

**LLOYDS
BANKING
GROUP**



Goldman Sachs European Financials Conference

10 June 2010

Tim Tookey
Group Finance Director

TODAYS AGENDA

LLOYDS
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- WHERE ARE WE NOW

- WHAT'S THE VISION & HOW WILL WE GET THERE

- WHAT FACTORS WILL AFFECT US ON THE WAY

- WHAT DOES SUCCESS LOOK LIKE

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2009

Shaping the future Lloyds Banking Group



- **Delivered strong core business growth through an uncertain economic landscape**
 - **statutory profit of over £1 billion**

- **Exceeded 2009 integration objectives**
 - **synergy run-rate target increased to £2 billion**

- **Embedded Lloyds TSB risk management standards across the combined Group**

- **Improved Group funding position**
 - **including £88 billion liquidity buffer**

- **Strengthened Group capital base in challenging market conditions**

INTERIM MANAGEMENT STATEMENT – 27 APRIL 2010

Returning to profitability in first quarter of 2010

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- **Delivering good levels of income growth**
- **Margins running in line with guidance of circa**
 - 2% for the full year
- **Good growth in customer deposits**
 - Over £5 billion in Q1
- **Costs well controlled and lower than last year**
 - On track to deliver on commitment to £2 billion run rate synergies by 2011
- **Run-rate of impairments has slowed significantly, peaking in H1 2009**

In the first quarter of 2010, the Group returned to profitability

A LEADING UK FINANCIAL SERVICES COMPANY

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LEADING MARKET POSITIONS

- The UK’s leading provider of banking products and services
- Over 30 million retail and nearly 1 million commercial customers
- Focused on most attractive segments in retail and wholesale

POWERFUL BRAND PRESENCE



✧ BANK OF SCOTLAND



WINNING BUSINESS MODEL

- Deep and enduring customer relationships
- Strong operational efficiency
- Prudent risk disciplines
- Robust capital disciplines

EXCELLENT EARNINGS AND RETURNS POTENTIAL

Income growth
(high single digit
within 2 years)

2% p.a.
cost:income ratio
Improvement
(higher
in earlier years)

On track to
achieve £2 billion
cost savings p.a.

Run off / redeploy
£200 billion
of assets

2010: GUIDANCE



	CURRENT GUIDANCE	2010 TREND ⁽¹⁾
REVENUE GROWTH	High single digit growth within 2 years	✓
MARGINS	Margin expected to increase to c 2%	✓
COST:INCOME RATIO	c.200 p.a. basis points improvement	✓
INTEGRATION BENEFITS	Run rate savings increased to £2 billion pa by end of 2011	✓
IMPAIRMENTS	Half-yearly run rate improvement to continue through 2010	✓ ✓
REDUCTION IN BALANCE SHEET ASSETS	£200 billion asset reduction over 5 years	✓

✓ In-line with guidance

✓ ✓ Better than guidance

Returned to profit in 2010 Q1 with all trends tracking well

(1) Combined businesses basis

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LLOYDS BANKING GROUP VISION

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**To be recognised as the best financial services company by shareholders,
customers and colleagues**

HOW

- **Relationship driven customer strategy**
- **Balance sheet efficiency**
- **Cost leadership**

RELATIONSHIP DRIVEN CUSTOMER STRATEGY

A unique relationship based strategy



STRONG FINANCIAL PERFORMANCE OVER NEXT FEW YEARS

- Improved margin outlook
- Cost advantage through acquisition related synergies
- Significant reduction in impairment provisions
- Lower asset dependence

EXCELLENT EARNINGS POTENTIAL OVER MEDIUM TO LONG TERM

- Extend relationship model across Group franchise
- Proprietary customer insight advantage
- Positive operating leverage
- Rigorous risk disciplines
- Efficient capital management

Predictable, sustainable, repeatable earnings growth

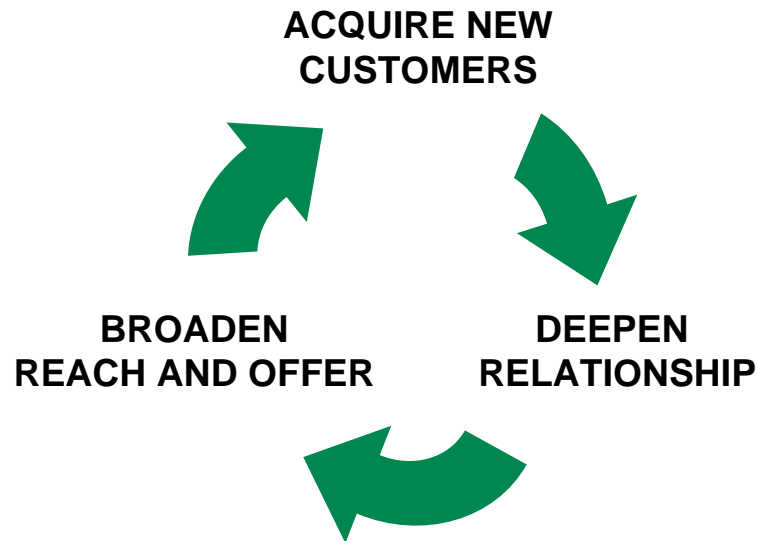
RELATIONSHIP DRIVEN CUSTOMER STRATEGY

Realising the full potential of the new Group

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OUR BUSINESS MODEL



WHY WE WILL OUTPERFORM

- Continue our relationship model in the Lloyds TSB franchise, and extend it across the enlarged Group:
 - More effective conversion of sales leads
 - Better cross selling at acquisition
 - Increasing product group holding over time, deepening the relationship
 - More sales through direct channels

RELATIONSHIP DRIVEN CUSTOMER STRATEGY

Deepening customer relationships – opportunities across the Group

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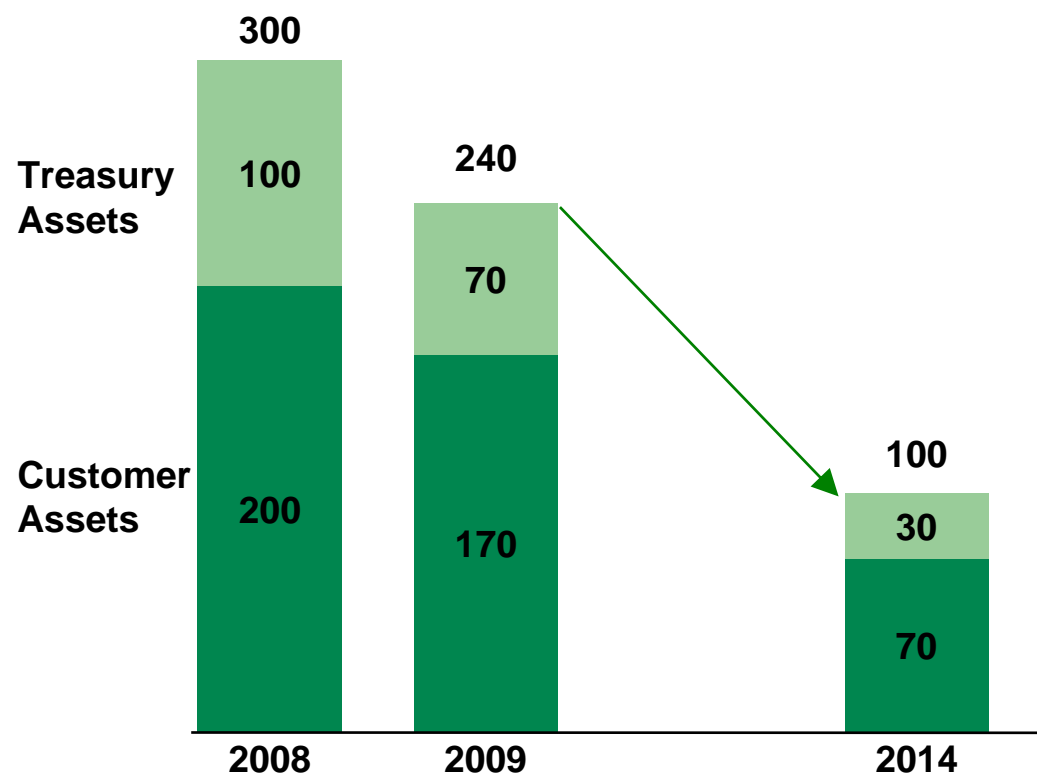
	EXAMPLE OPPORTUNITY	POTENTIAL GROUP INCOME
Retail	<ul style="list-style-type: none"> Greater relationship depth with new and existing HBOS customers 	~ £500 million
	<ul style="list-style-type: none"> Sustained trend in growth of multiple product holdings in Lloyds TSB franchise 	~ £250 million
Wholesale	<ul style="list-style-type: none"> Growth in 'Trusted Adviser/Specialist' relationships with Corporate customers 	~ £600 million
	<ul style="list-style-type: none"> HBOS up to Lloyds TSB penetration rates for new business start-ups 	~ £50 million
	<ul style="list-style-type: none"> Cross-sale of other Group products to SME customer base 	~ £200 million
Wealth	<ul style="list-style-type: none"> Private banking services for affluent Group customers 	~ £250 million

BALANCE SHEET EFFICIENCY

Rightsizing our balance sheet – £300 billion portfolio of assets in run-off



£bn



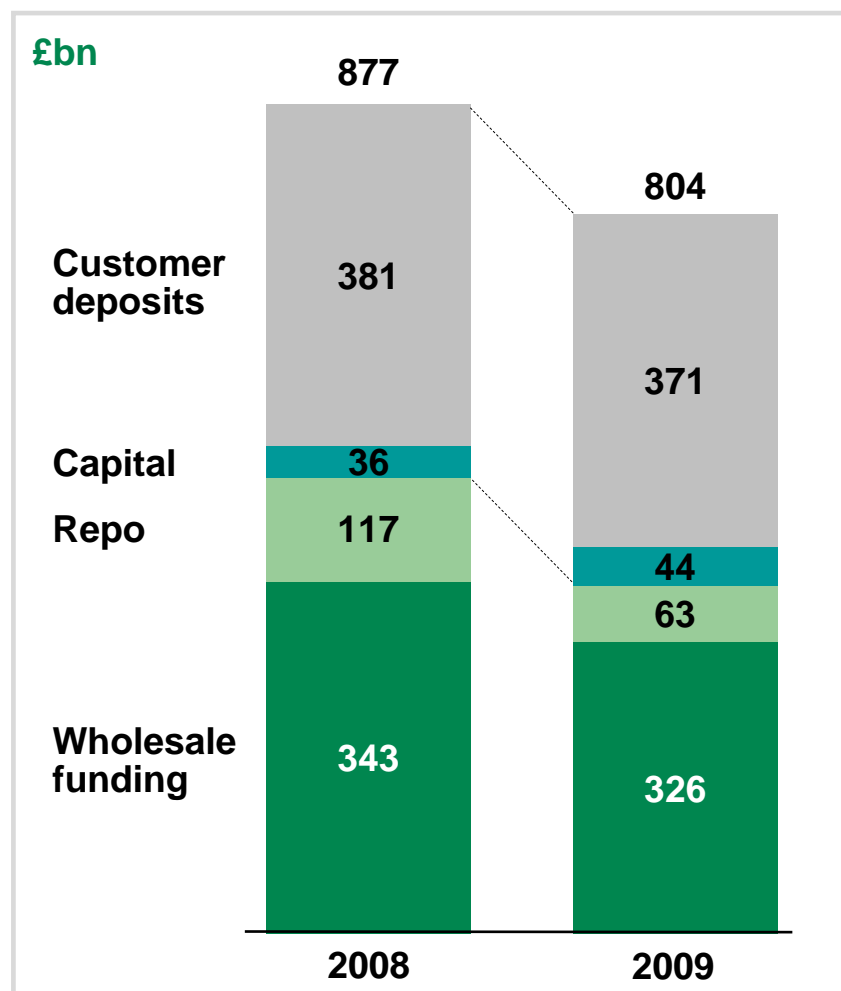
- Further reduction of c £140 billion by end of 2014
- Flexibility to reduce wholesale funding levels, improve capital ratios, grow customer relationship lending or a combination of these
- Manage for value

BALANCE SHEET EFFICIENCY

Asset run-off to reduce our wholesale funding requirements



FUNDING OUR BANKING ASSETS⁽¹⁾



- Asset run-off expected to significantly reduce wholesale funding requirement over next few years
- Refinancing of wholesale funding expected to have less than 10 basis points impact on Group margin
- Blended cost of Government and Central Bank funding schemes similar to current market rates
- Deposit growth is pleasing

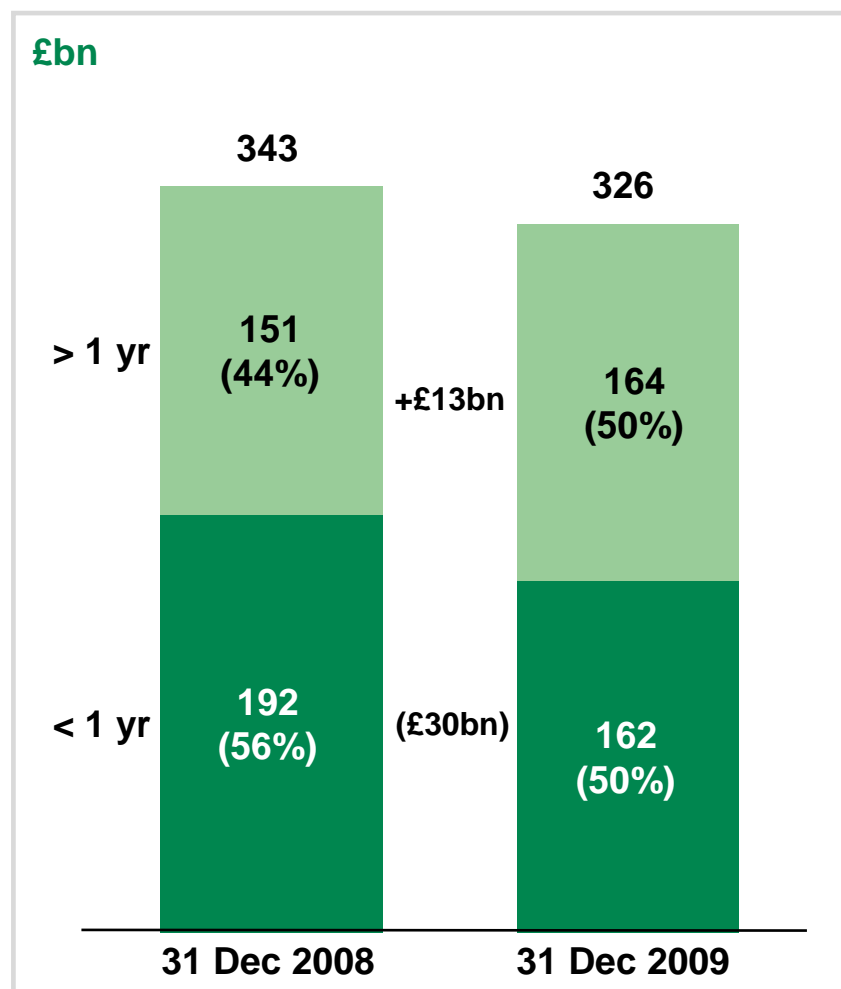
⁽¹⁾ Total balance sheet less insurance assets/derivatives

BALANCE SHEET EFFICIENCY

Improving our wholesale funding maturity profile



WHOLESALE FUNDING MATURITY PROFILE



TERM ISSUANCE

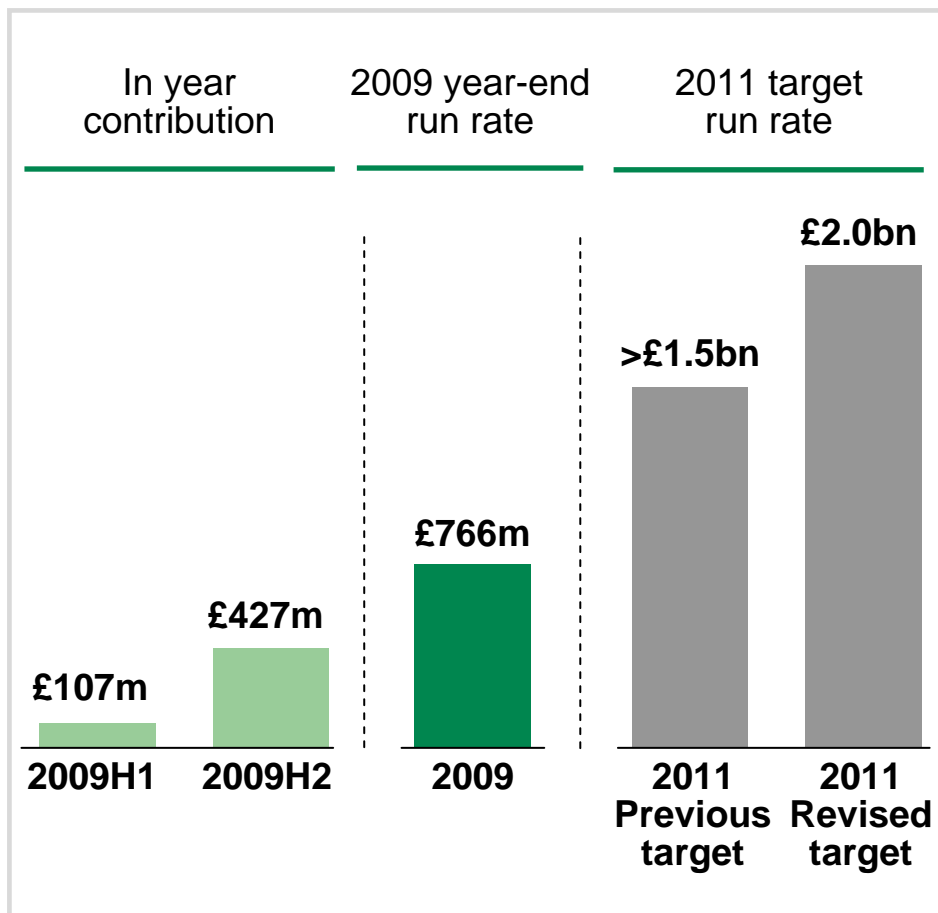
- Expected public term issuance of c. £20–25 billion p.a. over next 3 years
- Over £15 billion term issuance to date:
 - \$2 billion innovative tier 1
 - \$5 billion US MTN issuance
 - £2.5 billion RMBS transaction
 - €1.5 billion Covered Bond
 - €1.5 billion lower tier 2 bond
 - €1.25 billion EMTN issuance
 - AUD500 million FRN
 - £750 million lower tier 2
 - £3.4 billion RMBS transaction
- 60% of 2010 term issuance requirements done in first quarter

COST LEADERSHIP

£2 billion cost synergy run rate per annum by the end of 2011



COST SYNERGIES



KEY PROGRAMMES

- Implementing business model
- Procurement programme
- Property rationalisation
- IT Integration

RECAP – LLOYDS BANKING GROUP VISION



To be recognised as the best financial services company by shareholders, customers and colleagues

HOW

- **Relationship driven customer strategy**
- **Balance sheet efficiency**
- **Cost leadership**

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THE CHALLENGES...

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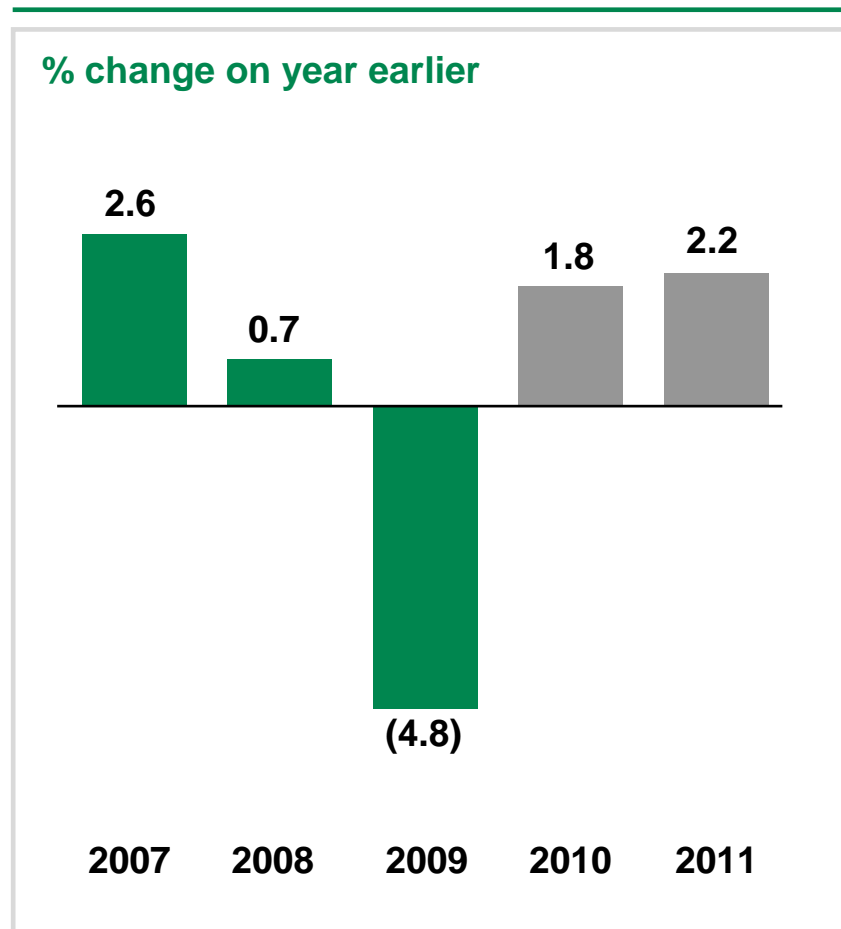
- **Balance sheet reduction**
- **Liquidity & funding**
- **Political environment**
- **Banking levy & tax**
- **Economy**
- **Capital & regulation**

THE UK ECONOMIC OUTLOOK

Weak recovery remains most likely scenario



GDP GROWTH IN CENTRAL SCENARIO



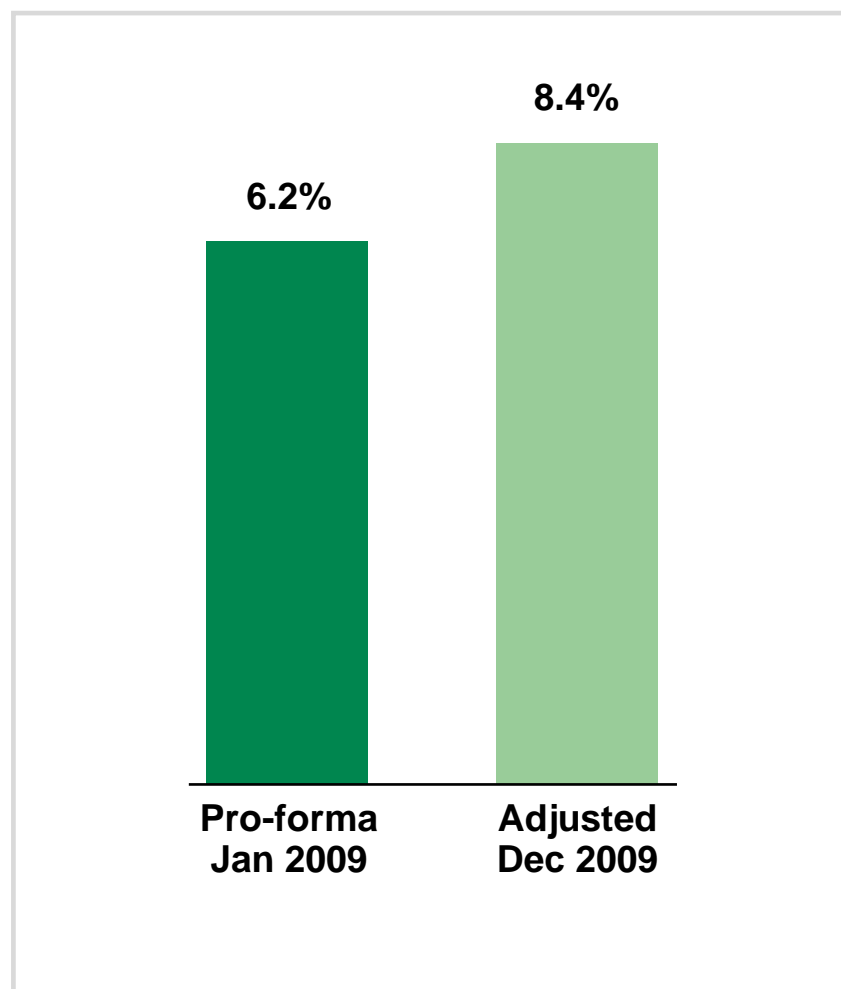
- **House prices**
 - 5% in 2009
 - 0% in 2010
- **Commercial property values**
 - (6)% in 2009
 - 1% in 2010
- **Company failures**
 - Peak in 2010
 - Lower rate than last recession
- **Unemployment**
 - Peak in 2010
 - Lower rate than last recession

MAINTAINING A ROBUST CAPITAL POSITION

Improving capital ratios



CORE TIER 1 CAPITAL RATIO



Outlook over next few years:





- Retained earnings
- Reduction in risk-weighted assets
- Engaging on a collaborative basis on Basel III

MAINTAINING A ROBUST CAPITAL POSITION

Possible impact of Basel Committee's consultative proposals



- **Regulatory capital required** **Not yet calibrated**

- **Raising the quality of the capital base**
 - **Remove insurance capital from core tier 1 capital** 
 - **Deferred tax assets** 
 - **Other deductions from core tier 1 capital** 
 - **Restrict tier 1 capital securities** 

- **Other areas to be clarified**
 - **Risk weightings on investment banking activities**
 - **Leverage ratio**

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- **Predictable, sustainable, repeatable earnings growth**
- **Relationship strategy embedded across the enlarged Group**
- **Market leading operational efficiency**
- **Enlarged Group fully integrated**
- **Leading positions in all of our core business areas**
- **Reduced Government shareholding**

FORWARD LOOKING STATEMENTS

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This announcement contains forward looking statements with respect to the business, strategy and plans of the Lloyds Banking Group, its current goals and expectations relating to its future financial condition and performance. Statements that are not historical facts, including statements about the Group's or the Group's management's beliefs and expectations, are forward looking statements. By their nature, forward looking statements involve risk and uncertainty because they relate to events and depend on circumstances that will occur in the future. The Group's actual future results may differ materially from the results expressed or implied in these forward looking statements as a result of a variety of 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 mitigate exposures from the acquisition and integration of HBOS, risks concerning borrower credit quality, market related trends and developments, changing demographic trends, changes in customer preferences, changes to regulation, the policies and actions of Governmental and regulatory authorities in the UK or jurisdictions outside the UK, including other European countries and the US, exposure to regulatory scrutiny, legal proceedings or complaints, competition and other factors. Please refer to the 2009 Annual Report on Form 20F issued by Lloyds Banking Group plc on 13 May 2010 for a discussion of such factors together with examples of forward looking statements. The forward looking statements contained in this announcement are made as at the date of this announcement, and the Group undertakes no obligation to update any of its forward looking statements.

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