

LLOYDS
BANKING
GROUP



BANK OF AMERICA MERRILL LYNCH
17th Annual Banking & Insurance
CEO Conference

25 September 2012

António Horta-Osório
Group Chief Executive



STRONG CORE FRANCHISE

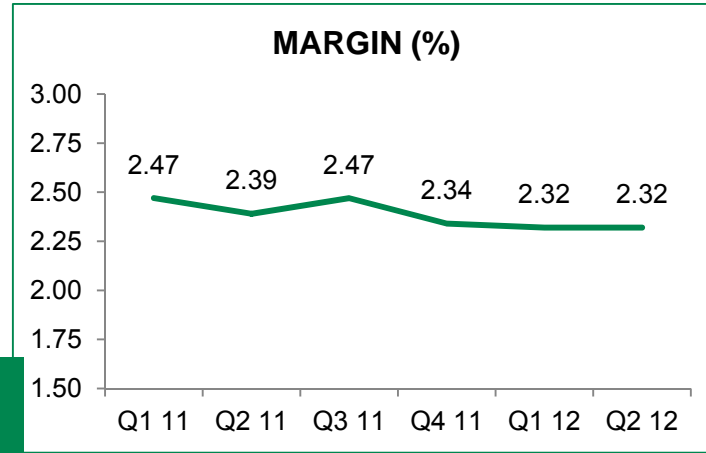
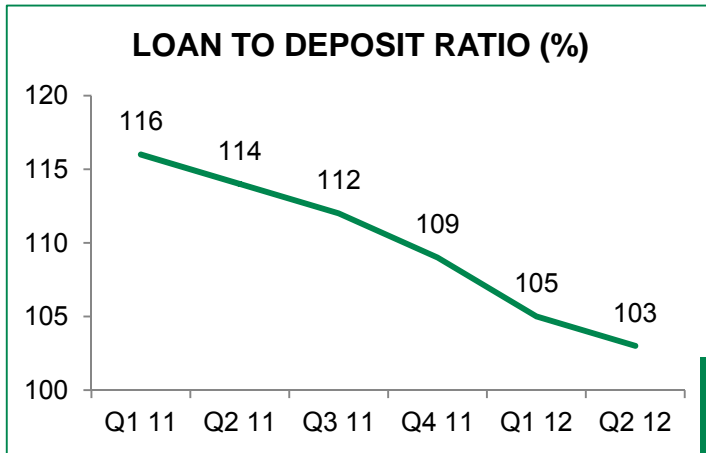
REDUCING RISK & INCREASING EFFICIENCY

ECONOMIC & REGULATORY ENVIRONMENT

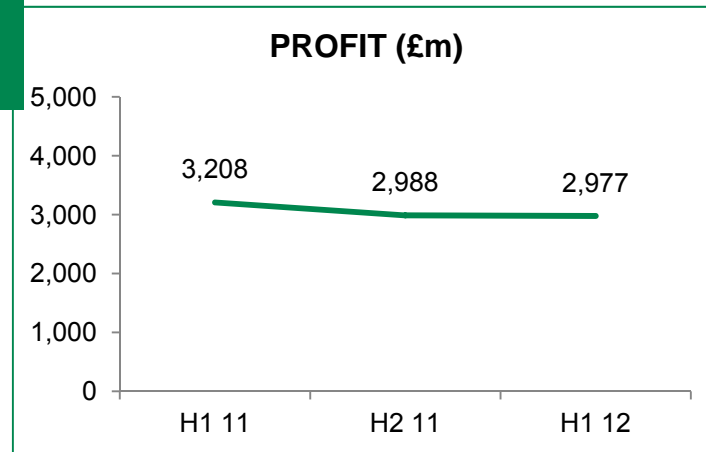
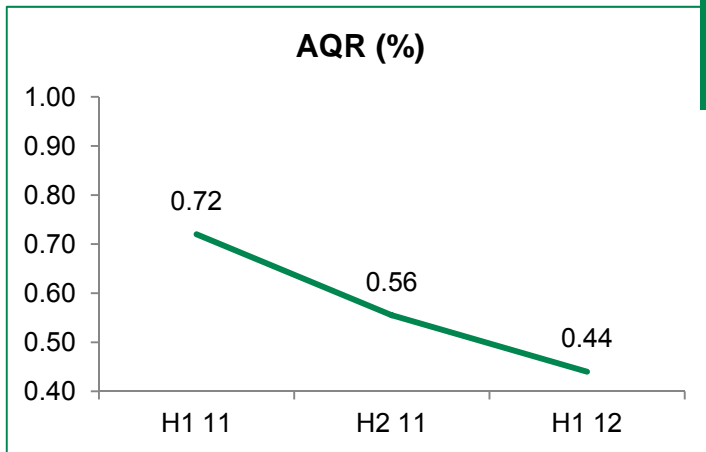
CONCLUSION

STRONG CORE FRANCHISE

Overview of the core



**c 2.5% pre tax
RoRWA⁽¹⁾**



Strong core returns despite challenging environment

⁽¹⁾Underlying profit before tax divided by average risk-weighted assets.

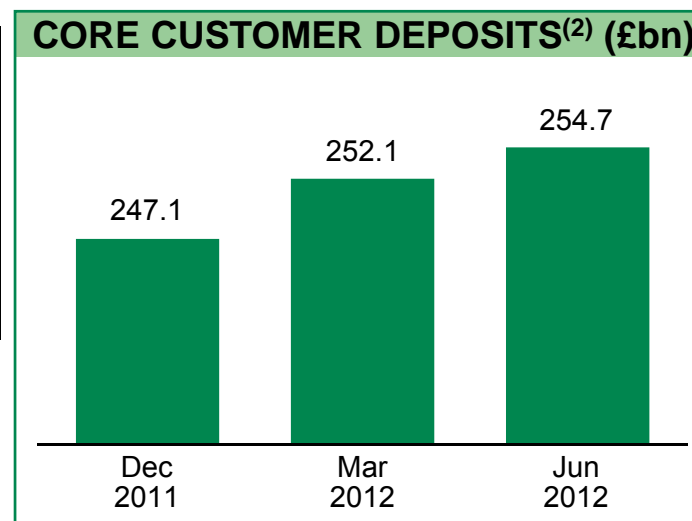
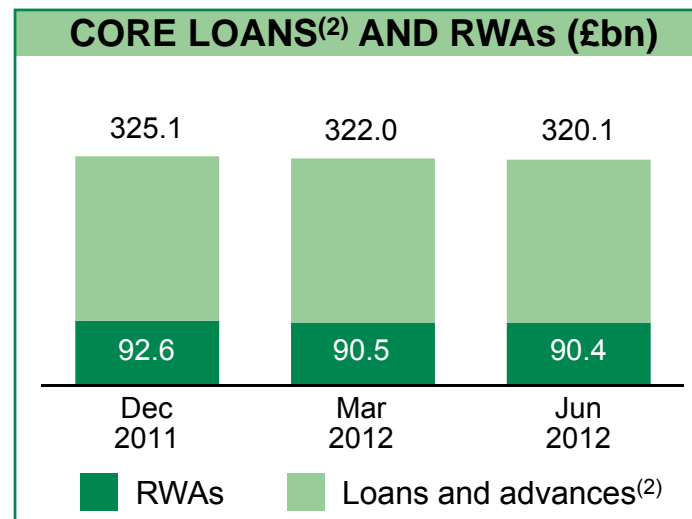
CORE RETAIL PERFORMANCE

Improved profitability from lower costs and reduced impairment



CORE (£m)	H1 2012	H1 2011	Change %
Underlying income	4,221	4,524	(7)%
Total costs	(2,086)	(2,218)	6%
Impairment	(735)	(1,052)	30%
Underlying profit	1,400	1,254	12%

Banking net interest margin	2.17%	2.23%
Impairment as a percentage of average advances	0.45%	0.63%
Pre-tax RoRWA ⁽¹⁾	3.09%	2.58%



⁽¹⁾Underlying profit divided by average risk-weighted assets. ⁽²⁾Excludes repos and reverse repos.

CORE RETAIL BRANDS

3 key brands in our retail banking strategy

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CHALLENGER



- A leading challenger brand on the High Street re-launched in September 2011
- Recognised by industry and media as a value for money leader (eg 'Moneyfacts' Best Cash ISA and Best Current Account Provider 2011)
- Game-changing products eg the switcher incentive 'only bank to pay you £100 on the day you switch', and 'home buying expert'
- Simple, efficient and fair customer experience

LEADERS



- Leading relationship brands in UK retail banking
- Focused on recognising and rewarding customer loyalty
- Committed and experienced colleagues
- Investing in branches, new channels and services (eg Money Manager) to deliver a customer experience in which we can be proud

Multi-brand strategy allows greater alignment to customers needs

CORE RETAIL CHANNELS

Investing in branches and new channels



BRANCH MODERNISATION

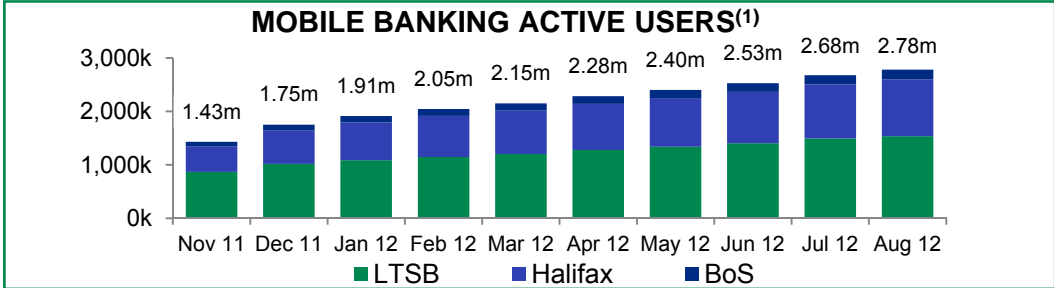
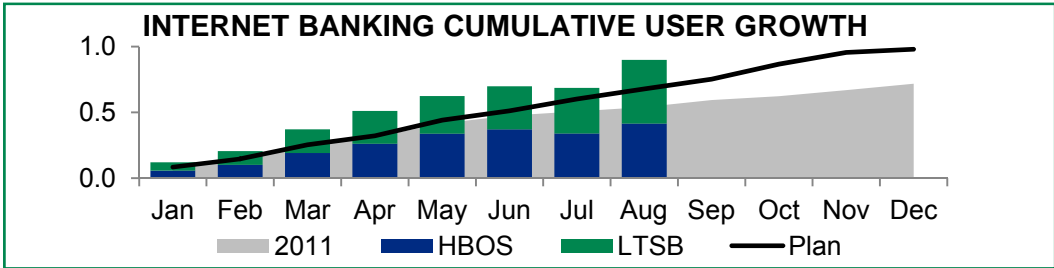
- More than 250 Lloyds TSB branches have now been refurbished

INTERNET BANKING

- 9 million active online customers⁽¹⁾
- 80 million total logins per month
- More than 20 million online transfers and 3rd party payments per month

MOBILE BANKING

- 2.8 million active mobile users
- Mobile logons now make up almost a third of all IB logons

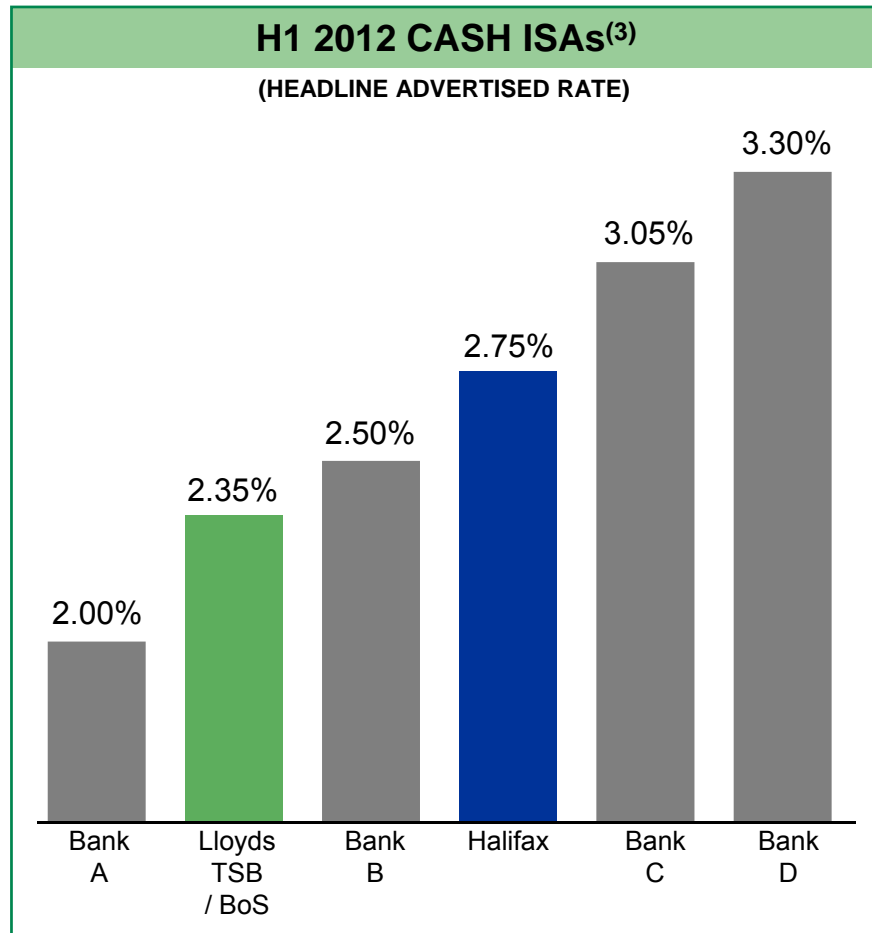
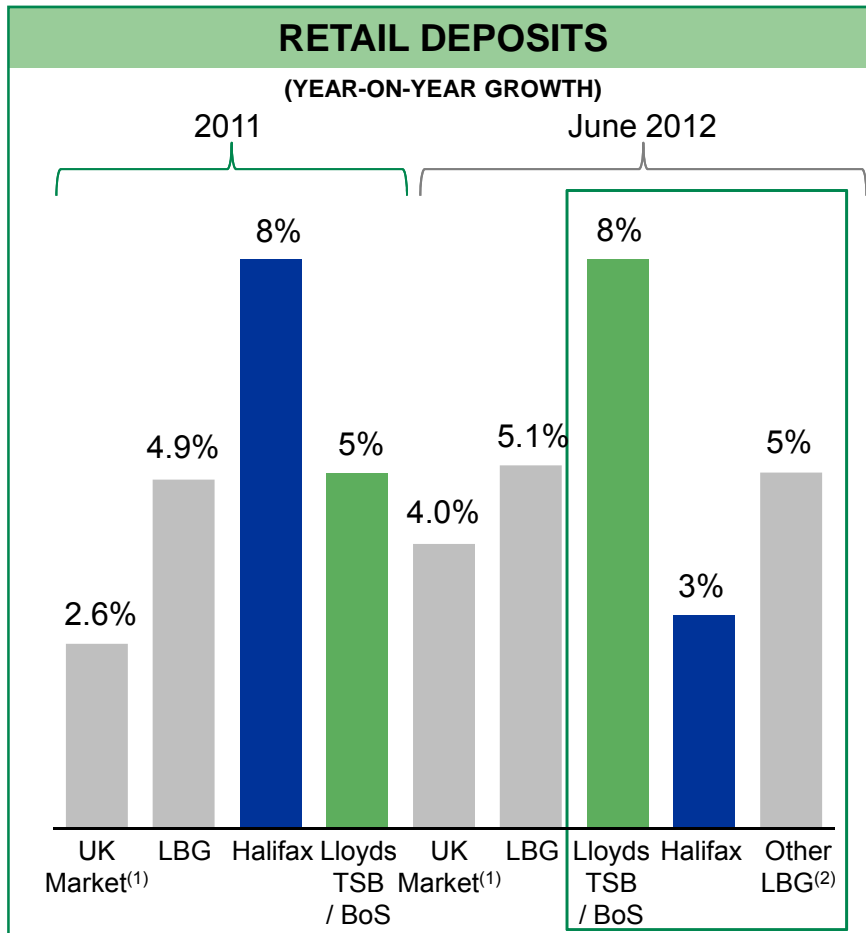


Providing customers with channels that allow them to bank how and when they want

⁽¹⁾Three month definition.

BEST BANK FOR CUSTOMERS

Continued cost-effective growth in customer deposits



Multi-brand strategy creates optionality

⁽¹⁾Source: Bank of England, with estimate for June 2012. ⁽²⁾Other LBG includes Birmingham Midshires, SWB, IF and C&G. ⁽³⁾Source: MoneyFacts weekly competitor and Deal Time series selected high street banks; variable instant access ISAs; terms and conditions of individual ISAs vary.

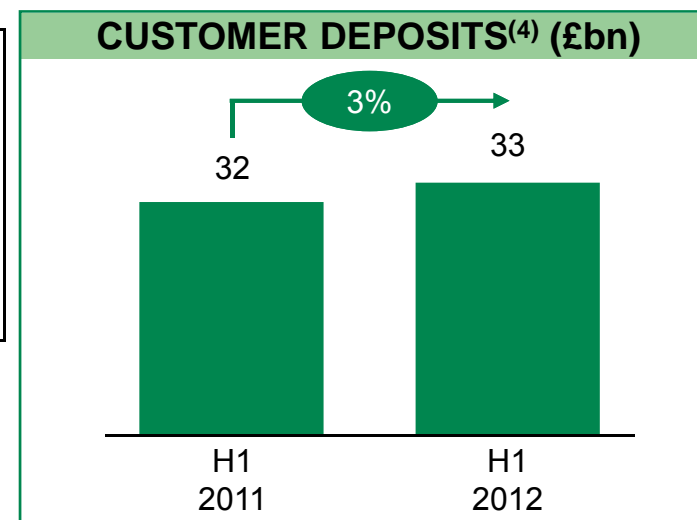
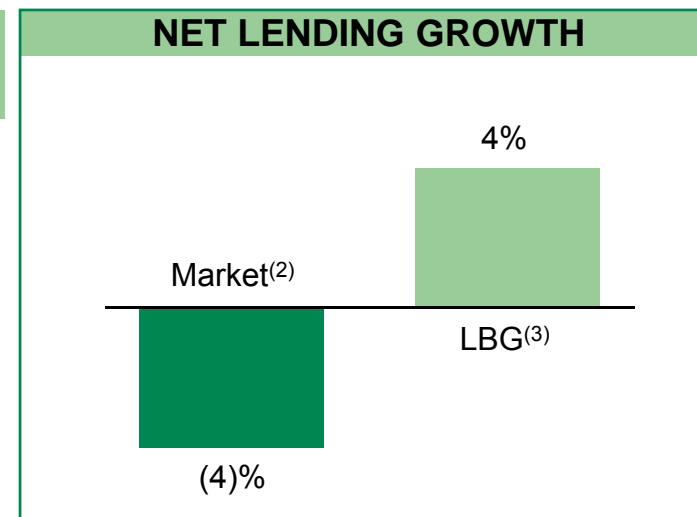
CORE COMMERCIAL PERFORMANCE

Delivering consistent market outperformance



CORE (£m)	H1 2012	H1 2011	Change %
Underlying income	792	826	(4)%
Total costs	(430)	(468)	8%
Impairment	(116)	(160)	28%
Underlying profit	246	198	24%

Banking net interest margin	4.13%	4.39%
Impairment as a percentage of average advances	0.80%	1.14%
Pre-tax RoRWA ⁽¹⁾	2.08%	1.61%



⁽¹⁾Underlying profit divided by average risk-weighted assets. ⁽²⁾Bank of England net lending to SMEs as reported at July 2012. ⁽³⁾Core commercial net lending year-on-year growth June 2011 to June 2012. ⁽⁴⁾Excluding repos and reverse repos.

CORE COMMERCIAL

SMEs are central to the UK economic recovery and are a core part of LBGs vision to be the best bank for customers



MARKET⁽¹⁾

- c4.5m UK private sector SMEs
- Employ an estimated 13.8m people, accounting for more than half of employment in the UK private sector (59%)
- Estimated combined annual turnover of £1,500bn, almost half the turnover of the UK private sector (49%)
- Small enterprises alone account for 46% of private sector employment and 35% of private sector turnover

LBG

- Lloyds is one of the largest providers of finance to UK SMEs
- On track to exceed SME Charter commitment of £12bn of lending in 2012
- Lending commitment extended by an additional £1bn given the benefit of the UK Government's Funding for Lending Scheme
- Supported 64,000 start-ups in H1 2012, meaning we have supported in excess of 292,000 against our 3 year commitment of 300,000 by the end of 2012

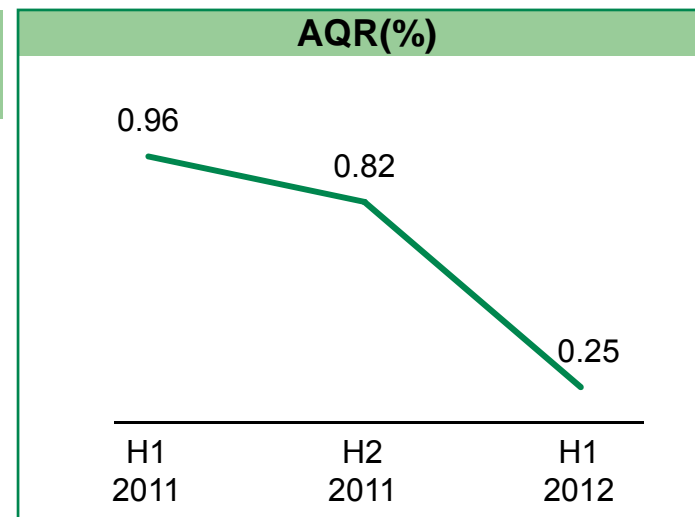
⁽¹⁾BIS business population estimates for the UK and regions 2011.

CORE WHOLESALE PERFORMANCE

Resilient performance in a challenging environment



CORE (£m)	H1 2012	H1 2011	Change %
Underlying income	1,601	1,907	(16)%
Total costs	(718)	(705)	(2)%
Impairment	(111)	(407)	73%
Underlying profit	772	795	(3)%



Banking net interest margin	1.70%	1.87%
Impairment as a percentage of average advances	0.25%	0.96%
Pre-tax RoRWA ⁽¹⁾	1.54%	1.50%

KEY MESSAGES

- Net interest margin relatively resilient
- Costs broadly flat despite additional investment
- Substantial reduction in impairment charges

⁽¹⁾Underlying profit divided by average risk-weighted assets.

CORE WHOLESALe ACHIEVEMENTS



- Enhanced transaction banking capabilities, with Arena online platform customers doubled to over 2,000
- Foreign exchange volumes increased by 21%
- Top 3 position in Investment Grade Corporate Sterling debt issuance
- ‘Most Improved Corporate Debt Markets Team’ award – Euroweek Bond Awards 2012
- Awarded ‘Bank of the Year’ for the eighth consecutive year at the FD’s Excellence Awards⁽¹⁾

⁽¹⁾In association with the Institute of Chartered Accountants in England and Wales, supported by the CBI.

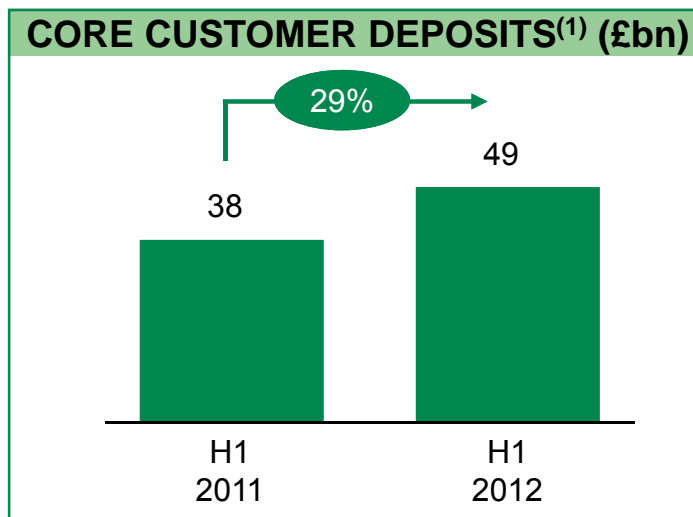
CORE WEALTH, ASSET FINANCE AND INTERNATIONAL PERFORMANCE

Further improvement in returns and strong deposit growth



CORE (£m)	H1 2012	H1 2011	Change %
Underlying income	1,123	1,163	(3)%
Total costs	(914)	(953)	4%
Impairment	(16)	(17)	6%
Underlying profit	193	193	

Banking net interest margin	3.90%	3.32%
Impairment as a percentage of average advances	0.39%	0.41%
Pre-tax RoRWA ⁽¹⁾	3.02%	2.83%



KEY MESSAGES

- Investing in Wealth to grow market share
- Focus on UK customers, creating compelling products for affluent / high net worth segments
- Consolidating and simplifying business to improve customer experience
- Asset Finance delivering strong returns

⁽¹⁾Excludes repos and reverse repos.

CORE INSURANCE PERFORMANCE

Strong returns on new business but profit impacted by market volatility and adverse weather conditions



CORE (£m)	H1 2012	H1 2011	Change %
Underlying income	1,085	1,252	(13)%
Weather related insurance events	(80)	(15)	(433)%
Other insurance claims	(153)	(183)	16%
Underlying income less insurance claims	852	1,054	(19)%
Total costs	(365)	(395)	8%
Underlying profit	487	659	(26)%
EEV new business margin	3.6%	4.1%	

KEY MESSAGES

- IRR on new business remains in excess of 16%
- General Insurance combined ratio of 80%
- Cost savings, including a reduction in FTE and simplification initiatives, have driven a £30m reduction in expenses
- Preparing for RDR introduction in January 2013
- 'Best Group Pension Provider' in the Corporate Adviser Awards and 'Best Personal Pensions Provider' in the Professional Adviser Awards

SUMMARY OF CORE FRANCHISE

Investment in strategic initiatives driving franchise forward



- Strong core represents over 80% of Group loans and advances
- Core franchise producing stable underlying returns in excess of cost of equity
- AQR is falling in spite of challenging economic environment
- Stable NIM despite elevated wholesale funding costs
- Efficiency enhanced, with costs reduced by 4%
- Loan to deposit ratio of c100%
- Further investment planned to enhance the core franchise

A strong customer focused franchise positioned for growth



STRONG CORE FRANCHISE

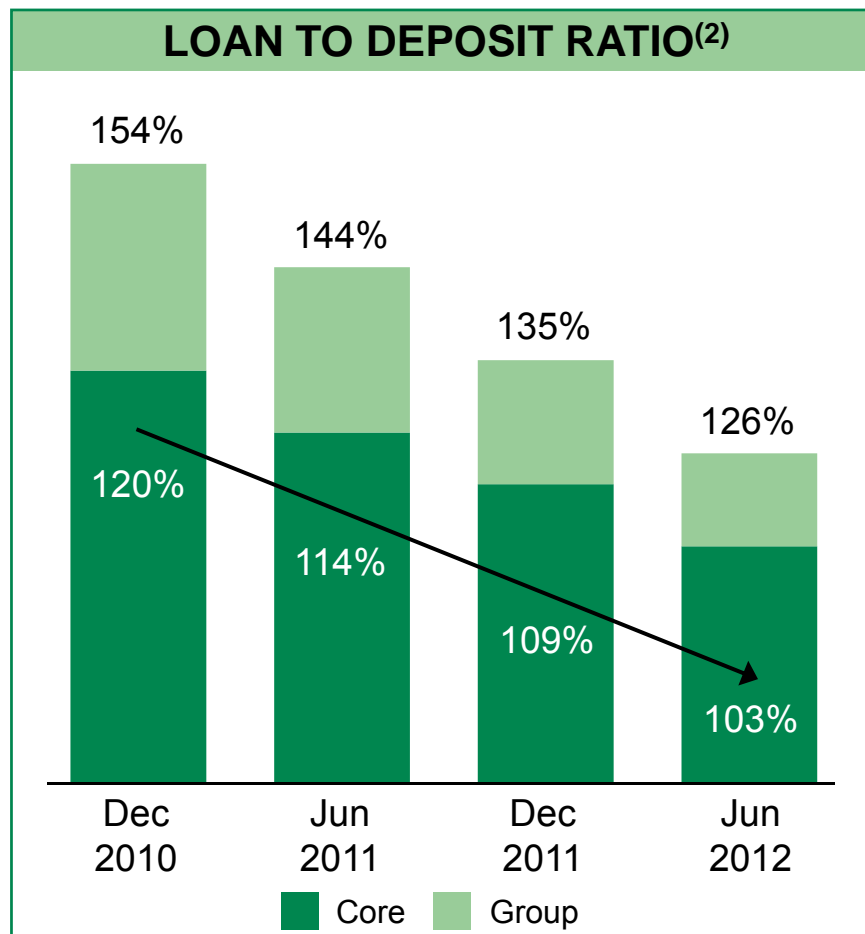
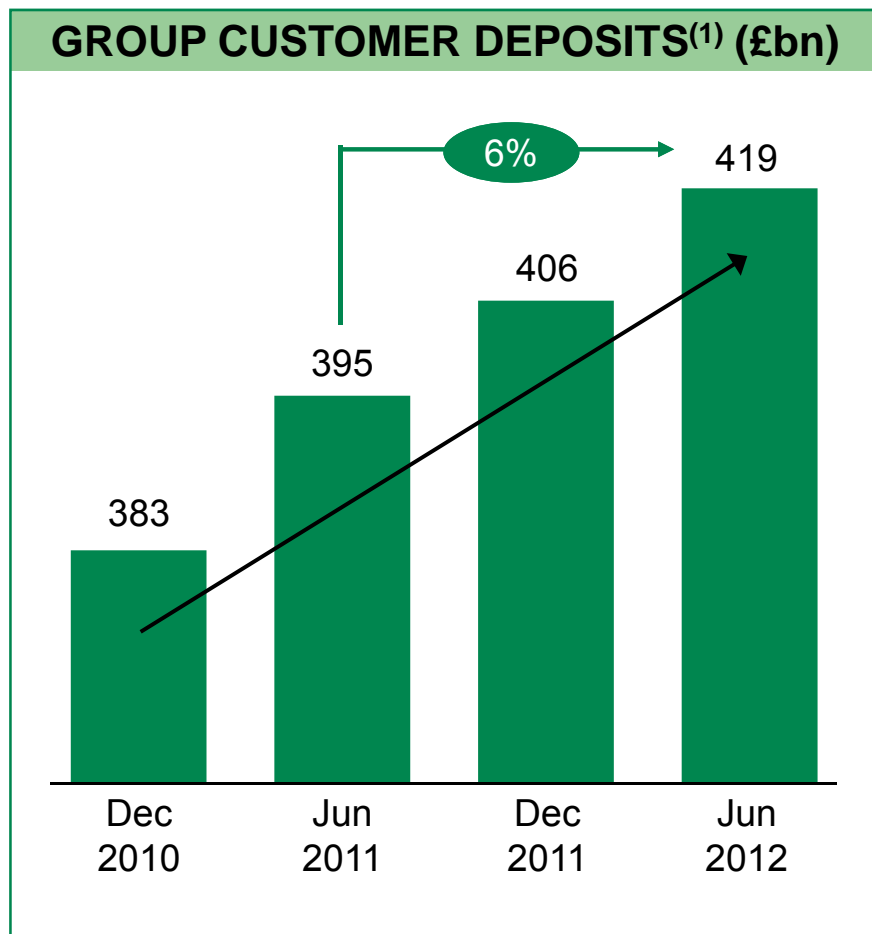
REDUCING RISK & INCREASING EFFICIENCY

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BALANCE SHEET STRENGTHENED

Creating competitive advantage through a lower risk premium and best-in-class efficiency

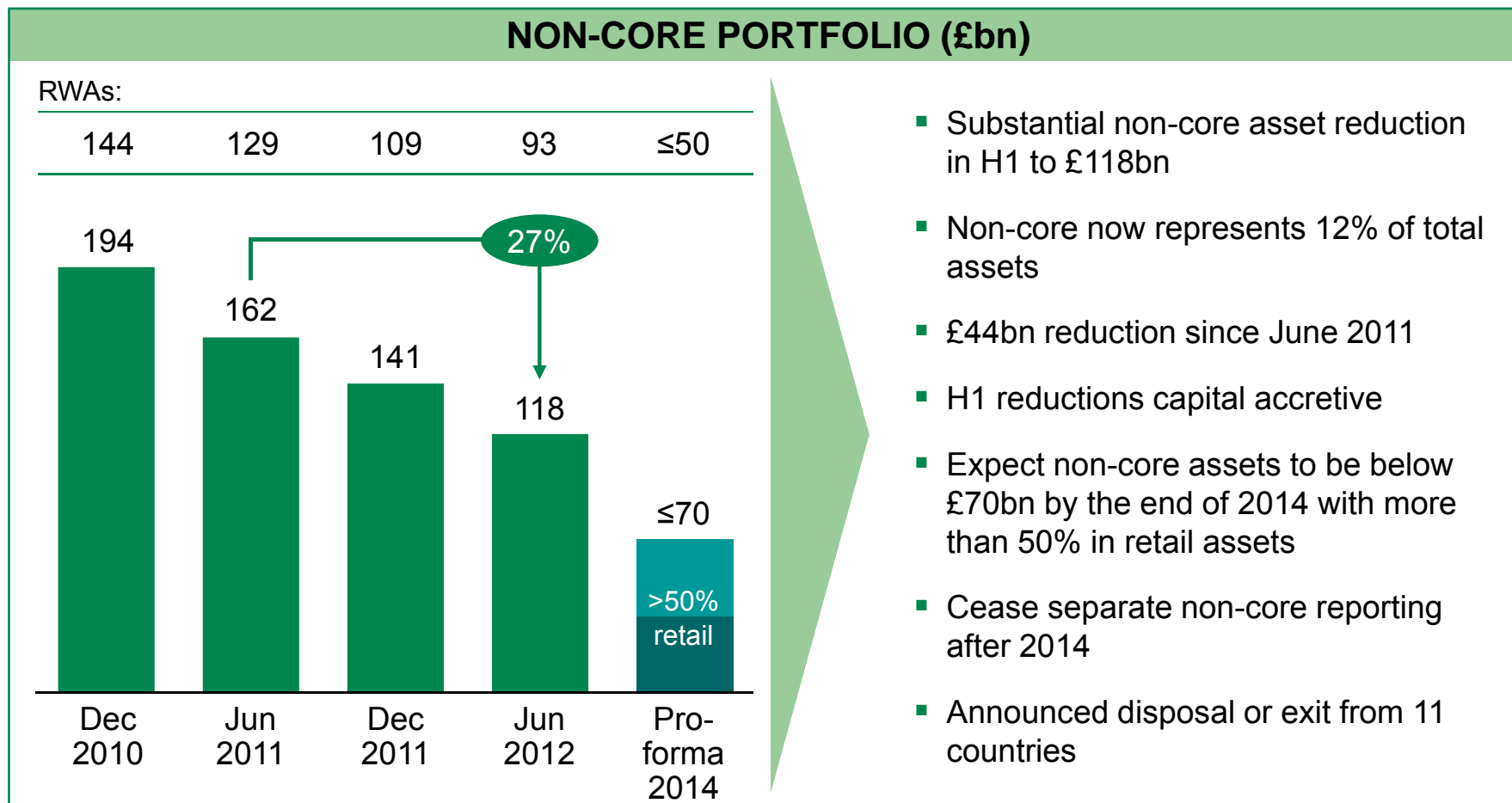


Achievement of long-term loan to deposit ratio target of 120% expected by end of Q1 2013

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

BALANCE SHEET STRENGTHENED

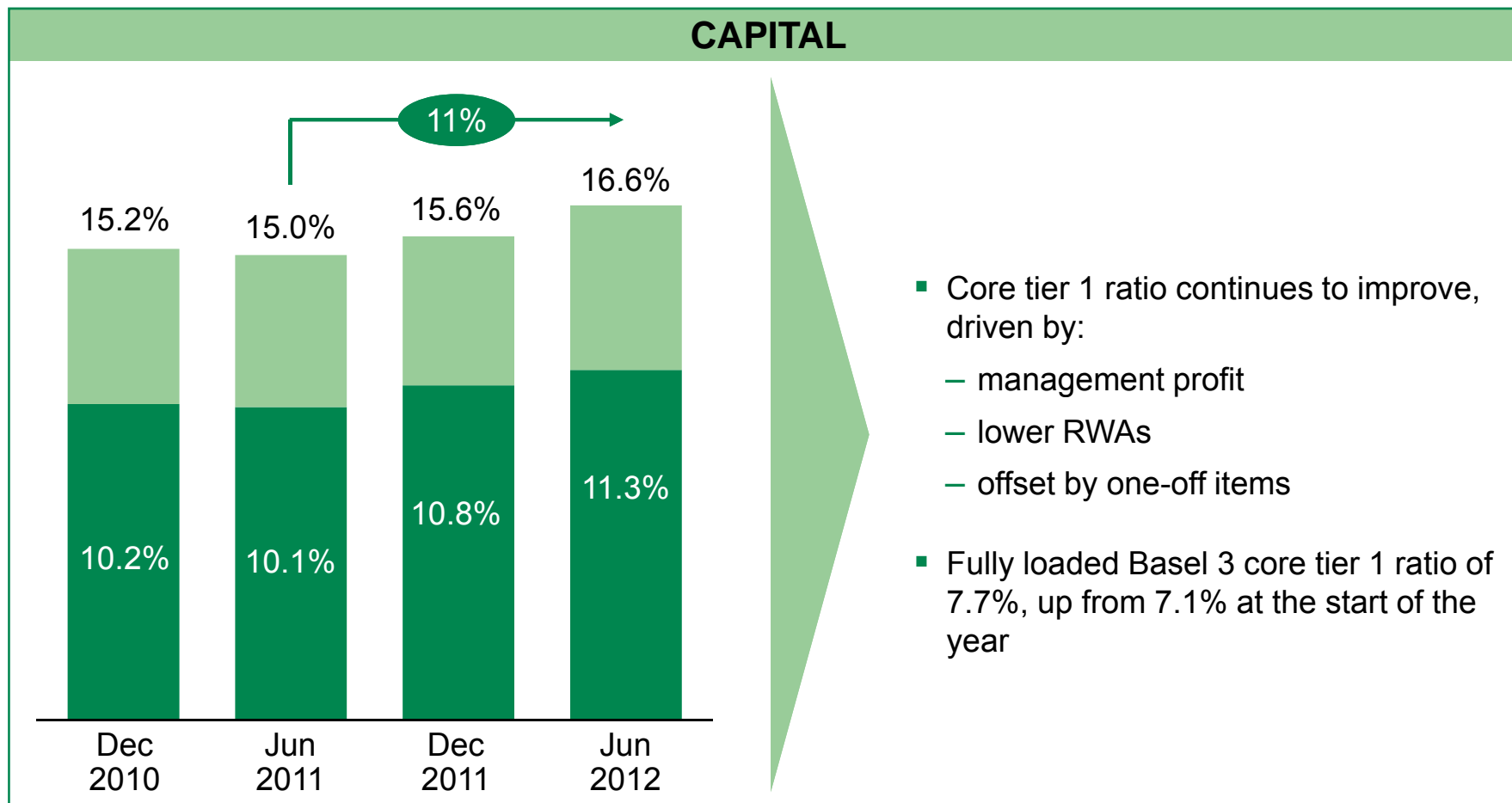
Creating competitive advantage through a lower risk premium and best-in-class efficiency



Approaching final third of the portfolio

BALANCE SHEET STRENGTHENED

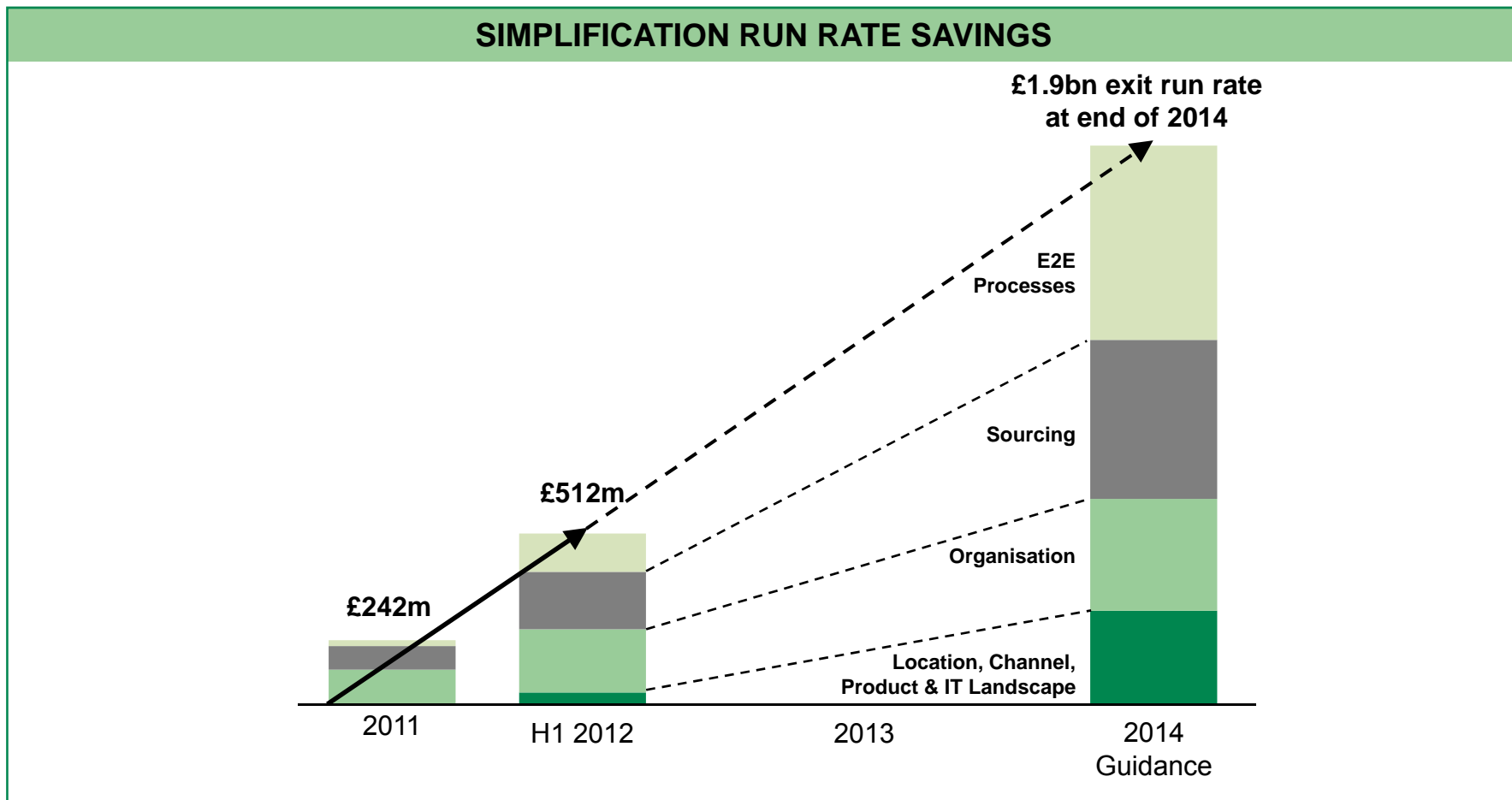
Creating competitive advantage through a lower risk premium and best-in-class efficiency



Continue to target a core tier 1 capital ratio prudently in excess of 10% in 2013 under Basel 3 transitional rules

SIMPLIFICATION

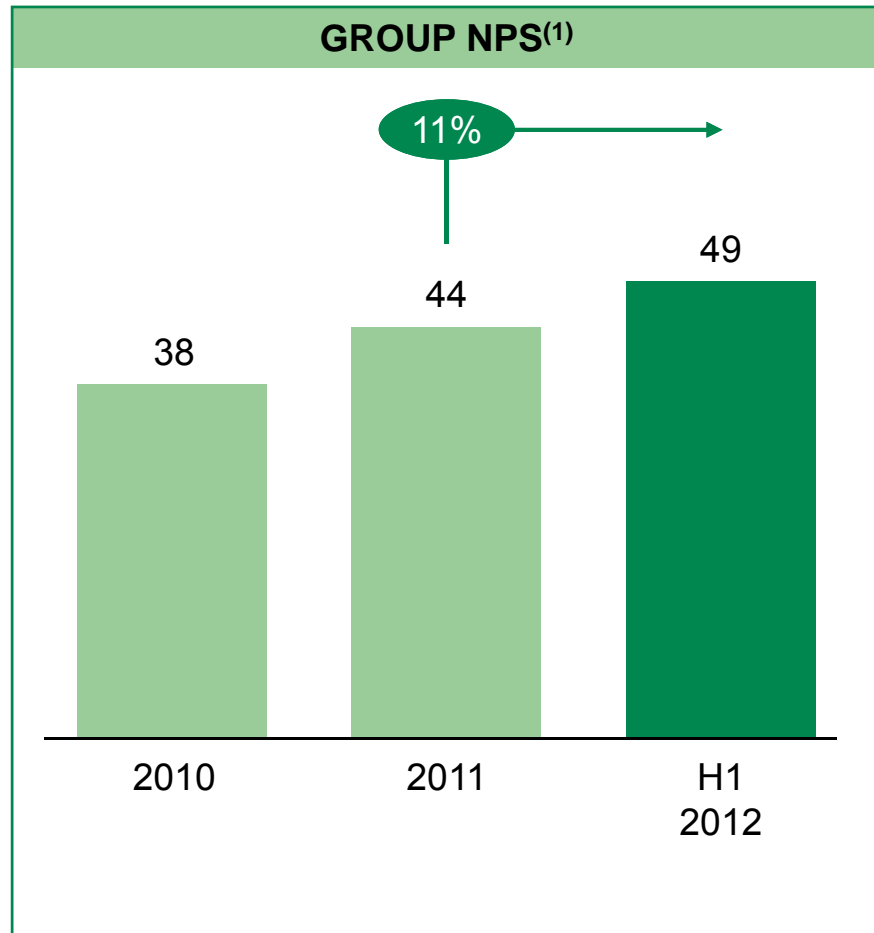
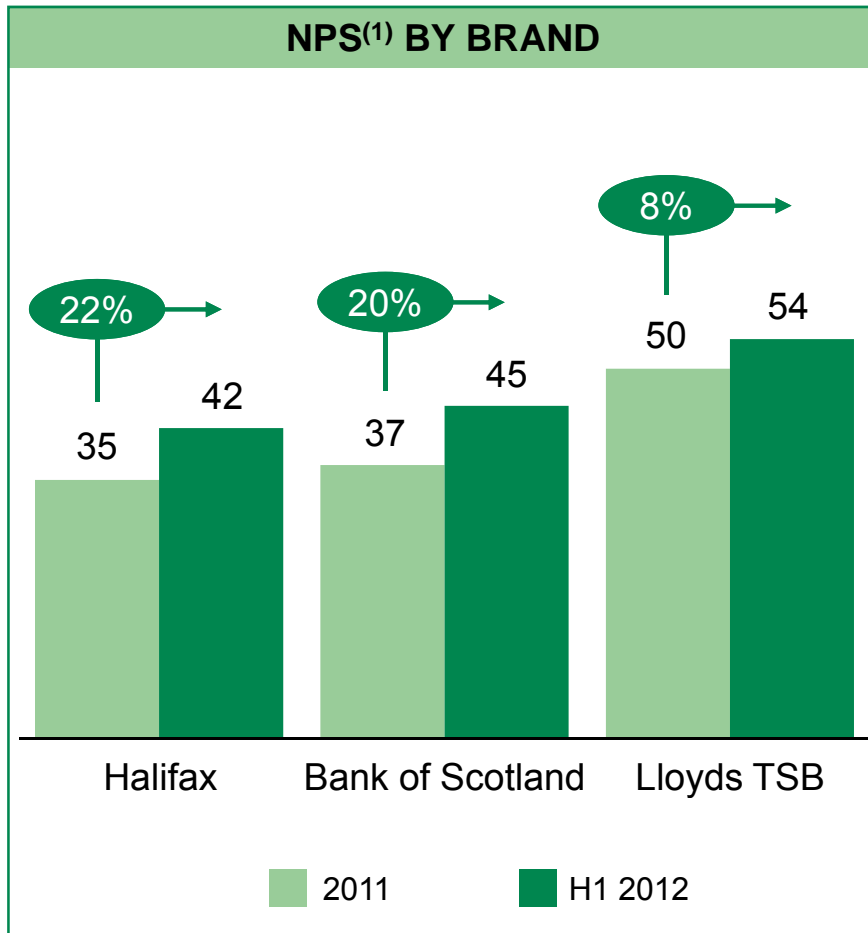
Creating competitive advantage through best-in-class efficiency while improving customer service



Continue to take action on costs

BEST BANK FOR CUSTOMERS

Creating competitive advantage through best-in-class efficiency while improving customer service

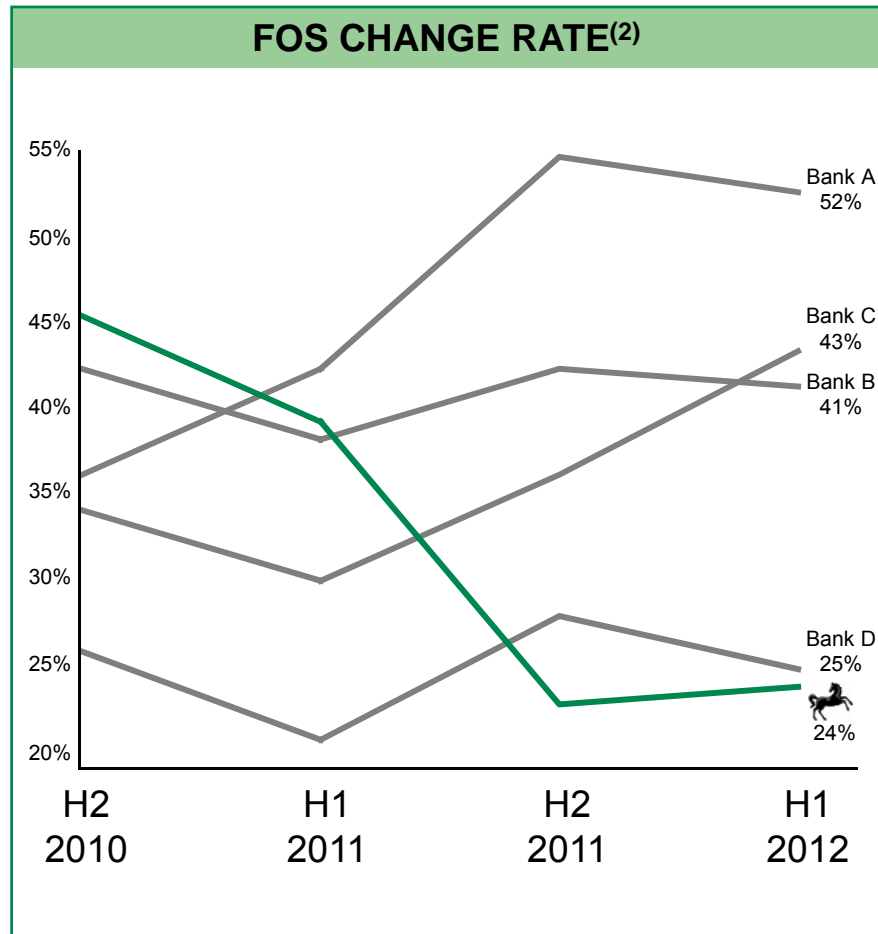
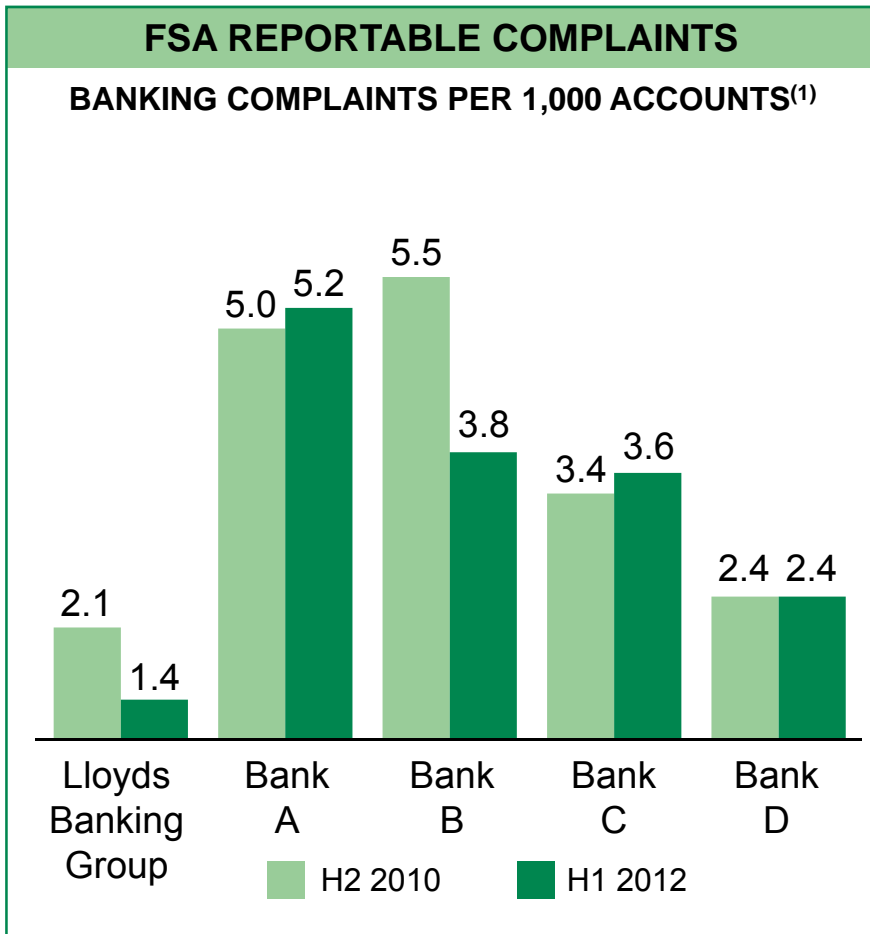


Continued focus on further improving our customer service and advocacy across all brands and channels

⁽¹⁾ Net promoter score – a measure of customers likelihood to recommend our service, percentage change from December 2011 to June 2012.

BEST BANK FOR CUSTOMERS

Further good progress on reducing complaints



Remain confident in reducing banking complaints to 1.3 per 1,000 accounts in 2012, and 1 per 1,000 in 2014

⁽¹⁾FSA reportable banking complaints excluding PPI. ⁽²⁾FOS overturn rate for Banking and Savings.

LEGACY ISSUES

Proactively addressing legacy issues



- **Verde**

Signed Heads of Terms with the Co-operative Group; on track to complete divestment by November 2013

- **PPI**

Additional provision in 2012 based on current complaint levels and projected future trends; remains dependent on future claim

- **Interest rate hedging products**

Financial impact expected to be immaterial

- **LIBOR**

Assisting regulators with their investigations

- **Other**

Focused on resolving legacy issues proactively

AGENDA



STRONG CORE FRANCHISE

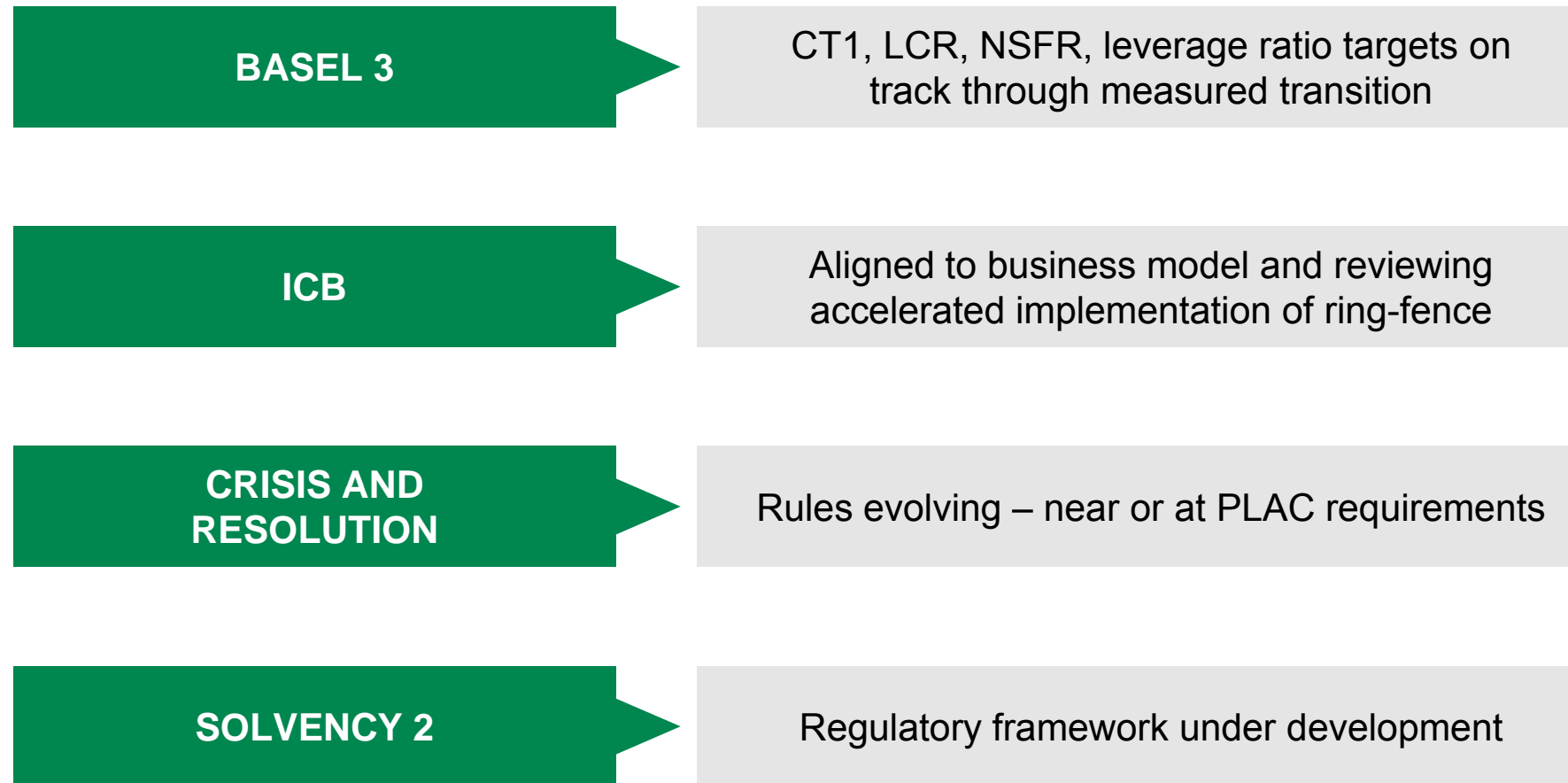
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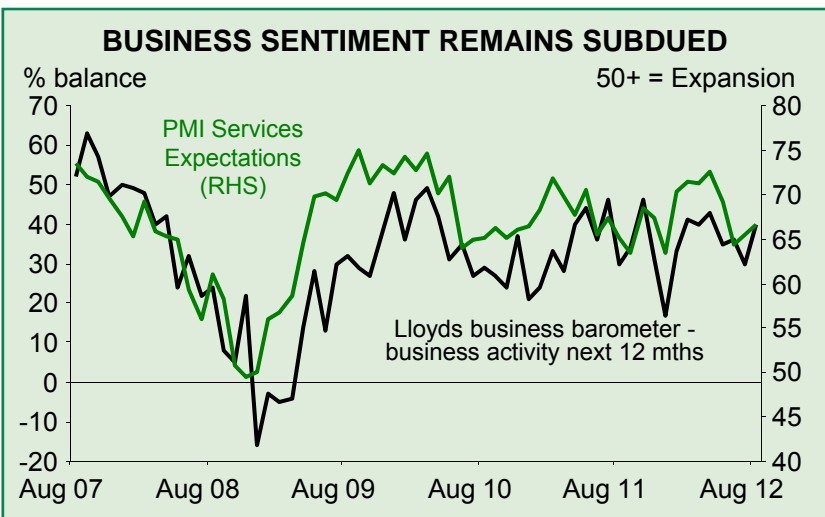
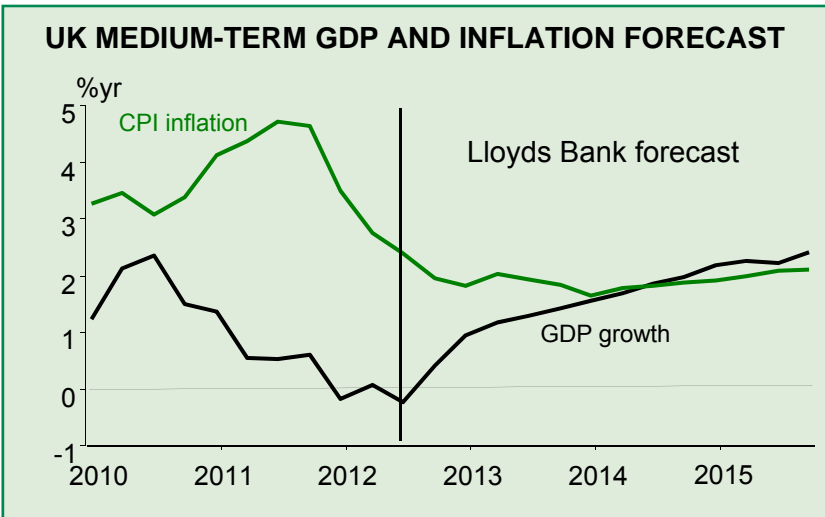
PROGRESSING OUR STRATEGY IN LINE WITH REFORMS

Whilst significant uncertainty remains our strategy is aligning to changes in regulation



UK ECONOMY

The UK economy remains broadly stable



- The outlook for the UK economy remains broadly flat
- Current forecast for flat UK GDP in 2012 and over 1% for 2013
- UK inflation forecast to move just below 2% in 2013
- Fall in inflation should support a steady, but slow recovery in consumer spending over the medium term

UK ECONOMY

Whilst significant uncertainty remains our strategy is aligned to UK economic conditions



FLS and ECTR reflect an agenda shifting towards economic growth

Lloyds Banking Group plays a key role in helping Britain to prosper



GOING FURTHER TO HELP BRITAIN PROSPER.

At Lloyds, we believe in going further to help our customers, and Britain, prosper.

- We recognise that this requires a commitment on our part to lend money where it could offer opportunity, whether for a first home, a personal loan, a small business, a corporate or at an industry wide level.
- It's this ambition that has seen our net lending to Scottish small and medium sized businesses total more than £612 million, an increase of 10% more than in 2011.
- It's why we have increased lending to Scottish corporations by £658 million so far this year and have a further £890 million in the pipeline.
- And why we're proud to have helped 1 in 3 of all Scottish First-Time Buyers, providing new mortgages and helping them towards getting their first home.

We're committed to going further to help our Scottish customers, their communities and ultimately Britain, prosper.

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All lending is subject to a satisfactory credit assessment. The Lloyds Banking Group includes a number of companies using brands including Lloyds Bank, Lloyds TSB, Halifax and Bank of Scotland, and their associated companies. Lloyds Banking Group Registered Office: The Mound, Edinburgh EH1 1YZ. Registered in Scotland no. 095008. Lloyds TSB Bank plc, Lloyds TSB Scotland plc and Bank of Scotland plc (members of Lloyds Banking Group) are authorised and regulated by the Financial Services Authority. Licensed under the Consumer Credit Act 1974. We subscribe to the Lending Code, which covers customers, more guarantees that apply, fees that apply, and how we use our credit. We do not accept £2 million, and do not have an annual income of less than £1 million. Copies of the Code can be obtained from www.lloydsbankinggroup.com.

AGENDA



STRONG CORE FRANCHISE

REDUCING RISK & INCREASING EFFICIENCY

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CONCLUSION

CONCLUSION



- Lloyds Banking Group has a strong core franchise which is delivering resilient returns
- Re-investing Simplification savings allows us to further enhance the core
- Significant progress of de-risking and re-shaping the balance sheet:
 - transformation of funding profile is substantially complete
 - confident in capital position; growth to meet regulatory requirements continues
 - capital accretive non-core run-off continues; soon to enter the final third of the portfolio
- Well positioned for growth as the environment evolves

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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 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 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 half-year 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.