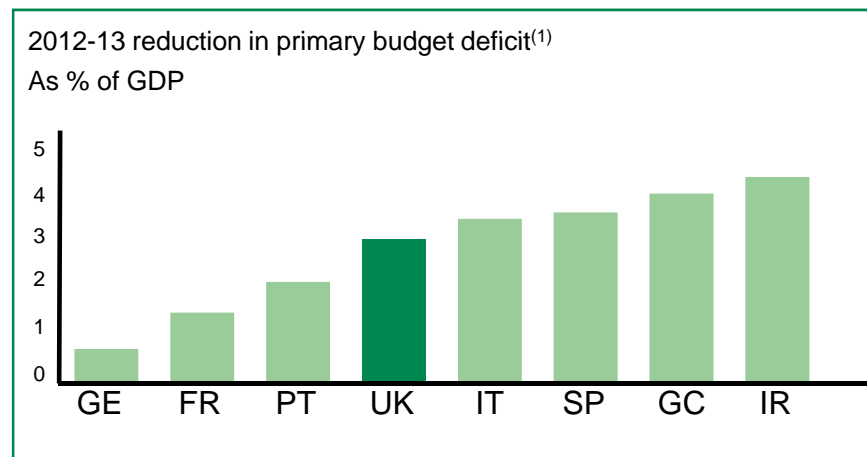
WITH LONG MATURITY



...AND LOW CREDIT RISK PREMIUM



FISCAL ADJUSTMENT IS MODERATE



(1) Source: IMF, April '12 World Economic Outlook

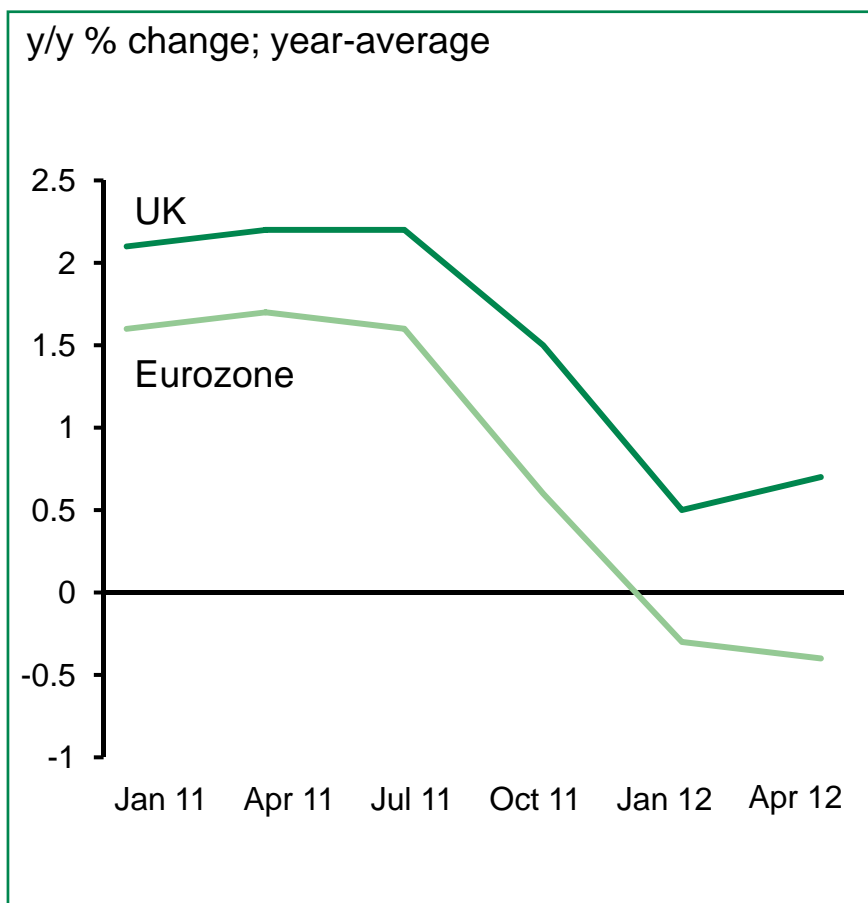
(2) Source: IMF, April '12 Fiscal Monitor

EUROZONE OUTLOOK WORSENING RELATIVE TO UK

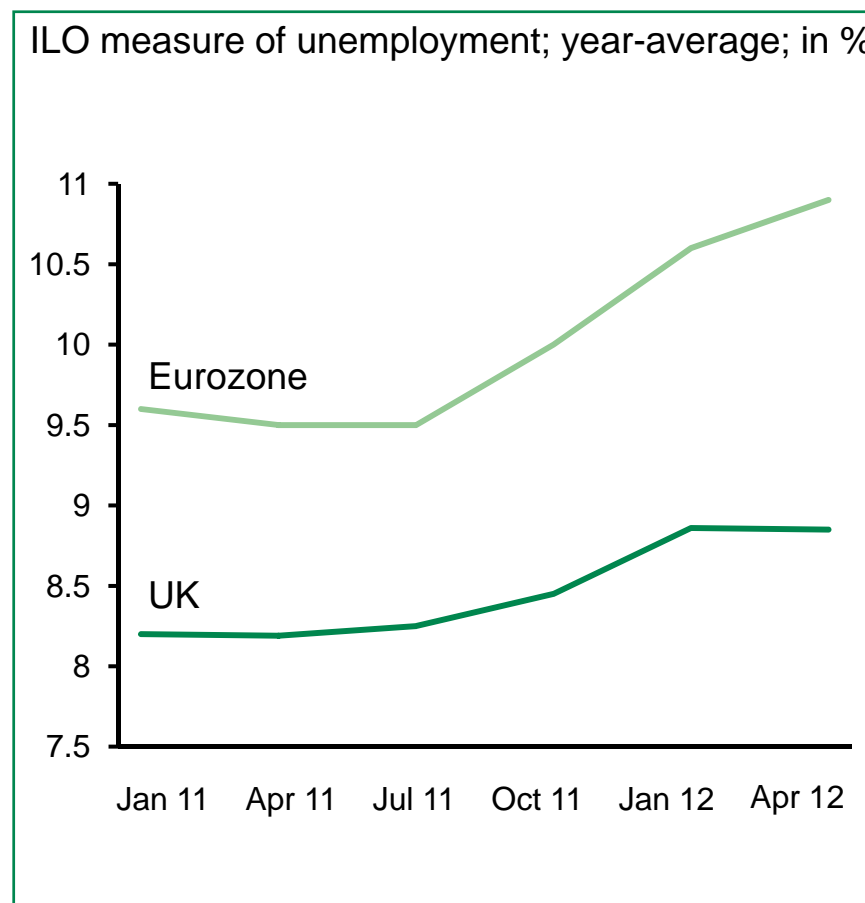
Consensus forecasts for UK 2012 GDP growth have fallen, but for the Eurozone they now point to a deeper recession



EUROZONE'S GROWTH PROSPECTS WEAKEN
CONSENSUS FORECAST ON 2012
REAL GDP⁽¹⁾



JOB MARKET OUTLOOK WORSEN TOO
CONSENSUS FORECASTS ON 2012
UNEMPLOYMENT RATE⁽¹⁾



⁽¹⁾ Source: Consensus Economics

CURRENT UK ECONOMIC OUTLOOK

Slow but steady recovery



GDP	Flat in 2012, with modest recovery in 2013
UK BASE RATE	To remain at current low levels into 2013
UNEMPLOYMENT	Peaking at around 9% in 2013
PROPERTY PRICES	Broadly flat

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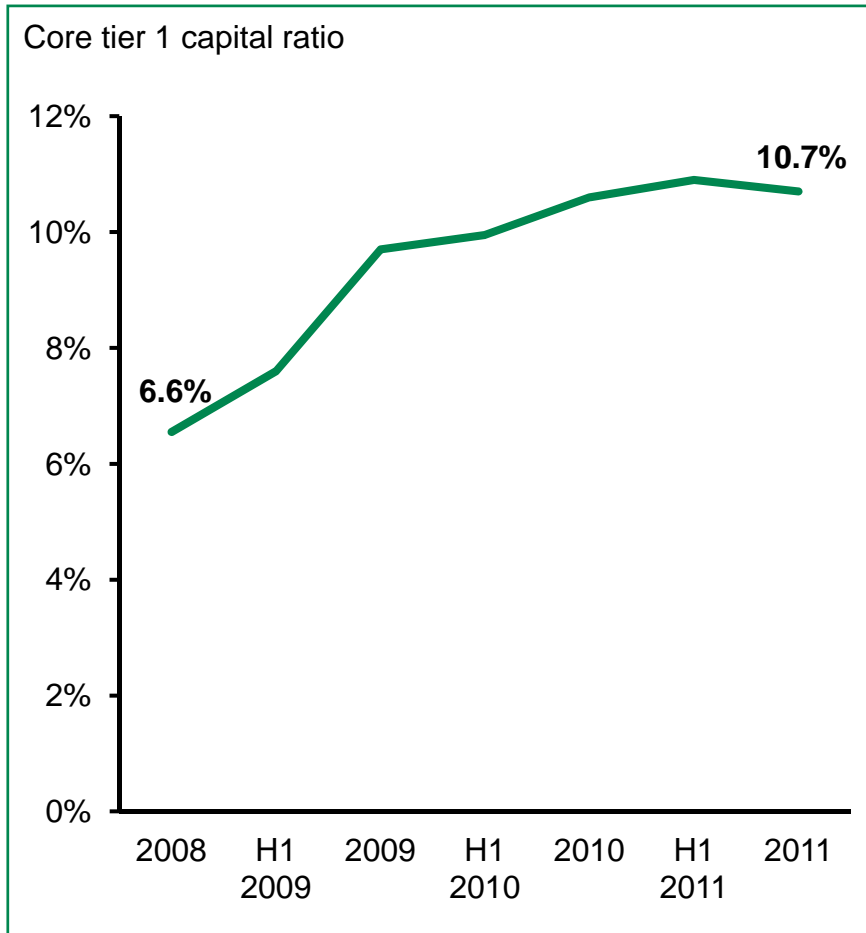
SUMMARY

UK BANKING SECTOR RESILIENCE

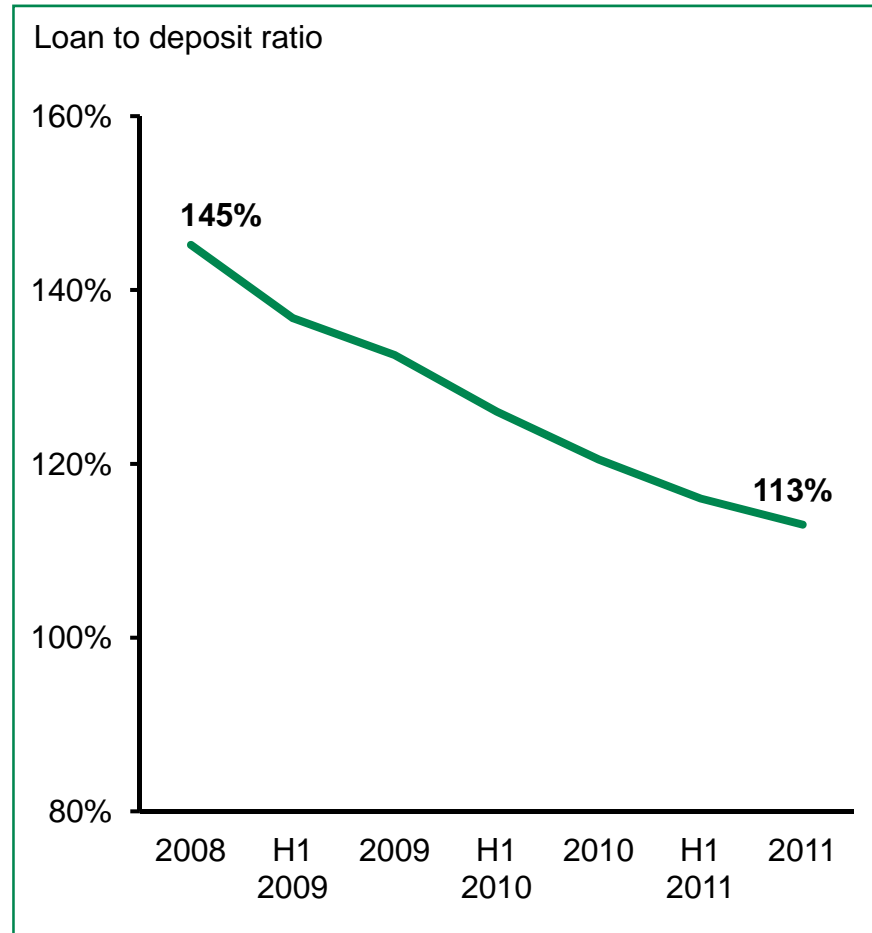
UK banks have been proactively strengthening their balance sheets since the start of the crisis



ROBUST CORE TIER 1 CAPITAL⁽¹⁾



IMPROVED FUNDING⁽¹⁾



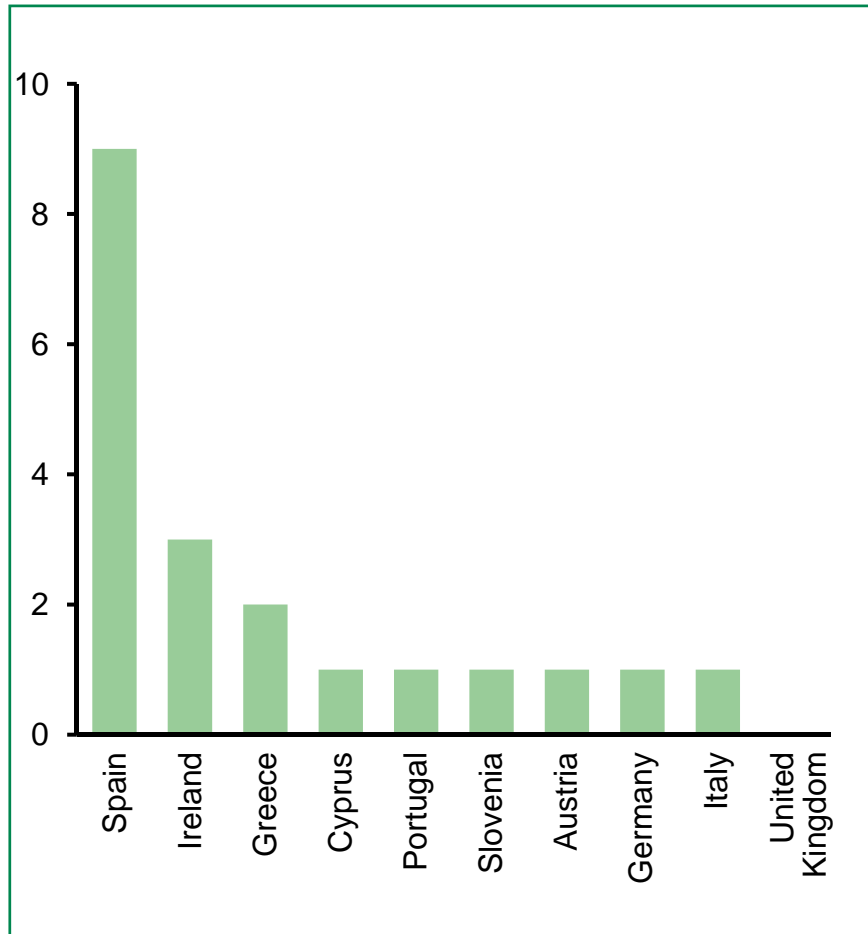
⁽¹⁾ Median core tier 1 and loan to deposit ratio of Lloyds, Barclays, RBS & HSBC, source: Company reports, Lloyds Banking Group calculations

UK BANKING SECTOR RESILIENCE

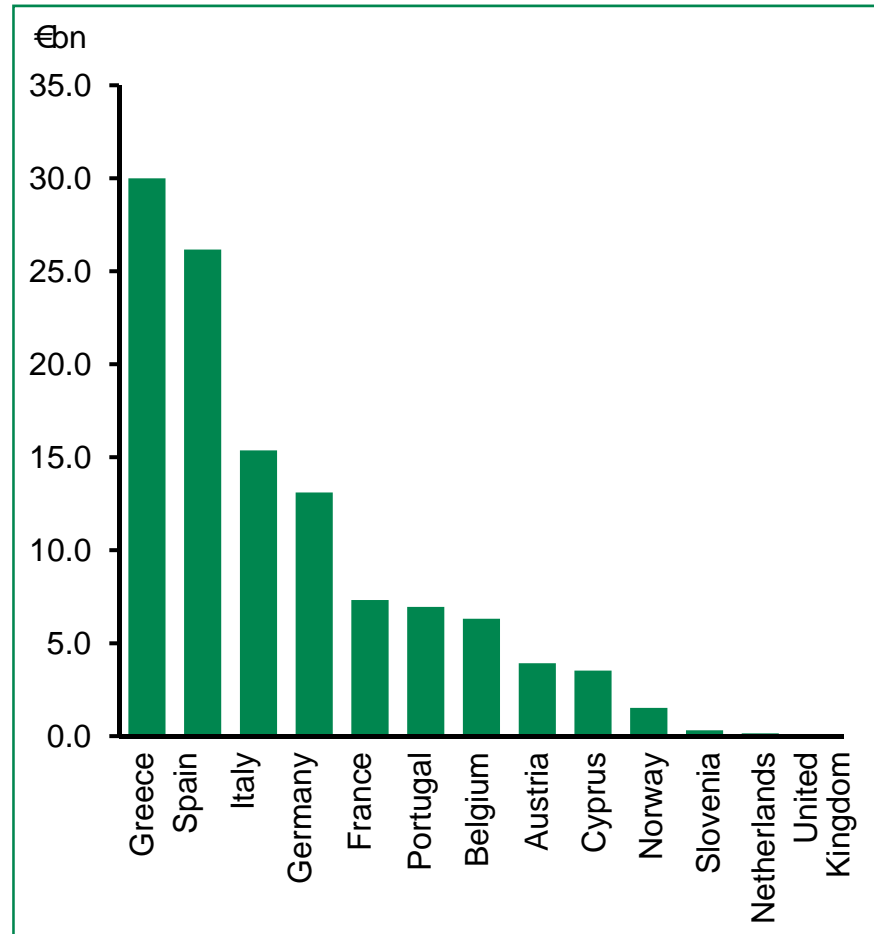
... as a result, UK banks passed both the EBA stress and capital test



**NUMBER OF FAILING BANKS
2011 EBA STRESS TESTS⁽¹⁾**



**ADDITIONAL CAPITAL REQUIRED:
DEC 2011 EBA CAPITAL EXERCISE⁽²⁾**



⁽¹⁾ Other countries that also had no banks failing were: France, Belgium, Norway, Netherlands, Luxembourg, Sweden & Denmark

⁽²⁾ Other countries that also required no additional capital: Ireland, Luxembourg, Sweden & Denmark

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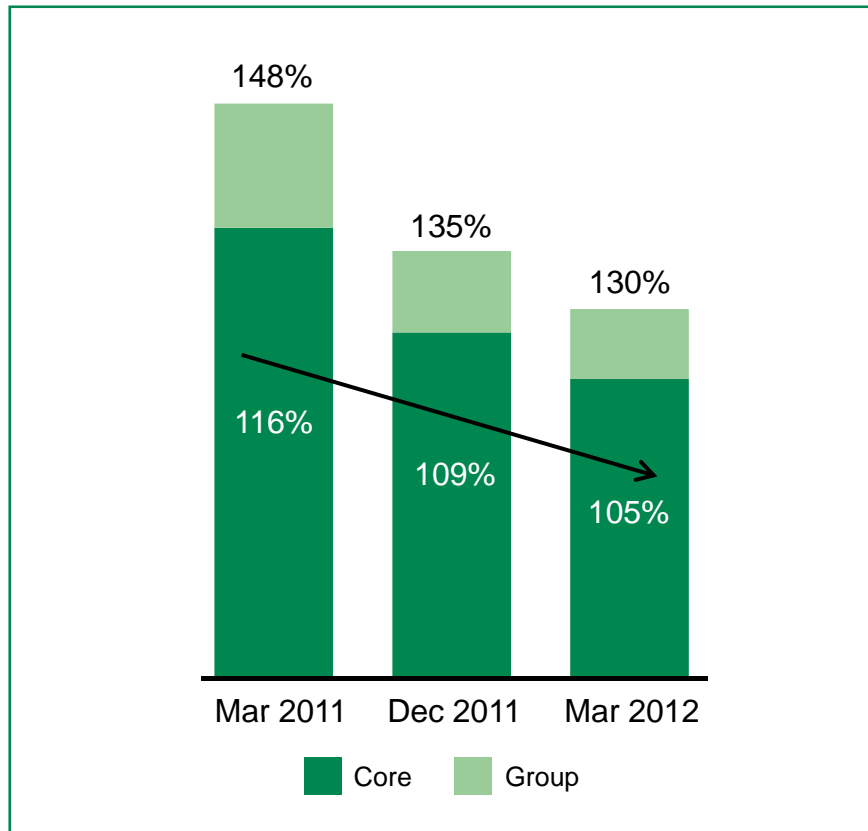
SUMMARY

ACCELERATING BALANCE SHEET STRENGTH

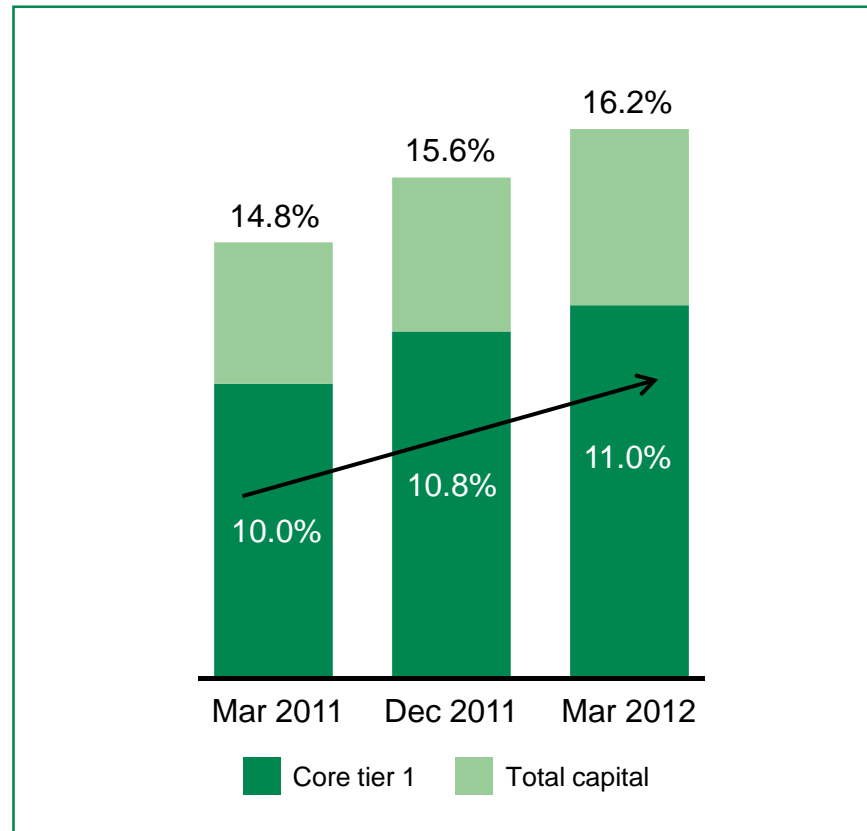
Substantial reduction in our loan to deposit ratio, underpinned by strong capital position



LOAN TO DEPOSIT RATIO



CAPITAL POSITION



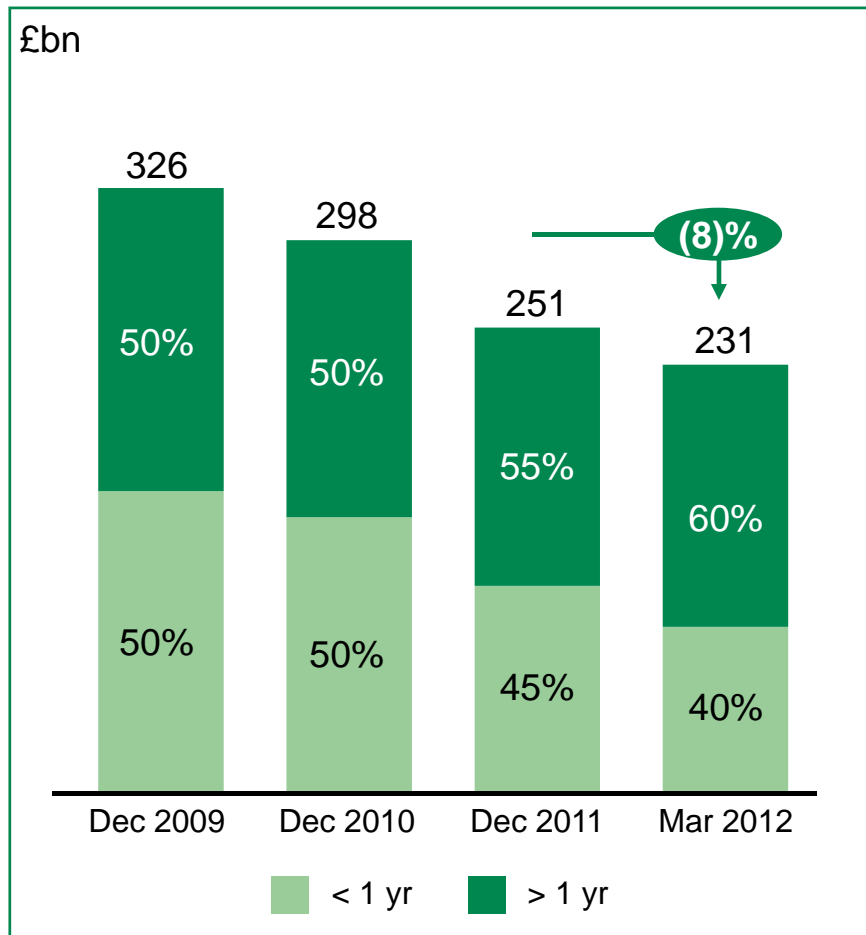
Now targeting a long term loan to deposit ratio for the Group of 120%

WHOLESALE FUNDING

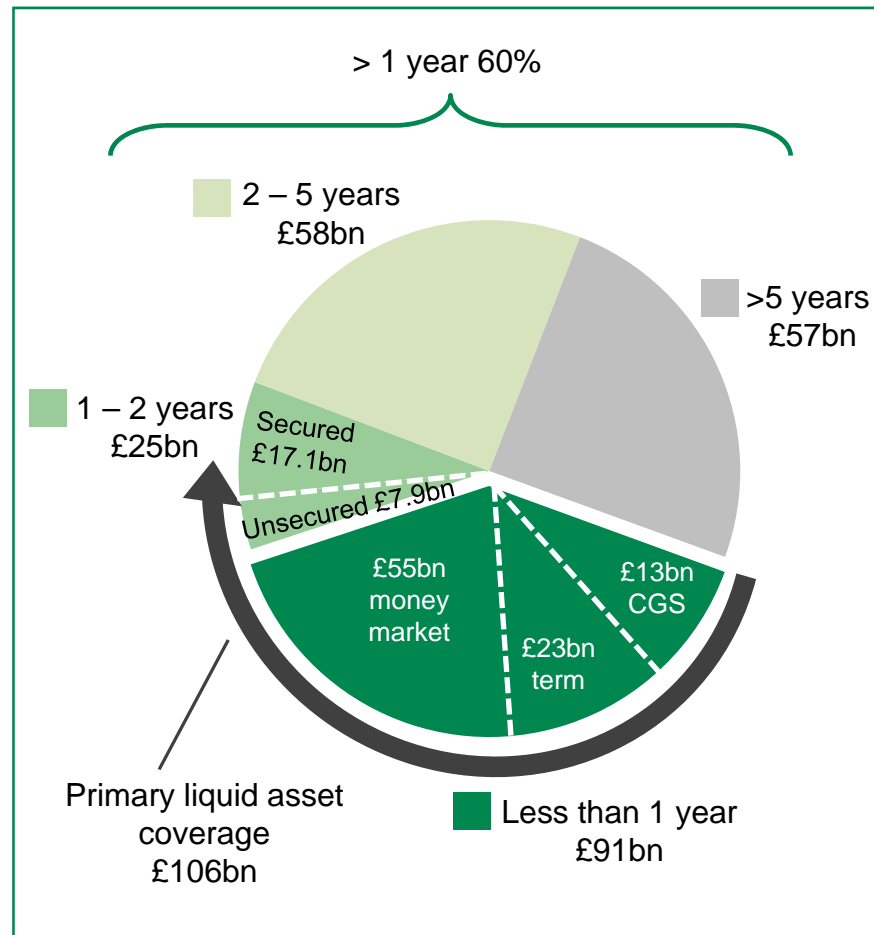
Falling funding requirement and increasing liquidity



WHOLESALE FUNDING MATURITY PROFILE



WHOLESALE FUNDING £231BN



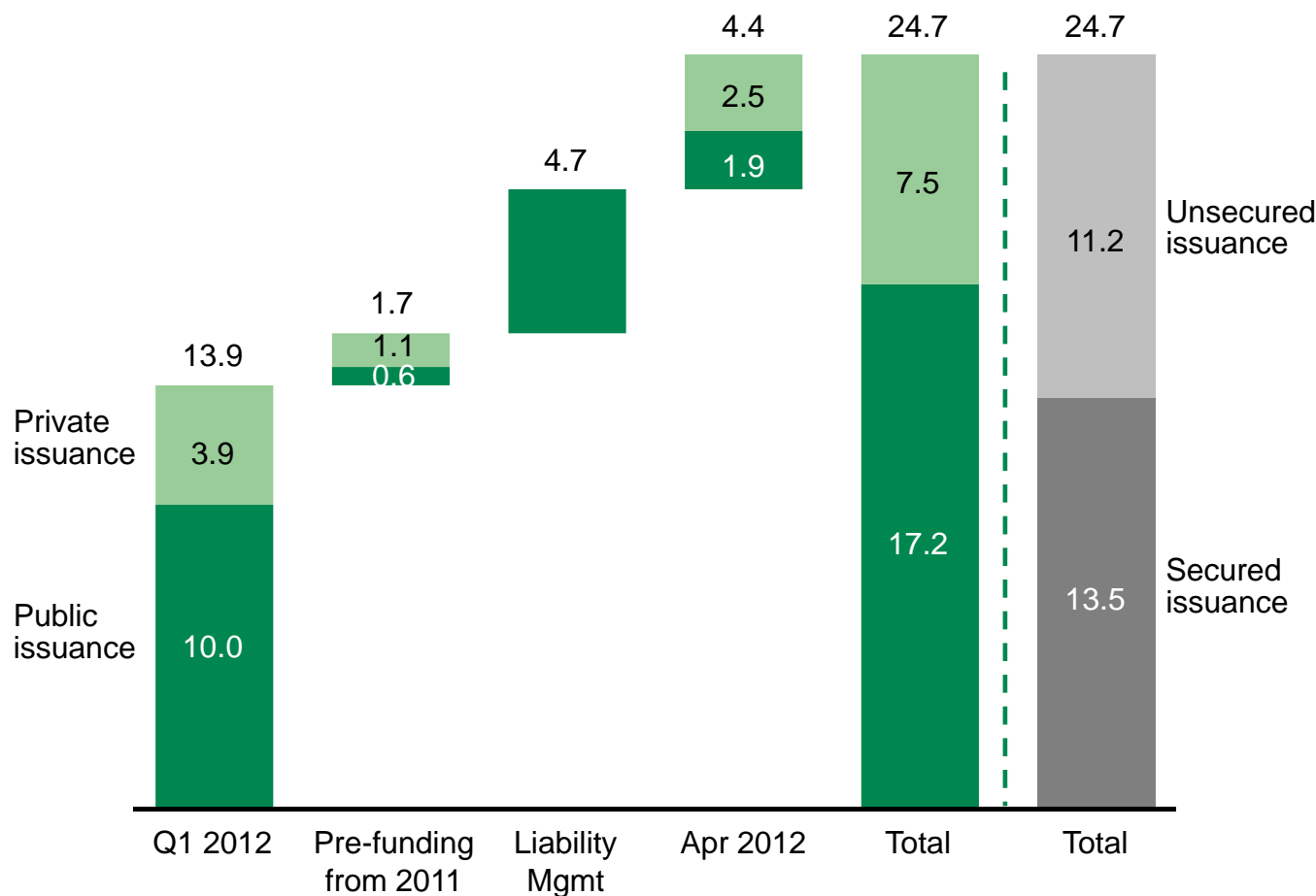
WHOLESALE FUNDING

2012 term funding plan already completed



£bn

WHOLESALE TERM ISSUANCE⁽¹⁾



2012 SUMMARY

- Term funding completed
- No benchmarks planned⁽²⁾
- Modest opportunistic issuance possible

⁽¹⁾ LTRO not included

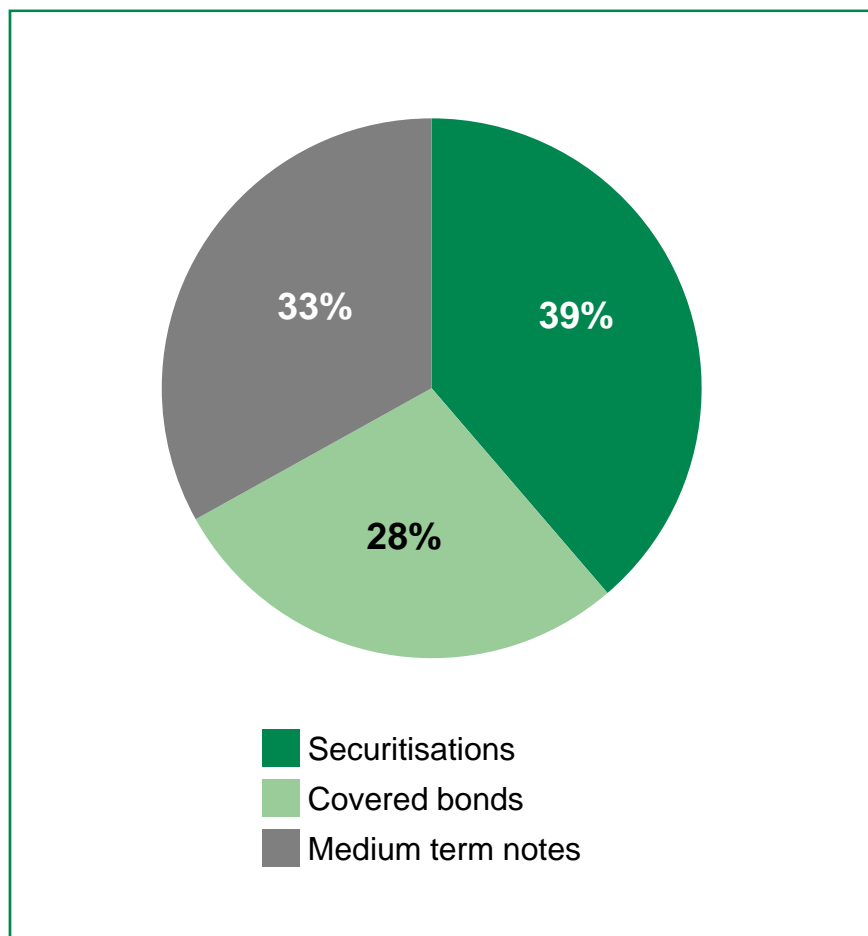
⁽²⁾ Issuance does not include related NLGS activity, which we will participate in fully

WHOLESALE FUNDING

Access to a wide variety of funding products and sources

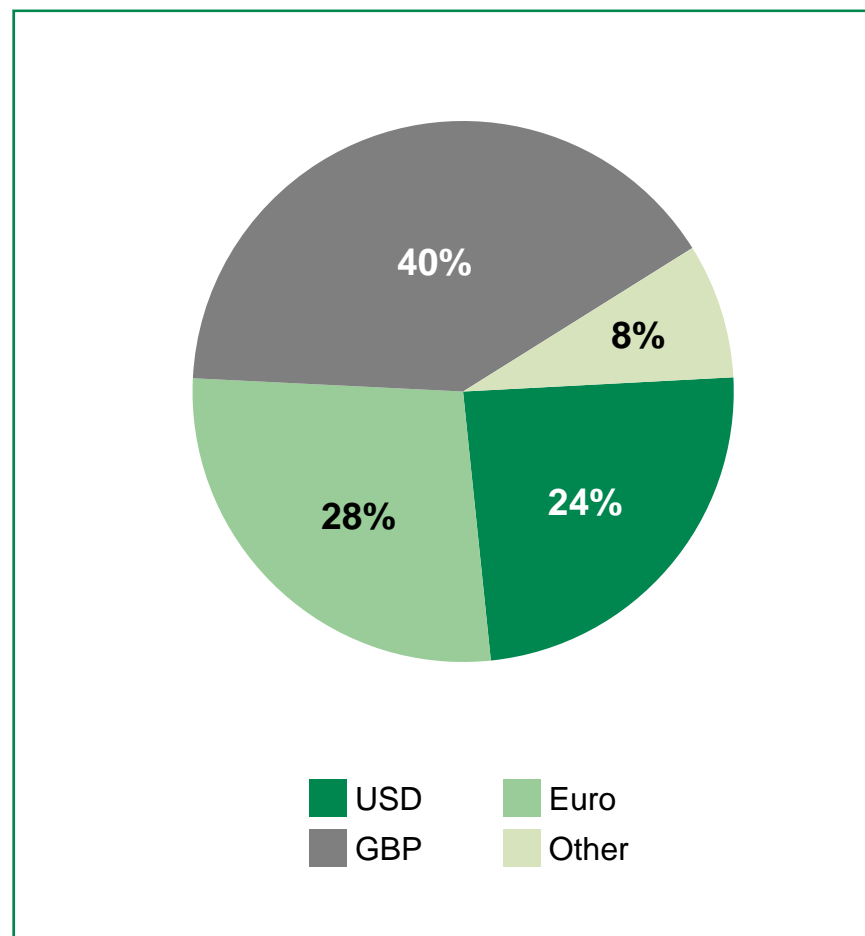


**PUBLIC TERM ISSUANCE FOR 2012
BY PRODUCT**



To April 2012

**PUBLIC TERM ISSUANCE FOR 2012
BY CURRENCY**



To April 2012

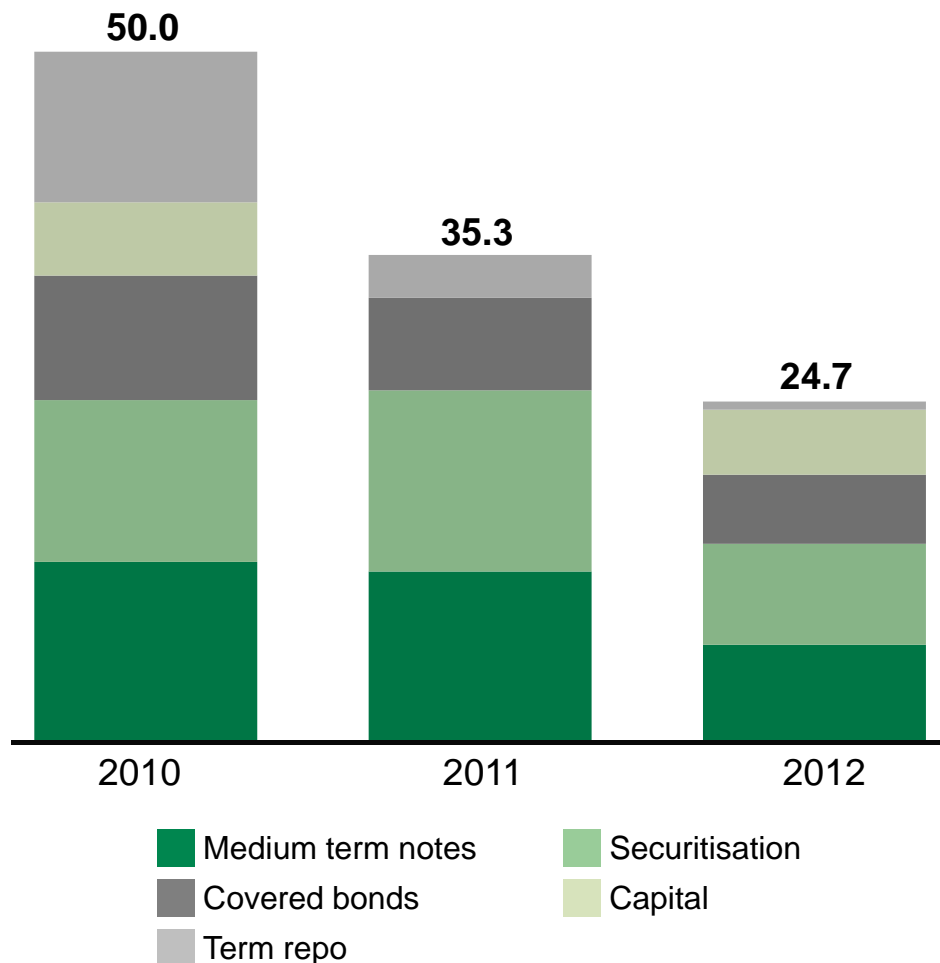
WHOLESALE FUNDING

Successful term funding over the last few years



£bn

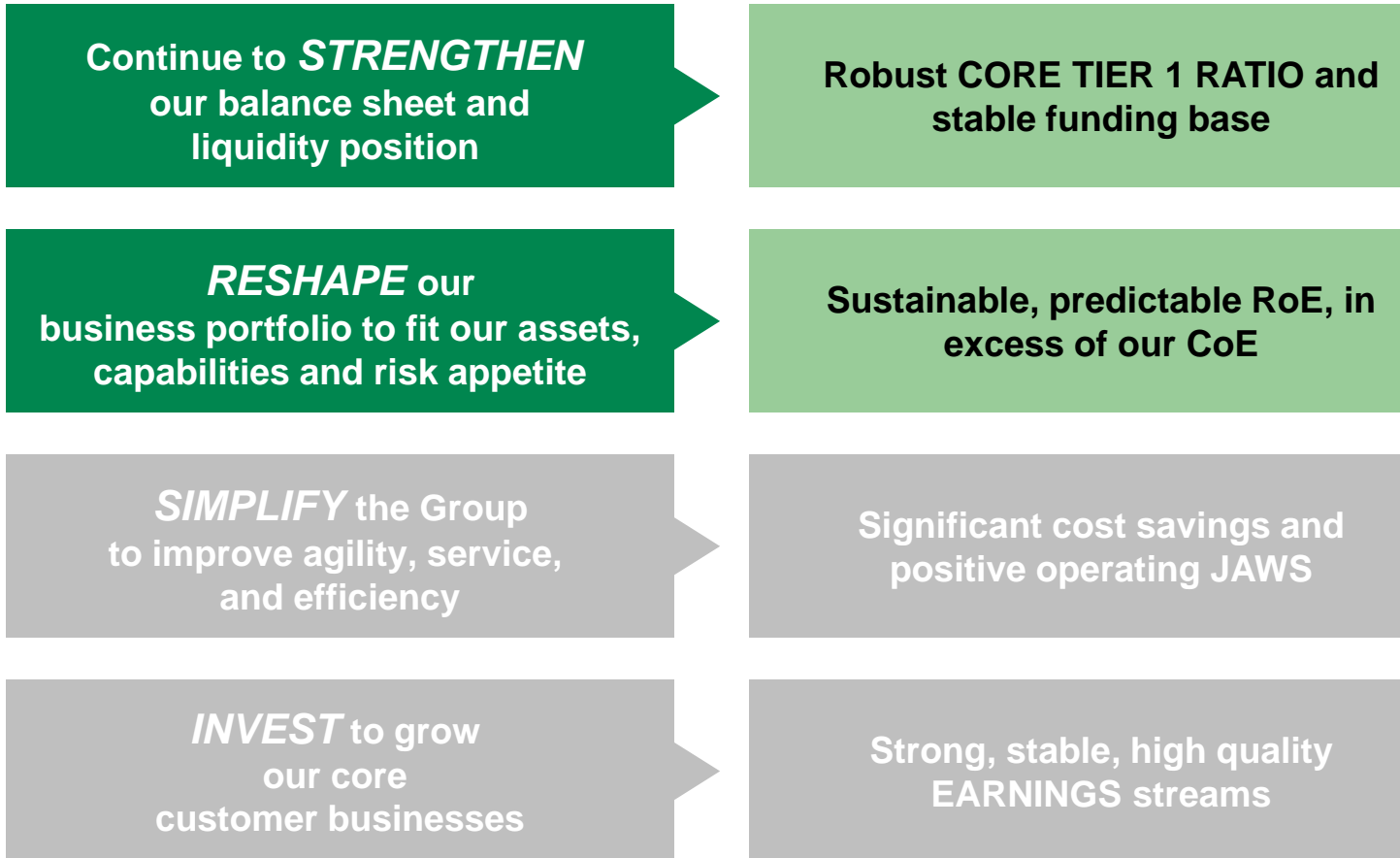
TERM FUNDING



- Successful track record of term funding
- Issuance levels are sustainable
- Flexibility for additional issuance
- Continue to expect £20 – £25bn of wholesale term funding per year

DELIVERING OUR STRATEGY

Four key pillars to be the best banks for customers and shareholders



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CAPITAL: CRD IV

Capital adequacy to remain solid at Lloyds



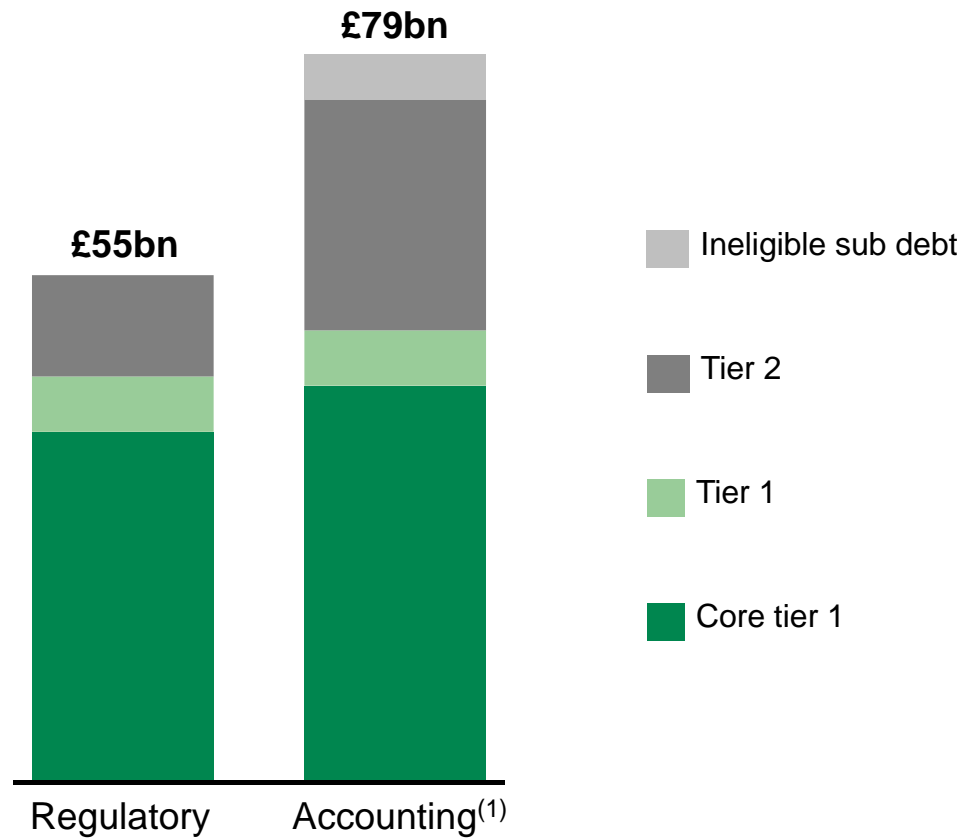
Date of rule change			Estimated impact if applied to December 2011 core tier 1
January 2013	RWA increases largely from derivative valuation adjustments, changes in definition of default for retail mortgages and insurance allowances		c. £25-30bn RWAs c. (0.8)% ----- Proforma c. 10.0% core tier 1
2014–2018 Transitional rules	Permanent adjustments	Insurance deduction and other transitional adjustments including excess expected losses	Impact: c. (0.25)% pa
	Diminishing adjustments	Phased deduction of residual deferred tax assets	Illustrative impact: (1.6)%
<p>December 2011:</p> <ul style="list-style-type: none"> – Core tier 1 ratio with CRD IV 2013 rules: c.10.0% – Core tier 1 ratio with fully implemented CRD IV rules: illustrative 7.1% 			<p>All impacts are before any further mitigating actions, earnings progression or capital benefits of future non-core run down</p> 

SENIOR UNSECURED BAIL-IN WOULD BE UNNECESSARY

Senior unsecured debt is protected by significant loss absorbency at Lloyds



CAPITAL STRUCTURE – DEC 2011



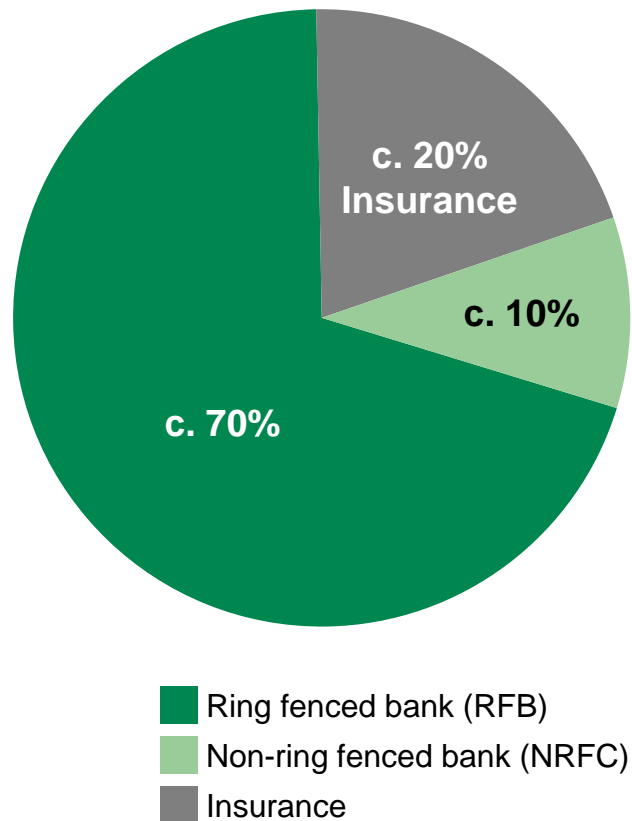
⁽¹⁾ Excludes regulatory deductions on core tier 1 (£5bn), tier 2 (£14bn)

INDEPENDENT COMMISSION ON BANKING – RINGFENCING

Most of Lloyds' business would be in the ring fenced bank



POST ICB ENTITIES
INDICATIVE SIZE (2014)



- ICB follow up still under discussion
- Insurance unaffected
- Non-ring fenced bank is expected to include non-EEA, financial institutions, and trading book

CREDIT RATING AGENCIES

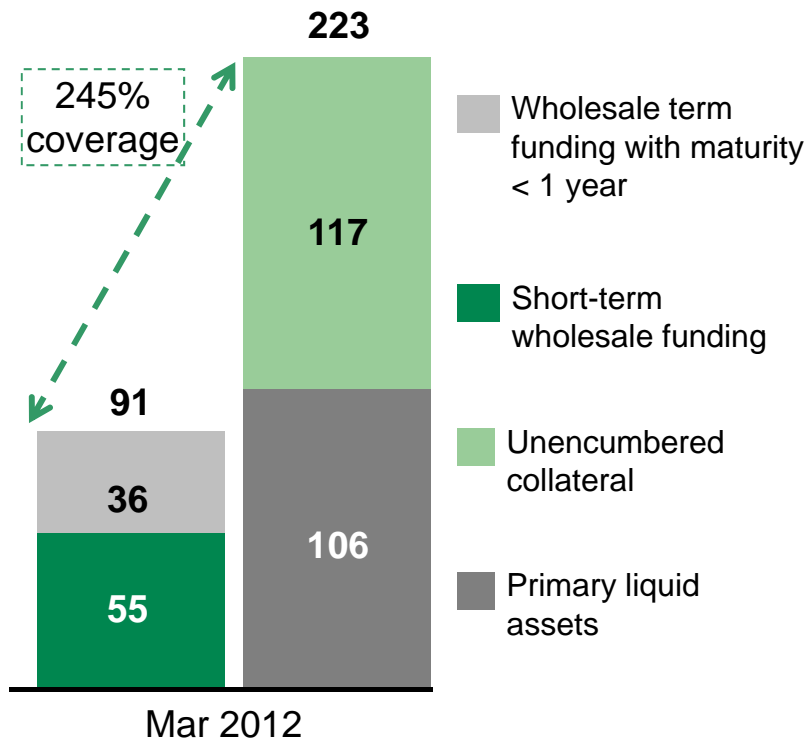
Lloyds' underlying strength and stability should be recognised by the rating agencies over time



Lloyds continues to strengthen its balance sheet and is managing rating agency headwinds

Over time, the rating agencies will characterise Lloyds by its underlying core business again

£bn



“...There has also been an ongoing reduction in non-core assets, strengthening of liquidity, completion of the integration of HBOS, and indications that the recent high level of impairments may have peaked.” *Moody's, 29 November 2011*

“...the underlying picture should be ... a return to increasing efficiency and profitability as the group develops its deep franchise, multiple brands, economies of scale and pricing power” *Fitch, 17 January 2012*

“[Lloyds will be] potentially one of the least complex banks globally” *S&P, 29 November 2011*

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Well placed to realise over time the Group's full potential for growth



UK ECONOMY

- Floating currency
- Diverse and flexible economy
- Fiscally Responsible Government

UK BANKING SECTOR

- Strong and supportive institutions
- Proactive in the crisis

LLOYDS

- Resilient core business performance despite environment
- Continuing Balance Sheet improvement with lower risk
- Lower steady-state funding requirement

ON THE HORIZON

- Well prepared for implementation of planned reforms
- Over time, rating agencies will refocus on Lloyds' recognised underlying strengths

FORWARD LOOKING STATEMENTS AND BASIS OF PREPARATION

LLOYDS
BANKING
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FORWARD LOOKING STATEMENTS

This presentation 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, including, without limitation, as a result of the integration of HBOS and the Group's simplification programme; 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; instability in the global financial markets including Eurozone instability; changing demographic and market related 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 EC 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 certain factors together with examples of forward looking statements. The forward looking statements contained in this presentation are made as at the date of this presentation, and the Group undertakes no obligation to update any of its forward looking statements.

BASIS OF PRESENTATION

The results of the Group and its business are presented in this presentation on a combined businesses basis and include certain income statement, balance sheet and regulatory capital analysis between core and non-core portfolios to enable a better understanding of the Group's core business trends and outlook. Please refer to the Basis of Presentation in the Q1 2012 Interim Management Statement News Release which sets out the principles adopted in the preparation of the combined businesses basis of reporting as well as certain factors and methodologies regarding the allocation of income, expenses, assets and liabilities in respect of the Group's core and non-core portfolios.

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