

**LLOYDS
BANKING
GROUP**



2009 INTERIM RESULTS

5 August 2009

Eric Daniels

Group Chief Executive

KEY MESSAGES



- **Core business performing well**
- **Integration ahead of schedule**
- **Capital and funding plans in place**
- **A realistic view of the economy**
- **We expect to outperform in the medium-term for:**
 - Customers
 - Shareholders

2009 FIRST HALF OVERVIEW

A resilient performance in a challenging environment

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Pro-forma basis – £m	2008H1	2009H1	% Change
Total income ⁽¹⁾	11,180	11,939	7
Expenses	(5,871)	(5,718)	3
Trading surplus	5,309	6,221	17
Impairment	(2,514)	(13,399)	
Joint ventures/fair value unwind	(20)	3,221	
Profit/(loss) before tax	2,775	(3,957)	
Net interest margin	2.00%	1.72%	28bps
Cost:income ratio	52.5%	47.9%	460bps

⁽¹⁾ Net of insurance claims

CORE BUSINESS PERFORMANCE

Strong business growth from the operating divisions

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Retail

- 1 million new personal current accounts
- 2.3 million new savings accounts
- £18 billion of gross mortgage lending; 27% share of gross lending; 37% share of net new lending

Wholesale

- 60,000 new Commercial accounts opened; 24% share of start-ups
- 180,000 overdrafts agreed; 18,800 loans totalling £1.8 billion opened in Lloyds TSB Commercial
- 40% improvement in cross-sales income for Wholesale customers

Wealth and International

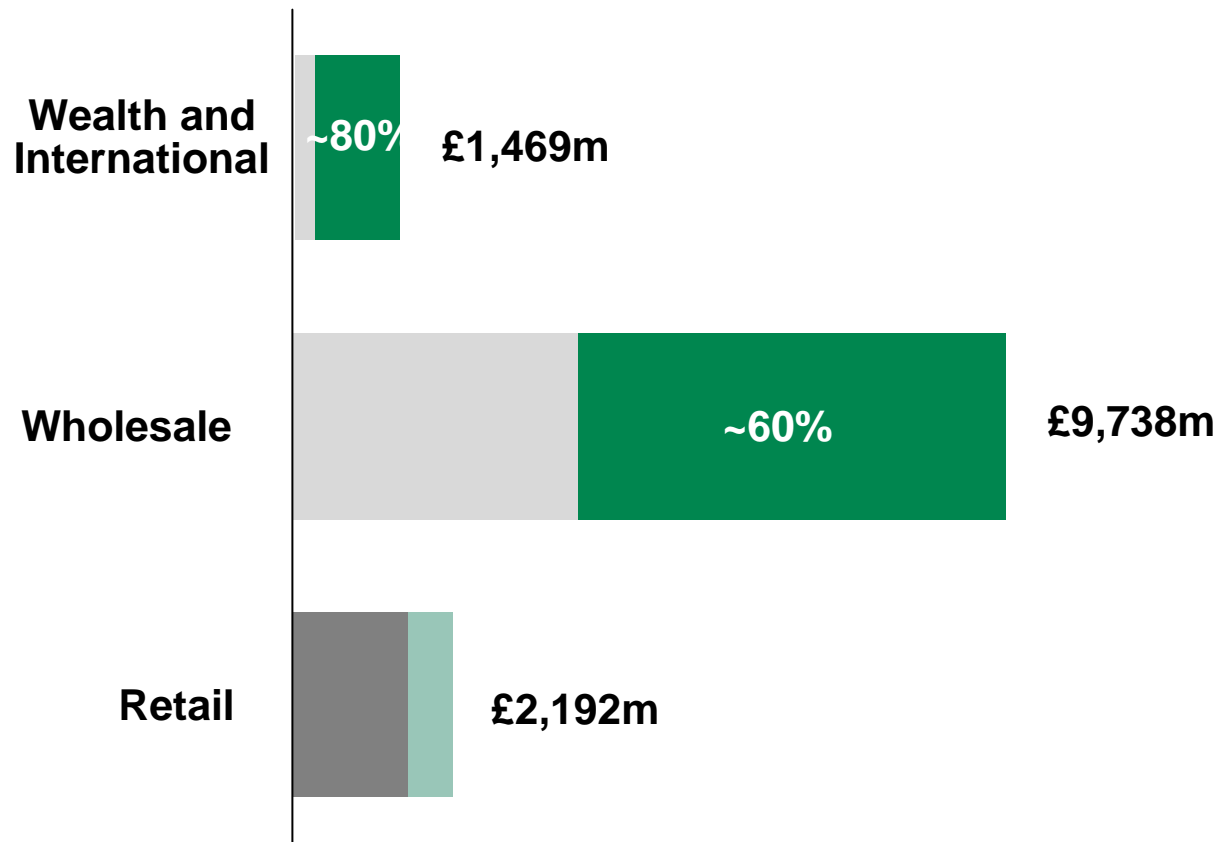
- 5% growth in UK private banking customers
- 5,000 new expatriate banking customers in Wealth

Insurance

- Protection and Corporate Pensions sales increased by 8%
- Home insurance sales up 5%

IMPAIRMENTS

Concentrated in commercial real estate



- 80% from HBOS book
- Substantial charge for commercial real estate
 - Property values severely hit early
 - Prudent view on values
- Expect peak overall impairments in first-half 2009



DELIVERING THE INTEGRATION

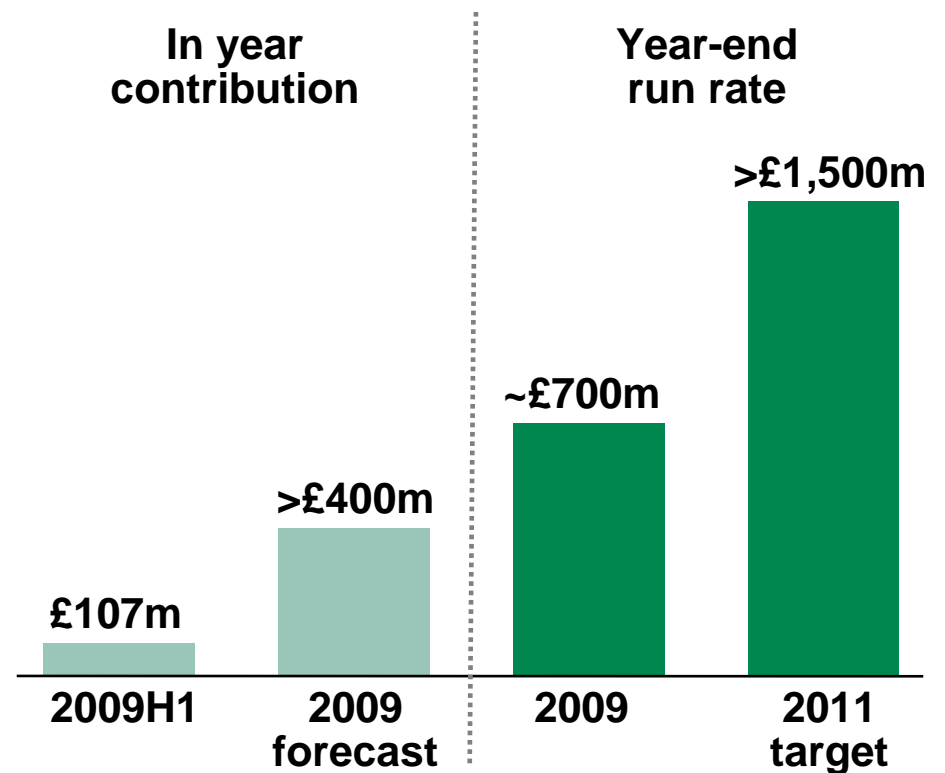
Integration is ahead of schedule



KEY THEMES

- Large scale integration
- Organisation in place
- Major systems choices made
- Cost synergies significant

COST SYNERGIES (£m)



CAPITAL AND FUNDING

Strengthening our capital base and funding profile



CAPITAL

- Mid-year core tier 1 ratio of 6.3%
- £4bn placing and open offer
- Liability management initiatives
- Expect to run-down £200bn of assets, and redeploy part for growth

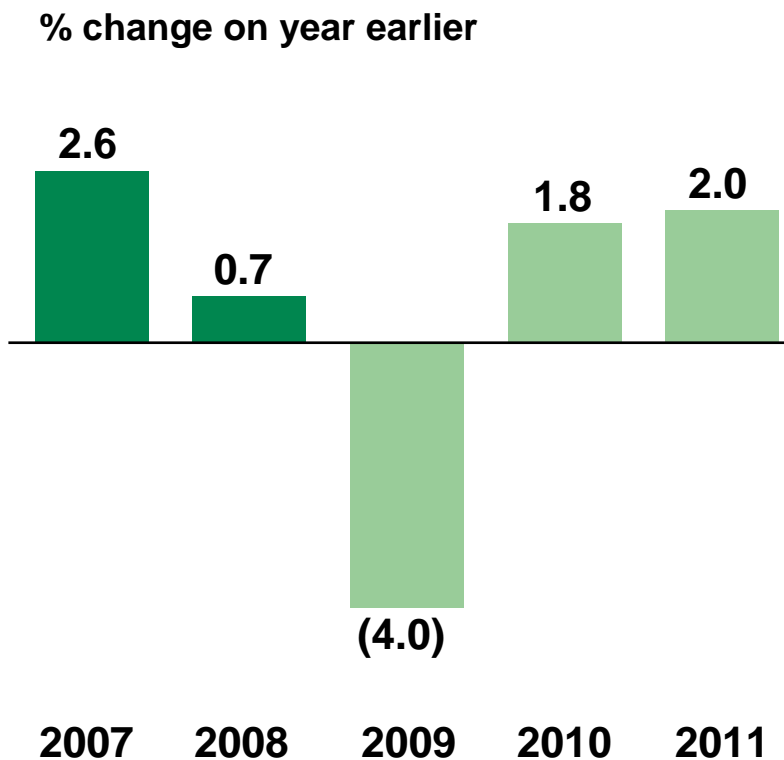
FUNDING

- Diversified funding sources
- Strong retail and corporate deposit base
- Extended maturities
- Selected use of government programmes
- Accessed debt markets

ECONOMIC OUTLOOK

Weak recovery most likely scenario

GDP GROWTH IN CENTRAL SCENARIO



- **House prices⁽¹⁾**
 - (7)% in 2009
 - 2% in 2010
- **Commercial property values⁽¹⁾**
 - (15)% in 2009
 - 0% in 2010
- **Company failures**
 - Peak in 2010
 - Lower rate than last recession
- **Unemployment**
 - Peak in 2010
 - Similar rate to last recession

⁽¹⁾ Change to December

OUTLOOK

Delivering earnings growth



- **Revenue growth to build to high single digits over next 2 years:**
 - Margin improvements
 - Volume increases

- **Cost:income ratio:**
 - Targeted to improve by 2 percentage points per year
 - Earlier years will be higher due to synergies

- **Impairments past the peak:**
 - Commercial real estate peaked in first half 2009
 - Retail impairments to peak in second half 2009
 - Commercial, Corporate and unsecured Retail portfolios to peak in 1 to 2 years

- **Balance sheet:**
 - Run-down £200bn of assets
 - Deposits to grow

Outlook based on Lloyds Banking Group central economic scenario

SOURCES OF GROWTH

Well positioned to outperform



SOURCES OF INCOME GROWTH

- Large attractive market
- Economic recovery
- Focused on high growth areas of market
 - Savings
 - Life and pensions
 - Wealth management
 - SMEs

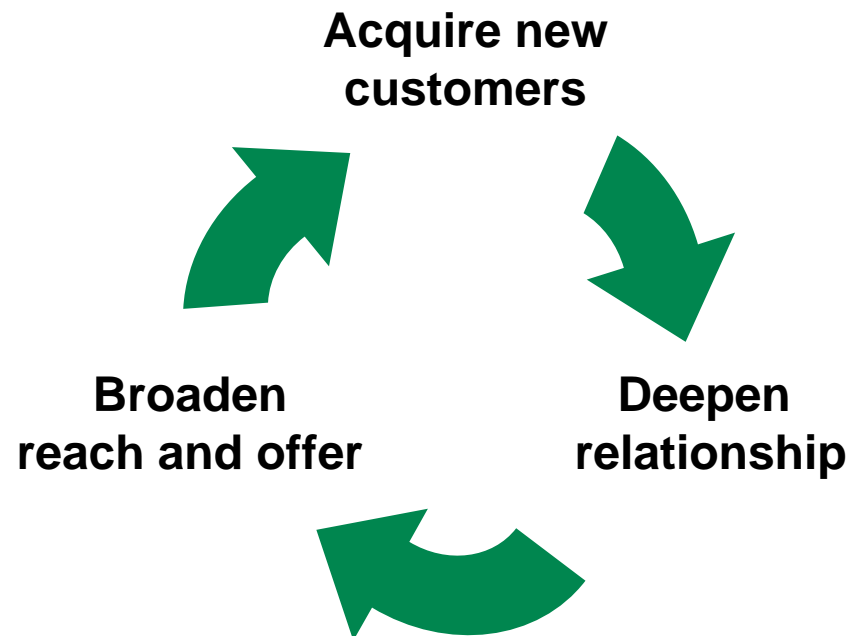
WE ARE WELL POSITIONED

- Unparalleled distribution
- Powerful information systems and product capabilities
- Scale to drive efficiency and customer value

OUTPERFORMING THE MARKET

HOW WE CAN OUTPERFORM

- **Acquire new customers**
 - Winning new relationships
- **Deepen relationships with existing customers**
 - Providing better value to our customers and meeting more of their needs
- **Broaden reach and offering**
 - Developing new segments and product areas

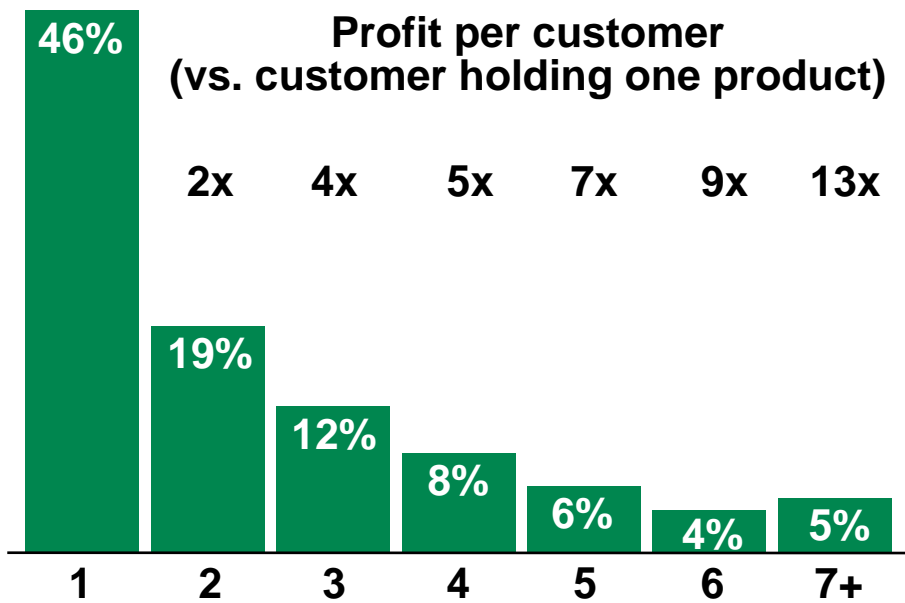


DEEPENING CUSTOMER RELATIONSHIPS

The value of relationship depth in Retail



PRODUCTS HELD PER RETAIL CUSTOMER



Distribution of Lloyds TSB retail customers, by number of products held

GROWTH OPPORTUNITIES

1. Continue to increase relationship depth in Lloyds TSB customer franchise
2. Apply Lloyds relationship model to HBOS customer franchise
3. Leverage increased scale to deliver better value for money to customers of both franchises

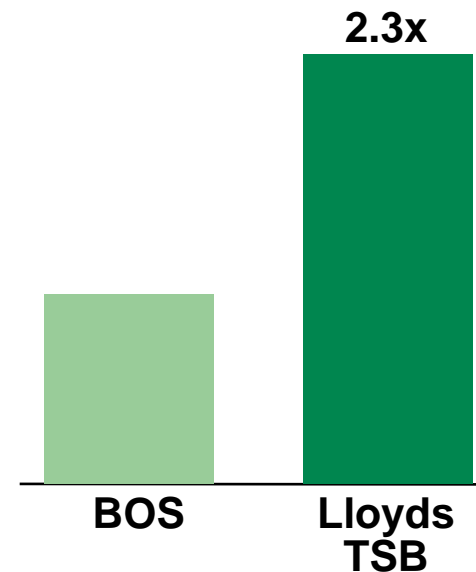
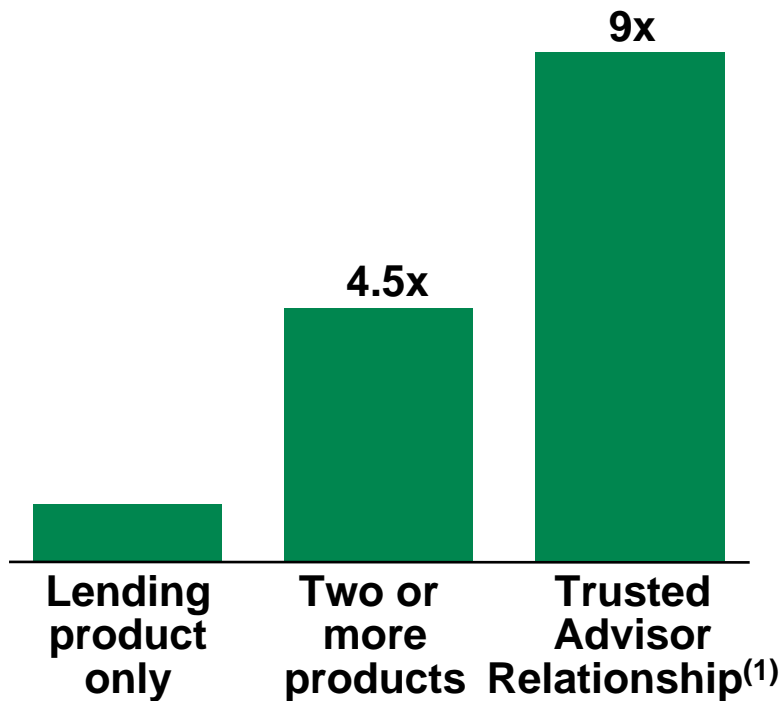
DEEPENING CUSTOMER RELATIONSHIPS

The value of relationship depth in Wholesale



LLOYDS TSB REVENUE PER CORPORATE CUSTOMER

DIFFERENCE IN CROSS SALES REVENUE PER CORPORATE CUSTOMER



⁽¹⁾ Lloyds TSB customer definition reflecting deep relationships

BUILDING THE UK'S BEST FINANCIAL SERVICES COMPANY

A model for sustainable growth



Vision

To be the UK's best financial services company

Objective

Sustainable through the cycle value for customers and shareholders

Framework

Prudent, strong risk disciplines

Strategy

Customer relationships

Cost leadership

Capital efficiency

Financial goals

Income growth
(high single digit)

2% per annum
cost: income ratio
improvement (higher
in earlier years)

Run off / redeploy
£200bn of assets

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2009 INTERIM RESULTS

5 August 2009

Tim Tookey

Group Finance Director

OVERVIEW



- **Core business in good shape; good progress with integration**
 - **Resilient revenues in difficult economic environment**
 - **Excellent cost performance**
 - **Successful integration underway; cost synergies on track**

- **Profound understanding of HBOS business and likely losses**
 - **Detailed credit reviews of HBOS portfolios completed**
 - **Overall, Group impairment levels have peaked**

- **Opportunity for significant growth from relationship model, across enlarged franchise**
 - **Track record of deepening customer relationships**



**Lloyds Banking Group to be an early beneficiary of recovery,
and to outperform over medium to long-term**

BUSINESS PERFORMANCE 2009H1⁽¹⁾

Resilient revenues; excellent cost performance

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£m	2008H1	2009H1	% Change
Total income, net of insurance claims	11,180	11,939	7
Expenses	(5,871)	(5,718)	3
Trading surplus	5,309	6,221	17
Impairment	(2,514)	(13,399)	
Joint ventures/associates	(20)	(507)	
Fair value unwind	–	3,728	
Profit (loss) before tax	2,775	(3,957)	
Statutory profit before tax	593	5,950	
Statutory earnings per share	9.8p	41.9p	

⁽¹⁾ Pro-forma basis

DIVISIONAL PERFORMANCE 2009H1

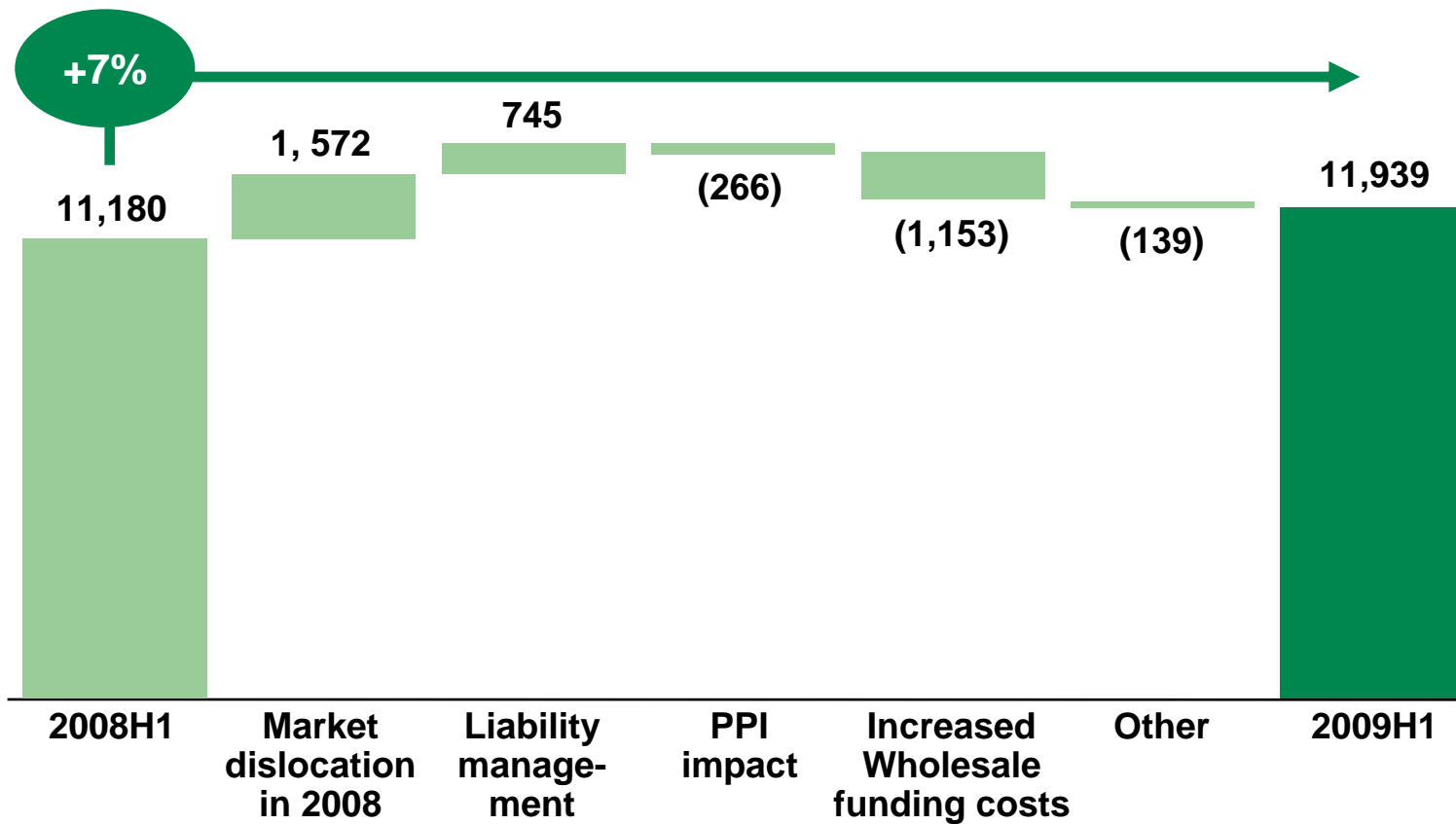
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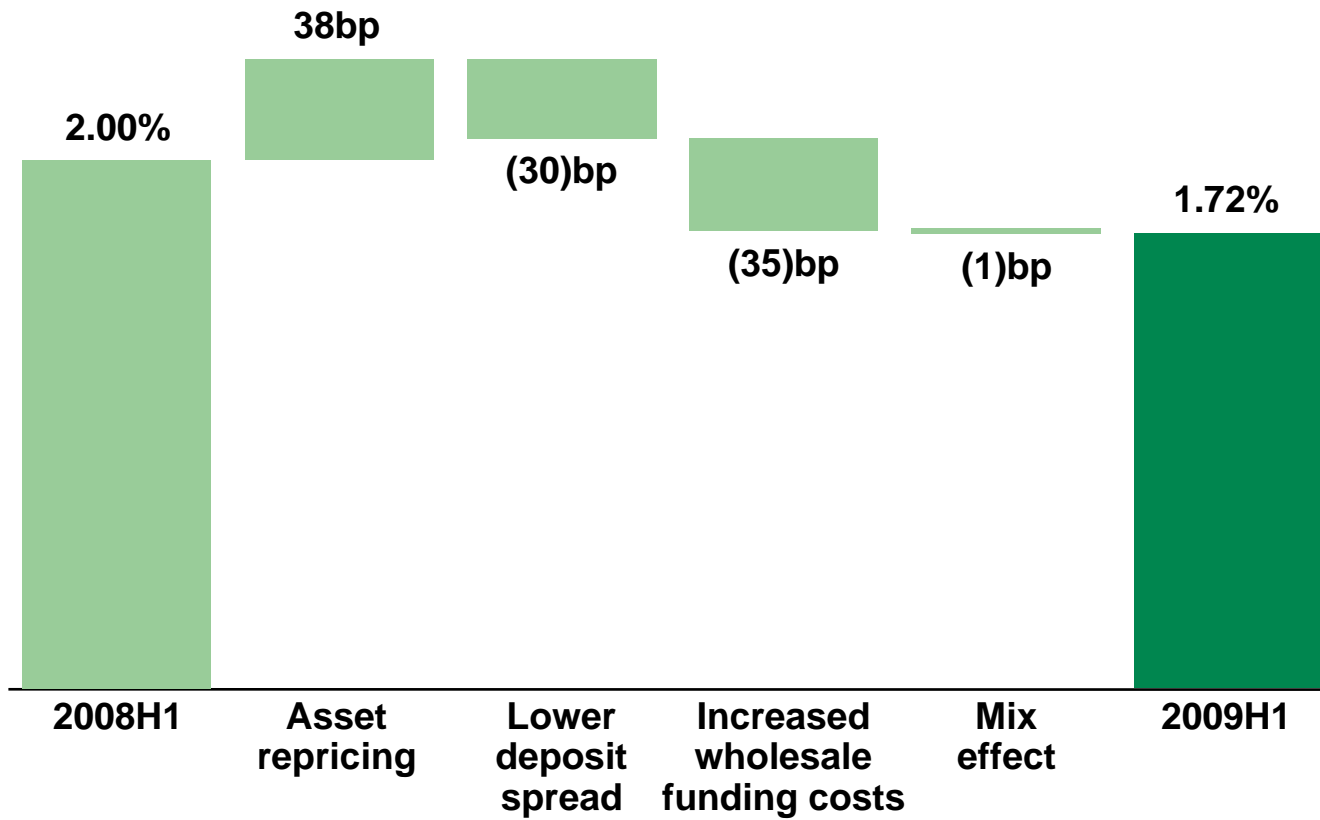
£m	Trading surplus		Profit before tax	
	2008H1	2009H1	2008H1	2009H1
Retail	3,111	2,273	1,741	360
Wholesale	1,145	2,698	37	(3,208)
Insurance	704	531	720	397
Wealth and International	495	382	421	(342)
Group Operations and central items	(146)	337	(144)	(1,164)
	<u>5,309</u>	<u>6,221</u>	<u>2,775</u>	<u>(3,957)</u>

KEY REVENUE TRENDS

£m



GROUP NET INTEREST MARGIN



FORCES INFLUENCING OUR MARGINS

NEW LENDING

- Pricing for risk
- Relationship lending and cross-sell opportunities

EXISTING LENDING

- Repricing patterns changing significantly in some books
- Maturity profiles different from funding profiles

FUNDING, INCLUDING DEPOSITS

- Impact of base rates on retail deposits and savings
- Savings market remains very competitive
- Conscious decision to extend wholesale funding maturity profile

EXPECTATIONS FOR FUTURE MARGINS

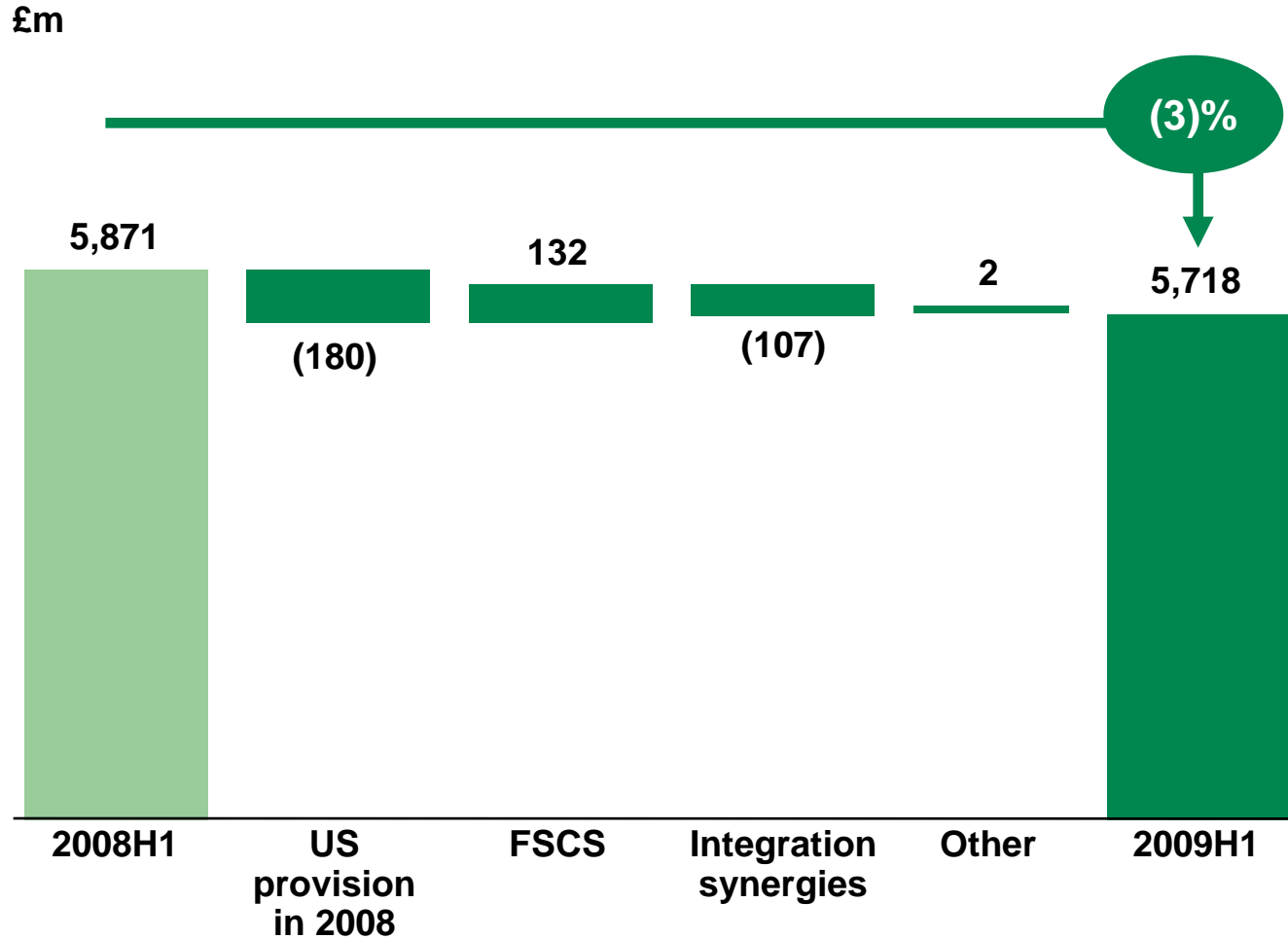
Margins expected to increase in 2010 and 2011



	2009	2010	2011
BASE RATE MOVEMENTS			
ASSET REPRICING			
COST OF WHOLESALE FUNDING			
OVERALL MARGIN IMPACT	XXX		

COST TRENDS

Excellent cost management



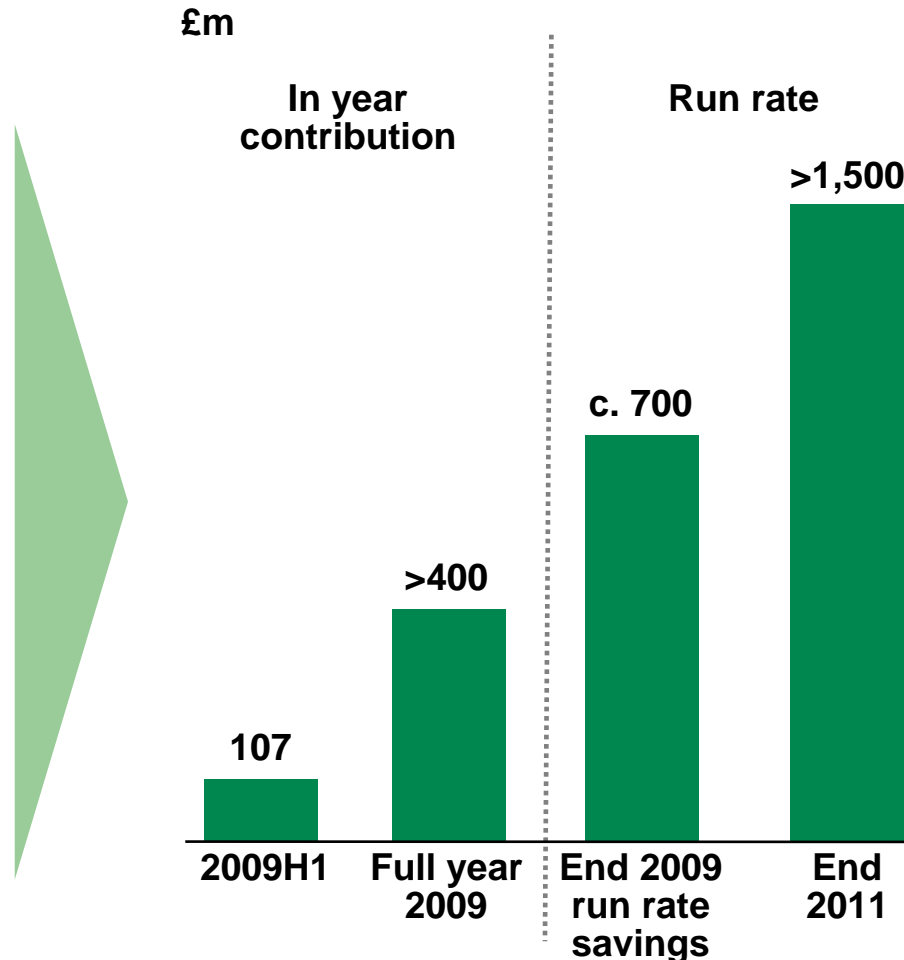
- Significant cost synergies available over next 3 years
- Thereafter, cost:income ratio targeted to improve by c. 200 basis points per annum

INTEGRATION

Planning largely complete – now starting to execute

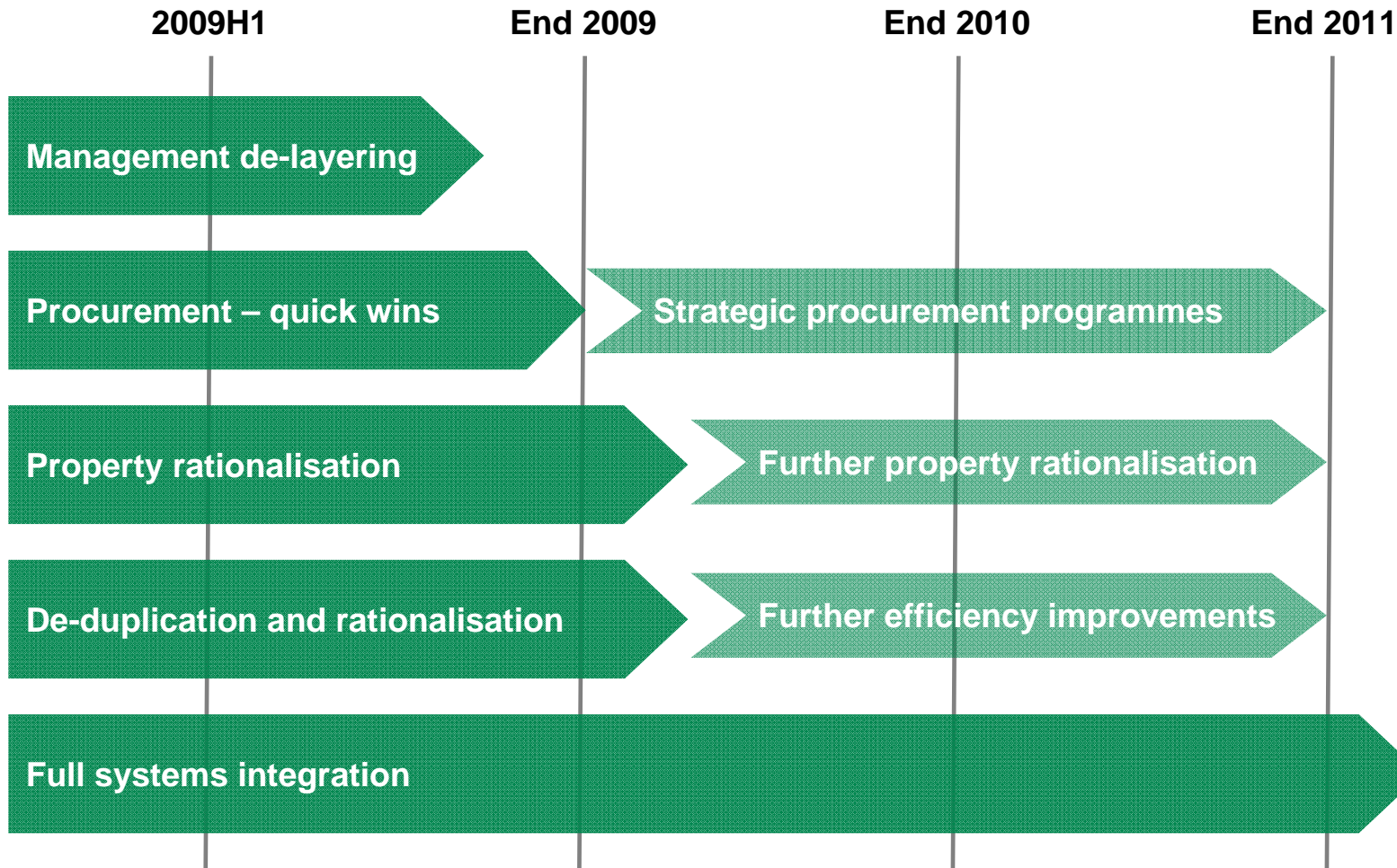


- Benefits so far driven by non-IT dependent initiatives
- Programmes mobilising into execution
- Considerable de-layering and de-duplication of roles underway (over 8,000 FTE reductions announced)
- £34 million procurement savings realised to date
- Targeting 50 non-branch building exits by year end



INTEGRATION

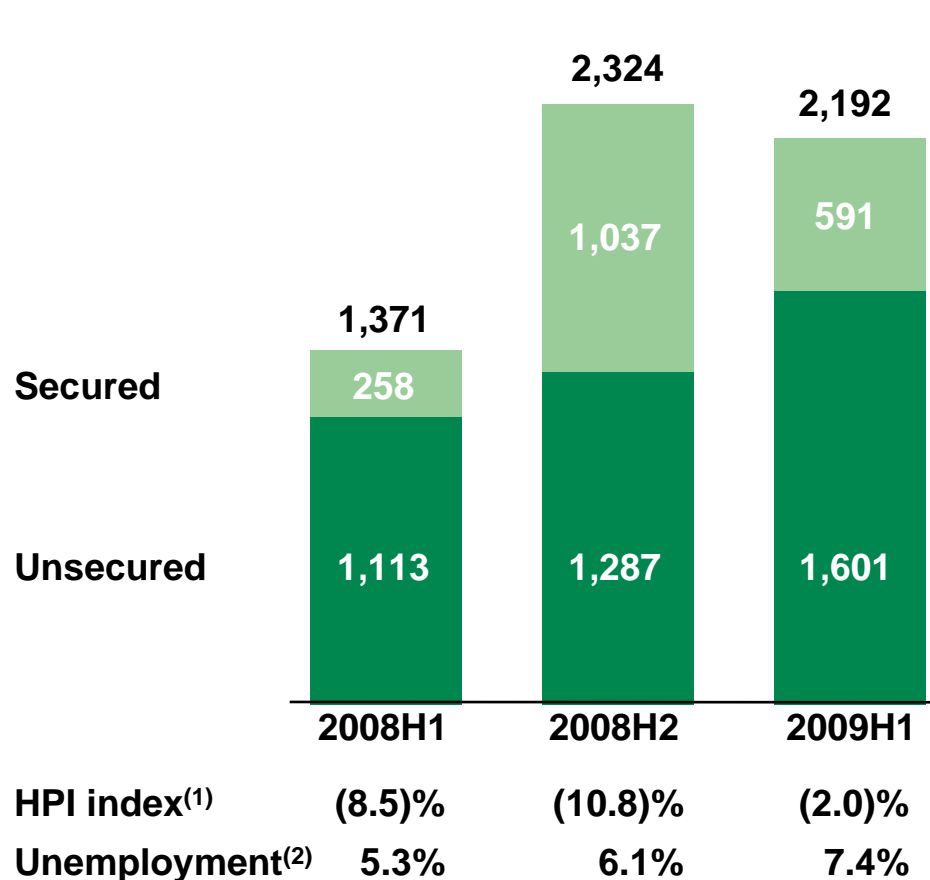
Major integration projects underway



RETAIL IMPAIRMENT

Impairment charge expected to peak in 2009H2

£m



Expected outlook

- 2009H2 to be moderately higher than 2009H1
 - Higher unsecured charge reflecting increased unemployment
 - Higher secured (mortgage) charge as a result of further deterioration in HPI and increased unemployment

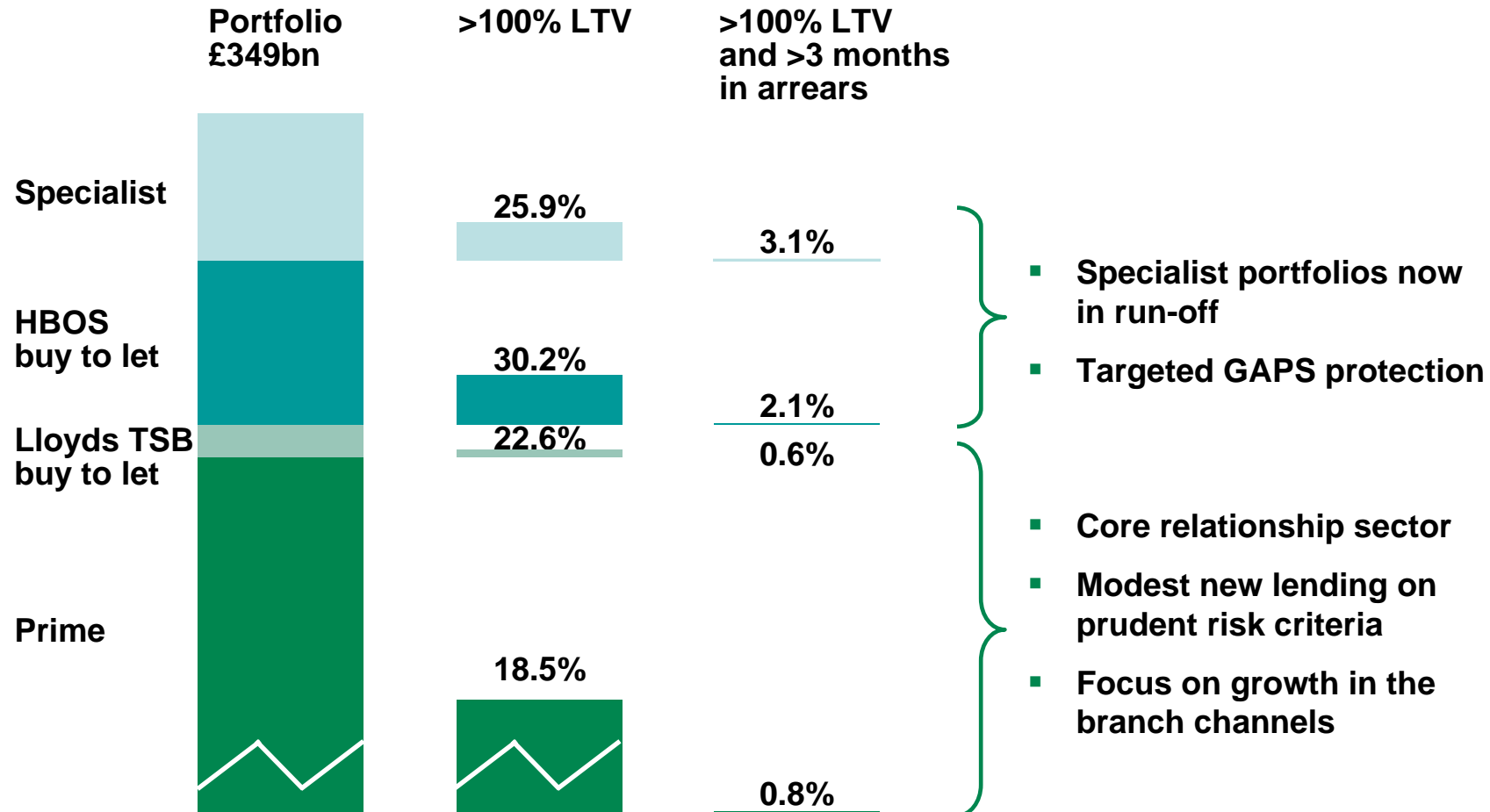
- Improving trends throughout 2010

⁽¹⁾ Change on previous half

⁽²⁾ ILO rate, average

SECURED PORTFOLIO

All new business written within risk appetite

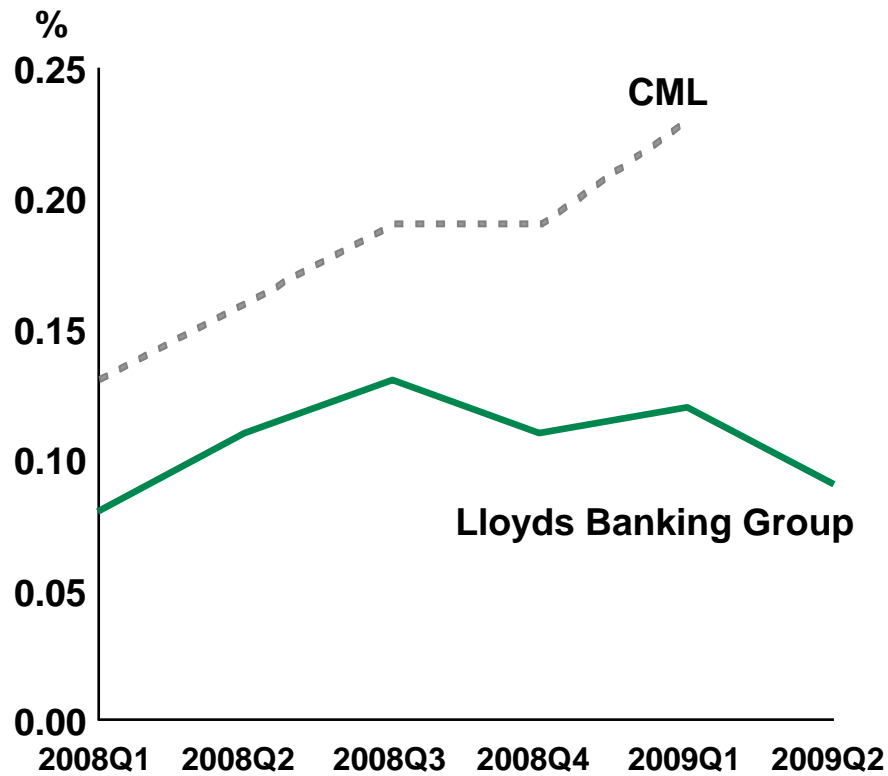


TREND IN PROPERTIES IN POSSESSION

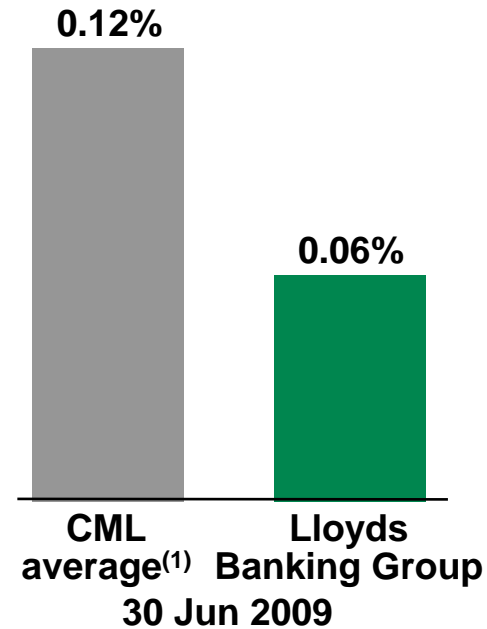
Properties in possession lower than industry average



Properties in possession
(% of mortgage cases)



New repossessions
(% total cases)

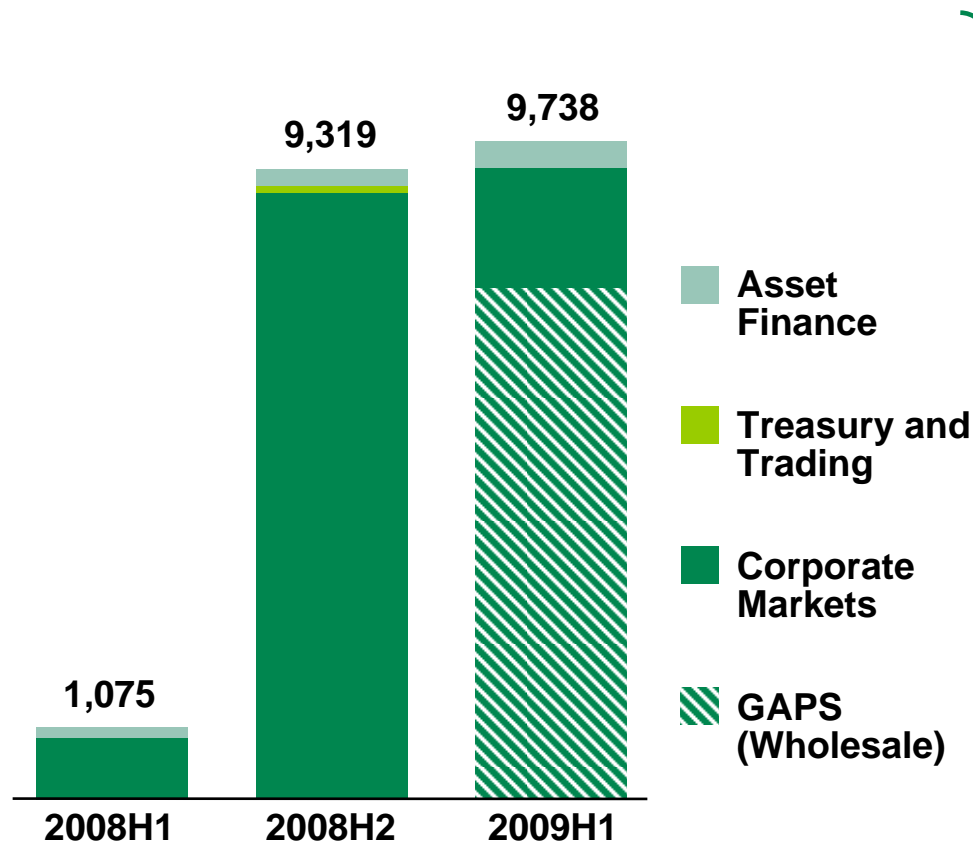


(1) Council of Mortgage Lenders 2009Q1

WHOLESALE IMPAIRMENT

Impairment charge expected to fall from a 2009H1 peak

£m



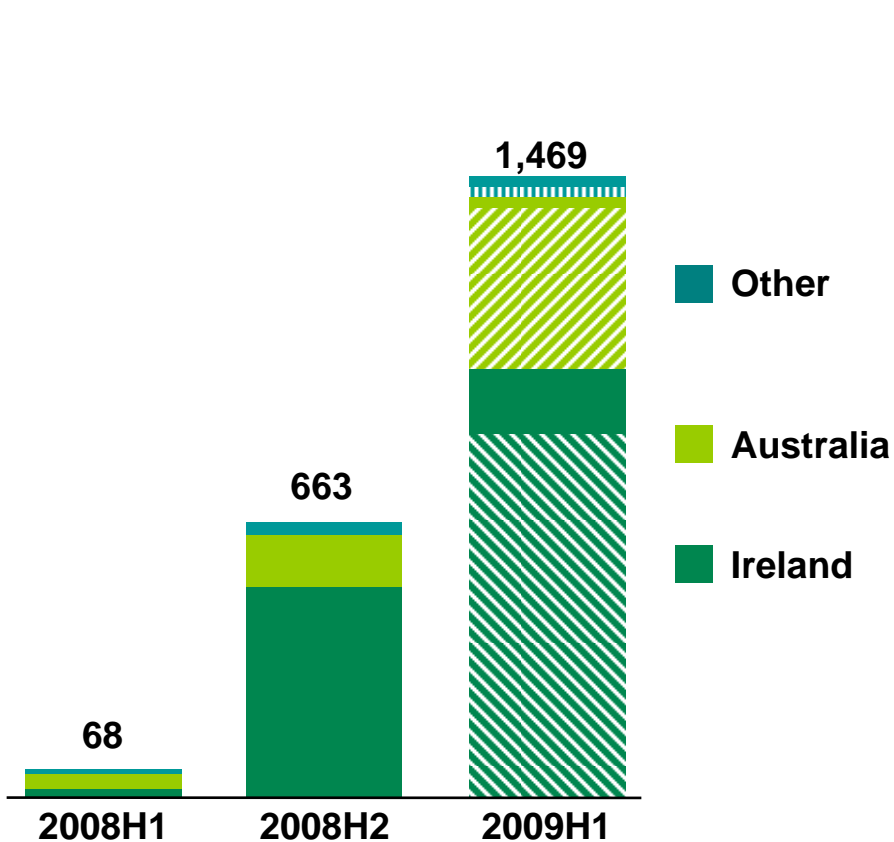
Expected outlook

- 2009H1 expected to be peak in Wholesale charge
- Significant overall reduction in 2009H2 with further reduction in 2010 impairments
 - Higher traditional lending impairment linked to economy – GDP and level of corporate failures
 - Legacy HBOS property related impairments to fall significantly

WEALTH AND INTERNATIONAL IMPAIRMENT TRENDS

Impairment levels expected to have peaked

£m



Expected outlook

- Expected reduction in impairments on CRE and concentrated risk exposures
- Continued concern over impact of Irish economic outlook
- Significant reduction in 2009H2
- Further reduction in 2010 charge

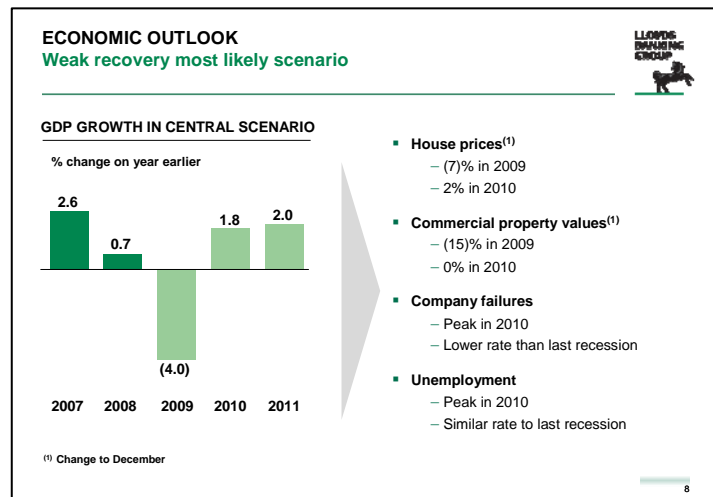
Shaded areas reflect GAPS impairment

IMPAIRMENT OUTLOOK

Overall Group impairments expected to have peaked



Our economic expectations

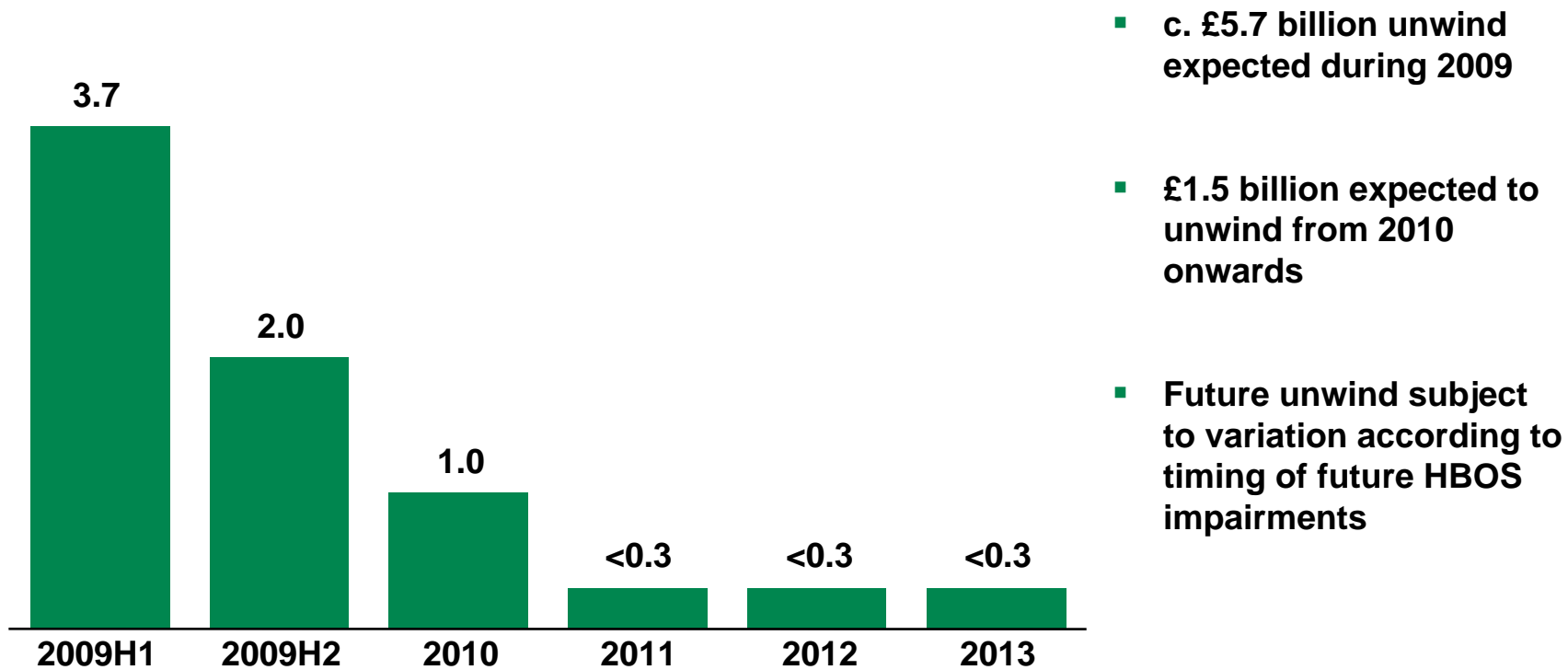


Our impairment expectations

- Wholesale and International impairments have peaked
- Retail impairments expected to peak in 2009H2
- Overall Group impairments expected to have peaked in 2009H1
- Approximately three quarters of impairments relate to assets expected to be included in GAPS

EXPECTED UNWIND OF ACQUISITION RELATED ADJUSTMENTS

£bn

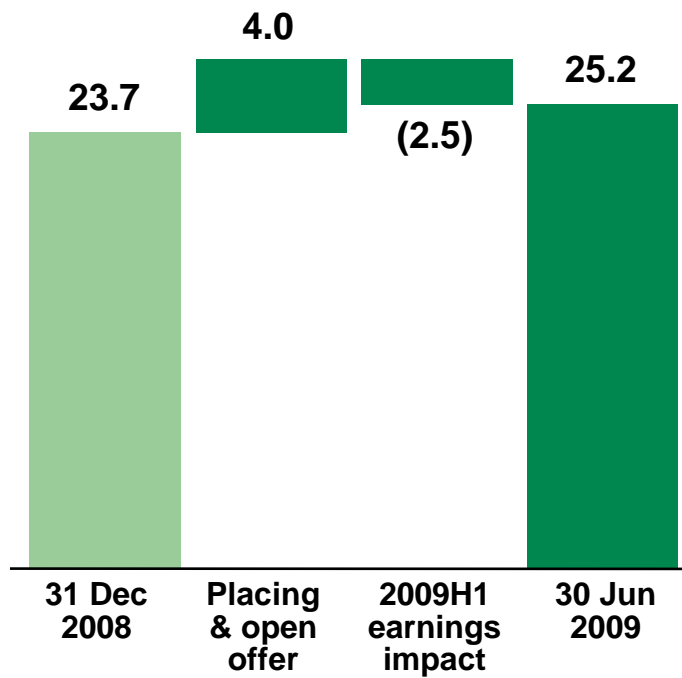


Acquisition related adjustments include fair value adjustments to net tangible assets, and the elimination of HBOS's available-for-sale and cash flow hedging reserves

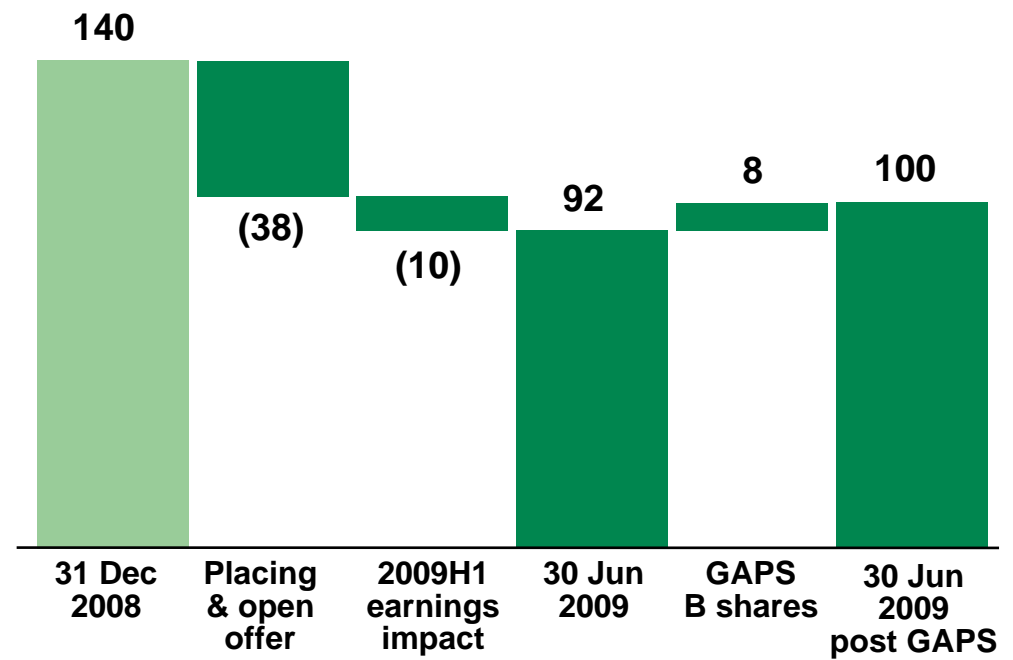
NET TANGIBLE ASSETS



Net tangible assets (£bn)

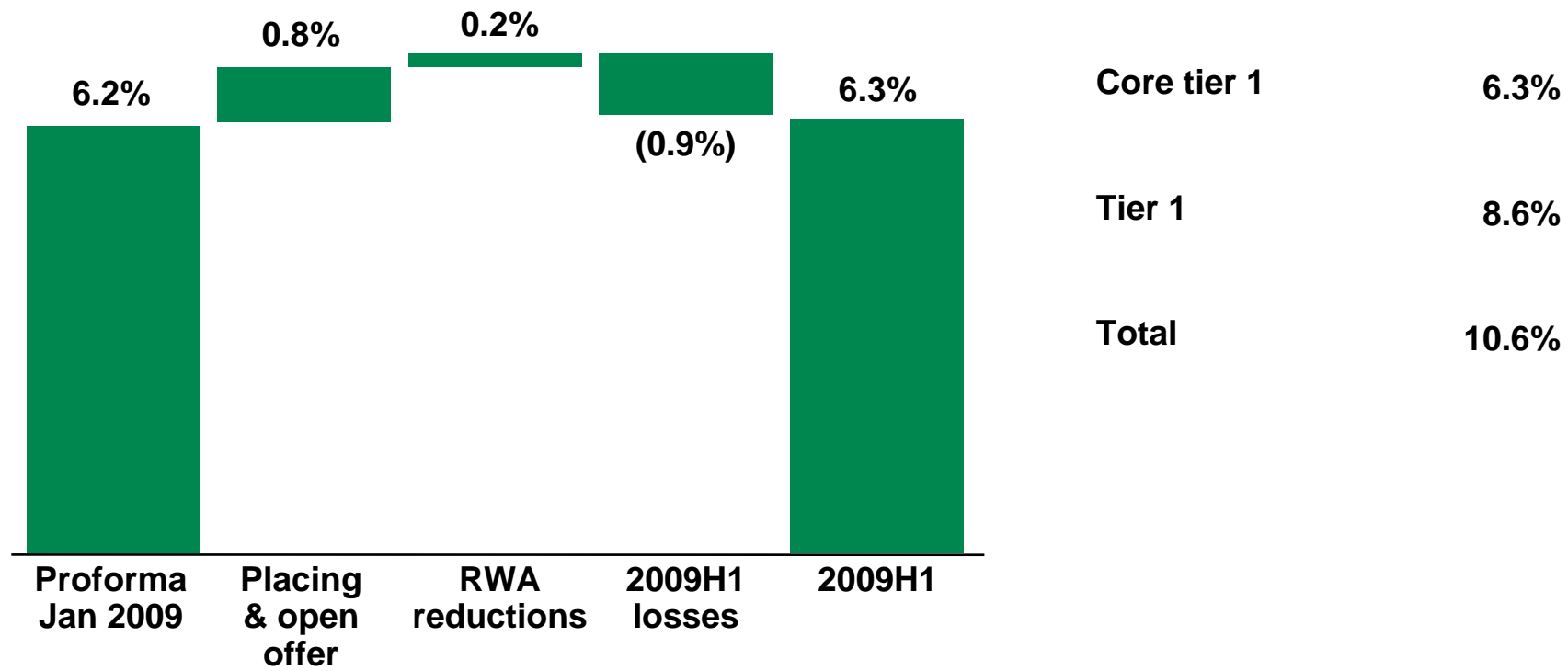


Net tangible assets per share (p)



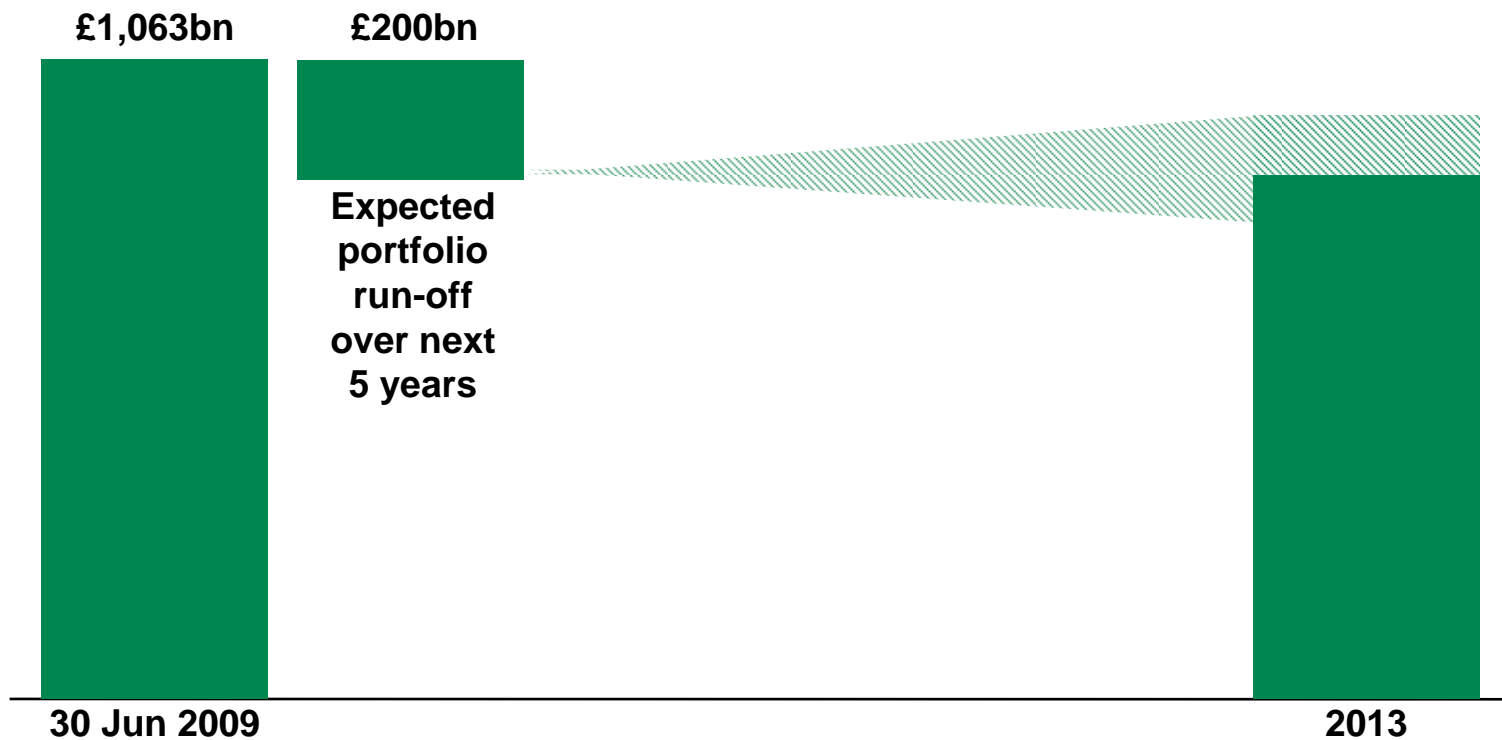
(1) Adjusted to include January capital raising

ROBUST CAPITAL RATIOS



RIGHTSIZING OUR BALANCE SHEET

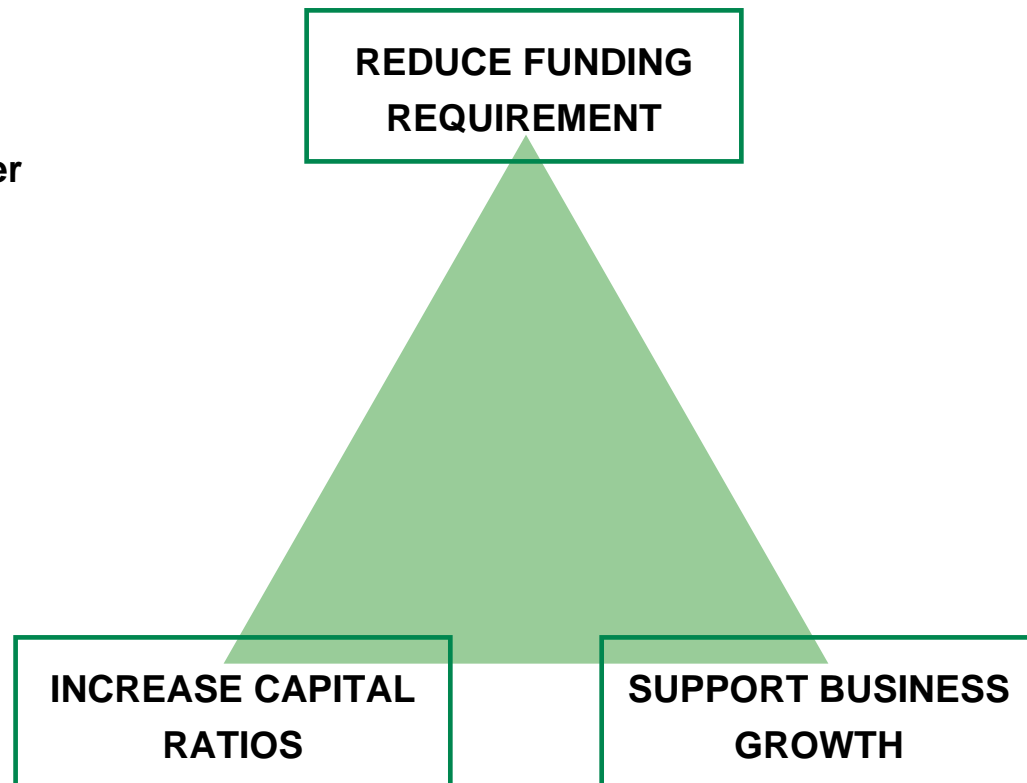
Total assets



£200bn of assets are expected to run-off over the next 5 years

CREATING OPTIONALITY

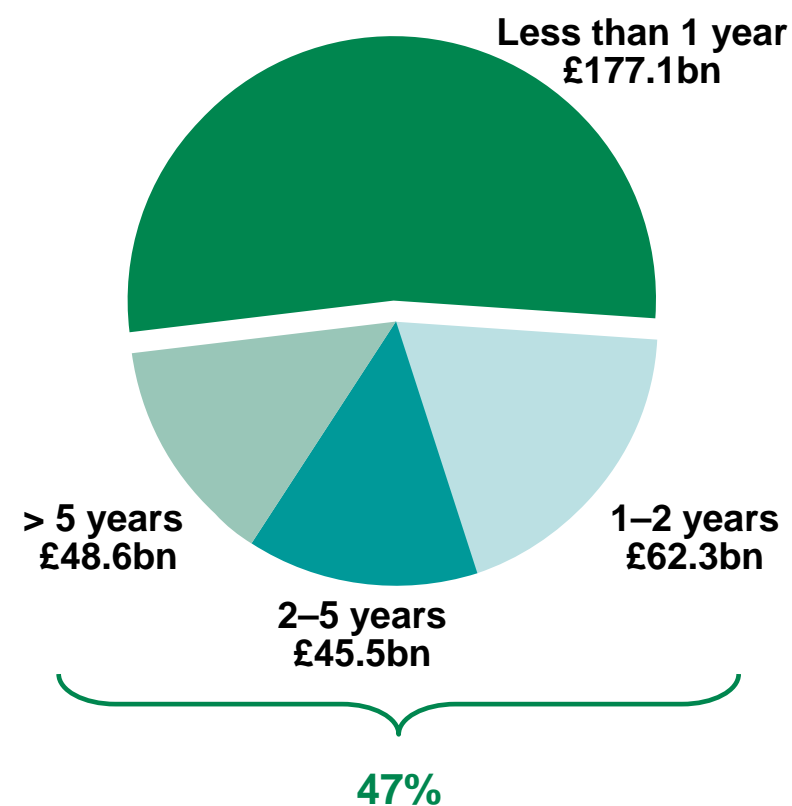
- Portfolio run-off of c. £200 billion over 5 years creates options:
 - Support business growth
 - Increase capital ratios
 - Reduce funding requirement



DIVERSE FUNDING SOURCES WITH PRUDENT MATURITY PROFILE



£bn	31 Dec 2008	30 Jun 2009
Bank deposits	54.9	53.4
Certificates of deposit	77.5	68.0
Medium-term notes	63.5	84.6
Covered bonds	29.1	27.1
Commercial paper	28.9	27.3
Securitisation	43.6	39.4
Subordinated debt	45.4	33.7
Wholesale (excluding customer deposits)	342.9	333.5
Customer deposits ⁽¹⁾	381.0	369.9
Total Group funding	723.9	703.4



⁽¹⁾ Excluding repos

SUMMARY



- **Core business in good shape; good progress with integration**
 - **Resilient revenues in difficult economic environment**
 - **Excellent cost performance**
 - **Successful integration underway; cost synergies on track**

- **Profound understanding of HBOS business and likely losses**
 - **Detailed credit reviews of HBOS portfolios completed**
 - **Overall, Group impairment levels have peaked**

- **Opportunity for significant growth from relationship model, across enlarged franchise**
 - **Track record of deepening customer relationships**



**Lloyds Banking Group to be an early beneficiary of recovery,
and to outperform over medium to long-term**

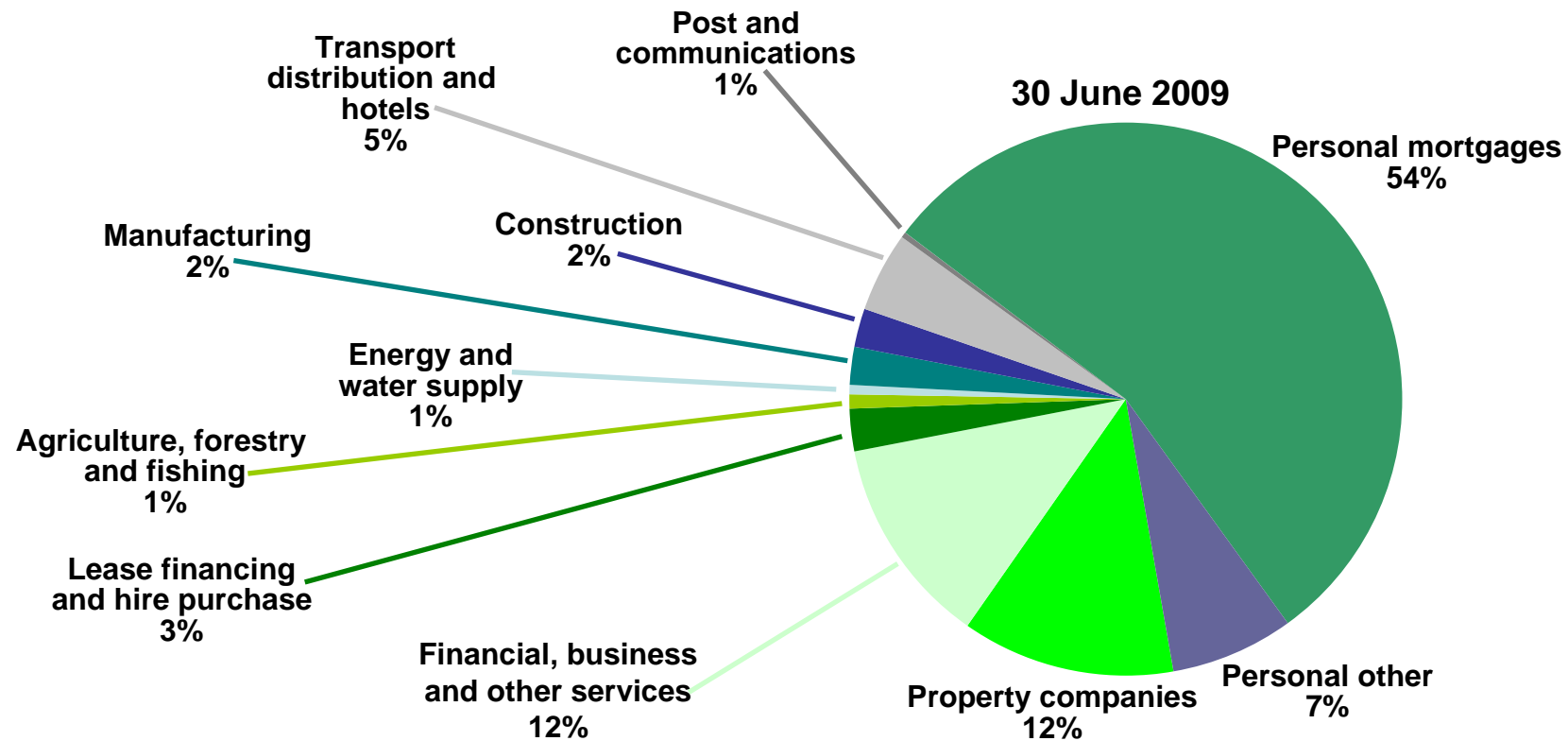
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APPENDIX

A WELL SPREAD CUSTOMER LENDING BASE

Loans and advances to customers £683 billion

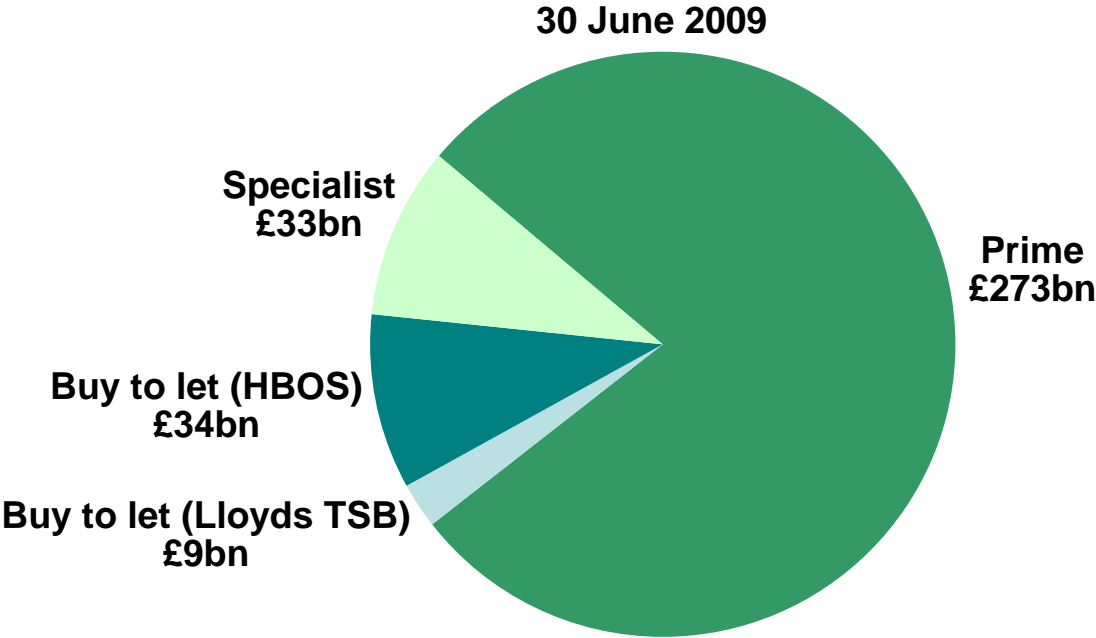


(1) Before allowances for impairment losses totalling £20.7 billion and fair value adjustments totalling £10 billion

MORTGAGE PORTFOLIO



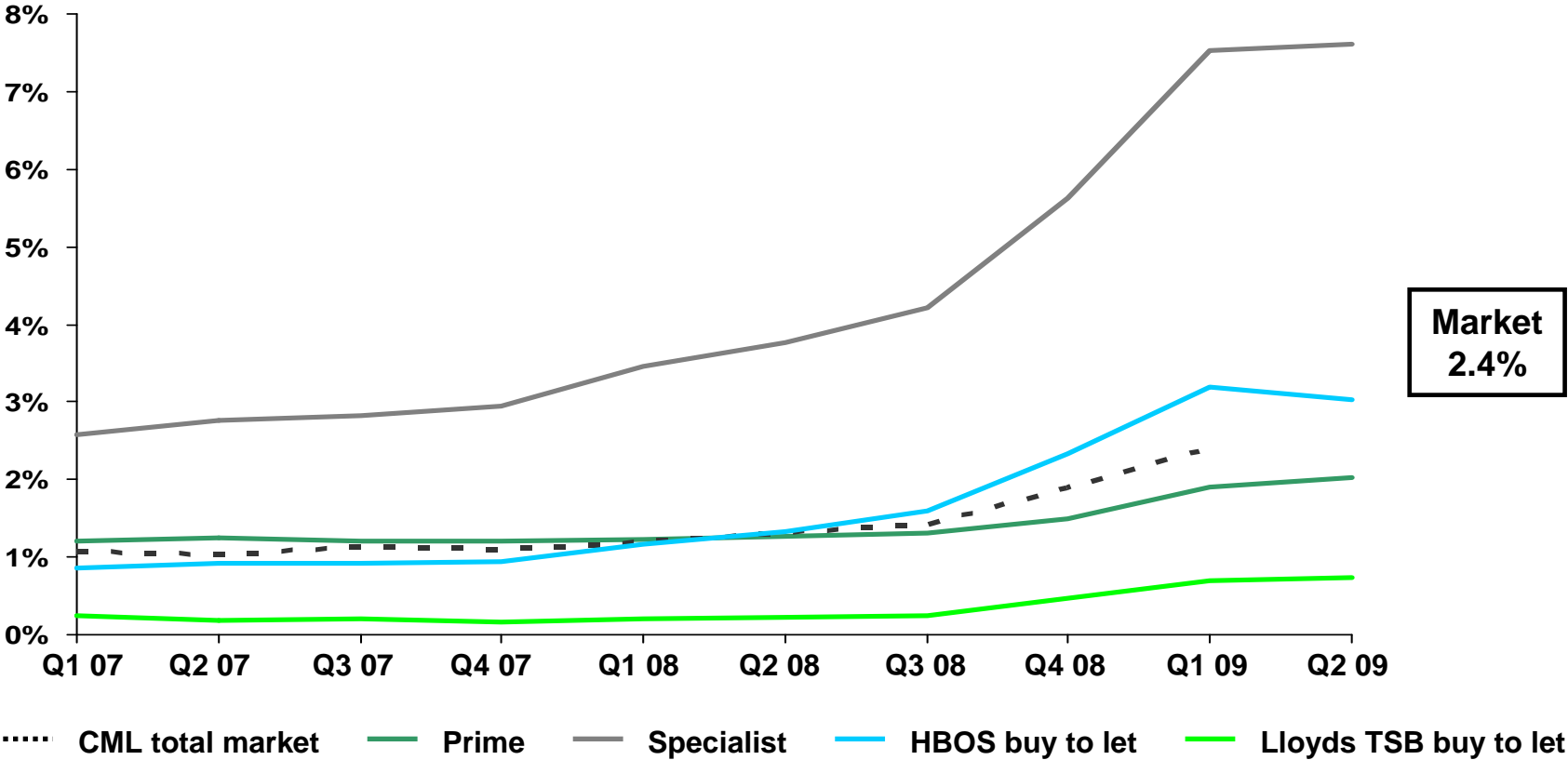
UK mortgage portfolio £349 billion



MORTGAGE ARREARS TRENDS



% of total cases >3 months in arrears



Source: Council of Mortgage Lenders
 Note: chart shows mortgages >3 months in arrears excluding possessions stock as a proportion of total cases

MORTGAGE PORTFOLIO LTVs

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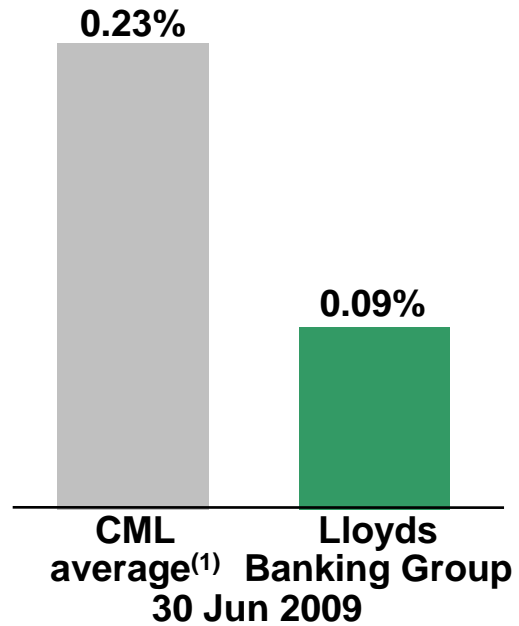
	Prime	Buy to let Lloyds TSB	Buy to let HBOS	Specialist	Group
Average LTVs	53.4%	65.8%	82.2%	75.5%	57.3%
New business 2009 LTVs	57.4%	62.0%	64.4%	63.5%	57.8%
<= 80% LTV	55.0%	46.7%	29.8%	33.6%	50.3%
> 80–90% LTV	13.3%	14.1%	18.5%	20.2%	14.5%
> 90–100% LTV	13.2%	16.6%	21.5%	20.3%	14.8%
> 100% LTV	18.5%	22.6%	30.2%	25.9%	20.4%
Value > 100% LTV	£50.2bn	£2.1bn	£10.2bn	£8.6bn	£71.1bn

Indexed by value at 30 June 2009

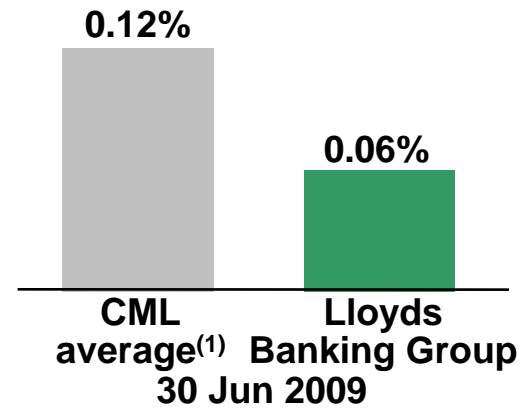
PROPERTIES IN POSSESSION



**Properties in possession
(% of mortgage cases)**



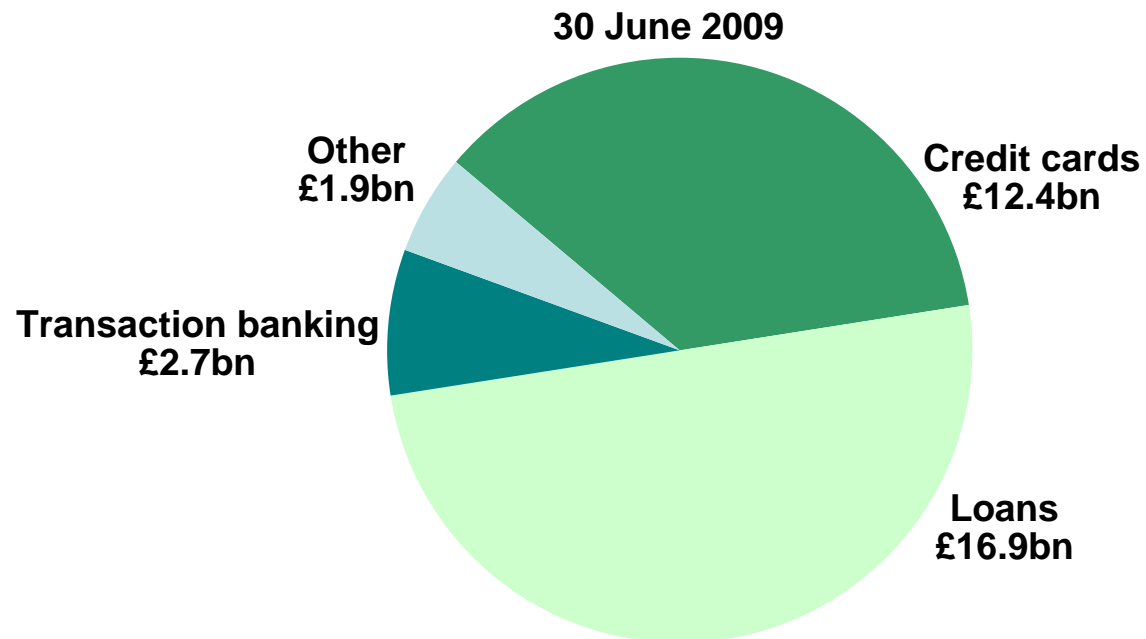
**New repossessions
(% total cases)**



⁽¹⁾ Council of Mortgage Lenders 2009Q1

UNSECURED LENDING PORTFOLIO

Unsecured portfolio £33.9 billion

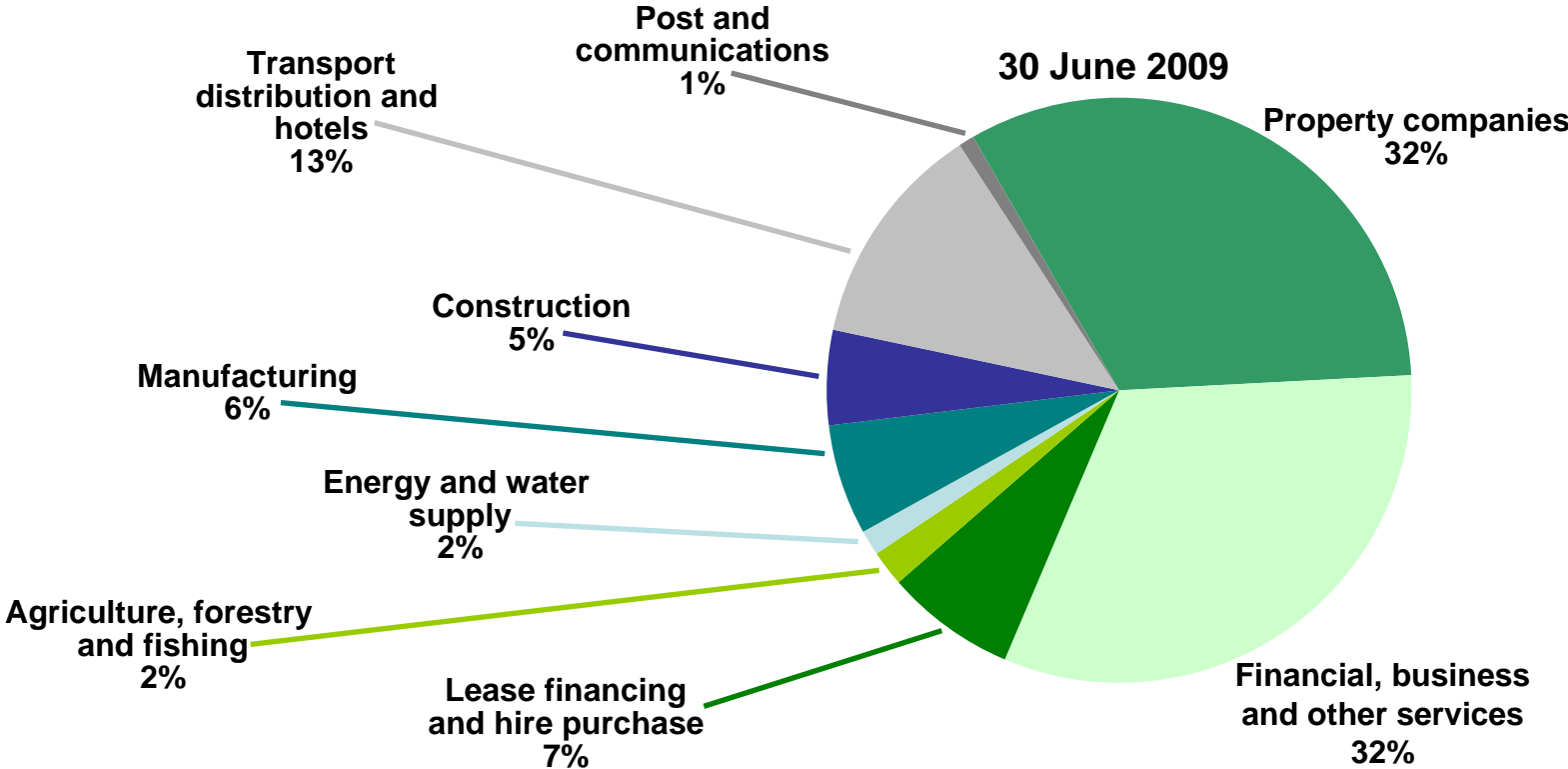


	<u>Cards</u>	<u>Loans</u>
Impairment charge as a % of average lending	10.6%	6.9%

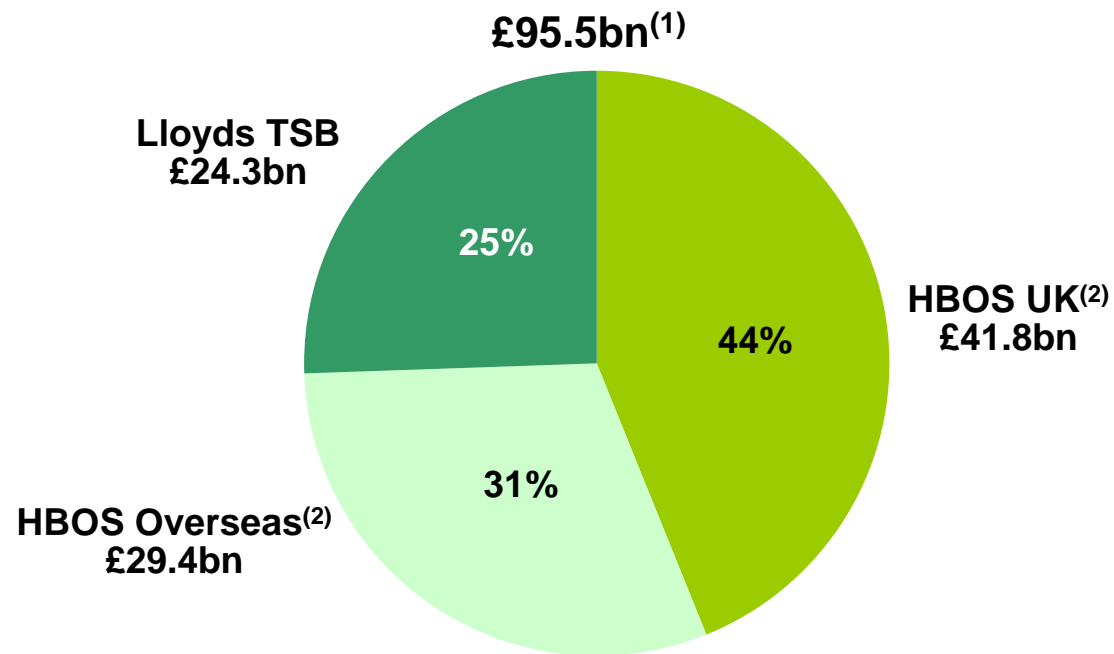
LOANS AND ADVANCES TO CORPORATE CUSTOMERS



Loans and advances to corporate customers £259.8 billion



COMMERCIAL/RESIDENTIAL REAL ESTATE AND HOUSEBUILDER LENDING



⁽¹⁾ Gross (pre FVA adjustment and impairment)

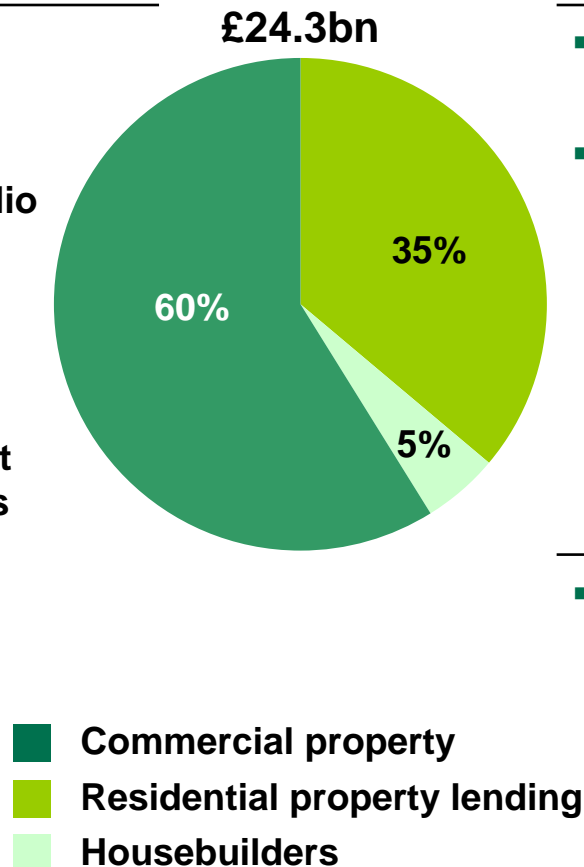
⁽²⁾ Including Joint Ventures

LLOYDS TSB: COMMERCIAL/RESIDENTIAL REAL ESTATE AND HOUSEBUILDER LENDING



Commercial property £14.6bn⁽¹⁾

- Through the cycle policy, supporting existing customer franchise
- Well spread nationwide portfolio
- c. 90% investment⁽²⁾
- c. 10% development⁽²⁾
- Key corporate lending criteria
 - 60% of gross development value or 75% project costs
 - Min 100% interest cover from pre-let
 - Avoid pure speculative development
- Strong focus on cash flows and tenant quality



Residential property £8.5bn

- 55% Housing Associations (local authority cash flows)
- Larger residential property companies

Housebuilders £1.2bn

- Modest exposure and mainly to the large household names

⁽¹⁾ Includes c. £0.9bn non UK Real Estate Lending

⁽²⁾ Based on a comprehensive sample of all material commercial property lending in Corporate Banking

HBOS: UK COMMERCIAL/RESIDENTIAL REAL ESTATE AND HOUSEBUILDER LENDING



Commercial property £28.6bn

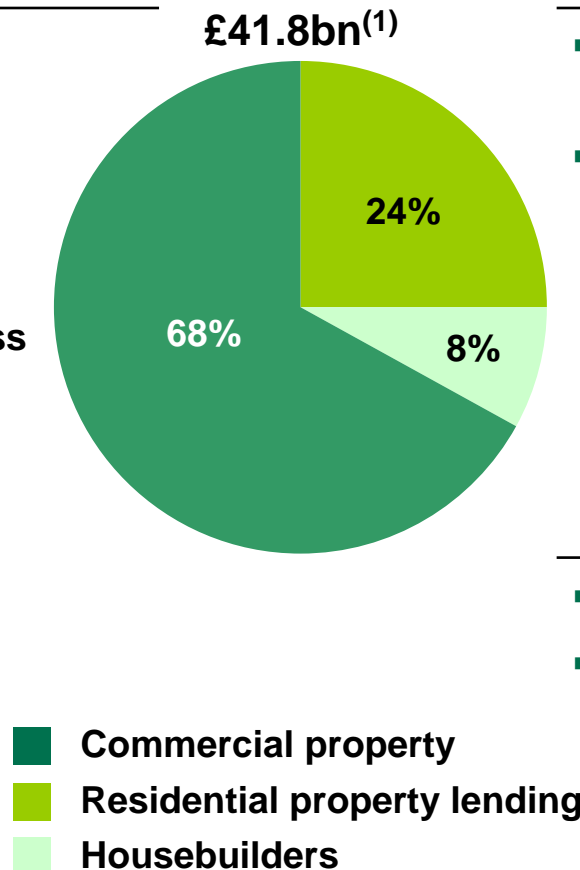
- Focus on cash flows
- Predominantly investment property
- Well diversified tenant profile (including Government)
- Lease length typically in excess of debt maturity

Residential property £9.8bn

- Significant housing association lending
- Remainder large volume, low value deals

Housebuilders £3.4bn

- Focused on private housebuilders
- Lending predominantly secured against land banks and work in progress



⁽¹⁾ Excludes £10.7 billion to non-UK residents

HBOS: OVERSEAS PROPERTY LENDING

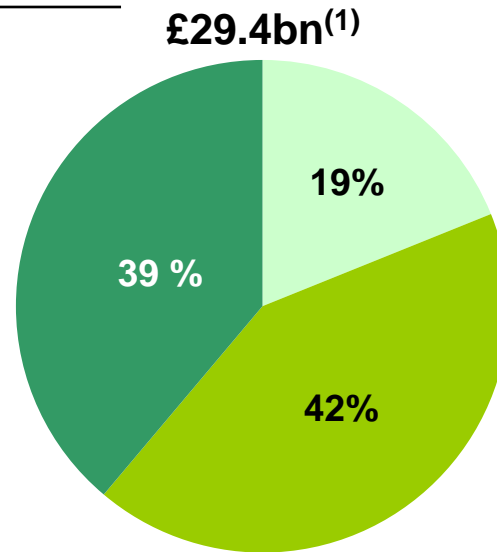


Ireland £11.6bn

- 56% property investment of which 6% is impaired
- 44% property development of which 42% is impaired

Australia £5.7bn

- 49% property development of which 22% is impaired
- 43% property investment of which 11% is impaired
- 8% property holdco's of which 20% is impaired



- Ireland
- Australia
- Europe and North America

Europe, North America and other £12.1bn

- North America £1.4 billion
- Non-UK residents £10.7 billion – concentration in Europe

⁽¹⁾ Includes lending to non-UK residents, and excludes residential mortgages

LEVERAGED FINANCE LENDING

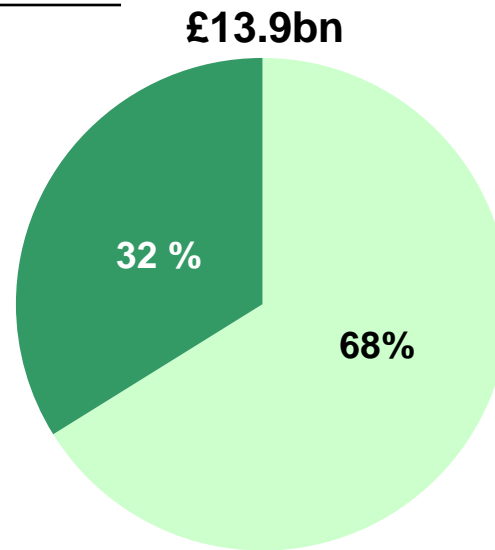


Lloyds TSB acquisition finance £4.4bn

- A highly selective origination strategy
- Well spread by sector
- Predominantly UK focused
- Underwriting criteria same as for held assets
- c. £1.4 billion of the portfolio considered sub standard/ impaired

HBOS leveraged finance £9.5bn

- Well spread by sector
- Predominantly UK focused
- Underwriting criteria same as for held assets
- c. £2.9 billion considered high risk/ impaired



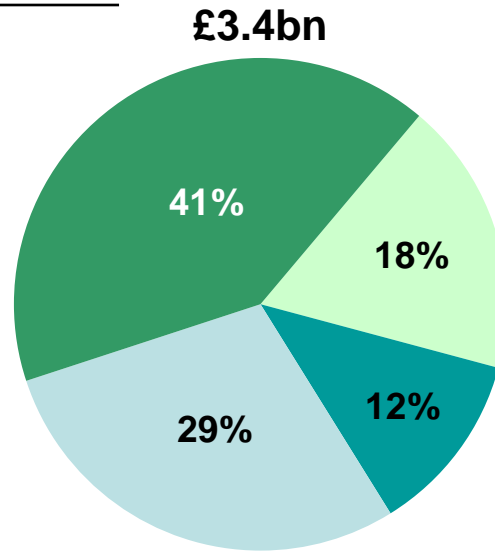
- Lloyds TSB acquisition finance
- HBOS leveraged finance

CORPORATE EQUITY RISK CAPITAL PORTFOLIO



HBOS funds investments £1.4bn

- Generally Limited Partner Investments in private equity funds; well diversified underlying exposure principally in UK and Europe
- Includes a small direct investment portfolio of private equity deals



HBOS integrated finance £0.6bn

- Includes 44 low value connections from the Growth Capital Portfolio and the new Government Enterprise Fund Commitment
- Largest connection accounts for 9% of the portfolio

Lloyds Development Capital £1.0bn

- Good spread of sector exposure with limited concentration however largest investment accounts for 12% of the portfolio

- Integrated finance
- Joint ventures
- Lloyds Dev Cap
- Funds investments

HBOS joint ventures £0.4bn

- Asset backed investments, principal sectors are Real Estate UK and Europe, hotels and housebuilders

Figures indicate carry value as at 30 June

TREASURY DEBT SECURITIES PORTFOLIO

LLOYDS
BANKING
GROUP



£bn	Loans and receivables	Available- for-sale	Fair Value through P&L	Total
ABS	32.6	12.1	1.5	46.2
Covered bonds	–	3.5	–	3.5
Bank FRNs	1.9	16.0	2.6	20.5
Bank CDs	–	3.4	2.8	6.2
Treasury Bills and other bills	–	4.0	1.0	5.0
Other ⁽¹⁾	0.6	0.6	2.2	3.4
Total	35.1	39.6	10.1	84.8

⁽¹⁾ Includes £0.6bn re Landale

ASSET BACKED SECURITIES PORTFOLIO

LLOYDS
BANKING
GROUP



£bn	Net exposure 31 Dec 2008	Net exposure 30 Jun 2009	Carry value (%) as at 30 Jun 2009
Mortgage backed securities			
– US RMBS	7.4	5.9	63
– Non-US RMBS	12.5	10.4	88
– CMBS	4.6	3.6	77
	<u>24.5</u>	<u>19.9</u>	<u>78</u>
Collateralised Debt Obligations			
– Corporate	2.3	1.8	35
– CLO	5.8	5.7	84
	<u>8.1</u>	<u>7.5</u>	<u>72</u>
Personal sector			
– Auto loans	2.4	1.9	93
– Credit cards	4.6	4.1	96
– Personal loans	1.1	1.0	88
	<u>8.1</u>	<u>7.0</u>	<u>94</u>
Student loans	10.0	9.2	90
Other ABS	1.7	1.1	68
Total uncovered ABS	<u>52.4</u>	<u>44.7</u>	<u>82</u>
Negative basis	3.3	1.5	68
Total ABS	<u>55.7</u>	<u>46.2</u>	<u>81</u>

IMPAIRMENT PROVISIONS ON LOANS AND ADVANCES – GROUP

LLOYDS
BANKING
GROUP



Impairment ⁽¹⁾	2008H1 £m	2009H1 £m	% of Average lending ⁽²⁾	
			2008H1	2009H1
Retail	1,371	2,188	0.73	1.15
– Secured (mortgages)	258	591	0.15	0.34
– Unsecured	1,113	1,597	6.22	9.06
Wholesale	872	8,343	0.75	6.87
Wealth and International	68	1,461	0.24	4.55
Total	2,311	11,992		

⁽¹⁾ Excludes impairment losses on loans and advances to banks, debt securities classified as loans and receivables and other credit risk provisions

⁽²⁾ Annualised

IMPAIRMENT PROVISIONS ON LOANS AND ADVANCES – GROUP

LLOYDS
BANKING
GROUP



Impairment ⁽¹⁾	2008H1 £m	2009H1 £m	% of Average lending ⁽²⁾	
			2008H1	2009H1
Retail	1,371	2,188	0.73	1.15
Wholesale	872	8,343	0.75	6.87
– <i>Corporate Markets</i>	711	7,940	0.75	7.05
– <i>Asset Finance</i>	161	403	2.08	5.96
Wealth and International	68	1,461	0.24	4.55
Total	2,311	11,992		

⁽¹⁾ Excludes impairment losses on loans and advances to banks, debt securities classified as loans and receivables and other credit risk provisions

⁽²⁾ Annualised

IMPAIRED ASSET RATIOS – GROUP

LLOYDS
BANKING
GROUP



<u>2009H1</u>	Retail	Wholesale	Wealth and International	Group
Loans and advances to customers (gross)	£383.3bn	£235.3bn	£62.1bn	£683.3bn
Impaired assets	£11,394m	£31,725m	£5,900m	£49,019m
Impaired assets as % of closing balance	3.0%	13.5%	9.5%	7.2%
Impairment provisions	£3,596m	£14,712m	£2,392m	£20,700m
Impairment provisions as % of impaired assets	31.6%	46.4%	40.5%	42.2%

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. 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 UK domestic and global economic and business conditions, the ability to derive cost savings and other benefits as well as to mitigate exposures from the acquisition and integration of HBOS, risks concerning borrower 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 latest Annual Report on Form 20-F filed with the US Securities and Exchange Commission for a discussion of such factors. 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.