



LLOYDS
BANKING GROUP



ShareSoc webinar Lloyds Banking Group

Douglas Radcliffe, Group Investor Relations Director
Andrew Pipe, Head Economist

8 December 2022



Welcome and introduction

Douglas Radcliffe, Group Investor Relations Director

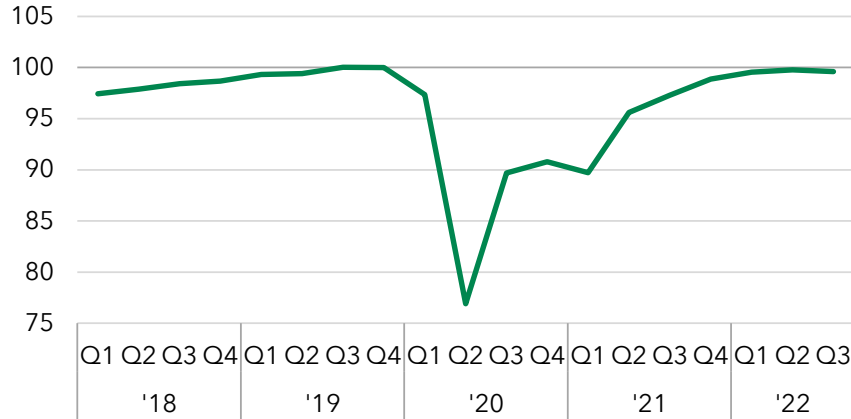
Economic update

Andrew Pipe, Head Economist

Better UK economic recovery than assumed

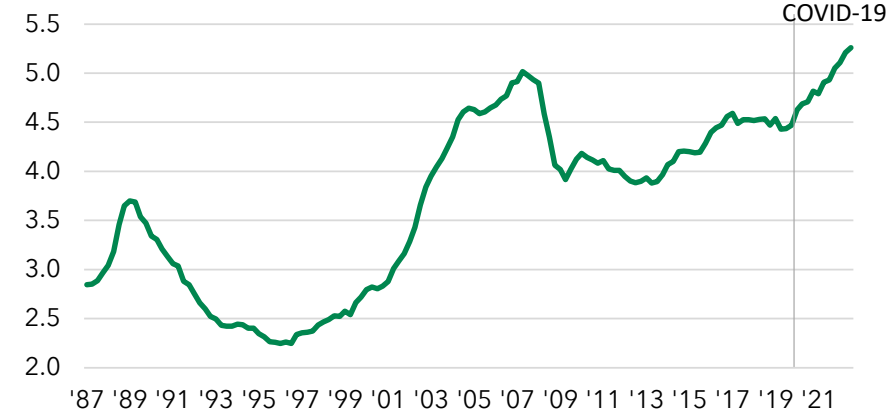
Real-terms GDP¹

(index, 2019Q4 = 100)



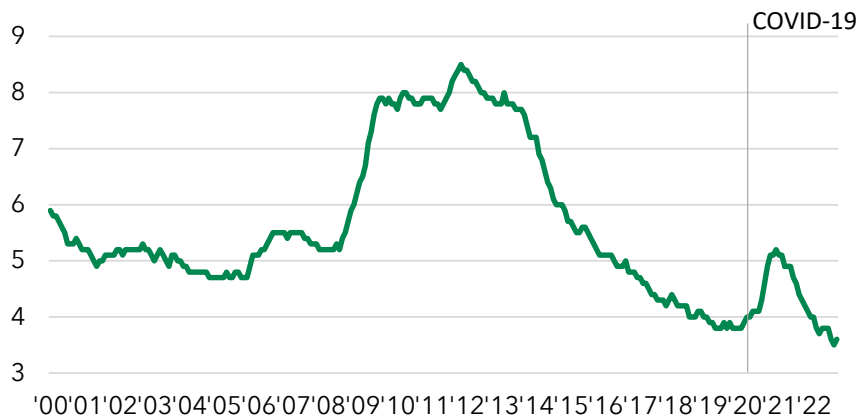
UK average house price³

(multiple of average household disposable income)



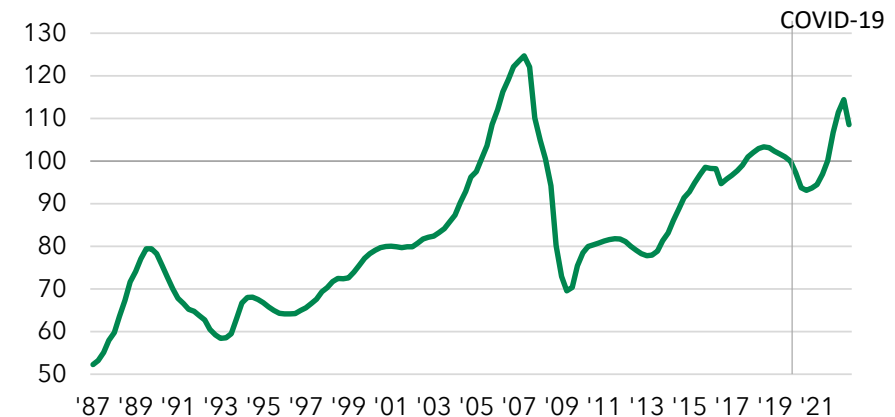
Unemployment rate²

(%)



UK Commercial Real Estate prices⁴

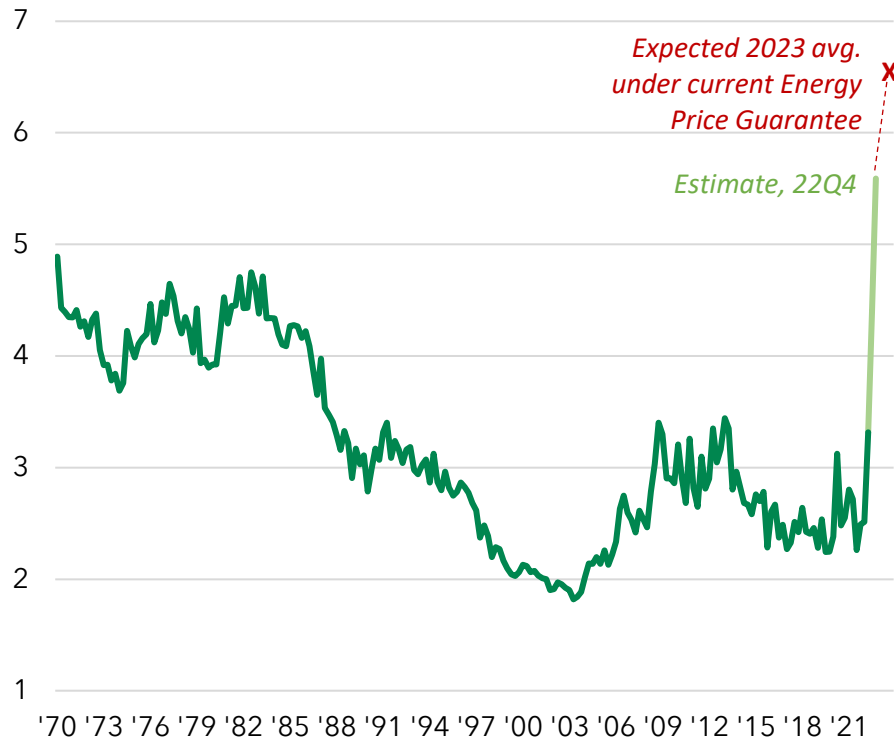
(index, 2019Q4 = 100)



But war & energy crisis now pushing economy into recession

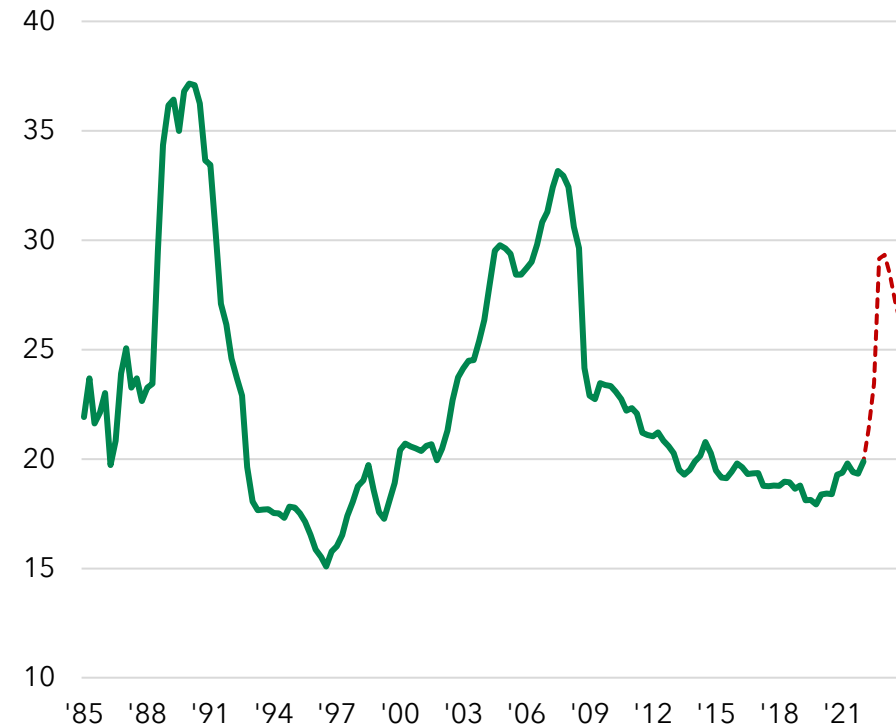
Households' spending on housing energy¹

(% of total households' spending)



Mortgage payment for average buyer at 75% LTV²

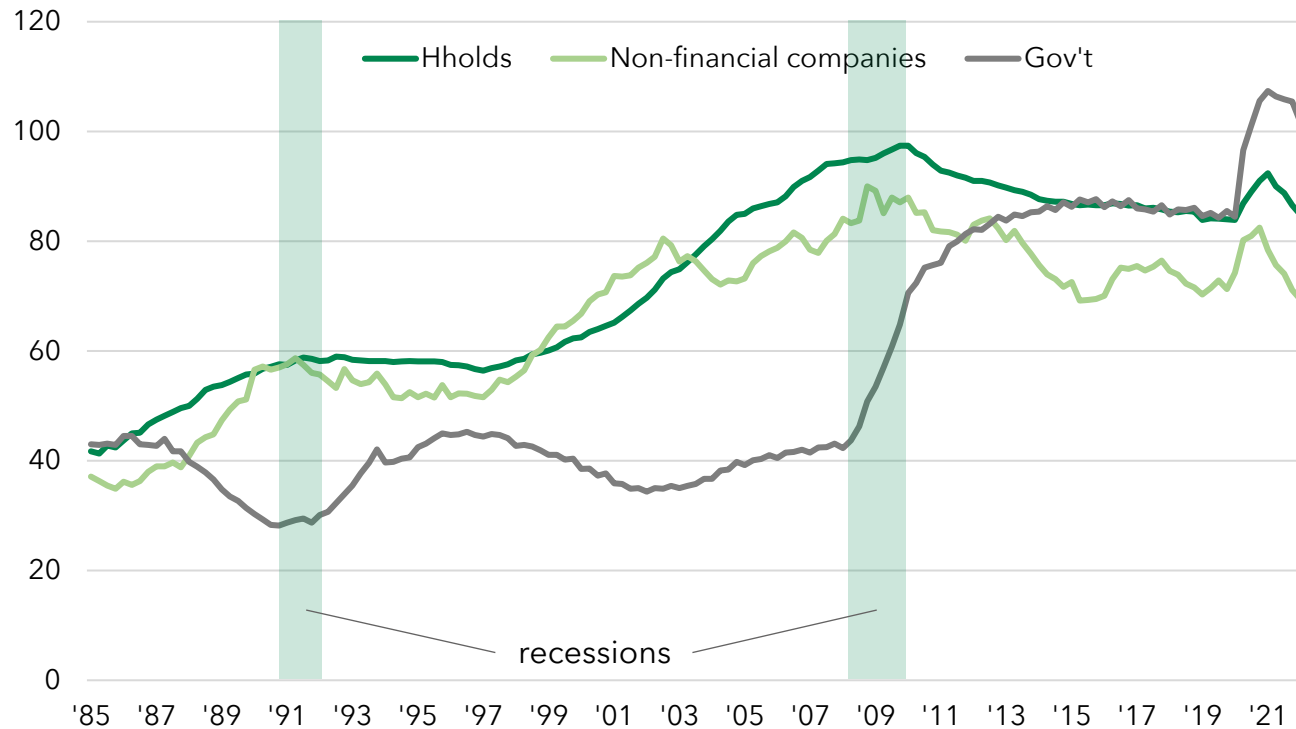
(% of household disposable income)



Different debt problem to previous recessions

Debt level¹

(% of annualised GDP)

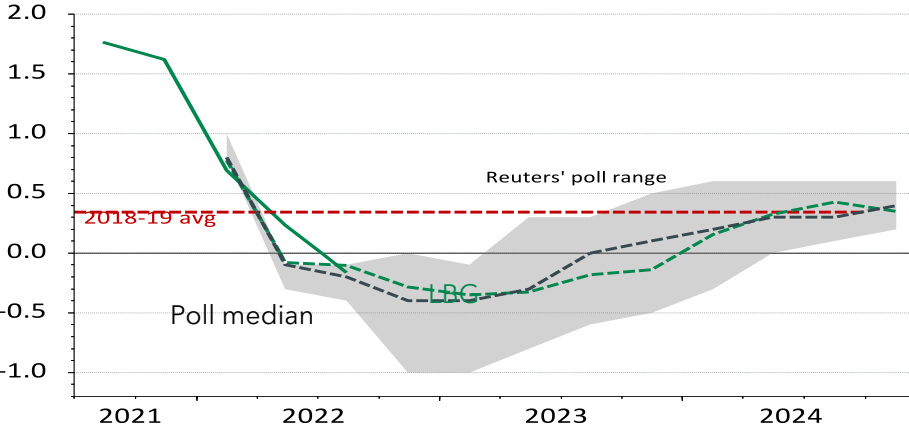


- No recent build-up in private-sector indebtedness to reverse
 - Household debt broadly flat (vs incomes) since 2015
 - Some have 'excess' savings
 - Non-financial corporate debt lowest (vs GDP) since 1999
- => Expectation that recession will be 'mild'
- But government capacity to support economy in 'shocks' becoming more constrained

Prudent forecast at Q3

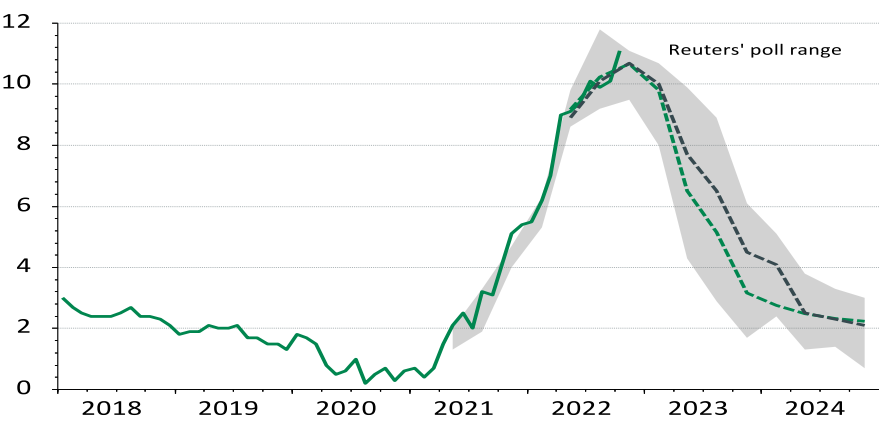
Real-terms GDP¹

(one-quarter % change)



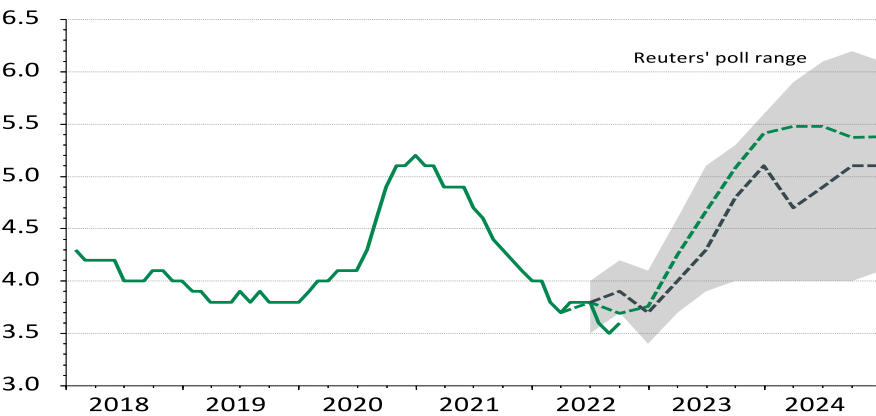
UK CPI inflation³

(%, quarter average)



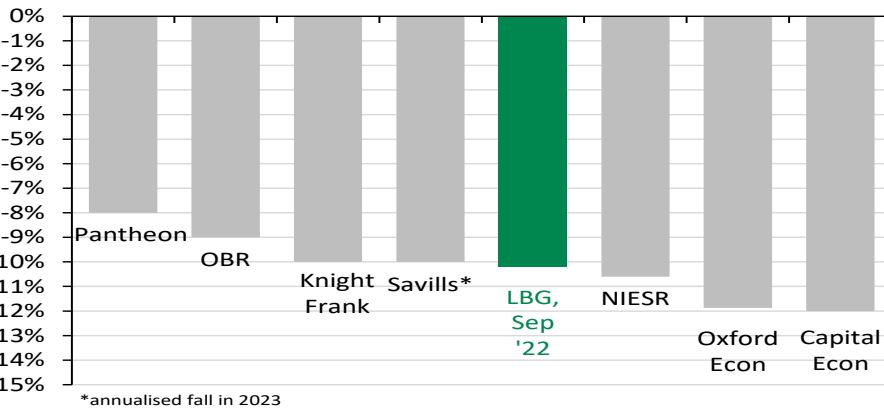
Unemployment rate²

(%, quarter average)



UK house prices⁴

(forecast % peak-to-trough decline)



1,2,3 - Source ONS, Reuters survey (22 Nov 2022), LBG. 4 - Source Halifax, LBG, other forecasters (most recent available). All charts via Refinitiv Datastream

Business and financial update

Douglas Radcliffe, Group Investor Relations Director

Transforming to create higher and more sustainable value

A clear strategic vision...

...with a transformation plan...

...creating higher and more sustainable value

Clear purpose: Helping Britain Prosper

Strategic vision: UK customer-focused digital leader and integrated financial services provider, capitalising on new opportunities, at scale



Grow

Drive revenue growth and diversification



Focus

Strengthen cost and capital efficiency



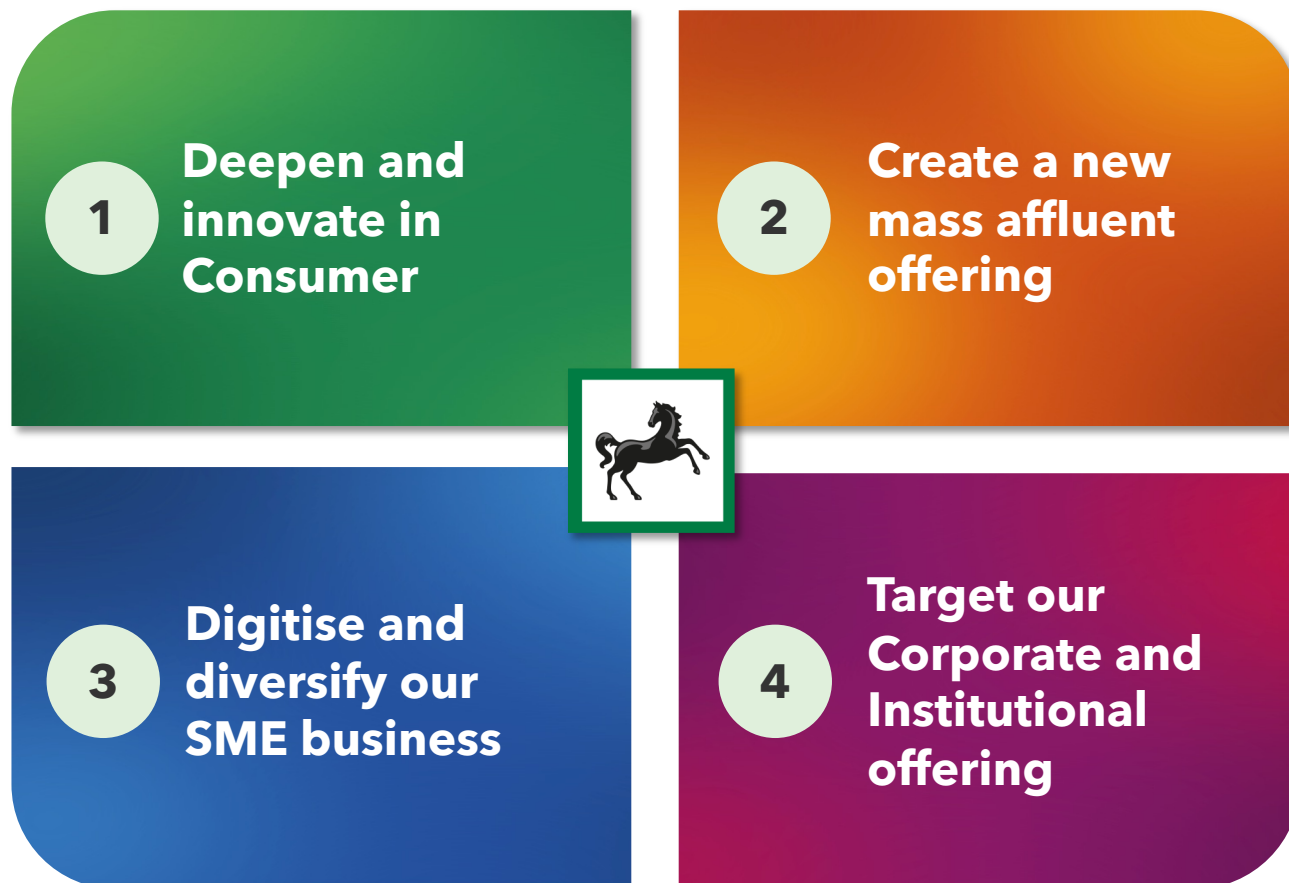
Change

Maximise the potential of people, technology and data



Higher, more sustainable, returns and capital generation

Drive revenue growth and diversification



Key outcomes from strategic initiatives

c.£1.5bn per annum

Additional revenues in 2026
(c.£0.7bn in 2024)

50:50

NII/OOI split from strategic initiatives by 2026

>2pp RoTE

Contributes to 2024-2026 RoTE uplift

Supporting our customers

Purpose

Helping Britain Prosper

- Customers demonstrating resilience and adapting to higher cost of living
- Support provided where required with increased operational capacity
 - **Retail**
 - Proactively contacting those most-impacted
 - Suppressed fees for vulnerable customers
 - >100k helped out of persistent debt so far this year
 - Increased use of digital tools to help manage finances
 - **Commercial**
 - Specialist relationship manager support
 - Ongoing outreach targeting clients in most-impacted sectors
 - Suppressed certain fees and charges for SME clients
 - **Insurance**
 - Removed monthly APR charges on home insurance policies
 - 'Be Money Well' hub helping customers manage finances

Robust financial performance

Summary P&L and key metrics

(£m)	Q3 2022 YTD	Q3 2021 YTD	YoY
Net interest income	9,529	8,270	15%
Other income	3,811	3,753	2%
Operating lease depreciation	(295)	(382)	23%
Net income	13,045	11,641	12%
Operating costs ¹	(6,436)	(6,066)	(6)%
Remediation	(89)	(525)	83%
Total costs	(6,525)	(6,591)	1%
Underlying profit before impairment	6,520	5,050	29%
Impairment	(1,045)	853	
Underlying profit before tax	5,475	5,903	(7)%
Statutory profit after tax	4,035	5,465	(26)%
Return on tangible equity	12.9%	17.6%	(4.7)pp
	Q3 2022	Q4 2021	YTD
Tangible net asset value per share	49.0p	57.5p	(8.5)p
Pro forma CET1 ratio ²	15.0%	14.0%	1.0pp

- Balance sheet franchise growth
- Net income up 12%; NIM 284bps
- Operating costs up 6%; stable BAU costs with higher planned strategic investment
- Higher impairment reflecting revised macroeconomic outlook; continued strong observed asset quality
- TNAV 49.0p, down 8.5p YTD largely driven by rate increases
- Strong capital generation of 191bps³ YTD; CET1 ratio 15.0%

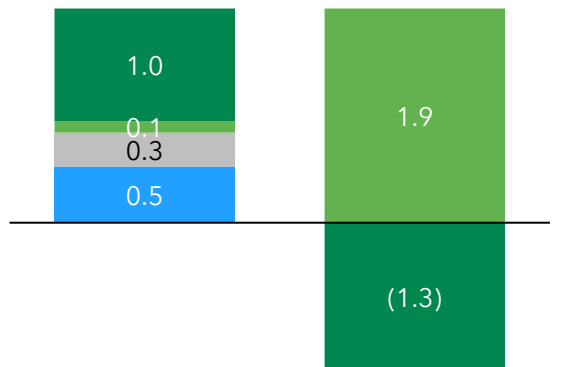
Ongoing strength in customer franchise

Q3 lending change

(£bn)

Retail
+£1.9bn/0.5%

Commercial
+£0.6bn/0.6%



■ Mortgages
■ Credit cards
■ Motor Finance
■ Unsecured loans
■ Other¹

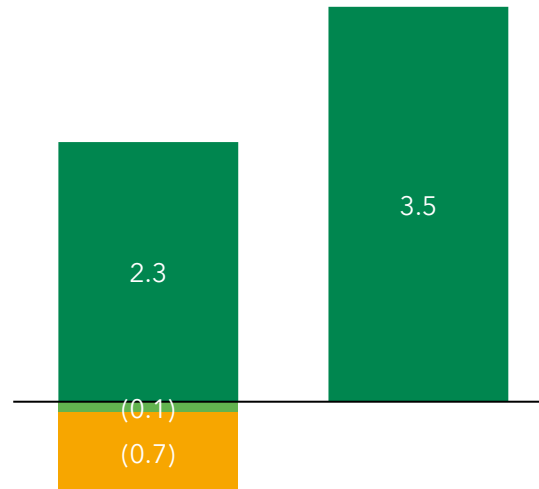
■ Small and Medium Businesses
■ Corporate and Institutional Banking (CIB)

Q3 deposit change

(£bn)

Retail
+£1.5bn/0.5%

Commercial
+£3.5bn/2.1%



■ Retail current a/c
■ Retail relationships
■ Retail tactical

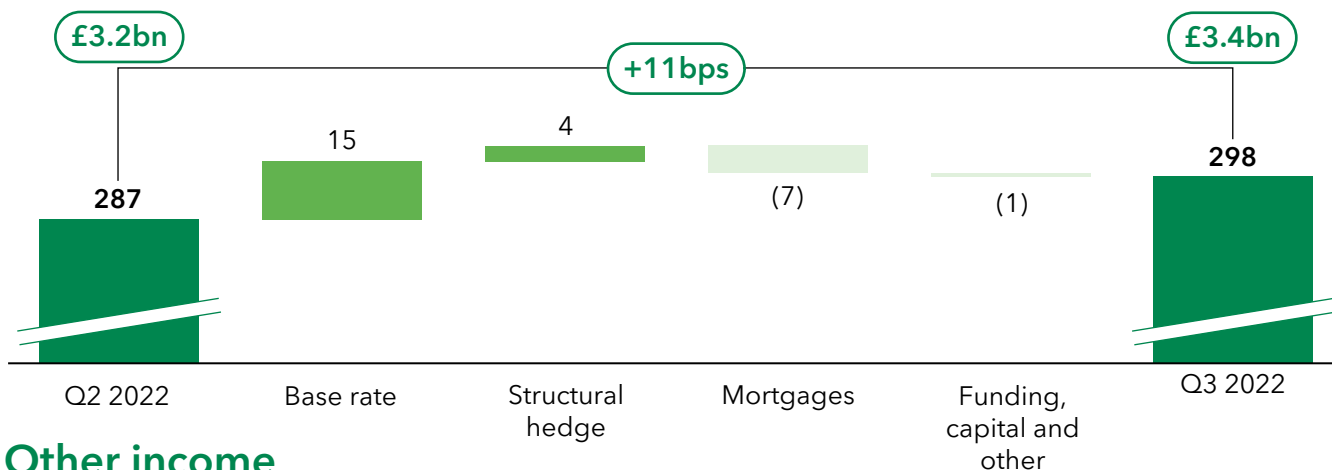
■ Commercial Banking deposits

- Mortgage balances up £1.0bn in Q3 at £310.7bn; £1.8bn open book growth
- Credit card balances up £0.1bn in Q3; higher spend largely offset by repayments
- Commercial Banking balances up £0.6bn given CIB growth and FX, offsetting repayment of support scheme balances
- Retail deposits up £1.5bn with £2.3bn increase in current accounts, partly offset by lower savings balances
- Commercial deposits up £3.5bn in Q3
- >£6bn net new money in Insurance YTD

Continued income growth

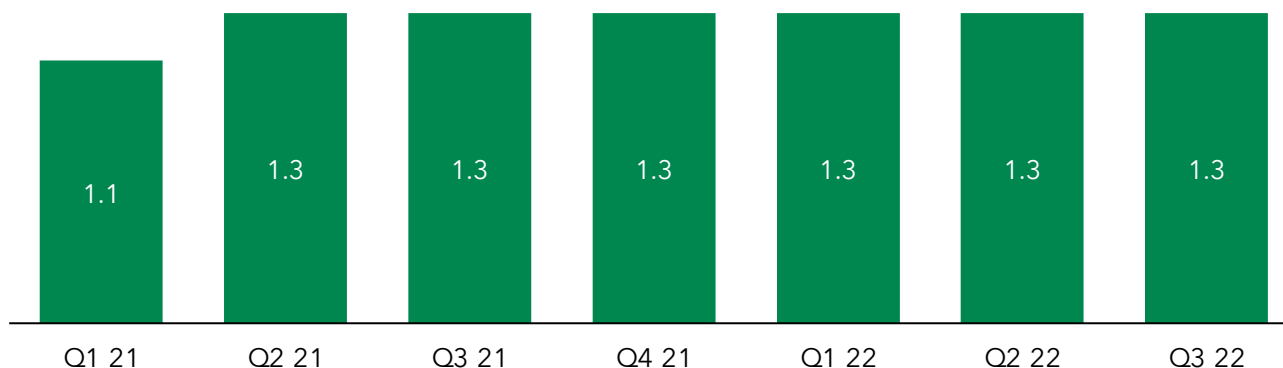
Net interest income (NII) and banking net interest margin (NIM)

(£bn, bps)



Other income

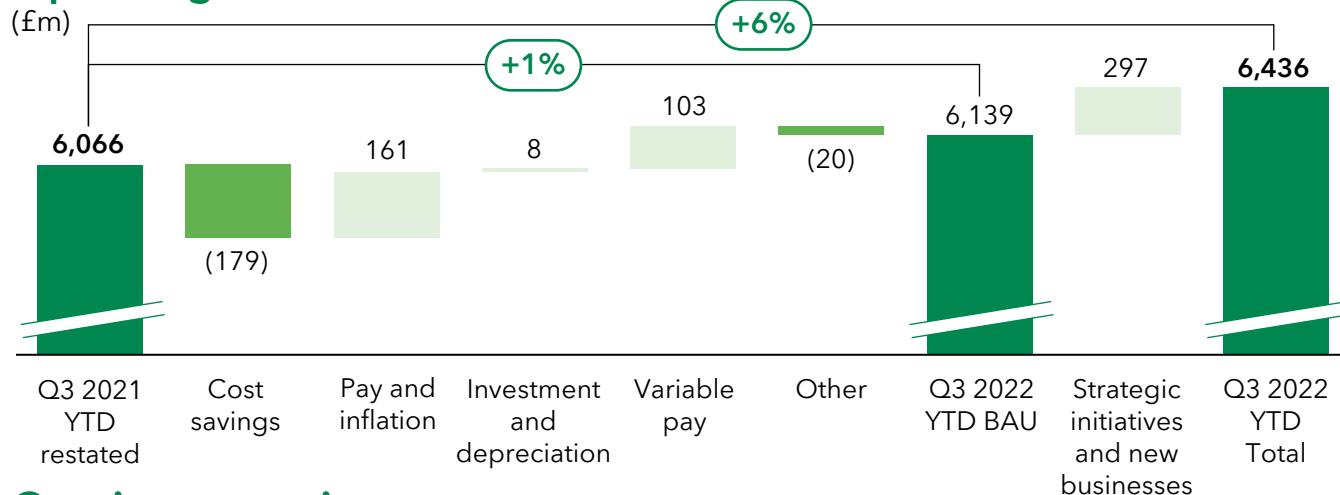
(£bn)



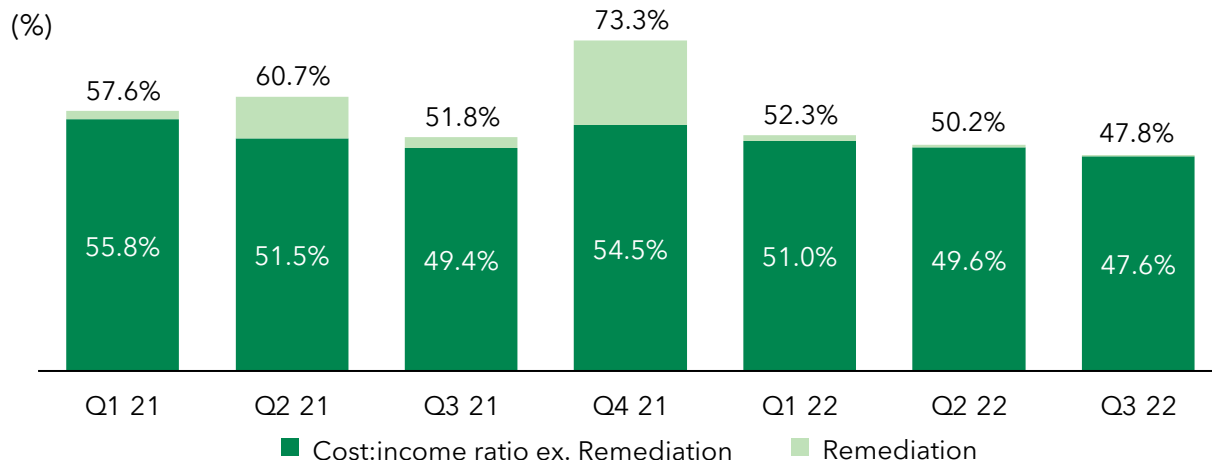
- NII £9.5bn YTD, up 15% on prior year
 - Stronger Q3 NIM 298bps given base rate movements, hedge earnings and robust balance growth
 - Competitive mortgage market and volatile swap rates; Q3 average completion margin c.60bps
 - Fully hedged nominal balance of £250bn with WAL c.3.5 years, £31bn buffer
 - Continue to expect low single-digit percentage growth in AIEAs in 2022
 - Now expect 2022 NIM to be >290bps
- Other income £3.8bn YTD, up 2%; £1.3bn in Q3, in line with prior quarters

Rigorous cost discipline alongside planned investment increase

Operating costs



Cost:income ratio



- Operating costs £6.4bn YTD, up 6% given planned investment alongside stable BAU
- Sustained cost discipline with BAU cost management offsetting inflation pressure
- Continue to expect 2022 operating costs of c.£8.8bn
- Remediation £89m YTD, principally relating to pre-existing programmes
- Market-leading efficiency position; YTD cost:income ratio 50.0%, 47.8% in Q3
- Focused on managing efficiency in context of inflationary pressures

Strong observed asset quality; updated economic scenarios

Impairment¹

(£m)	Q3 2022 YTD	Q3 2022
Charge/(credit) pre-updated MES²	532	250
Retail	520	235
Commercial Banking	1	8
Other	11	7
Updated economic outlook	513	418
Retail	541	370
Commercial Banking	372	248
Other (COVID central adjustment)	(400)	(200)
Total impairment charge/(credit)	1,045	668

Gross lending and coverage levels³

(%)		Stage 1	Stage 2	Stage 3	Total
Q3 2022	Gross loans and advances	£386bn	£64bn	£11bn	£461bn
	Coverage	0.2%	3.1%	21.7%	1.1%
Q2 2022	Gross loans and advances	£399bn	£49bn	£11bn	£460bn
	Coverage	0.2%	3.0%	20.1%	1.0%

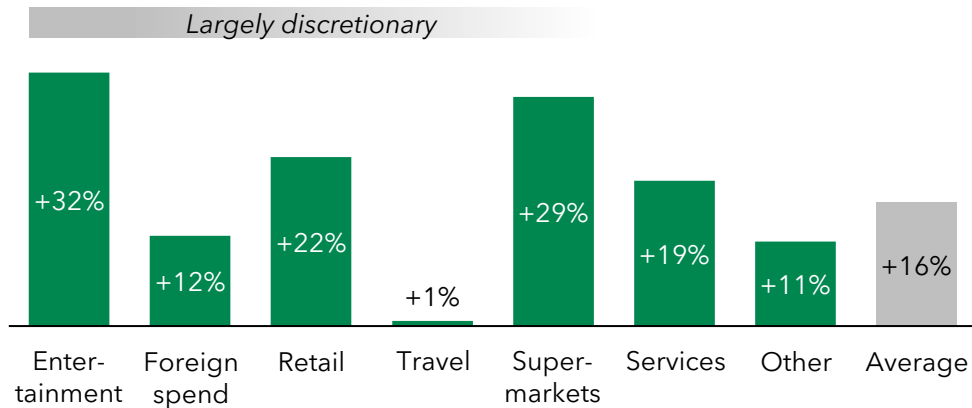
- Q3 net impairment charge of £668m
 - Updated net MES charge of £418m; £618m for updated scenarios alongside £200m central COVID adjustment release
 - Observed charge pre-updated MES of £250m, equivalent to AQR 21bps (15bps YTD): strong observed asset quality
 - Above prior periods largely from absence of debt sales and model adjustments
- £1,045m net impairment charge YTD; AQR 30bps
- Stage 3 balances flat on Q1 and Q2
- Stock of ECL £5.0bn, up £0.5bn YTD given updated economic outlook
- Now expect 2022 AQR c.30bps

1 – Impairment charges for Retail, Commercial Banking and Other reflect the new organisation structure; comparatives have been presented on a consistent basis. 2 – Impairment charges absent the impact from updated economic outlook, thus reflecting only observed movements in credit quality. Coronavirus impacted restructuring cases, previously disclosed separately, are now reported within charges pre-updated MES (multiple economic scenarios). 3 – Underlying basis. Table uses rounded inputs. Stage 3 balances increased on 01/01/2022 given CRD IV changes.

Resilient customer behaviour

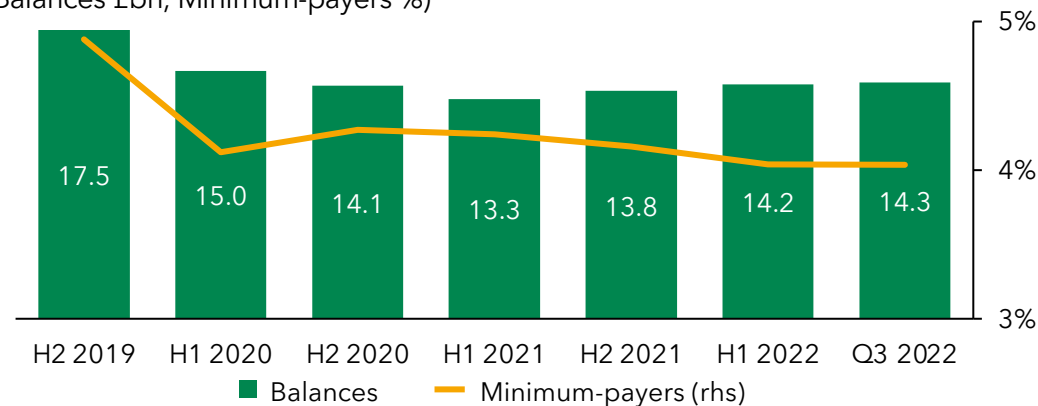
Increased credit card spend in discretionary categories

(% change, September 2022 vs September 2019)



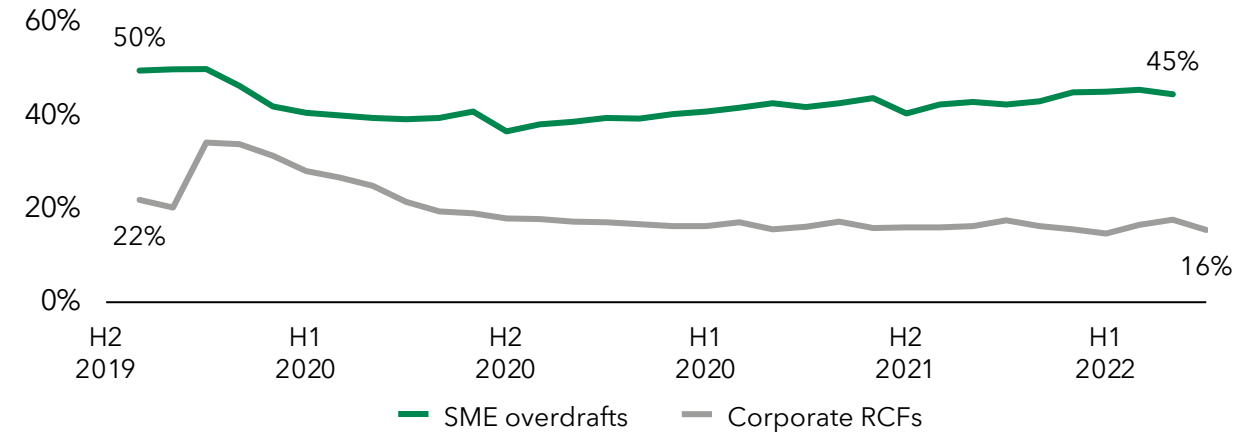
Credit card regular minimum-payers stable¹

(Balances £bn, Minimum-payers %)

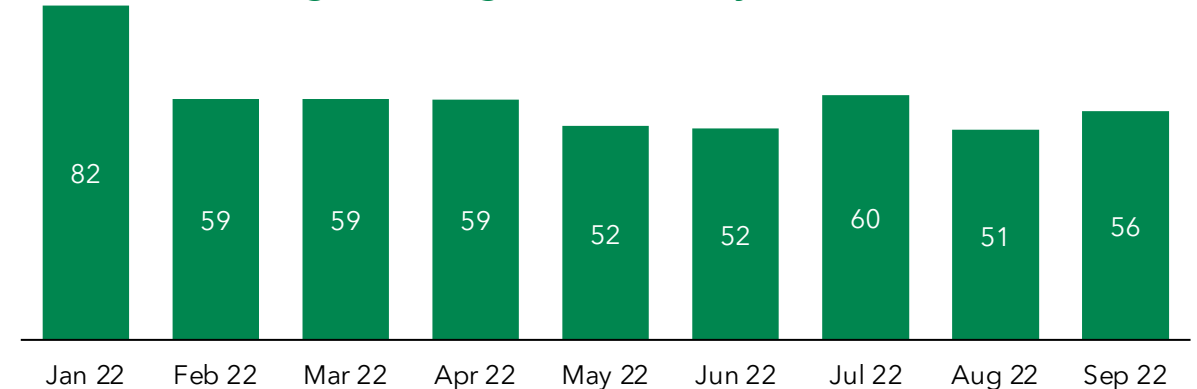


SME overdraft and corporate RCF² utilisation stable

(%)



Invoice financing - average debtor days³ stable



1 - Prior periods restated to reflect the new organisation structure. 2 - Revolving credit facilities. 3 - Debtor days calculated as a daily average at an active facility level across factoring and invoice discounting products; excludes syndicated deals.

Statutory profit after tax £4.0bn YTD

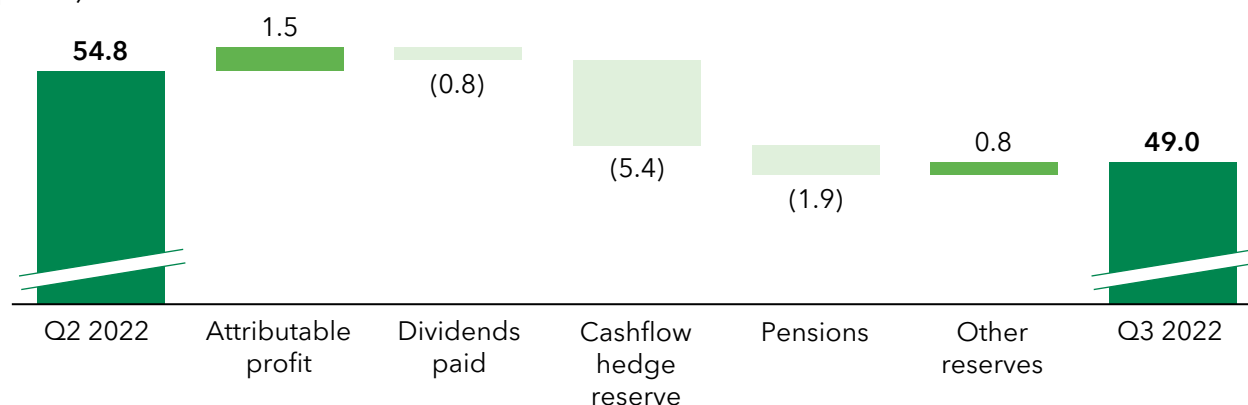
Statutory profit

(£m)

	Q3 2022 YTD	Q3 2021 YTD	YoY
Underlying profit	5,475	5,903	(7)%
Restructuring costs	(69)	(34)	
Volatility and other items	(237)	65	
Statutory profit before tax	5,169	5,934	(13)%
Tax expense	(1,134)	(469)	
Statutory profit after tax	4,035	5,465	(26)%
Return on tangible equity	12.9%	17.6%	(4.7)pp

Tangible net asset value per share

(pence)

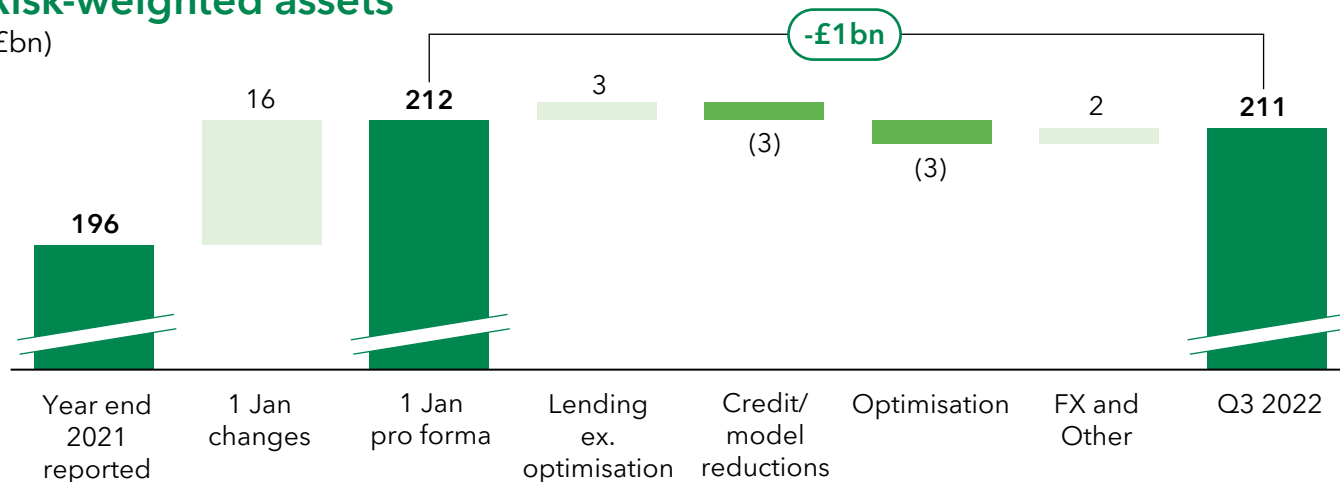


- Underlying and statutory profit converging following year end 2021 reporting changes
- Restructuring costs £69m, including Embark integration costs
- Negative market volatility impacts in Q3 alongside usual fair value unwind
- RoTE 12.9%; continue to expect 2022 RoTE to be c.13%
- TNAV 49.0p, down 5.8p in Q3, largely due to cash flow hedge reserve and pension surplus movements

Effective RWA management and strong capital generation

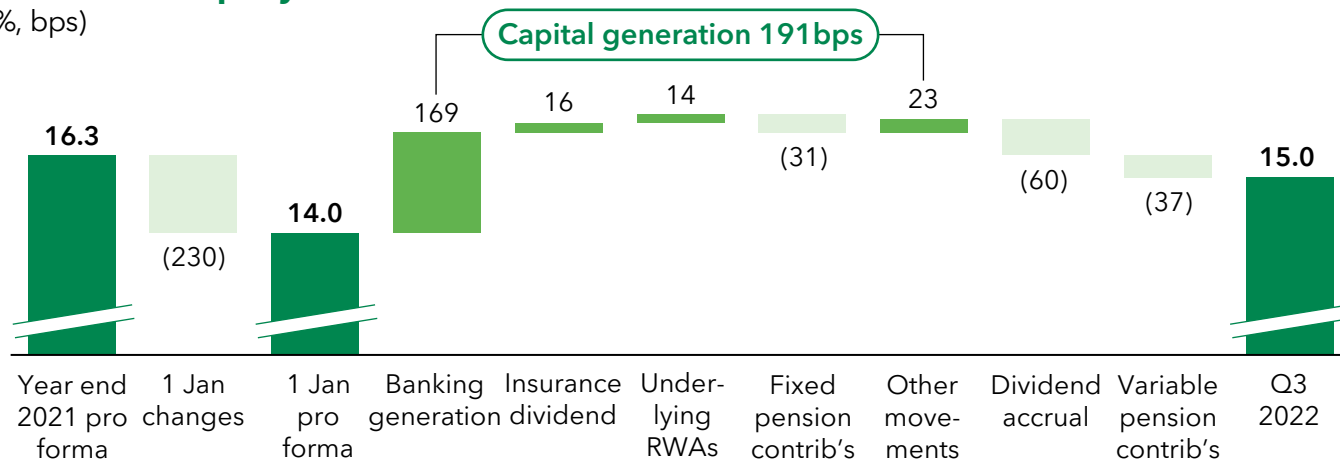
Risk-weighted assets

(£bn)



Common equity tier 1 ratio

(%, bps)



- RWAs down £1bn since 1 January: credit and model reductions and optimisation
- 191bps capital generation after (31)bps for full fixed pension deficit contributions
- CET1 ratio 15.0% after (60)bps dividends and (37)bps variable pension contributions
- Remain well ahead of ongoing target of c.12.5% plus a c.1% management buffer
- Completed £2bn 2022 buyback programme¹; >4.5bn shares bought, >6% of issued share capital
- Continue to expect 2022 RWAs c.£210bn
- Expect 2022 capital generation 225-250bps

Robust performance, confidence in continued delivery

Helping Britain
Prosper

Updated guidance
for 2022

- Maintaining support for customers
 - Strong observed asset quality and stable credit trends
 - Robust financial performance and revised economic outlook driving updated guidance for 2022
-
- NIM now expected to be >290bps
 - Operating costs expected to be c.£8.8bn
 - AQR now expected to be c.30bps
 - RoTE expected to be c.13%
 - RWAs expected to be c.£210bn at year end
 - Capital generation now expected to be 225-250bps

Q&A

Douglas Radcliffe, Group Investor Relations Director
Andrew Pipe, Head Economist