

**LLOYDS  
BANKING  
GROUP**



# **2010 RESULTS**

**25 February 2011**

**Eric Daniels**

**Group Chief Executive**

# BUSINESS HIGHLIGHTS

## A year of significant progress

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### STRONG OPERATING PERFORMANCE

- Step change in profitability
- Sharp fall in impairments
- Good franchise momentum
- Integration programme on track

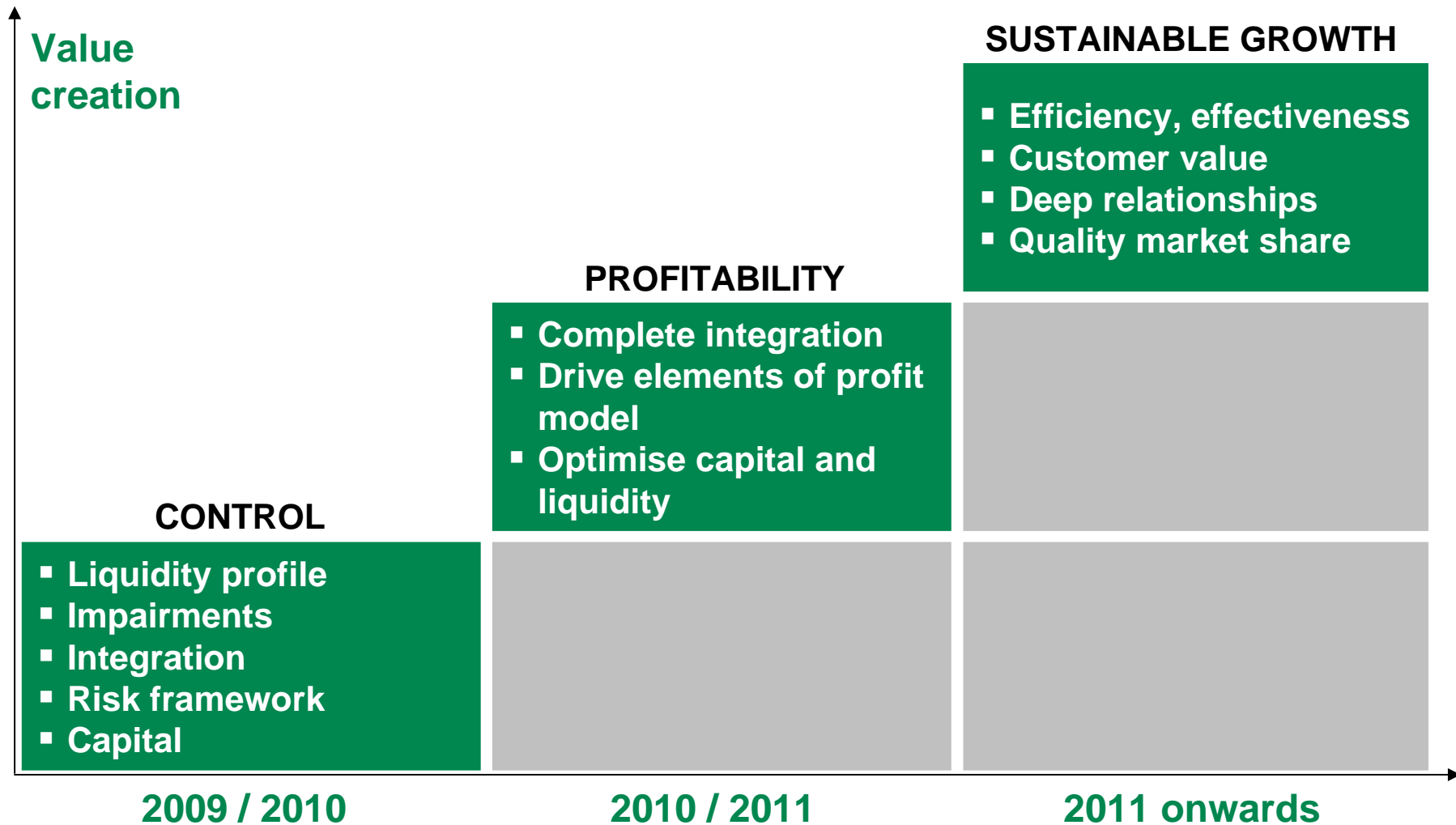
### RISK REDUCED

- Balance sheet reduction plan ahead of schedule
- Funding risk much reduced
- Capital position further strengthened
- More predictable asset portfolios

**A much stronger business**

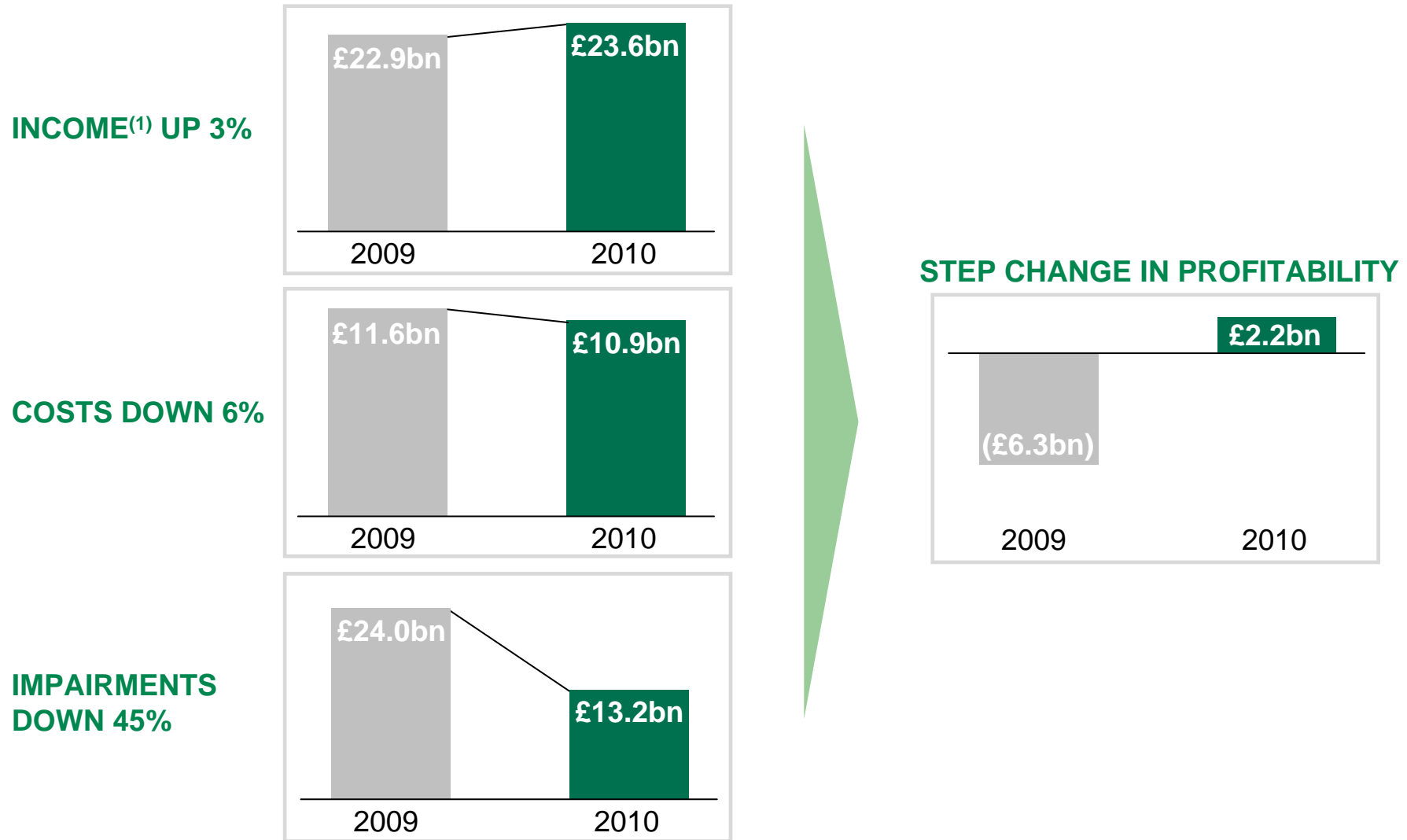
# THE BUILDING BLOCKS FOR A STRONG BUSINESS

## Driving customer value, earnings, capital and returns



# STEP CHANGE IN PROFITABILITY IN 2010

## Combined businesses results



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

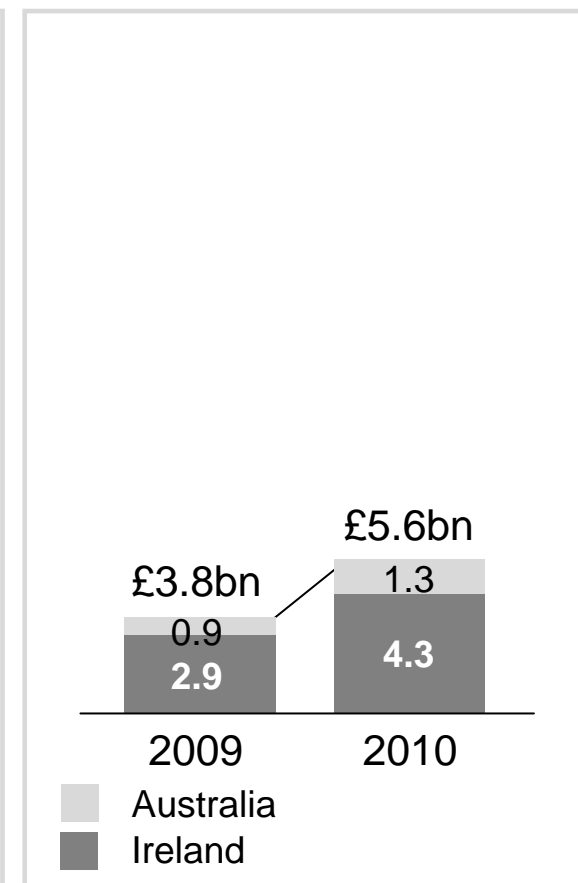
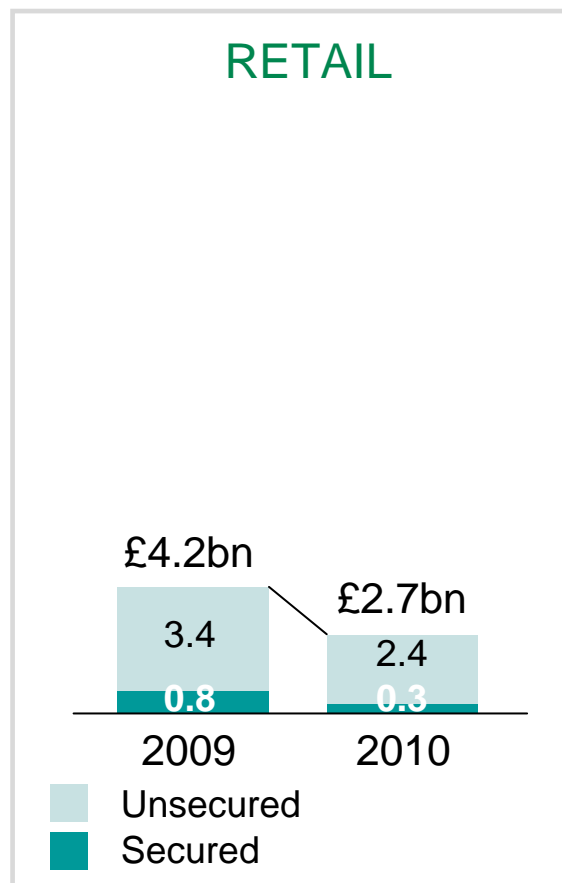
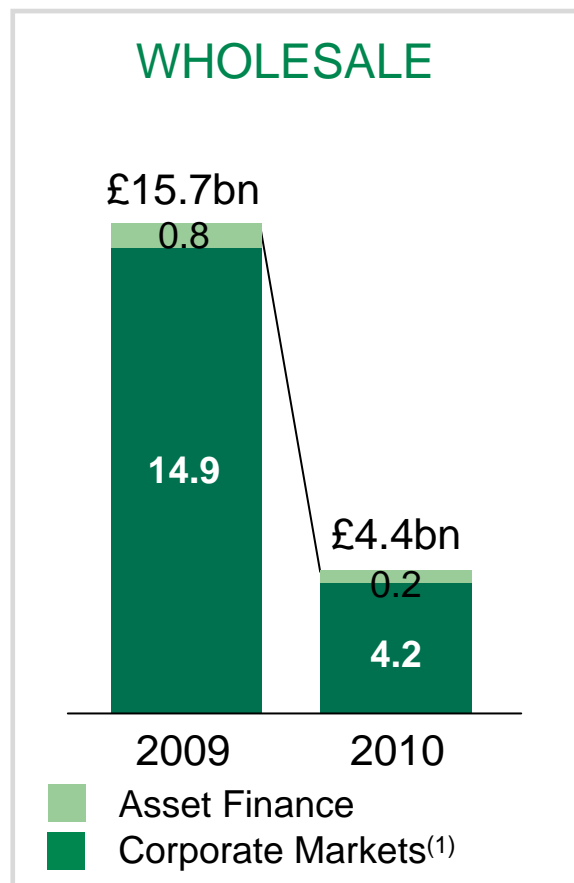
# SHARP FALL IN IMPAIRMENTS

Lloyds risk disciplines showing through in more predictable impairments



## UK, US IMPAIRMENTS DOWN AS ECONOMY RECOVERS

## IRELAND, AUSTRALIA IMPAIRMENTS HIT BY WEAKER ECONOMIES



<sup>(1)</sup> Includes Corporate North America

# 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

# INTEGRATING THE BUSINESS

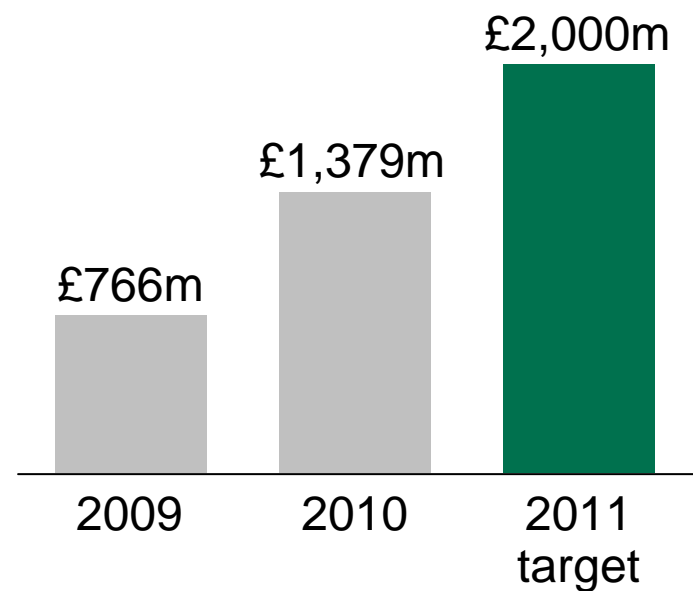
## Integration in the final phase



### KEY DEVELOPMENTS

- Standardised operating model
- Harmonised terms and conditions
- Standardised procurement and property processes
- Major systems changes

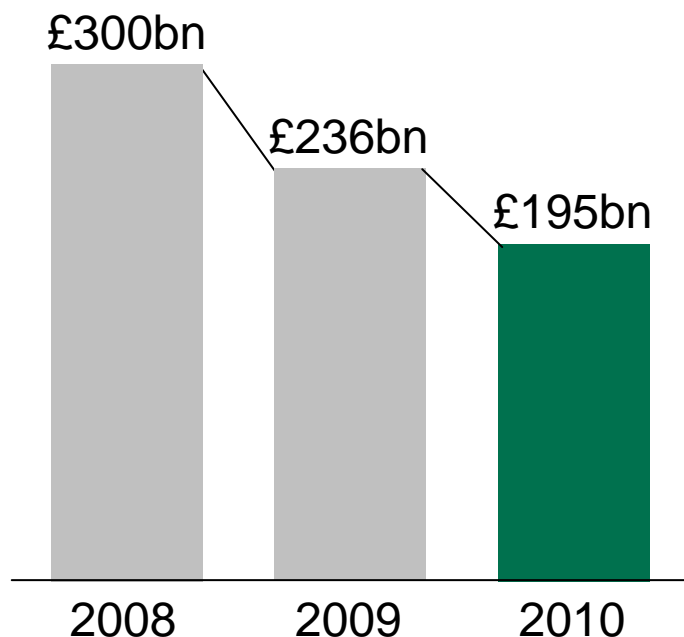
### RUN-RATE COST SAVINGS



# BALANCE SHEET REDUCTION AHEAD OF SCHEDULE



## ASSETS TARGETED FOR RUN-DOWN



## KEY POINTS

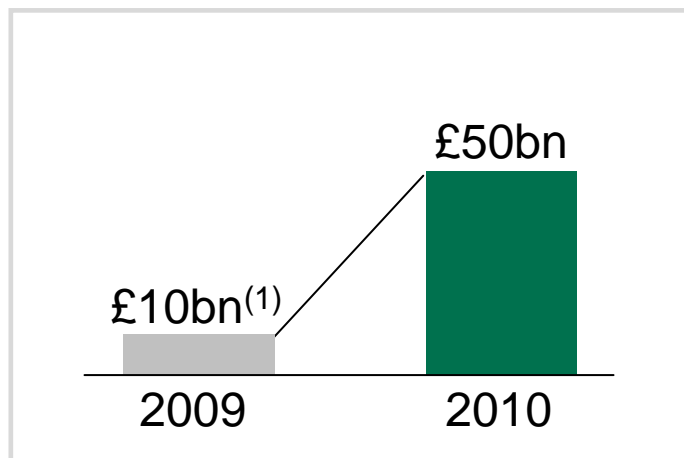
- Asset reduction programme halfway to goal
  - Goal: £200 billion asset run-off
- £41 billion reduction achieved in 2010
  - Across all target asset groups
- Value-based approach
- Sale of non-core businesses



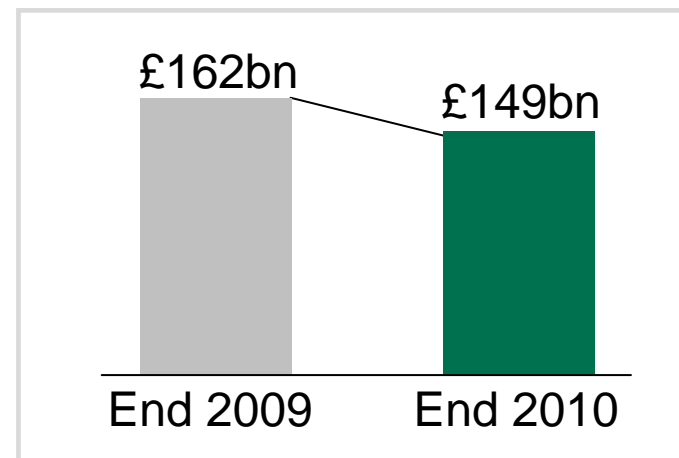
# FUNDING RISK MUCH REDUCED



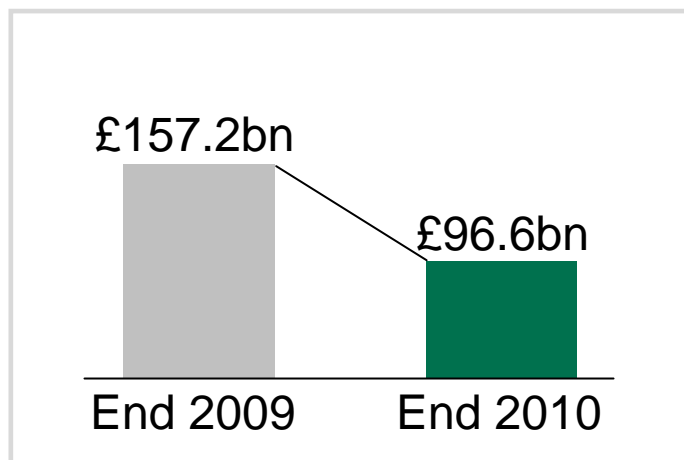
## TERM ISSUANCE



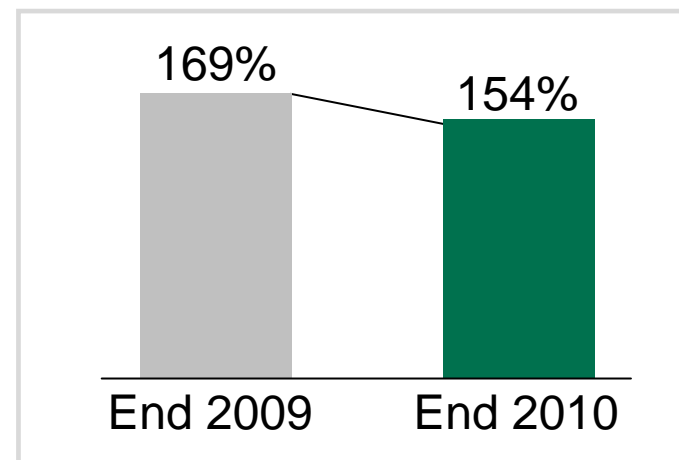
## WHOLESALE FUNDING <1 YEAR



## CENTRAL BANK FUNDING



## LOAN:DEPOSIT RATIO

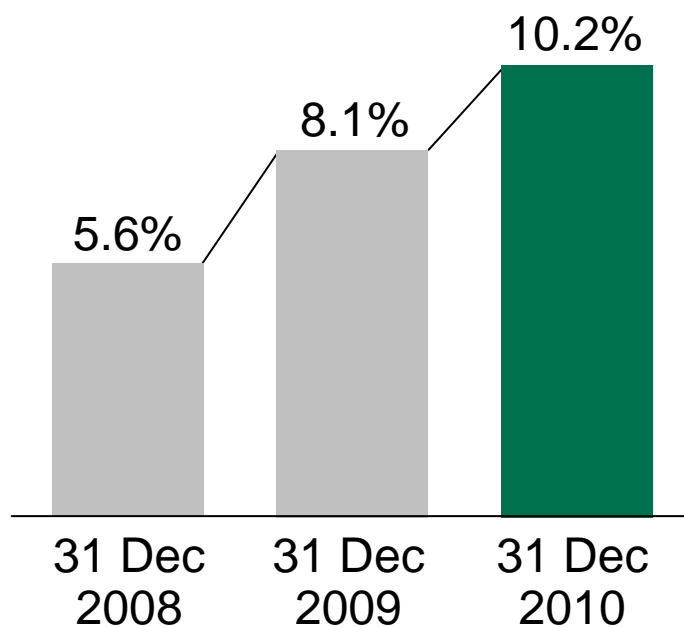


<sup>(1)</sup> Excluding government guaranteed issuance

# CAPITAL POSITION FURTHER STRENGTHENED



## CORE TIER 1 RATIO



## STRONG CAPITAL POSITION

- Reduced our risk profile in 2010
- Well placed for Basel III
- Robust performance in stress tests
- Core tier 1 ratio including ECNs would be 12.1%

# PERFORMING IN LINE WITH OUR 2010 GUIDANCE

## Now getting more predictable financials

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	GUIDANCE	2010 <sup>(1)</sup>
REVENUE <sup>(2)</sup> 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

# SUMMARY

## A year of significant progress



### RETURN TO PROFITABILITY

- Group delivering profits in 2010
- Good franchise momentum across all divisions
- Integration programme on track
- Trajectory is clear

### RISK REDUCED

- Balance sheet being restructured
- Funding position enhanced
- Capital position strengthened

**A much stronger business, positioned for growth**

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# **2010 RESULTS**

**25 February 2011**

**Tim Tookey**  
**Group Finance Director**

# DELIVERING .....



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- BUSINESS MOMENTUM

- BALANCE SHEET AND CAPITAL STRENGTH

- A STRENGTHENED FUNDING POSITION

- SUMMARY

# BUSINESS PERFORMANCE

## Income statement

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£m	2009	2010	HEADLINE % CHANGE	UNDERLYING % CHANGE
Income <sup>(1)</sup>	23,964	23,444	(2)%	3% <sup>(2)</sup>
				<b>Core +7%</b> <b>Non-core (9)%</b>
Costs	(11,609)	(11,078)	5%	6% <sup>(3)</sup>
Impairments	(23,988)	(13,181)	45%	45%
Profit before tax <sup>(4)</sup>	(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**

<sup>(1)</sup> Net of insurance claims <sup>(2)</sup> Excluding liability management gains and fair value movement of the ECN conversion feature

<sup>(3)</sup> Excluding impairment of fixed assets <sup>(4)</sup> Combined businesses basis

# RETURN TO PROFITABILITY

## Business performance and statutory profit

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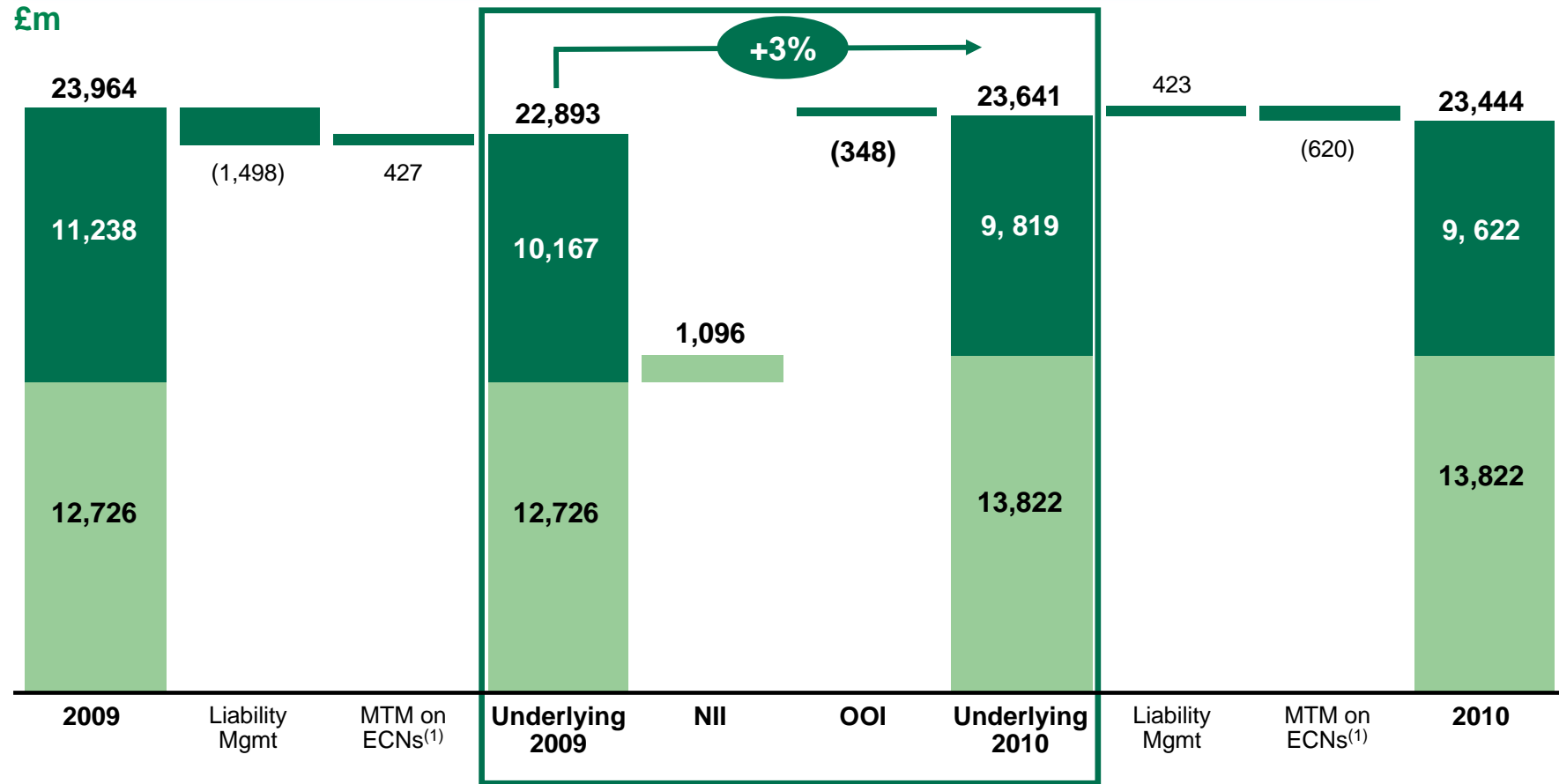
<b>PROFIT BEFORE TAX (£m)<sup>(1)</sup></b>	<b>2009</b>	<b>H1 2010</b>	<b>H2 2010</b>	<b>2010</b>
Divisional performance	(7,371)	988	1,421	2,409
Liability management gains	1,498	423	-	423
Fair value movement of ECN conversion feature	(427)	192	(812)	(620)
<b>Profit/(loss) before tax</b>	<b>(6,300)</b>	<b>1,603</b>	<b>609</b>	<b>2,212</b>
Integration costs	(1,096)			(1,653)
Volatility arising in insurance businesses	478			306
GAPS fee	(2,500)			-
Negative goodwill credit	11,173			-
Amortisation <sup>(2)</sup> 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)
<b>Profit before tax - statutory</b>	<b>1,042</b>			<b>281</b>

<sup>(1)</sup> Combined businesses basis <sup>(2)</sup> of purchased intangibles



# REVENUE TRENDS

## Good underlying income growth



■ Net Interest Income
 ■ Other Operating Income less insurance claims

**Good underlying income growth driven by NII**

<sup>(1)</sup> Fair value movement of the ECN conversion feature

# NET INTEREST INCOME DRIVERS

Good performance driven by increased asset pricing



		IMPACT ON NII £bn
<b>VOLUME</b>		
▪ Assets	<ul style="list-style-type: none"> <li>▪ Non-core lending continues to fall</li> <li>▪ Customer deleveraging continues</li> </ul>	(0.4)
▪ Liabilities	<ul style="list-style-type: none"> <li>▪ Growth in relationship deposits</li> <li>▪ Competitive pressures remain</li> </ul>	0.1
<b>PRICING</b>		
▪ Asset pricing	<ul style="list-style-type: none"> <li>▪ Increase driven by risk re-pricing</li> <li>▪ Repricing largely complete in line with previous guidance</li> </ul>	2.6
▪ Liability pricing	<ul style="list-style-type: none"> <li>▪ Margins remain depressed</li> <li>▪ Focus on relationship products reduces margin strain</li> </ul>	(1.1)
<b>FUNDING VOLUME</b>		0.4
<b>FUNDING RATE</b>		(0.2)
<b>NON BANKING INCOME</b>		(0.3)
		1.1

# NET INTEREST INCOME DRIVERS

Good performance despite increasing funding costs

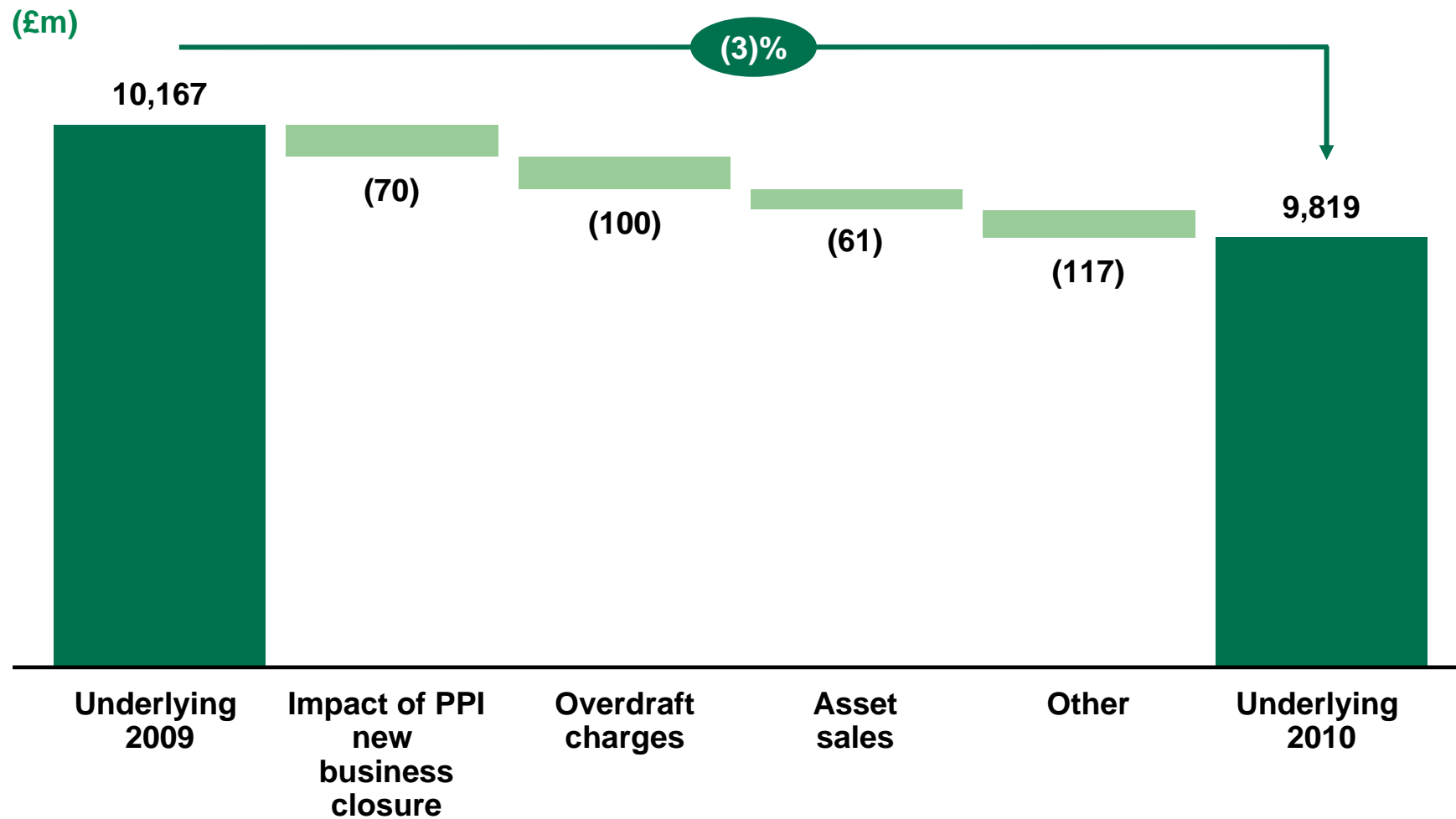


		IMPACT ON NII £bn
<b>VOLUME</b>		(0.3)
<b>PRICING</b>		1.5
<b>FUNDING VOLUME</b>		
▪ Fall in funding requirement	▪ Significant reduction in customer funding gap	0.6
▪ Term issuance plan	▪ 2010 issuance requirements exceeded	(0.2)
<b>FUNDING RATE</b>		
▪ Market spreads	▪ Higher issuance spreads increasing average funding costs	(0.2)
<b>NON BANKING INCOME</b>		(0.3)
		1.1

# OTHER OPERATING INCOME

Underlying income fell 3%<sup>(1)</sup>

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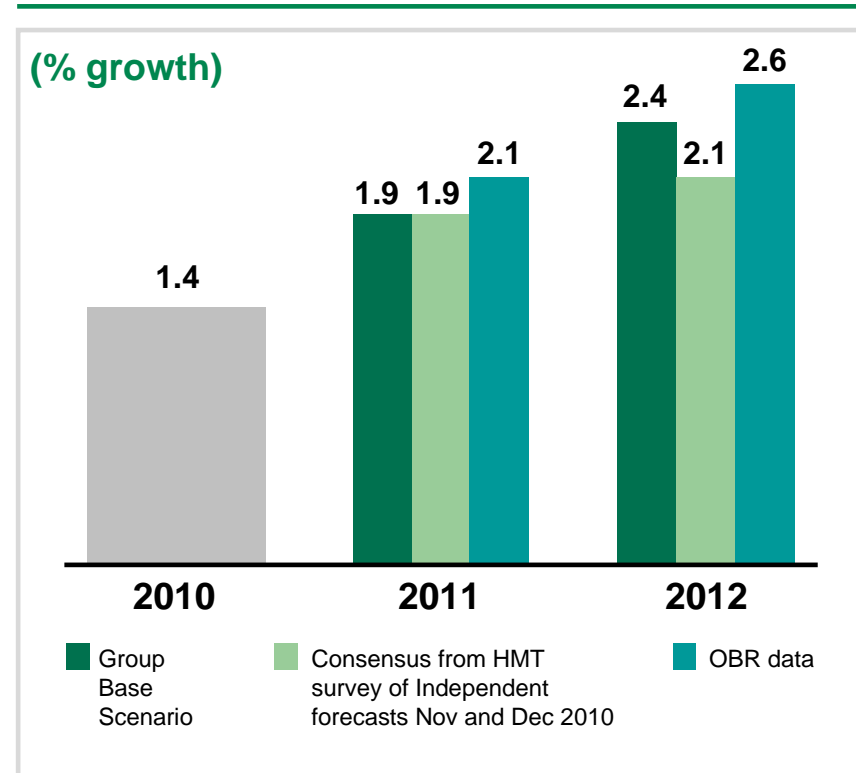
<sup>(1)</sup> Underlying income excludes liability management gains and the fair value movement of the ECN conversion feature

# ECONOMIC ASSUMPTIONS

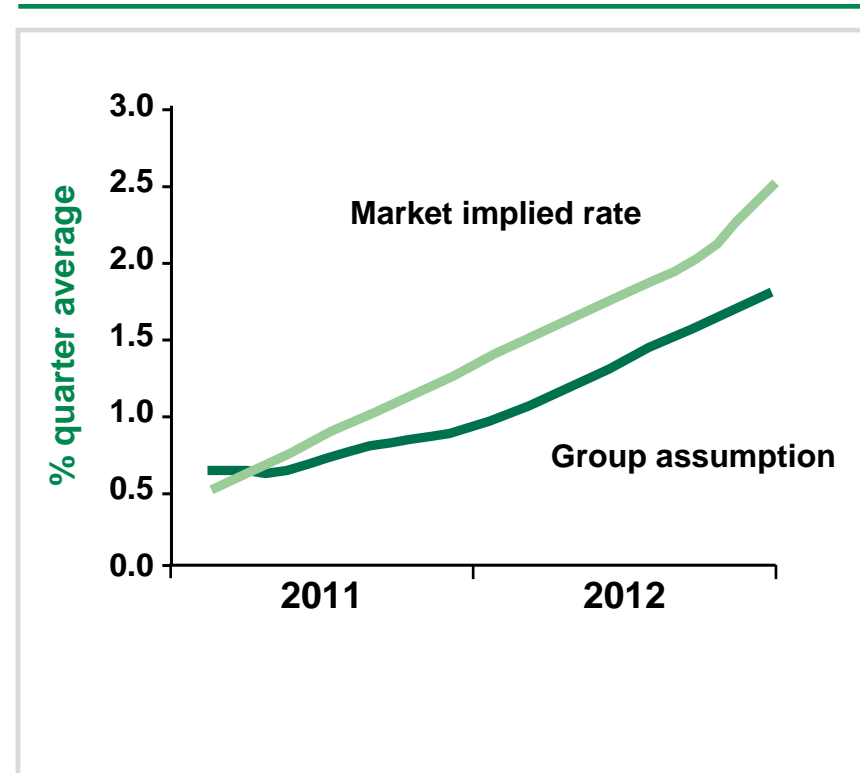
## Expect slow recovery, in line with consensus



### 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%

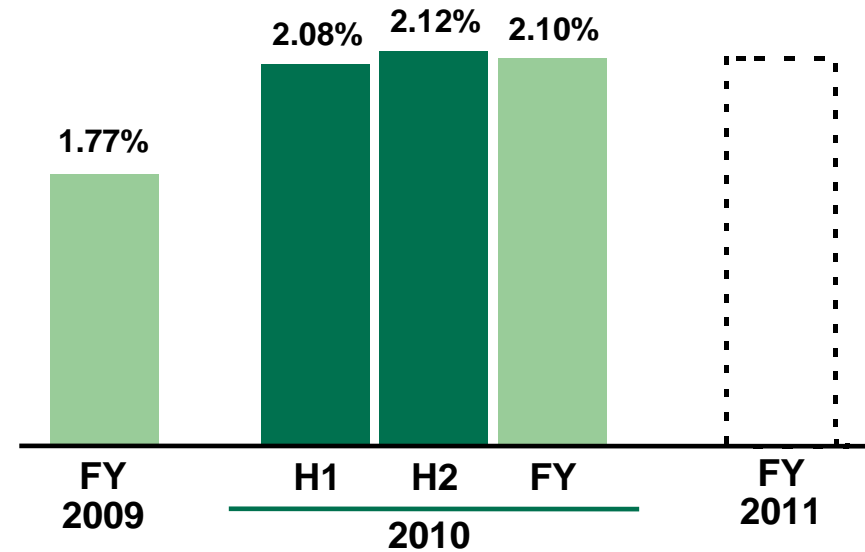
# DRIVERS OF FUTURE MARGIN

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



2011

<b>VOLUME</b>	<ul style="list-style-type: none"> <li>Continued subdued lending markets</li> <li>Further reduction in non-core assets</li> <li>Opportunity for growth in core business</li> <li>Growth in customer deposits</li> </ul>
<b>PRICING</b>	<ul style="list-style-type: none"> <li>Asset re-pricing offset by elevated Wholesale funding costs</li> <li>Liability margins depressed by low base rate and competitive markets</li> <li>No further progression in NIM expected in 2011</li> </ul>
<b>FUNDING</b>	<ul style="list-style-type: none"> <li>Expect wholesale term funding costs to remain elevated</li> </ul>

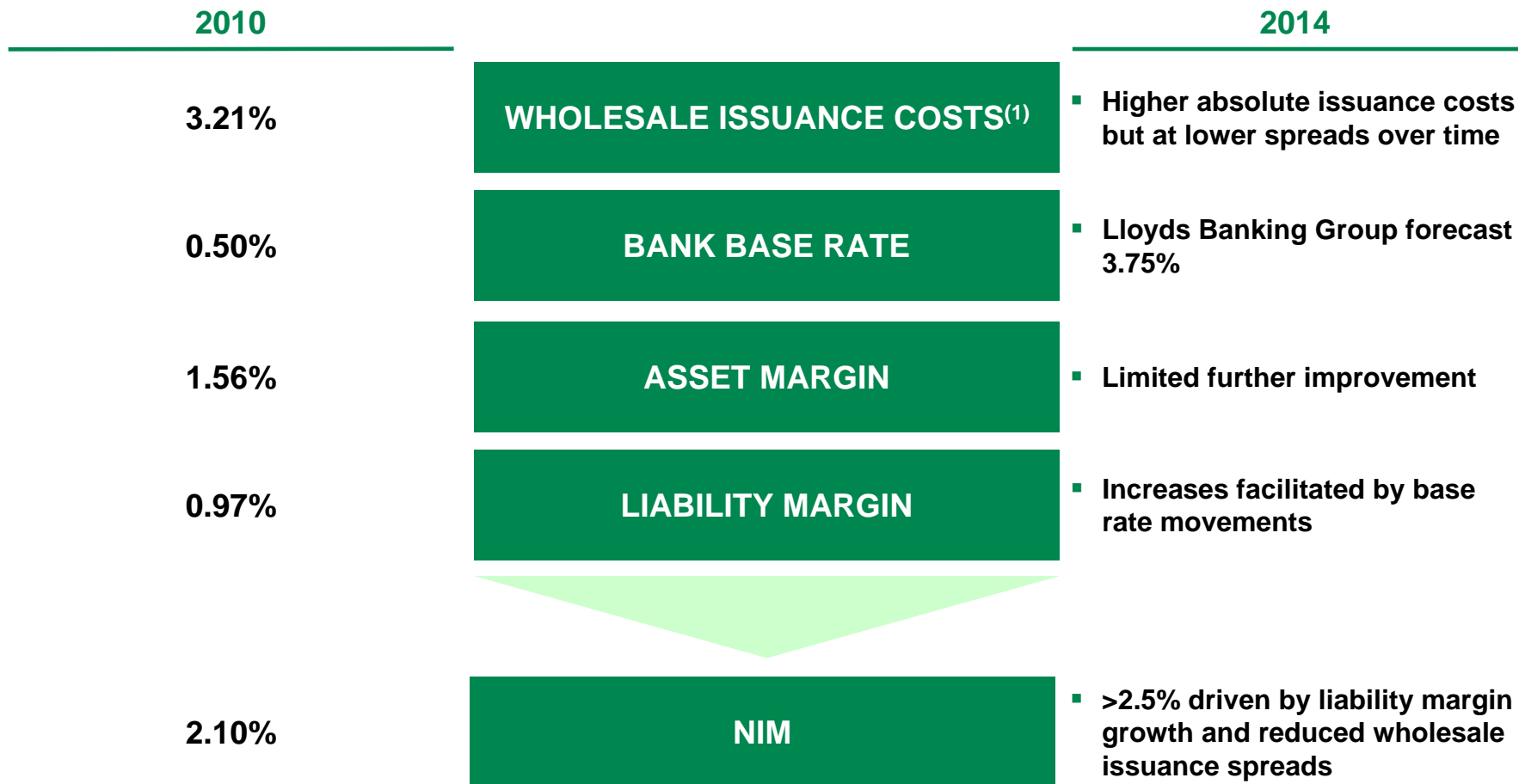


**No further progression in NIM expected in 2011**

# DRIVERS OF FUTURE MARGIN



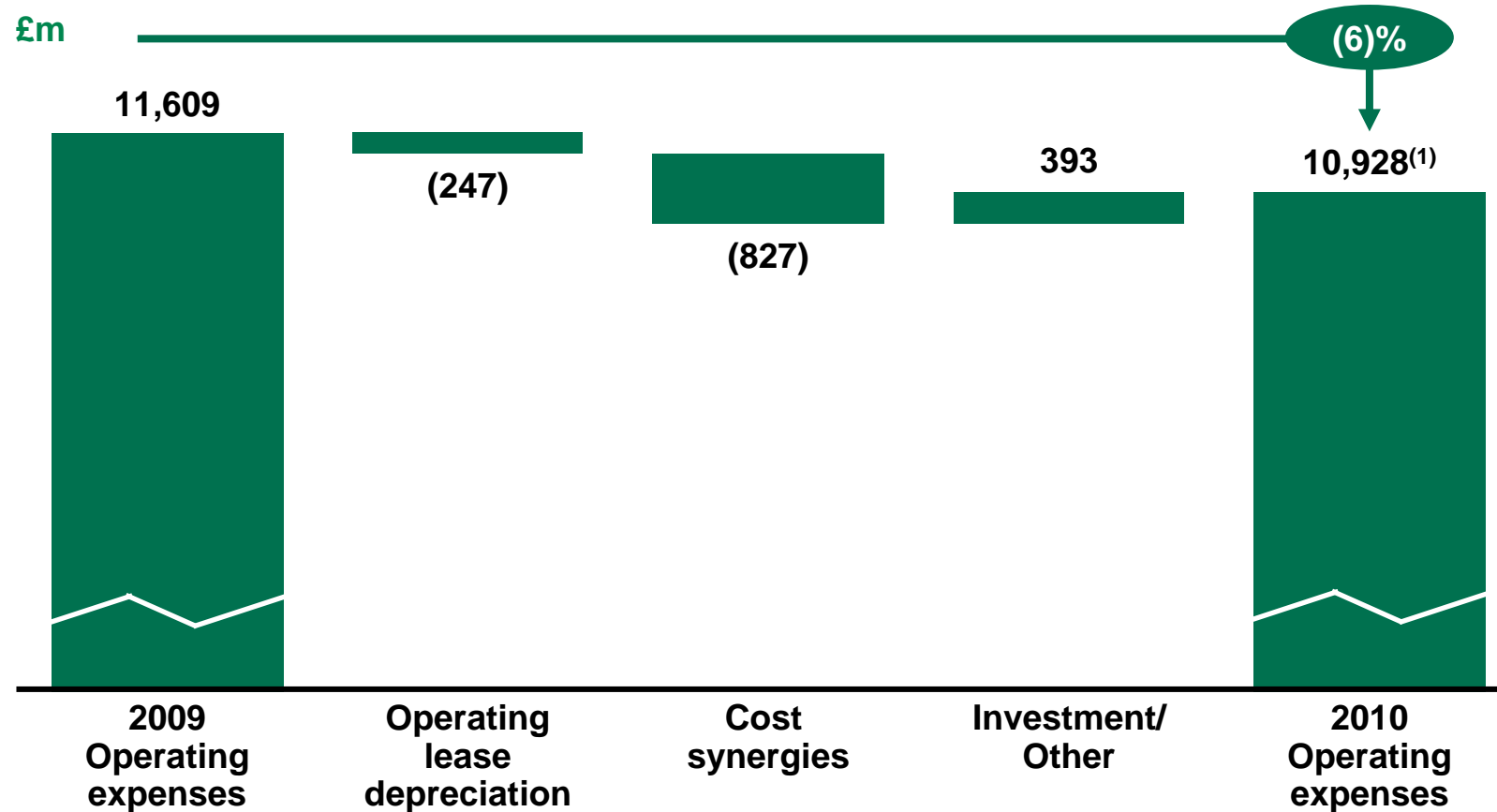
## BANK BASE RATE, WHOLESALE ISSUANCE COSTS & MARGIN OUTLOOK



<sup>(1)</sup> 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**

<sup>(1)</sup> Excluding impairment of fixed assets acquired after debt restructuring



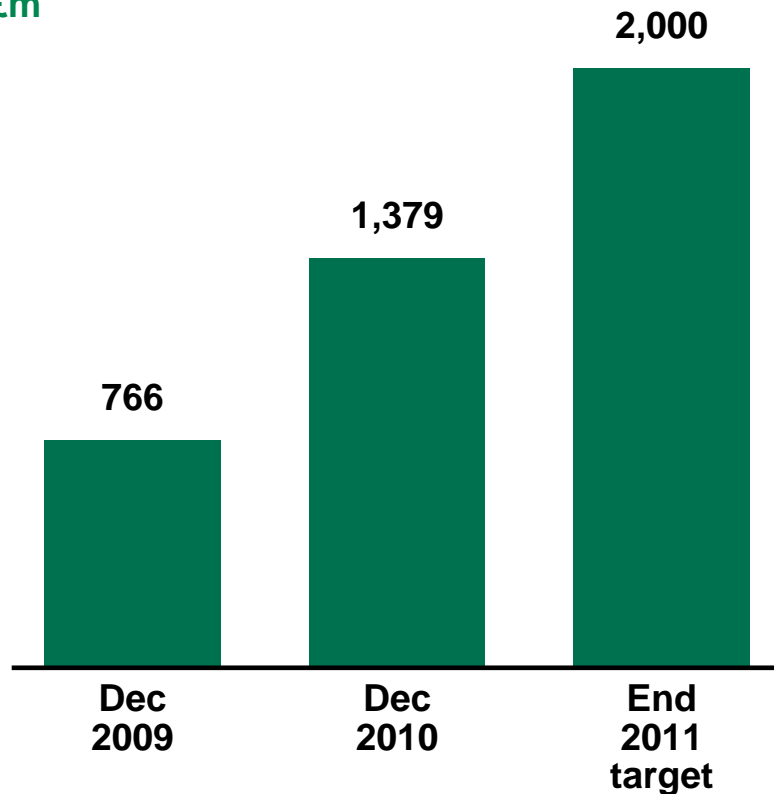
# SYNERGY PROGRESSION

## Strong delivery of synergy programmes



### RUN RATE

£m

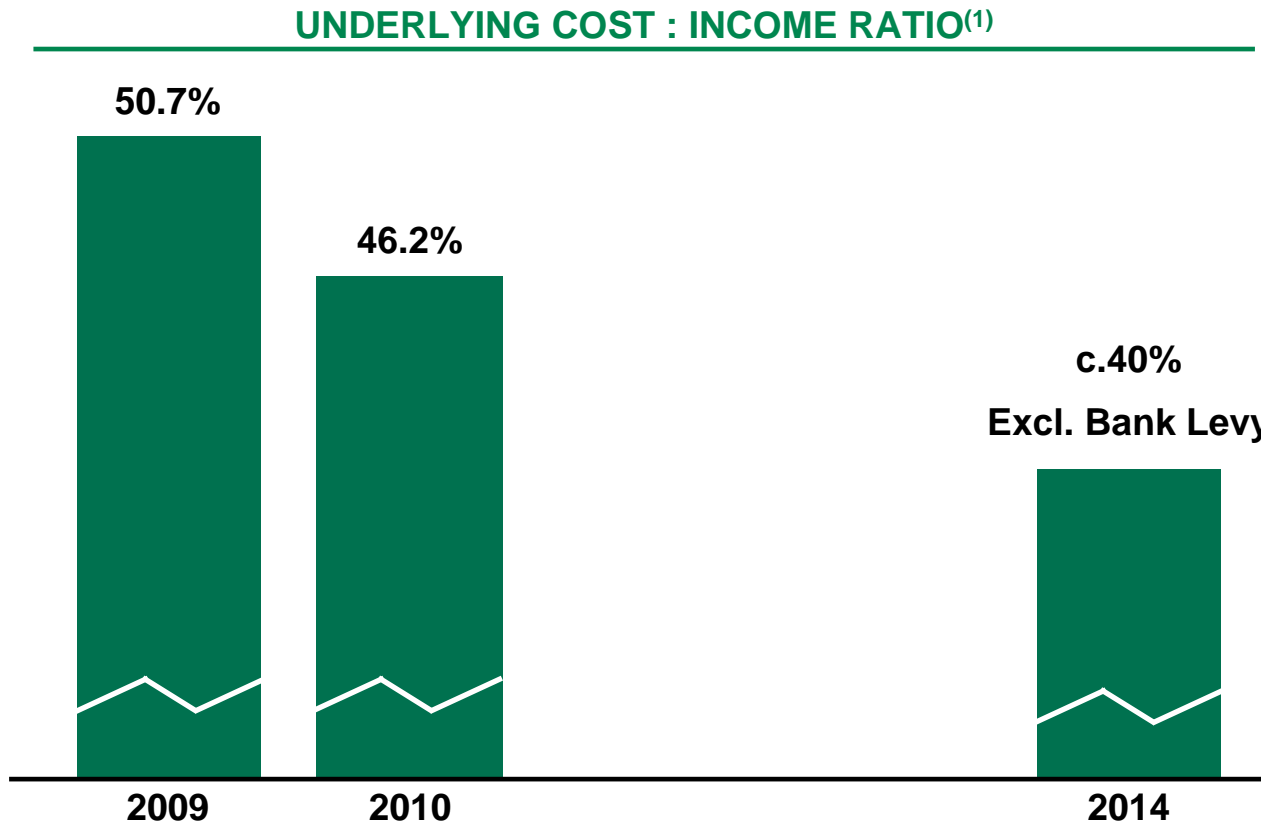


### STRONG PERFORMANCE IN 2010

- 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**

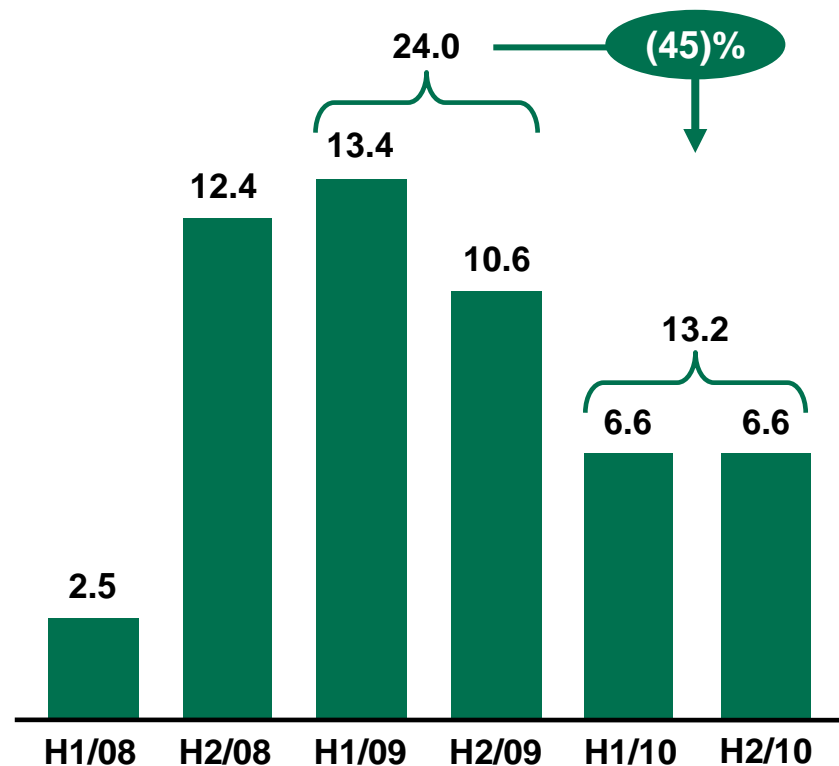
<sup>(1)</sup> Excluding liability management gains, fair value movement of the ECN conversion feature and impairment of fixed assets

# GROUP IMPAIRMENT CHARGE

## Significant reduction, primarily driven by Wholesale



£bn



- £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

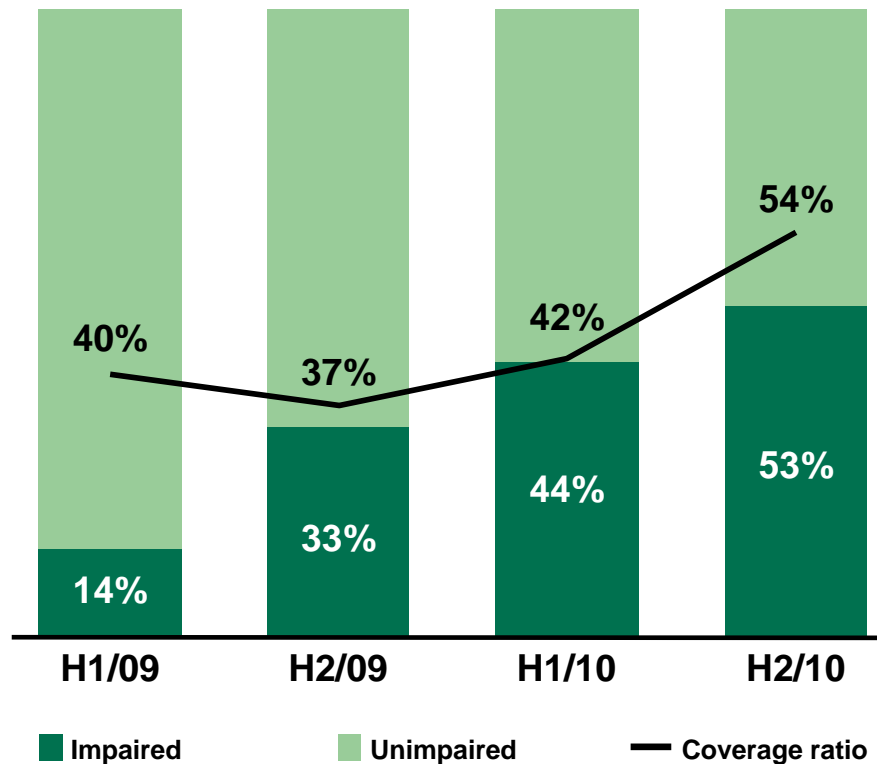
**Further reduction in impairment charge expected in 2011**

# IRISH PORTFOLIO

Coverage level increased due to economic uncertainties



## IMPAIRED/UNIMPAIRED ASSETS



- Market sentiment adversely impacted by downturn and EU-IMF bail out
- Consequently asset prices expected to be depressed for longer
- Coverage ratio increased to 54% (from 42% at H1) due to likely deferred realisation of asset values
- Downside risks still remain

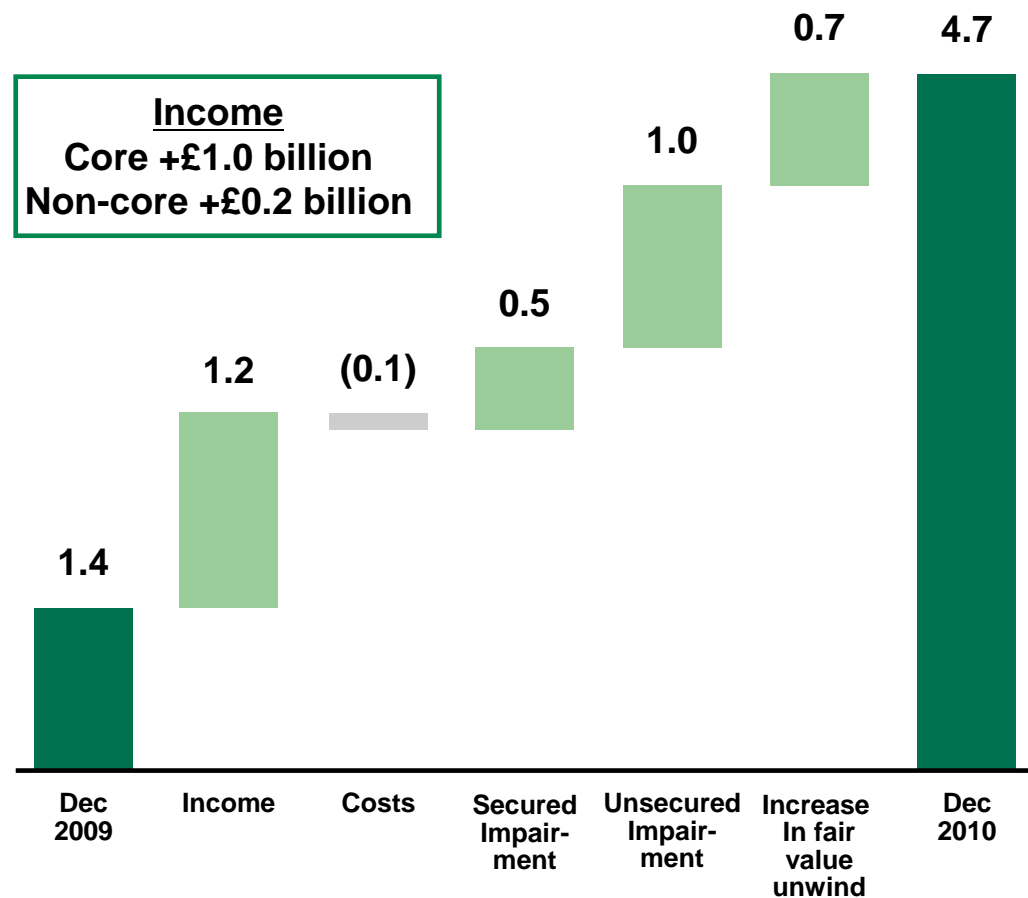
**BOSI now dissolved, assets fully managed from UK and  
rundown driven by experienced BSU team**

# RETAIL – GOOD PERFORMANCE

Good performance driven by income growth and lower impairment



## PROFIT BEFORE TAX (£bn)



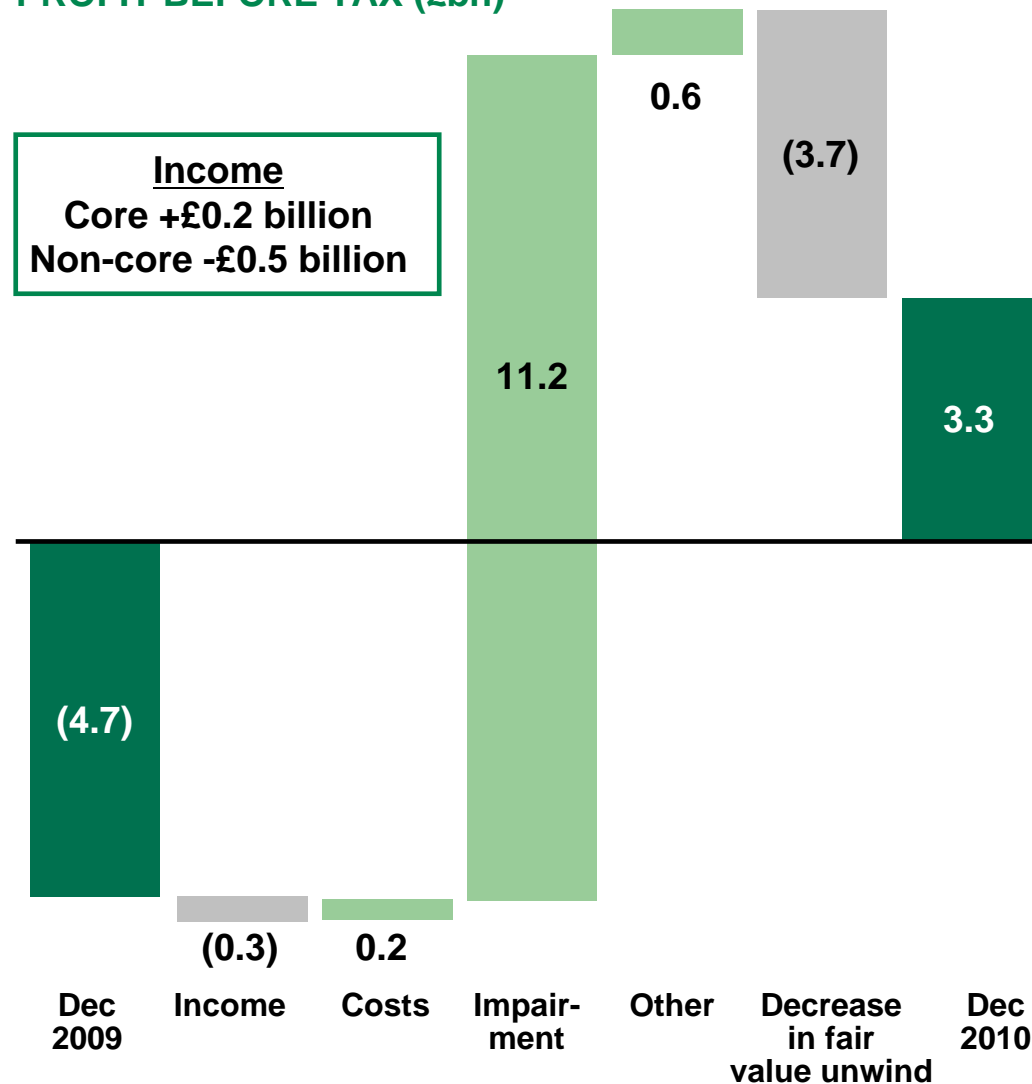
- Profit before tax increased to £4.7 billion, driven by good income growth, tight cost control and a significantly lower impairment charge
- Income up 12% largely as a result of continued repricing of risk, mortgage customers moving onto SVR and a decrease in the LIBOR to Base Rate spread
- Operating expenses tightly controlled
- Impairment charge down 35% driven by reduced impairment on both secured and unsecured portfolios

# WHOLESALE – IMPAIRMENT SIGNIFICANTLY LOWER

## Return to profitability driven by reduction in impairment



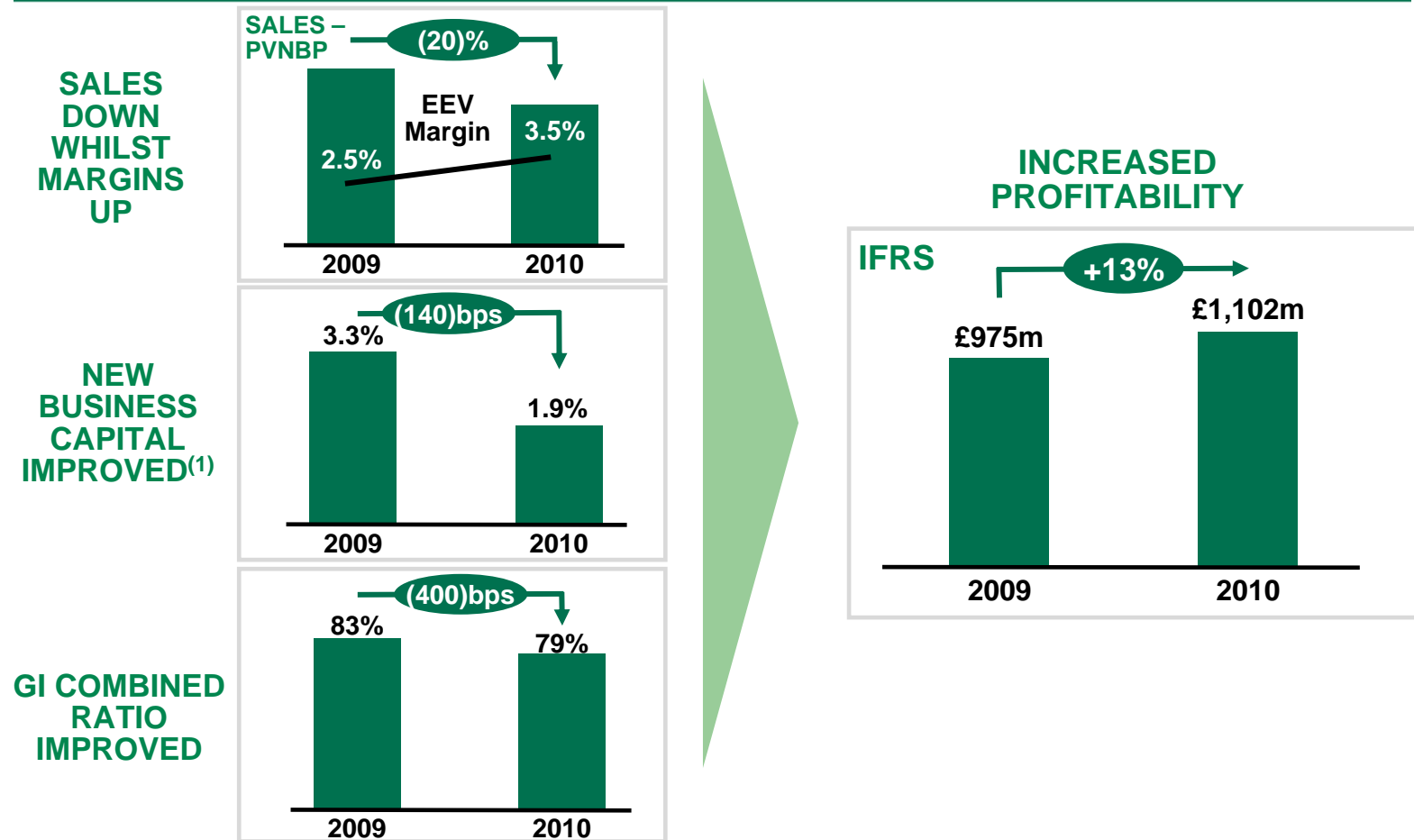
### PROFIT BEFORE TAX (£bn)



- Profit before tax increased to £3.3 billion principally driven by significant reduction in impairment charge
- Impairment charge 72% lower than last year at £4.4 billion but continues to be driven by HBOS heritage corporate real estate and related portfolios
- Income down 4%, primarily driven by lower interest earning asset balances, in line with targeted balance sheet reductions and lower income in Treasury and Trading
- Good progress in reducing operating expenses

# INSURANCE – SOLID PERFORMANCE

Capital intensity reduced



Focus on value over volume, driving improved returns

<sup>(1)</sup> New business capital divided by sales

# DELIVERING .....



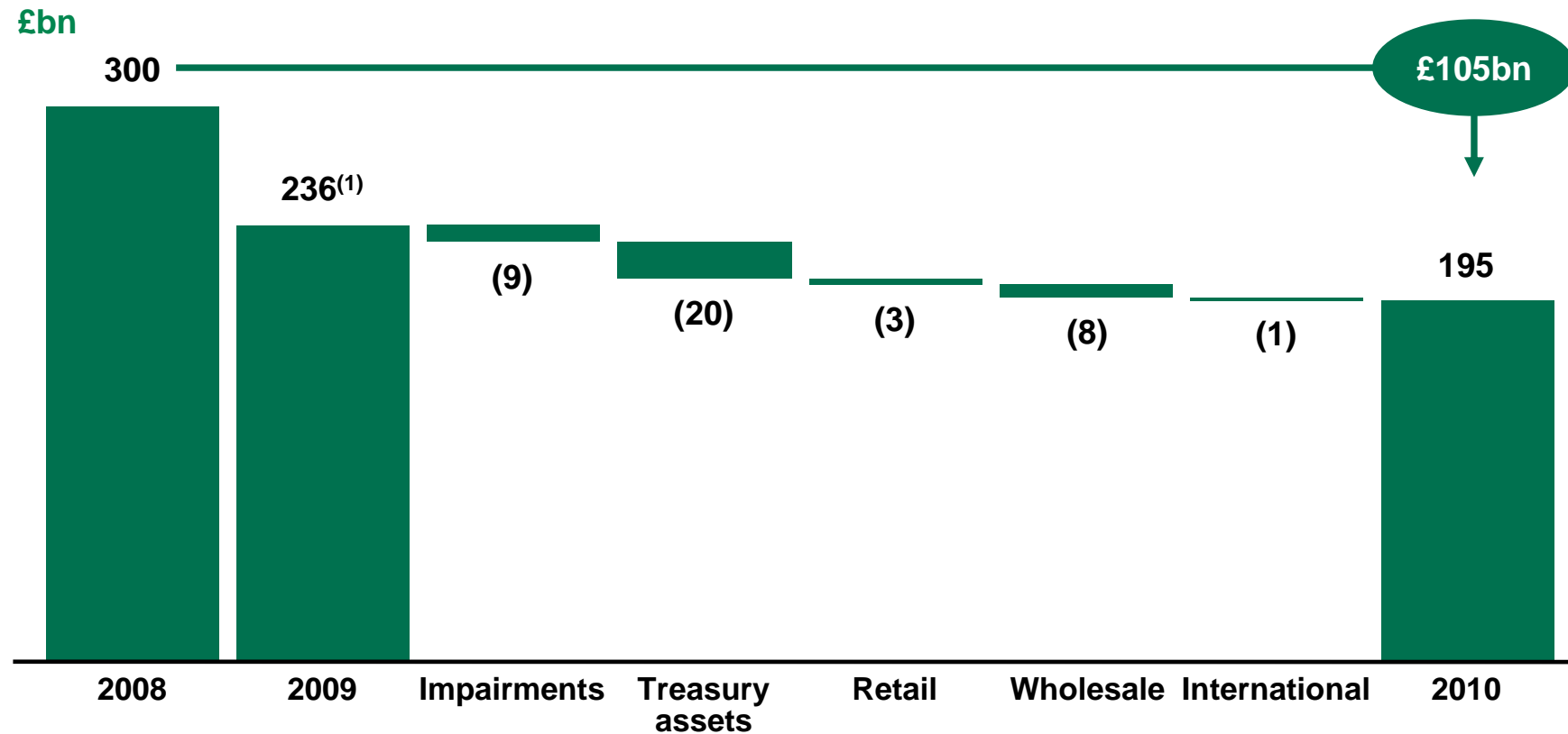
- 
- BUSINESS MOMENTUM
  - **BALANCE SHEET AND CAPITAL STRENGTH**
  - A STRENGTHENED FUNDING POSITION
  - SUMMARY



# GOOD PROGRESS ON ASSET REDUCTIONS

£105 billion asset reduction since end 2008

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

<sup>(1)</sup> 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

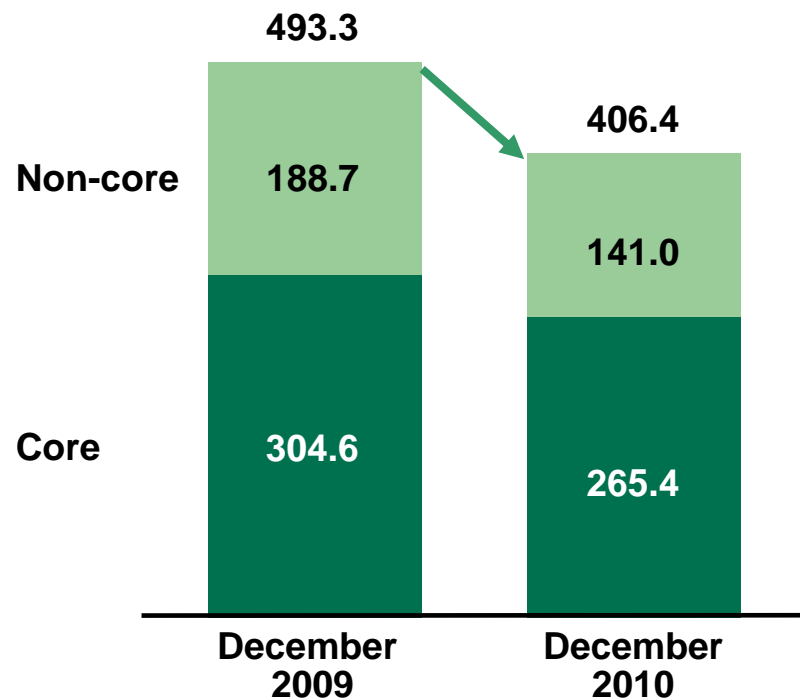
**Non-core assets are more capital intensive and generate a disproportionate level of impairment**

# 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

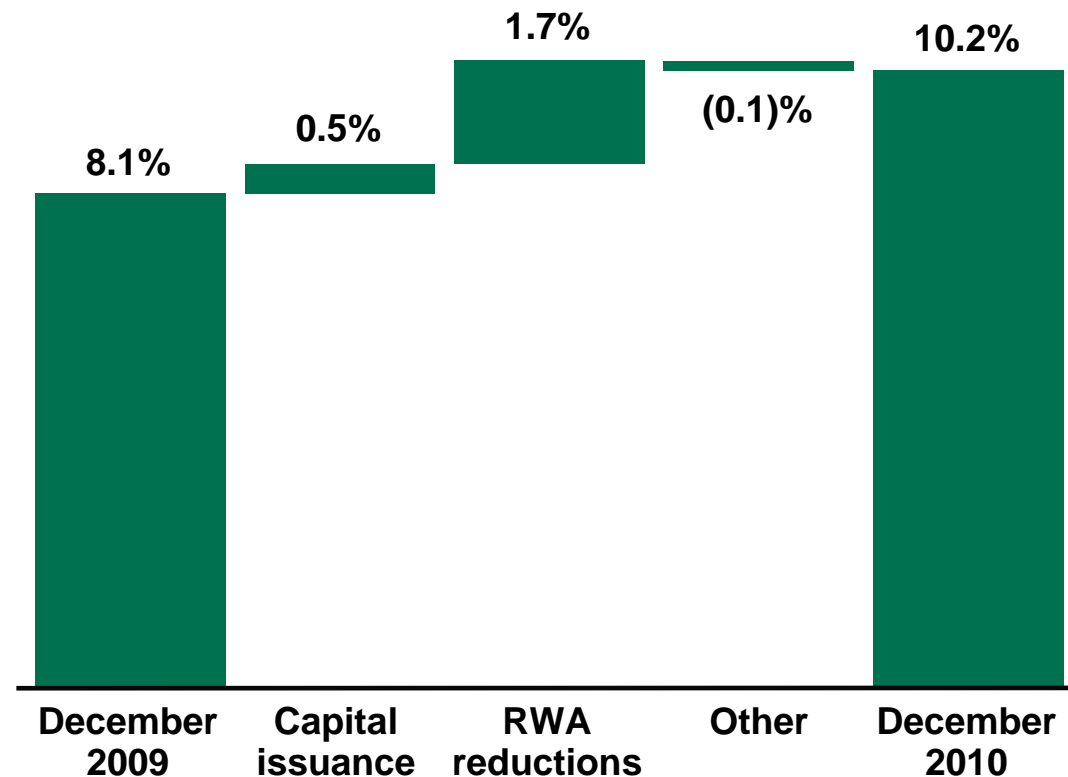
**Further reduction of risk-weighted assets expected over next few years**

# A STRONG CAPITAL POSITION

## Improving quality and quantity of capital



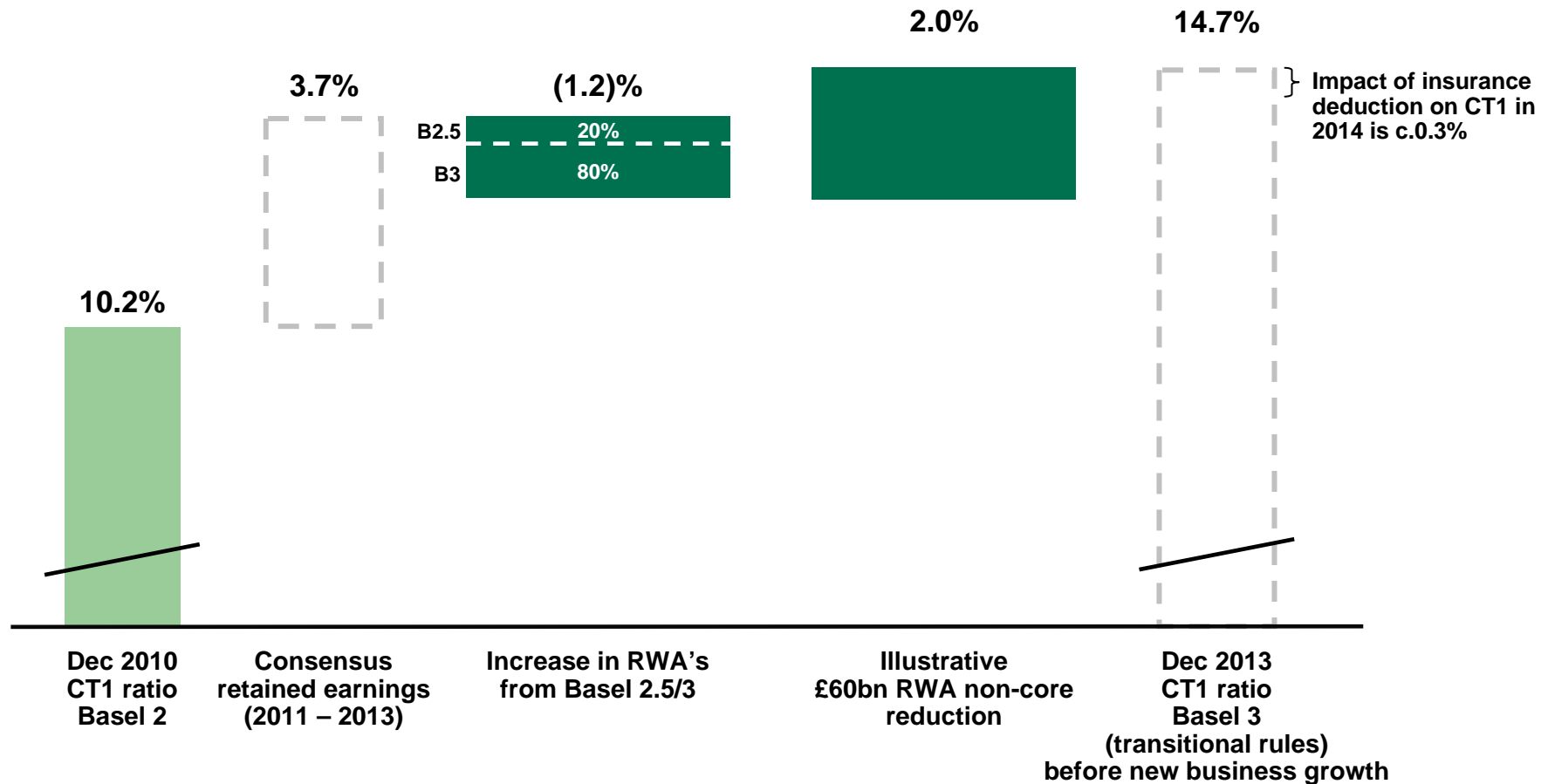
### CORE TIER 1 RATIO (%)



- 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<sup>(1)</sup>



**Existing asset reduction programme mitigates likely impact of Basel proposals**

<sup>(1)</sup> See preparation notes in appendix

# DELIVERING .....

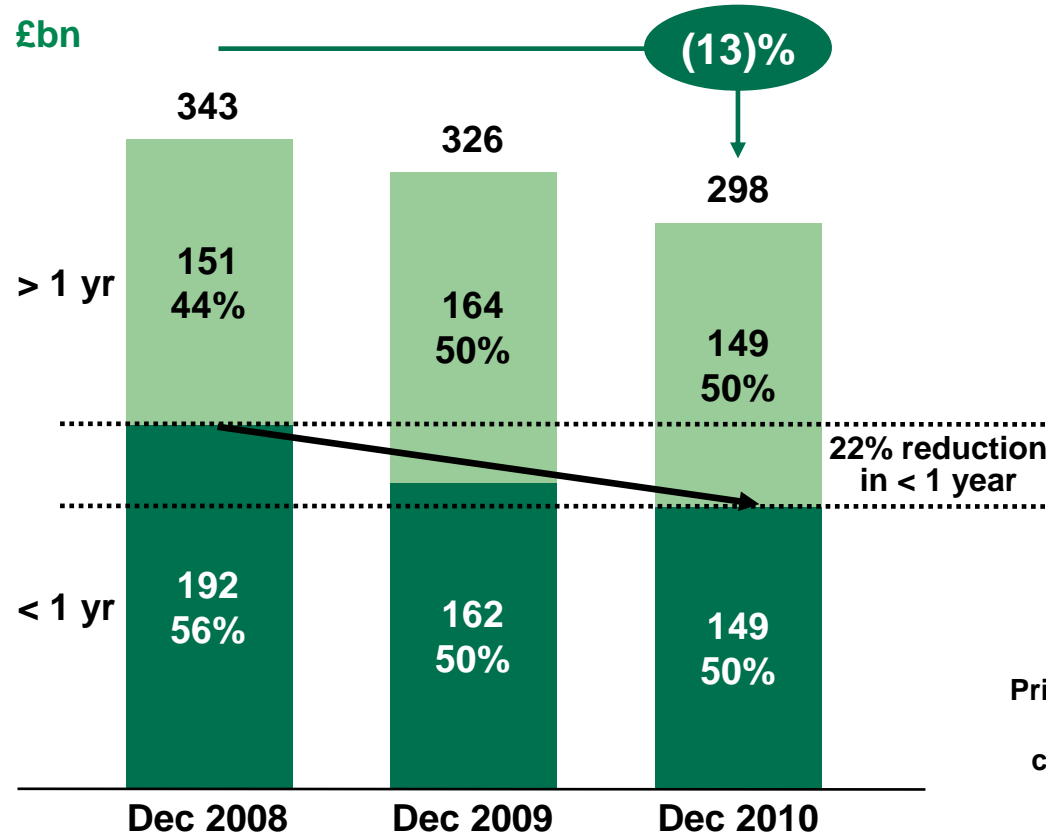


- 
- BUSINESS MOMENTUM
  - BALANCE SHEET AND CAPITAL STRENGTH
  - **A STRENGTHENED FUNDING POSITION**
  - SUMMARY

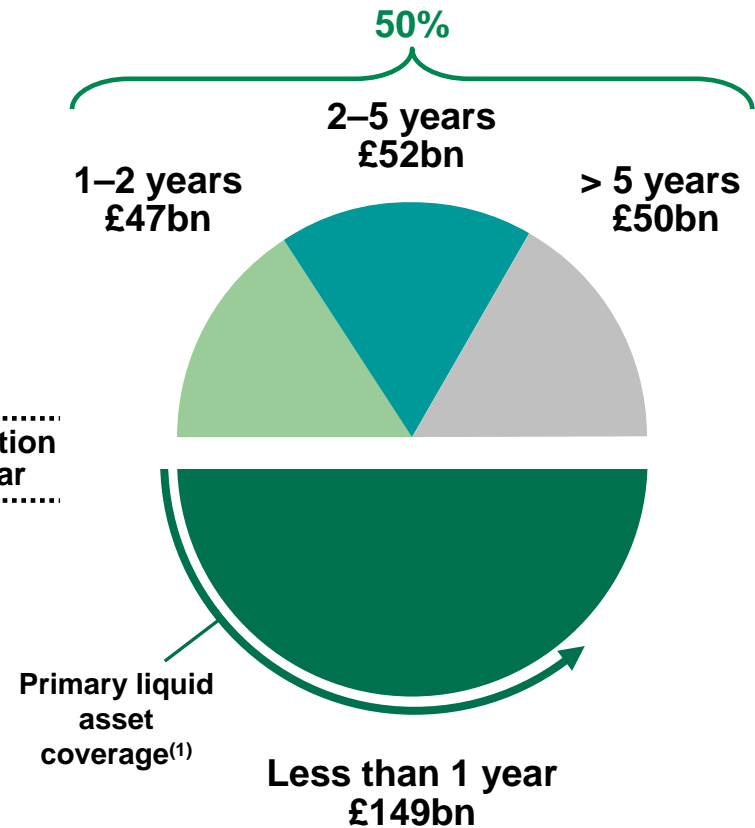
# FURTHER REDUCTIONS IN OUR WHOLESALE FUNDING ...and maturity profile maintained



## WHOLESALE FUNDING MATURITY PROFILE



## WHOLESALE FUNDING £298BN



**Continued progress in reducing wholesale funding position, good progress on reducing liquidity risk**

<sup>(1)</sup> Primary liquidity of £98 billion

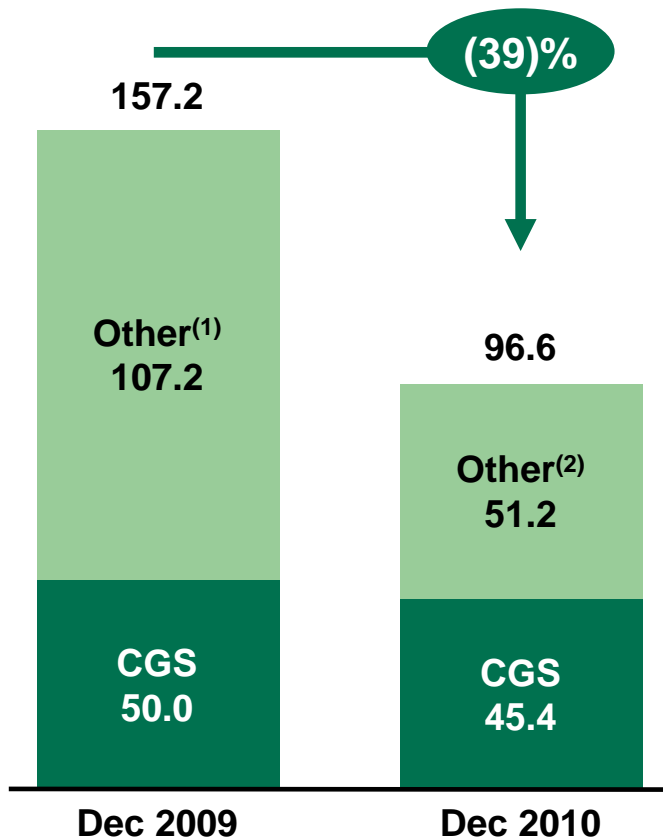
# FURTHER REDUCTIONS IN GOVERNMENT & CENTRAL BANK FUNDING

## Accelerated pay-down ahead of contractual maturities



### REDUCING GOVERNMENT & CENTRAL BANK FUNDING

£bn



- £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

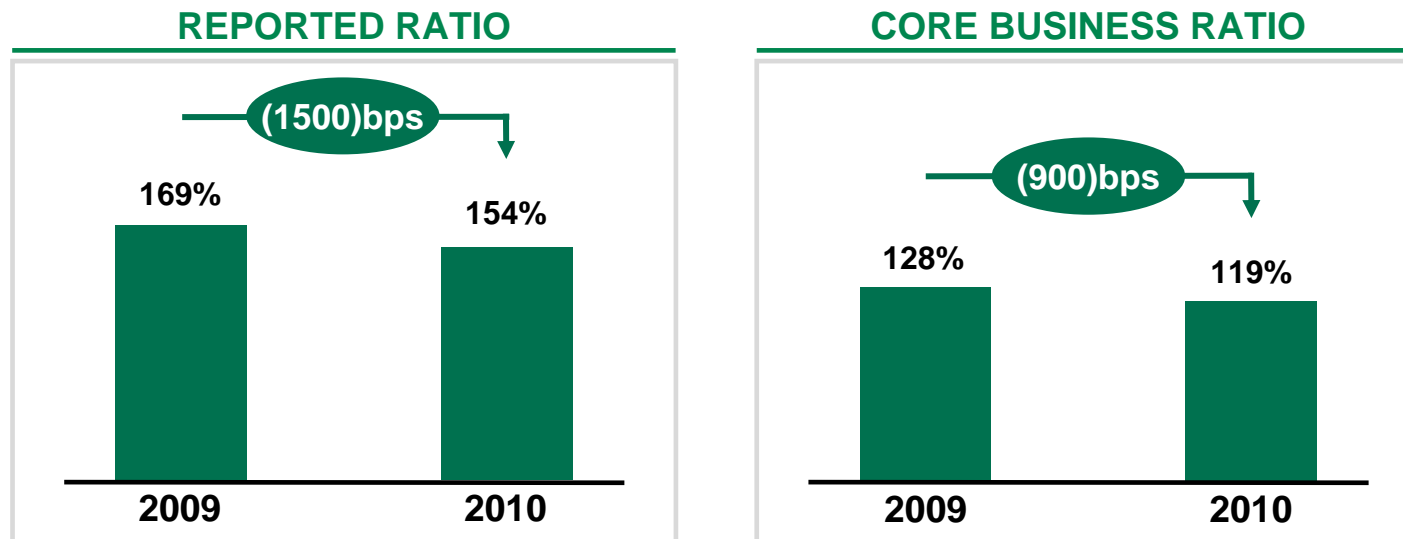
(1) Other: UK Special Liquidity Scheme facilities, US Federal Reserve, ECB, Bank of Japan and Reserve Bank of Australia

(2) Other: UK Special Liquidity Scheme facilities and Reserve Bank of Australia



# FURTHER REDUCTIONS IN OUR LOAN TO DEPOSIT RATIO

Loan to deposit ratio now at 154% - Core book ratio is 119%



- Loan to deposit ratio continues to improve due to:
  - Excellent relationship deposit growth
  - Continued customer deleveraging
  - Subdued new lending demand
- Loan to deposit ratio on core book significantly lower at 119%
- Continue to expect reported loan to deposit ratio to fall to below 140% over next few years
- Liquidity Coverage Ratio : 71% / Net Stable Funding Ratio : 88%

# FUNDING SUMMARY

## Executing a broad funding strategy



- Reduced absolute level of wholesale funding
- Reducing reliance on short-term funding
- Good deposit growth
- Substantial liquid asset buffer (£98 billion) provides 2011 flexibility
- Reduced government and central bank funding by £61 billion
- Completed c.£50 billion of term issuance in 2010, well ahead of plan
- Diverse range of funding products and sources
- Plans to reduce wholesale funding further while reinvesting for growth



**A strengthened funding position**

# DELIVERING .....



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

# A PROFITABLE, STRENGTHENED BUSINESS

Good progress towards our medium term targets

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- 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**

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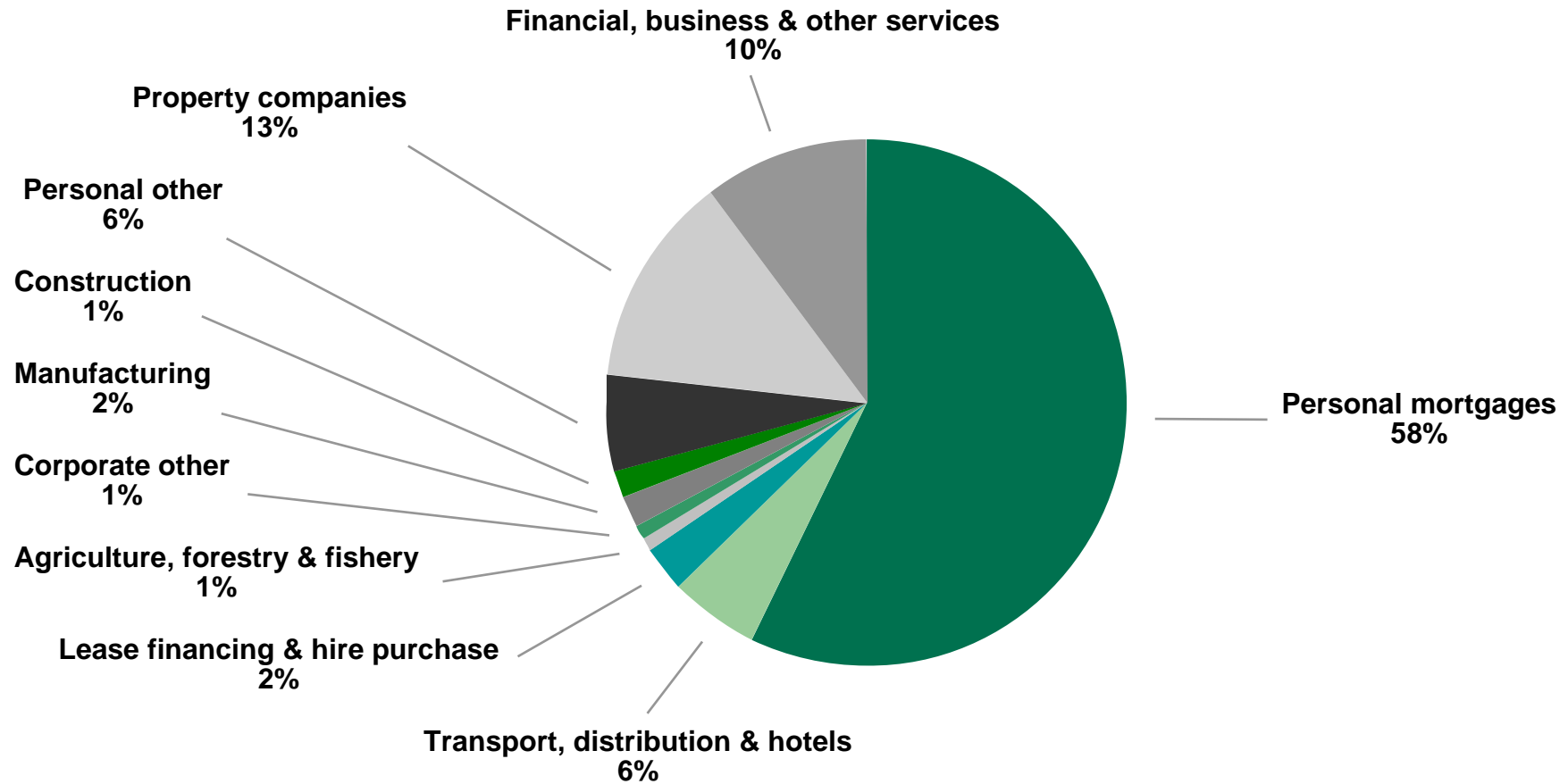
## **APPENDIX**

# LOANS AND ADVANCES TO CUSTOMERS



## LOANS AND ADVANCES TO CUSTOMERS £611 BILLION<sup>(1)</sup>

31 Dec 2010



<sup>(1)</sup> Before allowance for impairment losses totalling £18.4 billion and fair value adjustments

# MORTGAGE PORTFOLIO

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BANKING  
GROUP

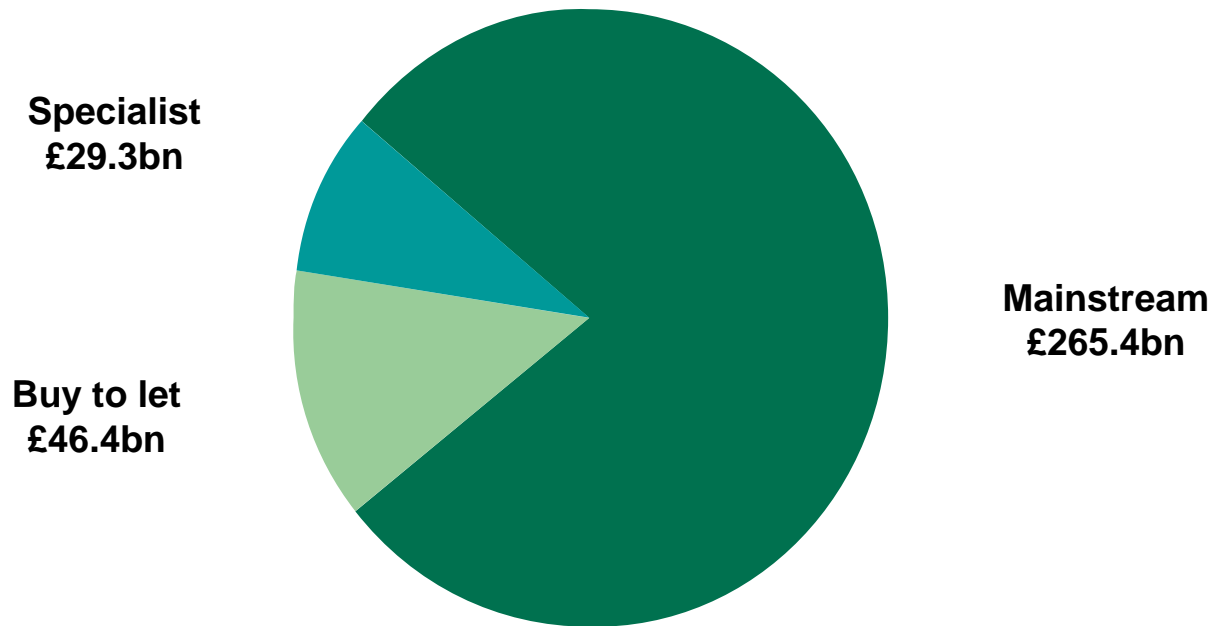


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**UK MORTGAGE PORTFOLIO £341.1 BILLION**

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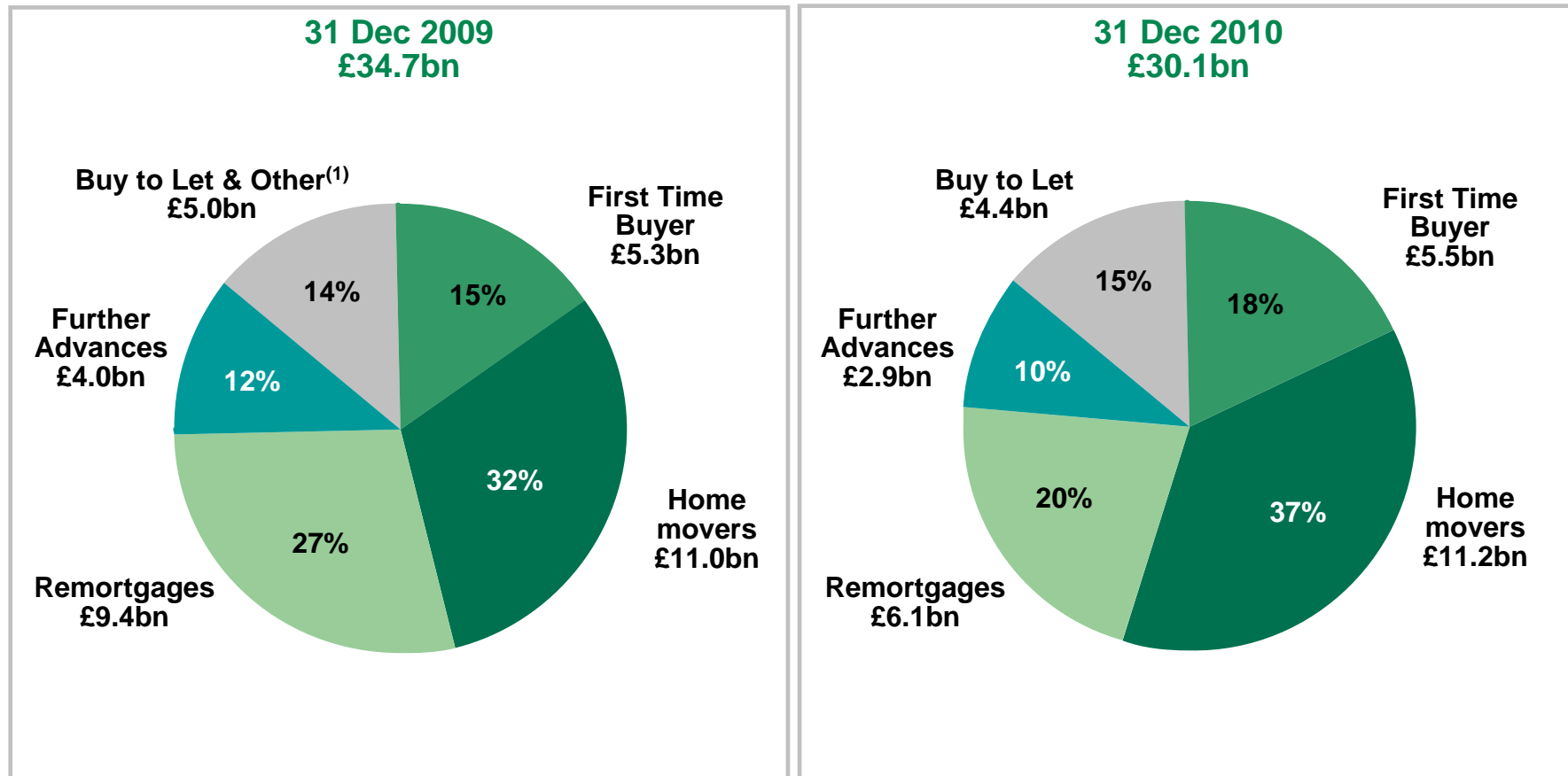
31 Dec 2010



# MORTGAGE PORTFOLIO



## NEW BUSINESS



<sup>(1)</sup> Incorporates a small amount of specialist business



# MORTGAGE PORTFOLIO LTVs

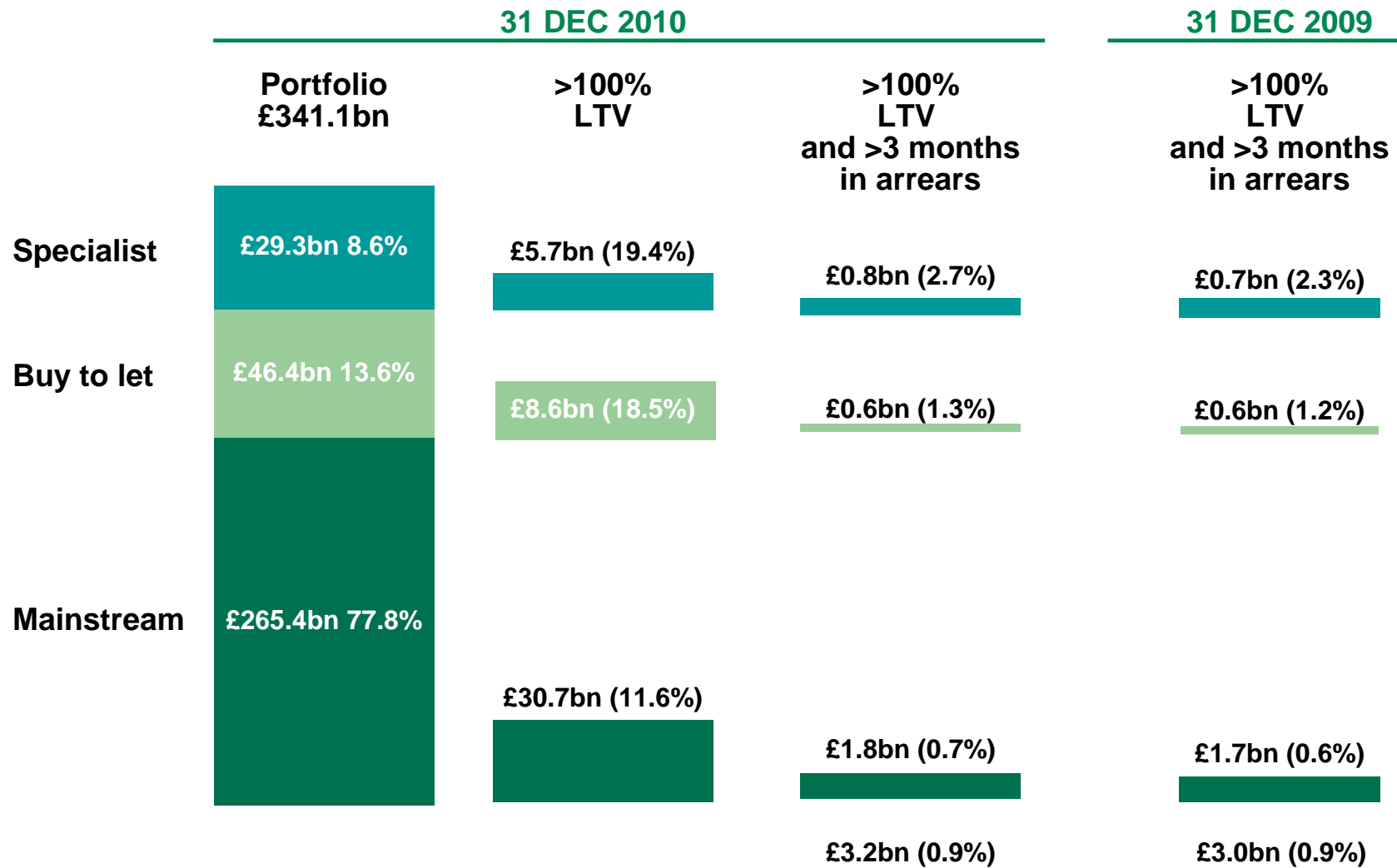
LLOYDS  
BANKING  
GROUP



	MAINSTREAM	BUY TO LET	SPECIALIST	GROUP
Average LTVs	51.9%	75.6%	72.9%	55.6%
New business LTVs	60.0%	66.5%	n/a	60.9%
<= 80% LTV	61.2%	44.4%	39.3%	57.0%
> 80–90% LTV	15.3%	18.0%	21.3%	16.2%
> 90–100% LTV	11.9%	19.1%	20.0%	13.6%
> 100% LTV	11.6%	18.5%	19.4%	13.2%
Value > 100% LTV	£30.7bn	£8.6bn	£5.7bn	£44.9bn

Indexed by value at 31 Dec 2010  
Specialist lending is closed to new business

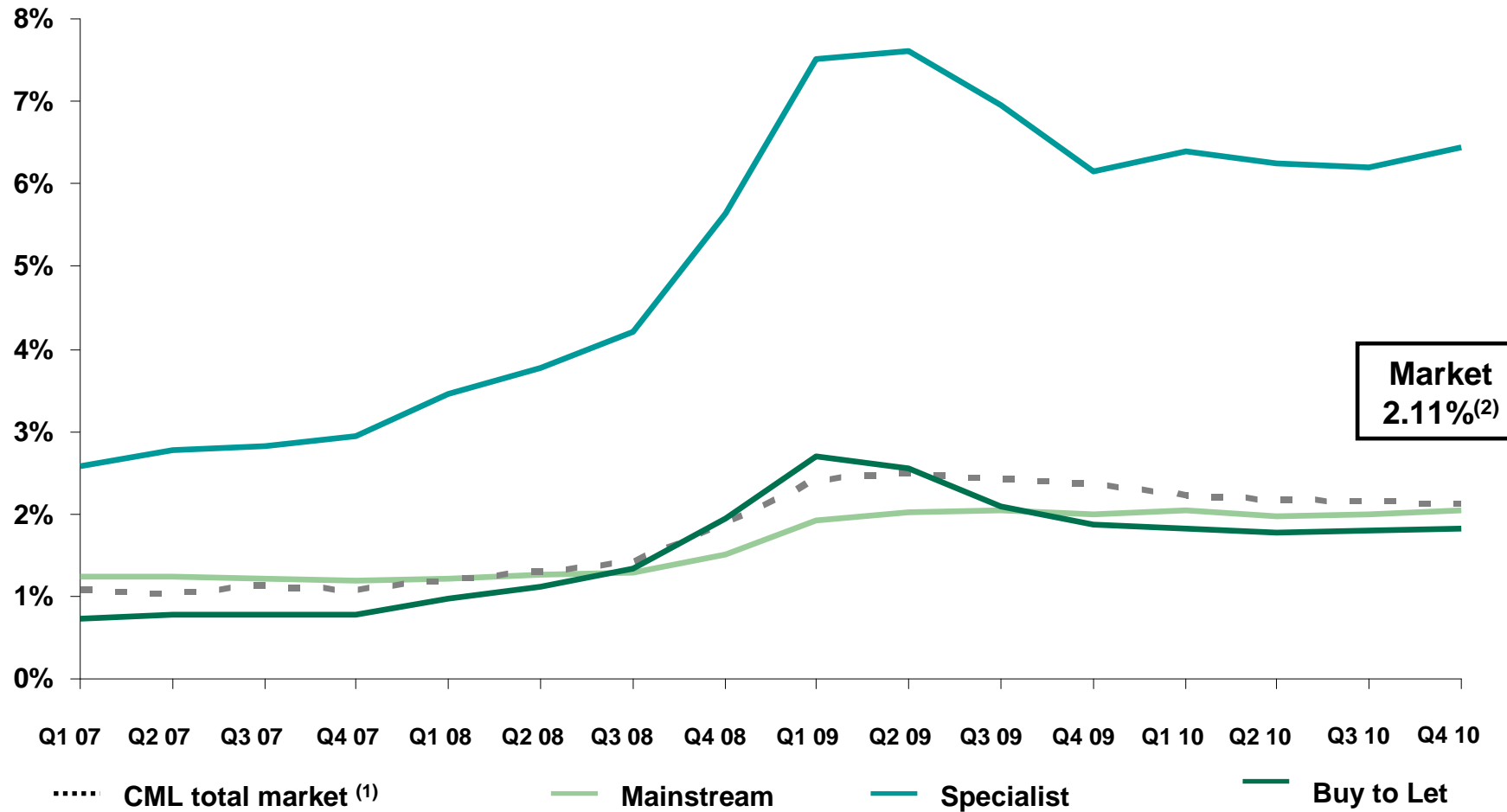
# MORTGAGE PORTFOLIO



# MORTGAGE ARREARS TRENDS



## % OF TOTAL CASES >3 MONTHS IN ARREARS



(1) Source: Council of Mortgage Lenders (2) CML Q4 10

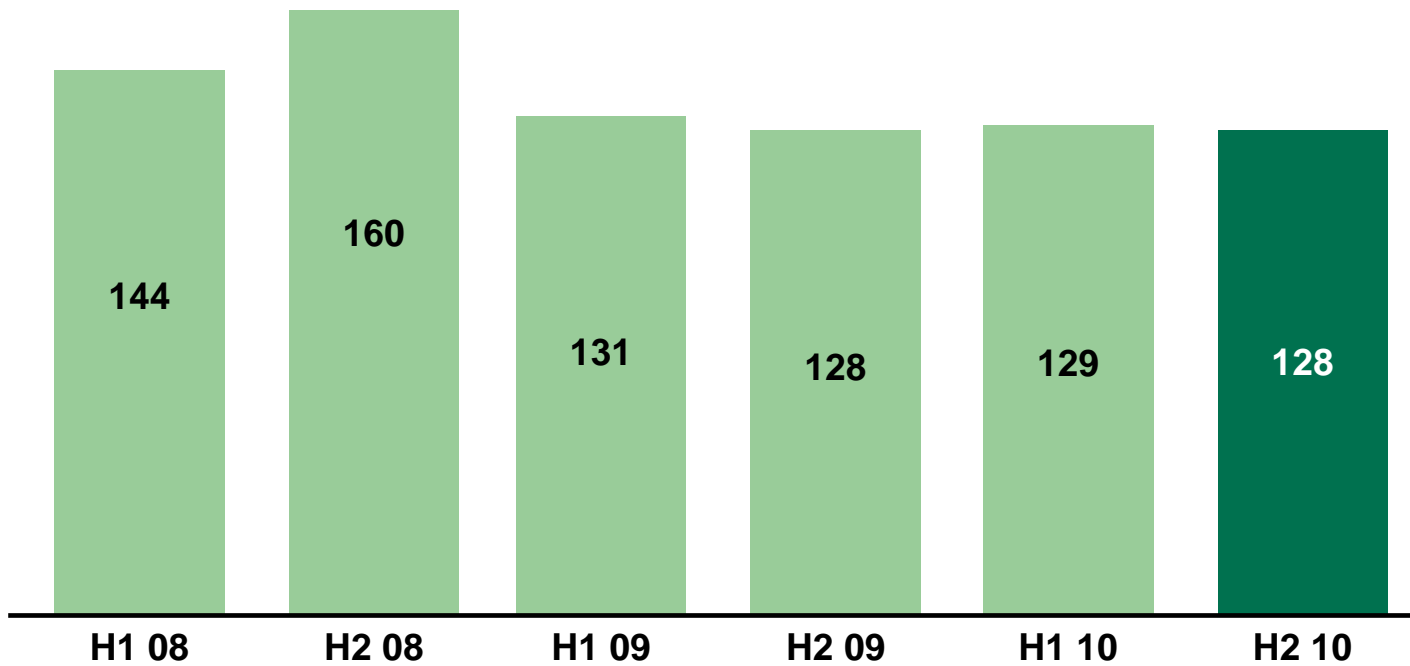
Note: chart shows mortgages >3 months in arrears excluding possessions stock as a proportion of total cases

# TREND IN MORTGAGE PORTFOLIO ARREARS



## CUSTOMERS NEW TO ARREARS

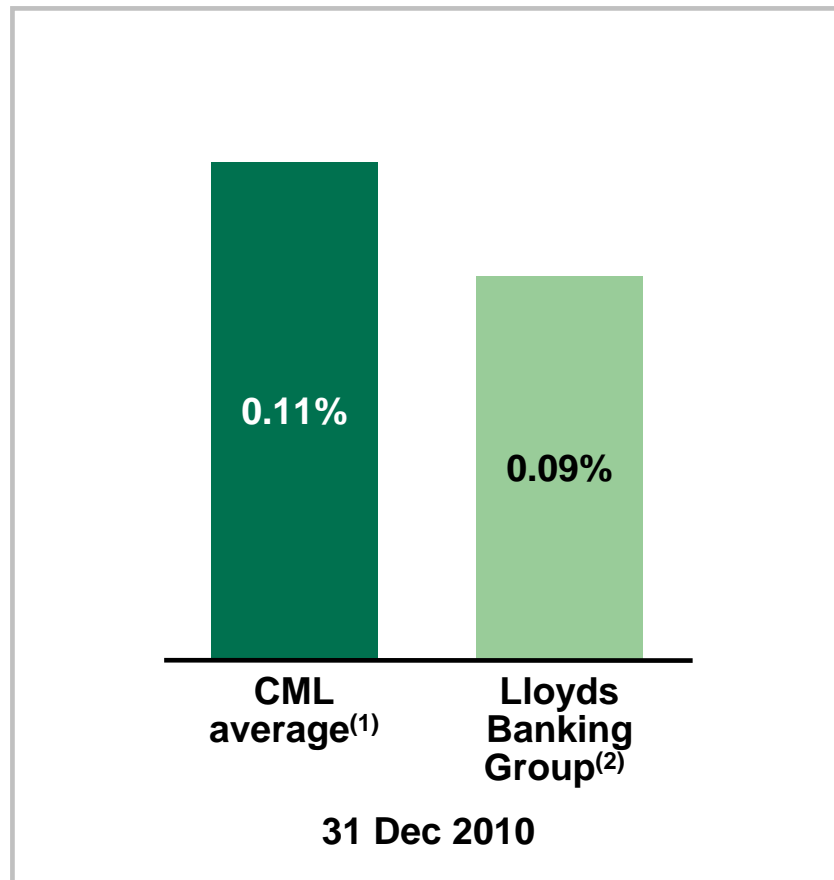
Volume '000s



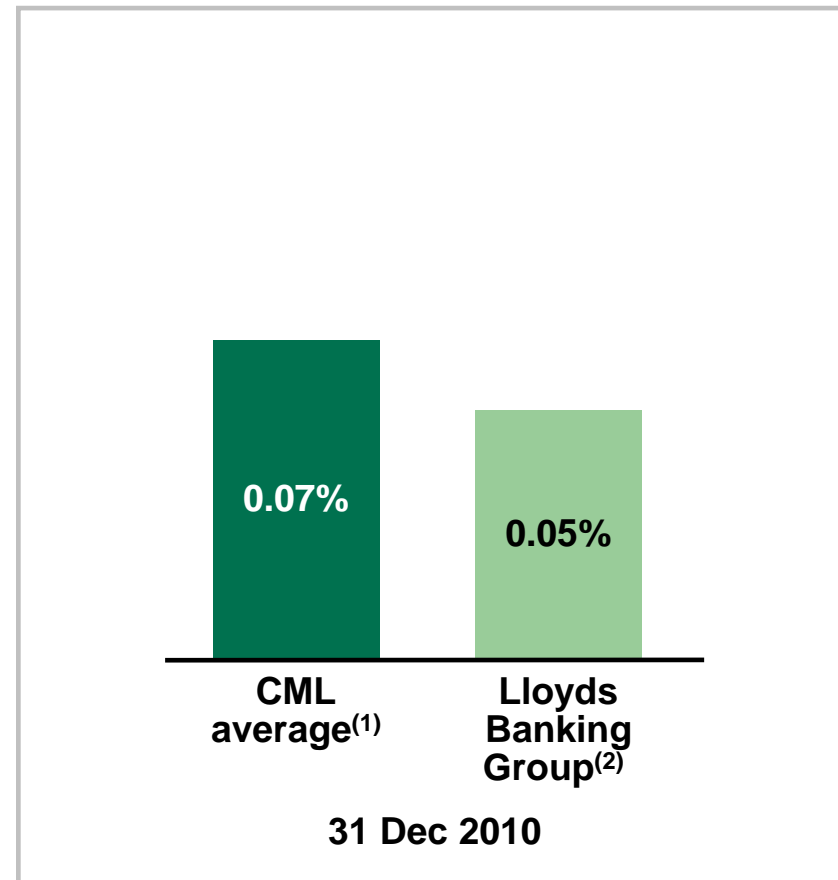
# MORTGAGE PORTFOLIO – PROPERTIES IN REPOSSESSION



## PROPERTIES IN REPOSSESSION (% OF TOTAL MORTGAGE CASES)



## NEW REPOSSESSIONS (% OF TOTAL MORTGAGE CASES)



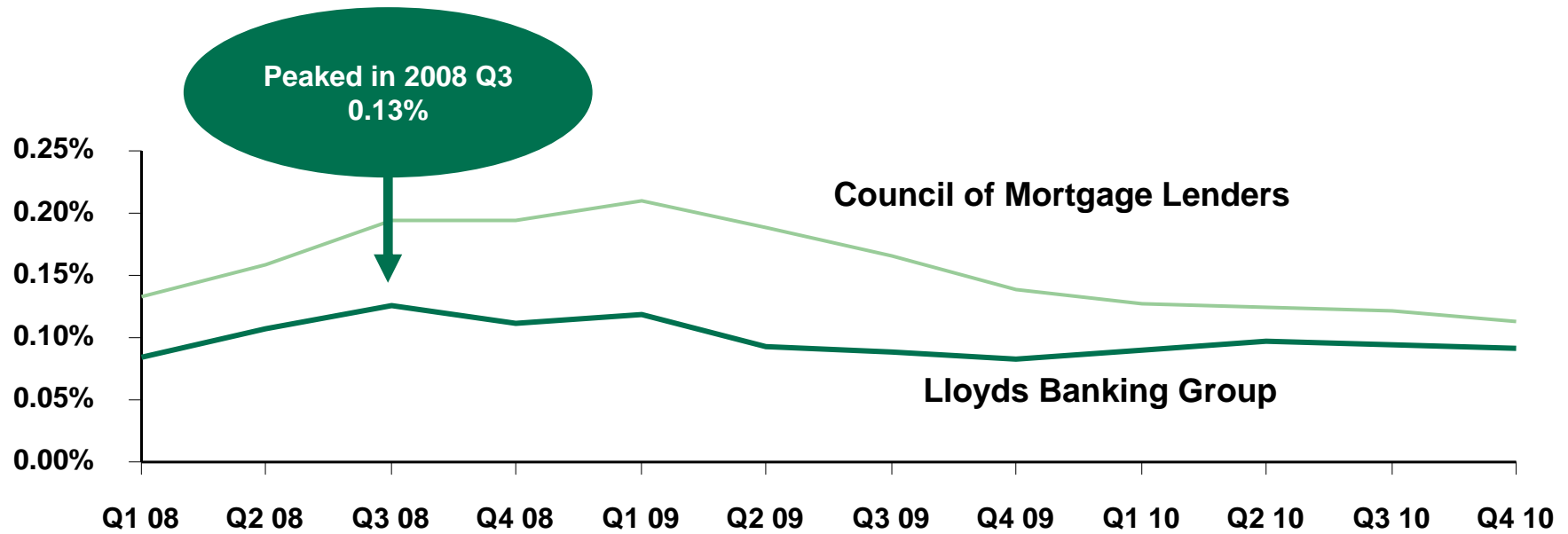
<sup>(1)</sup> Council of Mortgage Lenders Q4 2010 <sup>(2)</sup> Lloyds Banking Group Q4 2010

# MORTGAGE PORTFOLIO – PROPERTIES IN REPOSSESSION



## PROPERTIES IN REPOSSESSION

% of mortgage cases

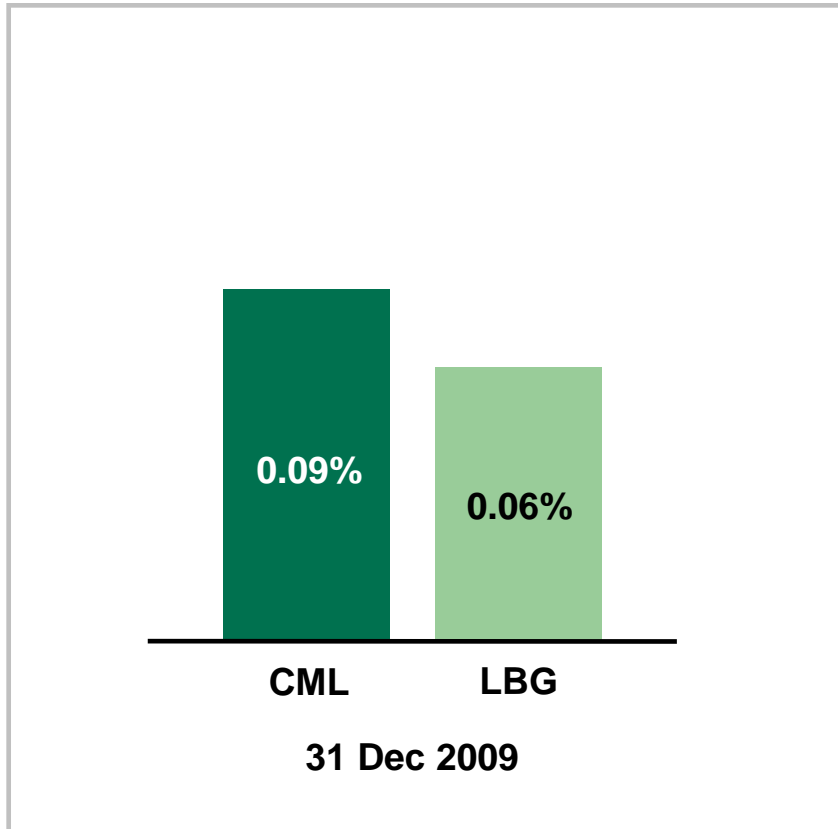
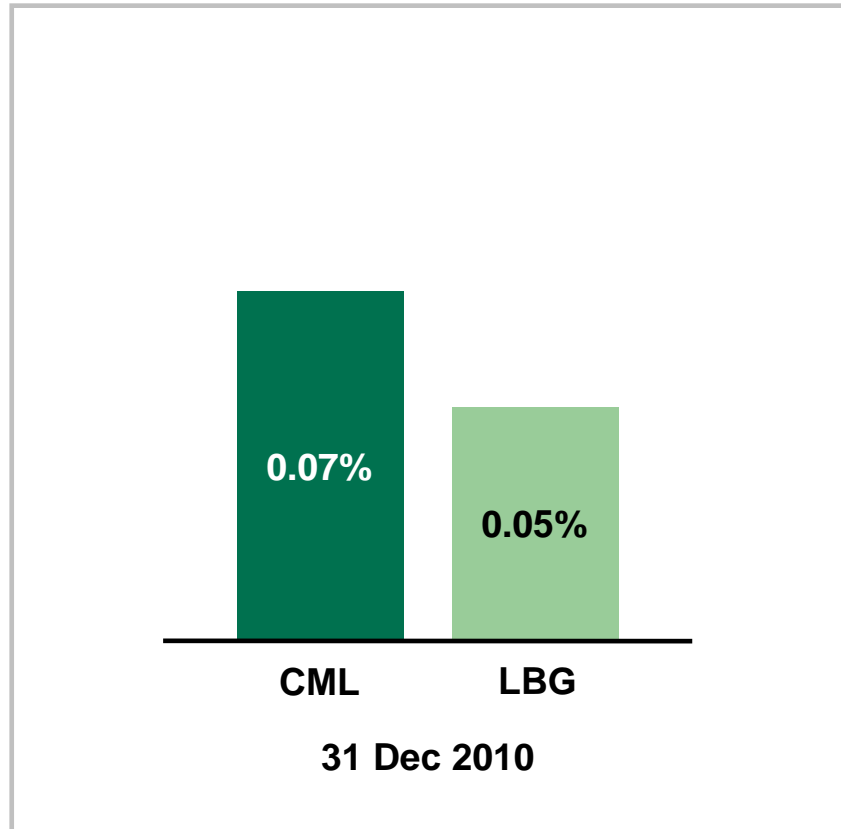


# MORTGAGE PORTFOLIO – NEW REPOSSESSIONS

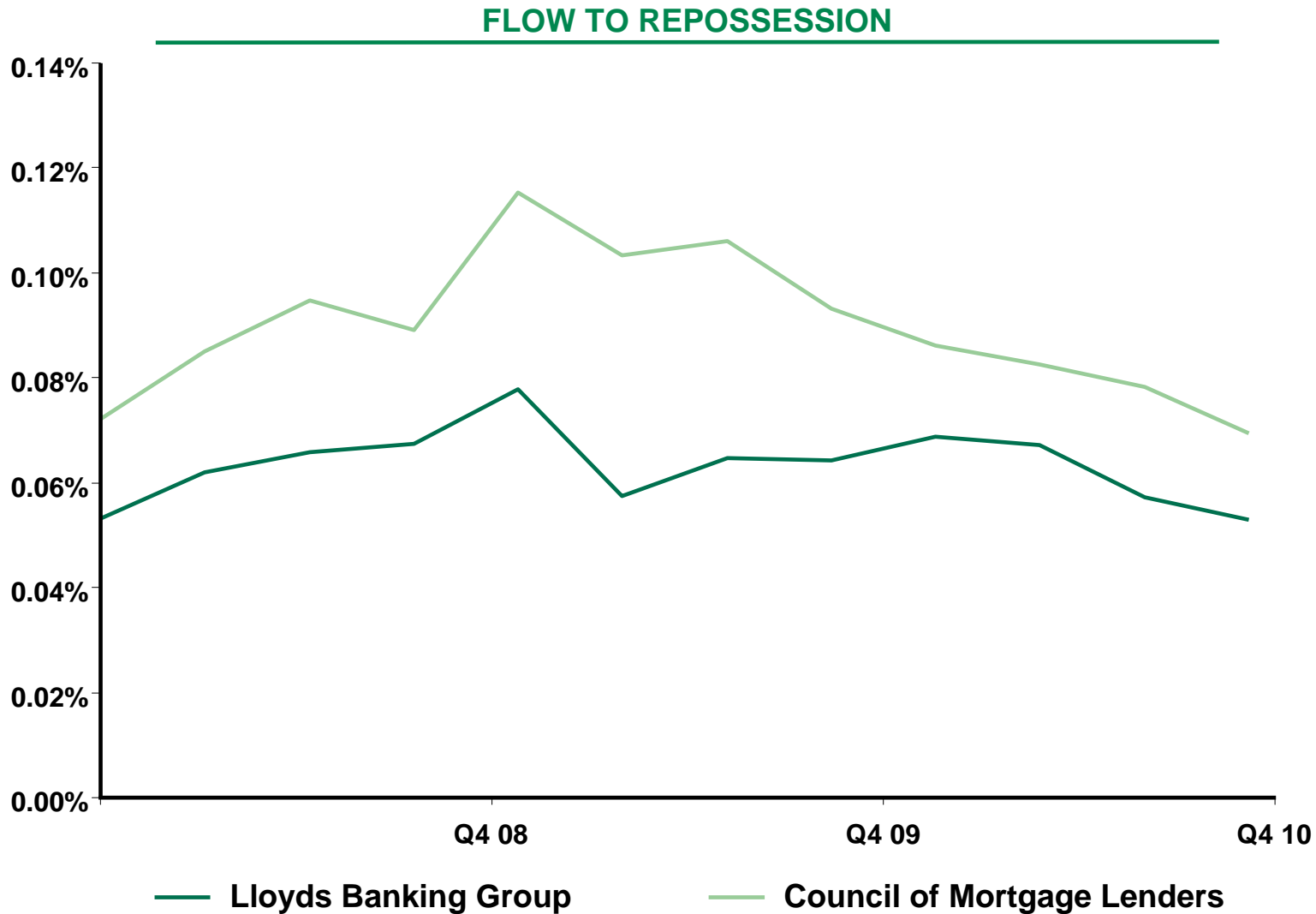


## NEW REPOSSESSIONS

% of total cases



# REPOSSESSIONS FLOW



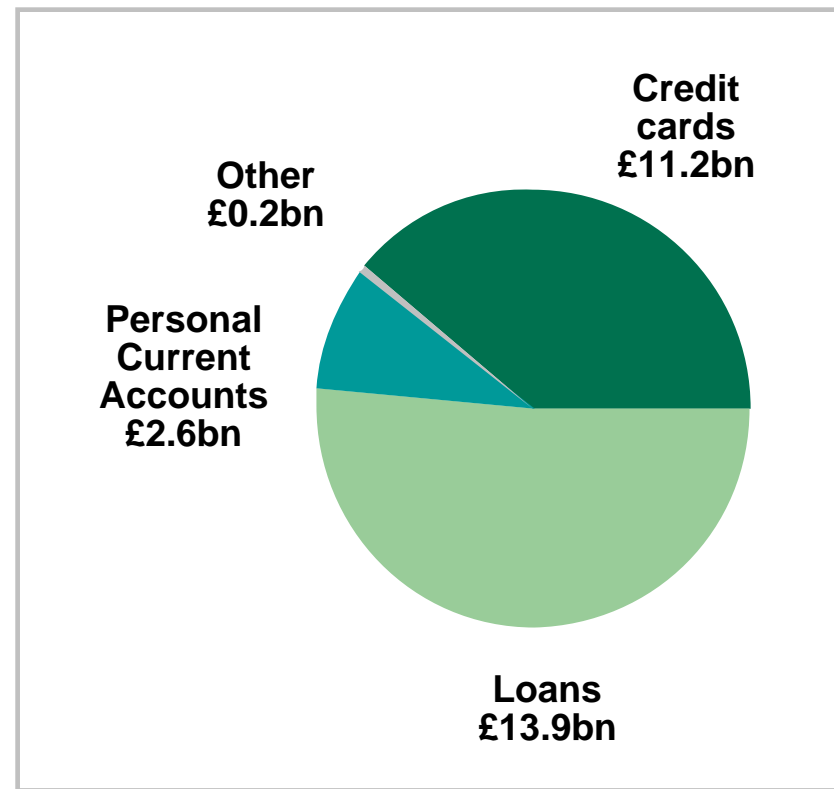
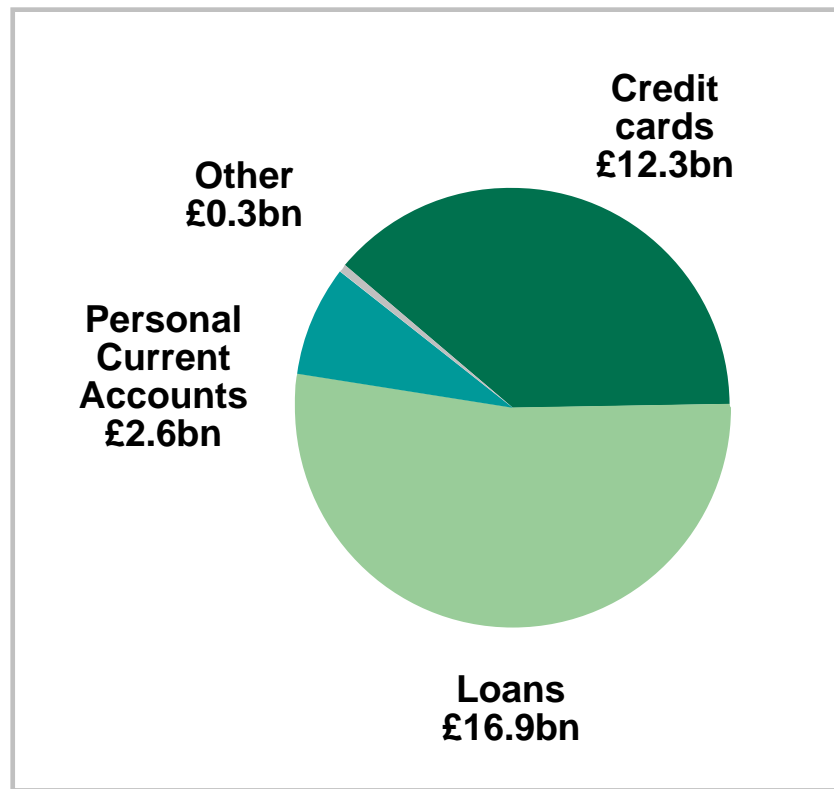


# UNSECURED LENDING PORTFOLIO



31 DEC 2009  
£32.1bn

31 DEC 2010  
£27.9bn



## Impairment charge as a % of average lending

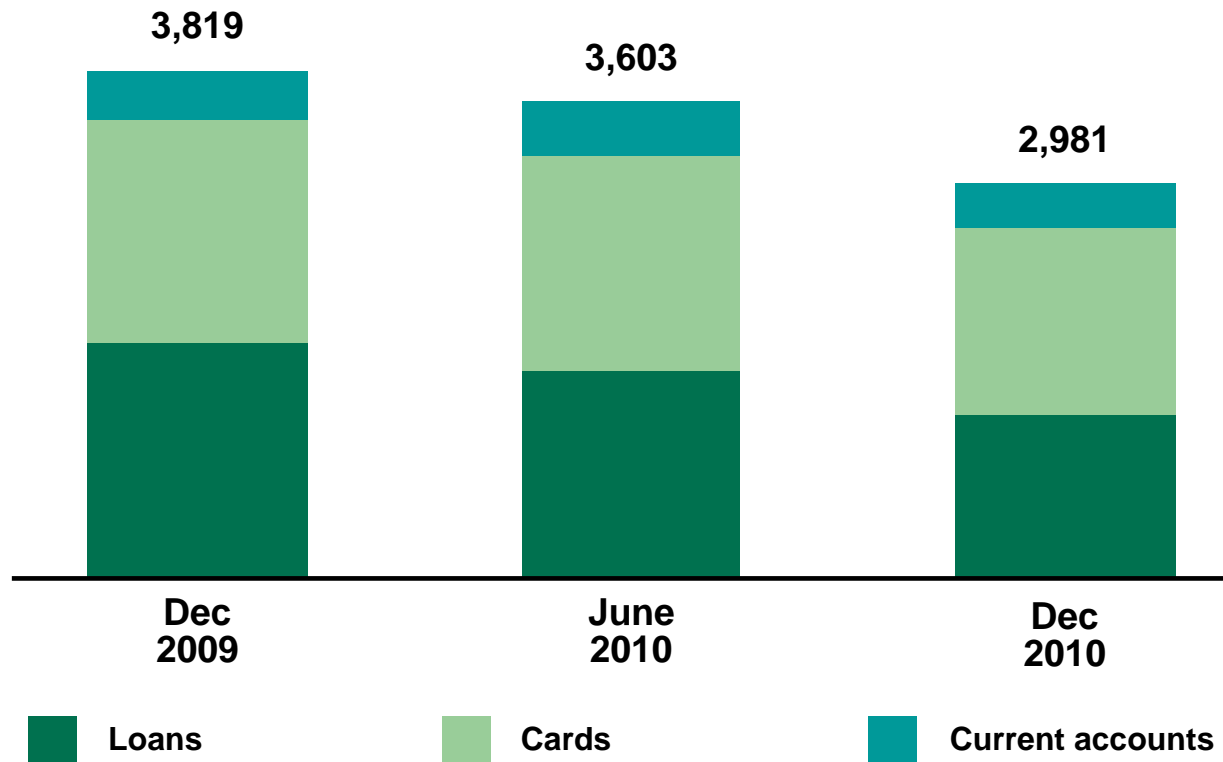
Category	2009 (%)	2010 (%)
Cards	11.4%	9.5%
Loans	7.7%	5.9%

# UNSECURED LENDING PORTFOLIO



£m

## UNSECURED IMPAIRED LOANS

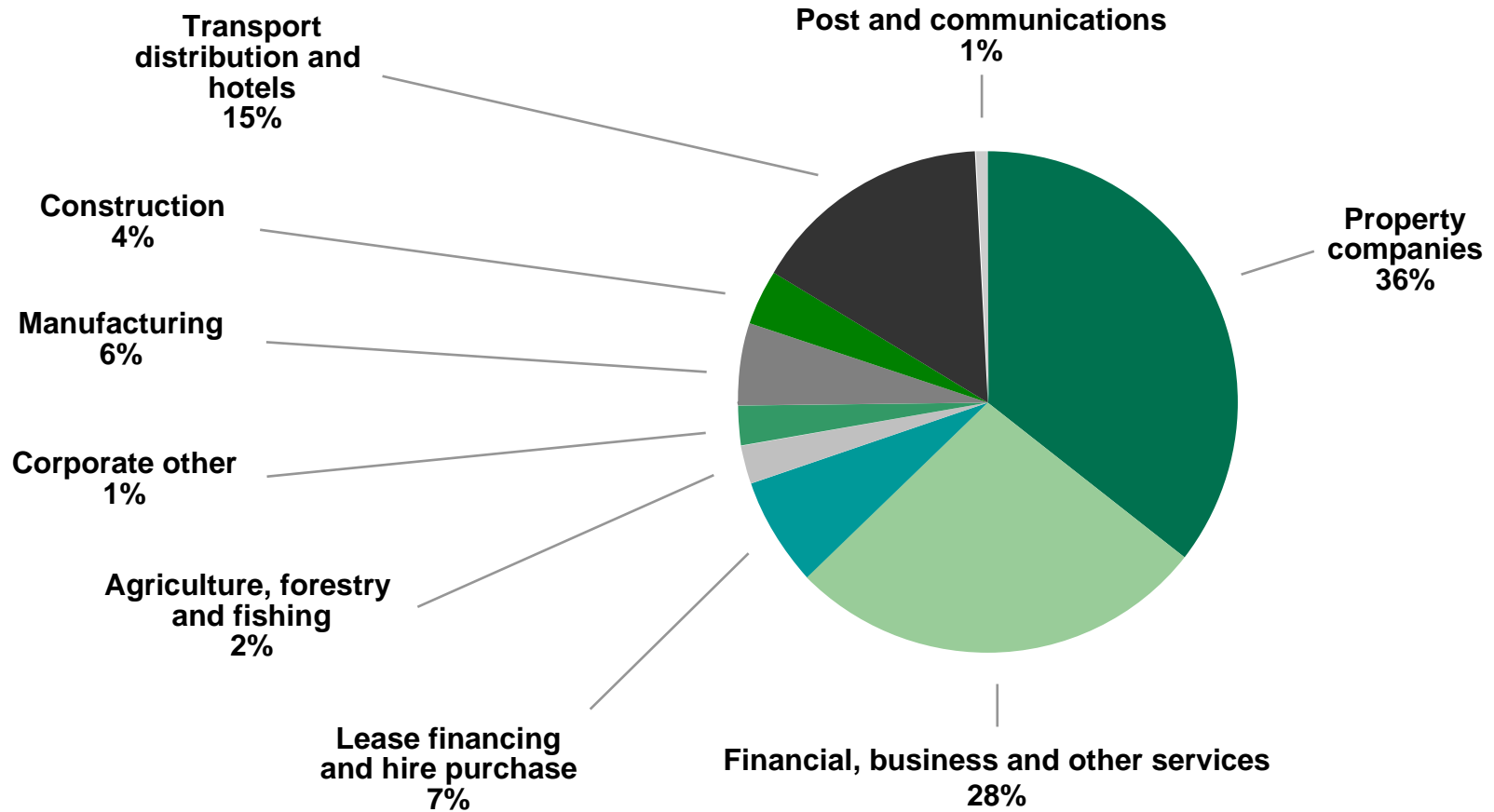


# LOANS AND ADVANCES TO CORPORATE CUSTOMERS



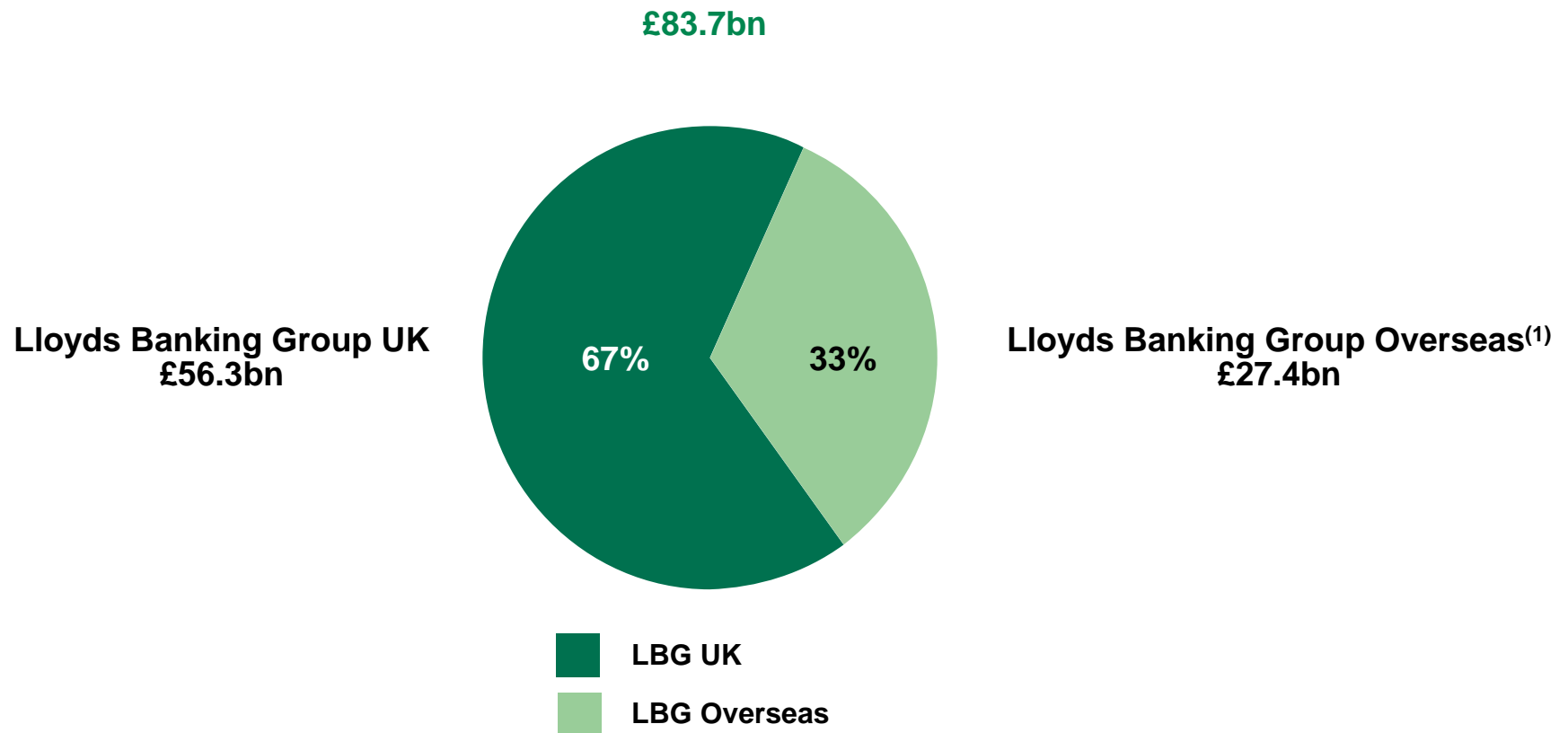
## LOANS AND ADVANCES TO CORPORATE CUSTOMERS £219.7BN<sup>(1)</sup>

31 Dec 2010



<sup>(1)</sup> Before allowance for impairment losses and fair value adjustments

# COMMERCIAL/RESIDENTIAL PROPERTY & HOUSEBUILDER LENDING



Gross (pre FV adjustment and impairment). Includes Joint Ventures

<sup>(1)</sup> Includes lending to non UK residents, and excludes residential mortgages

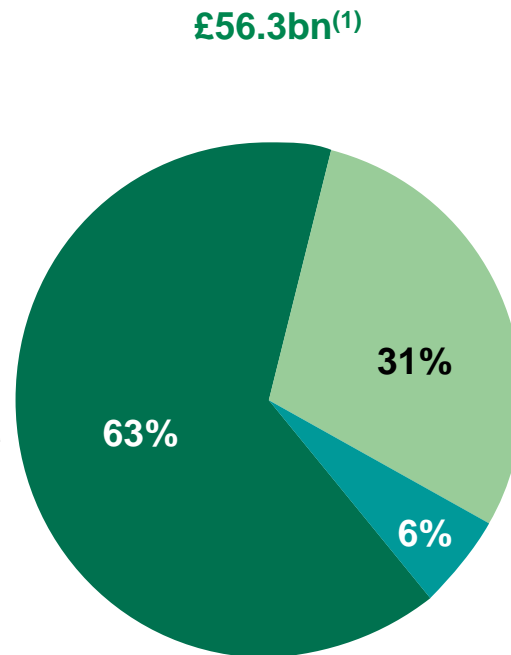
# UK COMMERCIAL/RESIDENTIAL PROPERTY & HOUSEBUILDER LENDING



## COMMERCIAL PROPERTY £35.7bn

- Through the cycle policy, supporting existing customer franchise
- Some concentration seen in South East and London, although well spread across remaining UK
- Portfolio weighted toward investment over development
- Key development origination criteria:

- ✓ Lower of 60% of gross development value or 65% project costs
- ✓ Min 100% cover from pre-lets
- ✓ Avoid pure speculative development



- Commercial property
- Residential Property
- Housebuilders

## RESIDENTIAL PROPERTY £17.3bn

- 54% Housing Associations (local authority cash flows)
- Larger residential property companies

## HOUSEBUILDERS £3.3bn

- LTSB heritage exposure mainly to the national housebuilders.
- HBOS previously focused on regional housebuilders

<sup>(1)</sup> Gross (pre FV adjustment and impairment)

# OVERSEAS PROPERTY LENDING

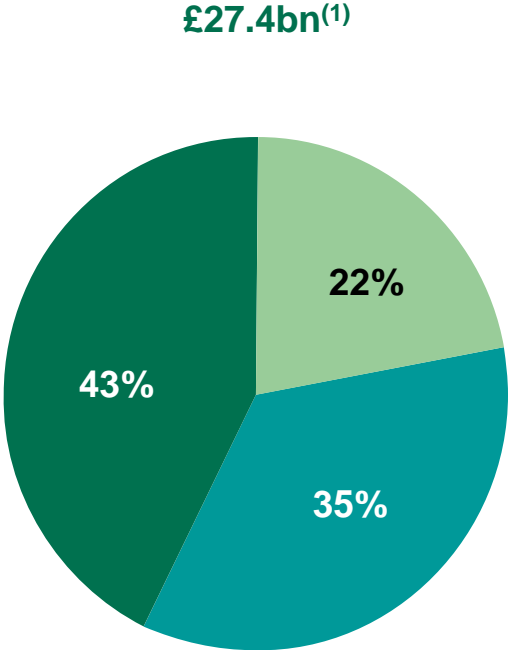


## IRELAND £11.7bn

- 55% Property Investment, of which 66% is impaired
- 45% Property Development, of which 94% is impaired

## AUSTRALIA £6.1bn

- 44% Property Investment, of which 51% is impaired
- 56% Property Development, of which 61% is impaired



- Ireland
- Australia
- Other

## EUROPE, NORTH AMERICA & OTHER £9.6bn

- Split Non-UK residents £8.6 billion and North America £1.0 billion
- £2.9bn of Non-UK residents exposure relates to Wholesale Europe (WE) business

<sup>(1)</sup> Includes lending to non UK residents and excludes residential mortgages

# LEVERAGED FINANCE LENDING

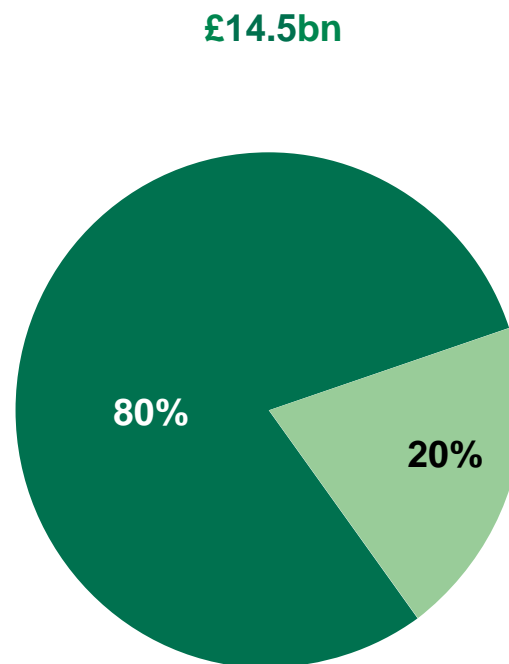


## LLOYDS ACQUISITION FINANCE £11.6bn

- Key product is cash flow lending. The business originates, executes and portfolio manages deals
- Portfolio exposure has reduced by c.£2.6 billion in 2010 with new business offset by asset repayments and sales
- A highly selective origination strategy
- Predominantly UK focused
- Underwriting criteria same as for held assets
- Assets monitored closely, with c.£6.0 billion of the portfolio considered substandard/impaired

## LLOYDS INTERNATIONAL £2.9bn

- Well spread by industry sector
- 95% of country risk in portfolio is Australia or New Zealand, with remainder relating to Asia
- £0.8bn considered sub standard/ impaired



- Lloyds Acquisition Finance
- Lloyds International

# RISK CAPITAL PORTFOLIO AT CARRY VALUE<sup>(1)</sup>

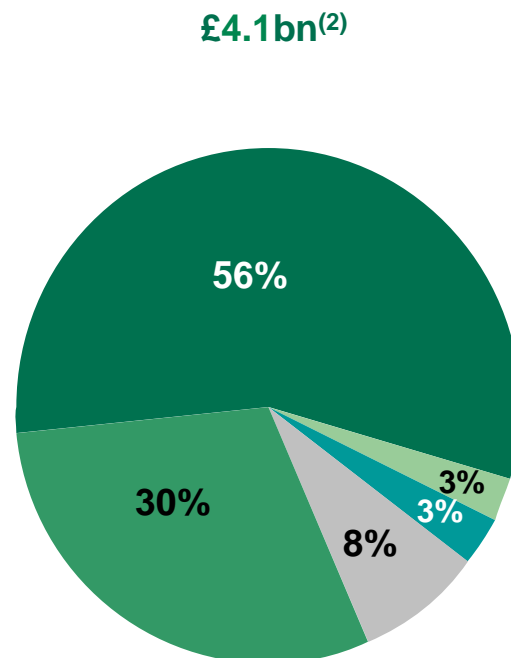


## MANAGE FOR GROWTH LLOYDS DEVELOPMENT CAPITAL (£1.2bn)

- Ongoing direct equity business being managed for growth
- LDC has been profitable throughout the last economic cycle
- Portfolio is highly diversified by sector, UK geography and, through investing consistently through the cycle, by vintage year
- Portfolio consists of c.85 investments, average size of investment is c.£14m

## PROJECT FINANCE (£0.3bn)

- Portfolio of high-quality, predominantly operational, PFI/PPP assets largely based in the UK.
- Primarily availability driven, these investments are structured with the objective of providing long-term, secure cash flows



## MANAGE FOR VALUE FUND INVESTMENTS (£2.3bn)

- 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.
- During H2, 70% of the Bosif portfolio was sold to Cavendish Square Partners LP. A 30% stake retained in the new Cavendish vehicle is managed by the Fund Investments Team

## JOINT VENTURES (£0.15bn)

- Asset backed investments, principal sectors Real Estate (UK & Europe), Hotels and House builders

## MANAGE FOR RECOVERY BUSINESS SUPPORT UNIT (£0.15bn)

- To manage equity positions resulting from restructuring activity across Wholesale and other legacy assets

<sup>(1)</sup> Excludes undrawn commitments of c.£1.4bn

<sup>(2)</sup> Excludes £0.1bn of funds investments managed by BoS USA and £0.1bn carry value of Risk Capital held by W&I Division



# TREASURY DEBT SECURITIES PORTFOLIO

LLOYDS  
BANKING  
GROUP



<b>31 DEC 10</b>	<b>LOANS AND ADVANCES £bn</b>	<b>AVAILABLE FOR SALE £bn</b>	<b>FAIR VALUE THROUGH P&amp;L £bn</b>	<b>TOTAL £bn</b>
<b>Asset Backed Securities</b>	<b>24.2</b>	<b>9.4</b>	<b>1.1</b>	<b>34.7</b>
<b>Covered bonds</b>	<b>-</b>	<b>3.5</b>	<b>-</b>	<b>3.5</b>
<b>Bank / Financial Institution Fixed and Floating Rate Notes</b>	<b>0.8</b>	<b>8.7</b>	<b>1.8</b>	<b>11.3</b>
<b>Bank Certificate of Deposits</b>	<b>-</b>	<b>0.4</b>	<b>4.2</b>	<b>4.6</b>
<b>Treasury Bills and other bills</b>	<b>-</b>	<b>5.9</b>	<b>0.2</b>	<b>6.1</b>
<b>Other</b>	<b>0.3</b>	<b>0.1</b>	<b>4.9</b>	<b>5.3</b>
<b>Total</b>	<b>25.3</b>	<b>28.0</b>	<b>12.2</b>	<b>65.5</b>

# ASSET BACKED SECURITIES PORTFOLIO

LLOYDS  
BANKING  
GROUP



<b>31 DEC 10</b>	<b>NET EXPOSURE</b> £bn	<b>CARRY VALUE</b> %
<b>Mortgage Backed Securities</b>		
– US RMBS	4.2	55
– Non-US RMBS	7.9	92
– CMBS	3.5	85
	15.6	77
<b>Collateralised Debt Obligations</b>		
– Corporate	0.1	85
– Commercial Real Estate	0.3	53
– CLO	4.7	92
– Other	0.1	37
	5.2	85
<b>Personal sector</b>		
– Auto loans	0.9	98
– Credit Cards	2.1	97
– Personal loans	0.9	86
	3.9	94
<b>Student loans</b>	7.8	93
<b>Other ABS</b>	1.1	79
<b>Total uncovered ABS</b>	33.6	83
<b>Negative basis</b>	1.1	90
<b>Total ABS</b>	34.7	83

# IMPAIRMENT LOSSES ON LOANS AND ADVANCES TO CUSTOMERS

LLOYDS  
BANKING  
GROUP



IMPAIRMENT	2009	2010	% OF AVERAGE LENDING	
	£m	£m	2009	2010
Retail	4,221	2,747	1.11	0.74
– Secured (mortgages)	789	292	0.23	0.09
– Unsecured	3,432	2,455	9.94	8.11
Wholesale	14,031	4,226	5.92	2.08
Wealth and International	4,058	5,985	6.04	8.90
Total	<u>22,310</u>	<u>12,958</u>		

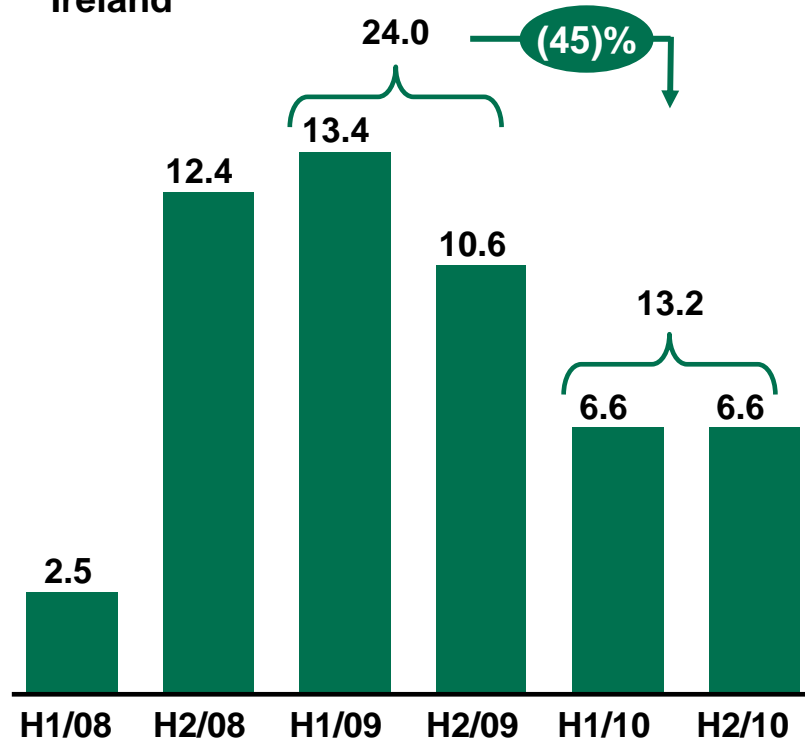
# IMPAIRMENT CHARGE

Significant reduction, primarily driven by Wholesale



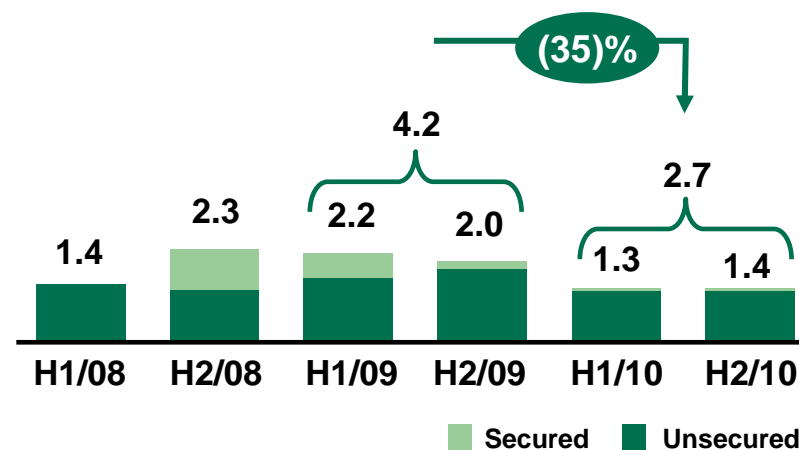
## GROUP

- 45% reduction in Group impairment charge
- Reduction primarily driven by reductions in Wholesale, partially offset by the impact of Ireland



## RETAIL

- Significant reduction in secured and unsecured impairments
- Improving asset quality expected to support future trends



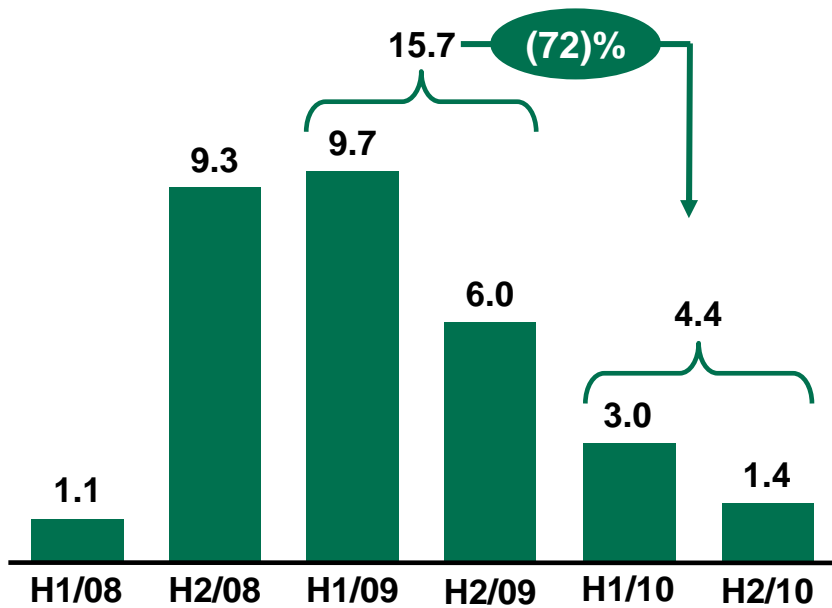
# IMPAIRMENT CHARGE

Significant reduction, primarily driven by Wholesale



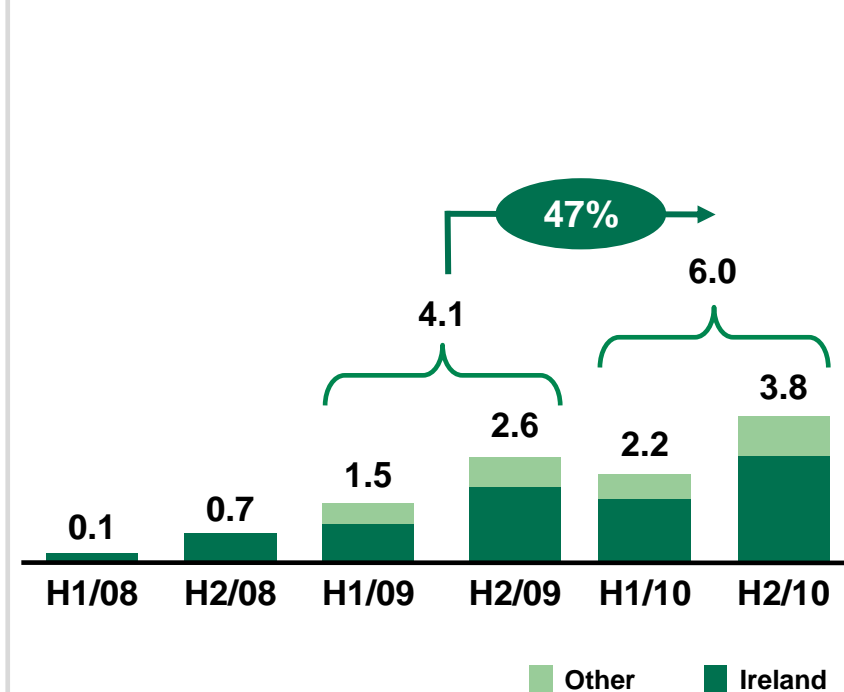
## WHOLESALE

- Primarily driven by reductions in commercial real estate and related portfolios
- Traditional business impairments performing as expected



## W&I

- Driven by further deterioration in Ireland in second half
- Some effect from specific Australian exposures



# IMPAIRED ASSET RATIOS – GROUP

LLOYDS  
BANKING  
GROUP



2010	RETAIL	WHOLESALE	WEALTH & INT'L	GROUP
Loans and advances to customers (gross)	£369bn	£188bn	£66bn	£626bn
Impaired loans	£10bn	£35bn	£20bn	£65bn
Impaired loans as % of closing advances	2.6%	18.4%	30.7%	10.3%
Impairment provisions	£3bn	£16bn	£11bn	£30bn
Impairment provisions as % of impaired loans	31.8%	45.9%	52.5%	45.9%

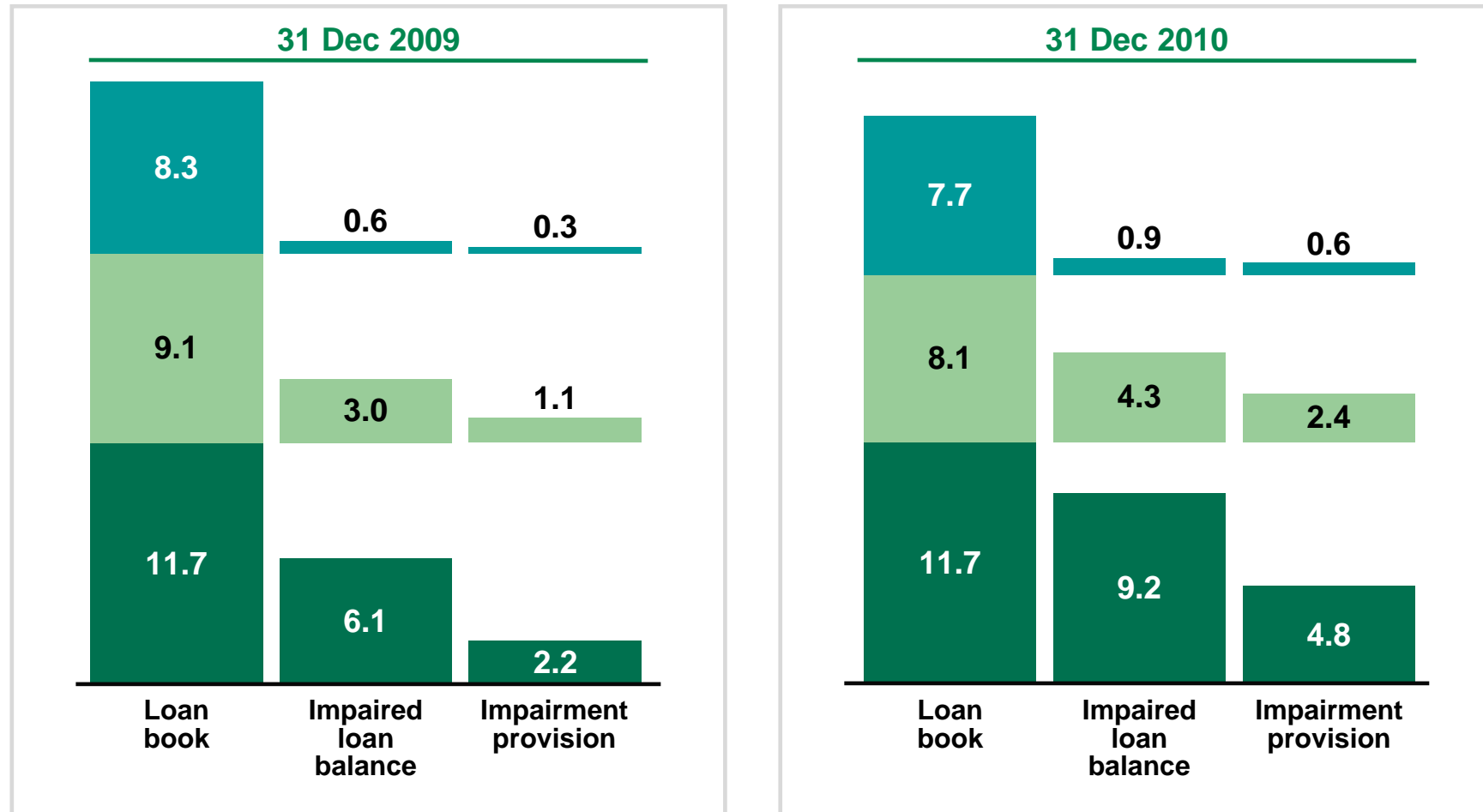
# IRISH PORTFOLIO

Static loan book with increased provisioning across the business



£bn

## PORTFOLIO BREAKDOWN



■ Commercial Real Estate

■ Corporate & Other

■ Retail

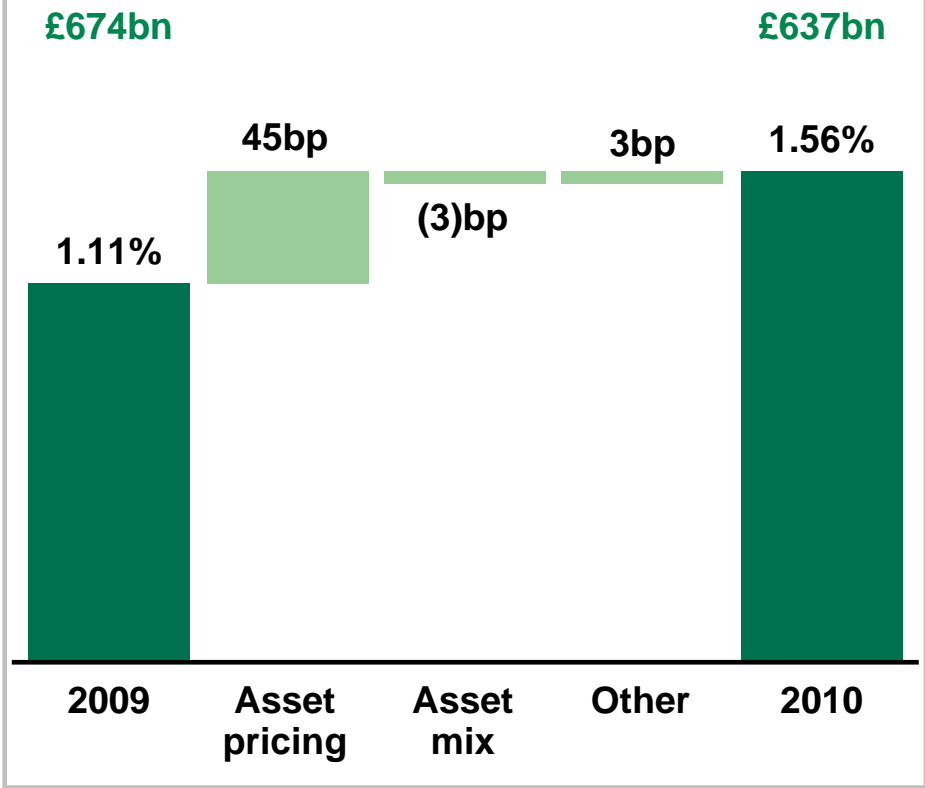
# ASSET & LIABILITY MARGINS

## Asset repricing gains but deposit spread pressure



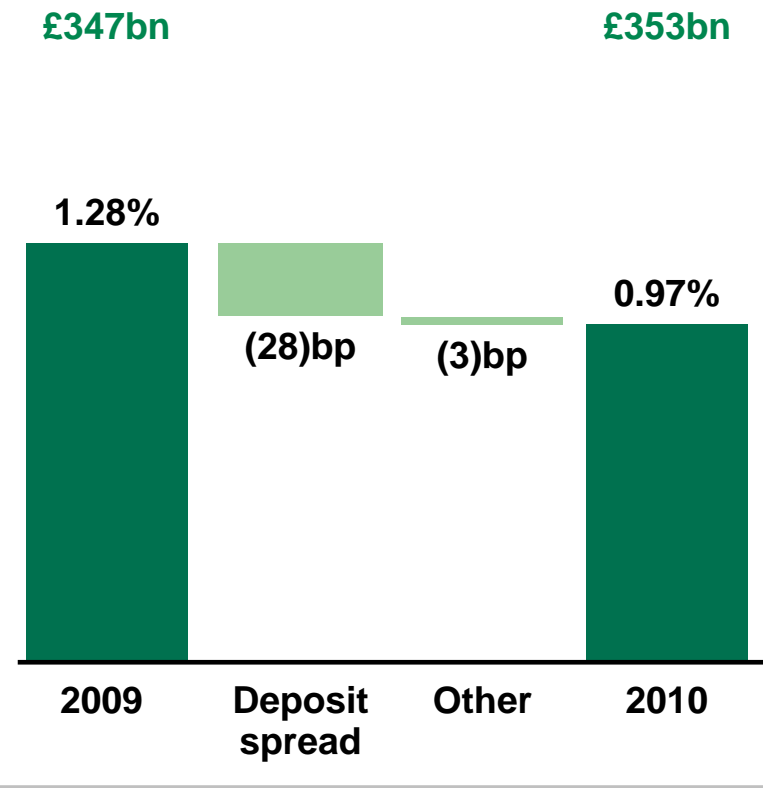
### ASSET MARGIN

Average Interest Earning Assets:



### LIABILITY MARGIN

Average Interest Bearing Liabilities:

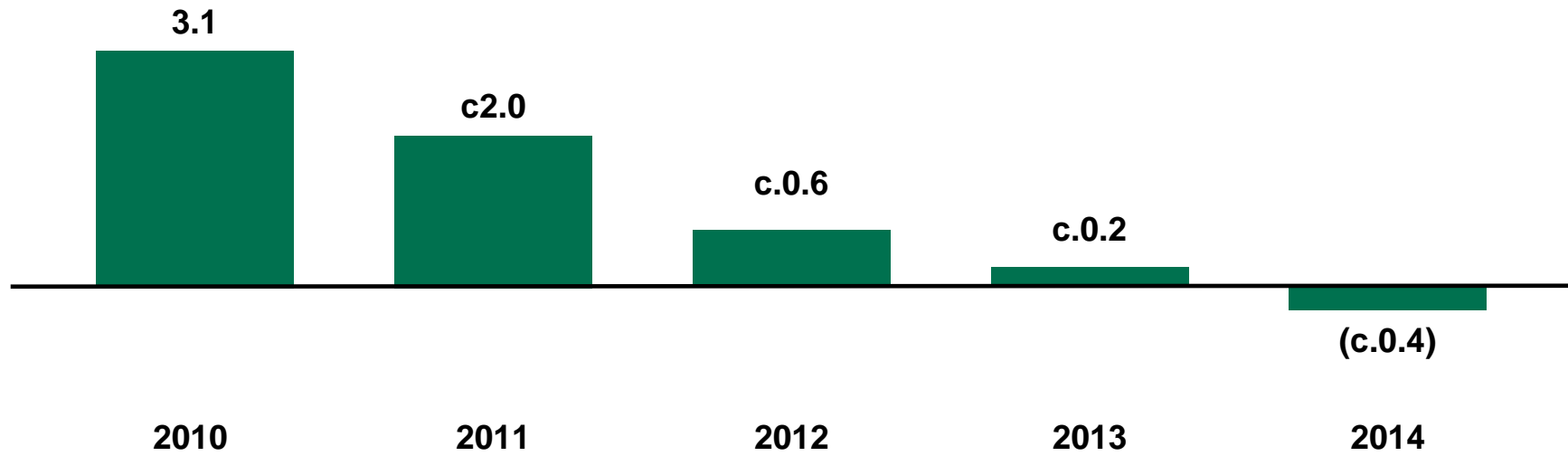




# FAIR VALUE UNWIND



£bn

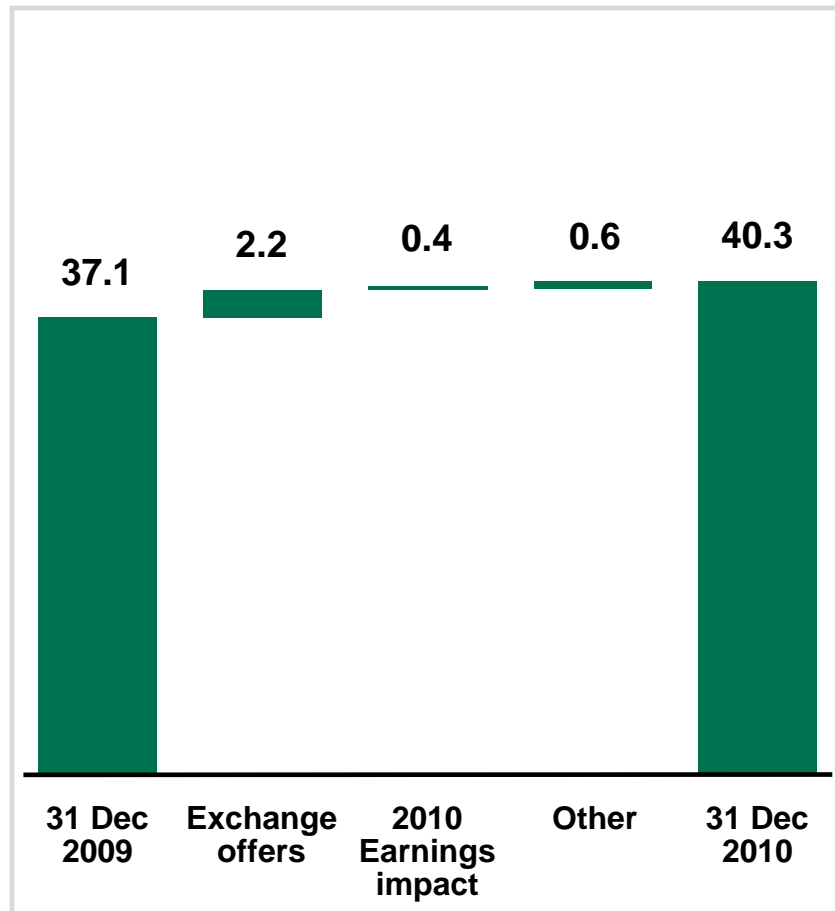


Further fair value unwind expected

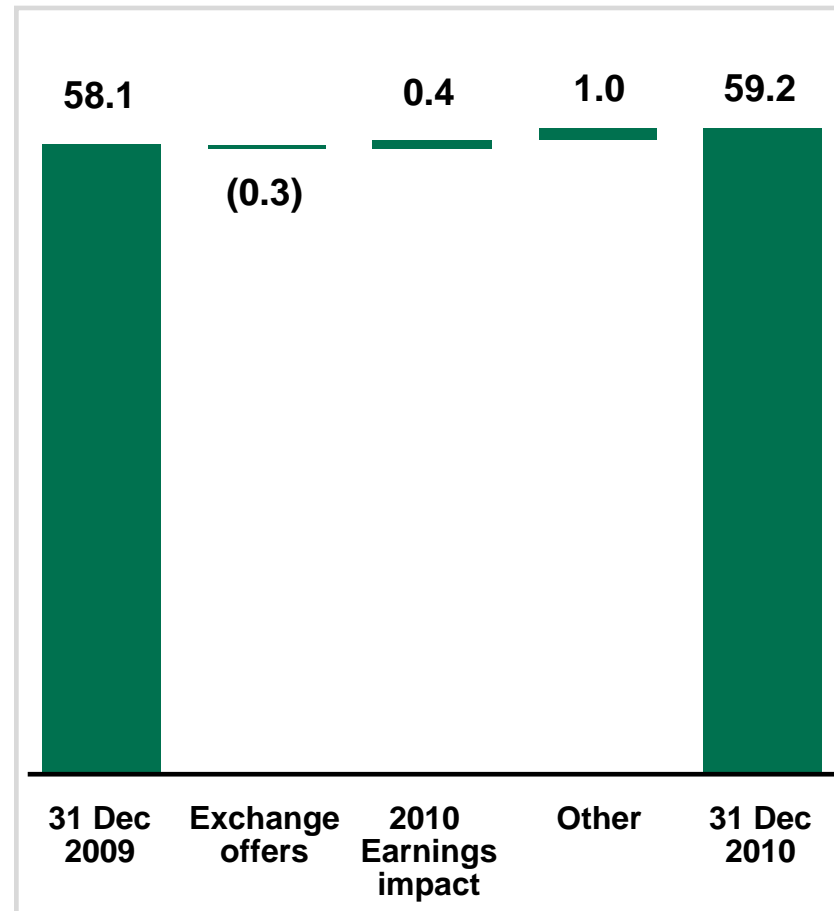
# NET TANGIBLE ASSETS



## NET TANGIBLE ASSETS (£bn)



## NET TANGIBLE ASSETS PER SHARE (p)



# BUSINESS PERFORMANCE

## Balance Sheet

LLOYDS  
BANKING  
GROUP

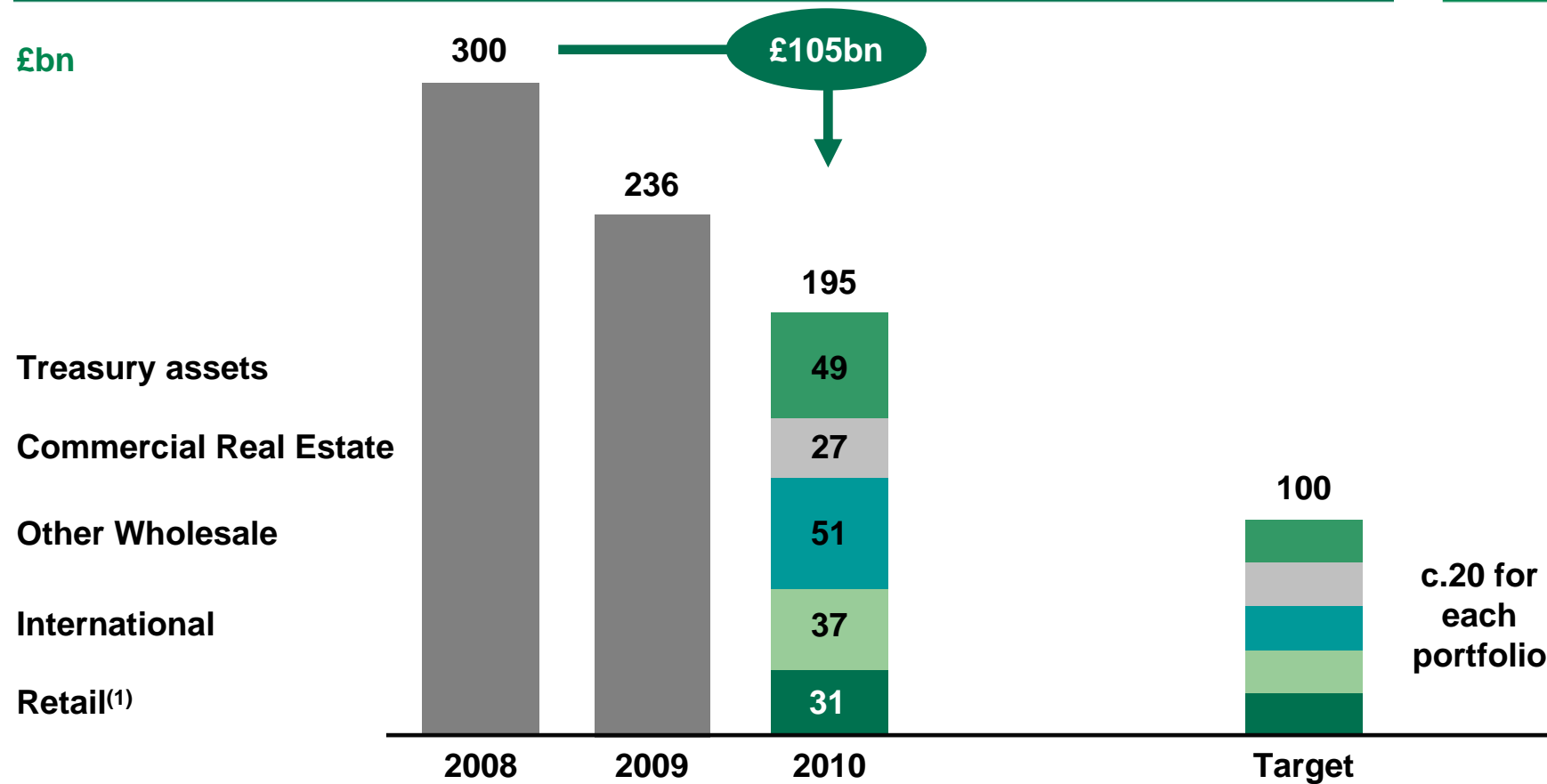


	2009	2010	% IMPROVED
<b>Balance sheet strength:</b>			
Funded assets	£715bn	£655bn	8%
Liquid assets	£88bn	£98bn	11%
<b>Strong capital and funding position:</b>			
Core Tier 1 ratio	8.1%	10.2%	
Loan/deposit ratio	169%	154%	
Central bank & government funding	£157bn	£97bn	38%
Wholesale funding requirement	£326bn	£298bn	9%
Wholesale funding >1 year	50%	50%	

**Further strengthening of capital and funding position**

# GOOD PROGRESS ON ASSET REDUCTIONS

On target to achieve £200 billion asset run-off



**Balance sheet reduction on track**

<sup>(1)</sup> Primarily made up of self cert and sub prime mortgages. Excludes mortgage assets associated with state aid mandated divestments

# REDUCING OUR WHOLESALE FUNDING REQUIREMENTS

## Maintaining broad spread of wholesale funding



£bn	DEC 2009	DEC 2010	
Bank deposits	49	26	
Certificates of deposit	51	42	▪ Clear benefit delivered by managing balance sheet down
Medium-term notes	90	88	
Covered bonds	28	32	▪ Good relationship customer deposit growth of £12 billion
Commercial paper	35	33	
Securitisation	36	39	▪ Primary liquid asset holding of £98 billion
Subordinated debt	37	38	
Wholesale (excl. customer deposits)	326	298	
Customer deposits <sup>(1)</sup>	371	383	
Total Group funding	697	681	

**Increasing strength of funding position has facilitated an accelerated pay down of central bank funding**

<sup>(1)</sup> Excluding repos

# SUCCESSFUL TERM ISSUANCE - £50bn ACHIEVED

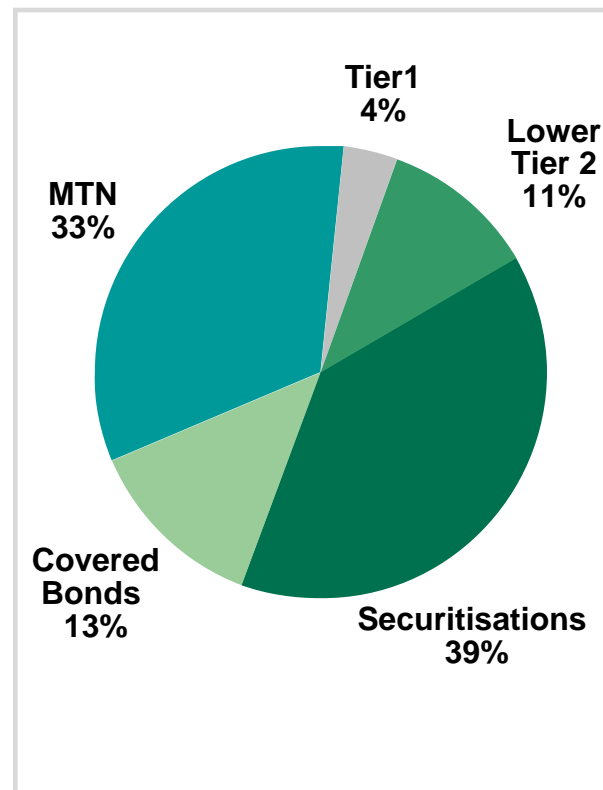
Utilising a wide variety of funding products and sources



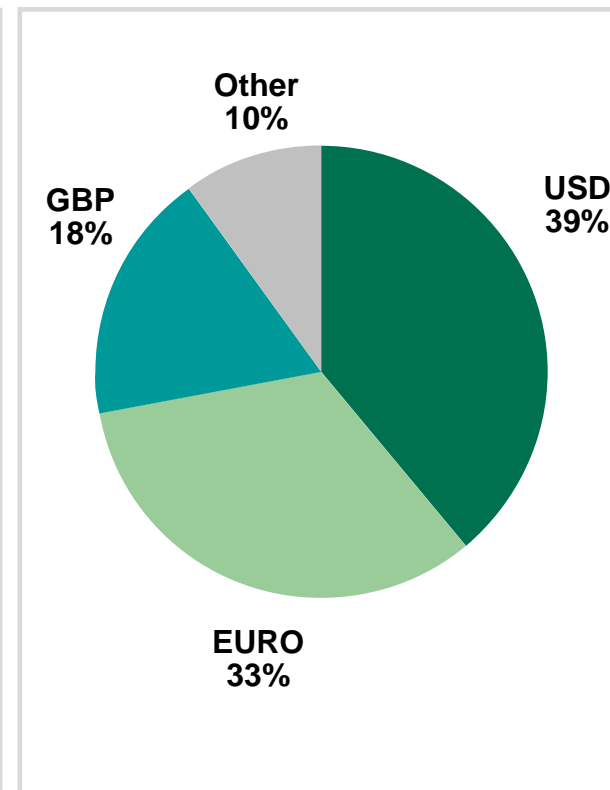
## TERM ISSUANCE

- c.£30 billion of public term issuance completed in 2010
- Additional c.£20 billion of term funding via private placements completed
- Expected public term issuance of c.£20-25 billion per annum over next 2 years

## 2010 PUBLIC TERM ISSUANCE BY PRODUCT



## 2010 PUBLIC TERM ISSUANCE BY CURRENCY



Diverse range of funding products and sources

# WHOLESALE FUNDING COSTS

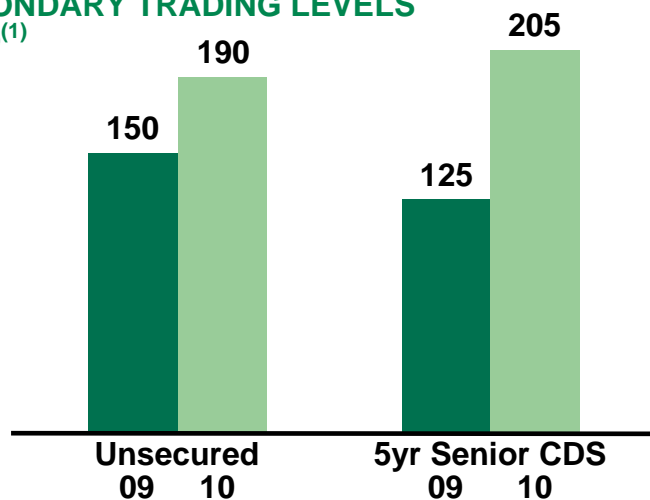
Funding spreads have continued to increase through 2010



LLOYDS 5 YEAR CDS (bps)



SECONDARY TRADING LEVELS (bps)<sup>(1)</sup>



- The cost of wholesale funding has continued to increase through 2010 – higher average H2/10 issuance costs than H1/10
- Weighted average cost of wholesale funding rising as older, cheaper debt matures
- Throughout the sovereign debt crisis we were able to issue debt but at a significantly greater cost
- Over time, spreads expected to normalise

<sup>(1)</sup> Z spread

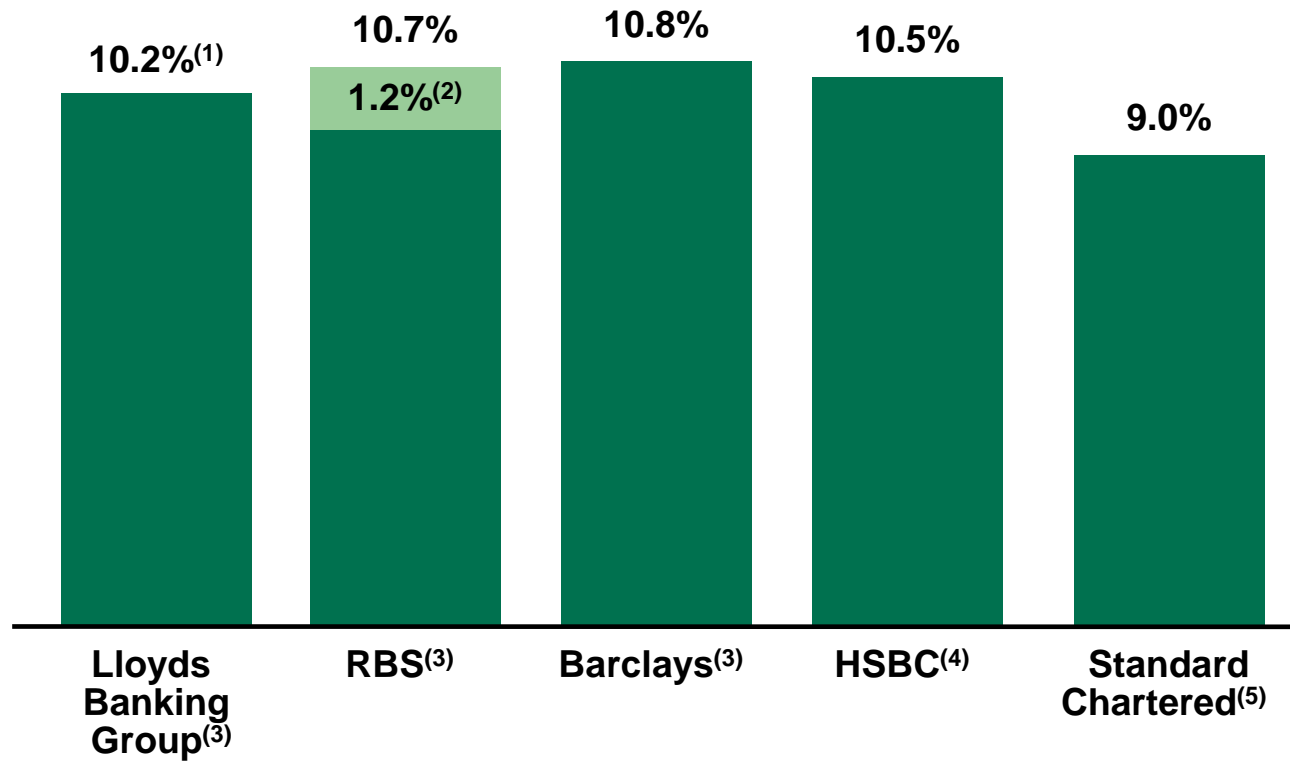
Based on trading for: Lloyds €6.375% 6/17 - Lloyds €3.75% 7/15

# PEER GROUP CORE TIER 1 RATIOS

LLOYDS  
BANKING  
GROUP



## CORE TIER 1 RATIO



<sup>(1)</sup> Excluding effect of ECNs <sup>(2)</sup> APS benefit <sup>(3)</sup> Reported FY10 <sup>(4)</sup> Reported Q310 <sup>(5)</sup> Reported H110



# IMPACT OF BASEL 3

## Preparation notes



Please find below preparation notes regarding slide 25

- The 2013 Core Tier 1 ratio presented is illustrative.
- Consensus estimates for retained earnings are from 23 analysts as at 8 Feb 2011. Not all these analysts provided estimates for the full 3 year period. Lloyds Banking Group neither endorses nor verifies the estimates used.
- The significant items included in “Increase in RWA’s from Basel 2.5/3”, without any mitigation, are:
  - increased RWA for certain securitisation and resecuritisation exposures and Market Risk (Basel 2.5)
  - increased RWA associated with counterparty credit risk, exposures to Financial institutions and securitisation exposures, net of the impact of adding back securitisation deductions to Core Tier 1 capital (Basel 3)
  - risk weighting the element of the investment in insurance under the 10% of Core Tier 1 limit at 250% (Basel 3)
- To illustrate the potential impacts on RWA of the planned disposal of non-core assets, a reduction of £60bn has been included. The Group plans to reduce non-core assets from £195bn to £100bn over the next 3 years. Based upon the average risk weighting of non-core assets held on the balance sheet as at 31 December 2010 of 72%, this equates to a £69bn reduction in RWAs.

The following are not included in presented 2013 Core Tier 1 ratio:

- Basel 3 deductions from Core Tier 1 capital for Material Holdings (i.e. insurance holding), Expected Losses in excess of impairments, Minority Interests and Deferred Tax Assets. Any such deductions would transition in, at 20% per annum, from 1 January 2014 to 1 January 2018. The additional impact in 2014 of the deduction in relation to Insurance holdings is estimated at 0.3%, based on current net asset value and therefore takes no account of any further action taken to mitigate this impact.
- The impacts of possible changes to accounting in relation to pensions, insurance and expected loss provisioning which, in combination with Basel 3 regulations, may impact the Core Tier 1 ratio.

# FORWARD LOOKING STATEMENTS

LLOYDS  
BANKING  
GROUP



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.