

LLOYDS
BANKING
GROUP



MORGAN STANLEY FINANCIALS CONFERENCE

António Horta-Osório
Group Chief Executive

25 March 2014



- **UK economic recovery gathering momentum**
- **Regulation creating a safer, more stable banking sector, supporting sustainable economic growth**
- **Banking industry increasingly focusing upon meeting customer needs and quality of delivery, while achieving cost leadership**
- **Our differentiated low-cost, low-risk business model gives us a unique competitive position**
- **Our performance reflects accelerated delivery of our strategic objectives**
- **We see significant opportunities to invest behind growth across our business**



THE UK ENVIRONMENT

OUR BUSINESS MODEL

ACCELERATED DELIVERY AGAINST STRATEGY

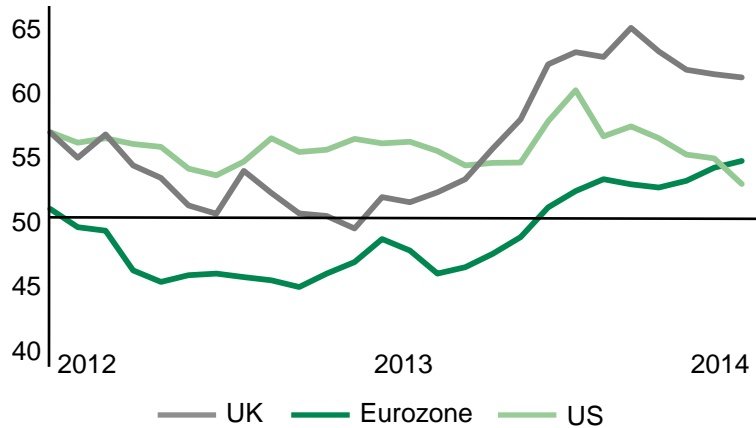
INVESTING FOR GROWTH

GLOBAL ECONOMIC TRENDS

Ongoing improvement in global momentum, but a volatile year ahead for emerging markets



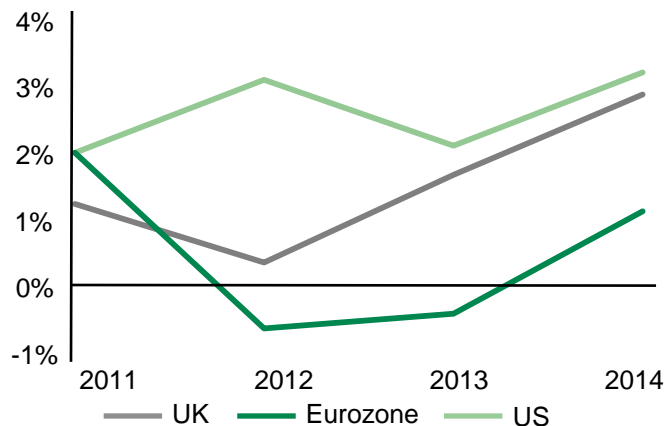
COMPOSITE PMI



- **Advanced economies driving gain in global momentum**

- Strong growth in UK
- Euro zone recovery remains weak
- Good recovery in US with growth rate stabilising
- Emerging markets increasingly volatile

GDP GROWTH TRENDS



- **Expect global economic convergence trends to continue**

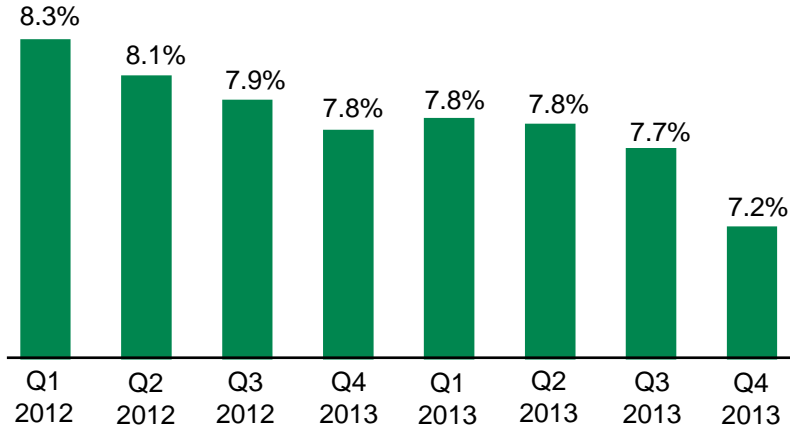
- UK to maintain solid pace of expansion
- ECB will continue to be alert to the risks of deflation
- Fed Chair Yellen emphasises continuity of US monetary policy
- Emerging market volatility likely to continue

UK ECONOMIC RECOVERY

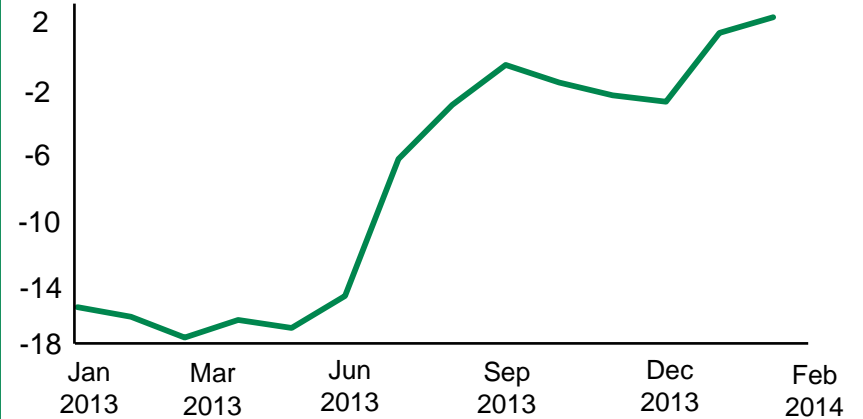
UK economic recovery gathering momentum



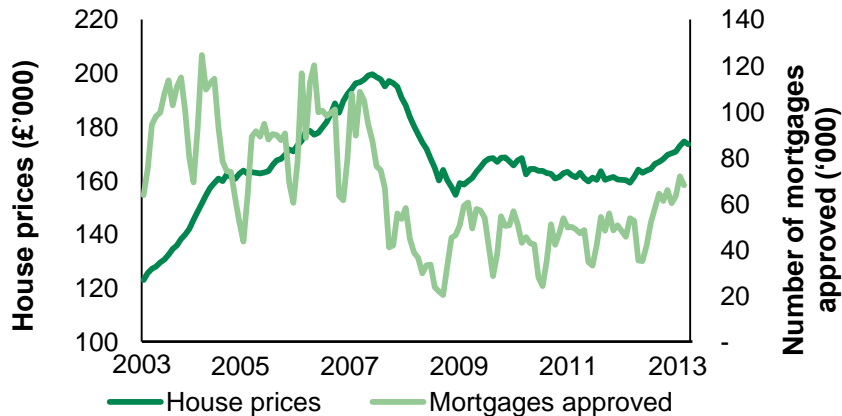
UK UNEMPLOYMENT



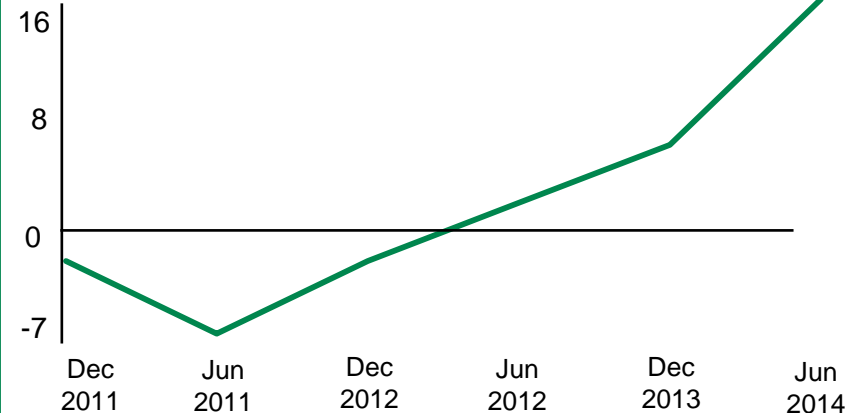
CONSUMER CONFIDENCE



UK HOUSE PRICES



BUSINESS INVESTMENT INTENTIONS



(1) January consensus forecast – source: HMT



CAPITAL AND LEVERAGE

- Capital requirements becoming better defined following publication of CRD IV final text and PRA PS7/13
- Expect steady-state common equity tier 1 requirement of around 11%

STRESS TESTING

- EBA AQR IN H1 2014
- PRA stress test H2 2014

ICB

- Legislation with Parliament on ring fencing banks' retail and commercial operations
- Consultations ongoing on perimeter and height

RECOVERY AND RESOLUTION DIRECTIVE

- Rules signed by European Commission; currently with European parliament
- Directive expected to be finalised by end H1 2014

CONDUCT

- Mortgage market review complete and savings review to start
- Ongoing regulatory inquiries

UK BANKING INDUSTRY

Key emerging trends



CUSTOMER FOCUS

- Increasing focus on rebuilding trust and meeting customer needs
- Customers increasingly demanding higher levels of service and value for money

COST LEADERSHIP

- Subdued environment driving greater focus on cost management
- Cost-efficiency increasingly seen as driver of value

PRODUCT TRANSPARENCY

- RDR launched
- Simplifying product ranges and charges

COMPETITION

- Faster current account switching now live in the UK
- TSB operating as independent bank; IPO mid-2014

DIGITALISATION

- Industry requires investment & consistency of service (24/7)
- Growing importance of multi-channel strategy



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INVESTING FOR GROWTH

LLOYDS BANKING GROUP – OUR BUSINESS MODEL

Differentiated model enabling delivery of lower cost of equity



- UK customer focused business
- Retail and Commercial specialisation
- Leading cost position
- Lower financial leverage
- Lower risk appetite

LOW RISK BUSINESS MODEL

LOWER COST OF EQUITY

LOWER COST OF DEBT

UNIQUE COMPETITIVE
POSITION

CONFIDENT IN DELIVERY OF STRONG AND SUSTAINABLE ECONOMIC RETURNS

2011 STRATEGIC OBJECTIVES

Focused on stabilising the bank and building the Best Bank for Customers



STRATEGY

THE BEST BANK FOR CUSTOMERS

- Delivering great service and good products at fair, transparent prices
- Meeting the needs of individual, commercial and corporate customers across the UK
- Investing where we can to make a real difference for customers and communities

THE BEST BANK FOR SHAREHOLDERS

- Delivering strong, sustainable, low volatility earnings growth with positive jaws
- Achieving an attractive return on equity for a lower cost of capital
- Reinstating dividend after regulatory requirements are defined and met



Diversified, customer driven income



Conservative risk appetite



Strong, stable funding position



Simple processes, low costs



OBJECTIVES

RESHAPE our business portfolio to fit our assets, capabilities and risk appetite

STRENGTHEN our balance sheet and liquidity position

SIMPLIFY the Group to improve agility, service and efficiency

INVEST to grow our core customer businesses



THE UK ENVIRONMENT

OUR BUSINESS MODEL

ACCELERATED DELIVERY AGAINST STRATEGY

INVESTING FOR GROWTH



NON-CORE ASSET REDUCTION

- **£4.3bn capital accretion from non-core asset reduction**; now at £63.5bn, £130bn lower than 3 years ago
- £33bn run-off portfolio now created from residual non-core; expected to be around £23bn by end of 2014, including c.£15bn of non-core non-retail assets

INTERNATIONAL PRESENCE

- **International presence significantly reduced**; exited or announced exit from 21 countries since June 2011; **target met 2 years ahead of expectations**
- Now operating in 9 countries, achieving our target of less than 10 countries, ahead of plan

COST SAVINGS

- **Costs down £1.5bn since 2011**. Strategic Review cost target of £10bn delivered **2 years ahead of plan, with 2013 FY costs of £9.6bn**
- Expect to further reduce cost base to c.£9bn, excluding TSB running costs in full year 2014

FUNDING

- **Funding position transformed**, core loan to deposit ratio now 100%
- Wholesale funding requirement reduced by £32bn in 2013, and by £150bn since 3 years ago, driving money market funding with maturity of less than a year to £21bn, around £75bn lower than 3 years ago

CAPITAL RATIOS

- Significant increase to capital ratios, **ahead of market expectations**
- **Pro forma fully loaded common equity tier 1 ratio increased 2.2% in 2013 to 10.3%** and now expect to generate c.2.5% over the next 2 years and c.1.5 - 2% thereafter (pre dividend payments)

FINANCIAL PERFORMANCE

Profit and returns substantially improved



	GROUP	CORE
INCOME	↑ £18,805m 2%	↑ £18,244m 6%
NIM	↑ 2.12% 19bp	↑ 2.49% 17bp
COSTS	↓ £(9,635)m 5%	↓ £(9,149)m 1%
IMPAIRMENT	↓ £(3,004)m 47%	↓ £(1,521)m 21%
UNDERLYING PROFIT	↑ £6,166m 140%	↑ £7,574m 24%
RETURN ON RWAs	↑ 2.14% 137bp	↑ 3.26% 72bp
STATUTORY PROFIT	↑ £415m	

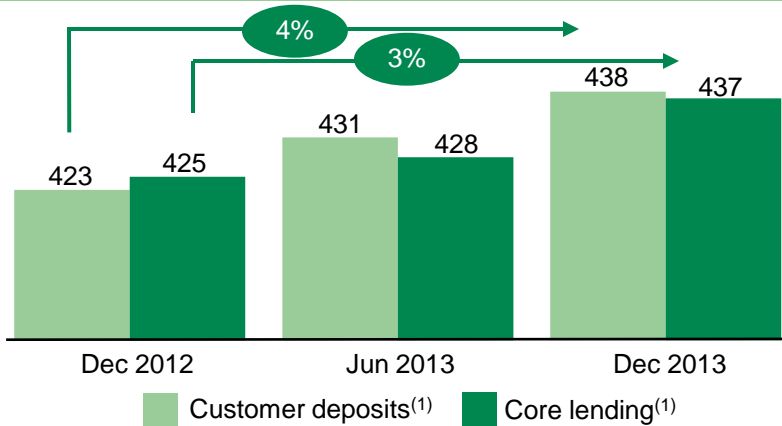
- Group underlying profit more than doubled to £6.2bn with core contributing £7.6bn**
 - Further improvement in core profitability
 - Significant reduction in non-core losses
- Costs down 5% – Simplification programme delivering further efficiencies, with continued investment**
- Further improvement in overall portfolio quality reflected substantial reduction in impairment charge**
- Higher returns driven by increased profitability and lower RWAs**
- Statutory profit of £415m includes legacy charges totalling £3.5bn**

BALANCE SHEET

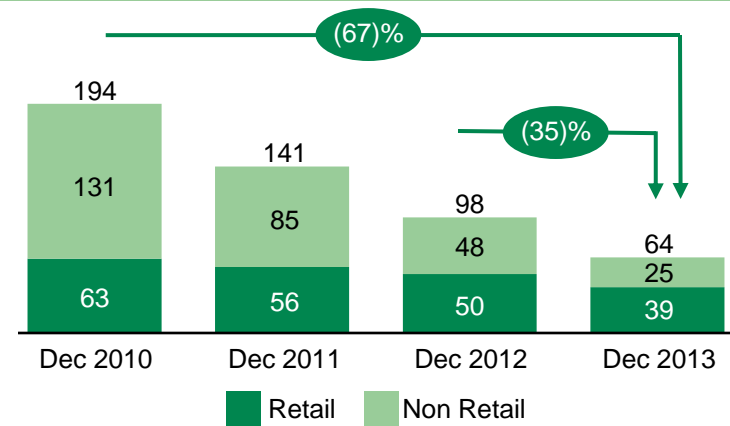
Core lending returned to growth, non-core assets further reduced and capital and funding position strengthened



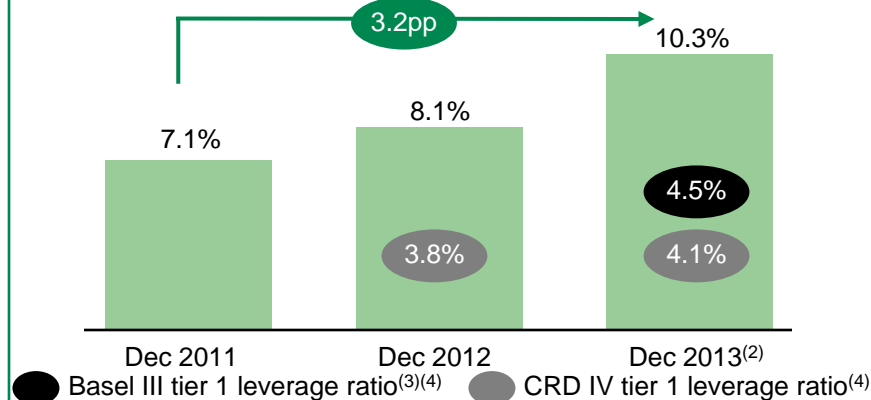
CUSTOMER DEPOSITS & CORE LENDING (£bn)



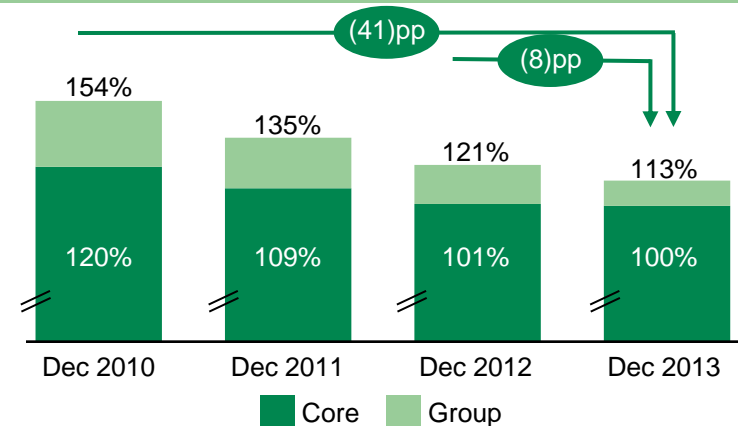
NON-CORE ASSETS (£bn)



FULLY LOADED COMMON EQUITY TIER 1



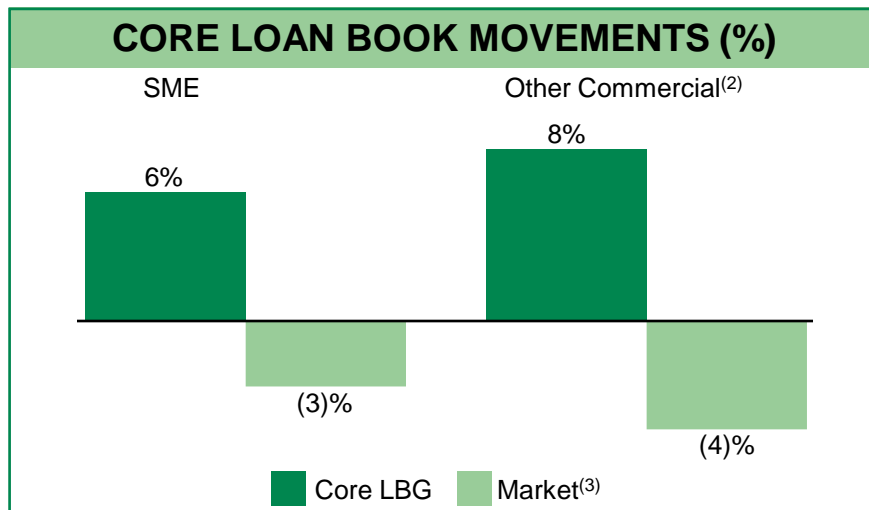
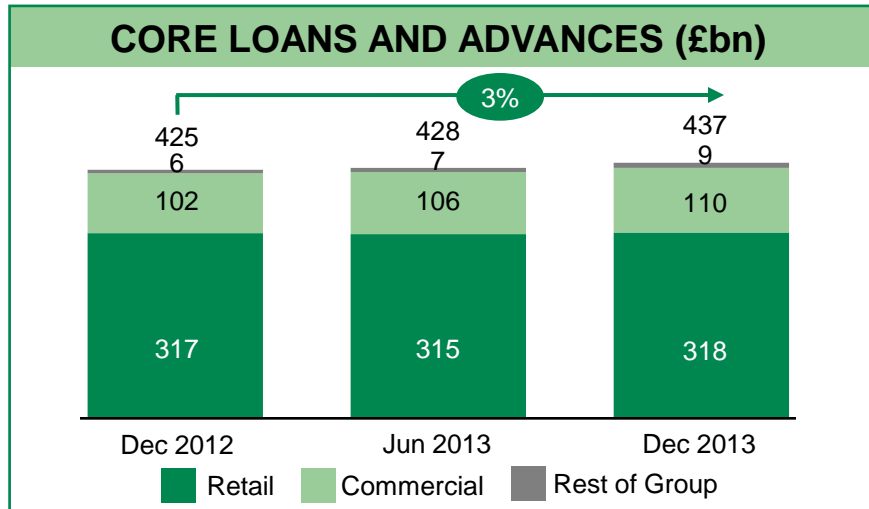
LOAN TO DEPOSIT RATIO⁽¹⁾



⁽¹⁾ Excluding repos and reverse repos. ⁽²⁾ Pro forma fully loaded common equity tier 1 capital ratio and leverage ratios including benefit of announced sales of SWIP, Sainsbury's Bank, Heidelberger Leben. ⁽³⁾ Exposure measure estimated in accordance with Jan 2014 revised Basel III leverage ratio framework. ⁽⁴⁾ Pro forma. Includes the full value of Tier 1 instruments reported under the prevailing rules as at 31 December 2013.

SUPPORTING OUR CUSTOMERS AND THE UK ECONOMY

Core loan book now growing in all divisions

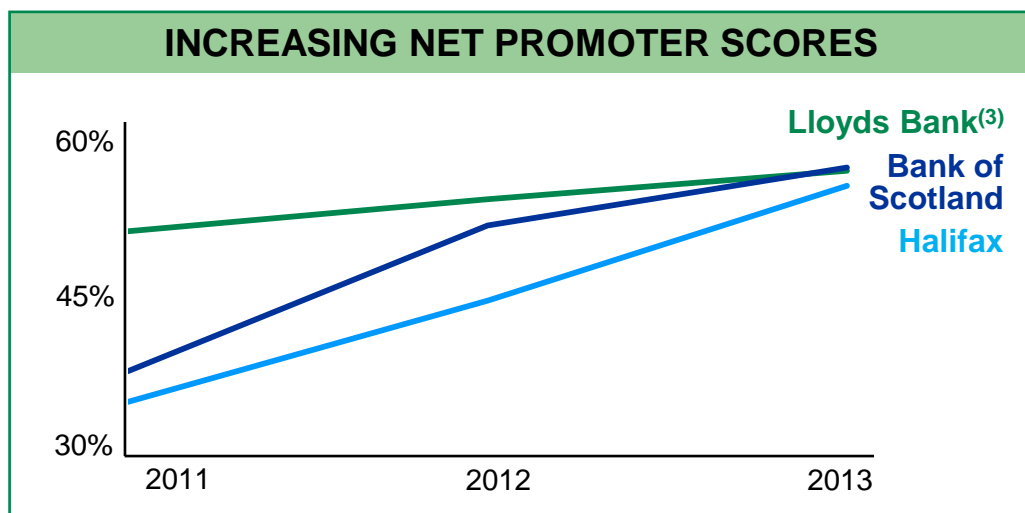
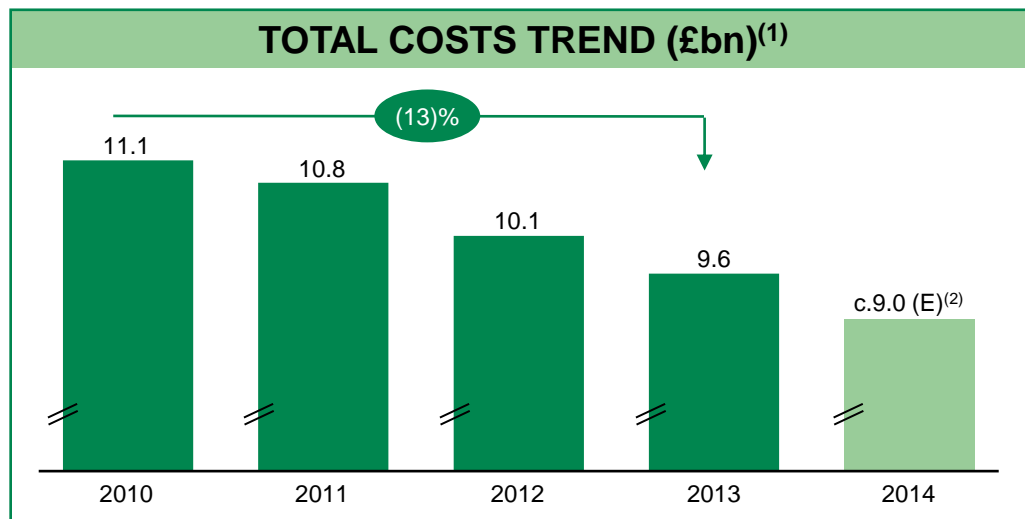


- Core loan book growth of 3%, against market contraction of 1%⁽¹⁾
- Committed over £37bn to UK customers through Funding for Lending (FLS), with net core FLS growth of £13bn since the start of the scheme
- Retail lending returned to growth in Q3 2013
 - Lent £9.7bn to first time buyers in 2013. Fulfilled our £6.5bn commitment in September, three months ahead of schedule
 - Helped more than 80,000 customers buy their first home in 2013, substantially above our 60,000 target
- Continued support for UK businesses
 - Core lending increased 7% in Commercial, driven by 6% increase in SME, against a market contraction of 3%, and strong performance in Mid Markets and Global Corporates
 - Committed over £1.3bn to UK manufacturing in the year to end September 2013, ahead of target
 - Supported c.120,000 start-ups in 2013

⁽¹⁾ Market data source: BoE total lending Dec 2013 vs Dec 2012. ⁽²⁾ Includes Mid Markets, Global Corporates, Financial Institutions and Other. ⁽³⁾ Market data source: BoE Dec 2013 vs. Dec 2012.

FINANCIAL PERFORMANCE

Simplification enabling investment and delivering improved customer satisfaction

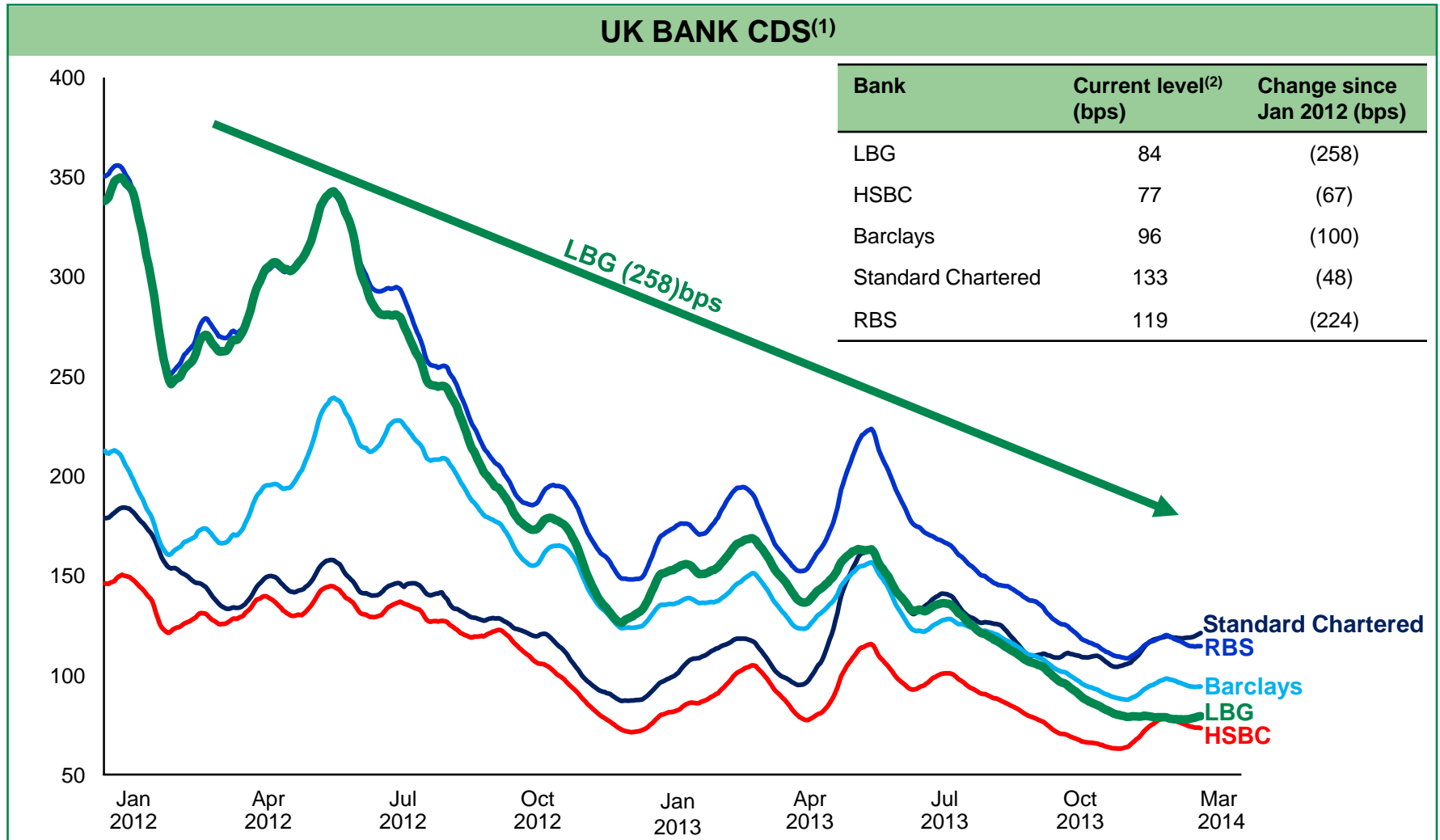


- 5% cost reduction
- Simplification 2014 exit run-rate target increased to £2bn from £1.9bn
- Total costs below £10bn, one year ahead of Strategic Review target
- 2014 costs of around £9.0bn (excluding TSB costs)
- Investment in strategic initiatives continues
- Strong progress on improving customer satisfaction across all branded channels, with NPS scores up 11% over the year

⁽¹⁾ Total costs 2010 – 2012 restated for impacts of IAS 19R. ⁽²⁾ Excluding TSB costs. ⁽³⁾ Includes TSB.

LOW RISK BUSINESS MODEL

Increasing recognition of balance sheet strength and de-risking



⁽¹⁾ Source: Bloomberg 5-year senior mid (4 week rolling average). ⁽²⁾ As at 21 March 2014.



THE UK ENVIRONMENT

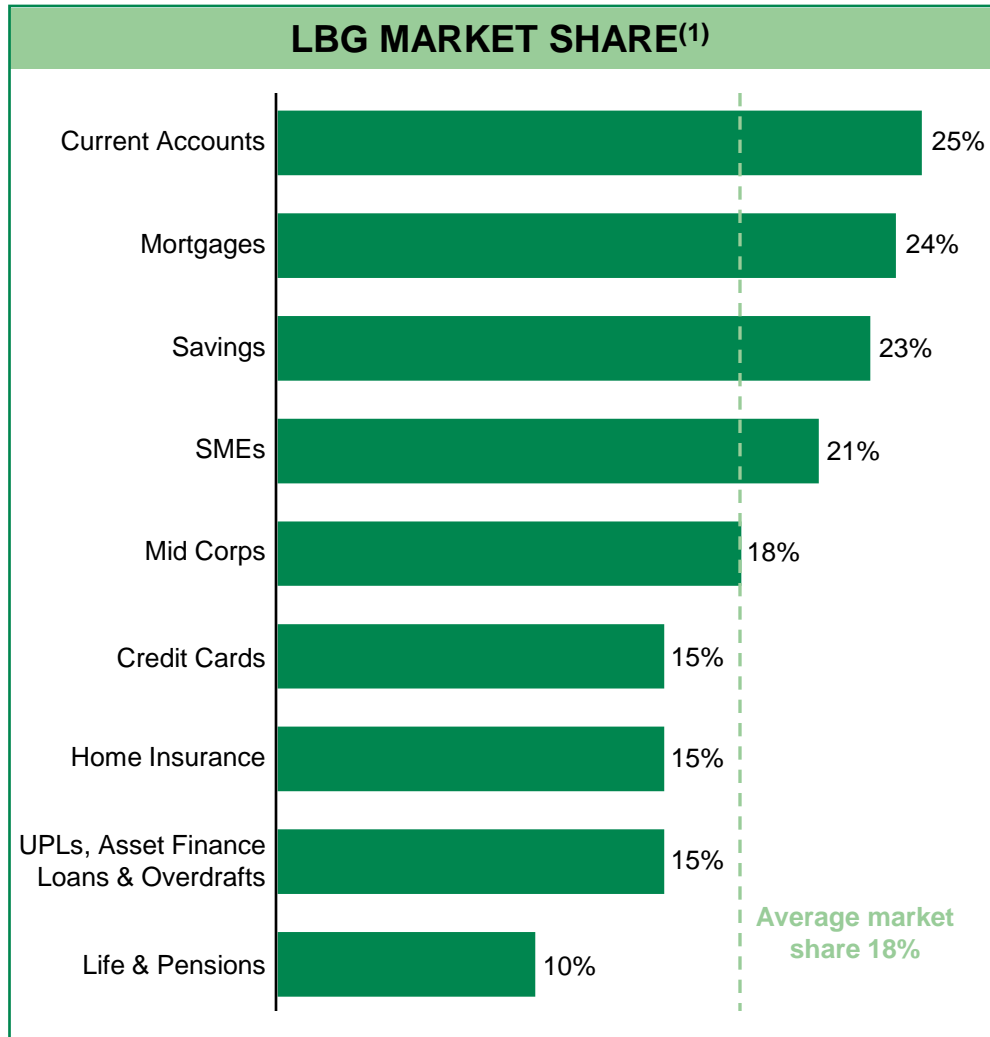
OUR BUSINESS MODEL

ACCELERATED DELIVERY AGAINST STRATEGY

INVESTING FOR GROWTH

GROWTH OPPORTUNITIES

We have significant growth opportunities



- **Mortgage book returned to growth, now growing in line with the market**
- **Continued above-market growth in SME and Mid Corps**
- **Opportunities to grow share:**
 - Credit cards
 - Home insurance
 - Unsecured lending
 - Asset finance
 - Life & pensions

INVESTING TO BE THE BEST BANK FOR CUSTOMERS

Continued investment in growth opportunities



RETAIL

- Multi-brand strategy supporting loan and deposit growth; strong switching performance in Halifax
- Expect to deliver positive mortgage lending growth consistent with stronger market, and demand for unsecured credit will begin to increase during 2014
- Digital propositions to deliver leading technologies to our customers

COMMERCIAL BANKING

- Investing in product and digital capabilities, and the network
- Capability build out in Transaction Banking
- Further momentum in SME and Mid Markets, with above market loan growth
- Increasing share of wallet in Global Corporates and Financial Institutions
- Growth in loans, deposits and other income

INSURANCE

- Developing pensions, protection, annuities propositions and home insurance
- Scottish Widows re-launched demonstrating our commitment to this iconic brand as a specialist retirement and protection service provider
- Optimising cash generation, capital position and dividends to Group

CONSUMER FINANCE⁽¹⁾

- Comprises the Group's credit cards and asset finance businesses
- Developing propositions for individuals and corporates in the cards business
- Growing asset finance businesses via new customer propositions and investment in infrastructure

⁽¹⁾ New division from 2014.



DIGITAL

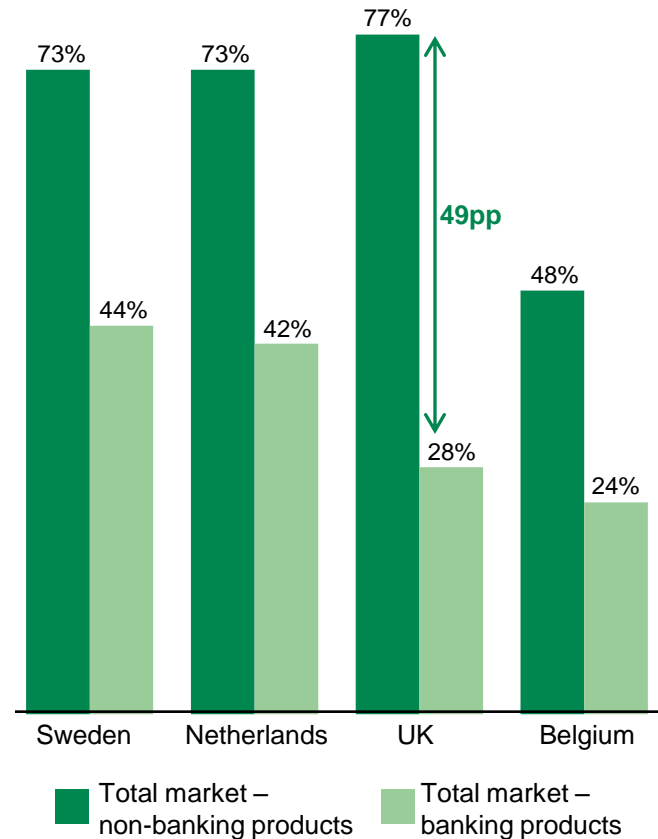
MULTI-BRAND

INSURANCE

COMMERCIAL BANKING

- Over 10.5m active internet users, over 4m mobile banking users and more than 1.2bn logons in 2013⁽¹⁾
- Commenced roll-out of next generation mobile applications for all relationship brands in Q4 2013
- Continued investment in Digital to meet existing customer needs and optimise service capability

POPULATION BUYING PRODUCTS ONLINE⁽²⁾



⁽¹⁾ Includes TSB. ⁽²⁾ Source: McKinsey, 2013



DIGITAL

- Largest retail and commercial bank in the UK



MULTI-BRAND

- Multi-brand strategy, with strong iconic brands

- Re-launched Lloyds and TSB brands in Sep 2013



INSURANCE

- Halifax now has branch presence in Scotland

COMMERCIAL
BANKING

- Revitalising Scottish Widows as a specialist Retirement brand





DIGITAL

- Uniquely positioned to help our customers save and plan their retirement



5 in 10 do not have enough money in retirement

MULTI-BRAND

- Building on our existing annuities work to develop new retirement propositions



Number of retirees increases by 50% by 2030

INSURANCE

- Creating capacity to support SMEs and employees through Auto-Enrolment

- Responding to channel shift with more flexible pricing and greater digital integration e.g. Home Insurance



COMMERCIAL
BANKING



DIGITAL

- Continued investments in Transaction Banking capabilities

MULTI-BRAND

- Financial Markets platform built and rolled out to 3,000 customers

INSURANCE

- Improved functionality and product offering to better serve customer needs

COMMERCIAL
BANKING

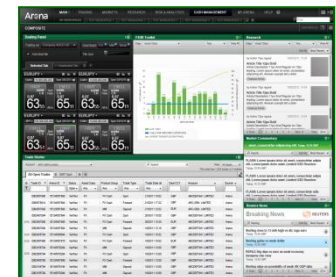
- Investment in Relationship Managers and specialist staff hired across the UK
- Return on RWAs at 1.74% at 2013, targeting >2% by 2015

United Kingdom
Debt Management
Office

£5,000m 3.5% Gilts due 2068

Joint Bookrunner
LLOYDS BANK

June 2013



SUMMARY

We are well positioned to deliver in the new environment



- We operate a simple, customer-focused, UK retail and commercial banking model
- Our strategy is well matched to the economic and regulatory environment
- Our low-risk, low-cost differentiated business model gives us a unique competitive position, and one of the lowest costs of equity in the industry
- Our leading cost position will enable delivery of ‘Best Value for Money’ for customers in a multi-brand context with appropriate returns for shareholders
- We are investing to take advantage of the growth opportunities in target market segments

CONFIDENT IN DELIVERY OF STRONG AND SUSTAINABLE ECONOMIC RETURNS

FORWARD LOOKING STATEMENTS AND BASIS OF PRESENTATION

LLOYDS
BANKING
GROUP



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 Full-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.