LLOYDS BANKING GROUP

Morgan Stanley
European Financials Conference

29 March 2011

Tim Tookey

Group Finance Director

DELIVERING ……

- **BUSINESS MOMENTUM AND PERFORMANCE**
- **BALANCE SHEET AND CAPITAL STRENGTH**
- **A STRENGTHENED FUNDING POSITION**
- **SUMMARY**

THE BUILDING BLOCKS FOR A STRONG BUSINESS

Driving customer value, earnings, capital and returns

LLOYDS BANKING GROUP

Value creation

SUSTAINABLE GROWTH

- Efficiency, effectiveness
- Customer value
- Deep relationships
- Quality market share

PROFITABILITY

- Complete integration
- Drive elements of profit model
- Optimise capital and liquidity

CONTROL

- Liquidity profile
- Impairments
- Integration
- Risk framework
- Capital

2009 / 2010 | 2010 / 2011 | 2011 onwards

GOOD FRANCHISE MOMENTUM IN 2010

Building the drivers of future growth

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GROWING THE FRANCHISE

- 1.9 million new personal current accounts
- 5.2 million new savings accounts, 5% growth in retail savings book
- Over 100,000 new start-up commercial customers
- 17,000 new private banking customers
- Market-leading customer initiatives to build relationships

SUPPORTING THE ECONOMIC RECOVERY

- £30 billion gross mortgage lending (including remortgages)
- £49 billion committed gross lending to UK businesses
- Focus on supporting recovery and growth in the SME sector
- Lending commitments will be met

PERFORMING IN LINE WITH OUR 2010 GUIDANCE

Now getting more predictable financials

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	GUIDANCE	2010[1]
REVENUE[2] 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 of £2 billion p.a. by end of 2011	✓
IMPAIRMENTS	Half-yearly run rate improvement to continue through 2010	✓
BALANCE SHEET REDUCTION	£200 billion asset reduction	✓

(1) Combined businesses basis
(2) From core businesses, excludes liability management transactions

BUSINESS PERFORMANCE

Income statement

£m	2009	2010	HEADLINE % CHANGE	UNDERLYING % CHANGE
Income[1]	23,964	23,444	*(2)%*	*3%[2]*
				Core +7% *Non-core (9)%*
Costs	(11,609)	(11,078)	*5%*	*6%[3]*
Impairments	(23,988)	(13,181)	*45%*	*45%*
Profit before tax[4]	(6,300)	2,212		
Margin	1.77%	2.10%		
Integration savings run-rate	766	1,379		

The Group has delivered a good performance in 2010

[1] Net of insurance claims [2] Excluding liability management gains and fair value movement of the ECN conversion feature
[3] Excluding impairment of fixed assets [4] Combined businesses basis

RETURN TO PROFITABILITY

Business performance and statutory profit

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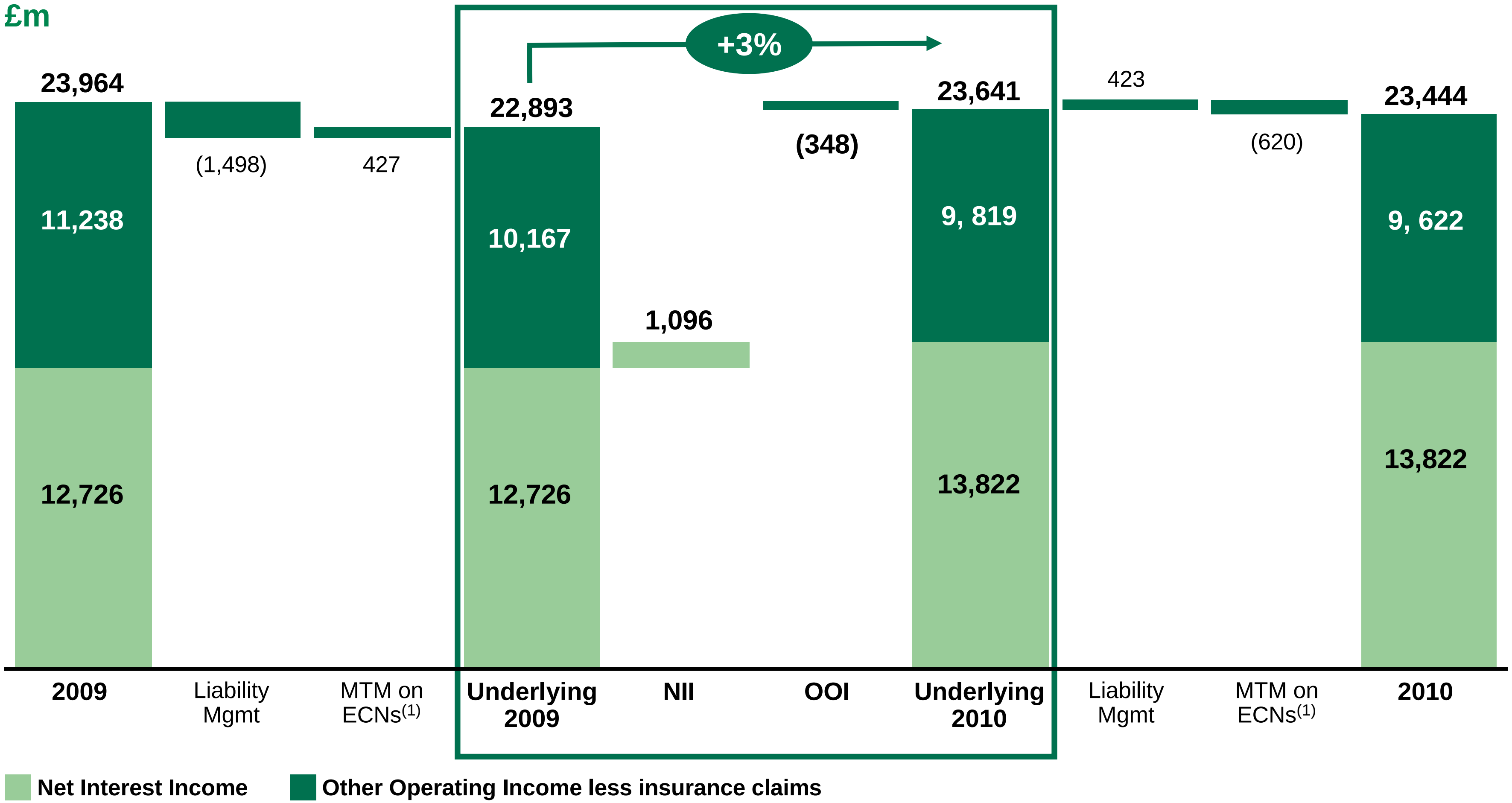
PROFIT BEFORE TAX (£m)[1]	2009	H1 2010	H2 2010	2010
Divisional performance	(7,371)	988	1,421	2,409
Liability management gains	1,498	423	-	423
Fair value movement of ECN conversion feature	(427)	192	(812)	(620)
Profit/(loss) before tax	(6,300)	1,603	609	2,212
Integration costs	(1,096)			(1,653)
Volatility arising in insurance businesses	478			306
GAPS fee	(2,500)			-
Negative goodwill credit	11,173			-
Amortisation[2] and goodwill impairment	(993)			(629)
Pension curtailment gain	-			910
Pre-acquisition results of HBOS plc	280			-
Customer goodwill and payments provision	-			(500)
Loss on disposal of businesses	-			(365)
Profit before tax - statutory	1,042			281

[1] Combined businesses basis [2] of purchased intangibles

REVENUE TRENDS

Good underlying income growth



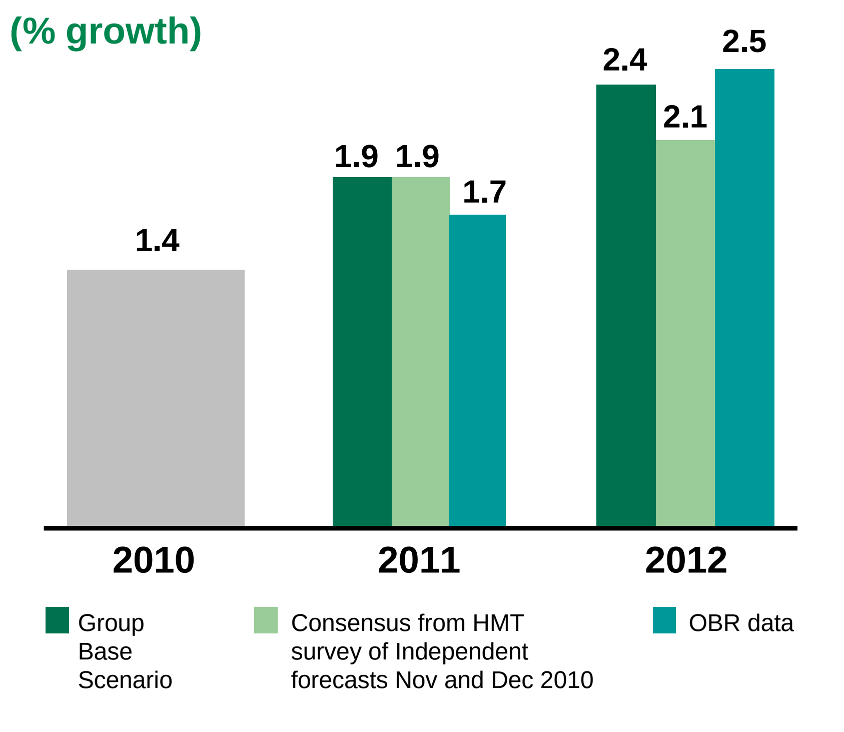
Good underlying income growth driven by NII

(1) Fair value movement of the ECN conversion feature

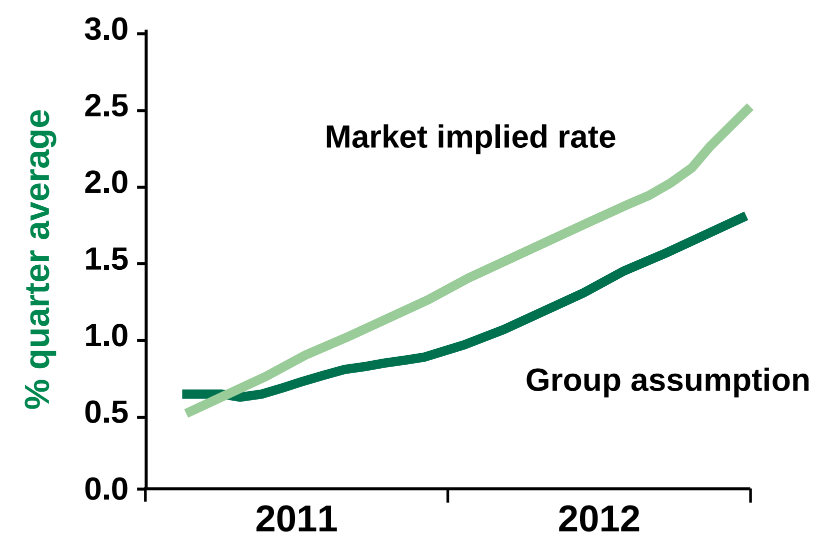
ECONOMIC ASSUMPTIONS

Expect slow recovery, in line with consensus

GDP



BASE RATE



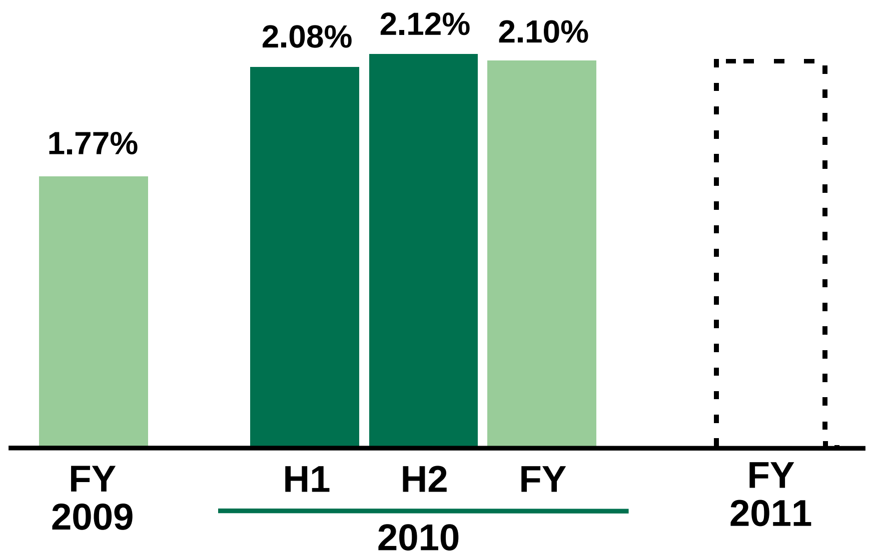
- **House prices**
  - Down 2% in 2011
  - Up 2% in 2012
- **Commercial property prices**
  - Down 2% in 2011
  - Up 3% in 2012
- **Unemployment**
  - Expected to peak in 2011 at 8.1%

DRIVERS OF FUTURE MARGIN

Limited core income growth in 2011 given by flat Net Interest Margin

2011

VOLUME	▪ Continued subdued lending markets ▪ Further reduction in non-core assets ▪ Opportunity for growth in core business ▪ Growth in customer deposits
PRICING	▪ Asset re-pricing offset by elevated Wholesale funding costs ▪ Liability margins depressed by low base rate and competitive markets ▪ No further progression in NIM expected in 2011
FUNDING	▪ Expect wholesale term funding costs to remain elevated



No further progression in NIM expected in 2011

DRIVERS OF FUTURE MARGIN

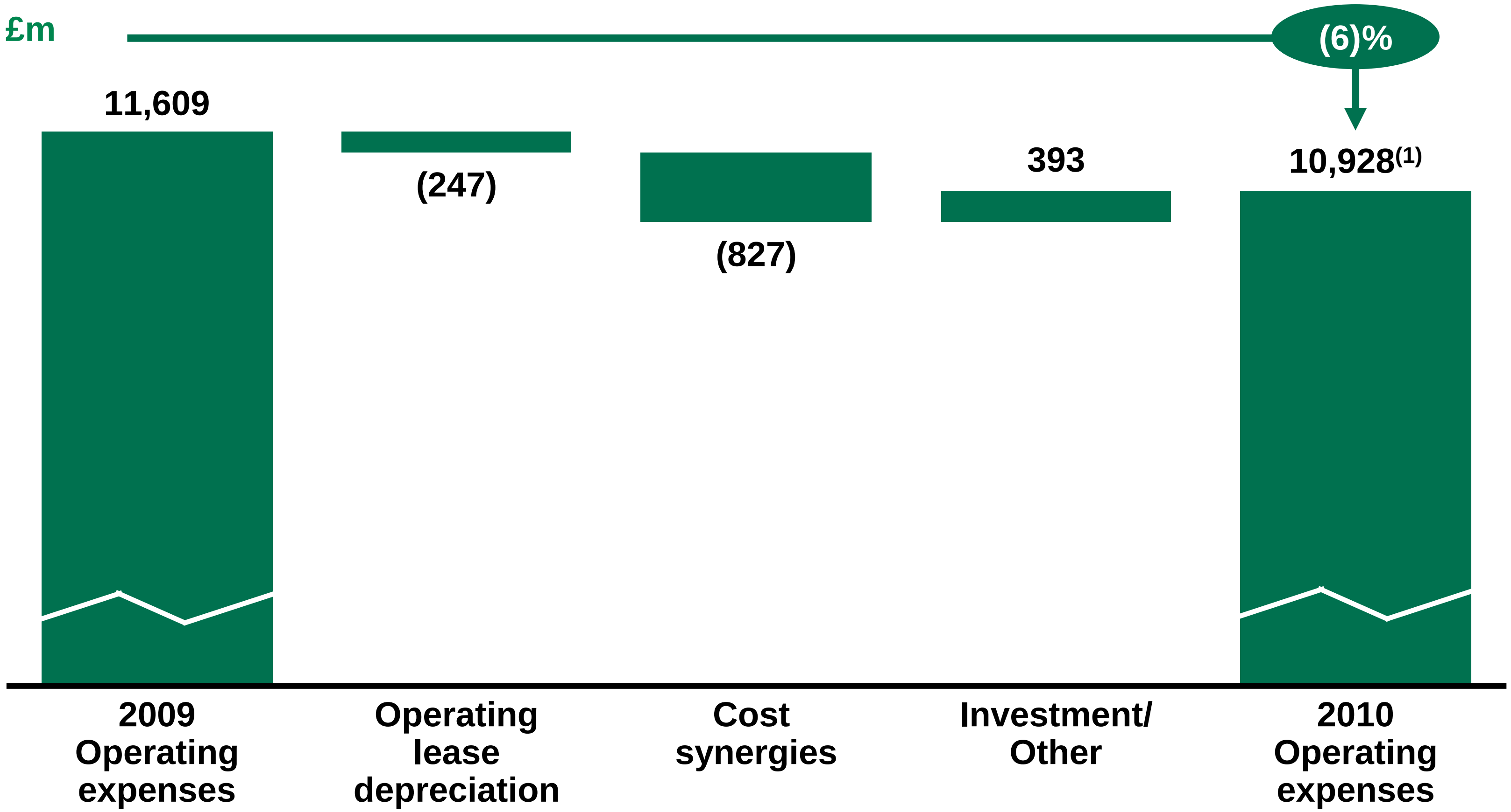
BANK BASE RATE, WHOLESALE ISSUANCE COSTS & MARGIN OUTLOOK

2010		2014
3.21%	WHOLESALE ISSUANCE COSTS[1]	▪ Higher absolute issuance costs but at lower spreads over time
0.50%	BANK BASE RATE	▪ Lloyds Banking Group forecast 3.75%
1.56%	ASSET MARGIN	▪ Limited further improvement
0.97%	LIABILITY MARGIN	▪ Increases facilitated by base rate movements
2.10%	NIM	▪ >2.5% driven by liability margin growth and reduced wholesale issuance spreads

[1] Based on market rates as at 31 December 2010 for a 5 year benchmark senior floating rate note

COST PERFORMANCE

Continued strong cost control



Continued strong cost control and delivery of synergy programmes

(1) Excluding impairment of fixed assets acquired after debt restructuring

SYNERGY PROGRESSION

Strong delivery of synergy programmes

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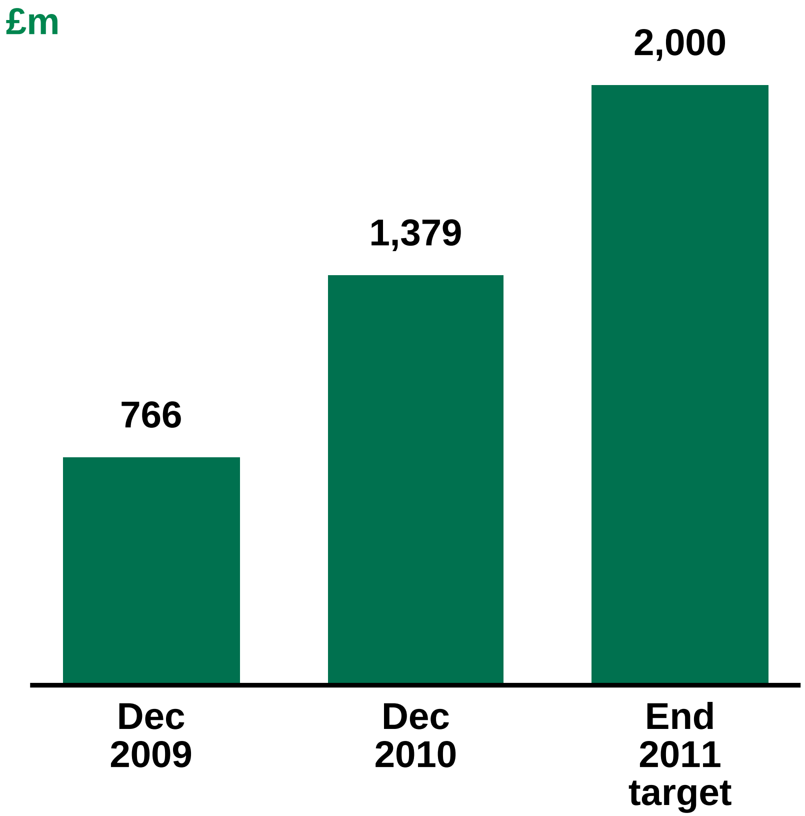
RUN RATE

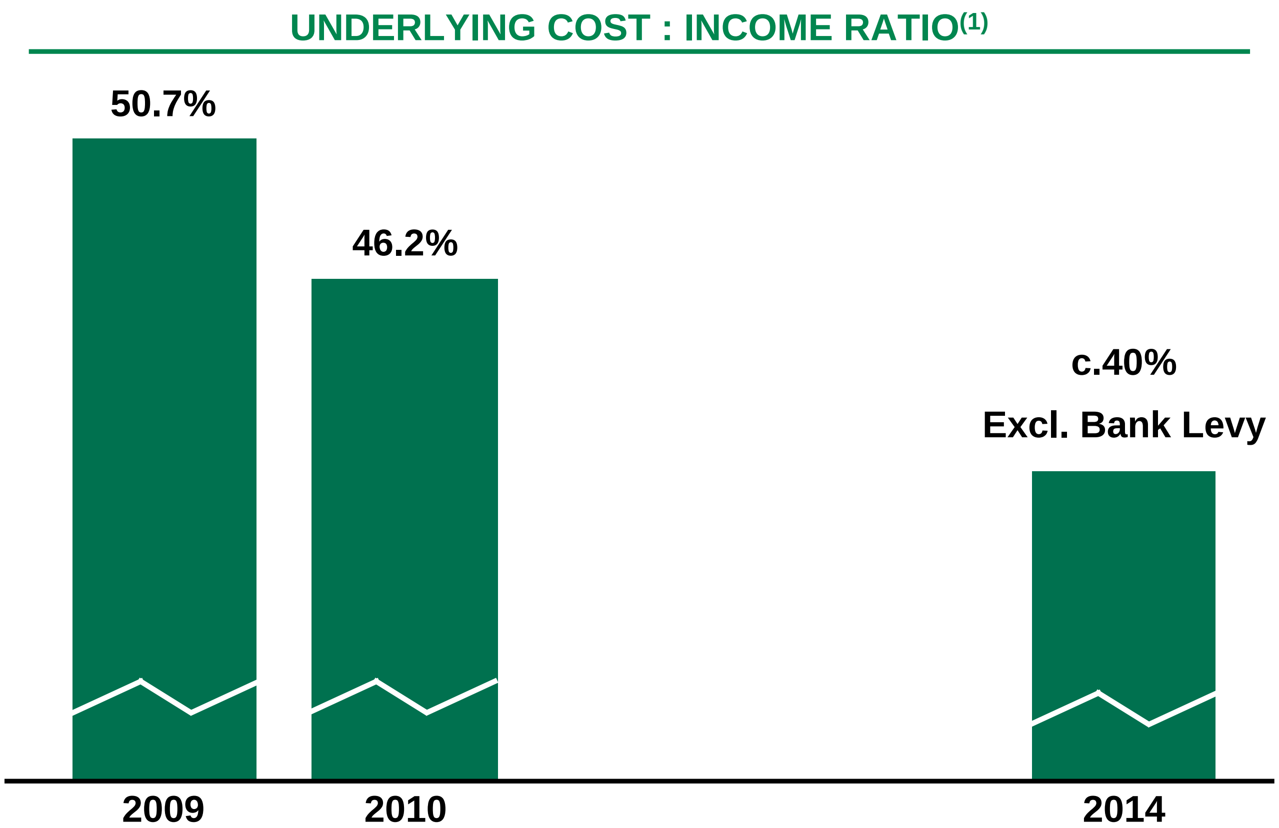


STRONG PERFORMANCE IN 2010

- 79 non-branch properties exited (162 since start of programme)
- £236 million procurement benefits
- Integrated IT infrastructure build largely complete
- Improved processes implemented
- Single, scalable platforms delivered for Internet Banking and Asset Finance
- Branch, ATM and mortgage sales IT platforms roll out commenced and on track for completion in 2011

On track to deliver end 2011 target

REDUCTIONS IN UNDERLYING COST : INCOME RATIO

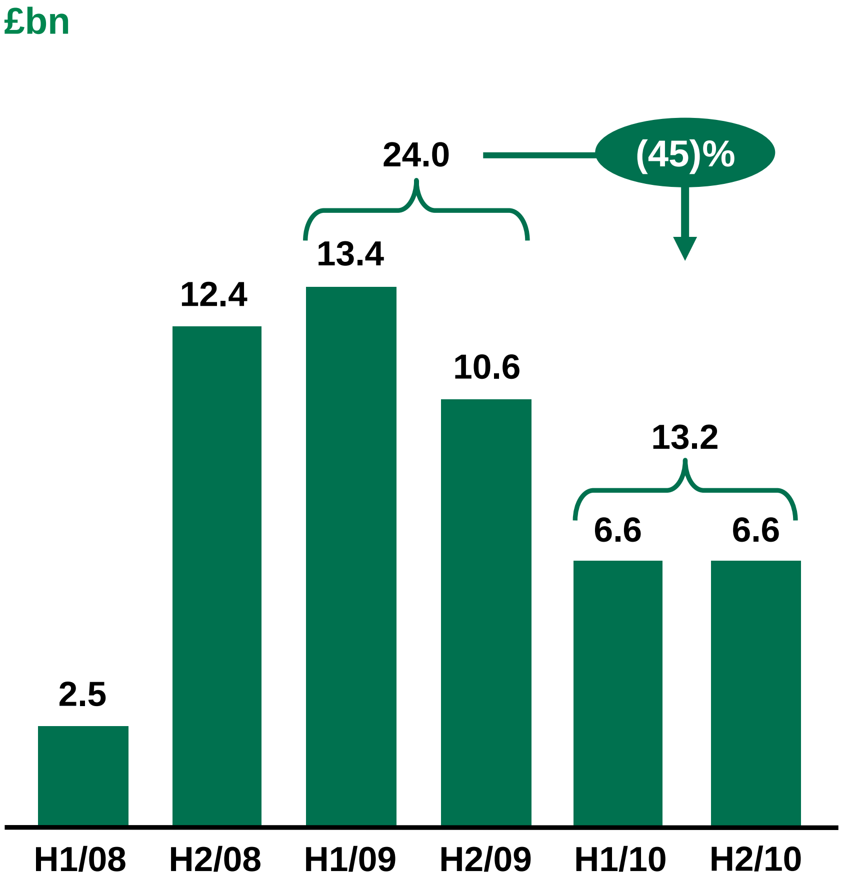


Costs broadly flat in 2011

(1) Excluding liability management gains, fair value movement of the ECN conversion feature and impairment of fixed assets

GROUP IMPAIRMENT CHARGE

Significant reduction, primarily driven by Wholesale



- **£10.8 billion (45%) reduction in Group impairment charge**
- **£1.5 billion (35%) reduction in Retail impairment charge**
- **£11.2 billion (72%) reduction in Wholesale impairment charge**
  - **primarily driven by a reduction in commercial real estate and related portfolios**
- **£1.9 billion (47%) increase in Wealth and International charge**
  - **Driven by further deterioration in Ireland in second half**
  - **Some effect from specific Australian exposures**
- **Ahead of original 2009 year end guidance for 2010**

Further reduction in impairment charge expected in 2011

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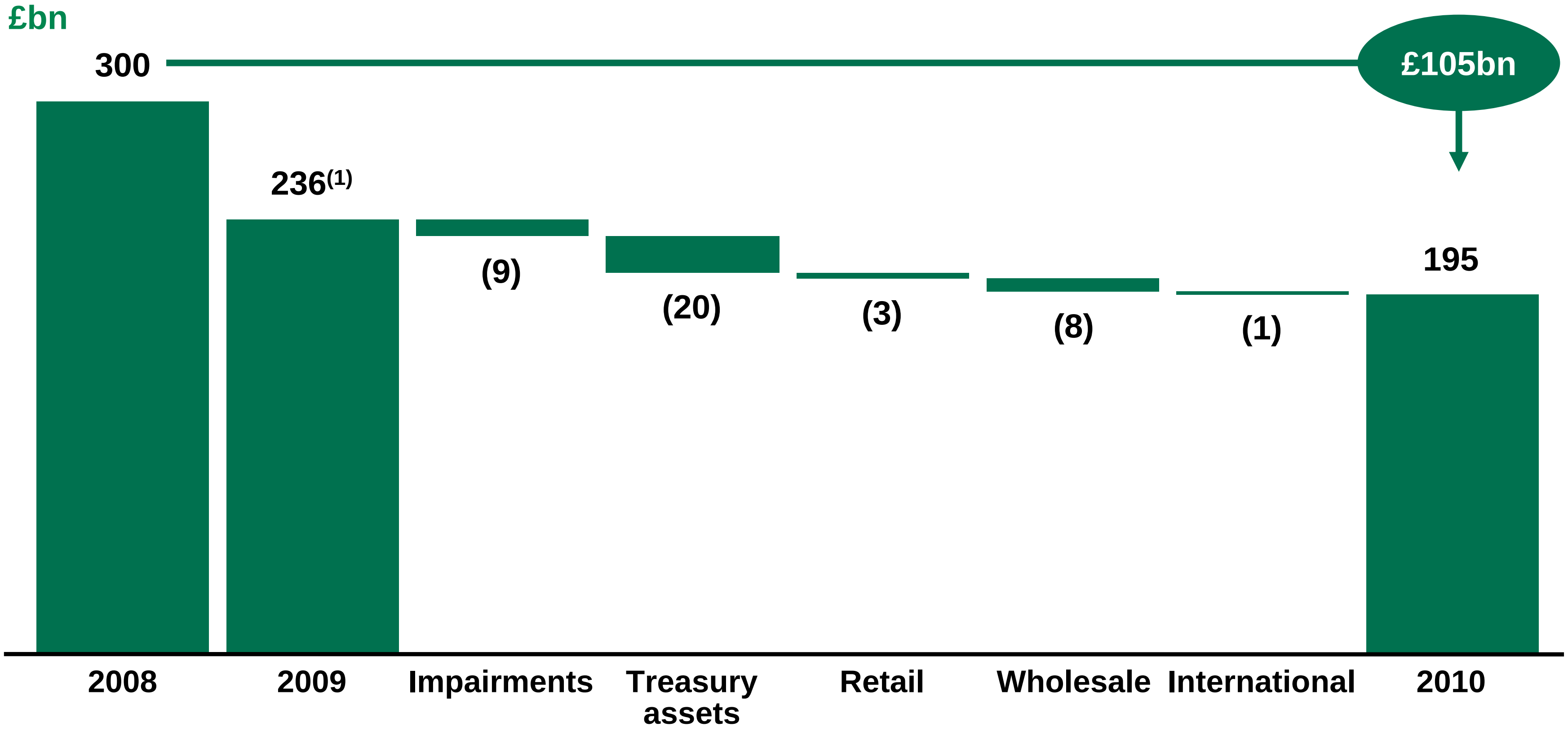
GOOD PROGRESS ON ASSET REDUCTIONS

£105 billion asset reduction since end 2008



Over 50% of £200bn targeted reduction achieved in two years with minimal losses to date on disposal over impaired values

(1) Reduced from £240bn following a reclassification of assets between core and non-core

INDICATIVE PROFILE OF CORE / NON-CORE BUSINESS

Non-core reductions continue to be important

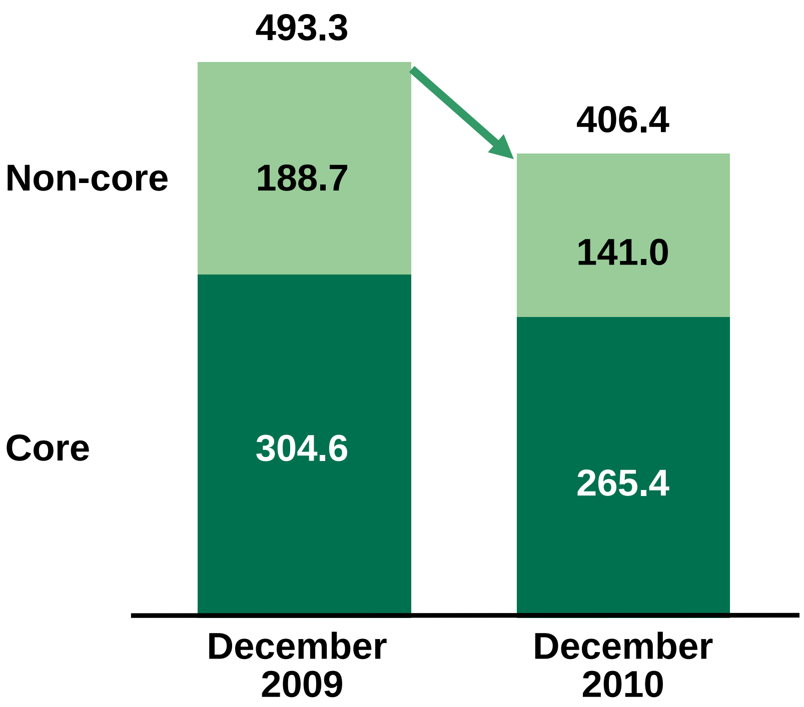
		CORE	NON-CORE
Income (underlying)	%	82	18
Impairment	%	31	69
RWAs	%	65	35
Total assets	£bn	797	195

Non-core assets are more capital intensive and generate a disproportionate level of impairment

BALANCE SHEET DE-RISKING

Reducing the capital intensity of our business

RISK-WEIGHTED ASSETS (£bn)



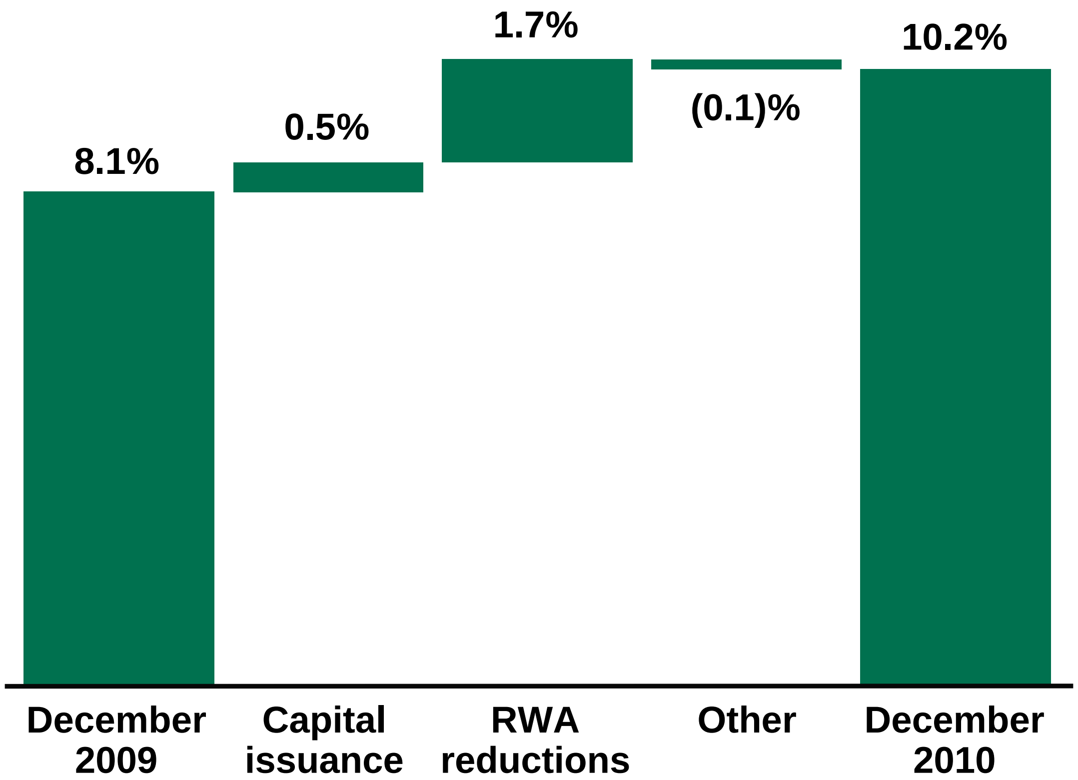
- Overall RWA reduction driven by:
  - Asset reductions
  - Reclassification of certain assets to Foundation IRB (£23bn impact)
- Further risk-weighted asset reductions expected over next few years
  - Further asset reduction
  - Improving economic conditions

Further reduction of risk-weighted assets expected over next few years

A STRONG CAPITAL POSITION

Improving quality and quantity of capital

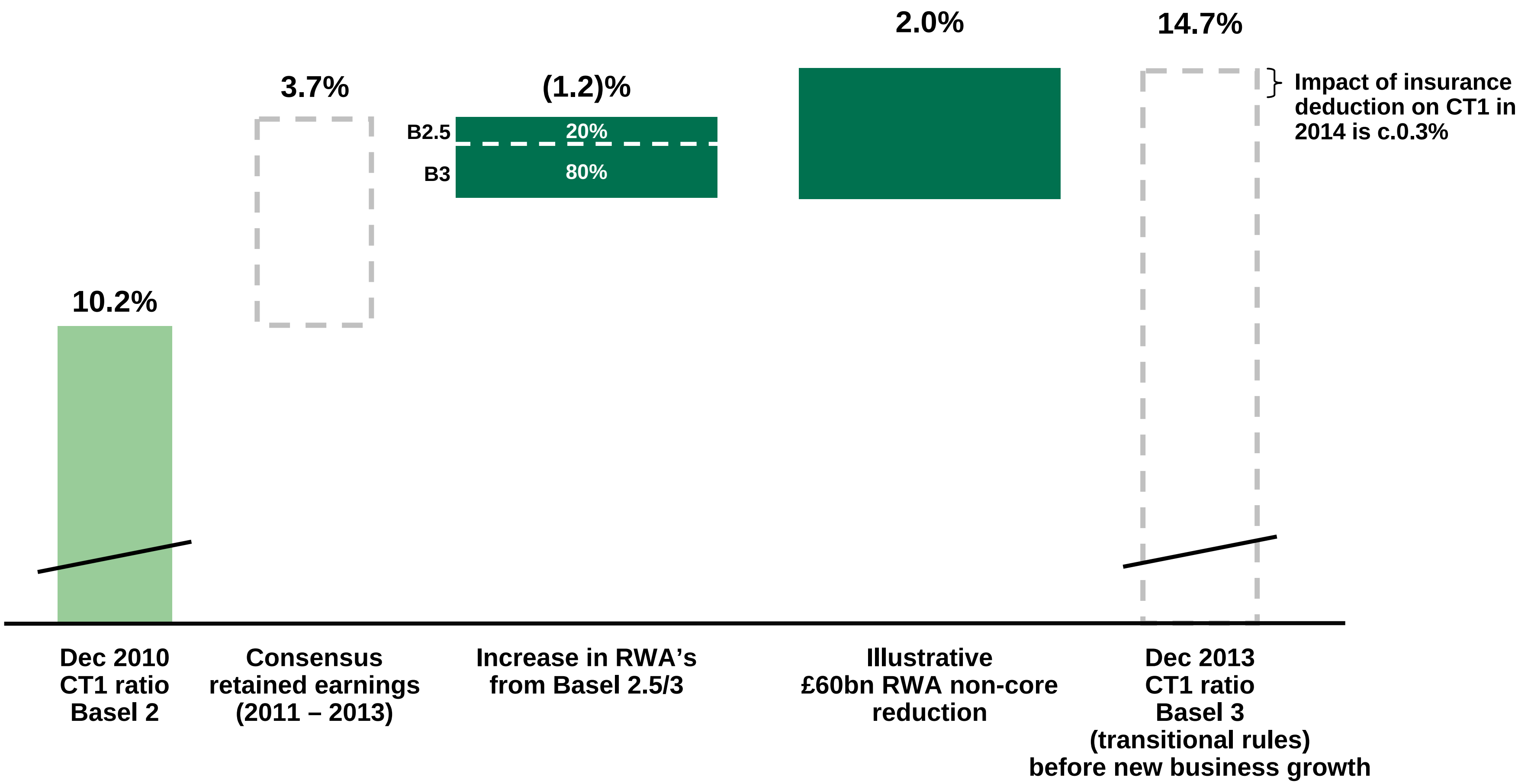
CORE TIER 1 RATIO (%)



- **Core tier 1 ratio including ECNs would be 12.1%**
- **Tier 1 ratio: 11.6%**
- **Total capital ratio: 15.2%**
- **Improved quality of capital base including Basel III mitigation**
- **Return to profitability accelerates deferred tax asset consumption**

IMPACT OF BASEL CHANGES

Impact of Basel 2.5/3 changes on pro-forma Core tier 1 ratio(1)



Existing asset reduction programme mitigates likely impact of Basel proposals

(1) See preparation notes in appendix

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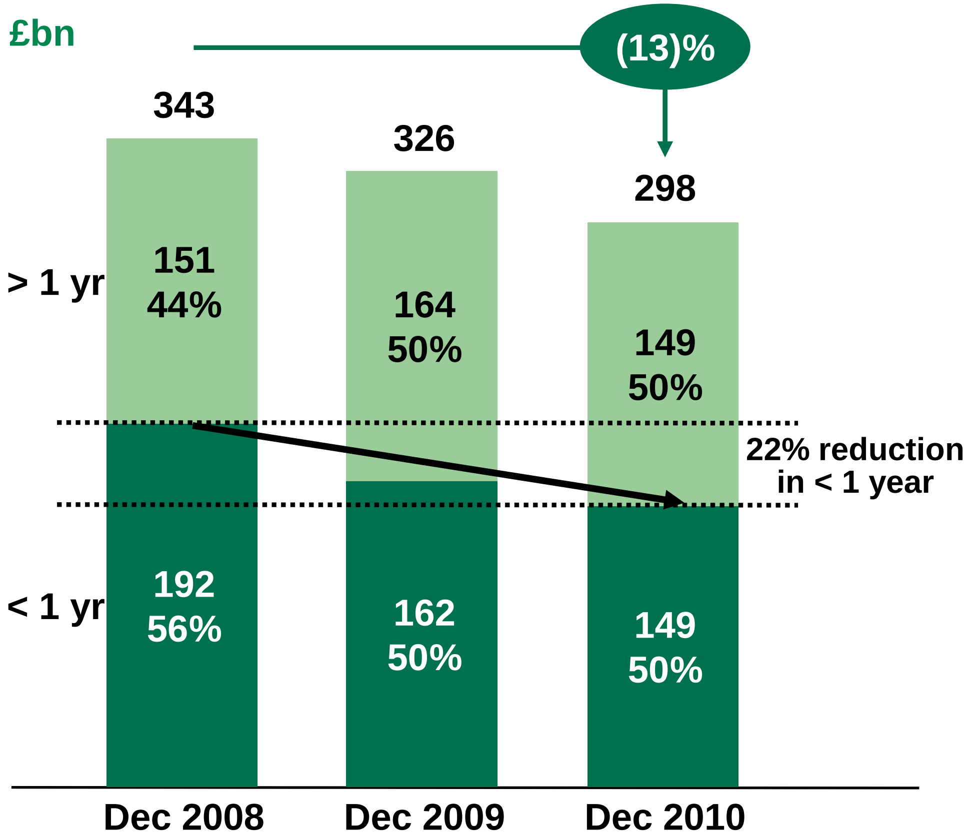
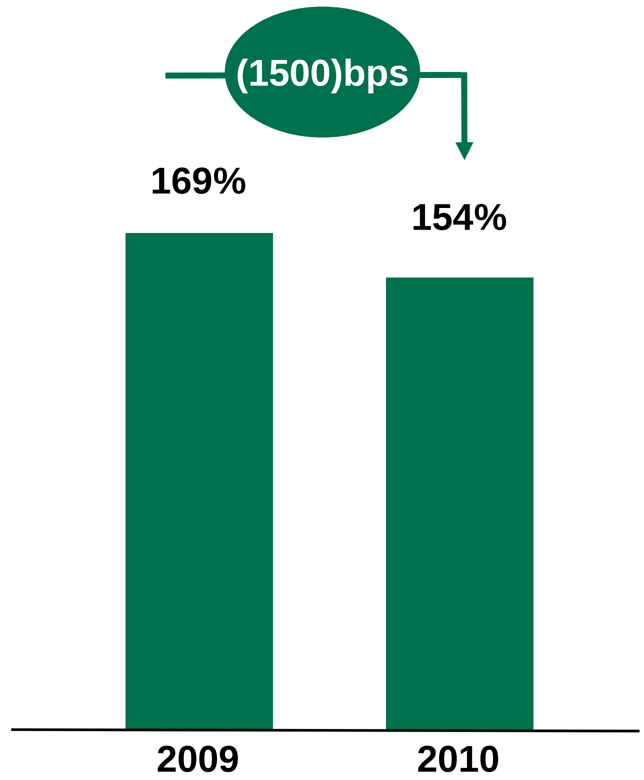
FURTHER IMPROVEMENTS IN OUR FUNDING PROFILES

…and maturity profile maintained

WHOLESALE FUNDING MATURITY PROFILE



LOAN TO DEPOSIT RATIO

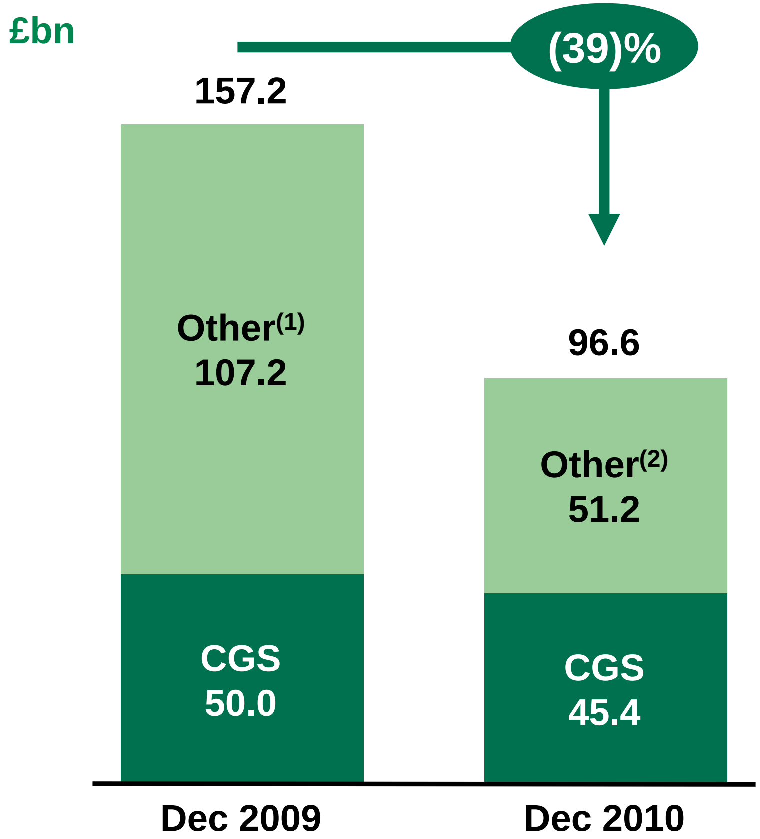


Continued progress in reducing wholesale funding position, good progress in improving loan to deposit ratio

FURTHER REDUCTIONS IN GOVERNMENT & CENTRAL BANK FUNDING

Accelerated pay-down ahead of contractual maturities

REDUCING GOVERNMENT & CENTRAL BANK FUNDING



- £61 billion reduction in government and central bank funding
- Further £13 billion repayment of government and central bank funding since year end
- No remaining ECB or US Fed funding
- All facilities mature by Q4/2012

(1) Other: UK Special Liquidity Scheme facilities, US Federal Reserve, ECB, Bank of Japan and Reserve Bank of Australia
(2) Other: UK Special Liquidity Scheme facilities and Reserve Bank of Australia

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A PROFITABLE, STRENGTHENED BUSINESS

Good progress towards our medium term targets

- Strong progress in balance sheet reduction ✓
- Further reduction in risk in the business ✓
- Funding and liquidity position much improved ✓
- Stronger capital ratios ✓
- Substantial reduction in Group impairments ✓
- 2010 margin improvements delivered ✓
- On track to deliver improved shareholder returns ✓

Strong prospects over the medium term

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.

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