

**LLOYDS  
BANKING  
GROUP**



**RESULTS FOR THE QUARTER  
ENDED 31 MARCH 2012**

**1 May 2012**

**António Horta-Osório  
Group Chief Executive**

# QUARTER ENDED 31 MARCH 2012

## Overview

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LLOYDS  
BANKING  
GROUP



### ■ Further strengthening the balance sheet, reshaping the business and reducing risk

- £12.4bn non-core asset reduction in Q1 2012 – £65bn of £104bn reduction target achieved since Dec 2010
- 6% deposit growth since Q1 2011
- Loan-to-deposit ratio improved to 130%, meeting guidance more than 2 years early; 105% in core business
- 2012 Wholesale term funding plan complete and proportion of short-term funding significantly reduced
- Capital strengthened: core tier 1 ratio of 11.0%, increased by 20bps from Dec 2011

### ■ Continued resilient core performance reflecting the strength of our franchise

- Underlying core pre-tax return on risk-weighted assets improved to 2.65% despite the challenging operating environment
- Underlying core combined businesses profit before tax and fair value unwind of £1,603m down 2% on Q1 2011 and up 11% on Q4 2011
- Underlying core income down 11% vs Q1 2011, reflecting subdued lending demand and higher wholesale funding costs
- Group net interest margin reduced to 1.95%, from 1.97% in Q4 2011 and 2.16% in Q1 2011. Core net interest margin reduced to 2.32%, from 2.34% in Q4 2011 and 2.47% in Q1 2011
- Further core cost reductions: core costs down 7% at £2.3bn, from Q1 2011
- Group impairments of £1.7bn, down 36% on Q1 2011

# ACCELERATING BALANCE SHEET STRENGTH

## Non-core assets and RWA reduction, above market deposit growth and reduction in wholesale funding requirement



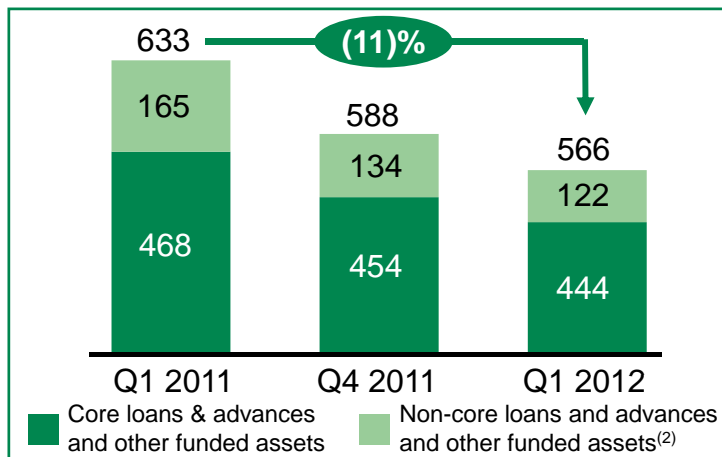
**STRENGTHEN**  
our balance  
sheet and  
liquidity  
position

**RESHAPE** our  
business  
portfolio

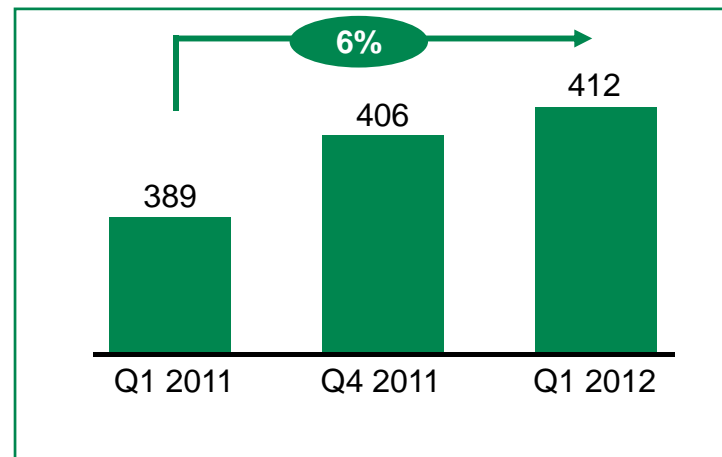
**SIMPLIFY** the  
Group

**INVEST** to  
grow

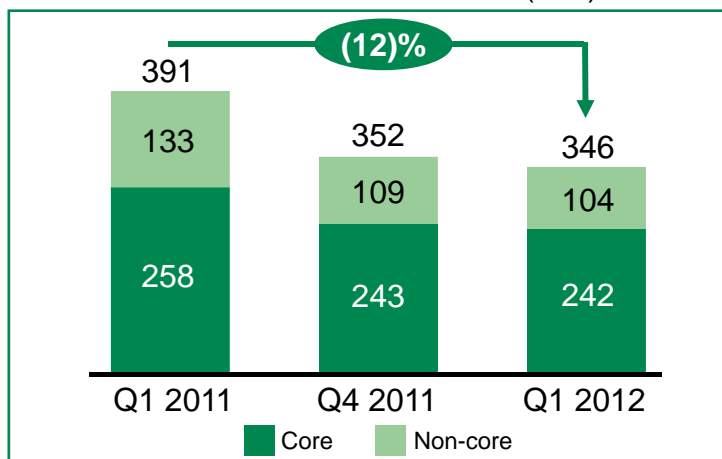
**FUNDED ASSETS<sup>(1)</sup> (£bn)**



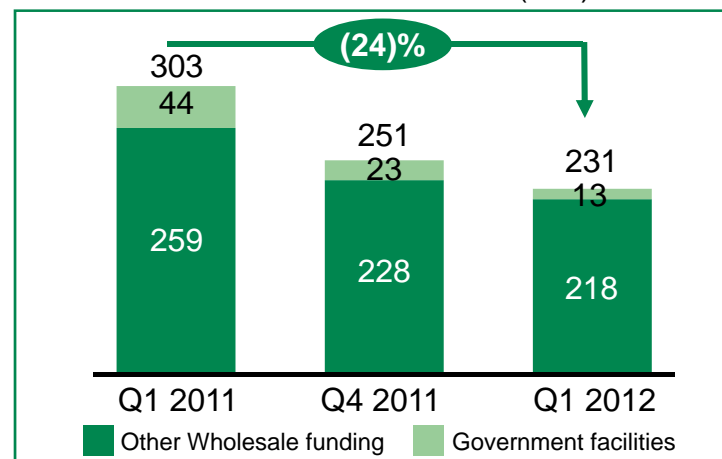
**CUSTOMER DEPOSITS<sup>(3)</sup> (£bn)**



**RISK-WEIGHTED ASSETS (£bn)**



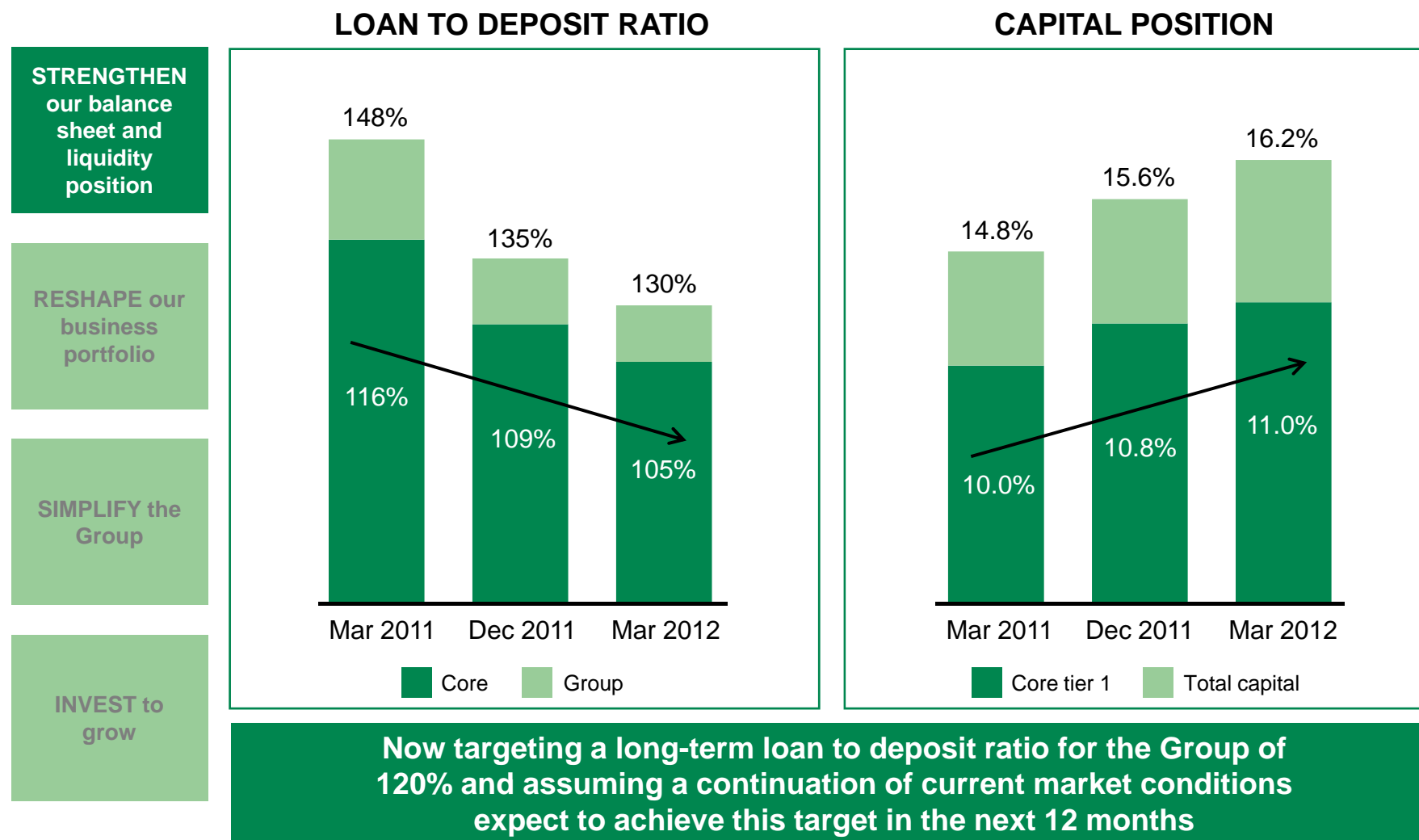
**WHOLESALE FUNDING (£bn)**



<sup>(1)</sup> Denotes core and non-core loans and advances excluding reverse repos plus other funded assets comprising cash balances (excluding primary liquidity), debt securities and available-for-sale financial assets – secondary. <sup>(2)</sup> Excludes £6bn of other assets which are not defined as funded assets; total non-core reduction in Q1 2012 was £12.4bn. <sup>(3)</sup> Excluding repos and LTRO.

# ACCELERATING BALANCE SHEET STRENGTH

Substantial reduction in our loan to deposit ratio, underpinned by strong capital position



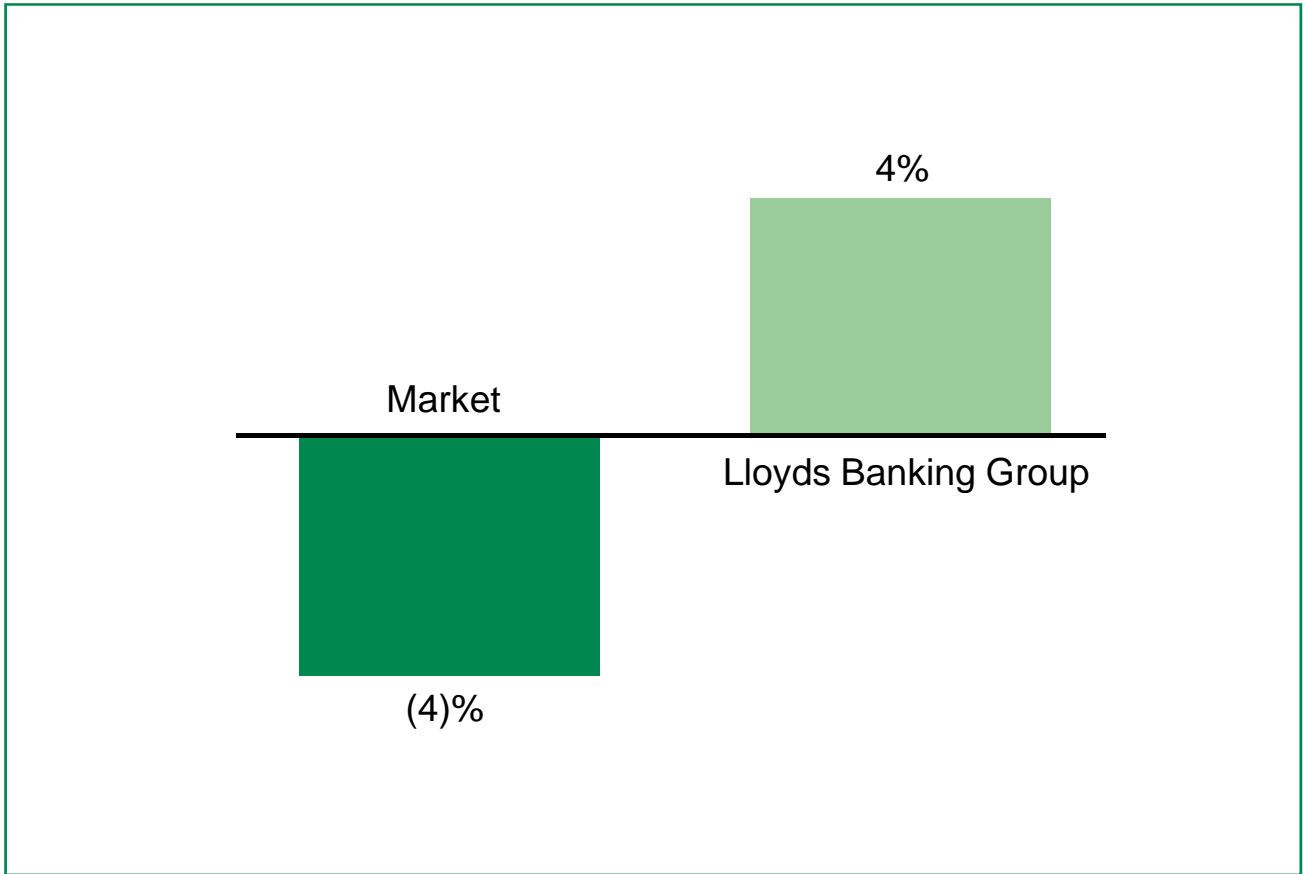
# RESHAPING OUR BUSINESS PORTFOLIO

...and continuing to grow our net lending to SMEs, in a contracting market



**CORE COMMERCIAL NET LENDING**  
(YEAR-ON-YEAR GROWTH MAR 2011 – MAR 2012)

- STRENGTHEN our balance sheet and liquidity position
- RESHAPE our business portfolio
- SIMPLIFY the Group
- INVEST to grow



# SIMPLIFYING THE GROUP

## Strong initial progress on simplification and a 7% reduction in total costs



STRENGTHEN  
our balance  
sheet and  
liquidity  
position

RESHAPE our  
business  
portfolio

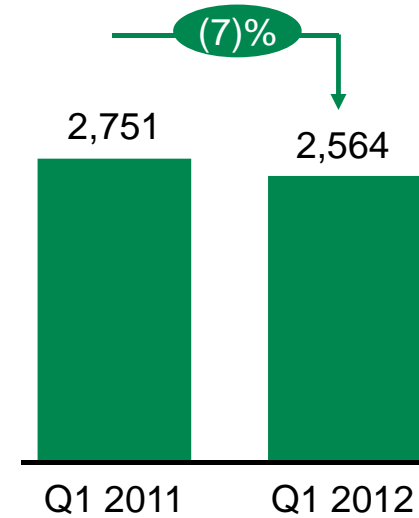
SIMPLIFY the  
Group

INVEST to  
grow

- Our proven capabilities from integration give us great confidence in realising cost savings from simplification
- We have made strong initial progress:
  - Run-rate cost savings of £352m at end of Q1 2012
  - Management layers reduced and spans of control increased
  - Organisational structures simplified



TOTAL COSTS (£m)



# SIMPLIFYING THE GROUP

...and we are accelerating our simplification plans whilst we make further progress on delivering strengthened customer experience

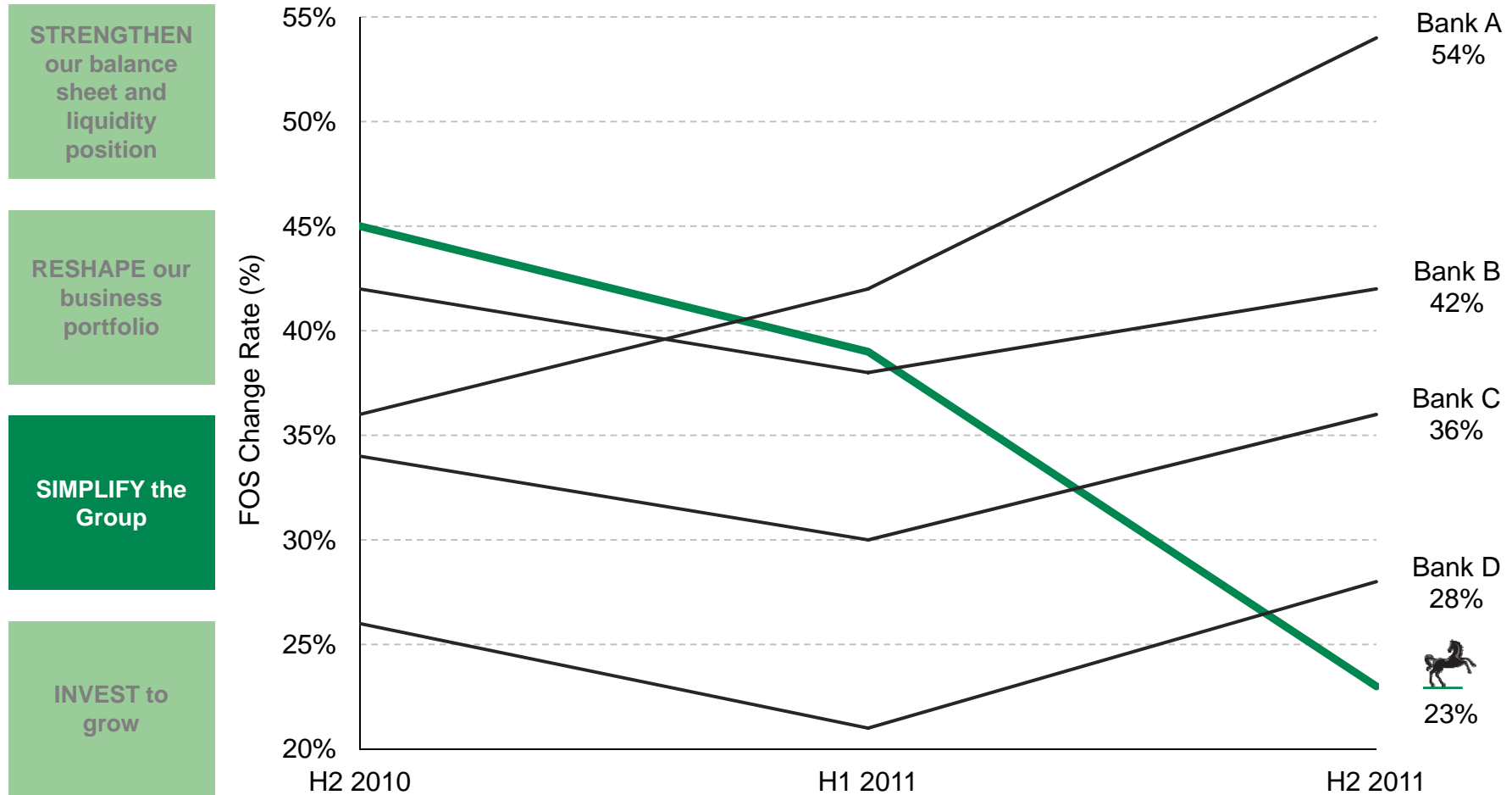


	FSA banking complaints	H2 2010		H1 2011		H2 2011	
		Banking complaints	Complaints per 1,000 accounts	Banking complaints	Complaints per 1,000 accounts	Banking complaints	Complaints per 1,000 accounts
STRENGTHEN our balance sheet and liquidity position	Bank A	43,663	2.0	22,222	0.9	17,892	0.7
RESHAPE our business portfolio	<b>Lloyds Banking Group</b>	<b>154,555</b>	<b>2.1</b>	<b>121,906</b>	<b>1.7</b>	<b>109,245</b>	<b>1.5</b>
	Bank B	58,392	2.4	69,149	2.8	65,441	2.7
SIMPLIFY the Group	Bank C	215,326	5.5	170,304	4.0	151,604	3.7
	Bank D	119,446	3.4	132,134	3.8	133,932	4.0
INVEST to grow	Bank E	165,052	5.0	139,386	4.0	138,225	4.6
<p><b>We are on track to achieve our target of 1.3 banking complaints per 1,000 accounts by the end of the year. We are also making good progress with the FOS in terms of reducing volumes and overturn rates (excluding PPI)</b></p>							

Source: Banking Group websites.

# SIMPLIFYING THE GROUP

## Overtake rates from Financial Ombudsman Service also continue to fall



STRENGTHEN  
our balance  
sheet and  
liquidity  
position

RESHAPE our  
business  
portfolio

SIMPLIFY the  
Group

INVEST to  
grow

Source: Banking and Savings complaints referred to FOS.



# INVESTING TO GROW OUR CORE CUSTOMER BUSINESSES

## We continue to invest based on the 5 key growth initiatives mentioned in June 2011



STRENGTHEN our balance sheet and liquidity position	<b>Retail</b>	<ul style="list-style-type: none"> <li>▪ Further improvements to Retail's branch infrastructure including over 100 Lloyds TSB branch refurbishments</li> <li>▪ Improved internet offerings including enhanced Lloyds TSB Money Manager</li> <li>▪ Successful Halifax Savers Prize Draw – 750,000 customers, with more than 300,000 additions since the first draw in December 2011</li> </ul>
RESHAPE our business portfolio	<b>SMEs</b>	<ul style="list-style-type: none"> <li>▪ Supported over 30,000 start ups in the first quarter</li> <li>▪ £3.25bn of gross new lending to SMEs, ahead of target, and positive SME net lending in a falling market</li> </ul>
SIMPLIFY the Group	<b>Insurance</b>	<ul style="list-style-type: none"> <li>▪ Continuing to prepare for RDR</li> <li>▪ Bancassurance: 220,000 new protection cases written since Q1 2011, an increase of 35% in the stock of cases</li> <li>▪ Sales of individual pensions up 12%, driven by sales of our retirement account</li> </ul>
INVEST to grow	<b>Wholesale</b>	<ul style="list-style-type: none"> <li>▪ Focus on electronic channels – 50% increase in customers using Arena contributing towards the 28% growth in foreign exchange volumes</li> <li>▪ Strong momentum building in OOI driven by customer focused propositions</li> <li>▪ Relationship quality with large corporates improved, evidenced by Greenwich Associates benchmarking (jointly lead market on Overall Relationship Quality)</li> </ul>
	<b>Wealth</b>	<ul style="list-style-type: none"> <li>▪ Good progress with new proposition development, in advance of RDR implementation</li> <li>▪ Operating model further simplified through bringing together UK and International wealth investment offices under a single leadership</li> </ul>

# FINANCIAL PERFORMANCE

## Resilient underlying performance in core business and increasing return on RWAs



£m	GROUP		CORE		
	Q1 2011	Q1 2012	Q1 2011	Q1 2012	
<b>Underlying income<sup>(1)</sup></b>	<b>5,580</b>	<b>4,731</b>	<b>4,881</b>	<b>4,353</b>	Reduction due to challenging environment resulting in asset and net interest margin reduction
		(15)%		(11)%	
NII	3,303	2,645	2,859	2,473	
		(20)%		(14)%	
OOI	2,277	2,086	2,022	1,880	
		(8)%		(7)%	
<b>Total costs</b>	<b>(2,751)</b>	<b>(2,564)</b>	<b>(2,519)</b>	<b>(2,343)</b>	
		7%		7%	
<b>Impairments<sup>(2)</sup></b>	<b>(2,599)</b>	<b>(1,654)</b>	<b>(726)</b>	<b>(407)</b>	Driven by improving portfolio quality and declining flows into impairment
		36%		44%	
<b>Underlying profit before tax and fair value unwind<sup>(3)</sup></b>	<b>230</b>	<b>513</b>	<b>1,636</b>	<b>1,603</b>	
				(2)%	
<b>Average RWAs (£bn)</b>	<b>399</b>	<b>349</b>	<b>260</b>	<b>243</b>	
<b>Underlying pre-tax return on risk weighted assets<sup>(4)</sup></b>	<b>0.23%</b>	<b>0.59%</b>	<b>2.55%</b>	<b>2.65%</b>	Resilient profitability given challenging environment
<b>Profit before tax – combined businesses basis</b>	<b>284</b>	<b>628</b>			
<b>Profit (loss) before tax – statutory<sup>(5)</sup></b>	<b>(3,470)</b>	<b>288</b>			Statutory profit movement primarily reflects PPI provision

(1) Net of insurance claims, excluding the effects of liability management, volatile items, and asset sales.

(2) Includes share of results of joint ventures and associates. (3) Adjusted to exclude the effects of liability management, volatile items and asset sales.

(4) Underlying PBT and value unwind divided by risk-weighted assets.

(5) Includes PPI provision, integration costs, insurance volatility and others.

# BUSINESS PERFORMANCE

## Statutory reconciliation; improvement on Q1 2011 reflects PPI provision

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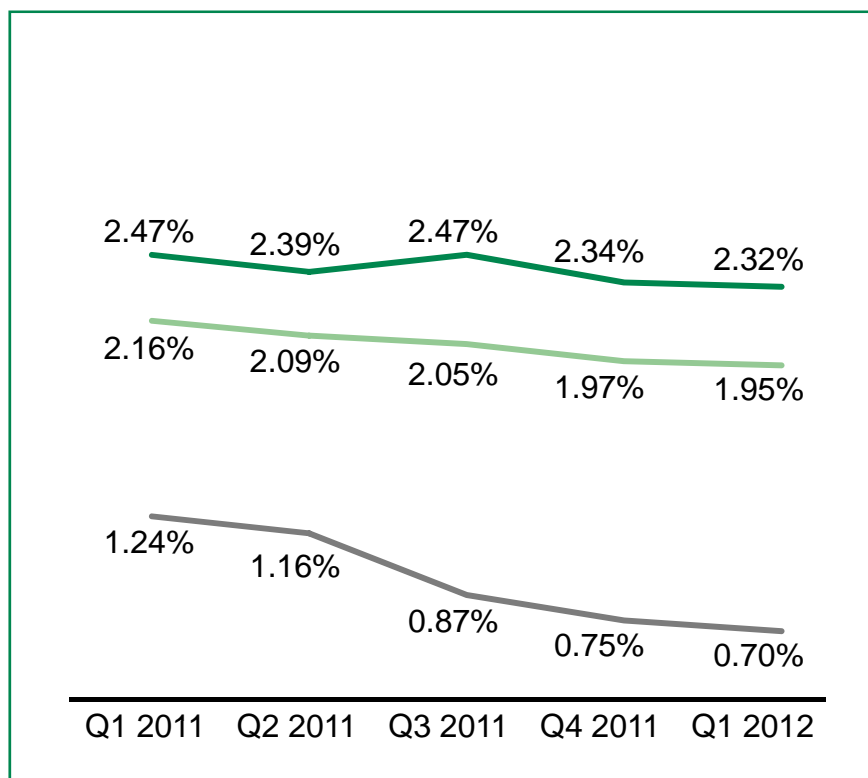
£m	Q1 2011	Q1 2012
<b>Profit before tax – combined businesses basis</b>	<b>284</b>	<b>628</b>
Integration costs	(315)	–
Project Verde costs	(18)	(108)
Simplification costs	–	(161)
Amortisation of purchased intangibles	(144)	(121)
Volatility arising in insurance businesses	(77)	167
Payment protection insurance provision	(3,200)	(375)
Past service pensions credit	–	258
<b>Profit (loss) before tax – statutory</b>	<b>(3,470)</b>	<b>288</b>

# FINANCIAL PERFORMANCE – MARGIN AND AQR

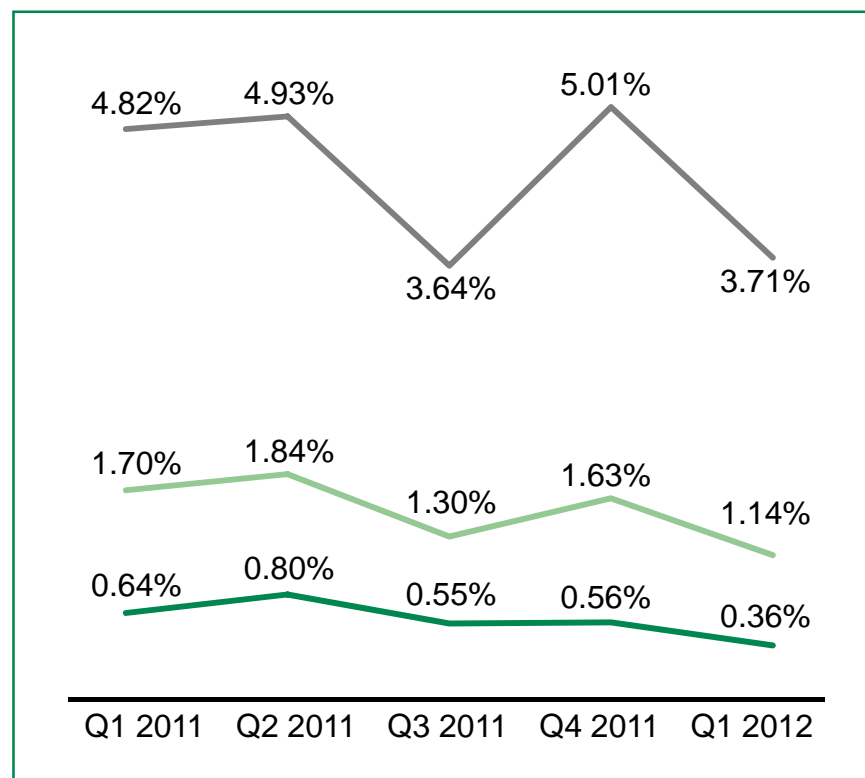
## Resilient margin performance and improvement in AQR



NET INTEREST MARGIN



AQR



■ Core ■ Group ■ Non-core

**Full year guidance for net interest margin reaffirmed**

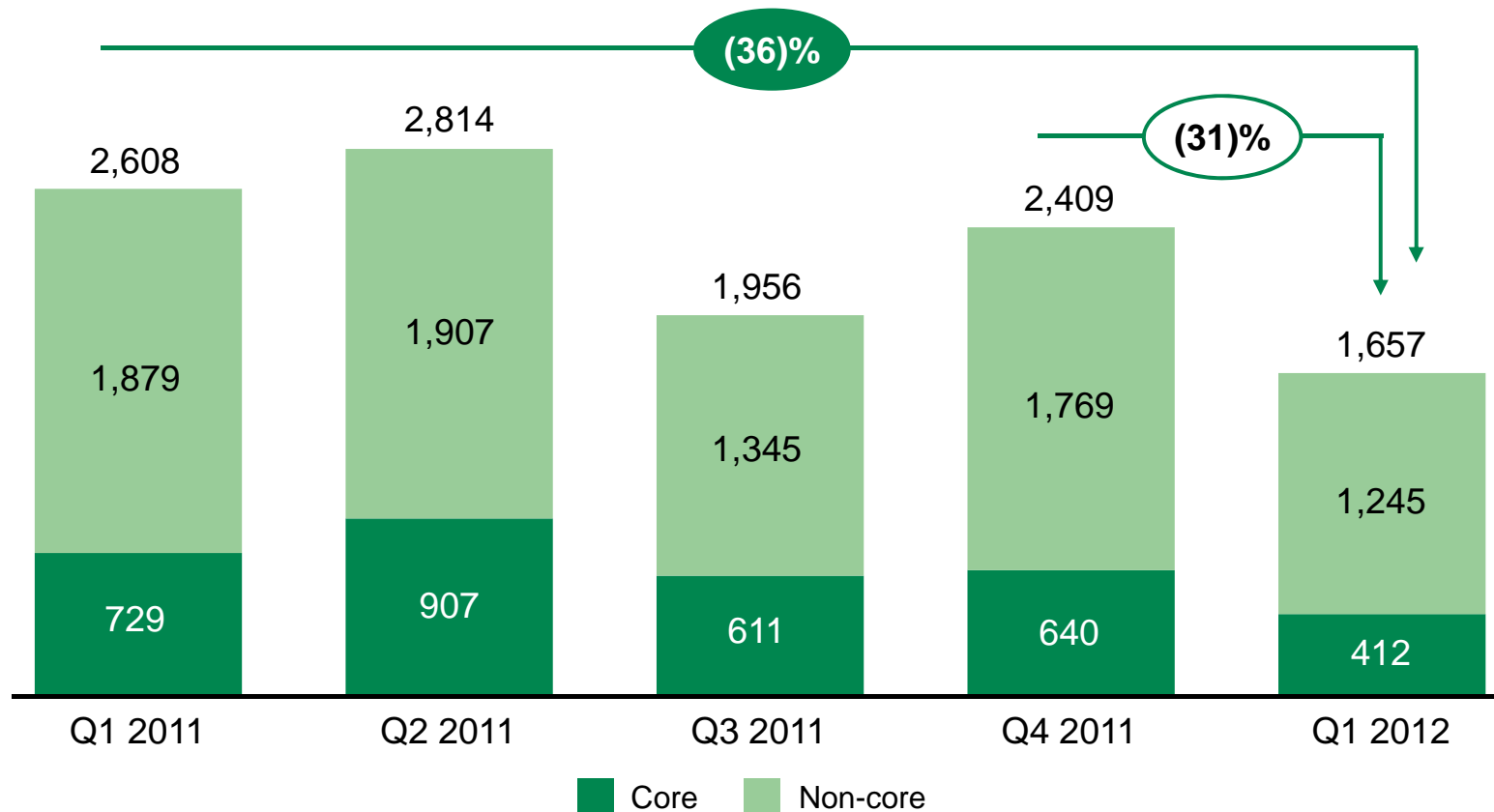
# FINANCIAL PERFORMANCE – IMPAIRMENT

## Further reduction, in line with expectations



£m

### GROUP IMPAIRMENT



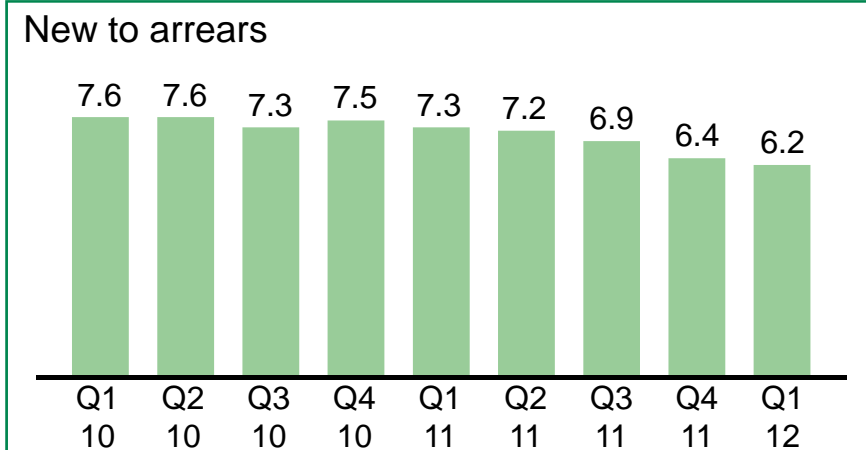
Full year guidance for impairment reaffirmed

# NEW TO ARREARS AND IMPAIRMENTS

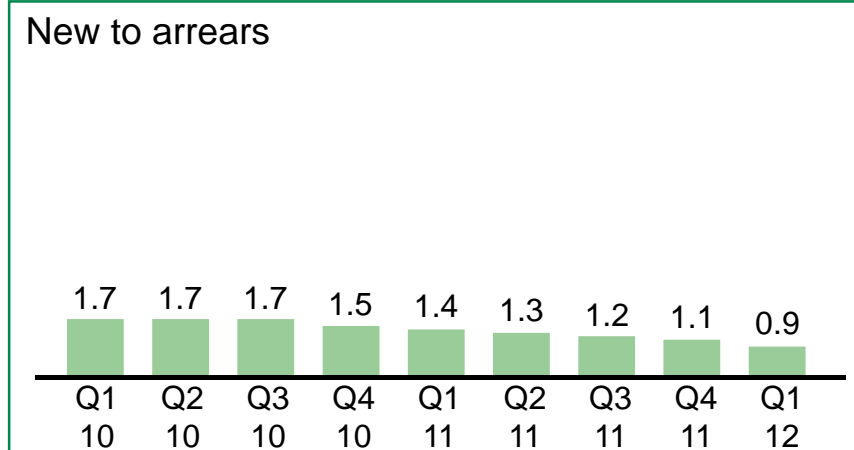
## Continuing improvement in credit quality



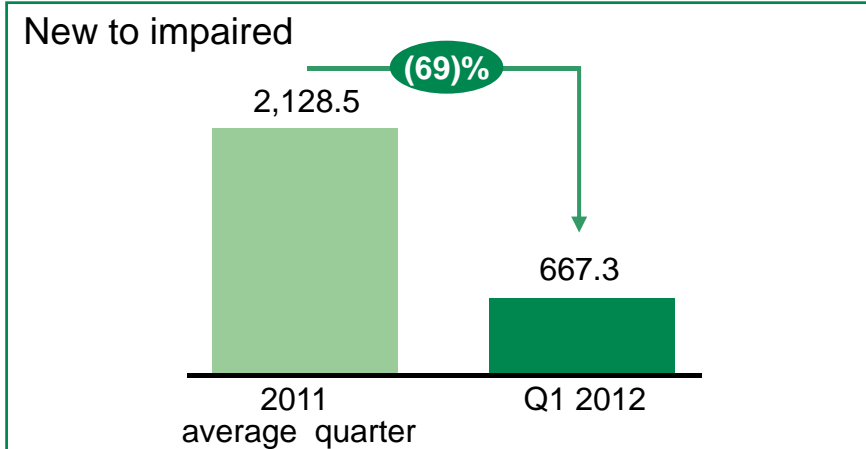
**RETAIL SECURED (£bn)**



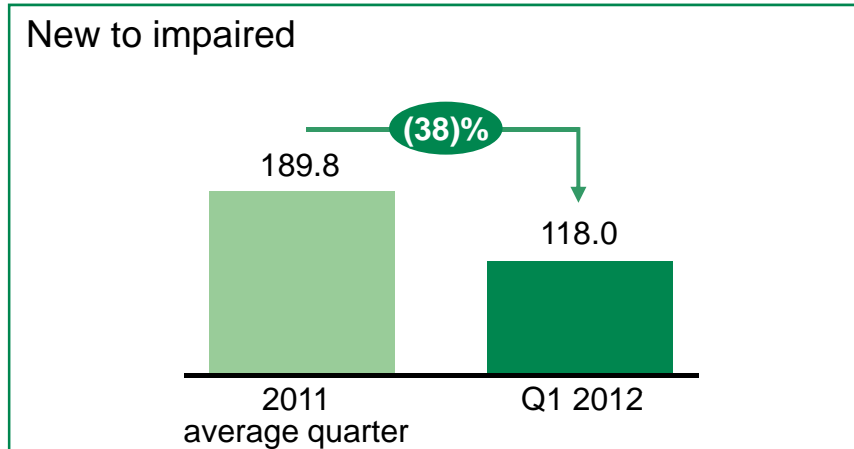
**RETAIL UNSECURED (£bn)**



**WHOLESALE (£m)**



**COMMERCIAL (£m)**

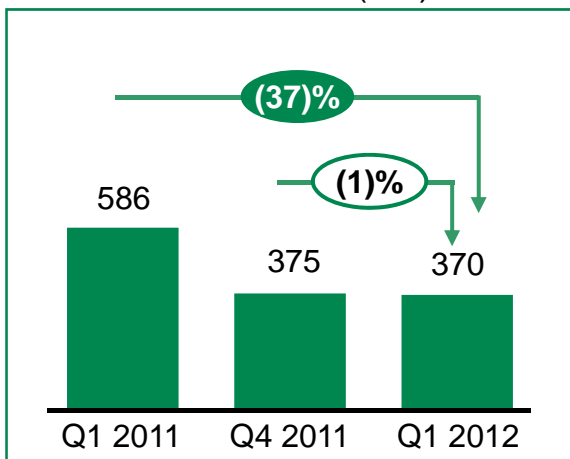


# FINANCIAL PERFORMANCE - IMPAIRMENT

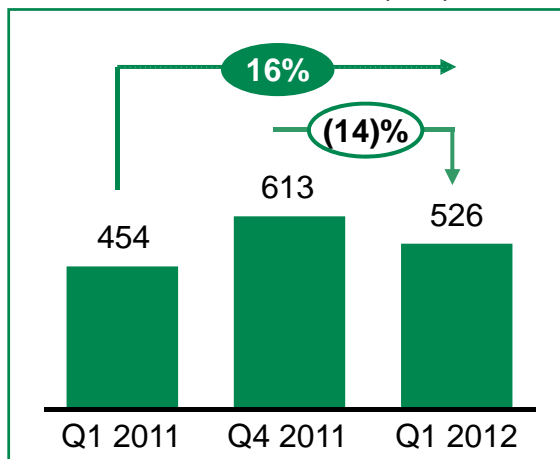
## Improving asset quality driving impairment reductions



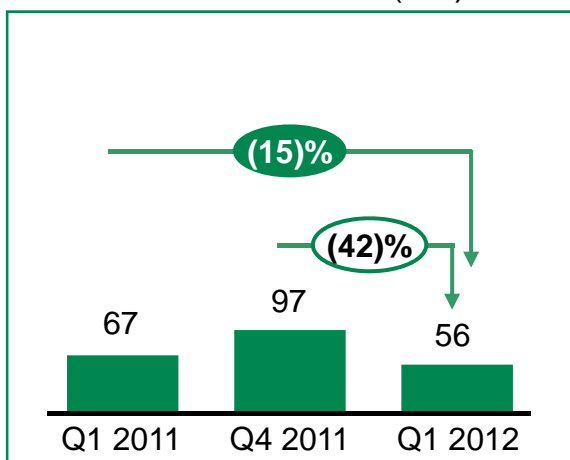
UK RETAIL (£m)



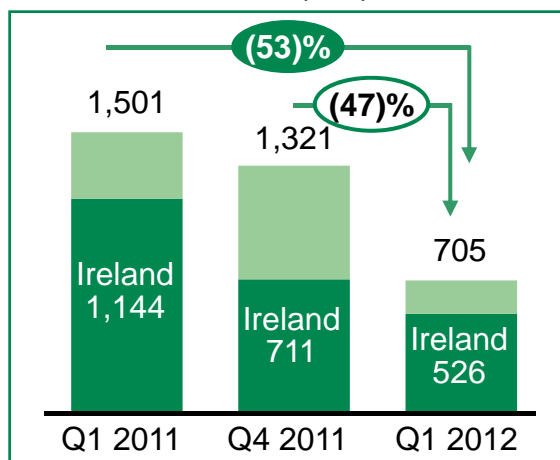
WHOLESALE (£m)



COMMERCIAL (£m)



W&I (£m)



### PRINCIPAL DRIVERS

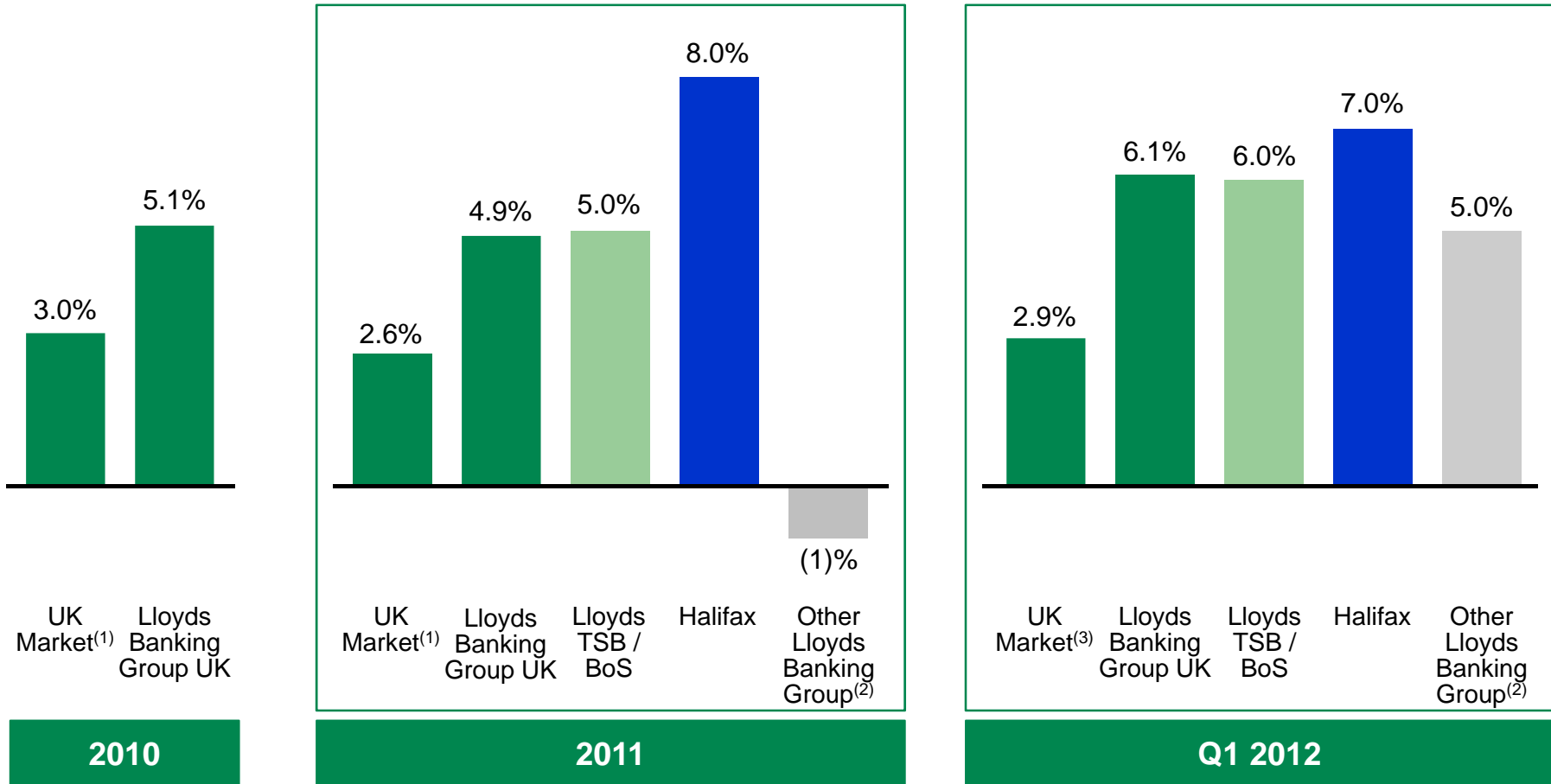
- UK Retail** – credit performance remains strong; unsecured charge declining further
- Wholesale** – lower charges over last quarter driven by reduced impairments in Wholesale Markets and Corporate
- Commercial** – improvements in portfolio credit quality and seasonal trading benefits
- Wealth and International** – lower charges in the Irish and Australasian portfolios

# BUSINESS PERFORMANCE – UK RETAIL CUSTOMER DEPOSITS

**Strong 2012 Q1 deposit growth driven by fixed term products demonstrating the strength of our multibrand strategy**



## UK RETAIL CUSTOMER DEPOSITS (YEAR-ON-YEAR GROWTH)



(1) Source: Bank of England. (2) Other LBG includes Birmingham Midshires, SWB, IF and C&G. (3) March 2012 UK market size estimated.

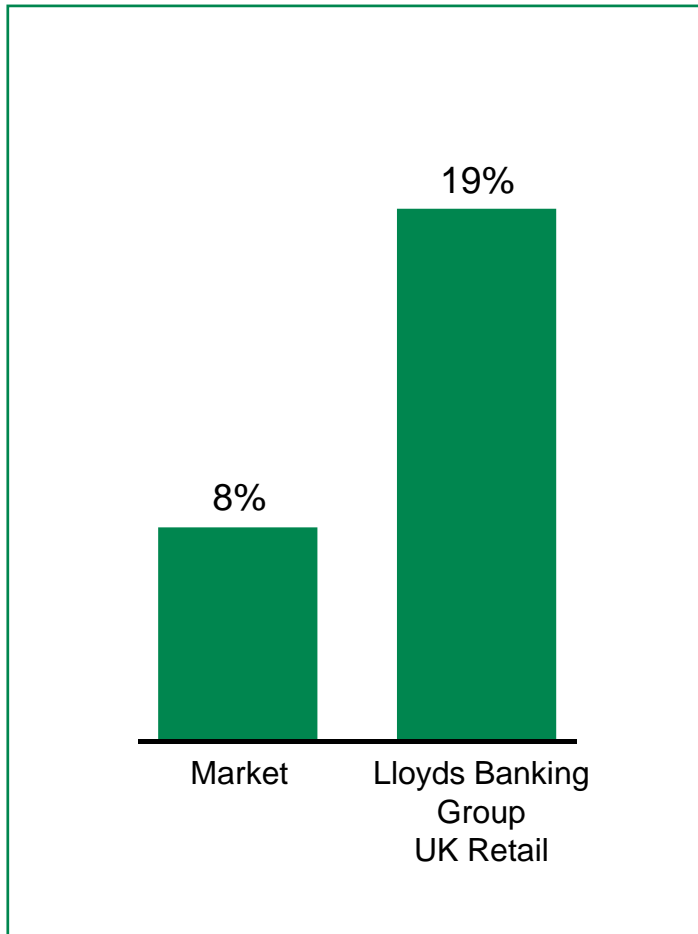


# RESHAPING OUR BUSINESS PORTFOLIO

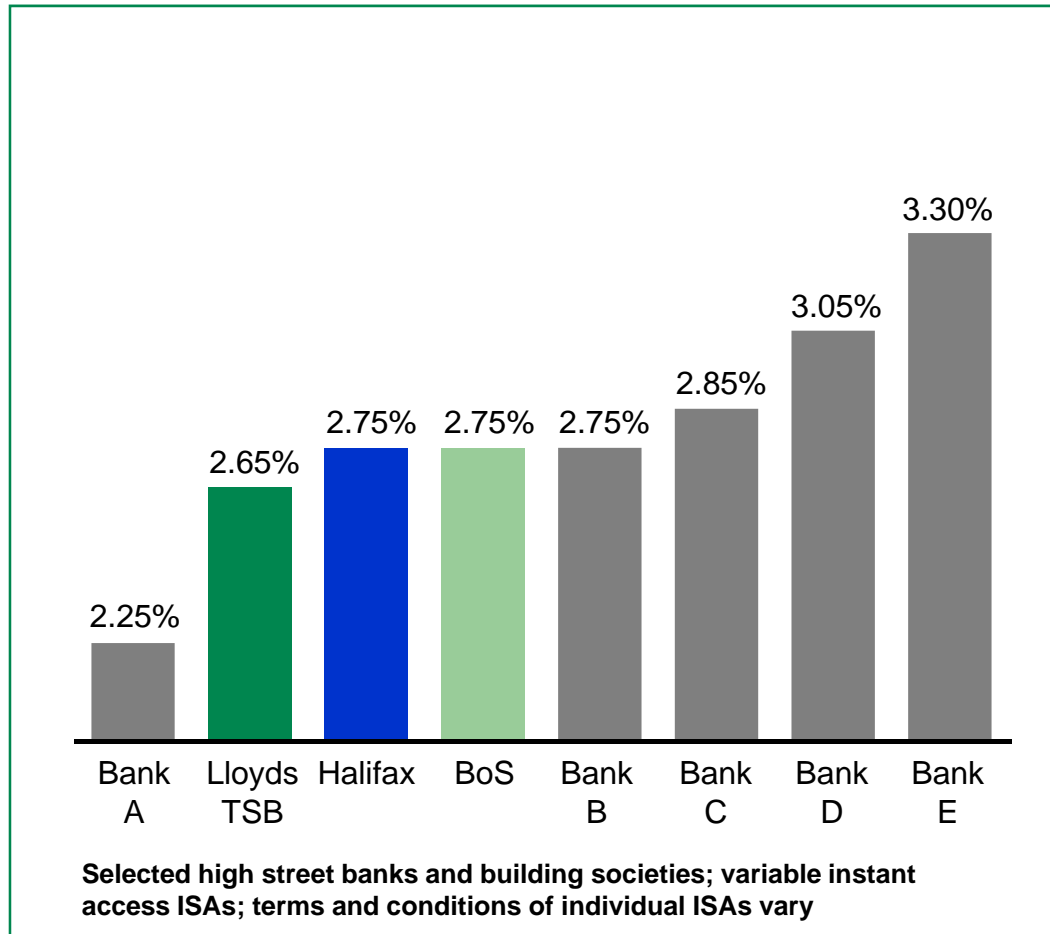
## ...driven by value (ISA example)



**2012 ANNUAL CASH  
ISA GROWTH<sup>(1)</sup>**



**2012 CASH ISAs**  
(HEADLINE ADVERTISED BRANCH RATES – MARCH 2012)



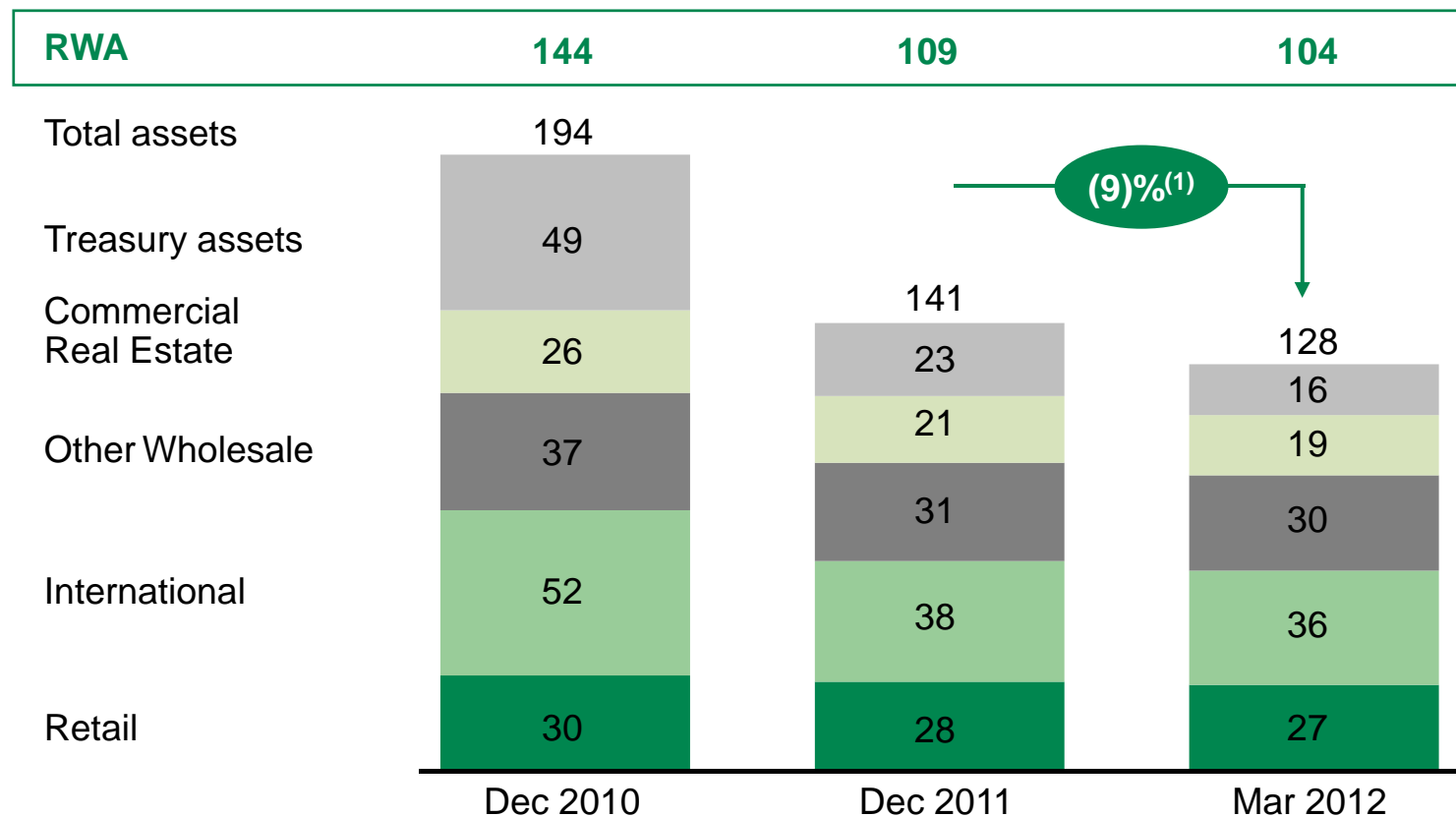
<sup>(1)</sup> LBG UK Retail, change in ISA stock year-on-year to 28 February 2012.

# FURTHER SUBSTANTIAL NON-CORE ASSET REDUCTION

## Non-core assets reduced by £12.4bn in the first quarter, primarily driven by treasury asset reductions



£bn



**2012 non-core asset reduction now expected to be at least £30 billion; up from £25 billion and 2014 target to be achieved in 2013**

<sup>(1)</sup> Includes FX benefits of c. £1bn.

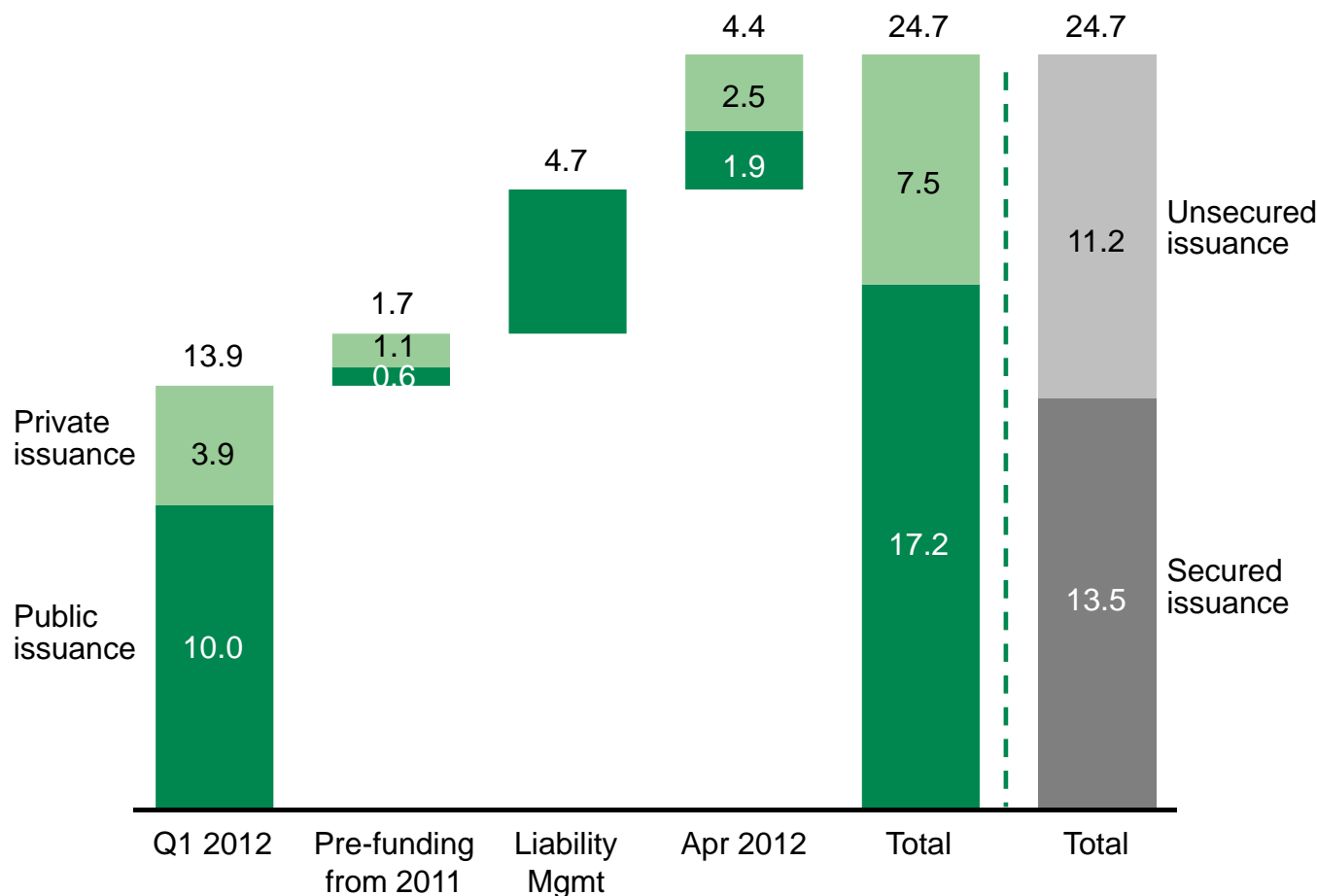
# WHOLESALE FUNDING

## 2012 term funding plan already completed



£bn

### WHOLESALE TERM ISSUANCE<sup>(1)</sup>



- 2012 term funding plan completed against our stated target of £20 – £25bn
- No plans to issue any benchmark covered bonds or senior unsecured for the remainder of the year<sup>(2)</sup>
- Remain open to modest further issuance as opportunities arise

<sup>(1)</sup> LTRO not included.

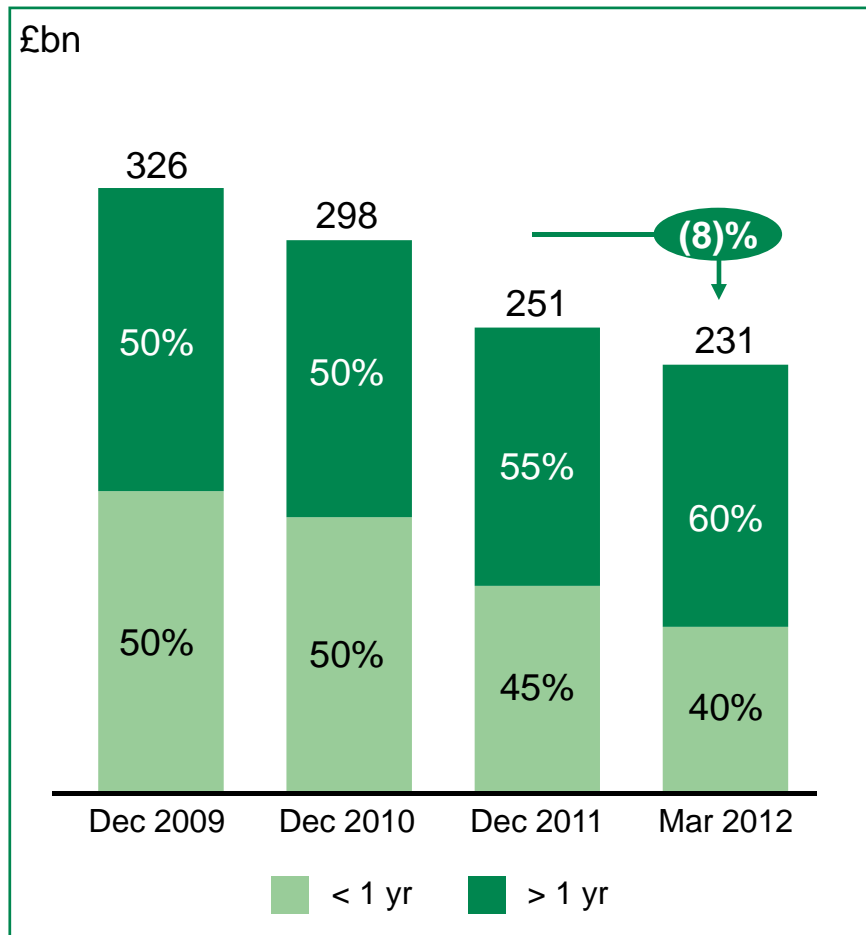
<sup>(2)</sup> Issuance does not include related NLGS activity, which we will participate in fully.

# WHOLESALE FUNDING

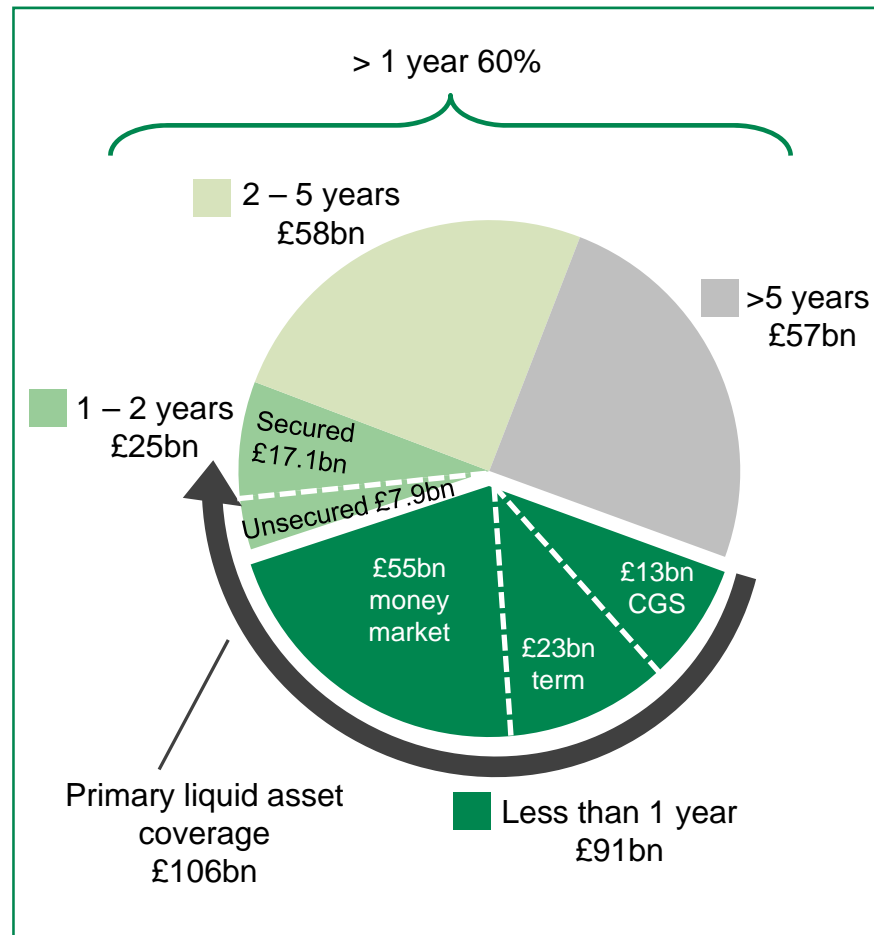
## Falling funding requirement and increasing liquidity



WHOLESALE FUNDING MATURITY PROFILE



WHOLESALE FUNDING £231BN

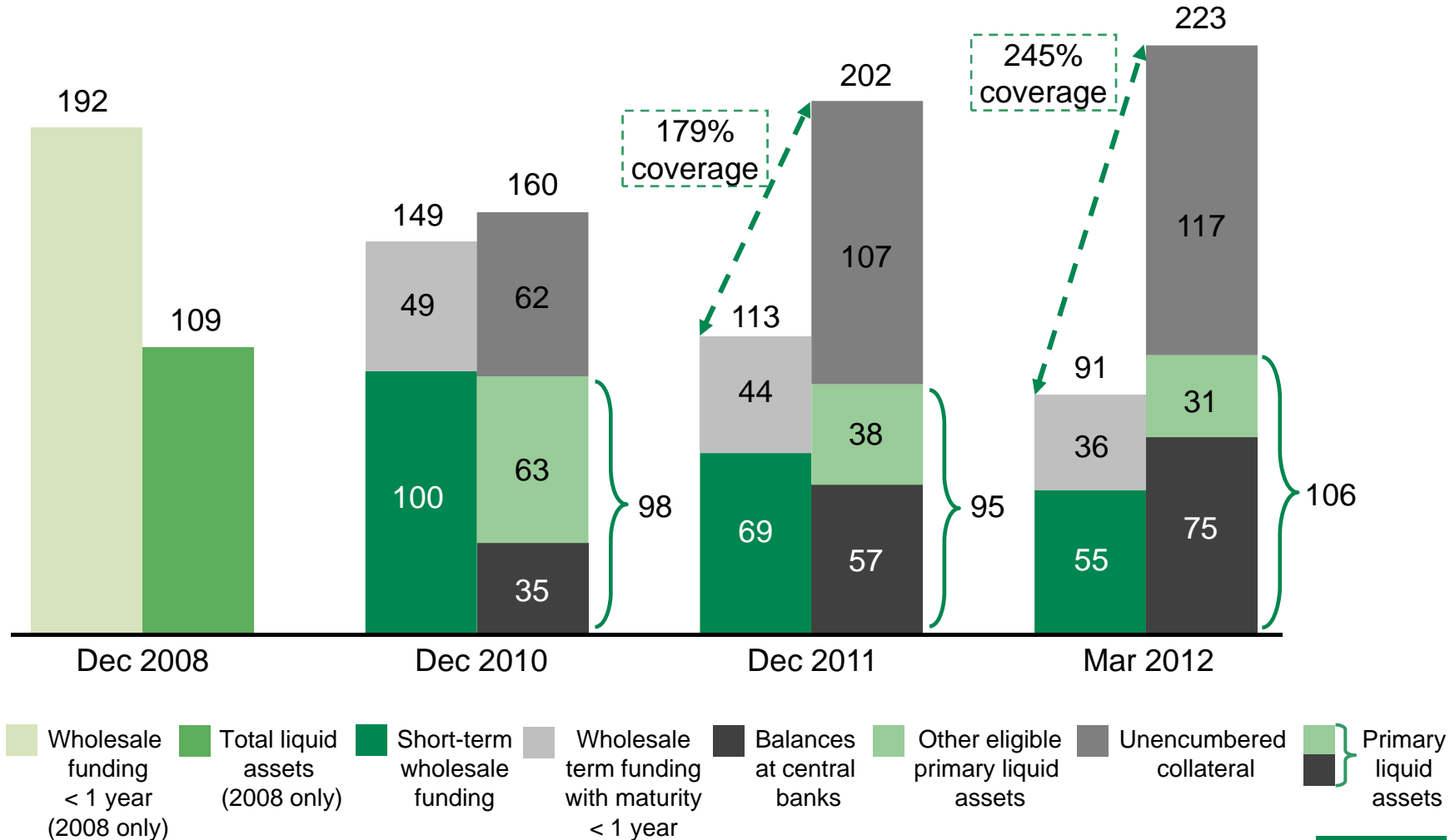


# LIQUIDITY

## Liquidity significantly exceeds short term funding and regulatory requirements



£bn



## SUMMARY

# Well placed to realise over time the Group's full potential for growth



- Balance sheet further strengthened
- Further progress in reducing the Group's risk
- Resilient core business performance despite continuing challenging macro environment: strong performance in costs and improved impairment
- Increased return on risk weighted assets within our core business
- Continued investment in our core franchise
- Confident in delivery of financial guidance; guidance for reduction on non-core assets enhanced and loan to deposit ratio guidance improved further

**Substantial progress against our strategic objectives**

**Well placed to realise over time the Group's full potential for growth**

**LLOYDS  
BANKING  
GROUP**



# **RESULTS FOR THE QUARTER ENDED 31 MARCH 2012**

**1 May 2012**

**António Horta-Osório  
Group Chief Executive**

# FORWARD LOOKING STATEMENTS AND BASIS OF PREPARATION

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## FORWARD LOOKING STATEMENTS

This presentation contains forward looking statements with respect to the business, strategy and plans of the Lloyds Banking Group, its current goals and expectations relating to its future financial condition and performance. Statements that are not historical facts, including statements about the Group or the Group's management's beliefs and expectations, are forward looking statements. By their nature, forward looking statements involve risk and uncertainty because they relate to events and depend on circumstances that will 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, including, without limitation, as a result of the integration of HBOS and the Group's simplification programme; the ability to access sufficient funding to meet the Group's liquidity needs; changes to the Group's credit ratings; risks concerning borrower or counterparty credit quality; instability in the global financial markets including Eurozone instability; changing demographic and market related trends; changes in customer preferences; changes to 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 EC 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 certain factors together with examples of forward looking statements. The forward looking statements contained in this presentation are made as at the date of this presentation, and the Group undertakes no obligation to update any of its forward looking statements.

## BASIS OF PRESENTATION

The results of the Group and its business are presented in this presentation on a combined businesses basis and include certain income statement, balance sheet and regulatory capital analysis between core and non-core portfolios to enable a better understanding of the Group's core business trends and outlook. Please refer to the Basis of Presentation in the Q1 2012 Interim Management Statement News Release which sets out the principles adopted in the preparation of the combined businesses basis of reporting as well as certain factors and methodologies regarding the allocation of income, expenses, assets and liabilities in respect of the Group's core and non-core portfolios.