

A black horse is running from left to right across the foreground. The background features a calm lake reflecting the sunset sky, with mountains on either side. The sky is filled with soft, colorful clouds in shades of pink, orange, and blue.

ShareSoc webinar

Lloyds Banking Group
5 December 2023

Welcome and introduction

Douglas Radcliffe, Group Investor Relations Director

Economic update

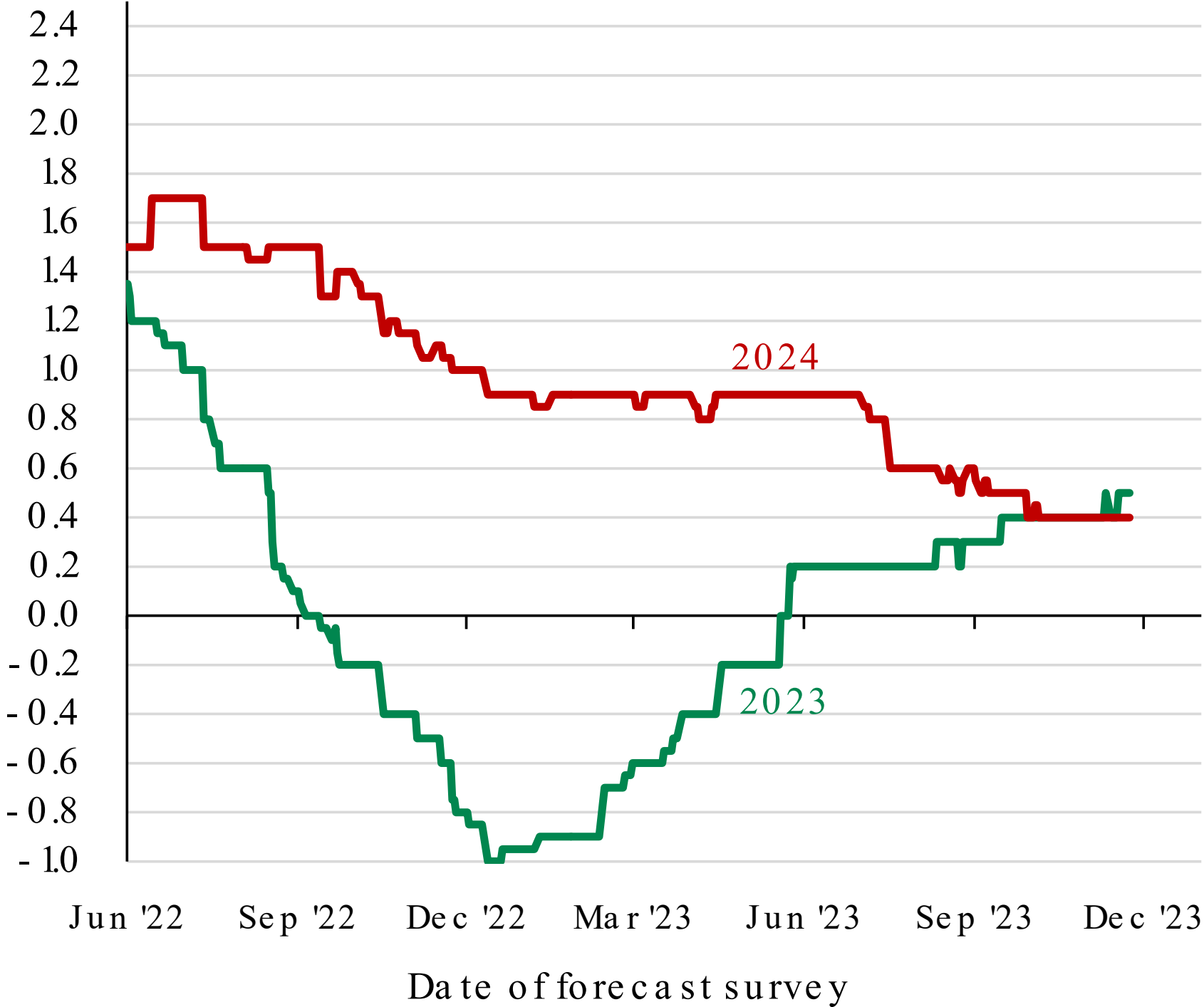
Andrew Pipe, Head Economist

UK economy has proved resilient



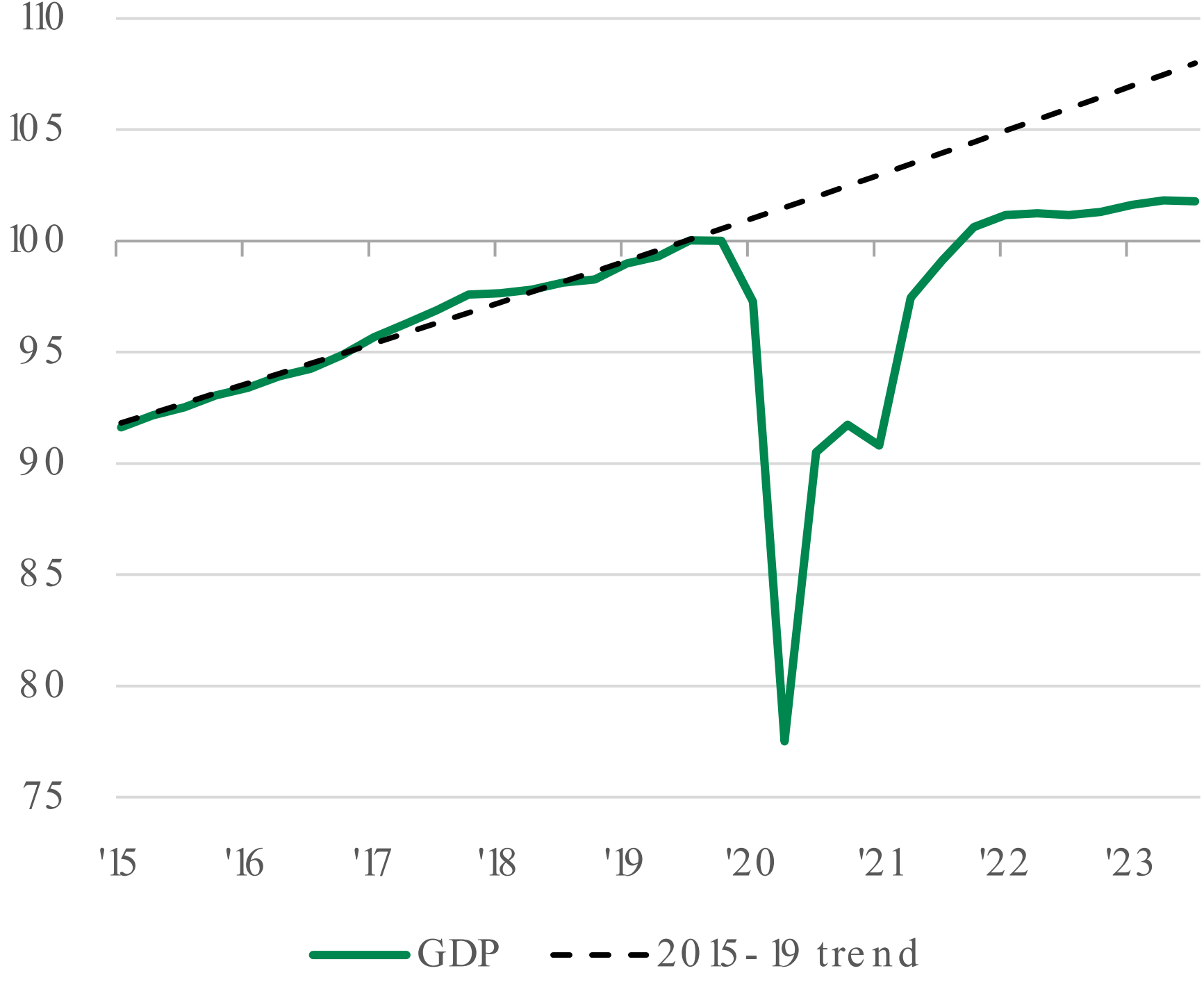
Consensus forecasts for UK GDP growth¹

% change vs previous year, year average



UK GDP²

index, 2019 Q4 = 100



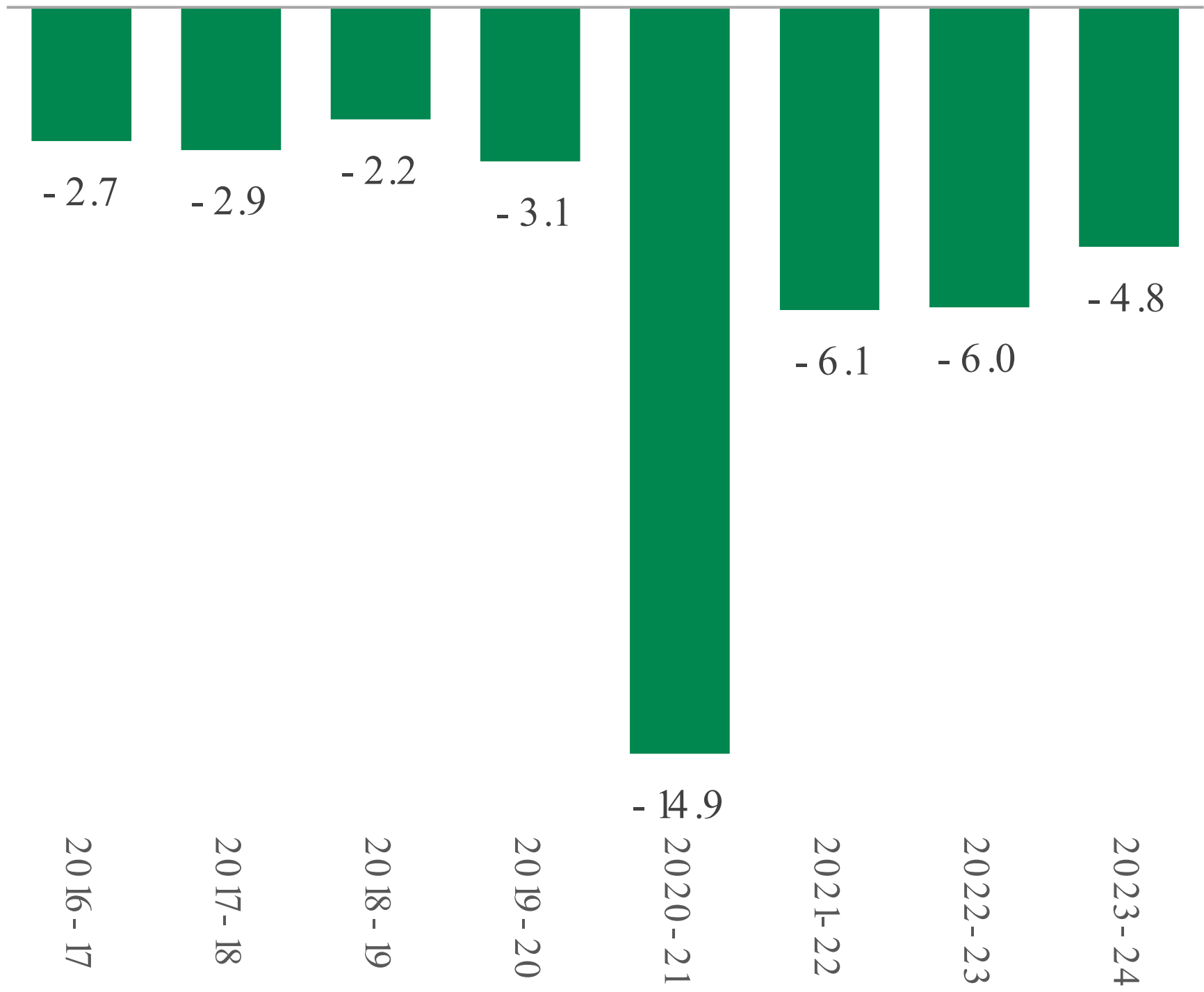
1 – Source Bloomberg. Latest survey date 13 Nov 2023; 2 – Source ONS, via Refinitiv Datastream, LBG calculations

Government support to households has been key



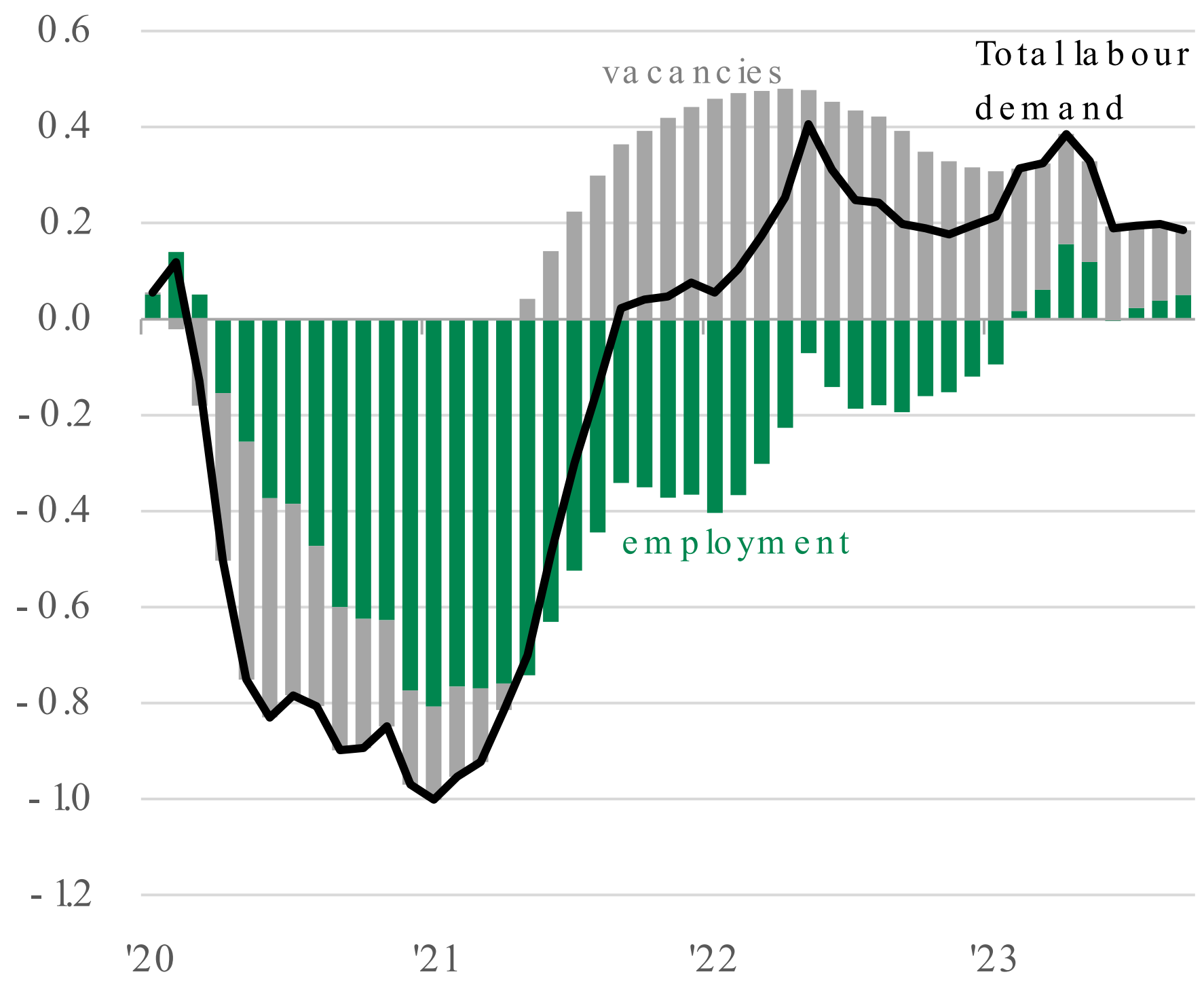
UK government financial balance^{1,2}

Cyclically adjusted, % of GDP



Labour market demand¹

Change in levels since Dec 2019, millions



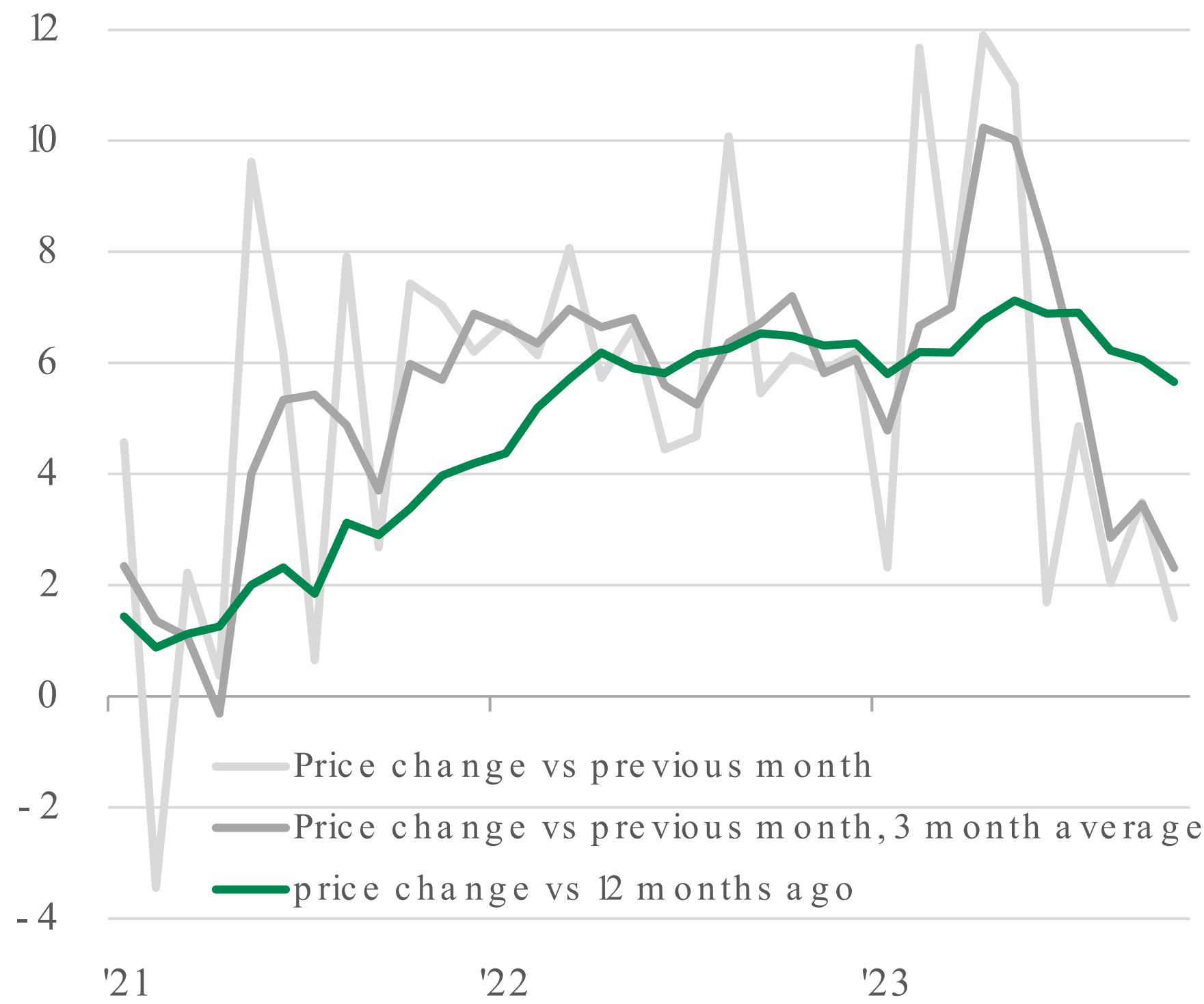
1 – Source ONS, via Refinitiv Datastream, LBG calculations; 2 – OBR forecast for 2023/24

Inflation burst easing, but a >3% hit to national net income



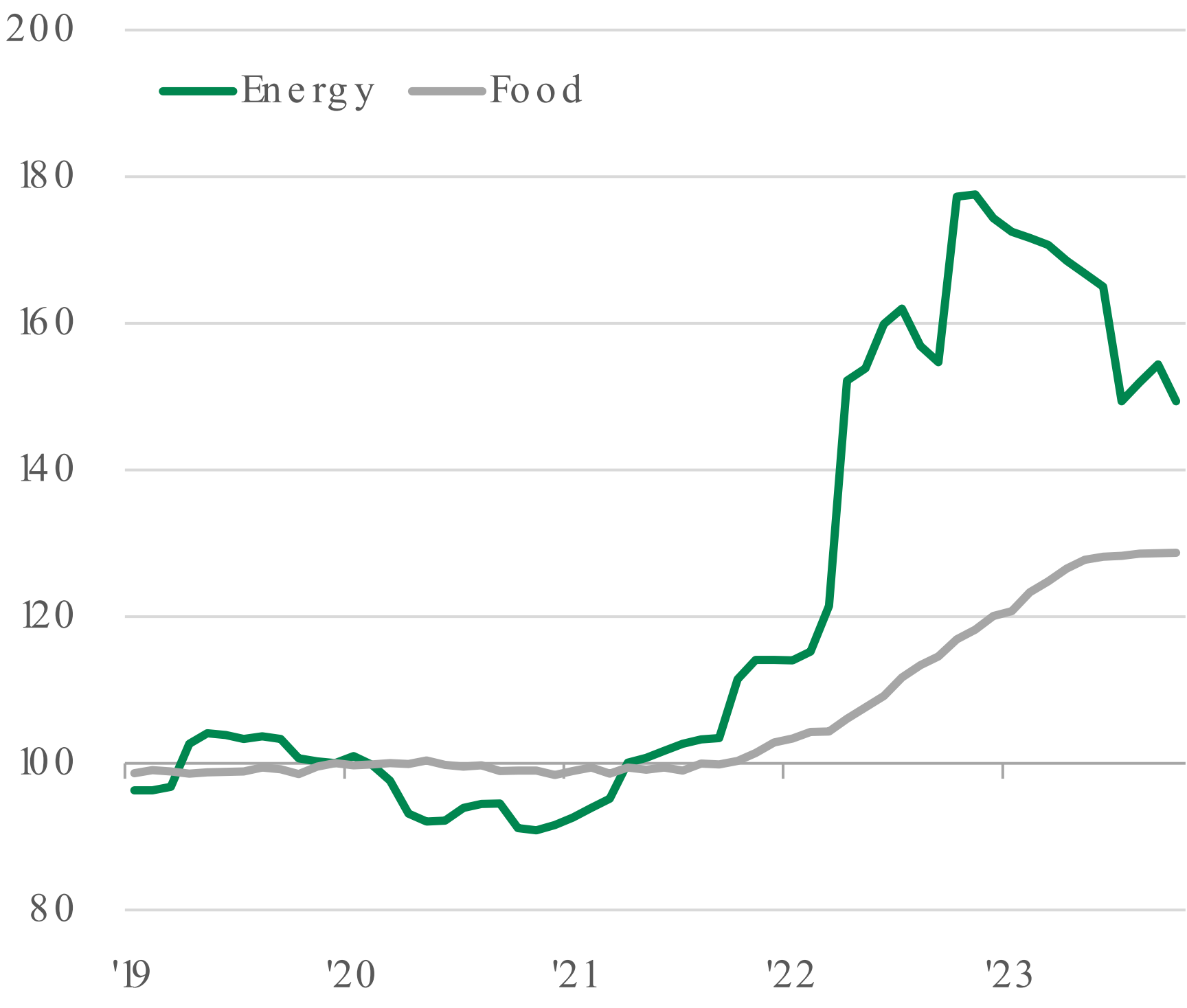
UK CPI 'core' inflation¹

% (seasonally adjusted by LBG)



Price level of necessities¹

Consumer price index, adjusted to Dec 2019 = 100

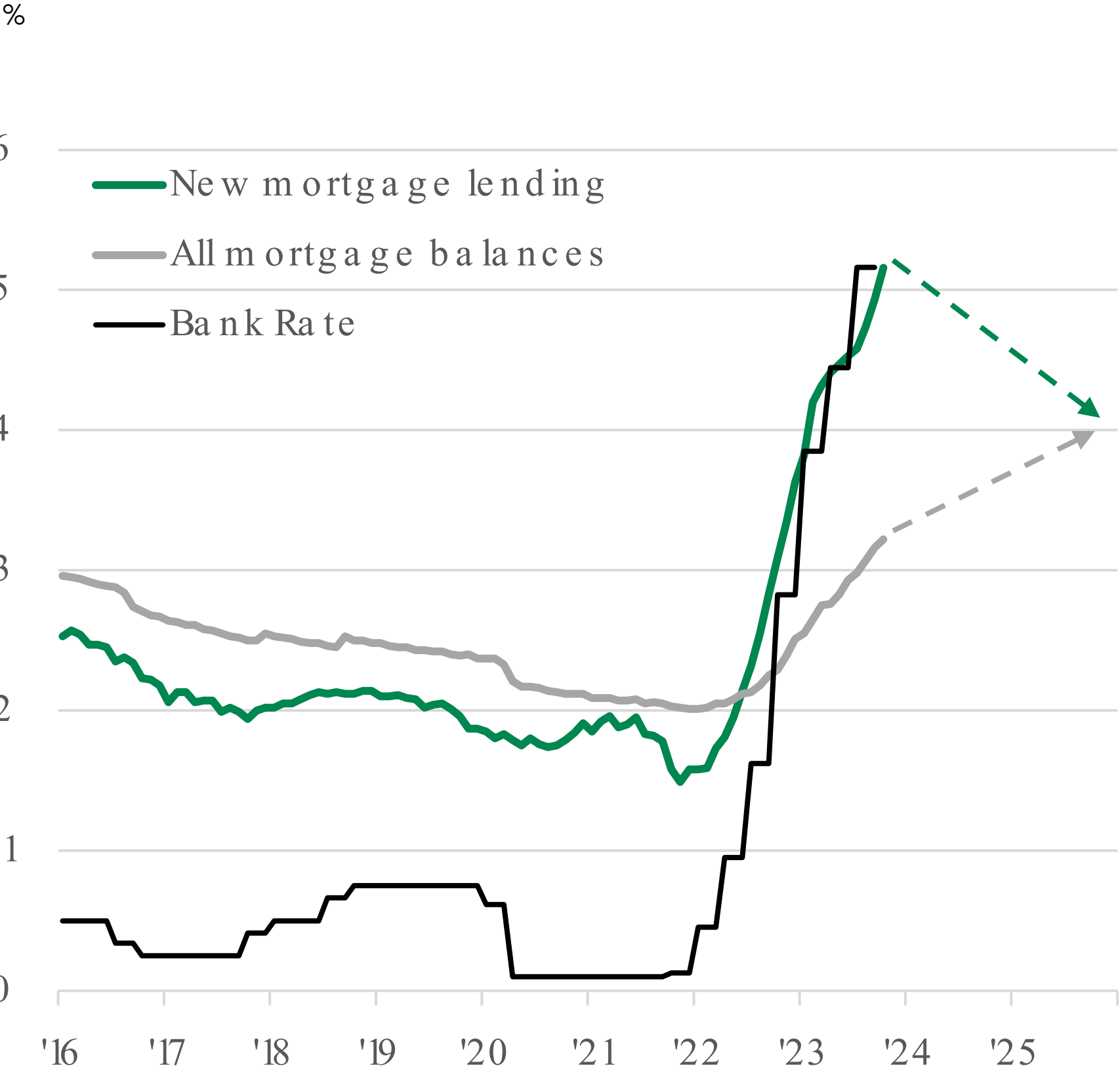


1 – Source ONS, via Refinitiv Datastream, LBG calculations

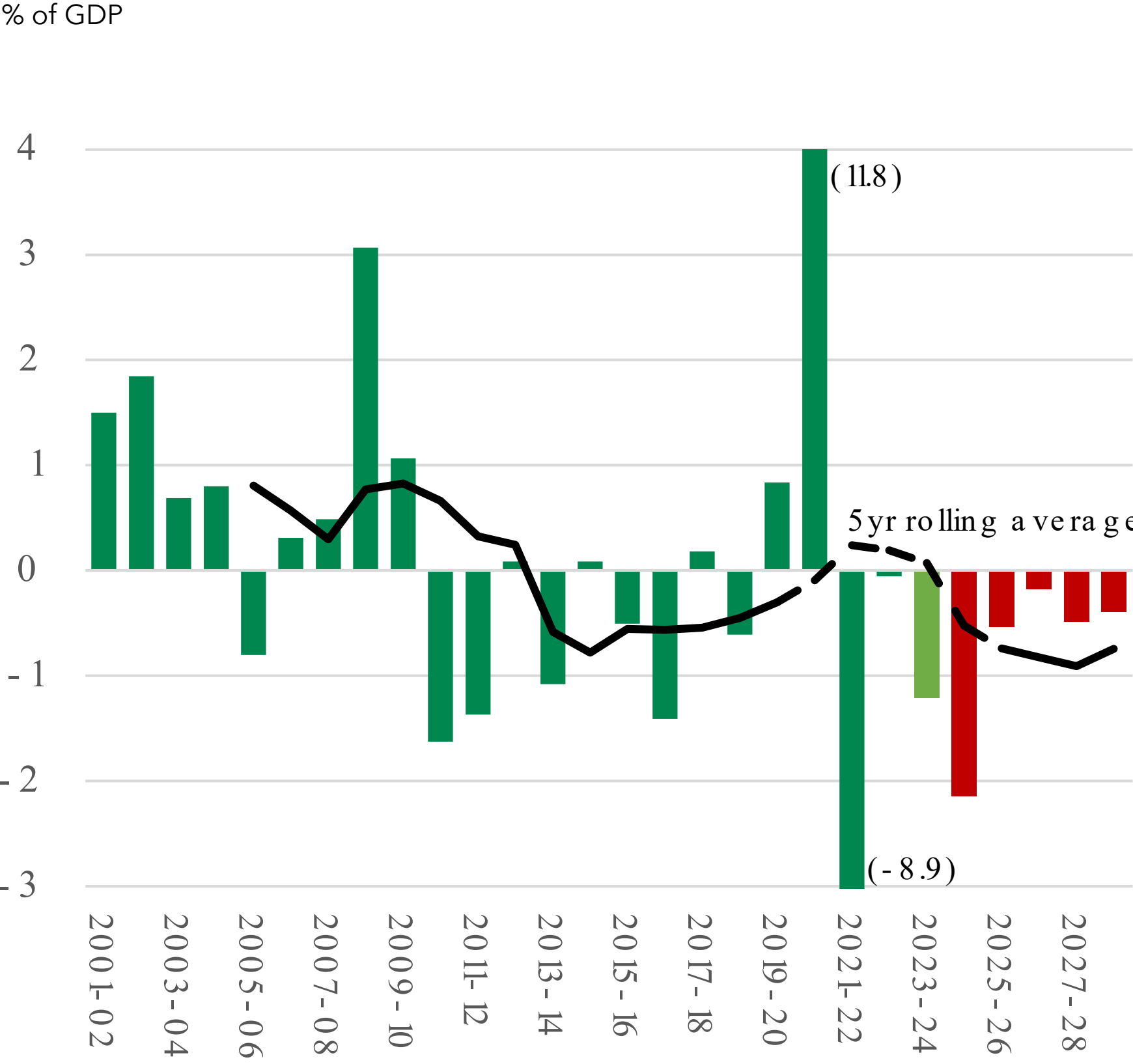
Remainder of cost-of-living squeeze still to come



Mortgage interest rates¹



Fiscal impulse²



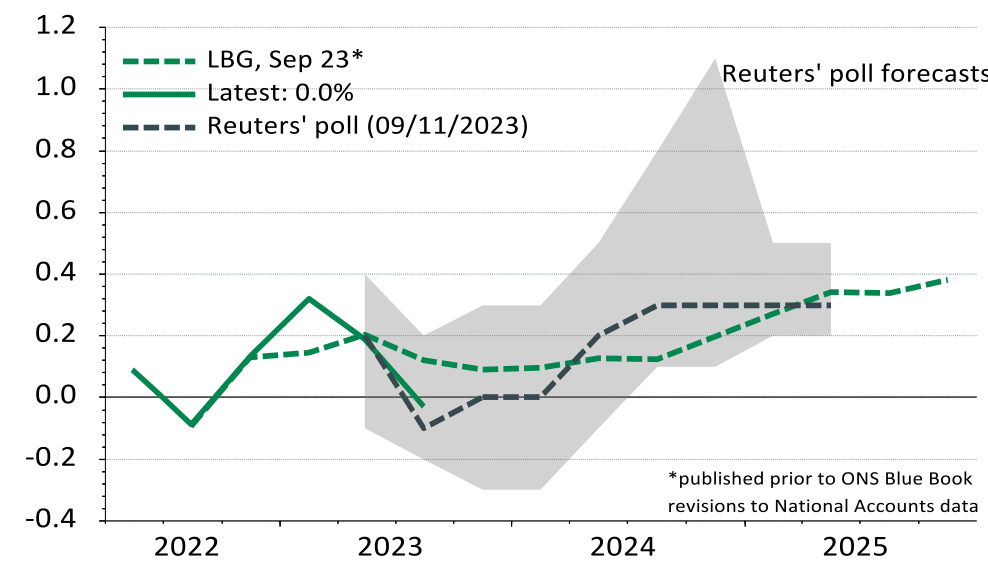
1 – Source Bank of England, LBG illustrative forecasts; 2– LBG calculations using data and forecasts from the Office for Budget Responsibility, November 2023. Year change in cyclically-adjusted public sector net borrowing; Dashed line smooths through impact of large changes in PSNB during pandemic. Y-axis truncated, not showing the extremes of the pandemic-impacted years

Prudent forecast at Q3



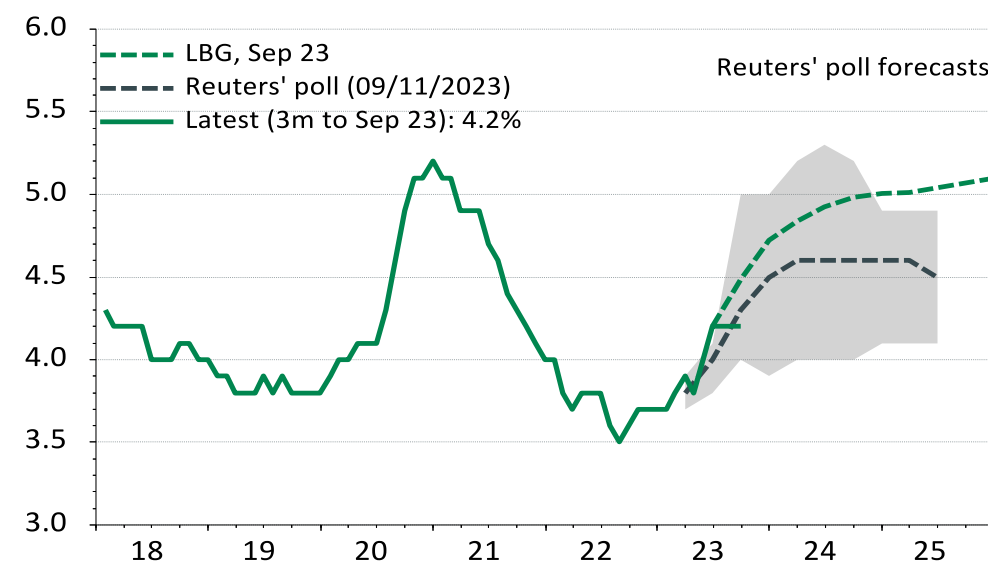
Real-terms GDP¹

One-quarter % change



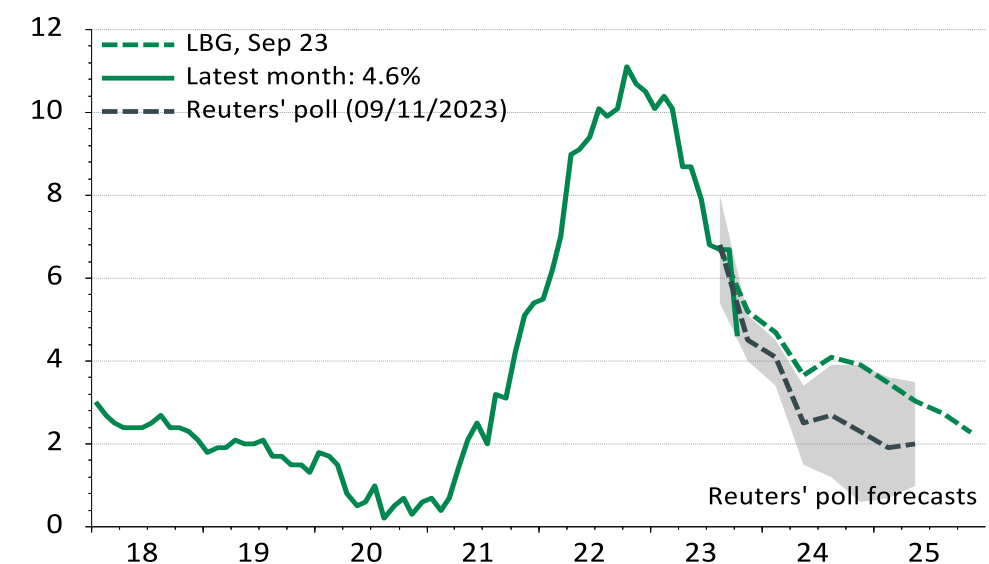
Unemployment rate¹

%, quarter average



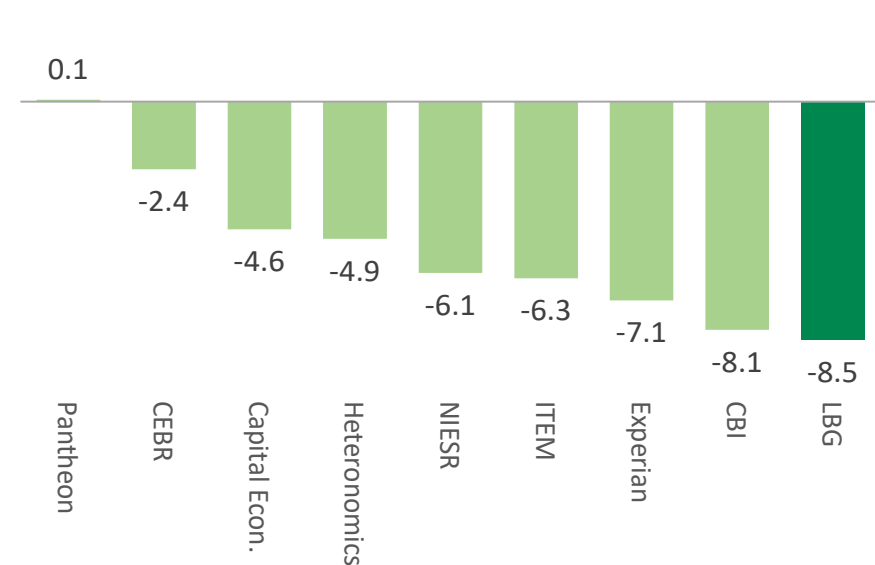
UK CPI inflation¹

%, quarter average



UK house prices²

% change 2022Q4 - 2024Q4



Memo: MES 'Severe' Scenario (10% weight)

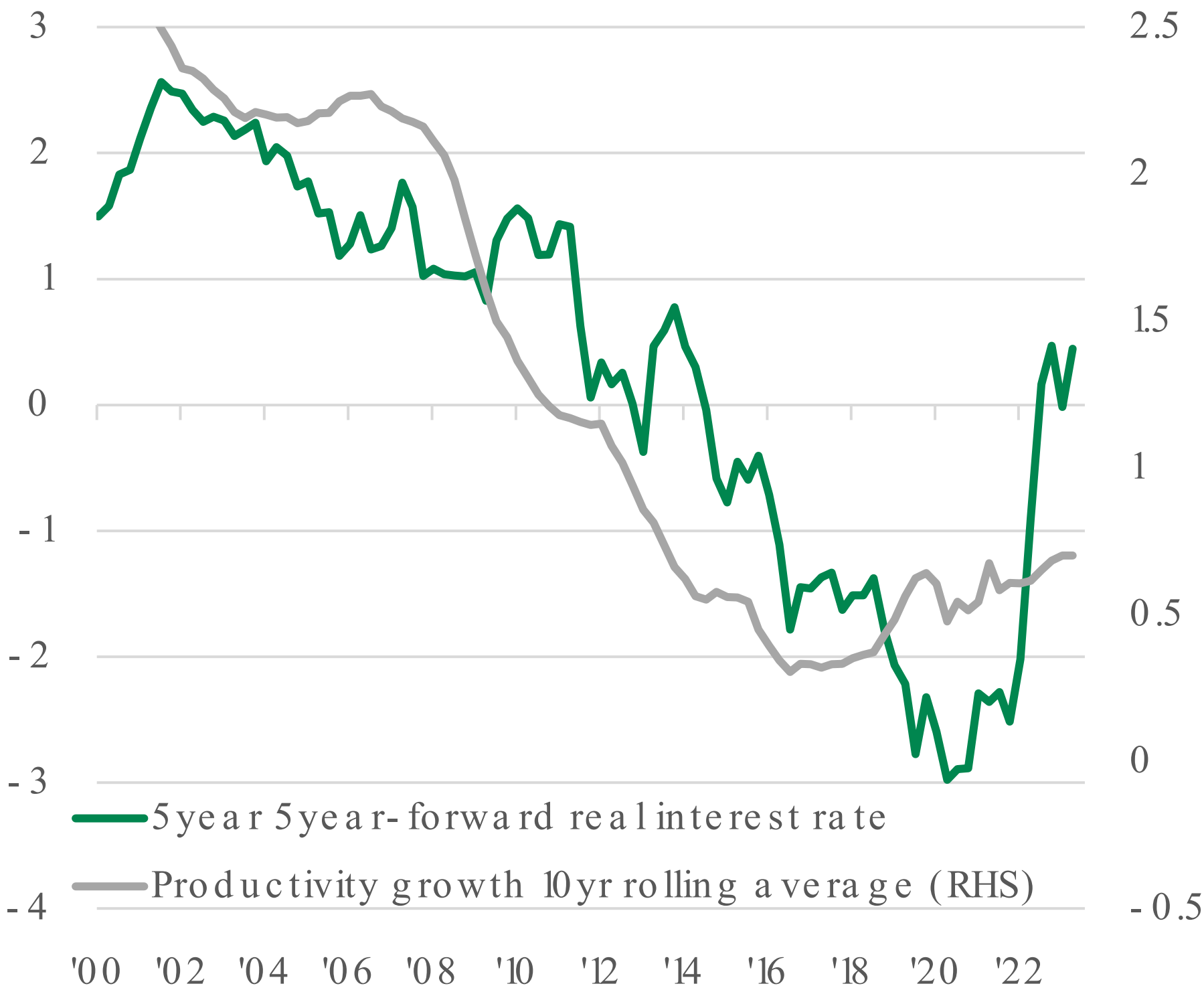
- 4.3% peak-to-trough decline in GDP
 - -6.3% in 2008-9
- 10.5% peak in unemployment
 - 8.5% peak in 2011
- Inflation picks up again to 7%
- 7.25% peak in Bank Rate
- 42% fall in house prices
 - -18% in 2007-9
- 53% fall in CRE prices
 - -44% in 2007-9

UK longer term prospects relatively good



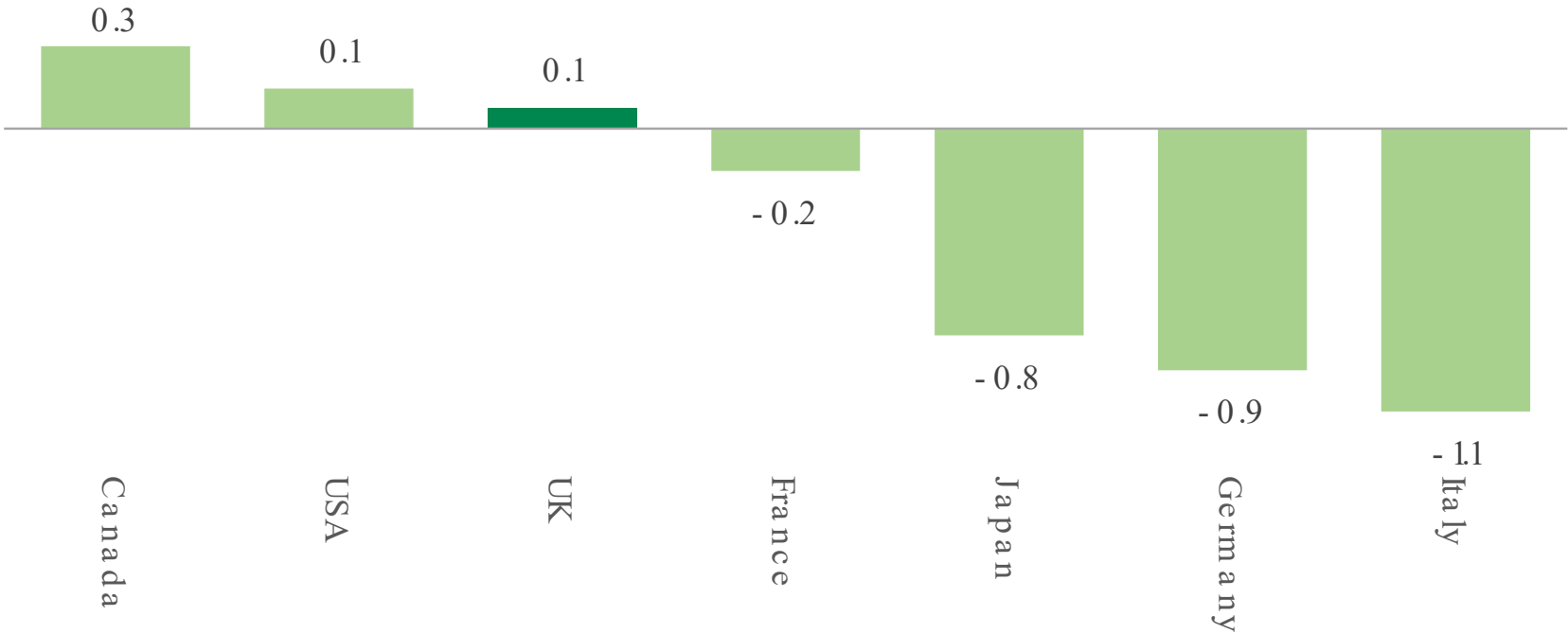
Real-terms interest rates vs productivity growth¹

(% per year)



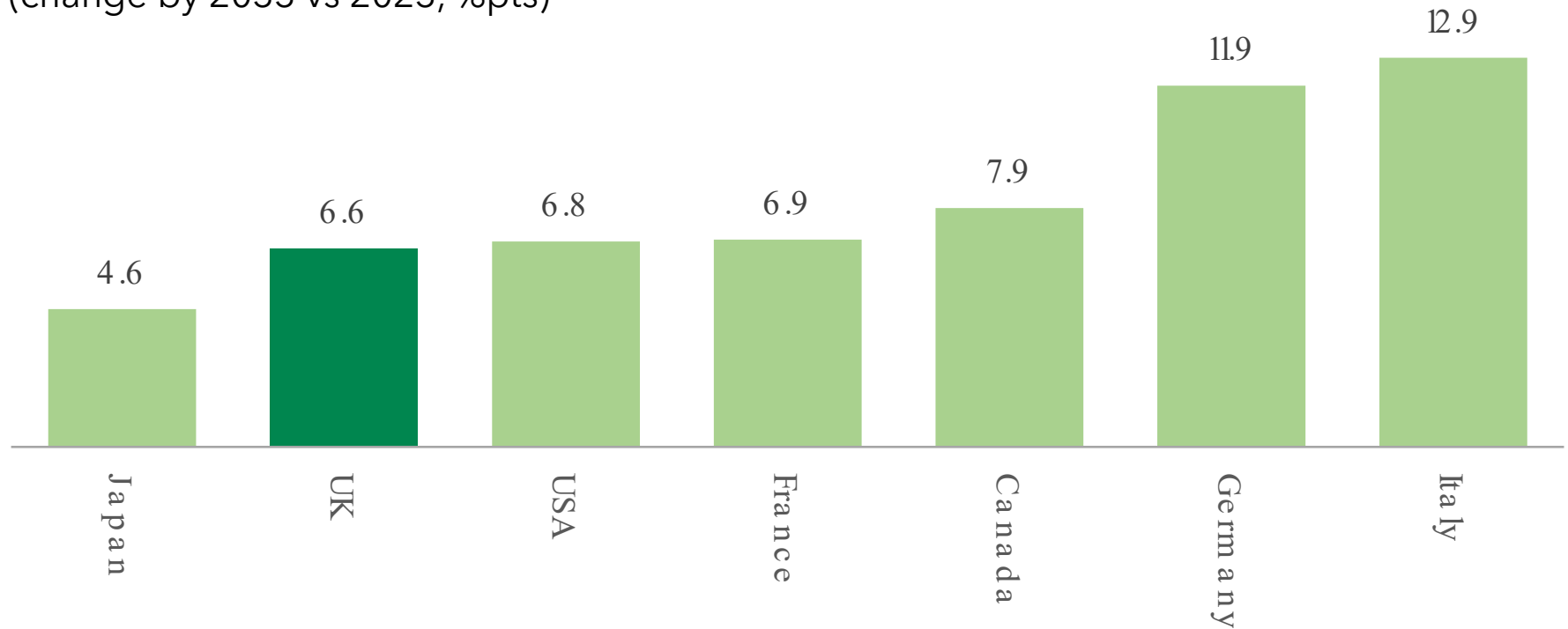
Working-age population growth forecasts²

(% per year, average 2024-33)



Old-age dependency ratio forecasts^{2,3}

(change by 2033 vs 2023, %pts)



1 – Source Bank of England and ONS, via Refinitiv Datastream, LBG calculations; 2 – Source United Nations population projections, LBG calculations; 3 – Age 65+ as proportion of 15–64s

Business and financial update

Douglas Radcliffe, Group Investor Relations Director

Lloyds Banking Group in context



Purpose

Helping
Britain
Prosper

Largest UK
bank

26m

Active customers

>£450bn

Loans and advances

#1

UK distribution network

A trusted
brand
portfolio



Robust
financials
year to date

3.15%

Net interest margin
(NIM)

25bps

Asset quality ratio
(AQR)

16.6%

Return on tangible equity
(RoTE)

Progressing our strategic transformation



A clear strategic vision...

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

...driving a 5-year transformation...

2022

Laying the foundations, early benefits delivery

2023

Building momentum across strategic initiatives

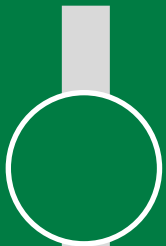
2024

Building on benefits
c.13% RoTE and c.175bps capital generation

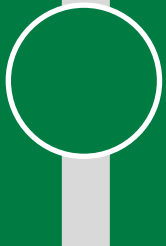
2025/26

Higher, more sustainable, returns & capital generation
>15% RoTE and >200bps capital generation

...with regular progress updates



Oct 2023 – Investor seminar
Deepen and Innovate in Consumer'



Nov 2023 – Investor seminar
Corporate and Institutional



Feb 2024 – Strategic update
FY 2023 results



Mar/Jun 2024 – Investor seminars
Mass affluent and IP&I /
Business & Commercial banking

Continued robust financial performance



Financial performance (£m)

	Q3 2023 YTD	Q3 2022 YTD ¹	YoY ¹
Net interest income	10,448	9,529	10%
Other income	3,837	3,538	8%
Operating lease depreciation	(585)	(295)	(98)%
Net income	13,700	12,772	7%
Total costs incl. Remediation	(6,788)	(6,405)	(6)%
Underlying profit before impairment	6,912	6,367	9%
Impairment charge	(849)	(1,045)	19%
Underlying profit	6,063	5,322	14%
Statutory profit after tax	4,284	2,941	46%
Net interest margin	3.15%	2.84%	31bp
Return on tangible equity	16.6%	9.6%	7.0pp
Earnings per share	5.9p	3.7p	2.2p
Tangible net asset value per share	47.2p	44.5p	2.7p
CET1 ratio	14.6%	15.0%	(0.4)pp

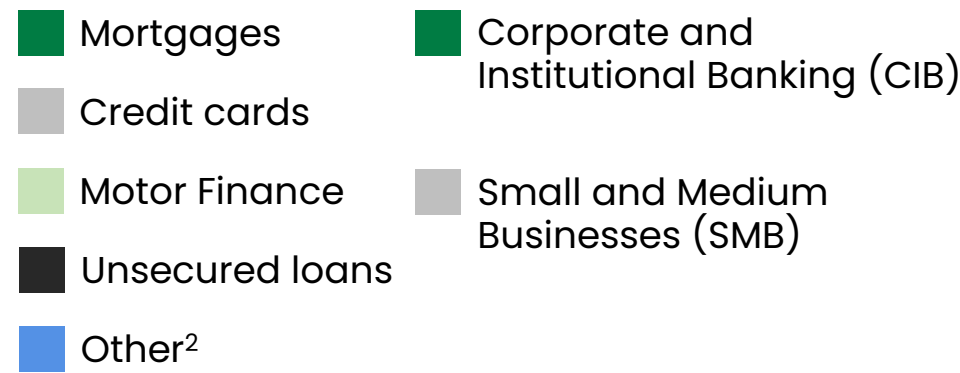
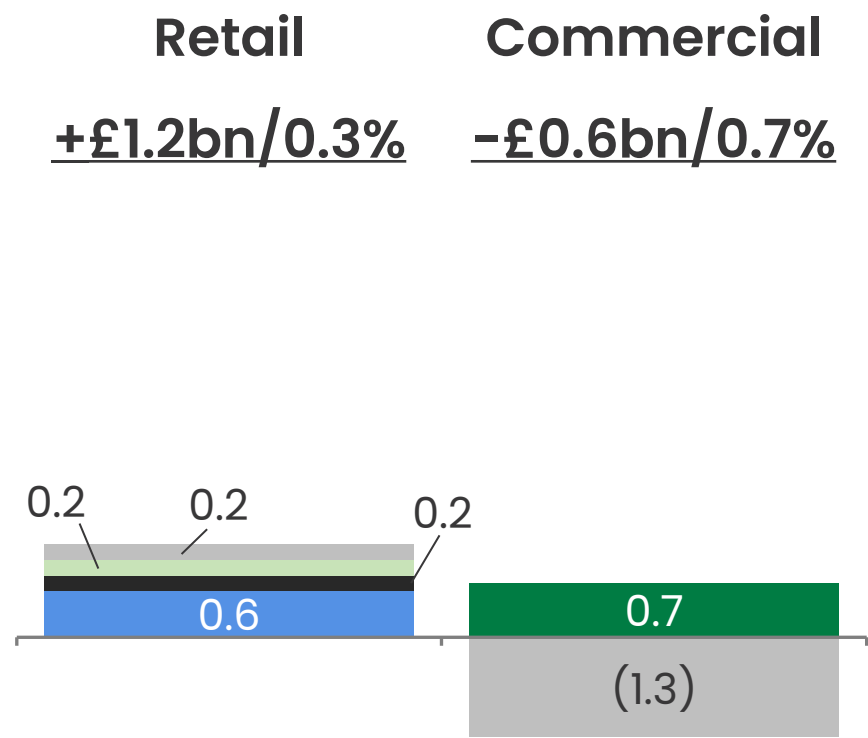
- Statutory profit after tax £4.3bn; RoTE 16.6%
- Strong net income, up 7%, NIM 315bps
- Costs up 6% (5% ex. remediation), given investment and inflation
- Resilient asset quality; £849m impairment charge
- Strong capital generation 165bps; 129bps after regulatory headwinds; CET1 ratio 14.6%

1 – 2022 comparatives have been restated to reflect the impact of IFRS 17.

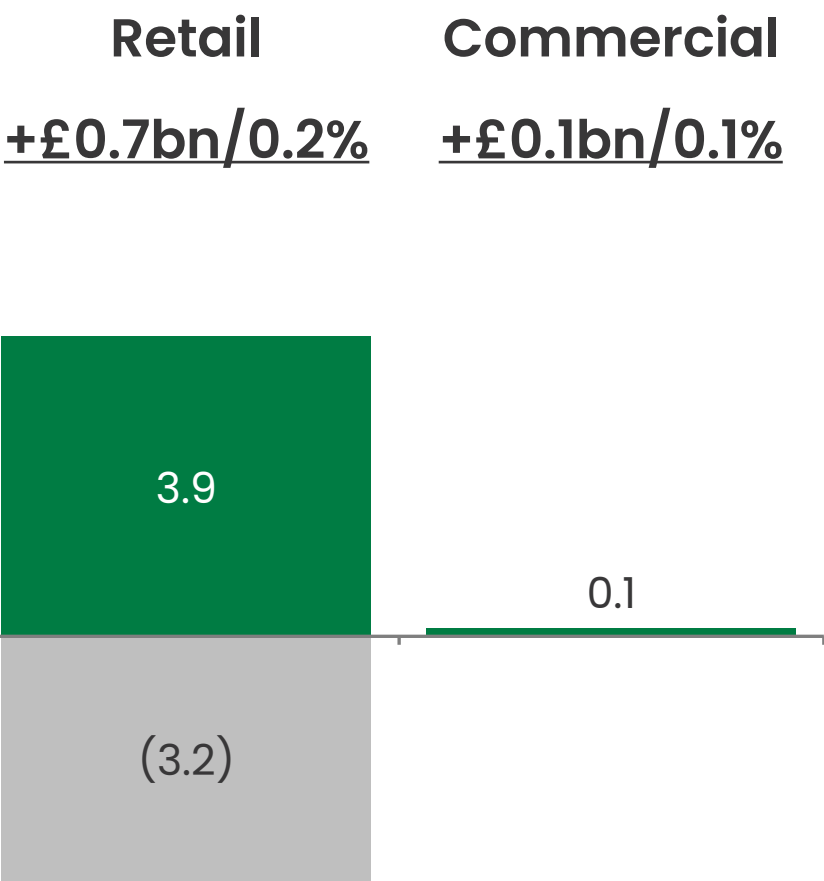
Ongoing resilience in customer franchise



Q3 lending change¹ (£bn)



Q3 deposit change³ (£bn)



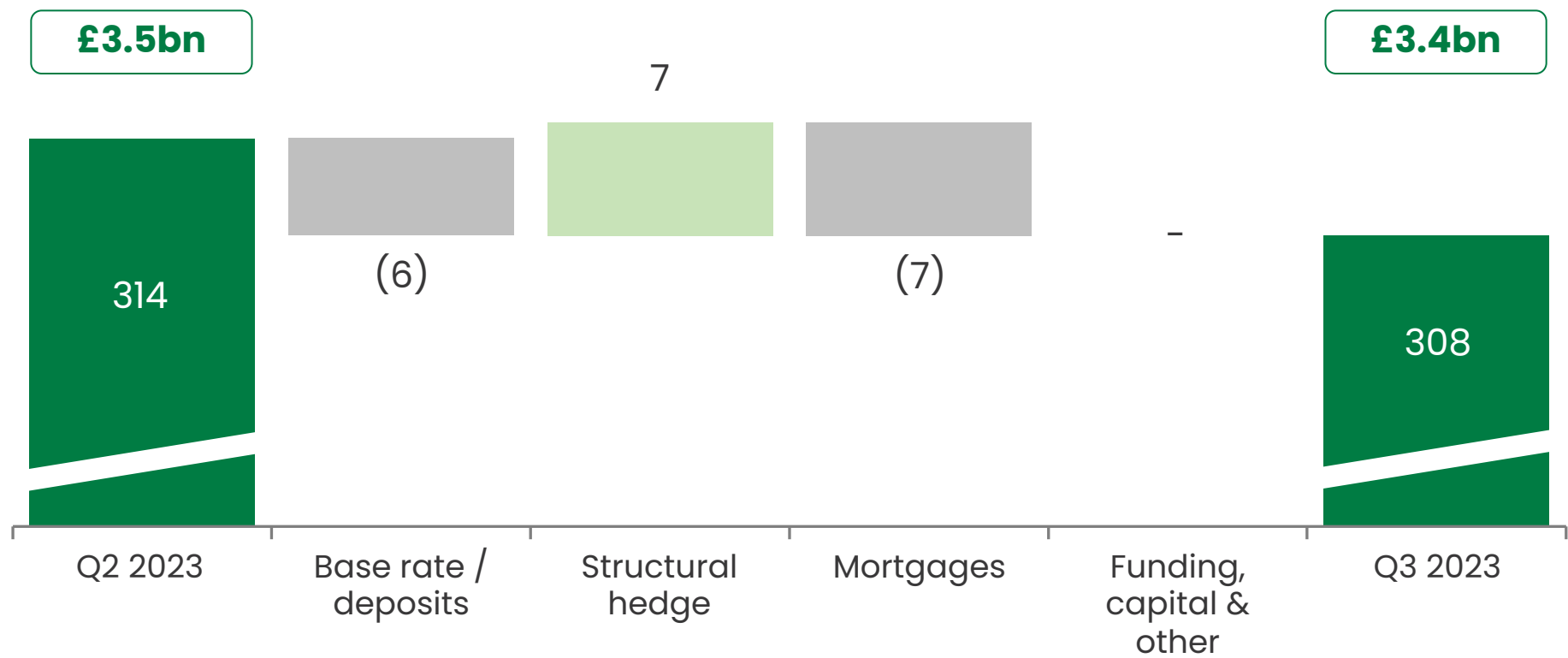
- **Total loans up £1.4bn in Q3; down 0.6% YTD**
 - Retail up £1.2bn in Q3; total mortgages stable
 - Commercial down £0.6bn in Q3
- **Total deposits £470bn, up £0.5bn or 0.1% in Q3; down 1.1% YTD**
 - Retail up £0.7bn in Q3; up £3.9bn in savings, down £3.2bn in current accounts
 - Commercial up £0.1bn in Q3

1 – Excludes balances relating to central fair value hedge accounting adjustments of £(2.5)bn (30 June 2023: £(3.3)bn). 2 – Includes Overdrafts, Europe and Wealth. 3 – Excludes balances relating to margin calls of £nil (30 June 2023: £0.3bn). 4 – Includes Retail relationship savings, Retail tactical savings and Wealth.

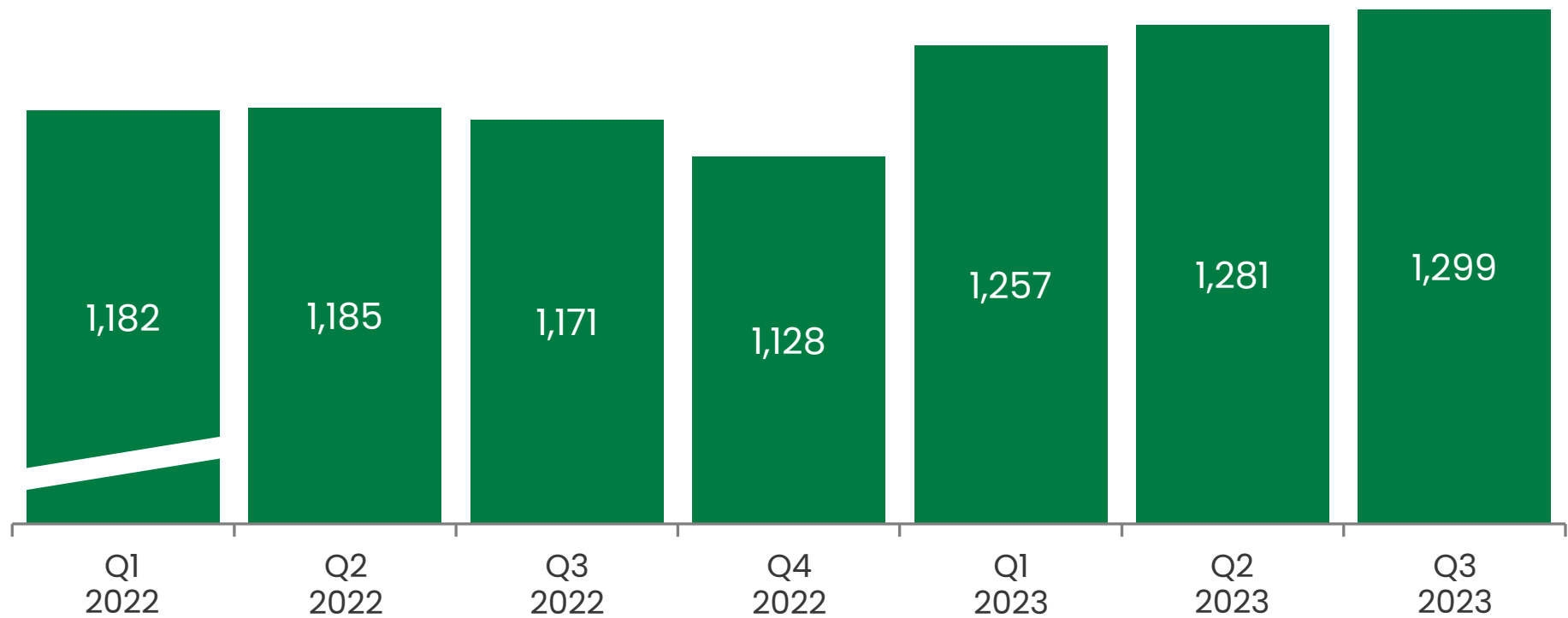
Solid income performance



Net interest income and banking margin (£bn, bps)



Other income (£m)

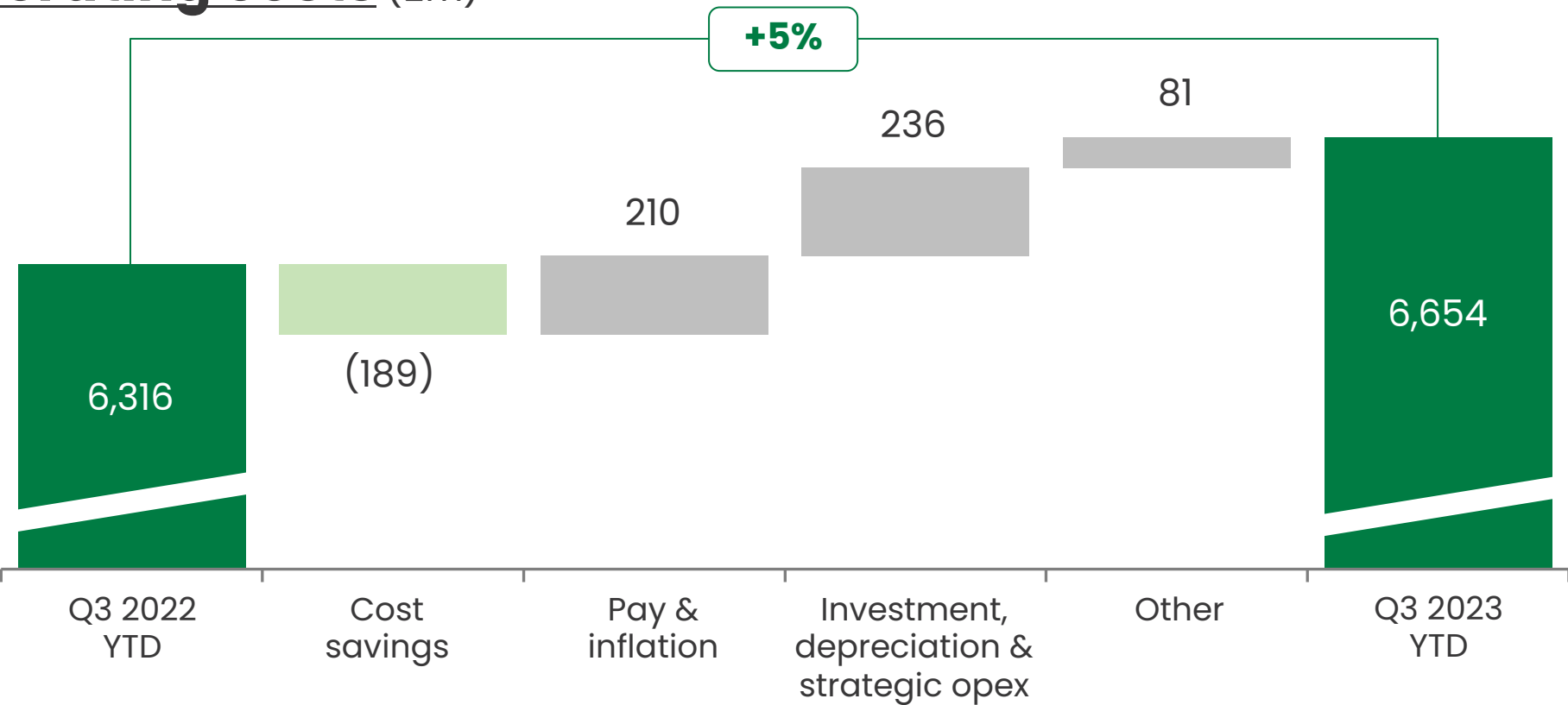


- NII £10.4bn YTD, £3.4bn in Q3
- YTD NIM 315bps; 308bps in Q3, down 6bps vs Q2, given expected headwinds
- Continue to expect 2023 NIM >310bps
- Expect 2023 Average Interest Earning Assets (AIEA) down slightly vs Q4 2022
- Other income £3.8bn YTD; continued improvement based on activity levels and investment benefits
- Operating lease depreciation continuing to normalise; £229m in Q3

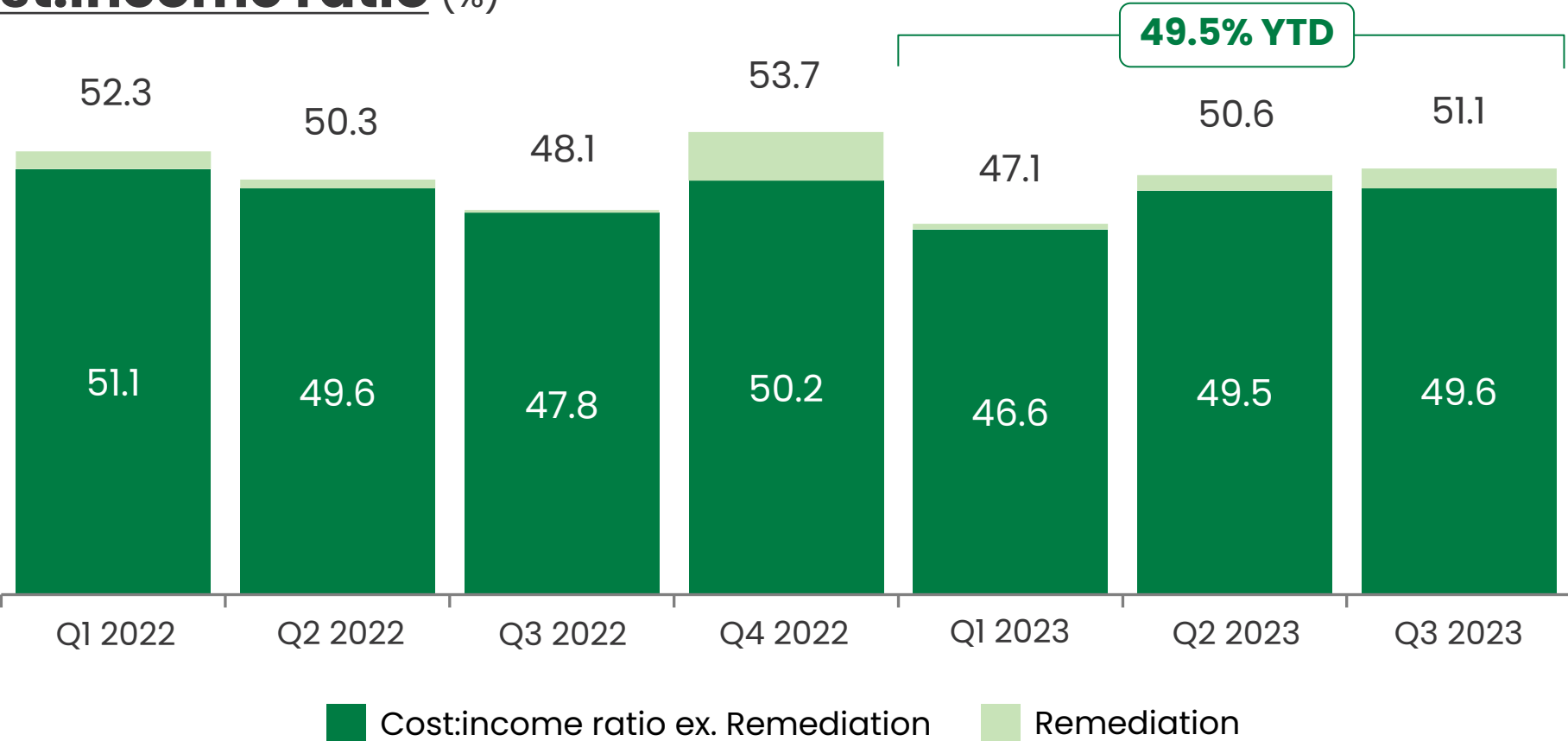
Costs in line with expectations



Operating costs (£m)



Cost:income ratio (%)



- YTD operating costs £6.7bn, up 5% given planned strategic investment, new business and inflation
- Cost:income 49.5%; 48.6% ex. remediation
- Ongoing discipline in the context of continued inflationary pressure
- Continue to expect 2023 operating costs c.£9.1bn
- Remediation charge of £134m YTD; Q3 £64m

Resilient observed asset quality



Impairment (£m)

	Q3 2023	Q3 2023 YTD	Q3 2022 YTD	YoY
Charge (credit) pre updated MES ¹	261	918	532	386
Retail	236	787	520	267
Commercial Banking	31	139	1	138
Other	(6)	(8)	11	(19)
Updated economic outlook	(74)	(69)	513	(582)
Retail	(71)	(30)	541	(571)
Commercial Banking	(3)	(39)	372	(411)
Other (COVID central adjustment)	-	-	(400)	400
Total impairment charge	187	849	1,045	(196)

Gross lending and coverage level² (£bn, %)

		Stage 1	Stage 2	Stage 3	Total
Q3 2023	Loans and advances	£383bn	£63bn	£11bn	£457bn
	Coverage	0.3%	3.0%	23.1%	1.2%
Q4 2022	Loans and advances	£383bn	£66bn	£11bn	£460bn
	Coverage	0.2%	3.2%	22.6%	1.1%

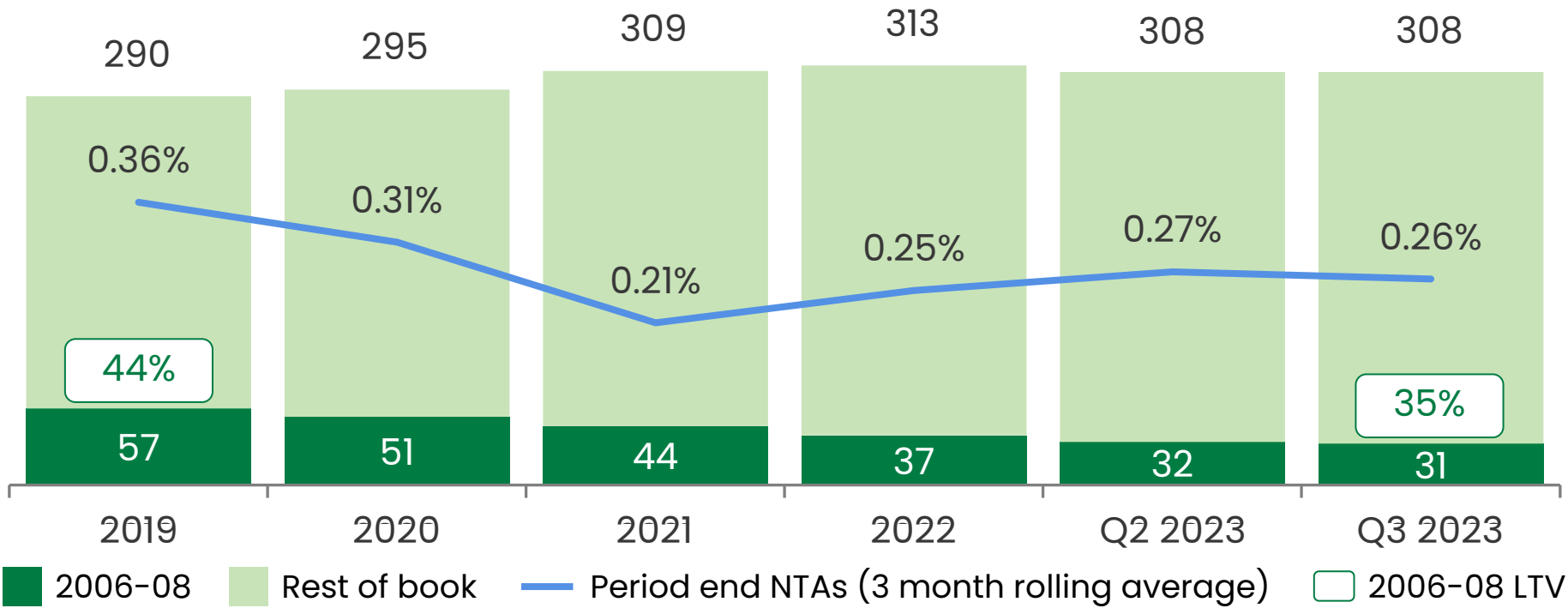
- Q3 YTD impairment charge £849m, AQR 25bps
- £187m charge in Q3, £232m below Q2, including £74m release based on economic assumptions
- Now expect 2023 AQR <30bps

1 – Impairment charges absent the impact from updated economic outlook, thus reflecting only observed movements in credit quality. 2 – Underlying basis. Table uses rounded inputs.

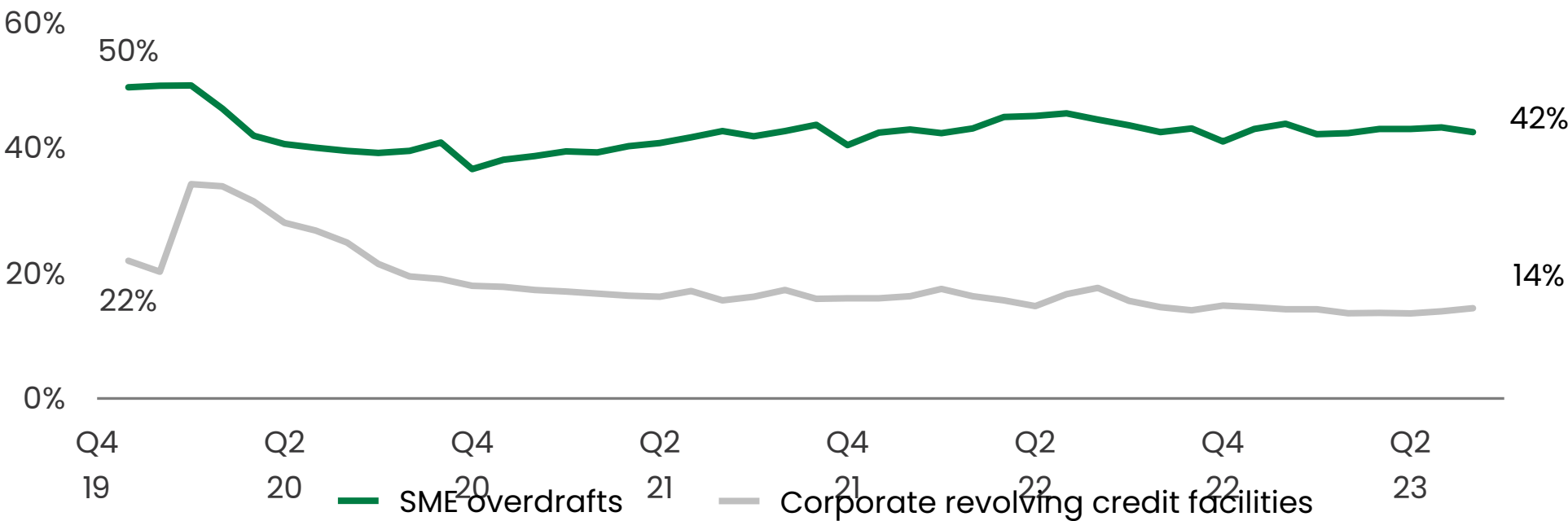
Reassuring performance across portfolios



Mortgage portfolio mix and new to arrears (Balances £bn, NTAs %, LTV %)



SME overdraft and corporate RCF utilisation¹ (%)



- Mortgage book remains resilient with arrears below 2019
- Underlying consumer finance trends stable; new to arrears similar to, or lower than pre-pandemic
- Stable SME overdraft utilisation trends; RCF² utilisation >30% below pre-pandemic
- c.90% of SME lending³ secured; c.80% of Corporate & Institutional exposure at investment grade
- Net Corporate Real estate exposure c.£11bn⁴, remains robust

1 – August 2023. 2 – Revolving credit facility. 3 – SME excluding Business Banking; lending fully or partially secured. 4 – Post Significant Risk Transfer securitisations.

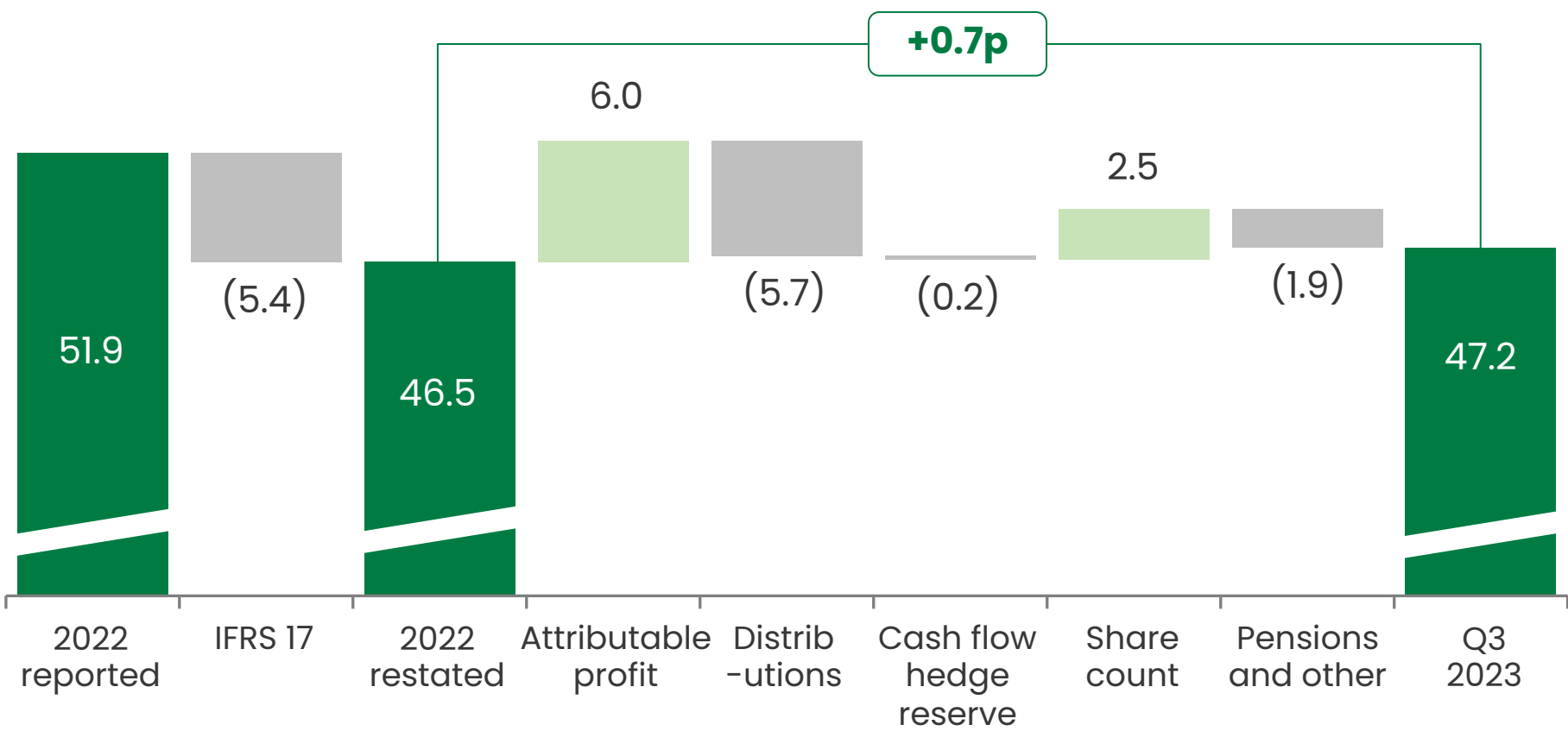
Underlying and statutory profit converge



Statutory profit (£m)

	Q3 2023 YTD	Q3 2022 YTD	YoY
Underlying profit	6,063	5,322	14%
Restructuring	(69)	(69)	
Volatility and other items	(266)	(1,528)	83%
Statutory profit before tax	5,728	3,725	54%
Tax expense	(1,444)	(784)	(84)%
Statutory profit after tax	4,284	2,941	46%
Return on tangible equity	16.6%	9.6%	7.0pp

Tangible net asset value per share (pence)

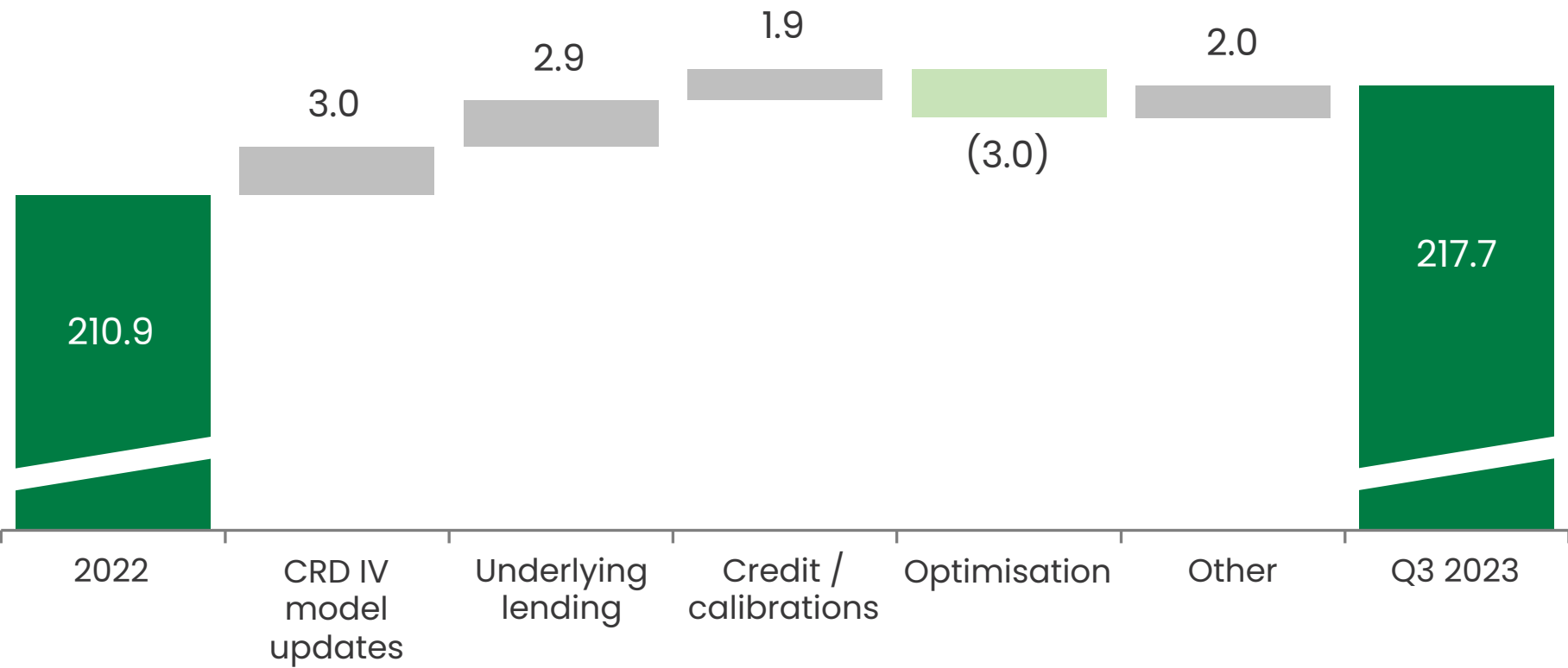


- YTD restructuring £69m with £44m in Q3
- Negative insurance volatility impact, alongside usual fair value unwind
- YTD RoTE 16.6%, 16.9% in Q3; continue to expect >14% RoTE in 2023
- Tangible net asset value (TNAV) 47.2p, up 0.7p YTD and 1.5p in Q3

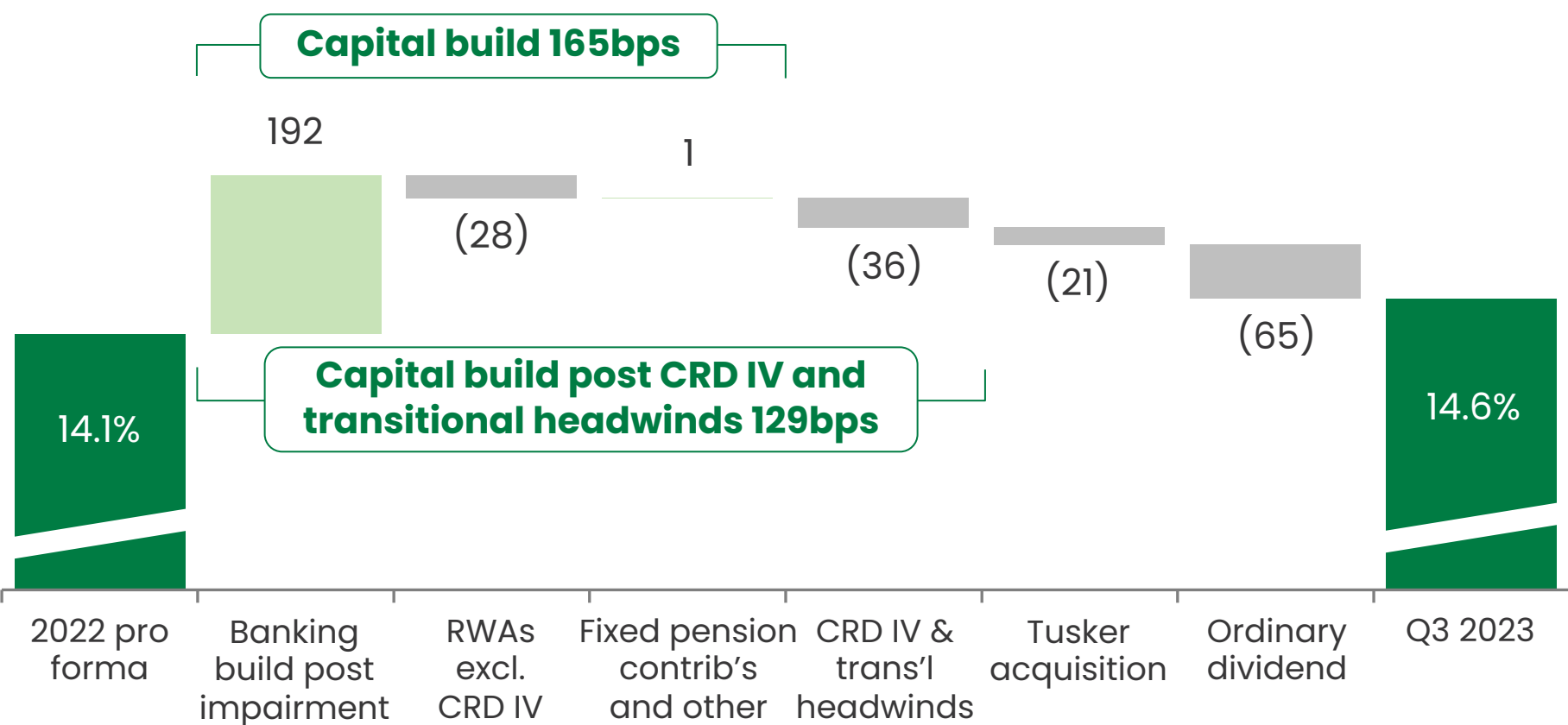
Continued strong capital generation; clear distribution policy



Risk weighted assets (RWA) (£bn)



Common equity tier 1 ratio (CET1) (% , bps)



- RWAs £217.7bn, up £6.8bn YTD; £2.4bn in Q3
- Strong 165bps capital generation; 129bps after regulatory headwinds
- CET1 ratio 14.6% ahead of ongoing CET1 target of c.12.5% + 1% management buffer
- Expect 2023 capital generation, post CRD IV and transitional headwinds, to be c.175bps
- Pensions triennial substantially agreed
- Clear distribution policy; progressive and sustainable dividend and excess capital reviewed at full year by the board
- Expect to pay down to CET1 target by end of 2024

Consistent delivery



Purpose

Helping Britain Prosper

- **Continued robust financial performance**
- **2023 financial guidance**
 - Net interest margin of >310bps
 - Operating costs of c.£9.1bn
 - Asset quality ratio now expected to be <30bps
 - Return on tangible equity of >14%
 - Capital generation of c.175bps
- **Well positioned to deliver for all stakeholders**

Q&A

Douglas Radcliffe, Group Investor Relations Director

Andrew Pipe, Head Economist