

LLOYDS  
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# RESULTS FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2012

1 November 2012

**António Horta-Osório, Group Chief Executive**  
**George Culmer, Group Finance Director**

# HIGHLIGHTS FOR THE FIRST NINE MONTHS OF 2012

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- 
- Improved underlying Group performance in a challenging environment
  - Core business continuing to deliver returns above cost of equity
  - Further good progress on initiatives to simplify and reshape the business
  - Investing in our core business to improve service, and support our customers and the UK economy
  - Strong balance sheet: improved capital ratios, continued above-market deposit growth and strong liquidity
  - Continue to work through legacy issues: additional PPI provision of £1 billion taken in third quarter
  - Guidance reaffirmed or improved

# FINANCIAL PERFORMANCE

## Improved underlying Group performance

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(£m)	GROUP			CORE		
	30 Sept 2012	30 Sept 2011	Change %	30 Sept 2012	30 Sept 2011	Change %
<b>Underlying income</b>	<b>13,831</b>	16,055	(14)%	<b>12,937</b>	14,227	(9)%
Total costs	<b>(7,508)</b>	(7,909)	5%	<b>(6,884)</b>	(7,226)	5%
Impairment	<b>(4,419)</b>	(7,378)	40%	<b>(1,351)</b>	(2,247)	40%
<b>Underlying profit</b>	<b>1,904</b>	768	148%	<b>4,702</b>	4,754	(1)%
<b>Management profit</b>	<b>2,249</b>	1,748	29%	<b>4,437</b>	4,375	1%
Statutory loss before tax	<b>(583)</b>	(3,858)		–	–	

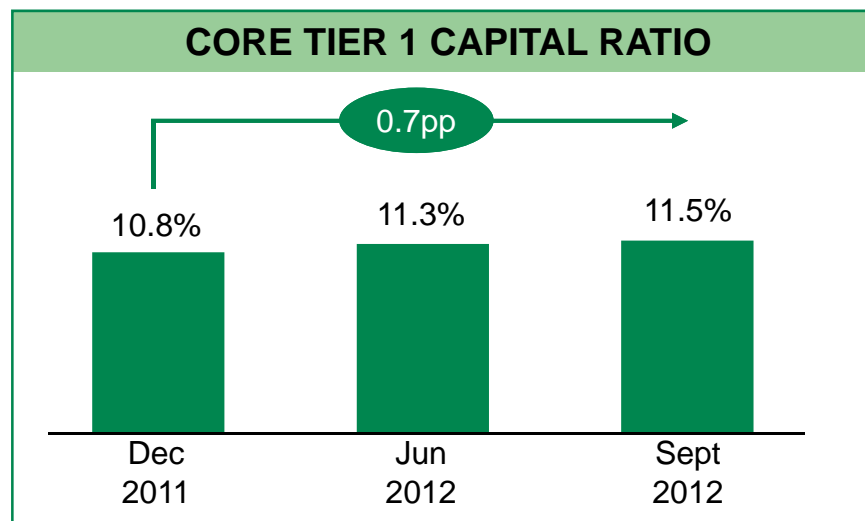
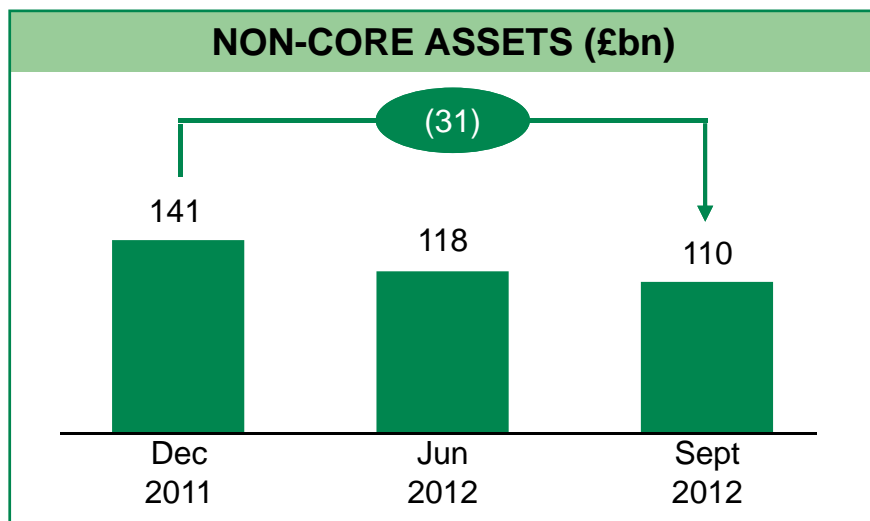
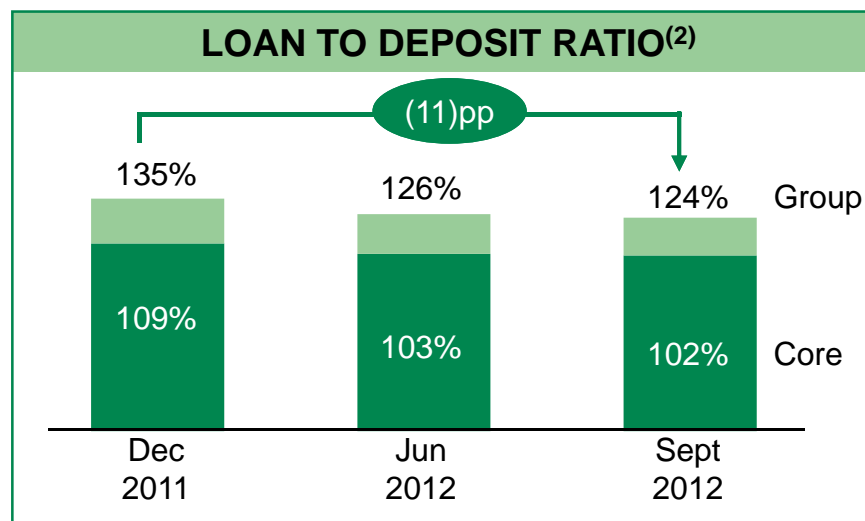
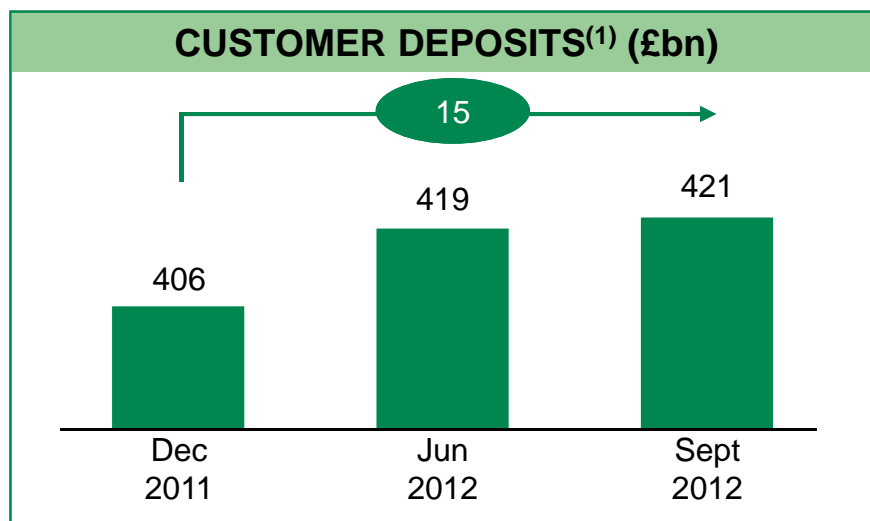
  

Net interest margin	<b>1.93%</b>	2.10%	<b>2.32%</b>	2.45%
Pre-tax RoRWA <sup>(1)</sup>	<b>0.75%</b>	0.26%	<b>2.61%</b>	2.48%
Impairment as a % of average advances	<b>1.04%</b>	1.61%	<b>0.41%</b>	0.66%

<sup>(1)</sup>Underlying profit divided by average risk-weighted assets.

# FURTHER STRENGTHENING THE BALANCE SHEET

## Deposit growth and non-core run-down driving reduction in loan to deposit ratio; core tier 1 ratio further improved



<sup>(1)</sup>Excluding repos. <sup>(2)</sup> Loans and advances to customers (excluding reverse repos) divided by customer deposits (excluding repos).

# SUPPORTING OUR CUSTOMERS AND THE UK ECONOMY

## Delivering on commitments to business and personal customers

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- **UK's largest lender to first-time buyers, helping around 40,000 customers buy their first home in the first nine months of the year**
  
- **SME net lending growth of 4%<sup>(1)</sup> year-on-year against market contraction of 4% whilst exceeding our target of supporting 300,000 new start-ups by the end of 2012**
  
- **£1 billion commitment to UK manufacturing by September 2013**
  
- **First bank to access Funding for Lending scheme:**
  - £1 billion drawn in September
  - SME charter commitment increased by £1 billion
  - Targeting £500 million commitment to first-time buyer market

<sup>(1)</sup>Core commercial net lending year-on-year growth September 2011 to September 2012.

# INVESTING IN OUR CORE BUSINESS

## Building the best bank for customers

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- **Investing in customer channels**
  - Additional investments made in our digital channels, with Retail's active internet banking customers growing to 9.3 million and mobile customers to 2.9 million
  - Continue to roll out branch refurbishment programme and extend opening hours
  - Arena platform customers increased by 20% in the quarter
- **Improving our customer propositions**
  - Account switcher and first-time buyer cash back offers in Halifax
  - Simplifying insurance service and claims processes
  - New Private Banking Client Centre opened, giving customers faster access to advice, and facilitating referrals between Retail and Wealth
- **Improving customer service**
  - 42% reduction in banking complaints over last two years towards our target of one complaint per 1,000 accounts<sup>(1)</sup> by the end of 2014
  - Customer satisfaction continues to see a substantial improvement across all brands

**Building a customer centric retail and commercial banking business**

<sup>(1)</sup>Excluding PPI.

# FINANCIAL PERFORMANCE

## Improved underlying Group performance

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(£m)	GROUP			CORE		
	30 Sept 2012	30 Sept 2011	Change %	30 Sept 2012	30 Sept 2011	Change %
Net interest income	<b>7,790</b>	9,407	(17)%	<b>7,422</b>	8,297	(11)%
Other income <sup>(1)</sup>	<b>6,041</b>	6,648	(9)%	<b>5,515</b>	5,930	(7)%
<b>Underlying income</b>	<b>13,831</b>	16,055	(14)%	<b>12,937</b>	14,227	(9)%
Total costs	<b>(7,508)</b>	(7,909)	5%	<b>(6,884)</b>	(7,226)	5%
Impairment	<b>(4,419)</b>	(7,378)	40%	<b>(1,351)</b>	(2,247)	40%
<b>Underlying profit</b>	<b>1,904</b>	768	148%	<b>4,702</b>	4,754	(1)%
Other items						
– Asset sales <sup>(2)</sup>	<b>1,299</b>	76		<b>1,307</b>	113	
– Liability management	<b>(207)</b>	–		<b>(207)</b>	–	
– Own debt volatility	<b>(341)</b>	409		<b>(341)</b>	409	
– Other volatile items	<b>(618)</b>	(619)		<b>(618)</b>	(619)	
– Fair value unwind	<b>212</b>	1,114		<b>(406)</b>	(282)	
<b>Management profit</b>	<b>2,249</b>	1,748	29%	<b>4,437</b>	4,375	1%

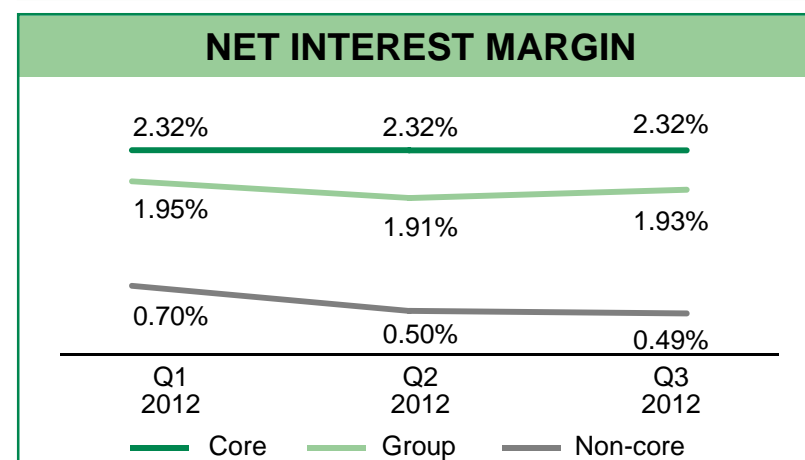
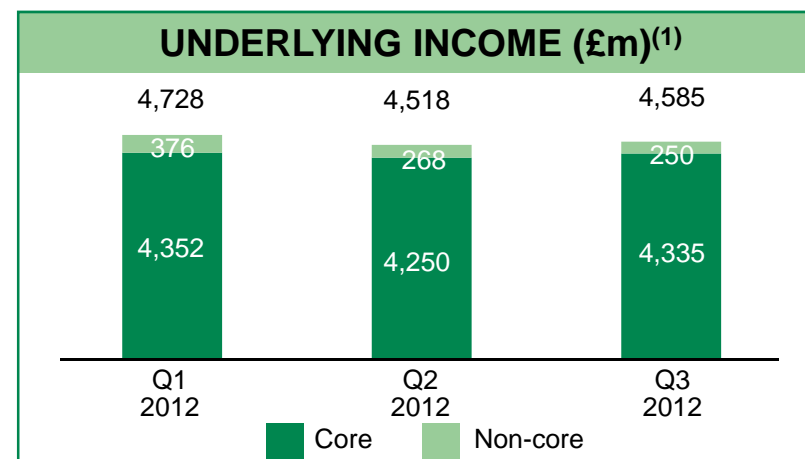
<sup>(1)</sup>Net of insurance claims. <sup>(2)</sup>Net of associated fair value unwind of £634m (30 September 2011: £650m).

# FINANCIAL PERFORMANCE

## Income slightly ahead with stable margin trends



- Income slightly ahead in third quarter
    - Group income increased by 1% (Q3 vs Q2)
    - Core income increased by 2% (Q3 vs Q2)
  - Non-core income now represents only 6% of total income (11% for same period of 2011)
  - Other income increased 2% vs Q2 recovering from subdued Q2 levels given better Markets performance
- 
- Core NIM – stable with improving asset pricing offset by higher funding costs
  - Group NIM of 1.93% in line with guidance and stable in the third quarter
  - Continue to expect Group NIM of around 1.93% for full year 2012



**Core metrics stable in challenging environment**

<sup>(1)</sup>Net of insurance claims.

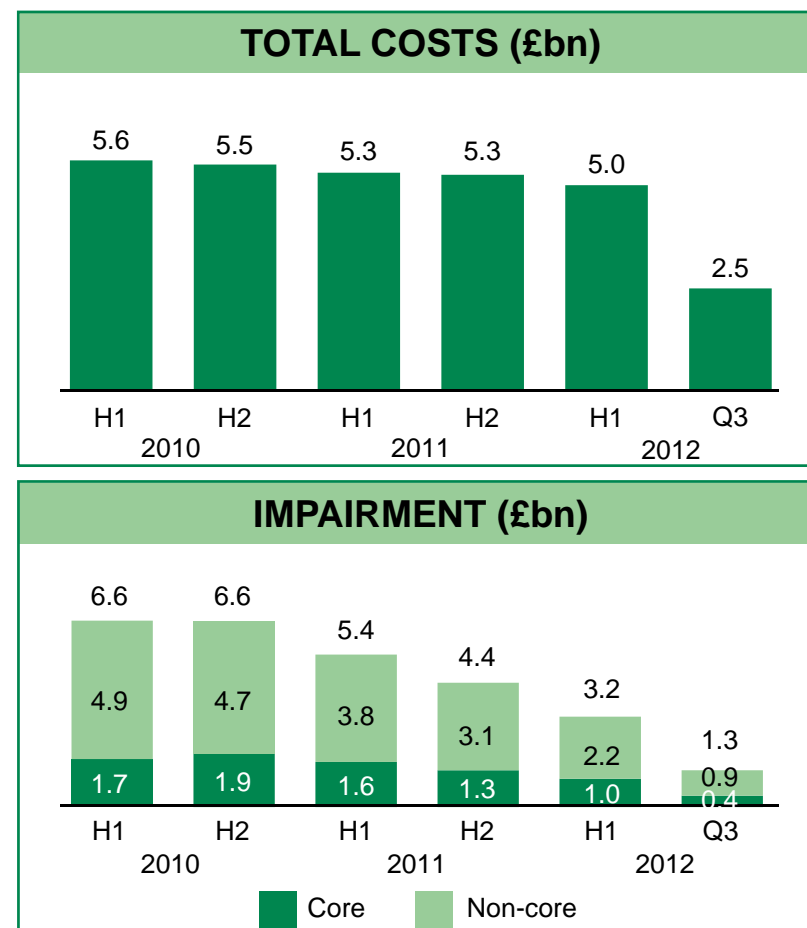


# FINANCIAL PERFORMANCE

## Further reductions in costs and impairment



- Total costs decreased by 5%, with part of Simplification savings reinvested in core business
  - Simplification run rate cost savings increased to £660 million
  - Cost base expected to be close to £10 billion in full year 2012, two years ahead of original plan, and a reduction of around £1 billion since 2010
- 
- Impairment charge down 40%, reflecting further improvement in portfolio and asset quality
  - Core impairment continues to fall, primarily driven by Retail
  - 2012 impairment charge guidance further lowered to approximately £6 billion



**Continued effective cost management and lower impairment**

# FINANCIAL PERFORMANCE

## Statutory reconciliation

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(£m)	30 Sept 2012	30 Sept 2011	KEY MESSAGES
<b>Management profit</b>	<b>2,249</b>	1,748	<ul style="list-style-type: none"> <li>▪ Simplification costs of £332 million contributing to further run-rate savings of £418 million</li> <li>▪ Verde costs of £399 million year to date (£90 million for same period 2011)</li> <li>▪ PPI provision reflects current claims experience and future expectations</li> <li>▪ Pension credit reflects changes to terms of UK defined benefit pension schemes</li> <li>▪ Tax includes impact of changes to UK tax rate and UK policyholder tax</li> </ul>
Volatility arising in insurance business	<b>236</b>	(737)	
Simplification, Verde and integration costs	<b>(731)</b>	(1,066)	
Payment protection insurance	<b>(2,075)</b>	(3,200)	
Past service pension credit	<b>250</b>	–	
Amortisation of purchased intangibles	<b>(362)</b>	(428)	
German Insurance business litigation	<b>(150)</b>	(175)	
<b>Statutory loss before tax</b>	<b>(583)</b>	(3,858)	
Tax	<b>(419)</b>	1,079	
<b>Statutory loss after tax</b>	<b>(1,002)</b>	(2,779)	

**Statutory loss primarily driven by further PPI provisions**

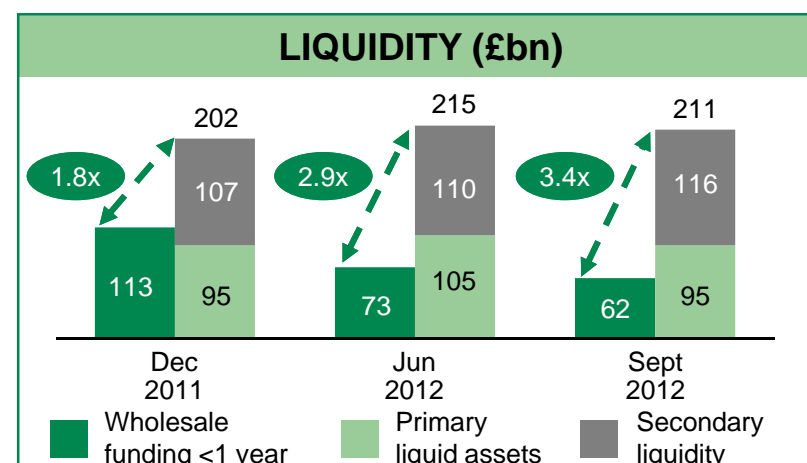
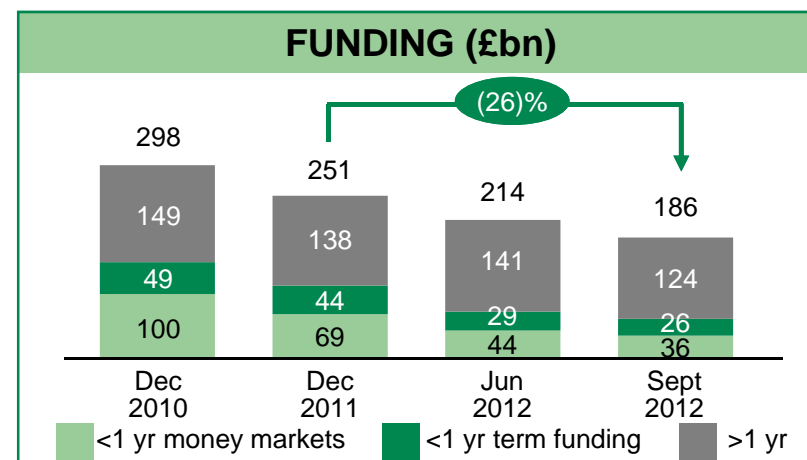
# FURTHER STRENGTHENING THE BALANCE SHEET

## Wholesale funding reduced and liquidity coverage improved



- Overall funding reduced by £65 billion in the first nine months
- Short-term wholesale funding of £62 billion, down £52 billion since December
- Credit Guarantee Scheme now fully repaid

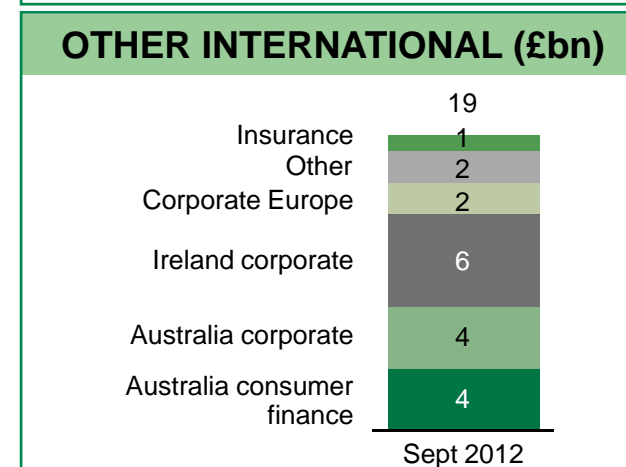
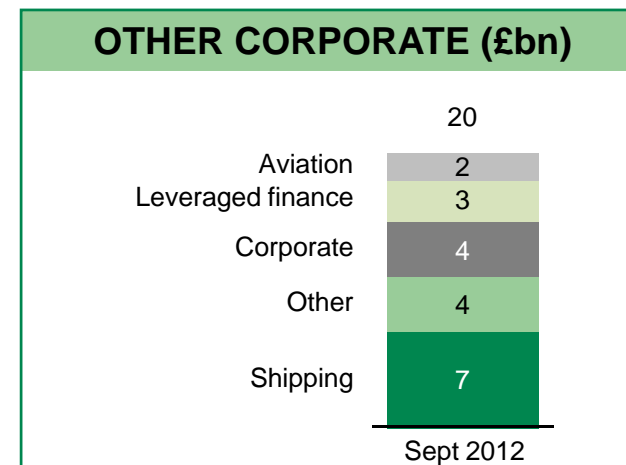
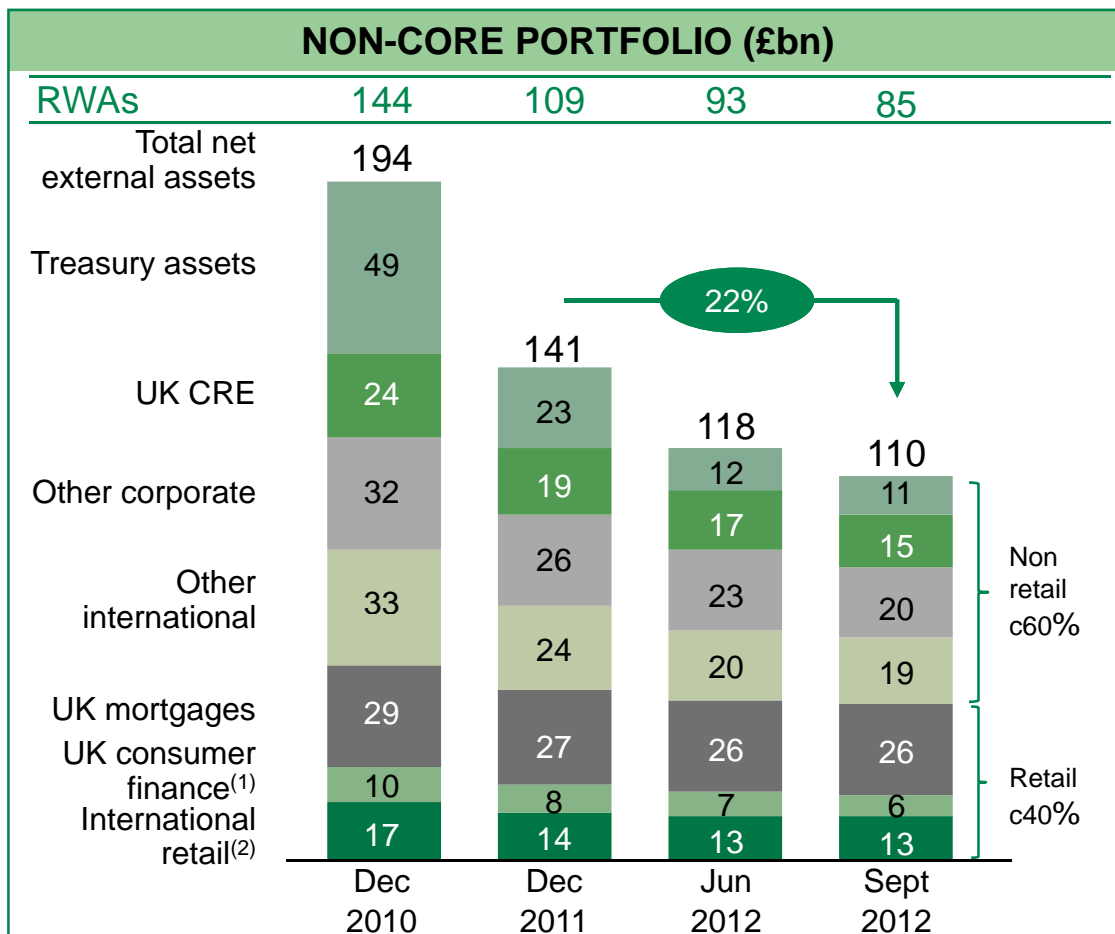
- Total liquidity greater than wholesale funding and covers short-term funding by >3 times
- Strong primary liquidity, in excess of short-term funding requirement
- Over £10 billion of term wholesale funding repurchased, including two public tenders for senior funding (£8.5 billion)



**Short-term funding almost halved; very strong liquidity coverage**

# NON-CORE PORTFOLIO

Continued disciplined portfolio and risk reductions

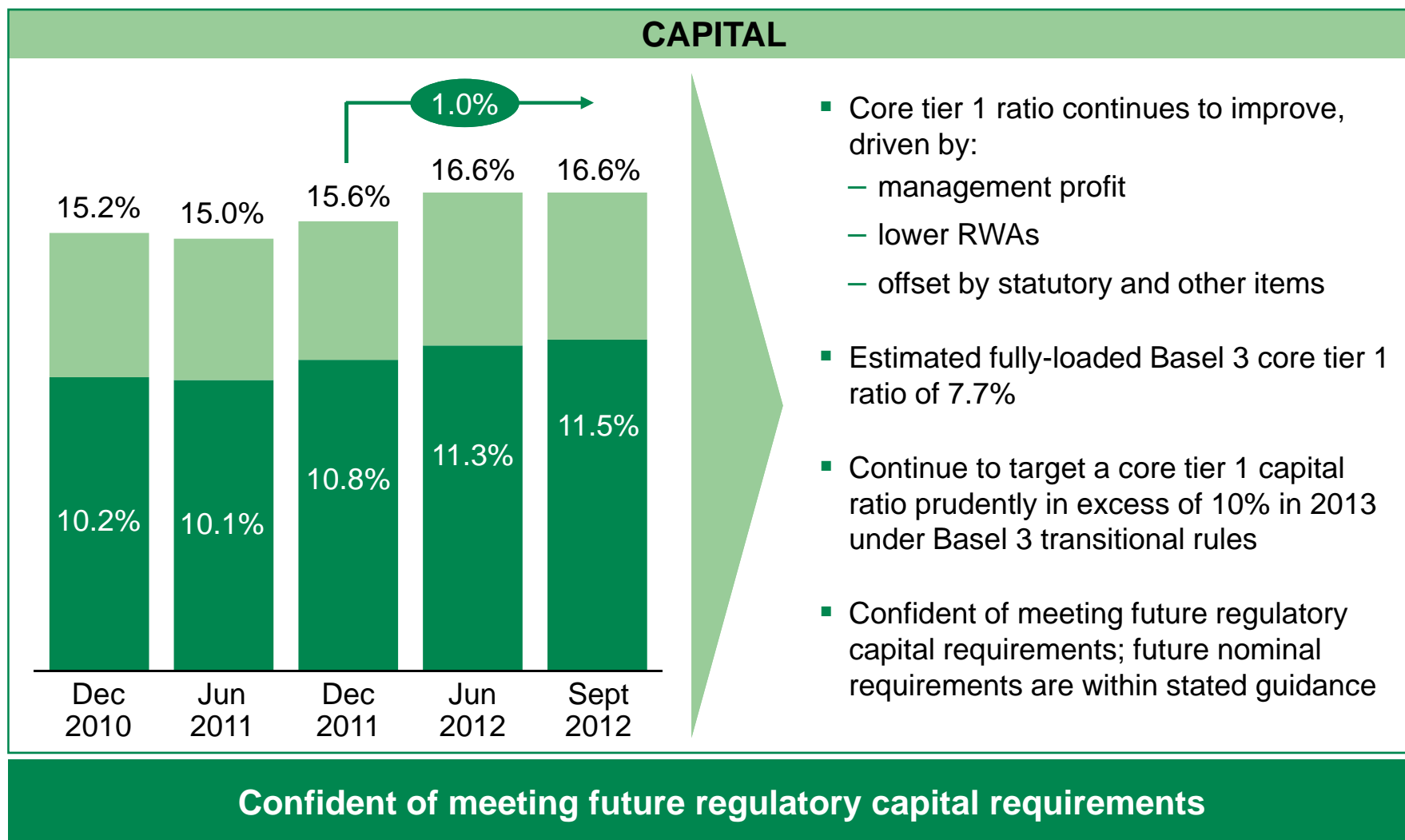


**Non retail assets decreased by c30% year to date**

<sup>(1)</sup>Asset finance included in UK consumer finance. <sup>(2)</sup>International retail includes Spanish, Dutch & Irish mortgages.

# FURTHER STRENGTHENING THE BALANCE SHEET

## Capital position continues to improve





- **Improved business performance in third quarter**
  - Underlying profit significantly increased; stable core returns above cost of equity
  - Balance sheet further strengthened and non-core assets substantially reduced
  - Simplification enabling further investment in core business
- **Confident of meeting future regulatory capital requirements**
- **Continue to work through legacy issues**
- **Guidance reaffirmed or improved**
  - Full year NIM expected to be around 1.93%, in line with previous guidance
  - Cost base expected to be close to £10 billion in full year 2012
  - 2012 impairment charge guidance further lowered to approximately £6 billion
  - 2012 non-core asset reduction target further increased to around £38 billion
  - Expect to reach long-term core loan to deposit ratio target of 100% in the first quarter of 2013, at the same time as reaching a 120% Group loan to deposit ratio

**We remain confident of delivering our medium-term financial targets**

# 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 events and depend on circumstances that will or may 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 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; 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 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 jurisdictions outside the UK, including other European countries and the US; the implementation of the draft EU crisis management framework 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 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, 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 management 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 Q3 2012 Interim Management Statement which sets out the principles adopted in the preparation of the management 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.