ShareSoc webinar Lloyds Banking Group

Douglas Radcliffe, Group Investor Relations Director
Adam Williams, Head of Competitor Analysis, Group Strategy
28 March 2023

Welcome and introduction

Douglas Radcliffe, Group Investor Relations Director

Strong performance; confidence in continued delivery

Purpose

Helping Britain Prosper

- **Purpose driven business** underpinned by financial strength; supporting customers and colleagues
- **Robust financial performance** driving increased capital returns
- **Reaffirming strategy** in a changing environment
- **Good start to new strategy** with early evidence of delivery
- **Financial outlook enhanced**, delivering higher, more sustainable returns

Classification: Public

Purpose driven business; delivering for our stakeholders

Purpose

Helping Britain Prosper

Proactive support for customers and colleagues

>200k mortgage customers offered support given rising rates

>550k businesses offered financial resilience support if required

Ongoing support for colleagues, including early certainty on 2023 pay

Building an inclusive society

Supported >£2bn funding to social housing sector and lent >£14bn to first time buyers in 2022

c.185k small businesses supported to boost digital capability

Delivered race education training to our workforce

Supporting the transition to a low carbon economy

>£13bn green and sustainable financing[1] and c.£12bn discretionary investment in climate aware strategies

Created home retrofit partnership with Octopus Energy

Launched first Group climate transition plan[2]

1 – Includes c.£8bn sustainable finance for Corporate and Institutional customers and c.£2bn financing for electric vehicles and plug-in hybrid electric vehicles; also includes £3.5bn green mortgage lending to 30/09/2022. 2 – Published in the 'Environmental Sustainability Report 2022' here.

Robust financial performance; continued business momentum

£18.0bn
Net income,
up 14% vs 2021

50.4%
Cost:income ratio,
down 10.6pp vs 2021

13.5%
Return on tangible equity,
down 0.3pp vs 2021

245bps
Pro forma capital
generation in 2022[1]

14.1%
Pro forma CET1 ratio[2]

£3.6bn
Total capital distribution

>5bn
Customer logins,
up 15% vs 2021

75%
Employee engagement,
up 3pp vs 2021

39.4%
Women in senior roles,
up 1.7pp vs year end 2021

1 – Excluding regulatory changes on 01/01/2022, ordinary dividends, variable pension contributions and the impact of the announced ordinary share buyback programme. Inclusive of the dividend received from the Insurance business in February 2023. 2 – Includes the dividend received from Insurance in February 2023 and the full impact of the announced share buyback.

Strategic update

Adam Williams, Head of Competitor Analysis, Group Strategy

Classification: Public

Delivering our strategy is our focus

Purpose driven strategy…

Grow
Drive revenue growth and diversification

Focus
Strengthen cost and capital efficiency

Change
Maximise the potential of people, technology and data

…to deliver sustainable growth across our businesses

- Deepen and innovate in Consumer
- Create a new mass affluent offering
- Digitise and diversify our SME business
- Target our Corporate and Institutional offering

Classification: Public

Changing environment reinforces our strategy

Changes since February 2022

More challenging environment for customers given increased cost of living

Sharp interest rate hiking cycle and weaker macroeconomic environment

Significant increase in inflation

Areas of increased focus

Enhanced importance of purpose driven strategy in increasing our support to customers and colleagues

Strategy will deliver growth, diversification and a stronger competitive position

Accelerating strategic efficiency focus enables the Group to mitigate inflationary pressures

Significant strategic action; early evidence of delivery

Purpose driven strategy...

Grow
Drive revenue growth and diversification

Focus
Strengthen cost and capital efficiency

Change
Maximise the potential of people, technology and data

...as part of a 5 year transformation...

2022
Laying the foundations, early benefits delivery

2023
Building momentum across strategic initiatives

2024
Realising benefits

2025/26
Higher, more sustainable, returns & capital generation

...with significant action taken in 2022

Investing in growth
£0.9bn strategic investment

Accelerating efficiency initiatives
Cost discipline in an inflationary environment

Mobilising for change
New operating model implemented to deliver change more effectively

Refreshing the team
New organisational structure and leadership team

Driving revenue growth and diversification: Consumer

Grow

Deepen and innovate in Consumer

Progress in 2022

19.8m digitally active customers, **up 8%**

c.1pp growth in Protection share[1]

£6bn net workplace pension flows, **16%** AuA share

£3.5bn green mortgage lending[1] and **£2.1bn** financing and leasing for battery electric and plug-in hybrid vehicles

2023 implementation

Launch **intermediary Protection proposition**

Scale **HomeHub ecosystem** with improved retention

Market leading **digital vehicle leasing** offer

Acquisition and integration of **Tusker**

Create a new mass affluent offering

Progress in 2022

>5% increase in mass affluent banking balances[2]

Tailored **banking products** (e.g. PBA, credit card)

Enhanced **D2C investments** through Embark

2023 implementation

Launch **differentiated digital first model**

Expand **banking offering** with tiered savings, flexible lending options and bespoke benefits

Launch of **ready made** and **D2C investment** options

1 – Latest data, 9 months to 30/09/2022. 2 – Banking balances calculated as the absolute total of Retail customers, excluding Motor.

Driving revenue growth and diversification: Commercial

LLOYDS BANKING GROUP

Grow

Digitise and diversify our SME business

Progress in 2022

>20% growth in new merchant services clients and proven new digital onboarding capability

c.5% income growth in SME transaction banking[1]

Strategic **fintech partnership** for invoice financing

2023 implementation

Digitised merchant services onboarding journeys with straight through processing

Deliver **mobile first onboarding** proposition

Launch of E2E **digital origination** for asset finance

Target our Corporate & Institutional offering

Progress in 2022

c.£8bn green and sustainable financing delivered[2], >50% of 2024 target

Investment in FX capability driving **c.20%** growth in FX trading percentage share of wallet

Strengthened **originate to distribute** capabilities, including first strategic co-investment partnership

2023 implementation

Further penetration of **key growth industries**

Improve **capabilities** across DCM, FX and FI[3]

Scale **originate to distribute** to serve more clients

1 – Mid-sized SME transaction banking and working capital. 2 – Includes the clean growth finance initiative, Commercial Real Estate green lending, renewable energy financing, sustainability linked loans and green and social bond facilitation. 3 – Debt capital markets, foreign exchange and financial institutions.

Investing in enablers to improve delivery

Focus

Strengthen cost and capital efficiency

Progress in 2022

Refining service model with **c.200** branch closures and digital investment

c.12% reduction in office footprint

£4bn reduction in RWAs, driven by optimisation

Securitised sale of **c.£2.5bn** legacy Retail mortgages[1]

2023 implementation

Deliver further improvements in self service capabilities and end to end journey digitisation

Focus on small, **modernised** office footprint

RWA optimisation and recycling to offset loan growth

Expected agreement of pension triennial valuation with **improved funding position**

Change

Maximise the potential of people, technology and data

Progress in 2022

New leadership team with **flattened structure** and significant capabilities in strategic and digital delivery

New operating model rolled out to **>20k** employees

5% of legacy applications decommissioned

10% reduction in data centres

c.56m customer data records ingested to cloud

2023 implementation

Continued progress against **leading diversity targets**

Reduce 3rd party reliance in strategic workforce

10% of legacy applications decommissioned

c.10% gross reduction in run and change tech costs

Continue migration to **public cloud**

1 – Transaction completed in January 2023.

Classification: Public

Confidence building in financial benefits

Incremental income and gross cost saves[1]…

Delivered early stages of targeted additional 2024 revenues

Increasing penetration of high value customers and growing open book AuA

Delivered £0.3bn or c.25% of increased 2024 gross cost savings target

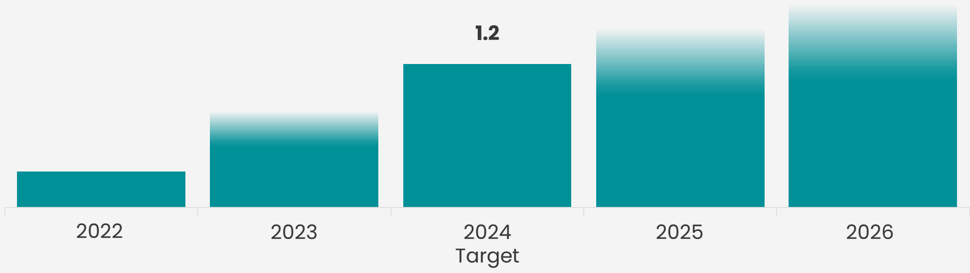
Overall impact expected to benefit profits from 2024 as revenue benefits outweigh net cost impact

1 – Includes savings from both BAU and strategic initiatives.

…with momentum building into 2023 and beyond

Additional revenues p.a. from strategic initiatives (£bn)

Gross cost saves p.a. from BAU and strategic initiatives (£bn)



Financial update

Douglas Radcliffe, Group Investor Relations Director

Robust financial performance

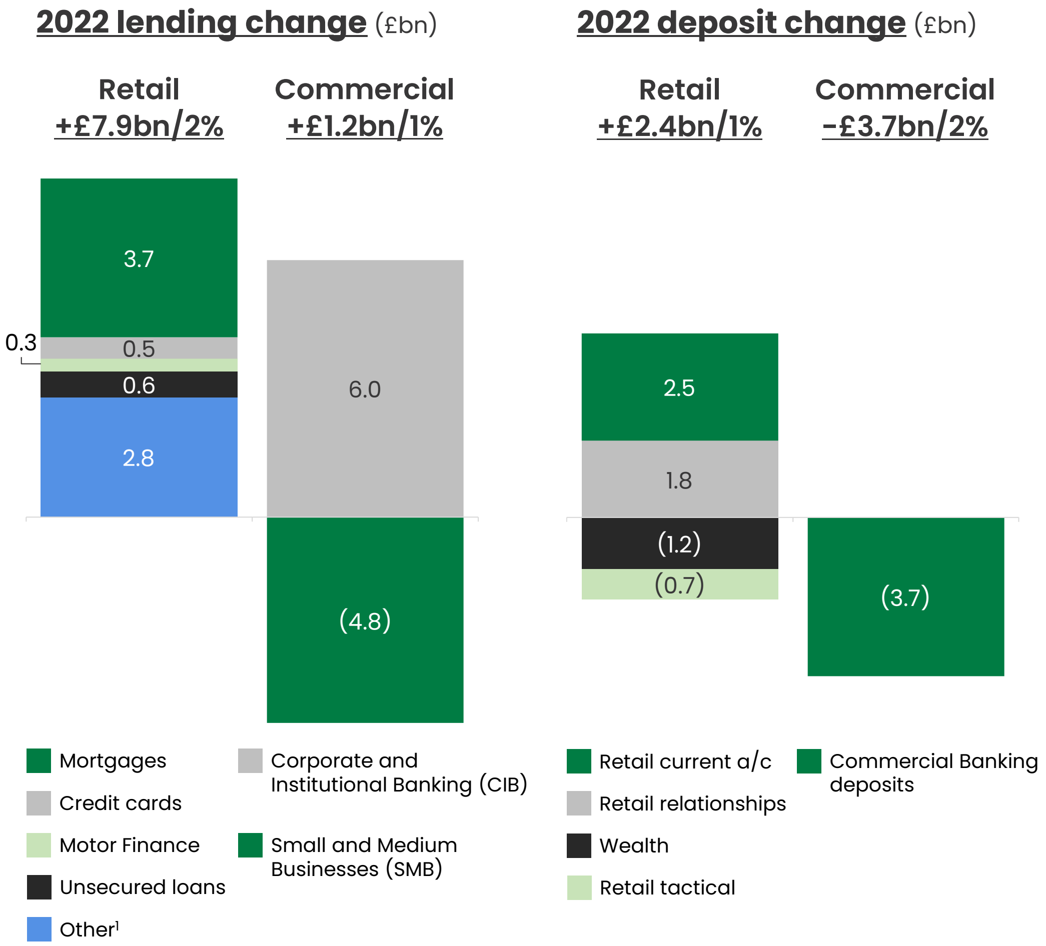
Financial performance (£m)

	2022	2021	YoY
Net interest income	**13,172**	11,163	*18%*
Other income	**5,249**	5,060	*4%*
Operating lease depreciation	**(373)**	(460)	*19%*
Net income	**18,048**	15,763	*14%*
Operating costs[1]	**(8,835)**	(8,312)	*(6)%*
Remediation	**(255)**	(1,300)	*80%*
Total costs	**(9,090)**	(9,612)	*5%*
Underlying profit before impairment	**8,958**	6,151	*46%*
Impairment (charge) credit	**(1,510)**	1,385	
Underlying profit	**7,448**	7,536	*(1)%*
Statutory profit before tax	**6,928**	6,902	
Statutory profit after tax	**5,555**	5,885	*(6)%*
Net interest margin	**2.94%**	2.54%	*40bp*
Return on tangible equity	**13.5%**	13.8%	*(0.3)pp*
Earnings per share	**7.3p**	7.5p	*(0.2)p*
Tangible net asset value per share	**51.9p**	57.5p	*(5.6)p*
Pro forma CET1 ratio[2]	**14.1%**	16.3%	*(2.2)pp*

- **Customer led franchise growth**
- **Net income up 14%; NIM 294bps**
- **Operating costs up 6%; stable BAU costs with higher planned strategic investment**
- **Strong observed asset quality; higher impairment reflects revised economic outlook**
- **TNAV per share 51.9p, down 5.6p in 2022, largely driven by cashflow hedge reserve**
- **Strong capital generation of 245bps[3] in 2022; pro forma CET1 ratio 14.1%**

1 – Comparatives presented to reflect new costs basis, consistent with current period. 2 – 2022 includes dividend received from Insurance in February 2023 and full impact of announced share buyback. 2021 includes dividend received from Insurance in February 2022 and full impact of share buyback in respect of 2021 that completed in 2022, but excludes impact of regulatory changes that came into effect on 01/01/2022. 3 – Excluding regulatory changes on 01/01/2022, ordinary dividends, variable pension contributions and impact of announced share buyback programme. Inclusive of dividend received from Insurance business in February 2023.

Ongoing strength in customer franchise

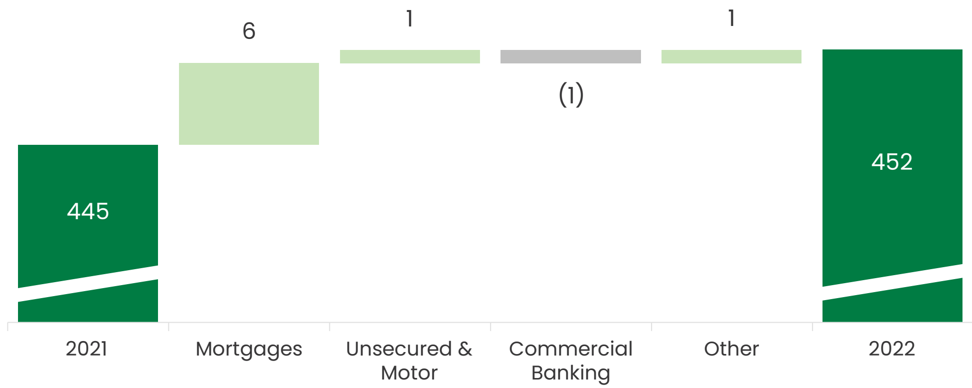


- Mortgage balances up £3.7bn in 2022, including £1.2bn open book growth in Q4
- Credit cards up £0.5bn in 2022, flat in Q4; higher spend offset by repayments
- Commercial lending up £1.2bn in 2022; CIB growth more than offsetting repayments of Government-backed lending
- Retail deposits up £2.4bn in 2022 with current accounts up £2.5bn YoY, down £1.7bn in Q4
- Commercial deposits down £3.7bn in 2022; £6.4bn lower in Q4 from short term placements reversing, pricing actions and seasonality
- >£8bn net new money in Insurance[2]

1 – Includes Overdrafts, Europe and Wealth. 2 – Open book assets under administration. Excludes market movements and Embark assets transferred on acquisition; includes post acquisition Embark net flows.

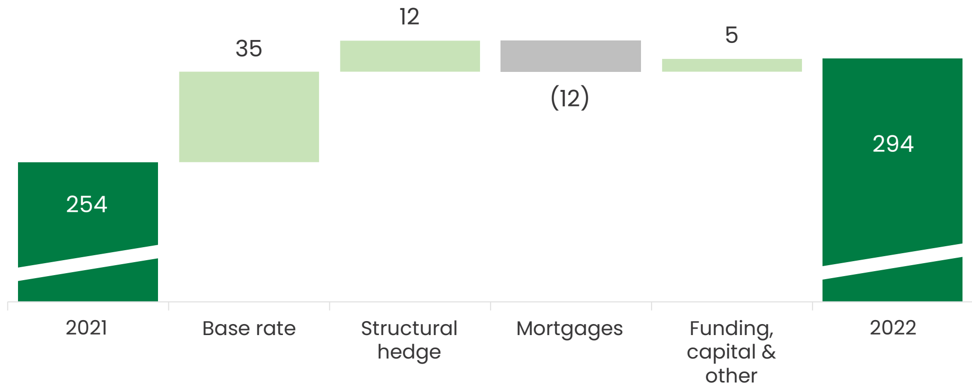
Strong net interest income performance

Average interest earning assets (£bn)



Banking net interest margin (bps)

Q3 2022 to Q4 2022	**298**	24	8	(8)	-	**322**

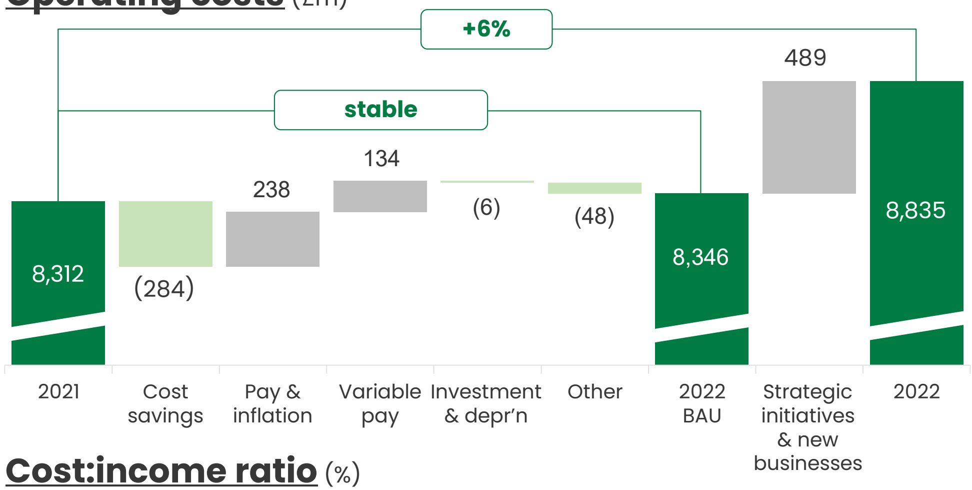


- **NII £13.2bn, up 18% on 2021, benefitting from increased AIEAs and stronger NIM**
  - 2022 AIEAs £452bn, up 2% on 2021
  - Full year NIM 294bps, up 40bps on 2021
  - Q4 NIM 322bps, benefitting from rising rates and temporary pricing lags
- **AIEAs expected to be broadly stable in 2023**
  - Modest mortgage and unsecured loan growth versus continued repayment of Government backed lending and management actions
- **2023 NIM expected to be >305bps**
  - 2023 NIM below Q4 given expected headwinds from mortgages, deposit pricing and funding costs, partly offset by increased hedge income

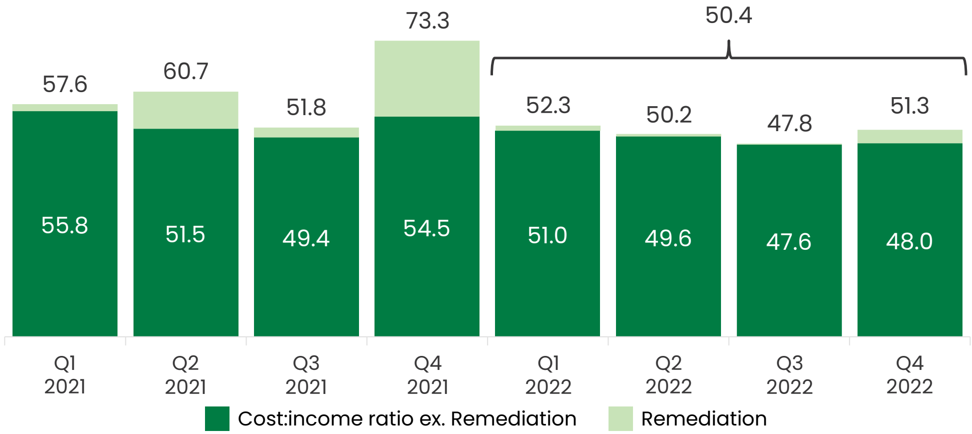
Classification: Public

Stable BAU costs; increased investment as planned

Operating costs (£m)



Cost:income ratio (%)



- **Operating costs £8.8bn, up 6% given planned investment and new businesses**
  - BAU costs stable and overall costs in line with expectations, delivered by ongoing discipline in context of inflationary pressure
- **Remediation £255m; £166m in Q4**
- **YTD cost:income ratio 50.4%, 51.3% in Q4**
- **Efficiency targets in BAU and strategic initiatives enhanced**
- **2023 operating costs expected to be c.£9.1bn**
  - Inflationary pressures in 2023 partially mitigated by increasing savings

Strong observed asset quality; updated economic scenarios

Impairment[1] (£m)

	Q4	2022	2021	YoY
Charge (credit) pre updated MES[2]	**383**	**915**	**314**	***601***
Retail	253	773	672	*101*
Commercial Banking	121	122	(357)	*479*
Other	9	20	(1)	*21*
Updated economic outlook	**82**	**595**	**(1,699)**	***2,294***
Retail	59	600	(1,120)	*1,720*
Commercial Banking	23	395	(579)	*974*
Other (COVID central adjustment)	-	(400)	-	*(400)*
Total impairment charge (credit)	**465**	**1,510**	**(1,385)**	***2,895***

Gross lending and coverage level[3] (£bn, %)

		Stage 1	Stage 2	Stage 3	Total
H2 2022	Loans and advances	£383bn	£66bn	£11bn	£460bn
	Coverage	0.2%	3.2%	22.6%	1.1%
H1 2022	Loans and advances	£399bn	£49bn	£11bn	£460bn
	Coverage	0.2%	3.0%	20.1%	1.0%

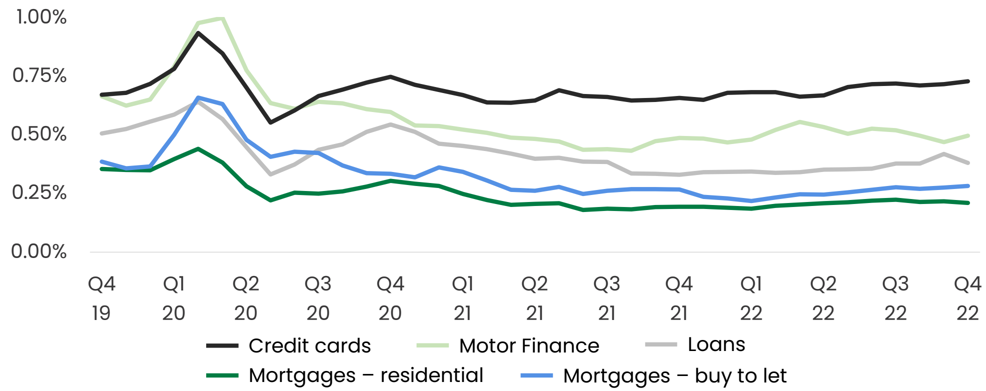
- **Asset quality remains strong**
- **Impairment charge £1,510m, AQR of 32bps**
  - Full year pre updated MES charge £915m, equivalent to AQR of 20bps
  - £595m MES charge given updated outlook, reflecting higher inflation and interest rates, partly offset by release of COVID judgements
- **Q4 charge £465m with £82m for updated MES**
  - Q4 pre MES charge of £383m, AQR 33bps; 26bps before single name charge, but includes IFRS 9 Stage 1 roll-forward
- **Stock of ECL £5.3bn, up £0.8bn in 2022**
- **2023 AQR expected to be 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. 3 – Underlying basis. Table uses rounded inputs. Stage 3 balances increased on 01/01/2022 given CRD IV changes.

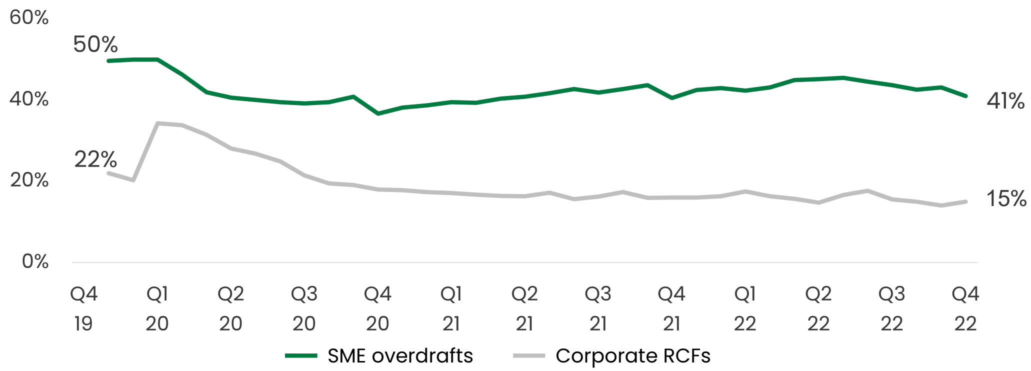
Resilient portfolio performance

New to arrears as a proportion of total balances

(3 month rolling average, %)



SME[1] overdraft and corporate RCF[2] utilisation (%)



- **Customers showing resilience across asset classes, with sustained low levels of new to arrears**
- **Cards charge offs remain low and below historical average**
  - >90% of cards and loans balance growth from customers with low or medium indebtedness[3]
  - Charge off at 4-6 months in arrears; c.7% book coverage assuming additional 12 months[4]
- **Average mortgage LTV 42%; 94% of book ≤80%**
- **c.90% of SME lending[1] secured; c.75% of Commercial exposure at investment grade**
- **Watchlist and BSU below 2022 start levels**

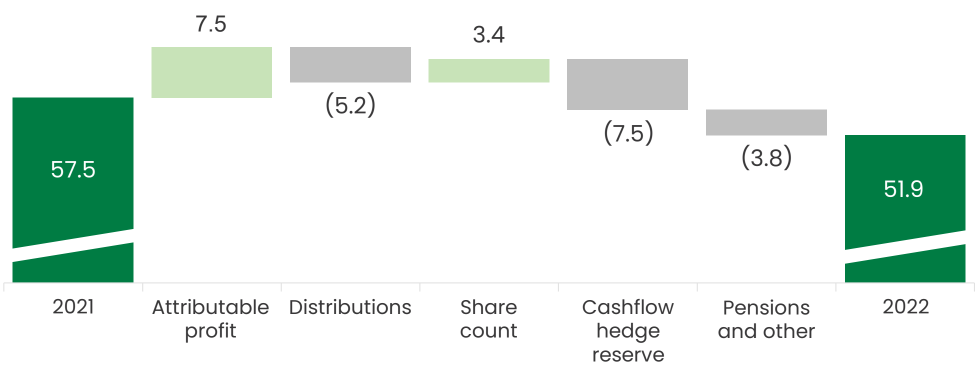
1 – SME excluding Business Banking; lending fully or partially secured. 2 – Revolving credit facilities. 3 – Relates to balance growth in 2022. 4 – Estimated based on last 12 months' charge offs retained in Stage 3 at appropriate coverage.

Statutory profit after tax £5.6bn

Statutory profit (£m)

	2022	2021	YoY
Underlying profit	**7,448**	7,536	*(1)%*
Restructuring	**(80)**	(452)	*82%*
Volatility and other items	**(440)**	(182)	
Statutory profit before tax	**6,928**	6,902	
Tax expense	**(1,373)**	(1,017)	*(35)%*
Statutory profit after tax	**5,555**	5,885	*(6)%*
Return on tangible equity	**13.5%**	13.8%	*(0.3)pp*

Tangible net asset value per share (pence)

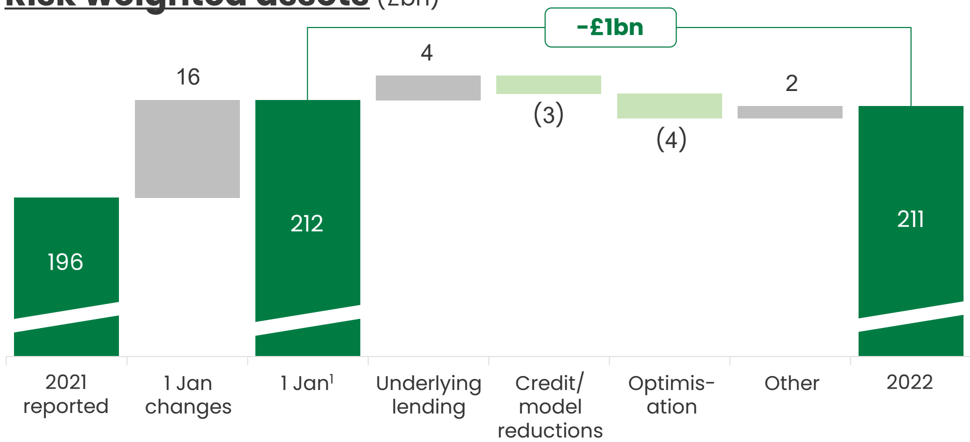


- **Underlying and statutory profit converging**
- **Restructuring costs £80m, including Embark integration costs**
- **Negative market volatility impact, alongside usual fair value unwind**
- **RoTE 13.5%; expect c.13% RoTE in 2023**
- **TNAV 51.9p, down 5.6p in 2022, largely driven by cashflow hedge reserve; up 2.9p in Q4**
- **After 1 Jan 2023 IFRS 17 impact, TNAV expected to benefit from unwind of 2022 headwinds**
  - Cashflow hedge reserve and pension surplus to build into TNAV in near to medium term
  - Buyback lowers share count, building TNAV per share

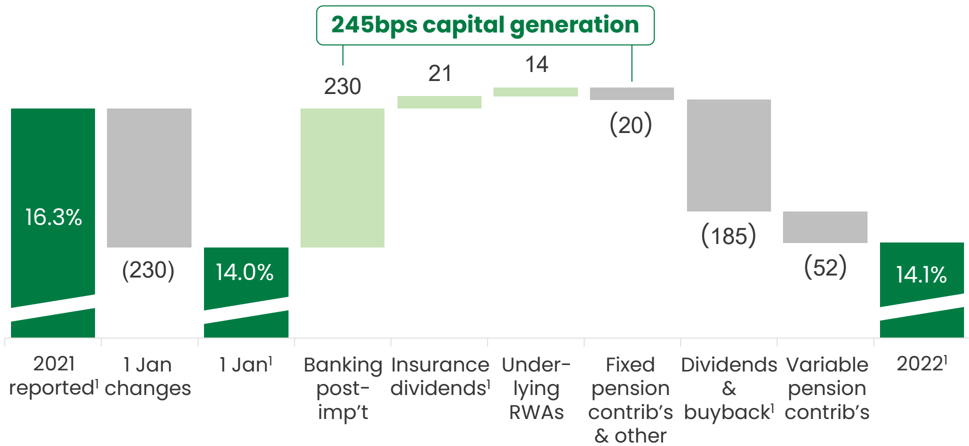
Classification: Public

Strong capital generation; enhanced guidance

Risk weighted assets (£bn)



Common equity tier 1 ratio (%, bps)



- **RWAs down £1bn since 1 Jan 2022, given optimisation and credit/model reductions**
- **CET1 14.1%[1], after additional £400m variable pension contribution in Q4**
- **Strong 245bps capital generation[1], including £400m insurance dividends[2]**
- **Total capital returns equivalent of up to £3.6bn, >10% of market capitalisation value[3]**
  - Final dividend 1.6p; total 2.4p, up 20% on 2021, alongside share buyback of up to £2bn
- **Remain ahead of ongoing target of c.12.5% plus a c.1% management buffer**
- **Expect capital generation c.175bps p.a. across 2023 and 2024**

1 – Shown on a pro forma basis. 2022 excludes unwind of IFRS 9 transitional relief of 15 bps on 01/01/2023. 2 – Insurance dividends relating to 2022 profits. 3 – Market capitalisation at close of business 17/02/2023.

Enhanced guidance highlighting higher, more sustainable, returns

	2023	2024	2026
Income	**NEW:** NIM **>305bps**		
Costs	**NEW: c.£9.1bn** operating costs	**NEW: c.£9.2bn** operating costs	**<50%** cost:income ratio
Asset quality ratio	**NEW: c.30bps**	**NEW: c.30bps**	
Return on tangible equity	**NEW: c.13%**	**NEW: c.13%**	**NEW: >15%**
Risk weighted assets		**£220bn - £225bn**	
Capital generation	**NEW: c.175bps** per annum		**NEW: >200bps**
Capital distribution	**Progressive and sustainable** ordinary dividend Expect to **pay down to target CET1 ratio** by end of 2024		

Closing Remarks:
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- **Robust financial performance** driving increased capital returns
- **Reaffirming strategy** in a changing environment
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- **Financial outlook enhanced**, delivering higher, more sustainable returns

Q&A