

LLOYDS  
BANKING  
GROUP



# Presentation to the Morgan Stanley European Financials Conference

27 March 2012

**António Horta-Osório**  
**Group Chief Executive**

# AGENDA

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**ECONOMIC, COMMERCIAL AND REGULATORY ENVIRONMENT**

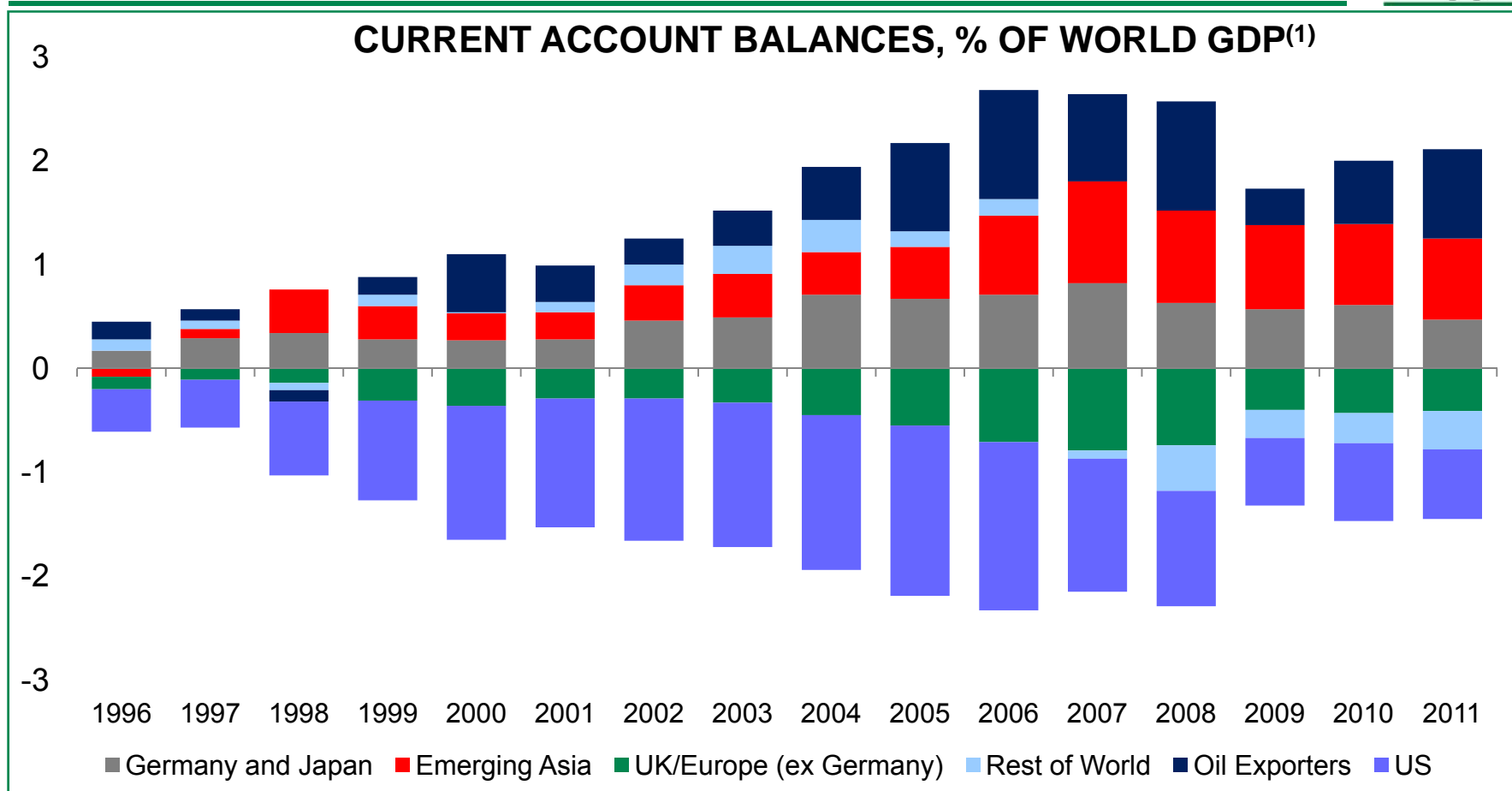
**OUR STRATEGY TO BE THE BEST BANK FOR CUSTOMERS**

**RESILIENT CORE BUSINESS PERFORMANCE**

**CONCLUSION**

# MACRO ECONOMIC ENVIRONMENT

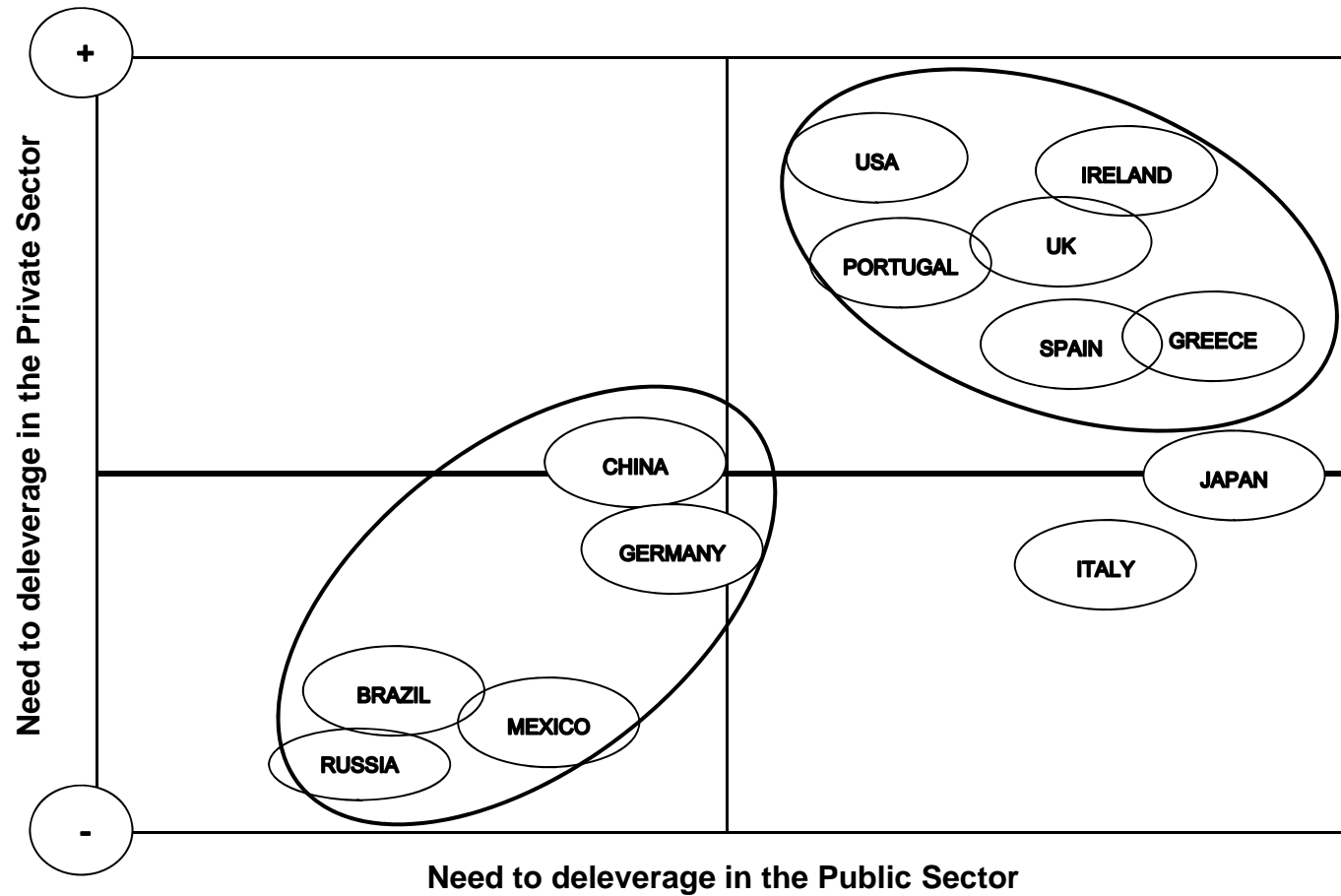
## Global imbalances start to widen again



- World economy is not yet on a sustainable path and remains vulnerable to shocks
- The UK's external environment is likely to remain challenging for some time

<sup>(1)</sup> Source: IMF World Economic Outlook

# GLOBAL STRUCTURAL IMBALANCES



# MACRO ECONOMIC ENVIRONMENT

## A cautious outlook for the UK economy...

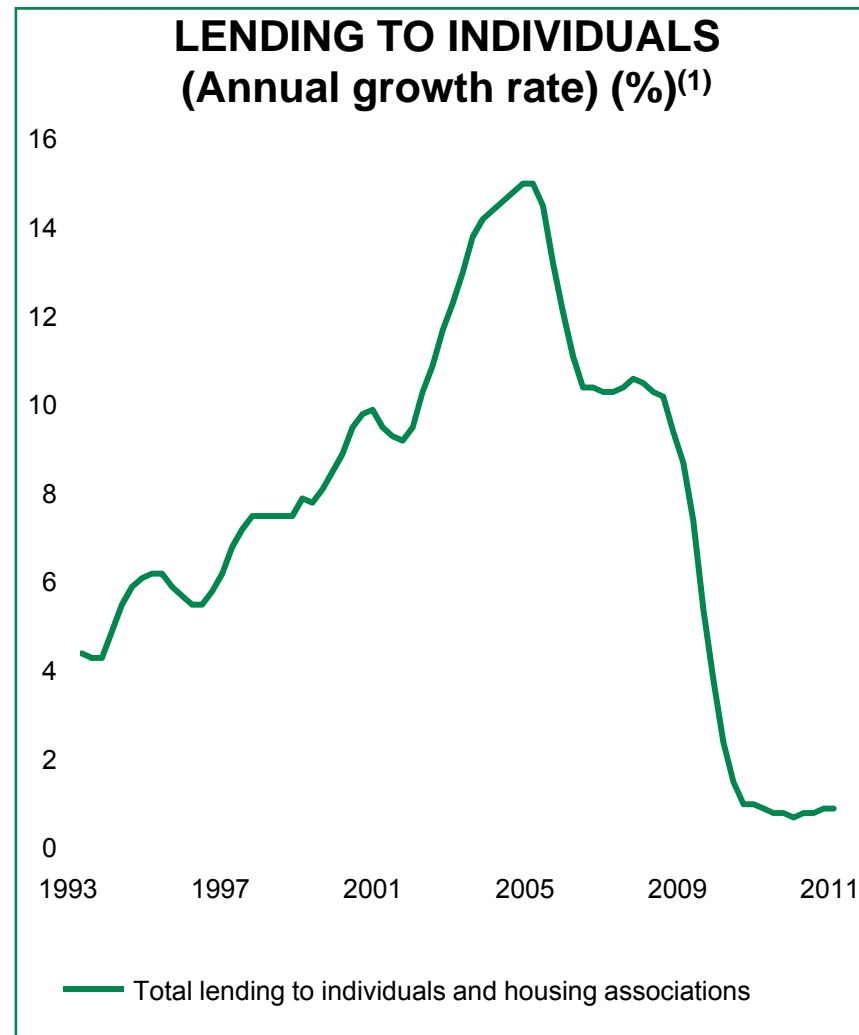
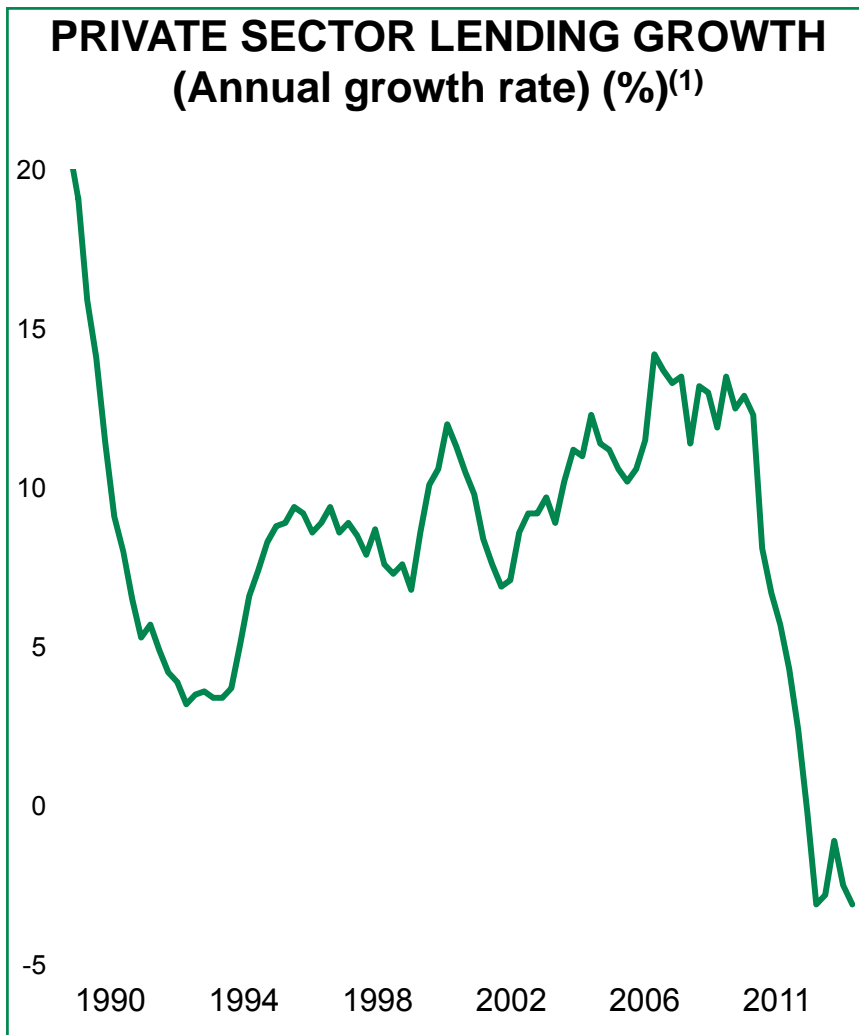
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- High levels of National Debt with shrinking public deficits
- Weak real growth with inflation coming down
- Flat base rates for longer with stronger QE
- Rising unemployment until 2013

# MACRO ECONOMIC ENVIRONMENT

## ...resulting in subdued market conditions



<sup>(1)</sup> Source: Bank of England. Quarterly 12 month growth rates.



## A STRINGENT REGULATORY ENVIRONMENT...

- **Capital and liquidity**  
Demanding standards
- **Consumer protection**  
Greater focus
- **Recovery and resolution**  
Mechanisms being implemented
- **Switching**  
New challenges and more transparency

## ...BUT GREATER CLARITY EMERGING

- **ICB Report**  
Endorsed by UK Government
- **Ring-fencing**  
Retail banking operations
- **Capital proposals**  
Consistent with strategic review
- **Switching**  
Payments Council proposals endorsed
- **White Paper**  
To be published in first half

# RISING CUSTOMER EXPECTATIONS





# AGENDA

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**ECONOMIC, COMMERCIAL AND REGULATORY ENVIRONMENT**

**OUR STRATEGY TO BE THE BEST BANK FOR CUSTOMERS**

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# STRATEGY SUMMARY PRESENTED IN JUNE 2011

## Four key pillars to deliver our strategy to be the best bank for customers and shareholders



Continue to **STRENGTHEN**  
our balance sheet and  
liquidity position

Robust CORE TIER 1 RATIO and  
stable funding base

**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

# ACCELERATING BALANCE SHEET STRENGTH

## Non-core assets and RWA reduction, above market deposit growth and reduction in wholesale funding requirement



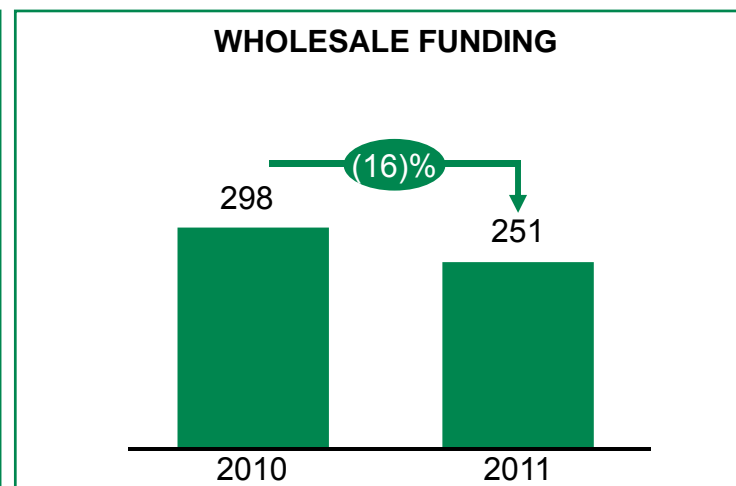
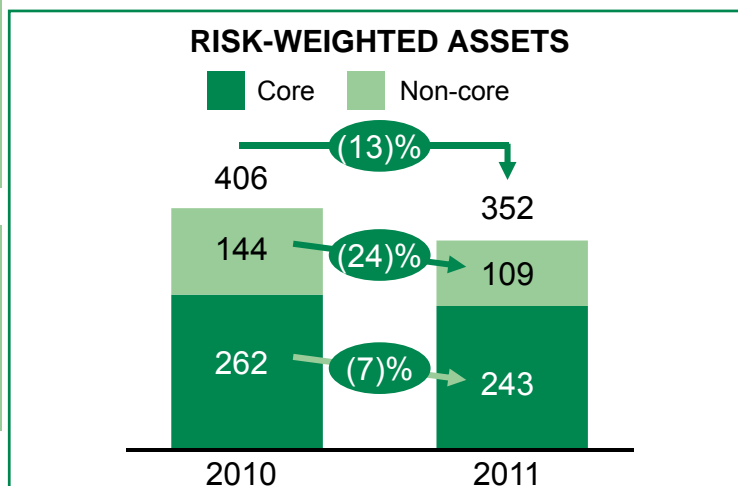
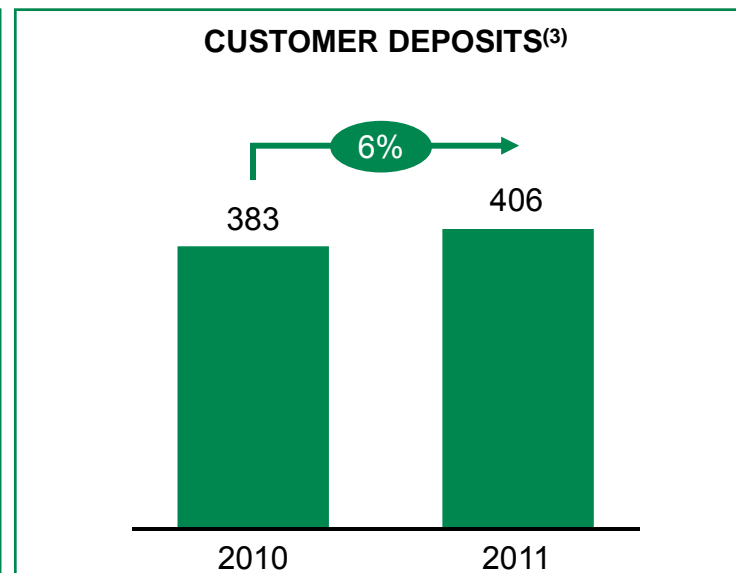
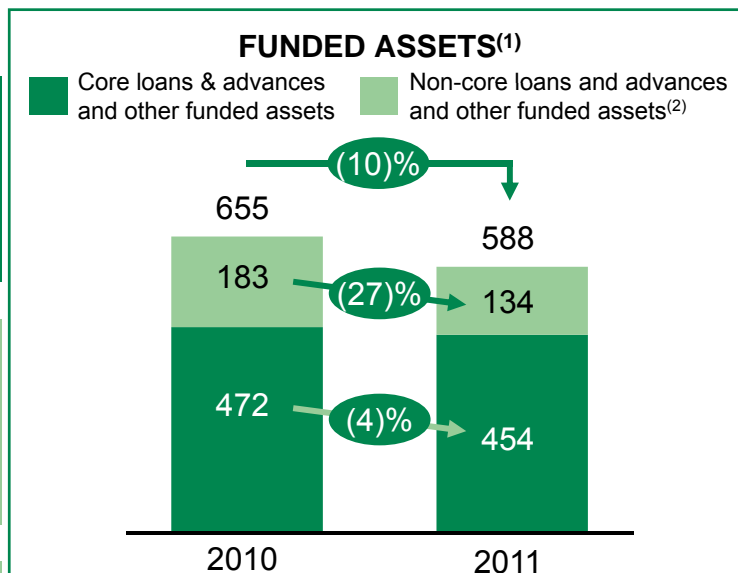
(£bn)

**STRENGTHEN**  
our balance  
sheet and  
liquidity  
position

RESHAPE our  
business  
portfolio

SIMPLIFY the  
Group

INVEST to  
grow



<sup>(1)</sup> Denotes core and non-core loans and advances excluding reverse repos. Other includes loans, debt securities, available for sale financial assets – secondary and cash balances (excl. Primary liquid assets). <sup>(2)</sup> Total non-core reduction in 2011 was £53bn, and included £4bn of other assets not included in funded assets. <sup>(3)</sup> Excluding repos.

# ACCELERATING BALANCE SHEET STRENGTH

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

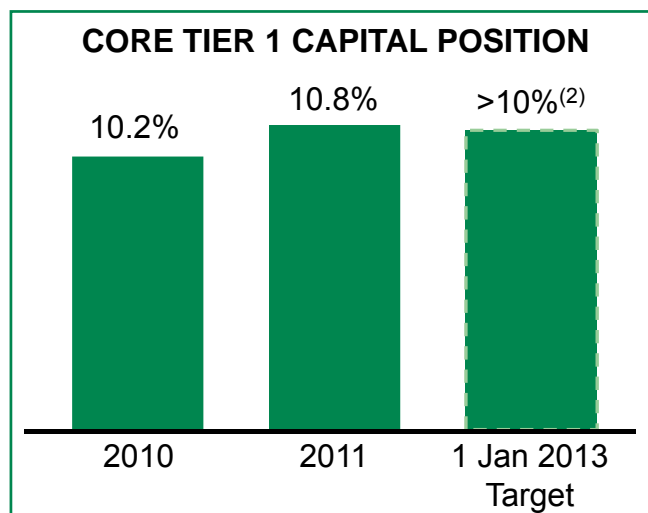
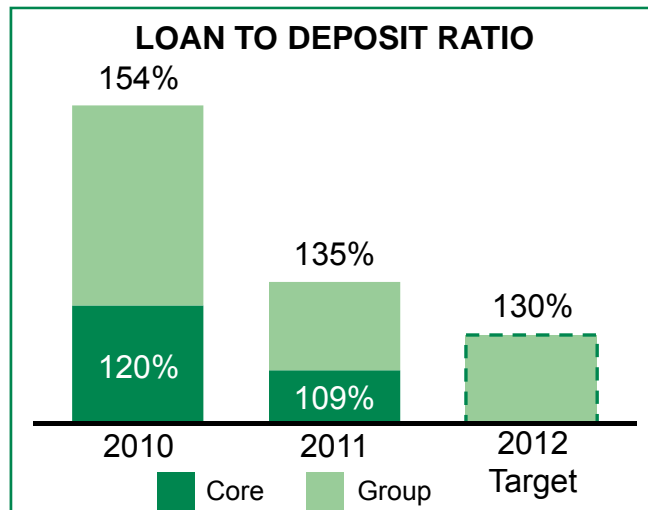


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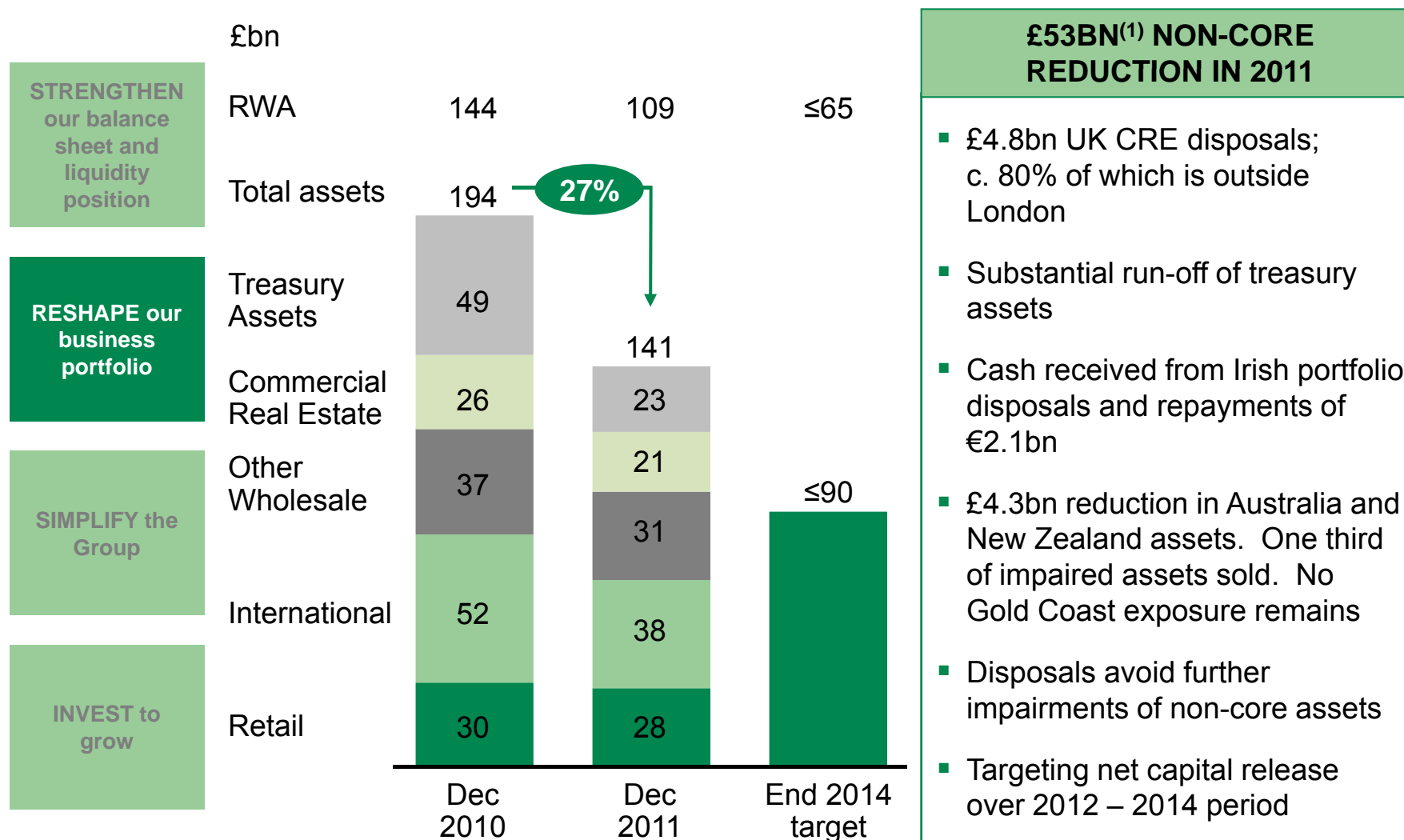


- IMPROVEMENTS IN 2011**
- 10% reduction in funded assets
  - Strong deposit growth of 6%
  - 16% reduction in wholesale funding
  - 13% reduction in RWAs (24% reduction for non-core RWAs)
  - Improving quality of core portfolios - core RWAs fell 7%, against a 4% decrease in core loans and advances<sup>(1)</sup>

<sup>(1)</sup> Loans and advances to customers (excluding repos) <sup>(2)</sup> Prudently in excess of 10%

# RESHAPING OUR BUSINESS PORTFOLIO

## Continued disciplined reductions in non-core portfolio



(1) Includes FX benefits of c. £1.2bn

# RESHAPING OUR BUSINESS PORTFOLIO

All core businesses, apart from Wholesale, have good profit growth, while we are exiting non-core activities

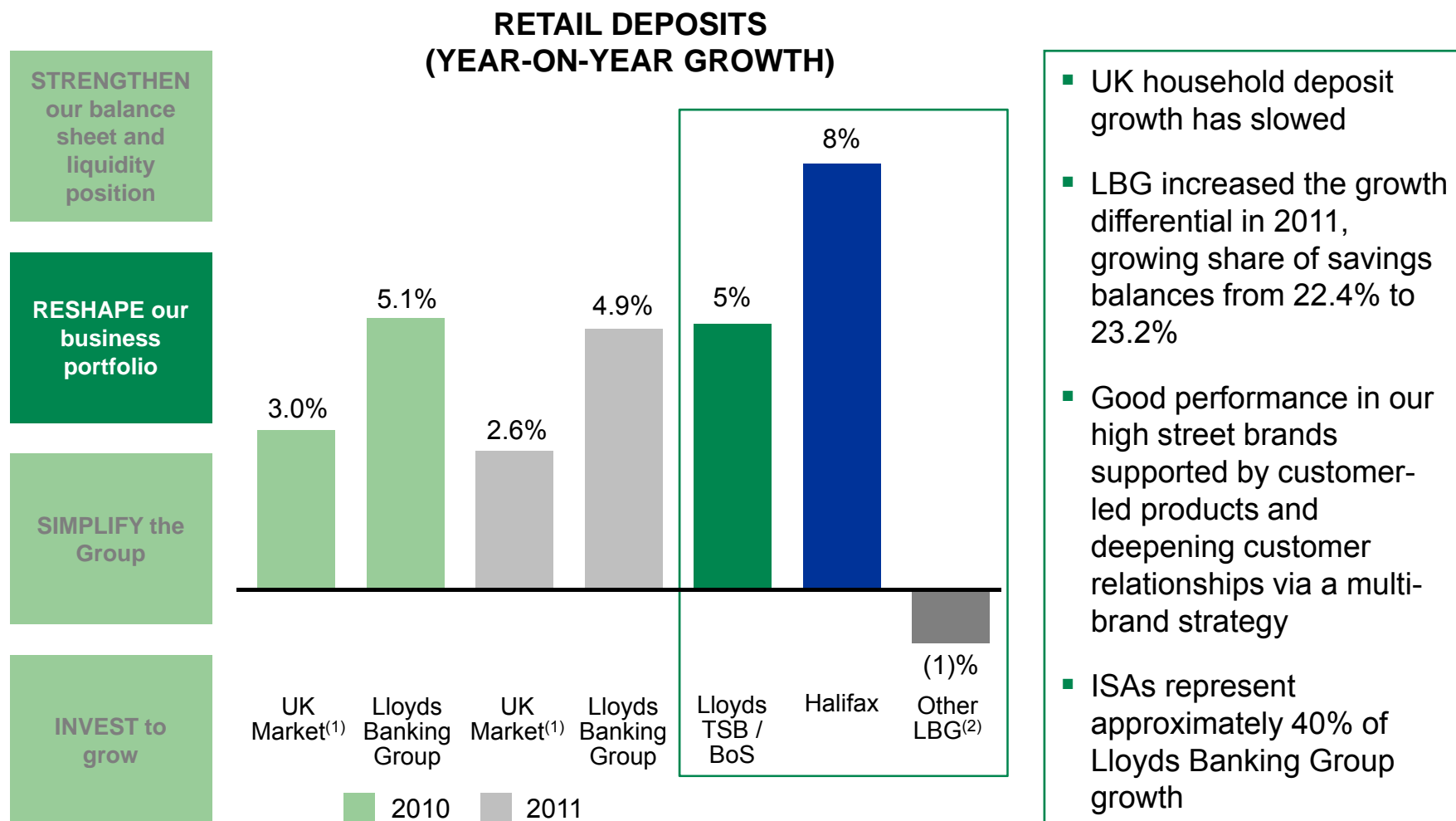


STRENGTHEN our balance sheet and liquidity position	FOCUS ON THE CORE UNDERLYING BUSINESS...		...WHILE DECREASING NON-CORE AND STRENGTHENING CAPITAL AND FUNDING
	Underlying profit before fair value unwind and tax <sup>(1)</sup> (% change 2011 vs 2010)		
RESHAPE our business portfolio	RETAIL	9%	£53bn non-core assets reduction
	WHOLESALE	(32)%	
SIMPLIFY the Group	COMMERCIAL	145%	Exit from operations in seven overseas countries
	WEALTH & INTERNATIONAL	20%	
INVEST to grow	INSURANCE <sup>(2)</sup>	11%	Total Core Tier 1 ratio increased by 60bps, total risk weighted assets reduced by 13%

<sup>(1)</sup> Core, excluding the effects of liability management, volatile items and asset sales. <sup>(2)</sup> Also excludes share of results of joint ventures and associates.

# RESHAPING OUR BUSINESS PORTFOLIO

Growth in our core Retail deposit business, above the UK market...



<sup>(1)</sup> Source: Bank of England. <sup>(2)</sup> Other LBG includes Birmingham Midshires and C&G.

# RESHAPING OUR BUSINESS PORTFOLIO

## ...driven by value (ISA example)

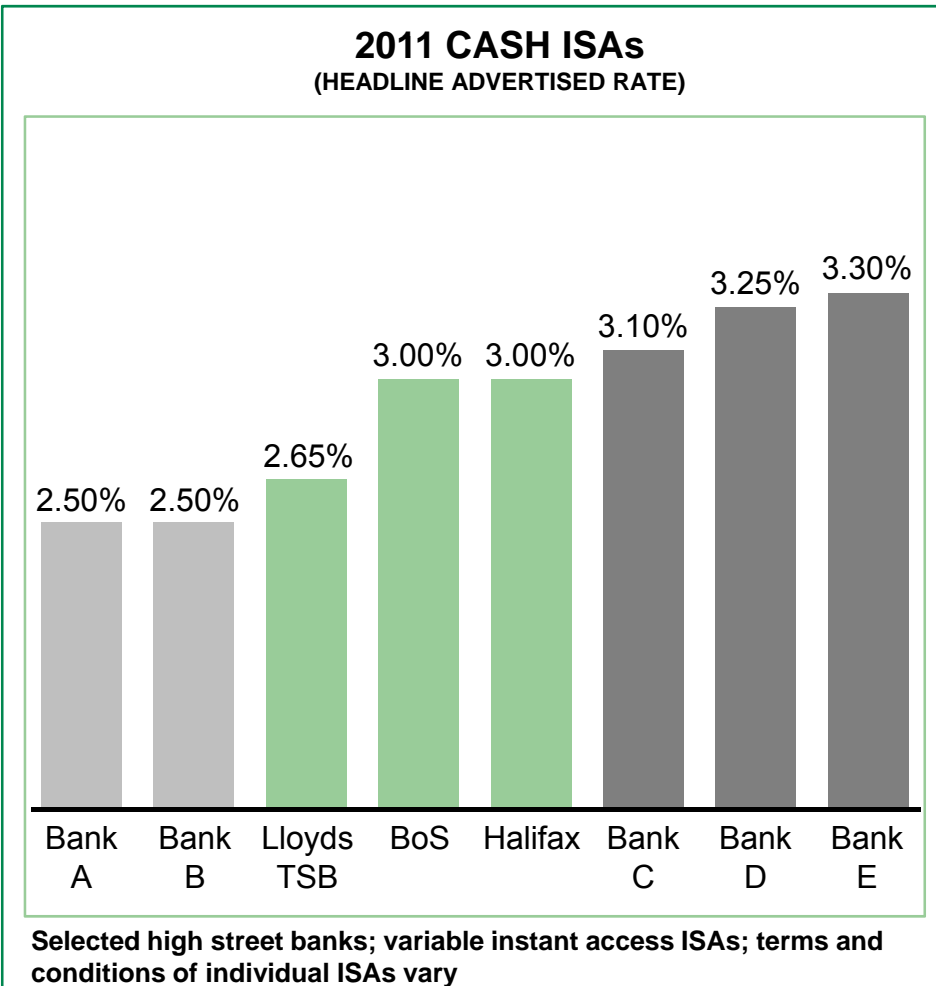
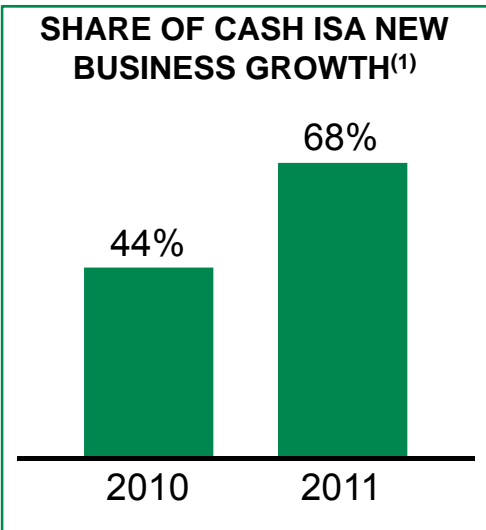


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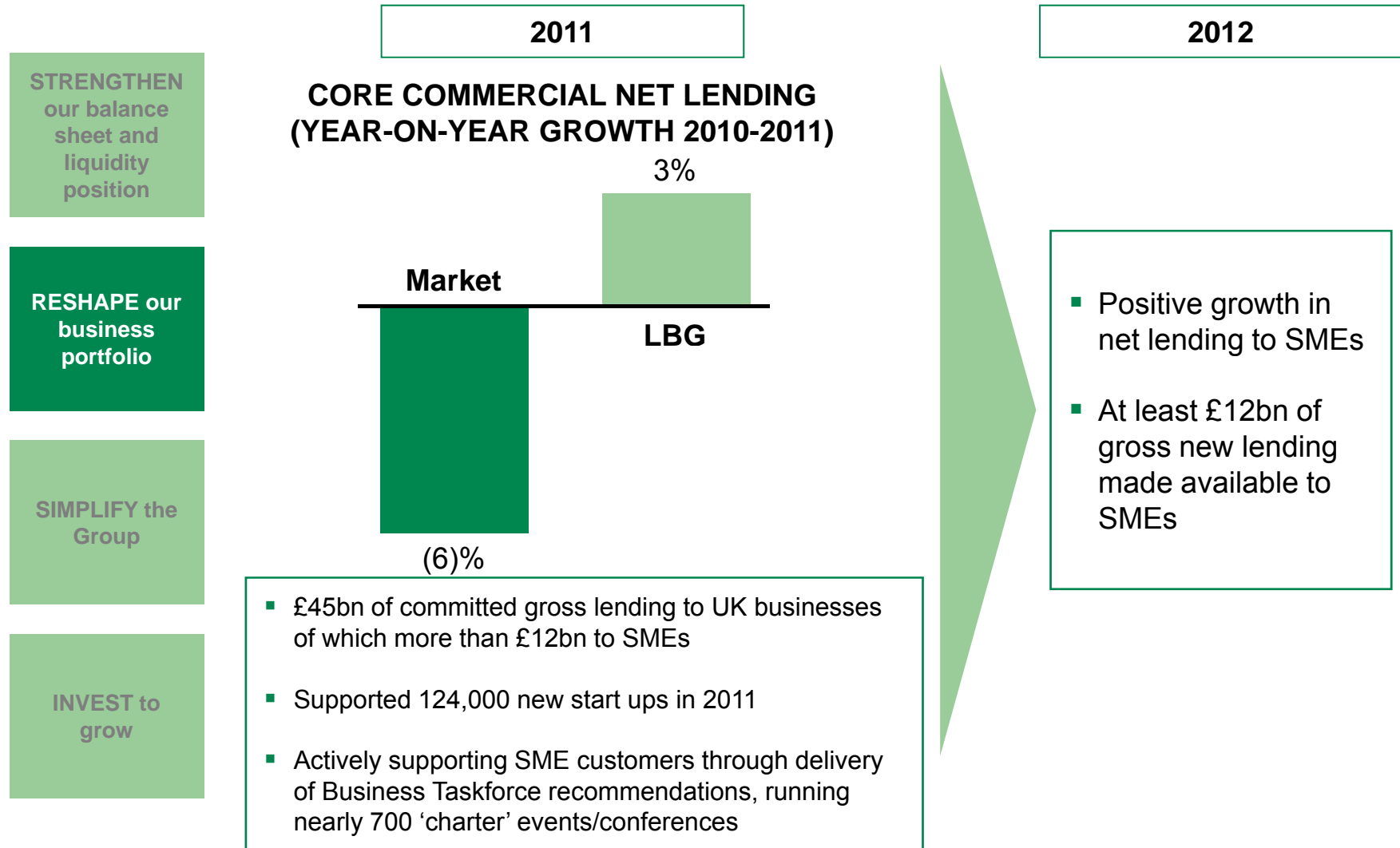


<sup>(1)</sup> LBG Retail, net of gross new business less withdrawals.



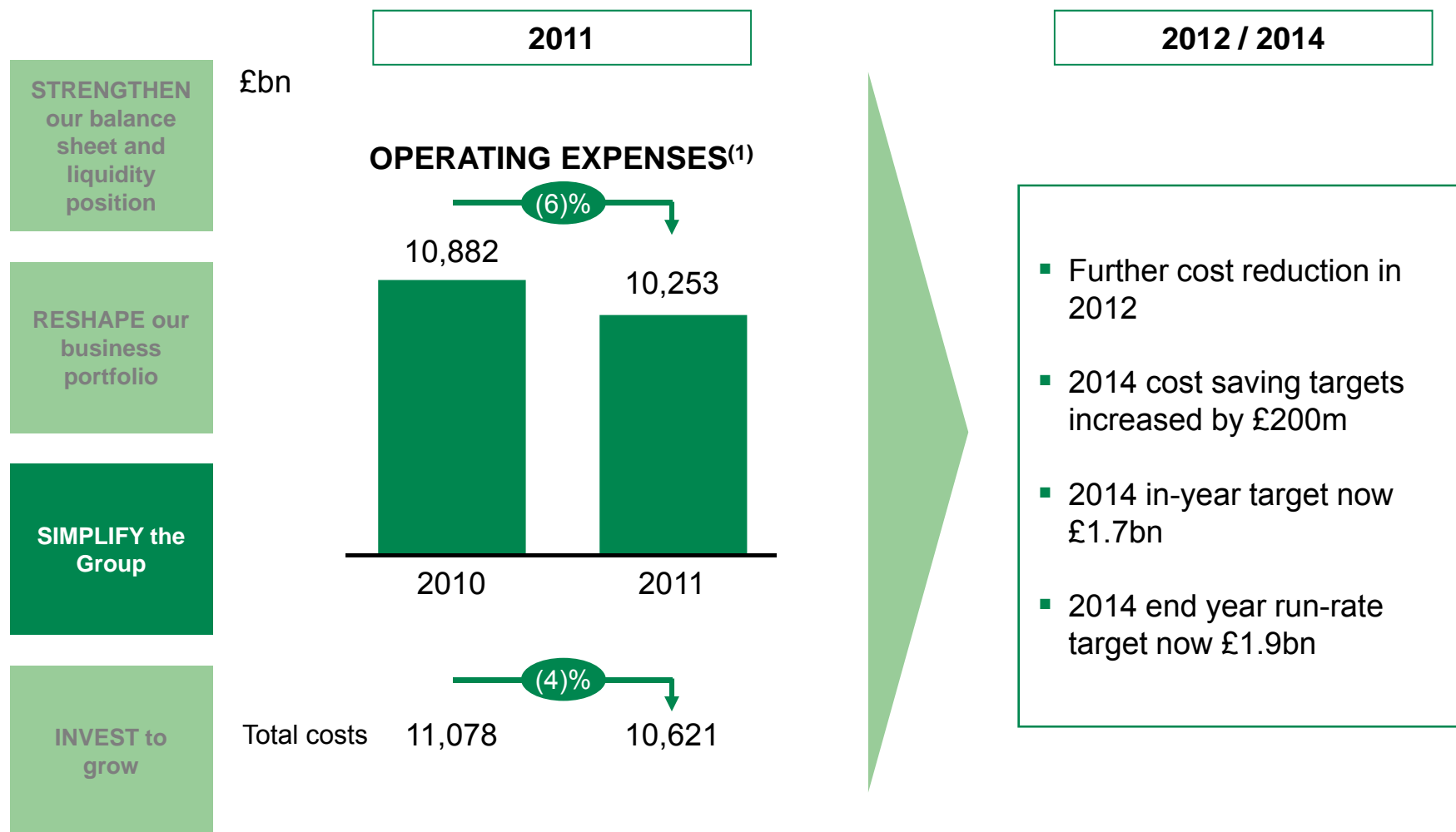
# RESHAPING OUR BUSINESS PORTFOLIO

...and growing our core Commercial net lending, in a contracting market



# SIMPLIFYING THE GROUP

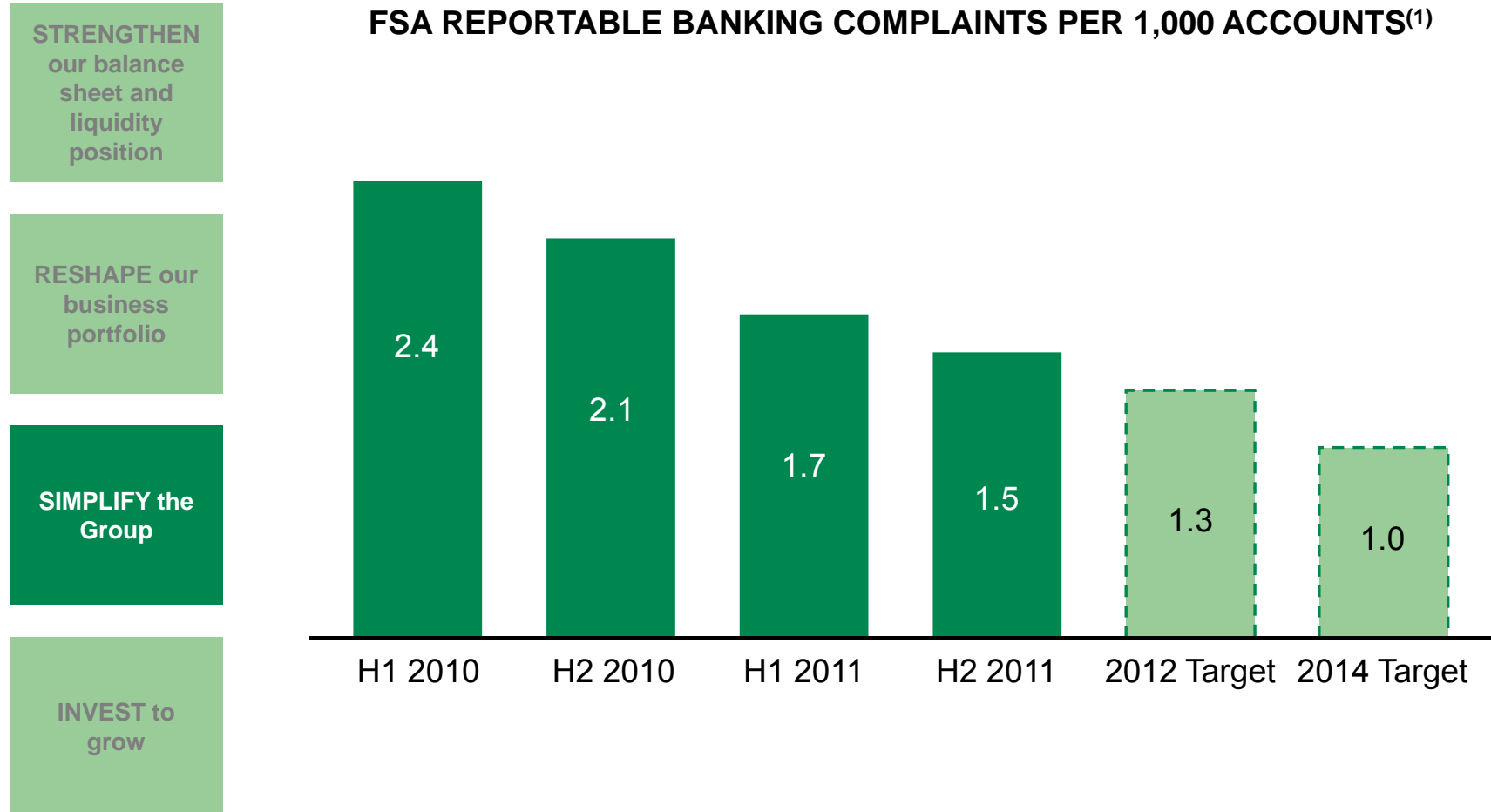
Successful execution of integration, strong initial progress on simplification and a 6% reduction in operating expenses



<sup>(1)</sup> Total costs excluding bank levy, FSCS, and, in 2010, impairment of tangible fixed assets.

# SIMPLIFYING THE GROUP

...and we are accelerating our Simplification plans whilst we make further progress on customer service



<sup>(1)</sup> FSA reportable banking complaints excluding PPI.

# INVESTING TO GROW OUR CORE CUSTOMER BUSINESSES

We continue to invest to grow our core customer businesses based on the 5 key growth initiatives mentioned in June 2011



STRENGTHEN our balance sheet and liquidity position	<b>Halifax</b>	<ul style="list-style-type: none"> <li>▪ Multibrand strategy</li> <li>▪ Halifax as a “challenger” brand</li> <li>▪ “Every branch open every Saturday”</li> </ul>
RESHAPE our business portfolio	<b>SMEs</b>	<ul style="list-style-type: none"> <li>▪ Merlin commitment exceeded</li> <li>▪ Charter commitment to lend at least £12bn in 2012</li> <li>▪ Good progress on SME Group strategy</li> </ul>
SIMPLIFY the Group	<b>Bancassurance / Insurance</b>	<ul style="list-style-type: none"> <li>▪ More focused product suite marketed to Retail and Commercial customers</li> <li>▪ Preparing for RDR</li> <li>▪ Building a more integrated insurance business</li> </ul>
INVEST to grow	<b>Wholesale</b>	<ul style="list-style-type: none"> <li>▪ Wholesale division refocused</li> <li>▪ Increasing market share in debt capital markets</li> <li>▪ Arena platform launched, more than 1,000 customers signed up</li> </ul>
	<b>Wealth</b>	<ul style="list-style-type: none"> <li>▪ Newly developed Wealth proposition</li> <li>▪ Simpler customer processes for customer transition and on-boarding</li> <li>▪ Developing enhanced “execution only” service</li> </ul>

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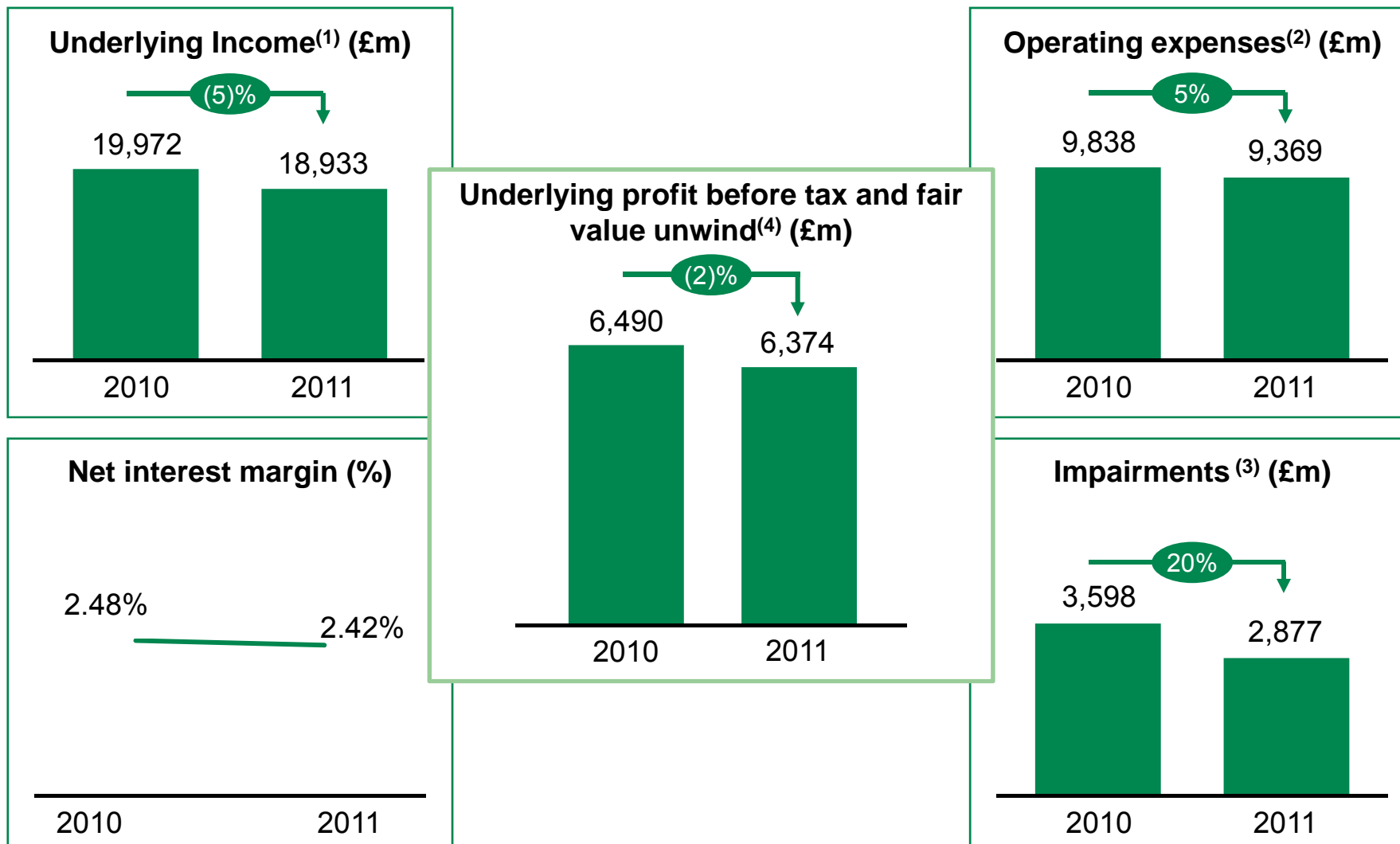
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# CORE BUSINESS PERFORMANCE

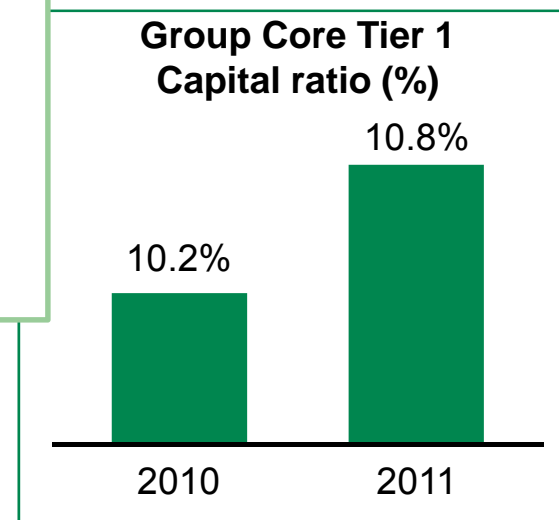
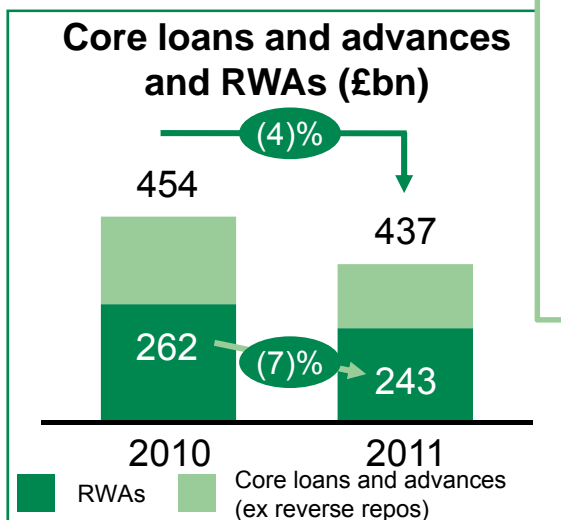
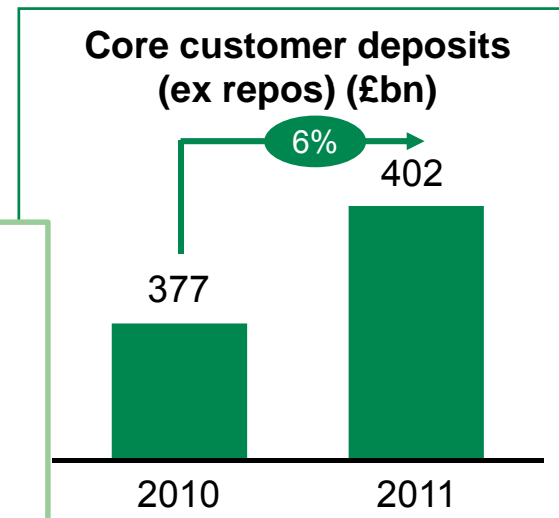
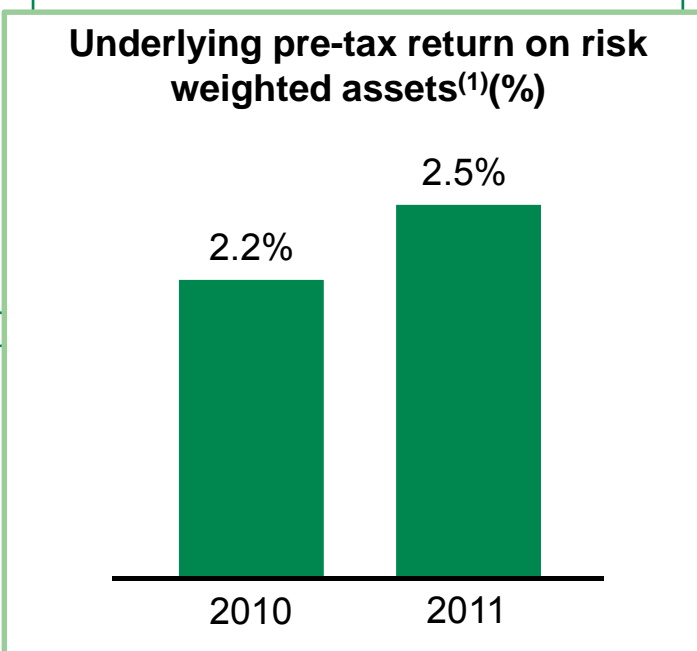
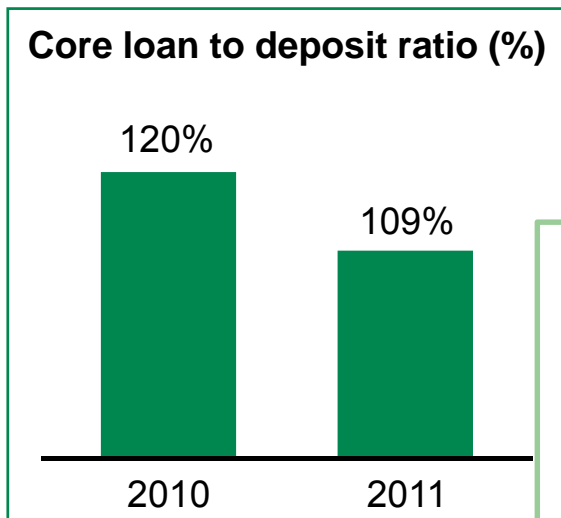
## Resilient income statement performance



<sup>(1)</sup> Net of insurance claims, excluding the effects of liability management, volatile items, and asset sales. <sup>(2)</sup> Total costs excluding FSCS, Bank levy and impairment of tangible fixed assets. <sup>(3)</sup> Includes share of results of joint ventures and associates. <sup>(4)</sup> Adjusted to exclude the effects of liability management, volatile items, and asset sales

# CORE BUSINESS PERFORMANCE

## Balance sheet further strengthened



<sup>(1)</sup>(Underlying PBT pre-fair value unwind / Average RWAs. Average RWAs are the average of quarter end RWAs.

# CONCLUSION

## Building a strong and resilient core bank



- High capital levels
- Improving portfolio quality
- Stronger funding position
- Building high levels of efficiency
- Strengthening the franchise through investment
- Single-minded focus on customer needs

Well positioned to:

- Realise over time the Group's full potential for growth
- Deliver strong, stable and sustainable returns for shareholders



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**Group Chief Executive**

# FORWARD LOOKING STATEMENTS AND BASIS OF PRESENTATION

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## 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 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 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 certain 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.

## 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 2012 Results 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.