

**LLOYDS  
BANKING  
GROUP**



# **UBS GLOBAL FINANCIAL SERVICES CONFERENCE**

**12 May 2009**

**New York**

**Tim Tookey**

**Group Finance Director**

# OVERVIEW

---



- **Strongly capitalised**
- **De-risked balance sheet**
- **Significant synergy opportunities**
- **Opportunity to redeploy capital**
- **Diverse funding sources with an improving maturity profile**
- **Experienced management team**

**A compelling case for long term growth**

# DRIVING A SMOOTH INTEGRATION PROCESS

---



## Pre-acquisition

- Appointed executive management team
- Comprehensive due diligence completed
- Over 7,000 tasks undertaken
- Strong initial view of synergies

## 16 JANUARY 2009 – ACQUISITION COMPLETED

## Post-acquisition

- Appointed Top 500 executives – now managing combined business
- New business unit structure embedded
- Rules, governance, values and vision in place
- Initial synergies starting to be captured

# THE UK'S LEADING FINANCIAL SERVICES COMPANY

LLOYDS  
BANKING  
GROUP



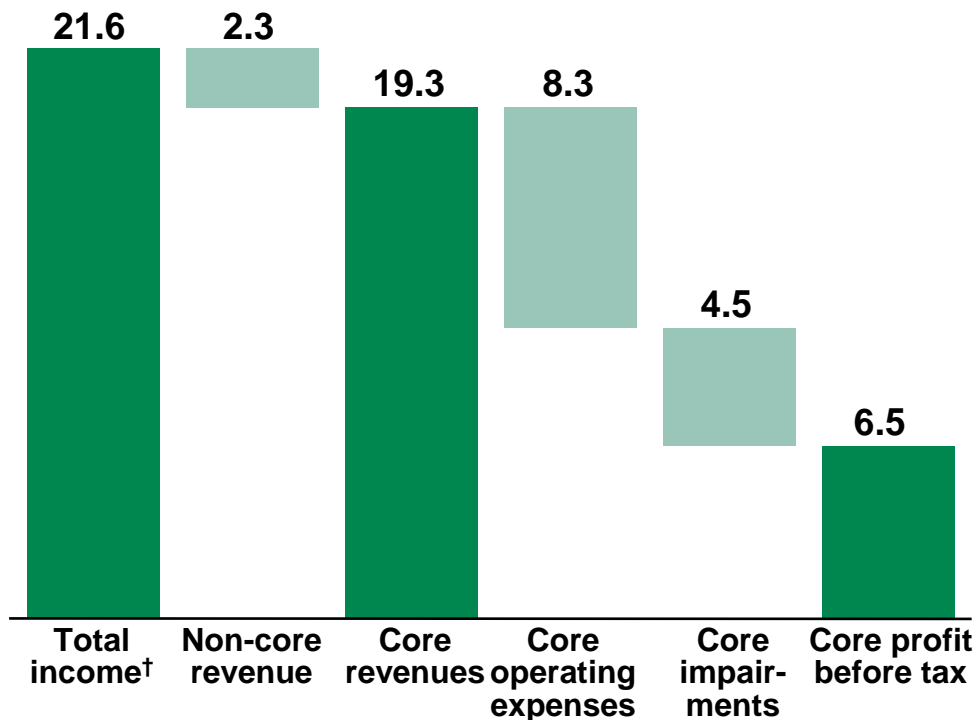
	Lloyds TSB		HBOS		Lloyds Banking Group	
	Share	Position	Share	Position	Share	Position
Current accounts	17%	#1	14%	#4	31%	#1
Savings	8%	#5	15%	#2	23%	#1
Credit cards	12%	#3	12%	#3	24%	#1
Mortgages	11%	#4	19%	#1	30%	#1
Personal lending	14%	#1	5%	#3	19%	#1
SME's	18%	#=2	4%	#5	22%	#2
Life assurance & pensions	6%		6%			
Home insurance distributor	8%	#1	6%	#2	14%	#1
Mid-large corporate	14%	#3	8%	#5	22%	#3

Notes: All figures based on 31 December 2008 and represent share of product stock  
Sources: GfK FRS, ABI, TNS, Bank of England, CACI, SME's - companies with turnover £0-15m,

# CORE BUSINESSES WILL DRIVE LOW RISK GROWTH



## 2008 Pro forma: core vs non-core\* (£bn)



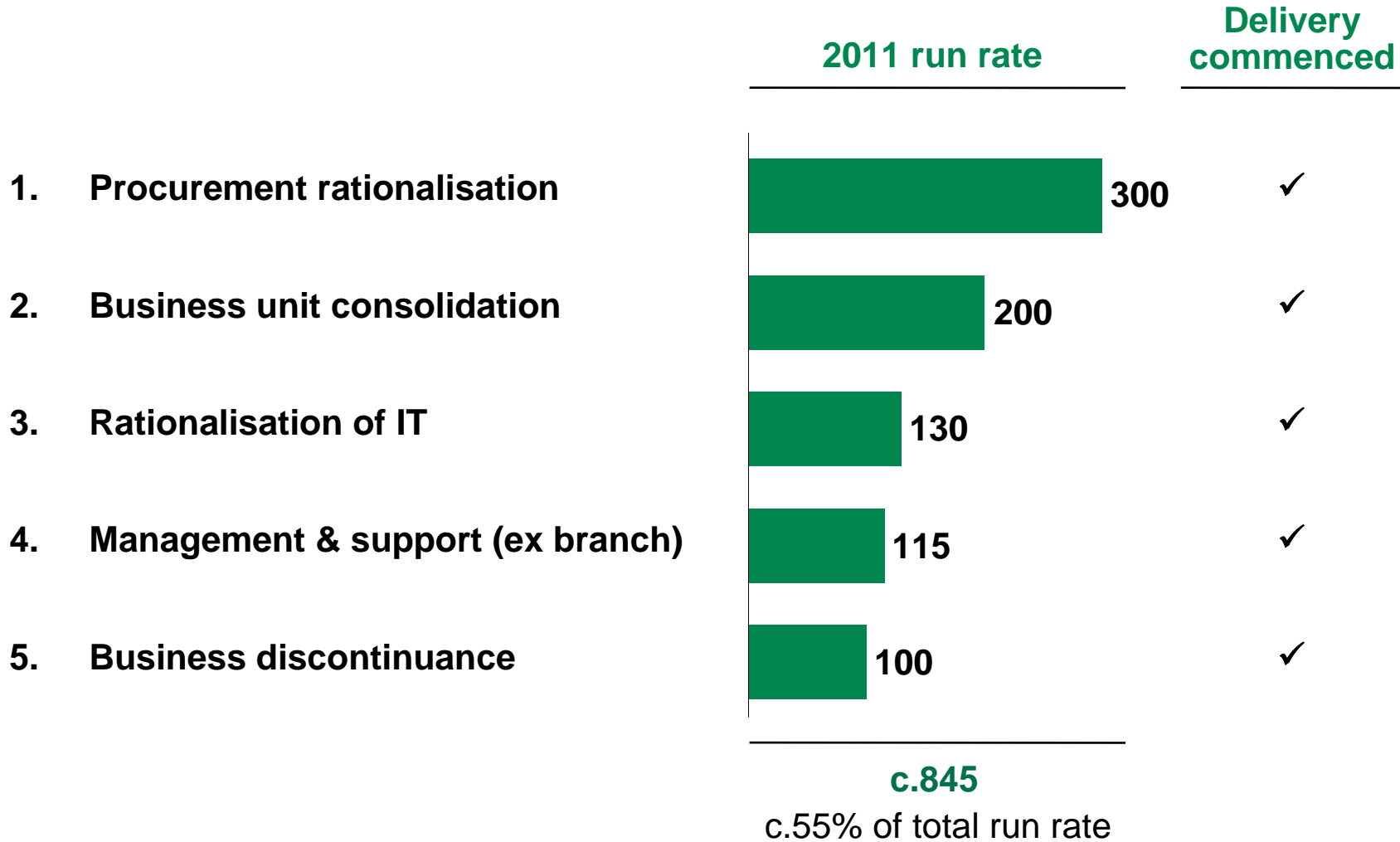
% capital 45.7% 54.3%

## Growth drivers

- Growth in core markets
- Cost synergies
- Revenue synergies
- Redeployed capital
- Normalised impairments

\* Lloyds Banking Group estimates  
 † Continuing basis

# STRONG PROGRESS ON DELIVERING COST SYNERGY VALUE



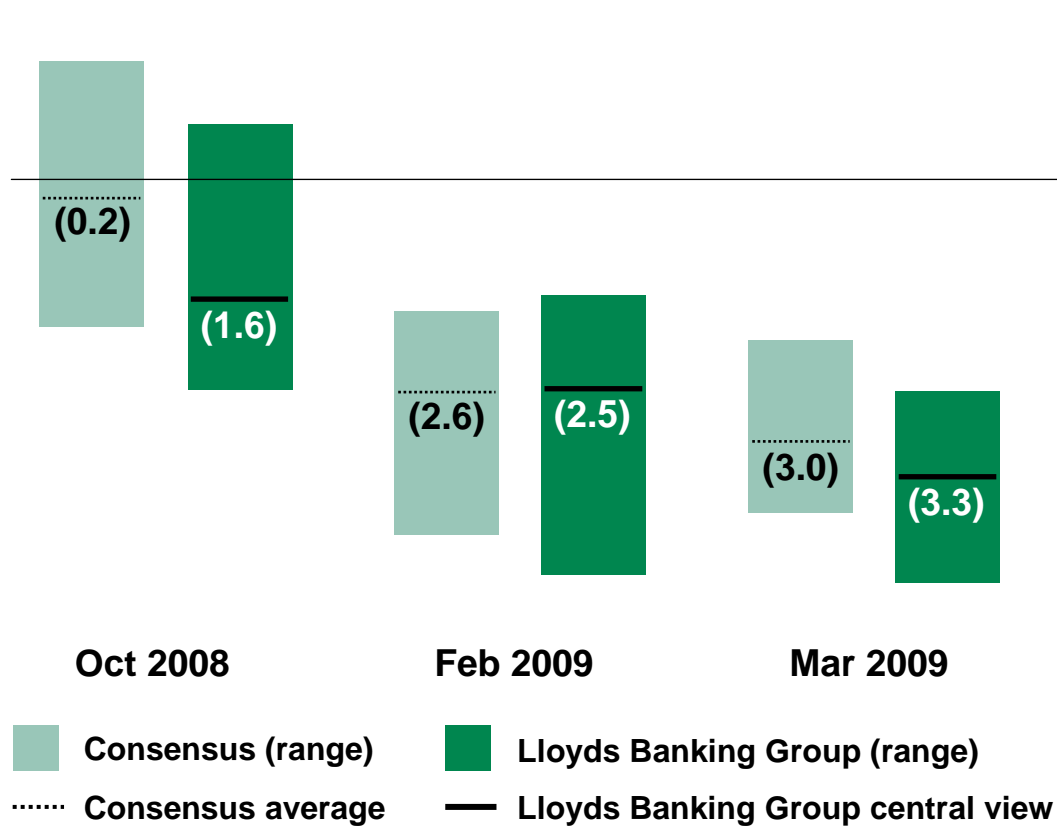
# WE HAVE IDENTIFIED SIGNIFICANT REVENUE SYNERGIES



Selected examples	Preliminary estimate PBT impact (£m)
1. Increasing cross-sell in HBOS retail	80 – 120
2. Conversion of HBOS retail customers to SME	80 – 120
3. Increase cross-sell in HBOS commercial	40 – 80
4. Extend private banking services to Lloyds Banking Group existing customers	40 – 80

# THE ECONOMIC ENVIRONMENT WILL REMAIN DIFFICULT

## GDP growth forecast 2009 (%) Consensus vs Lloyds Banking Group

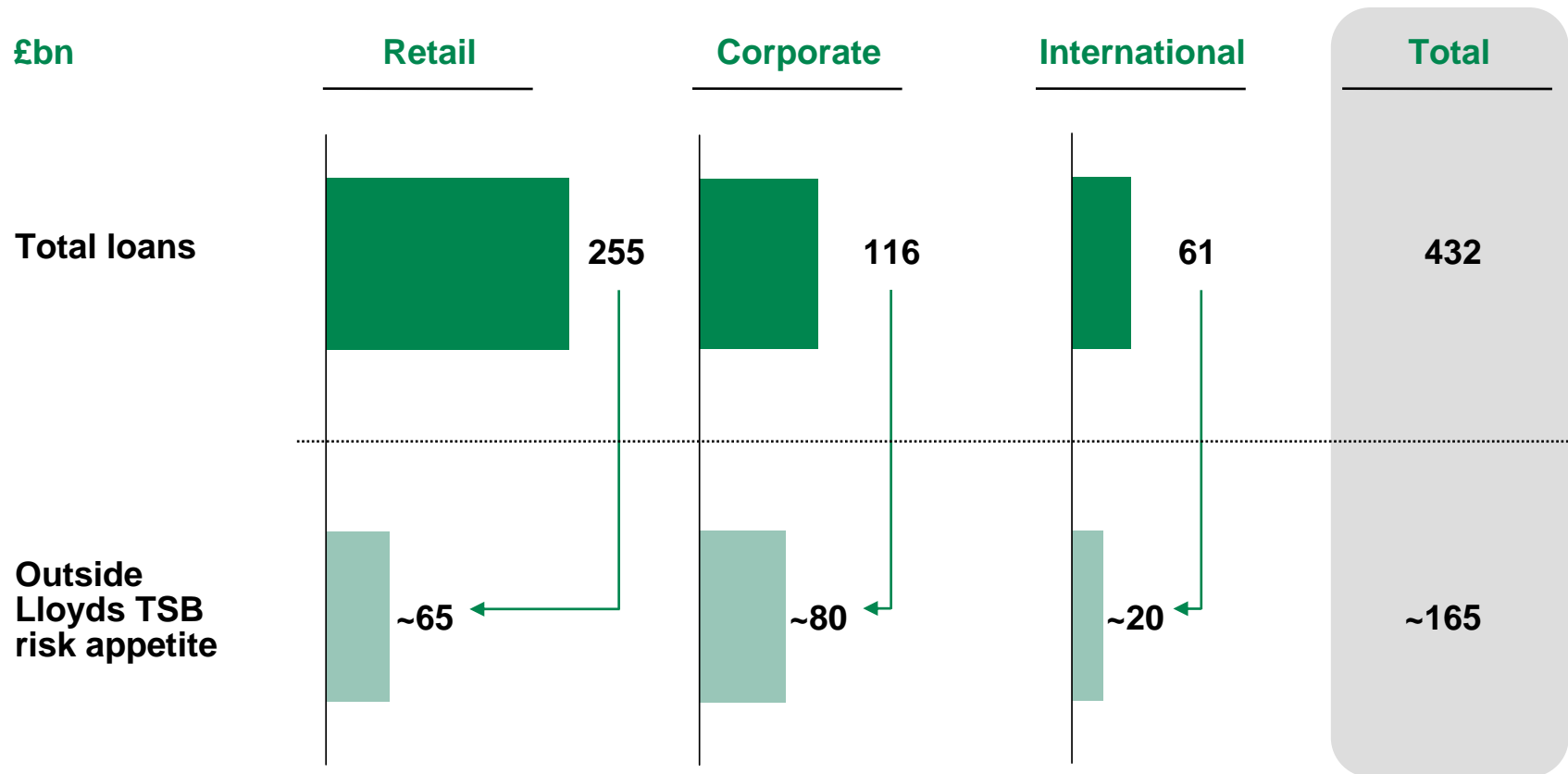


- House prices will continue to fall through 2009
- Unemployment will continue to rise
- Consumer spending will slow further

\* Source: Consensus Economics Inc



# UNDERSTANDING THE HBOS LOAN BOOK



# GROUP WIDE ACTIONS TAKEN TO MANAGE RISK



## In divisions

- **Stopped flow of new high risk lending**
- **Identified the higher risk assets**
- **Undertaking detailed review of those assets**
- **Managing intensively the high risk books**

## At Group level

- **Applying Lloyds TSB risk governance, appetite and sanctioning**
- **Conducting central checks of divisional risk activities**
- **Repetitive 5 year stress testing of HBOS credit and financial performance**
- **Applying Lloyds TSB conservative economic assumptions and stress testing methodologies**

# ASSET PROTECTION SCHEME – KEY DETAILS



- De-risks circa £260 billion Group assets
- Approximately £194 billion RWA relief
- Increases pro-forma adjusted\* core tier 1 capital ratio to 14.5%, total capital ratio of 20.5%†
- Lloyds retains £25 billion ‘first loss’
- Subsequent losses shared 90/10 between HMT and Lloyds

## The initial portfolio comprises:

	<u>£bn</u>
Retail – mortgages	74
Retail – unsecured personal loans	18
Corporate/Commercial‡	151
Treasury Assets	17
<b>Total</b>	<b><u>260</u></b>

- Assets predominantly represent higher risk and concentrated portfolios

\* Adjusted for capital raisings in January 2009 and net negative capital adjustments arising on acquisition of HBOS

† Includes impact of conversion of the £4 billion HMT preference shares

‡ Including UK and International Commercial Real Estate and Leveraged Finance

# A SIGNIFICANTLY DE-RISKED AND IMPROVED CAPITAL POSITION

LLOYDS  
BANKING  
GROUP



At 31 December 2008	Before*	After*	Change
Risk-weighted assets (£bn)	498	304	(39%)
Core tier 1 capital (£bn) <sup>†</sup>	32.1	44.0	37%
Core tier 1 capital ratio (%) <sup>†</sup>	6.4	14.5	+810bps
Tier 1 capital (£bn)	48.8	56.7	16%
Tier 1 capital ratio (%)	9.8	18.7	+890bps


\* Proforma adjusted for capital raisings in January 2009 and net negative capital adjustments arising on acquisition of HBOS. Based on initial APS portfolio analysis

<sup>†</sup> After first loss deduction which is reduced by impairment and fair value adjustments for the insured element of the APS portfolio, 50% of which is taken against core tier 1. Includes impact of conversion of the £4 billion HMT preference shares

# A DIVERSE FUNDING PROFILE



- Core customer deposit base
- Diverse wholesale funding profile
- Measured use of Government schemes
- Significant Central Bank eligible collateral
- Continuing full access to global markets
- Extending maturity



**Strong funding  
and liquidity  
profile**

# DIVERSE FUNDING SOURCES WITH PRUDENT MATURITY PROFILE

LLOYDS  
BANKING  
GROUP



<b>£bn</b>	<b>31 Dec 2008</b>		<b>31 Dec 2008</b>
Bank deposits	41.6		
Customer deposits	72.7		
Certificates of deposit	72.4	Less than one year	285.9
Medium-term notes	61.5		
Covered bonds	29.1	One to two years	30.9
Commercial paper	28.8		
Securitisation	45.6	Two to five years	62.2
Subordinated debt	38.1		
Other	52.8		
Total Wholesale	442.6	More than five years	63.6
Retail	281.3		
Total Group funding	723.9		442.6

# INTERIM MANAGEMENT STATEMENT – 7 MAY 2009

---



- **A good revenue performance**
- **Some net interest margin erosion**
- **Strong cost management, with first quarter costs marginally lower than last year**
- **Corporate impairment levels are rising significantly. Vast majority covered by Asset Protection Scheme**
- **Excellent integration progress being made**
- **Asset Protection Scheme will reduce risk profile and significantly strengthen the Group's capital position**

# SUMMARY

---



- **Market leading positions throughout the UK Financial Services market – a powerful franchise**
- **Strengthened capital base**
- **Significantly de-risked balance sheet**
- **Excellent synergy opportunities, both cost and revenue**
- **Substantial opportunity to redirect capital to more productive areas**
- **Diverse funding sources with an improving maturity profile**

**A compelling case for long term growth**



# DISCLAIMER

---



This presentation does not constitute an offer to sell, or a solicitation of an offer to subscribe for, the securities being issued in any jurisdiction in which such offer or solicitation is unlawful.

This presentation is not for distribution, directly or indirectly, in or into Australia, South Africa, Canada or Japan or any other state or jurisdiction in which it would be unlawful to do so. This presentation does not constitute or form a part of any offer or solicitation to purchase or subscribe for securities in the United States. The securities mentioned herein (the “**Securities**”) have not been, and will not be, registered under the United States Securities Act of 1933 (the “**Securities Act**”). The Securities may not be offered or sold in the United States absent registration or an applicable exemption from the registration requirements of the Securities Act. There will be no public offer of the Securities in the United States.

Neither the content of Lloyds Banking Group’s website nor any website accessible by hyperlinks on Lloyds Banking Group’s website is incorporated in, or forms part of, this presentation.

The distribution of this presentation and/or any other documents related to any offering of securities or the transfer or offering of securities into jurisdictions other than the United Kingdom (‘UK’) may be restricted by law. Persons into whose possession this presentation comes should inform themselves about and observe any such restrictions. Any failure to comply with these restrictions may constitute a violation of the securities laws of any such jurisdiction.

This presentation has been prepared for the purposes of complying with applicable law and regulation in the UK and the information disclosed may not be the same as that which would have been disclosed if this presentation had been prepared in accordance with the laws and regulations of any jurisdiction outside of the UK.

This presentation includes certain forward looking statements within the meaning of the US Private Securities Litigation Reform Act of 1995 with respect to the business, strategy and plans of Lloyds Banking Group and its current goals and expectations relating to its future financial condition and performance. Statements that are not historical facts, including statements about Lloyds Banking Group’s or management’s beliefs and expectations, are forward looking statements. Words such as ‘believes’, ‘anticipates’, ‘estimates’, ‘expects’, ‘intends’, ‘aims’, ‘potential’, ‘will’, ‘would’, ‘could’, ‘considered’, ‘likely’, ‘estimate’ and variations of these words and similar future or conditional expressions are intended to identify forward looking statements but are not the exclusive means of identifying such statements. By their nature, forward looking statements involve risk and uncertainty because they relate to events and depend upon circumstances that will occur in the future.

# DISCLAIMER

---



Examples of such forward looking statements include, but are not limited to, projections or expectations of the Group's future financial position including profit attributable to shareholders, provisions, economic profit, dividends, capital structure, expenditures or any other financial items or ratios; statements of plans, objectives or goals of Lloyds Banking Group or its management including in respect of the integration of HBOS and the achievement of certain synergy targets; statements about the future business and economic environments in the UK and elsewhere including trends in interest rates, foreign exchange rates, credit and equity market levels and demographic developments, competition, regulation, dispositions and consolidation or technological developments in the financial services industry; and statements of assumptions underlying such statements.

Factors that could cause actual results to differ materially from the plans, objectives, expectations, estimates and intentions expressed in such forward looking statements made by Lloyds Banking Group or on Lloyds Banking Group's behalf include, but are not limited to, general economic conditions in the UK and internationally; inflation, deflation, policies of the Bank of England and other G7 central banks and interest rate, exchange rate, market and monetary fluctuations; changing demographic developments including consumer spending, saving and borrowing habits, technological changes, natural and other disasters, adverse weather, terrorist acts and other acts of war or hostility and responses to those acts; changes in laws, regulations, taxation, Government policies or accounting standards or practices and similar contingencies outside the Lloyds Banking Group's control; the ability to derive cost savings and other benefits as well as mitigate exposures from the acquisition and integration of HBOS; inadequate or failed internal or external processes, people and systems; exposure to regulatory scrutiny, legal proceedings or complaints; changes in competition and pricing environments; the inability to hedge certain risks economically; the adequacy of loss reserves; the ability to secure new customers and develop more business from existing customers; the degree of borrower credit quality; the ability to achieve value-creating mergers and/or acquisitions at the appropriate time and prices and the success of the Lloyds Banking Group in managing the risks of the foregoing. Lloyds Banking Group may also make or disclose written and/or oral forward looking statements in reports filed with or furnished to the US Securities and Exchange Commission, Lloyds Banking Group annual report and accounts, annual review, half-year announcement, proxy statements, offering circulars, prospectuses, press releases and other written materials and in oral statements made by the directors, officers or employees of Lloyds Banking Group to third parties, including financial analysts. The forward looking statements contained in this presentation are made as of the date hereof, and Lloyds Banking Group undertakes no obligation to update any of its forward looking statements.

**LLOYDS  
BANKING  
GROUP**



# **UBS GLOBAL FINANCIAL SERVICES CONFERENCE**

**12 May 2009**

**New York**

**Tim Tookey  
Group Finance Director**