

**LLOYDS
BANKING
GROUP**

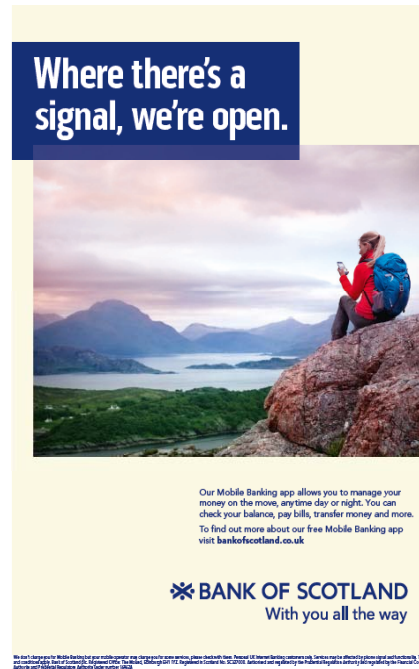


BANK OF AMERICA MERRILL LYNCH
18th Annual Banking & Insurance
CEO Conference

24 September 2013

António Horta-Osório
Group Chief Executive

OUR BRANDS



The UK environment

Our business model

Accelerated delivery against strategy

Investing for growth

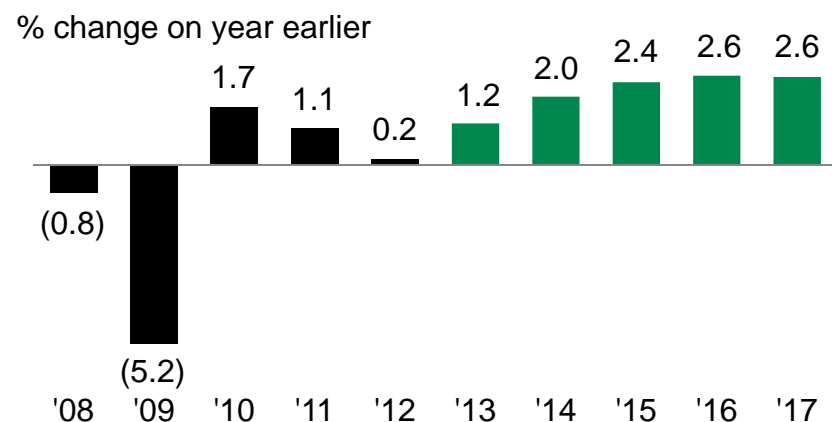
UK ECONOMY

Gathering momentum but sub trend recovery still expected

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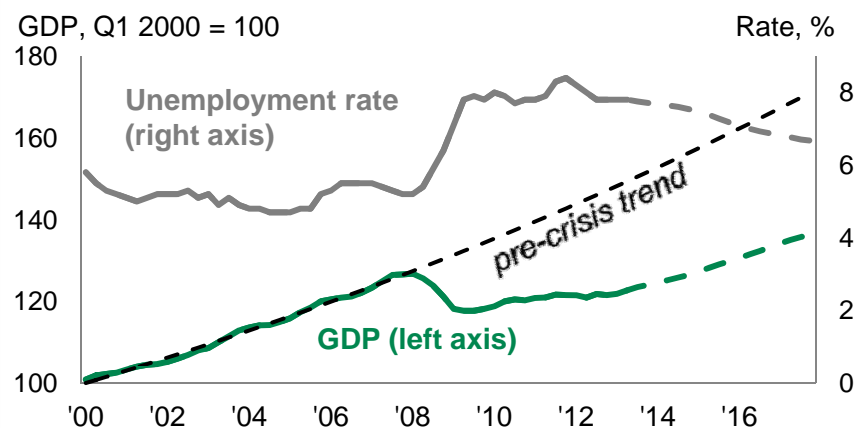


UK MEDIUM-TERM GDP GROWTH FORECAST⁽¹⁾



- **UK growth now accelerating**
 - Government policies boosting confidence
 - US recovery gathering momentum
 - Eurozone recession easing

UK MEDIUM-TERM GDP & UNEMPLOYMENT⁽¹⁾



- **But recovery will be sub trend, restrained by further deleveraging**
- **Base rate rises to be delayed and gradual**
- **Unemployment likely to fall only slowly**

⁽¹⁾ Lloyds Bank 'base-case' forecasts.

REGULATORY ENVIRONMENT

Increasing regulatory clarity although uncertainty remains

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BASEL III / CRD IV	<ul style="list-style-type: none">▪ CRD IV final text published in June. European implementation set for 1 Jan 2014▪ PRA consulting on interpretation of CRD IV rules in the UK
ICB	<ul style="list-style-type: none">▪ Legislation going through Parliament on ring fencing banks' retail and commercial operations▪ Consultations ongoing on perimeter and height
RECOVERY AND RESOLUTION DIRECTIVE	<ul style="list-style-type: none">▪ Rules signed by European Commission and are currently with European parliament▪ Directive expected to be finalised by end H1 2014
COMPETITION	<ul style="list-style-type: none">▪ Faster current account switching now live in the UK▪ TSB now launched and operating as an independent bank
CONDUCT	<ul style="list-style-type: none">▪ Mortgage market review complete▪ Savings review to start

AGENDA



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LLOYDS BANKING GROUP – POSITION OF STRENGTH

A differentiated UK-focused retail and commercial bank

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- Largest retail and commercial bank in the UK
- Multi-brand strategy, with strong iconic brands
- Broad multi-channel distribution
- Customer-focused, serving over 30m customers
- Voted 'Business Bank of the Year' for ninth consecutive year⁽¹⁾

LLOYDS BANK



✧ BANK OF SCOTLAND

SCOTTISH WIDOWS



A leading UK franchise focused on serving our customers' needs

⁽¹⁾ Source: FD's Excellence Awards (in association with the Institute of Chartered Accountants in England and Wales, supported by CBI).

LLOYDS BANKING GROUP – POSITION OF STRENGTH

Differentiated model enabling delivery of low cost of equity

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- UK focus
- Retail/commercial specialisation
- Leading cost position
- Lower financial leverage
- Successful reduction in non-core

LOWER RISK BUSINESS MODEL

LOWER COST OF EQUITY
UNIQUE COMPETITIVE
POSITION

Lower cost of equity strengthens delivery of strong and sustainable economic returns

REGULATORY ENVIRONMENT

Our business model is aligned to the new regulatory paradigm

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BASEL III / CRD IV	Strong capital and funding position – well positioned to meet latest capital and liquidity requirements
ICB	Retail/commercial focus means ~90% of banking operations likely to be allowed in ring fence
CRISIS AND RESOLUTION	Total capital already substantially in excess of expected PLAC requirements Simplicity of UK focused retail/ commercial model
COMPETITION	Competitive market with new challengers (including TSB) and new switching service
CONDUCT	Leading cost positions should enable Lloyds to lead on ‘value for money’

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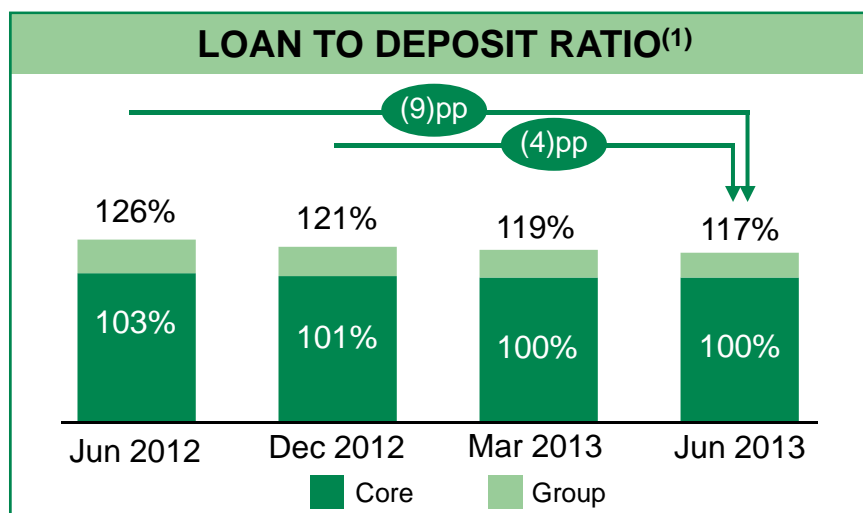
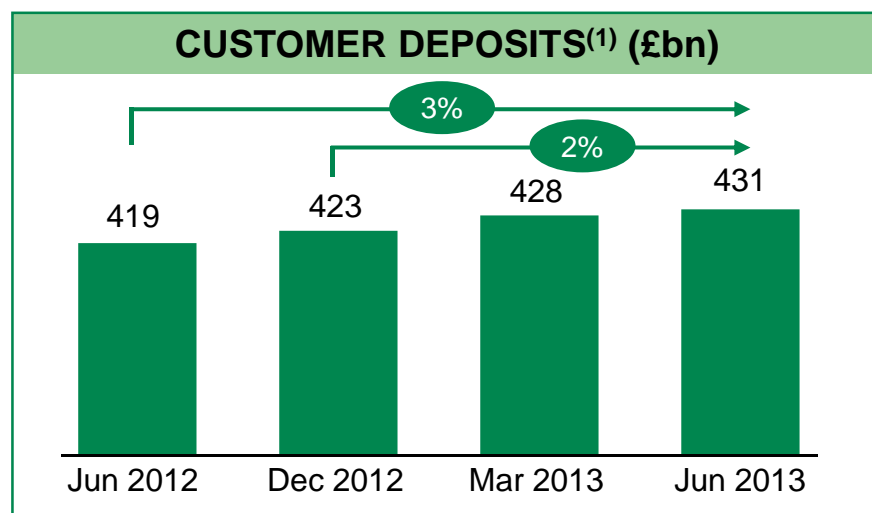
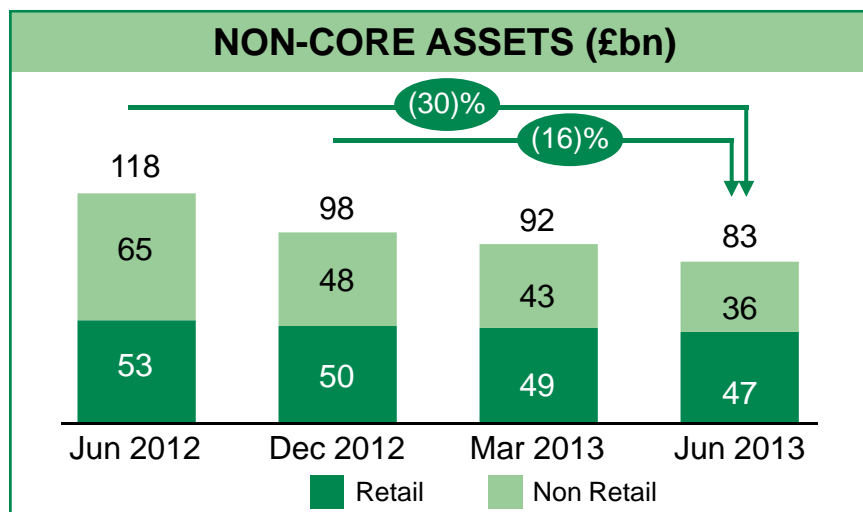
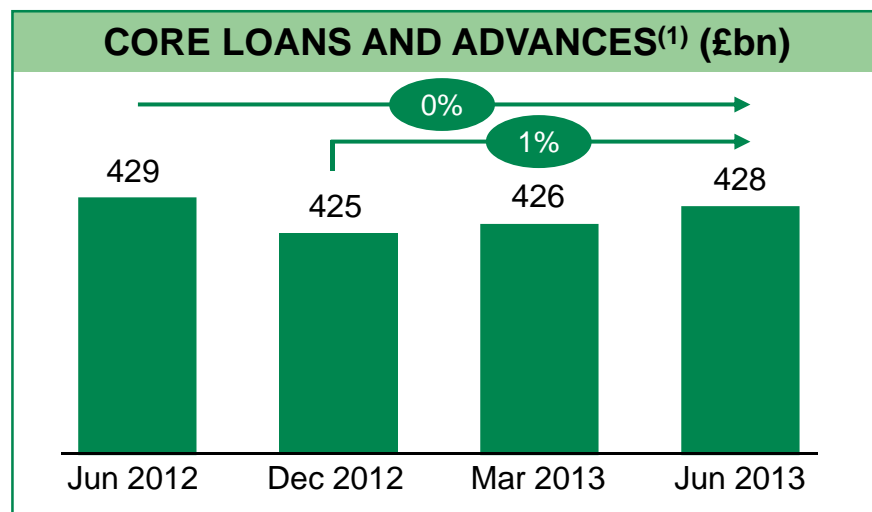
Accelerated delivery against strategy

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BALANCE SHEET

Core loan book continuing to grow; non-core assets substantially reduced; funding position further strengthened

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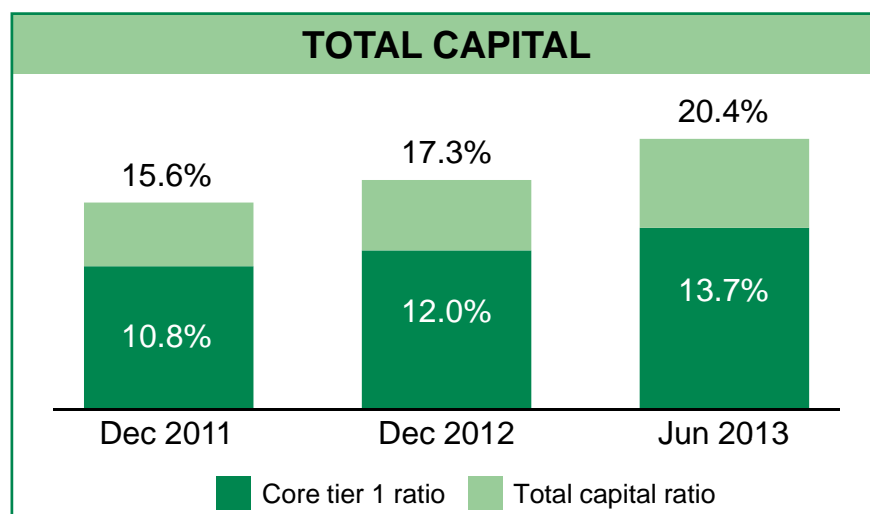
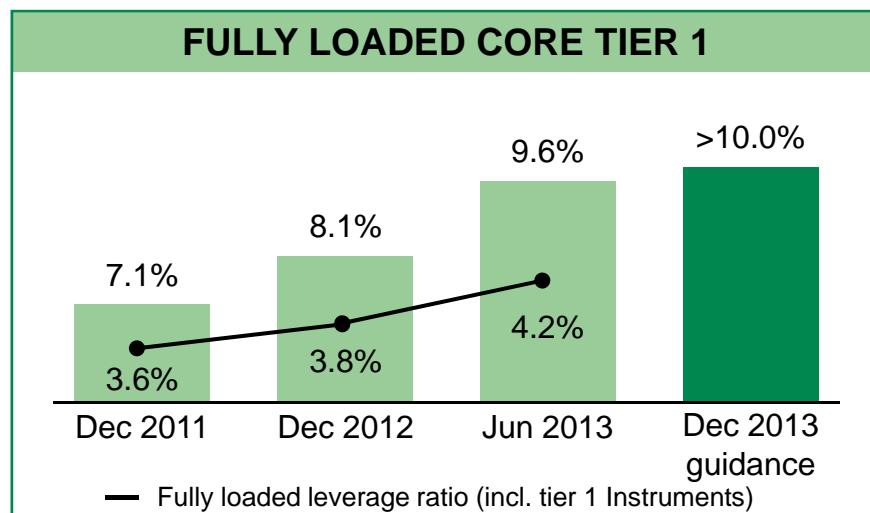


⁽¹⁾ Excluding reverse repos and repos.

CAPITAL STRENGTH

Substantial improvement in capital ratios

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- **Remain confident in capital position**
 - Expect fully loaded core tier 1 ratio of above 10% at end 2013
- **Strongly capital generative strategy**
 - Core business capital generation
 - Capital accretive non-core reduction
 - Other disposals (sales of St. James's Place shares and US RMBS) and £1.6bn insurance dividend
- **Expect to meet PRA's requirement without equity issuance or additional contingent capital**
- **Fully loaded leverage ratio of 4.2% at end June 2013 including tier 1 capital instruments, 3.5% excluding tier 1 capital instruments**

FINANCIAL PERFORMANCE

Profitability and returns substantially improved

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(£m)	H1 2013	H1 2012	Change	
Group income	9,464	9,246	2%	■ Substantial increase in Group underlying and statutory profit
Group NIM	2.01%	1.93%	8bp	— Core profit increased 26% to £3,696m
Group total costs	(4,749)	(5,045)	6%	— Returned to statutory profit: £2,134m
Group impairment	(1,813)	(3,157)	43%	
Underlying profit				■ Group margin ahead of expectations at 2.01%
Group	2,902	1,044	178%	
Core	3,696	2,931	26%	■ Costs further reduced; Simplification run-rate savings increased to £1.16bn at end June 2013
Statutory PBT	2,134	(456)		■ Further substantial reduction in impairment
				— Driven by 58% reduction in non-core
RoRWA				
Group	1.95%	0.61%	134bp	■ Returns further improved, with Group and core returns above cost of equity
Core	3.16%	2.44%	72bp	

ACCELERATED DELIVERY OF STRATEGIC OBJECTIVES

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NON-CORE ASSET REDUCTION

- Continued capital accretive non-core asset reduction
- Expect to reach <£70bn by end 2013, with non retail <£30bn, **12 months ahead of plan**

COST SAVINGS

- Costs down more than £1bn since 2011. Strategic Review cost target of £10bn delivered **2 years ahead of plan**
- Expect a cost base of £9.6bn in 2013 and c£9.15bn in 2014

INTERNATIONAL PRESENCE

- International presence significantly reduced with original target of <15 countries **met 18 months ahead of expectations**
- Now expect <10 countries by end 2014

CAPITAL RATIOS

- Significant increase to capital ratios, **ahead of market expectations**
- Targeting fully loaded core tier 1 ratio of above 10% by end 2013

FUNDING

- **Funding position transformed**, core loan to deposit ratio now 100%
- Wholesale funding requirement reduced by over £135bn, around half, with a materially improved maturity profile

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HEALTHY ECONOMIES NEED HEALTHY BANKS

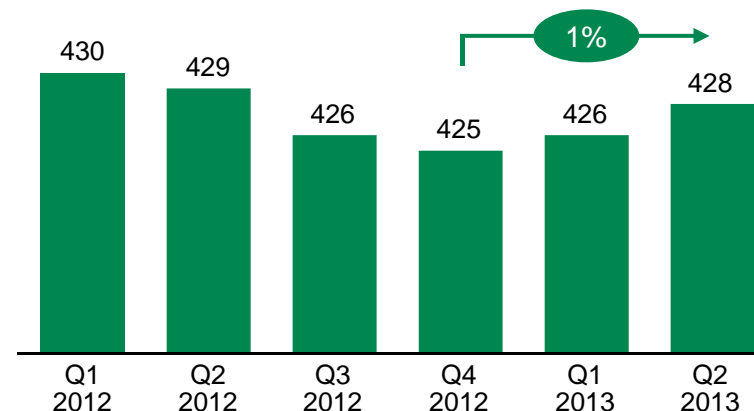
Return to growth in core loan book, ahead of guidance

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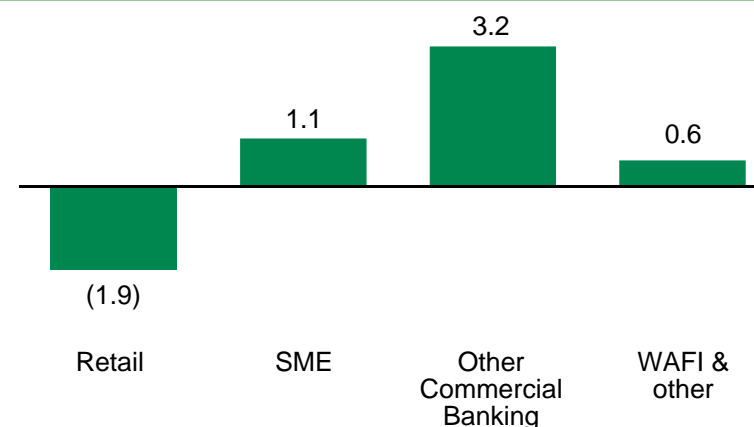


- **Committed over £24bn to UK customers through Funding for Lending**
 - Net growth in FLS lending in H1
 - Scheme now extended to January 2015
- **Supporting our corporate clients**
 - Over £1bn committed to UK manufacturing in last nine months, ahead of target
 - New Mid-Corporate Client charter launched
- **Continued support for UK SMEs**
 - Net growth in lending of 5% in last 12 months, against market contraction of 3%
 - Supported 65,000 start-ups in H1
- **Supporting the UK housing market**
 - Helped more than 33,000 customers buy their first home in H1; 1 in 4 first-time buyers; targeting around 60,000 for full-year
 - Implementing the Help to Buy scheme ahead of full launch in January 2014

CORE LOANS AND ADVANCES⁽¹⁾ (£bn)



H1 CORE LOAN BOOK MOVEMENTS⁽²⁾ (£bn)

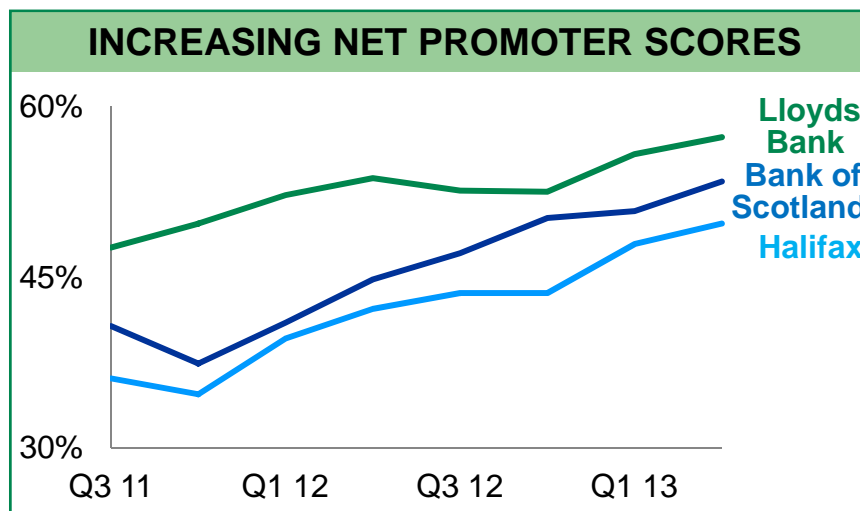
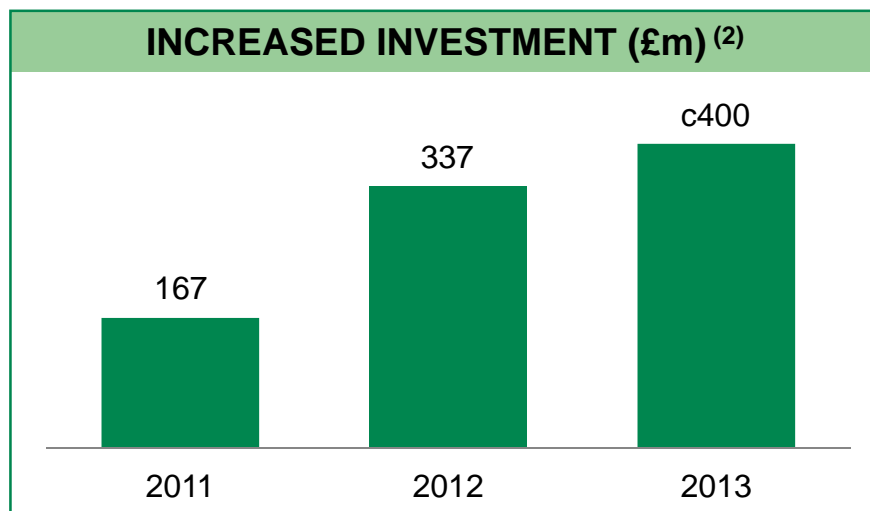
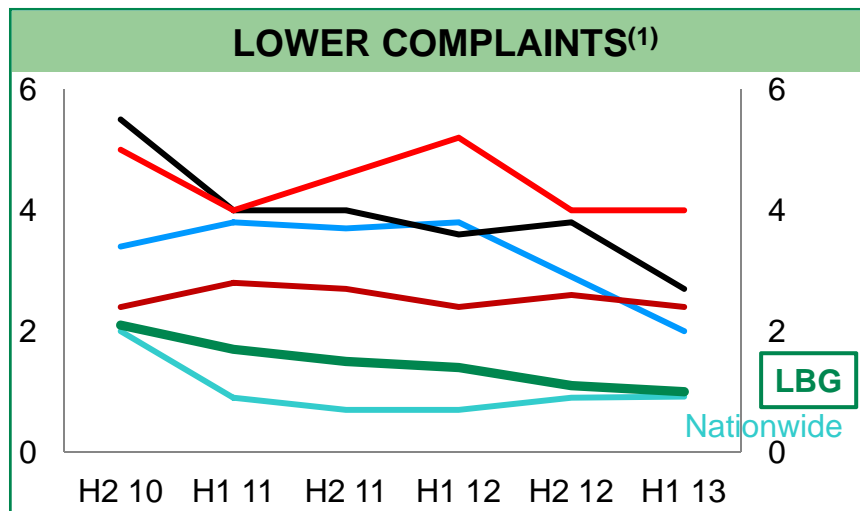
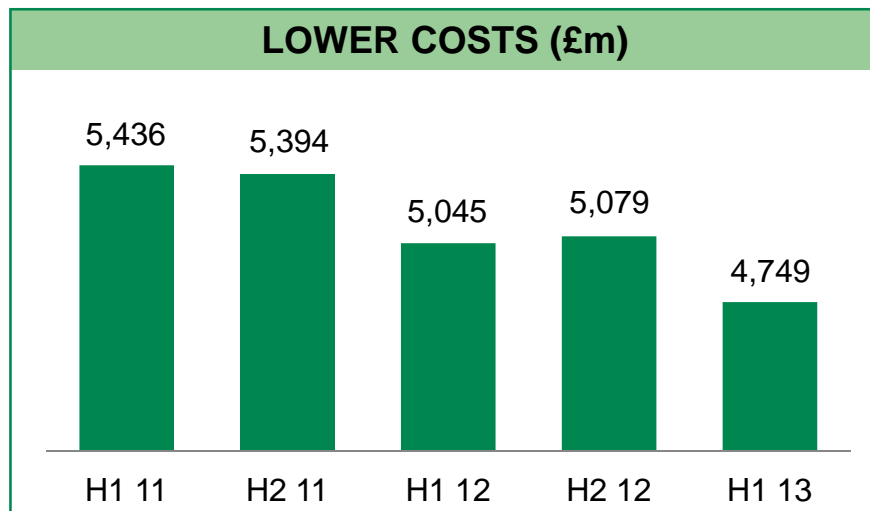


⁽¹⁾ Excluding reverse repos. ⁽²⁾ Jun 2013 vs Dec 2012.

INVESTING IN OUR CUSTOMERS

Cost savings enabling investment whilst delivering improved customer satisfaction and lower complaints

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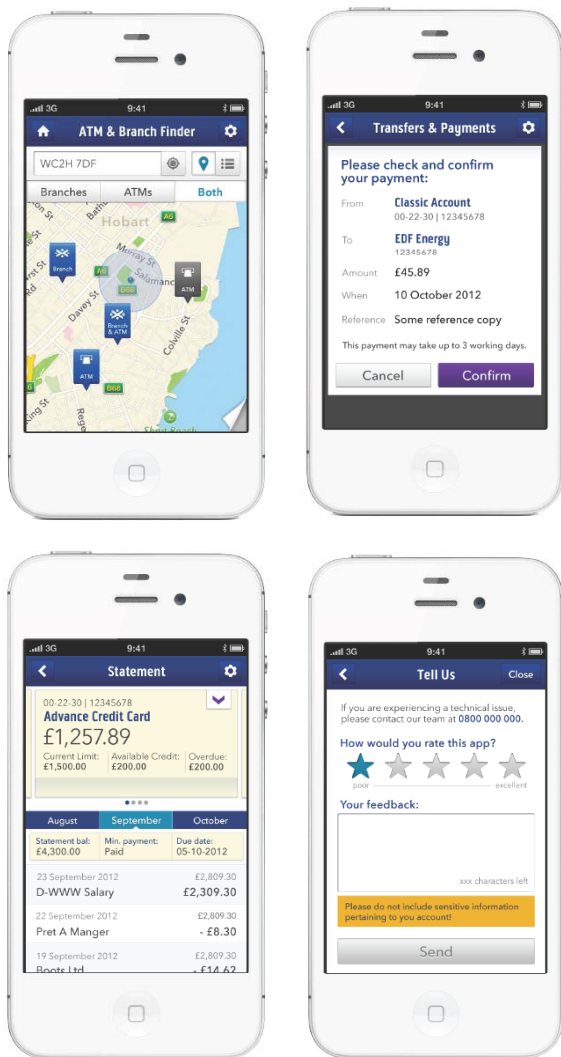
(1) FCA banking complaints per 1,000 accounts (excluding PPI).

(2) Costs of additional investment to be c.£2bn, including capital expenditure, in the 2011 – 2014 period

INVESTING IN OUR CAPABILITY ACROSS ALL CHANNELS

Retail

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Investing to be the best bank for customers

- Next generation mobile applications for all relationship brands commences in Q4 2013
- Over 1,000 branch upgrades since 2011
- New branch fascias for TSB and Lloyds unveiled in September
- Continued investment in Digital to optimise existing sales and service capability
- Increased market share in unsecured personal lending and credit cards



INVESTING IN OUR CAPABILITY ACROSS ALL CHANNELS

Commercial Banking

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Investing to be the best bank for customers

- Continued investments in core Transaction Banking capabilities
- More Relationship Managers and specialist staff hired across the UK
- Built out debt capital markets capability with over £23bn raised for clients between 2011 and H1 2013
- Arena FX and Money Markets platform built and rolled out to 3,000 clients



United Kingdom
Debt Management
Office

£5,000m 3.5% Gilts due 2068

Joint Bookrunner

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June 2013



bhpbilliton

£750m 3.2% Notes due 2024

£1,000m 4.3% Notes due 2042

Bookrunner

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September 2012



Saxon
Weald

£225m 5.375% Notes due 2042

Bookrunner

LLOYDS BANK

May 2012

INVESTING IN OUR CAPABILITY ACROSS ALL CHANNELS

Insurance

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Investing to be the best bank for customers



- Revitalising Scottish Widows as a specialist Retirement brand
- Invested in e.commerce solutions and Auto Enrolment tools to achieve #1 in the Corporate Pensions market
- Launched a new enhanced annuity product, offering up to 40% more income in retirement for customers
- Delivered simpler in-branch propositions e.g Essential Earnings Cover
- Continued investment in Home to increase flexibility, so customers can tailor cover to their needs and do more on-line



AssistMe



SUMMARY

Our strategy and operating model positions us well to deliver in the new external environment

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- **More positive outlook for the UK, albeit sub trend recovery expected**
 - UK has good medium term growth potential although deleveraging weighing on growth
 - UK fundamentals are stronger than in the Eurozone
- **Our strategy is well matched to the economic and regulatory environment**
 - Resilient earnings in challenging environment
 - Strong Balance sheet with significantly lower risk business model
 - Differentiated model enabling delivery of lowest cost of equity in sector
 - Leading cost position enabling delivery of “Best value for Money” for customers
- **Reinforces our belief in our simple, customer focused, UK retail and commercial banking model**

QUESTIONS & ANSWERS

FORWARD LOOKING STATEMENTS AND BASIS OF PRESENTATION

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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 future events and circumstances that will or may occur. 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 factors, including, but not limited to, UK domestic and global economic and business conditions; the ability to derive cost savings and other benefits, including as a result of the Group's Simplification programme; and 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 and the impact of any sovereign credit rating downgrade or other sovereign financial issues; market-related risks including changes in interest rates and exchange rates; changing demographic and market-related trends; changes in customer preferences; changes to laws, 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 other jurisdictions in which the Group operates, including the US; the implementation of Recovery and Resolution Directive and banking reform following the recommendations made by the Independent Commission on Banking; 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 satisfactorily dispose of certain assets or otherwise meet the Group's EC state aid obligations; the extent of any future impairment charges or write-downs caused by depressed asset valuations, market disruptions and illiquid markets; the effects of competition and the actions of competitors, including non-bank financial services and lending companies; exposure to regulatory scrutiny, legal proceedings, regulatory investigations or complaints, 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 underlying 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 2013 Half-Year Results which sets out the principles adopted in the preparation of the underlying 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.