LLOYDS BANKING GROUP

SHARESOC WEBINAR

LLOYDS BANKING GROUP

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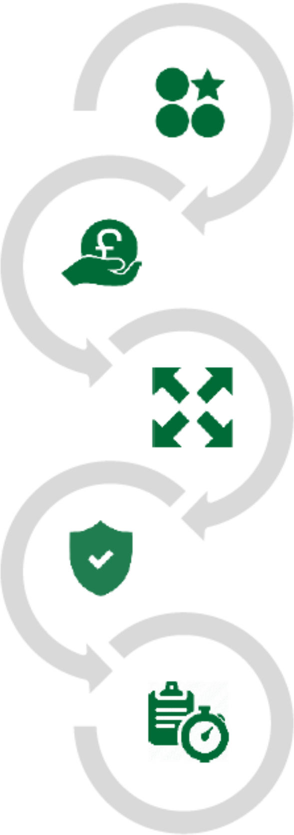
7 December 2021

Strategic update

UK's largest financial services provider with distinctive strategy and customer focused business model

- **26 million customers** across our key businesses in **Retail**, **Commercial Banking**, **Insurance & Wealth**
- Largest digital bank and branch reach in the UK with a **presence in every community**, supporting our purpose of **Helping Britain Prosper**

Distinctive competitive strengths



- Differentiated customer propositions
- Market leading efficiency
- Largest digital bank, branch reach and customer franchise
- Prudent, low risk participation choices with strong capital position
- Rigorous execution and management discipline

Strong progress on Strategic Review 2021

Illustrative examples of YTD progress

Helping Britain Recover

Exceeding **£10bn first-time buyer** target (YTD: c.£13bn)

Increasing funding to **Housing Growth Partnership** to support **£300m** commitment for new homes

Introduced flagship **fossil fuel-free fund** allowing pension investment with **positive environmental impact**

Supporting businesses in **start up (>70k)** and boosting **digital capabilities (>130k)**

Customer ambitions

Preferred financial partner for personal customers:

- **>£15bn** open book mortgage growth
- **£5bn** net new open book AuA in Insurance & Wealth[1] and enhancing Wealth offering through acquisition of **Embark Group**
- **All channel NPS** and **mobile app NPS** above 2021 targets

Best bank for business:

- **>50%** growth in **SME products originated via a digital** source
- Improved **GBP rates** ranking to 6th (from FY20 10th)[2]

Enhanced capabilities

>25% increase in SME client engagement following roll out of **data-driven** targeted marketing in June

Improved merchant services proposition delivering **12% new client growth**

Hybrid ways of working being introduced and **c.5%** reduction in office space, on track for 2021 target of 8%

1 – Excludes market movements. 2 – Combined Tradeweb and Bloomberg GBP IRS (Rates) ranking.

Financial update

Continued business momentum and solid financial performance

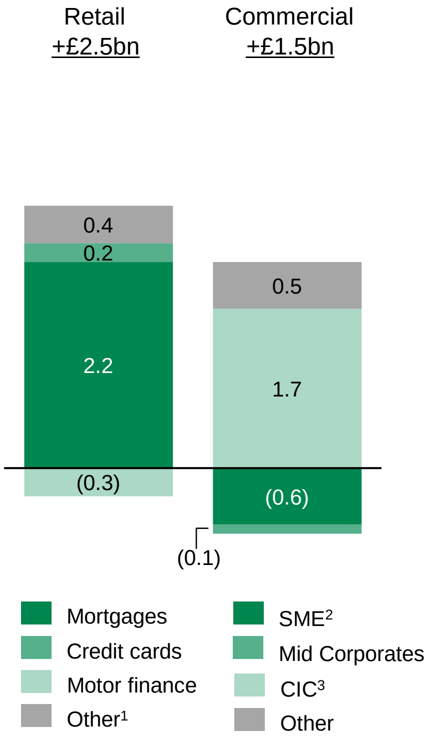
	Q3 2021	2021 YTD
Net income	£4.1bn	£11.6bn
Cost:income ratio (incl. remediation)	48.3%	52.6%
Underlying profit before impairment	£2.1bn	£5.5bn
Impairment credit	£84m	£740m
Statutory profit before tax	£2.0bn	£5.9bn
Return on tangible equity	14.5%	17.6%
TNAV	56.6p	
CET1 ratio	17.2%	

- **Solid net income performance, 5% ahead of Q2 and 8% ahead of prior year to date**
  - NII £2.9bn in Q3, with AIEAs £447bn and NIM 255bps
  - Other income £1.3bn
- **Operating costs slightly up YTD given variable pay**
- **Underlying asset quality strong. Impairment credit of £740m YTD driven by release of £1,098m given improved economic outlook**
- **Statutory profit before tax of £5.9bn YTD, significantly ahead of prior year**
- **Strong balance sheet and capital build in the year to date**
  - Open mortgage book growth of £15.3bn
  - Deposit growth of £28.4bn
  - CET1 ratio 17.2% after dividend accrual, with capital build of 159bps
- **2021 guidance enhanced**

Continued franchise growth

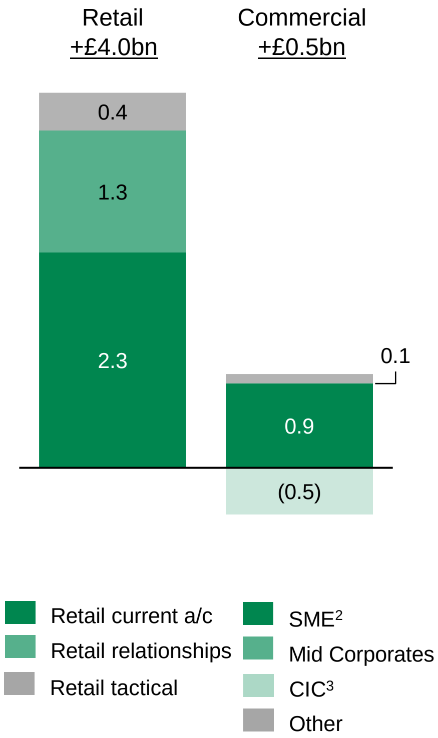
Q3 lending change

(£bn)



Q3 deposit change

(£bn)



- **Total mortgage balances up £2.2bn in Q3 to £307.4bn driven by £2.7bn increase in open book; credit card balances up £0.2bn and motor finance down £0.3bn**
- **Commercial Banking balances up £1.5bn in Q3**
- **Retail deposits up £4.0bn, reflecting continued low spend and inflows to trusted brands**
- **AIEAs £443bn for Q3 YTD, up £8bn on 2020 year end with £447bn for Q3, up £5bn on Q2**
- **Continue to expect low single-digit percentage growth in AIEAs in 2021**

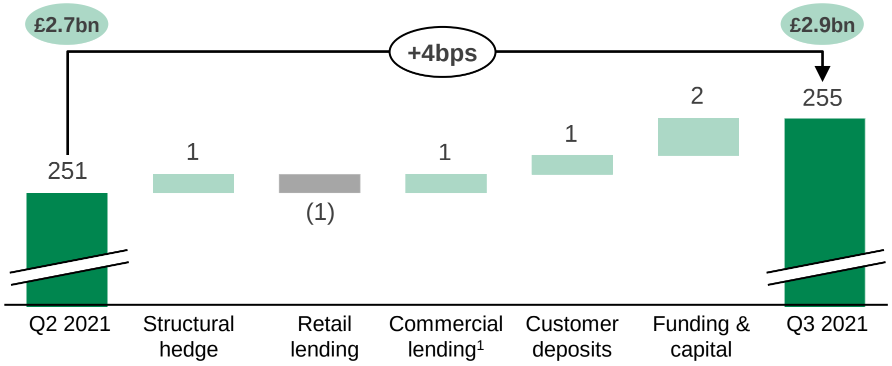
1 – Includes Unsecured loans, Overdrafts and Europe. 2 – Retail Business Banking included within SME for reporting purposes. 3 – Corporate and Institutional Clients.

Classification: Public

Solid income performance

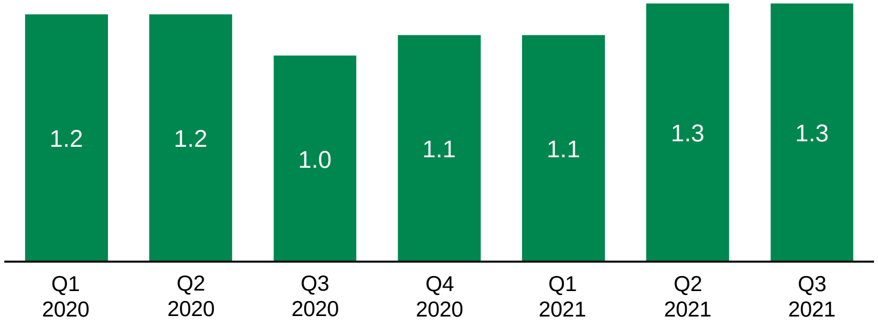
Net interest income and banking net interest margin

(£bn, bps)



Other income

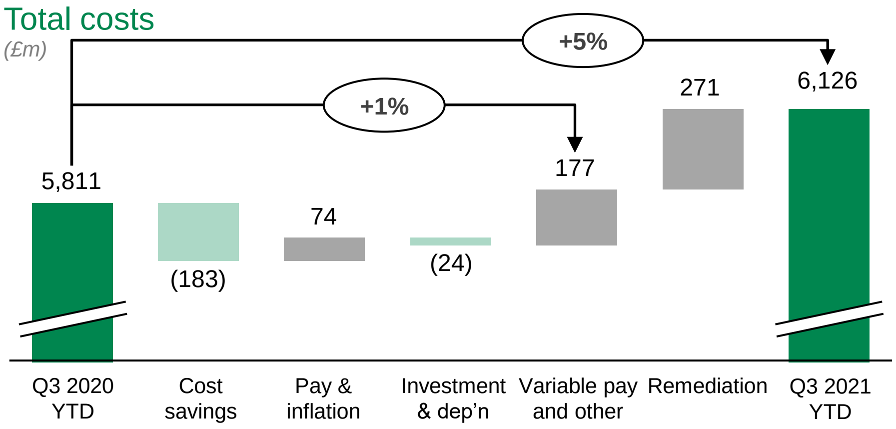
(£bn)



- **NII of £8.3bn up 2% on prior YTD; Q3 at £2.9bn, up 4% on Q2**
  - NIM 255bps in Q3, up 4bps on Q2
- **Now expect 2021 NIM to be modestly above 250bps**
- **Other income of £3.8bn YTD and £1.3bn in Q3**
  - Customer activity gradually building
  - Q3 benefits from strong contribution from Lloyds Development Capital, c.£100m above typical run rate
- **IFRS17 accounting change will have neutral longer-term impact on profit, but near/medium-term OOI expected to be lower from 2023**
  - Economic value of insurance business is unchanged
  - No impact expected on Group capital or ability to upstream insurance dividends

1 – Retail Business Banking shown in Commercial.

Continued focus on efficiency



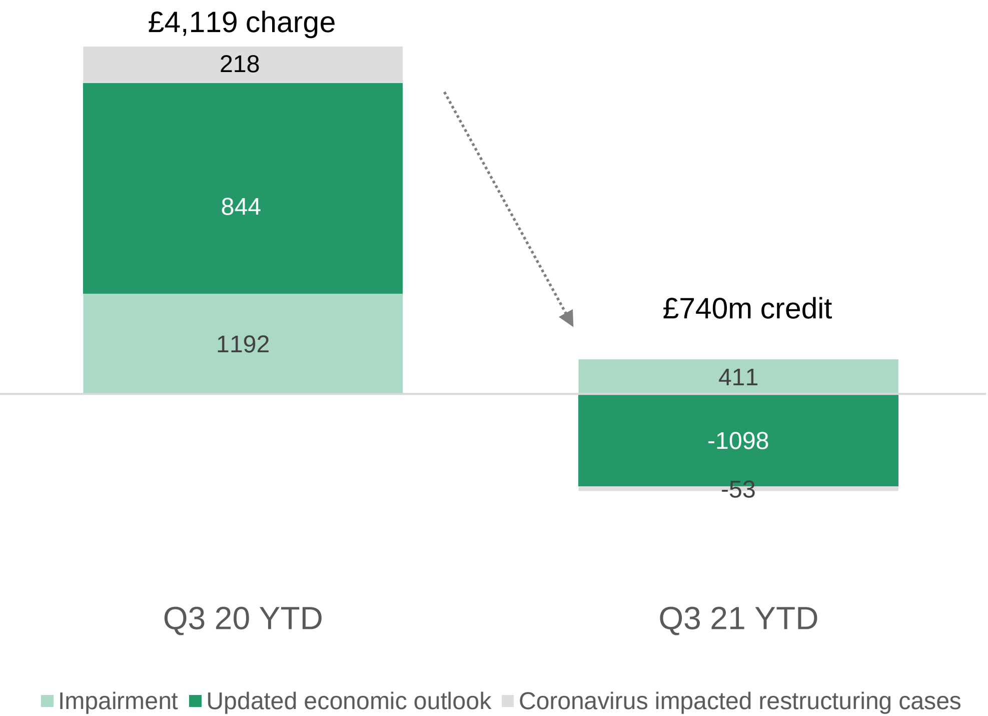
Below the line restructuring costs (£m)	Q3 2021 YTD	Q3 2020 YTD
Restructuring costs	**386**	288
Severance costs	***91***	*65*
Property transformation	***72***	*95*
Technology R&D	***104***	*35*
Regulatory programmes	***46***	*29*
M&A/Integration/Other	***73***	*64*

- **Sustained cost discipline with market-leading cost:income ratio of 52.6% YTD**
- **Operating costs, excluding remediation, £5.6bn year to date, up 1% on 2020**
- **Continue to expect 2021 operating costs to be circa £7.6bn**
- **On track for c.£0.9bn strategic investment in 2021**
- **Remediation of £525m year to date includes £190m redress and operational costs for HBOS Reading with £40m in Q3 given limited new panel review outcomes**
- **Below the line restructuring costs of £386m, reflecting an increase in technology R&D and severance costs**
  - Increased restructuring costs anticipated in Q4

Strong asset quality and improved macroeconomic outlook

Total impairment costs

(£m)



- **Asset quality remains strong – sustained low levels of new to arrears and underlying charges below pre-Covid levels in Retail and Commercial**
- **Q3 net impairment credit of £84m, driven by macroeconomic outlook release of £261m**
- **Stock of Expected Credit Losses reduced to £5.2bn, c.£1.0bn higher than year end 2019**
- **Covid management judgements of c.£1.2bn retained, including £400m central overlay**
- **Based on updated macroeconomic assumptions, impairment now expected to be a net credit for 2021**

Well positioned to continue delivering for all stakeholders

OUR PURPOSE

Helping Britain Prosper

OUR FOCUS IN 2021

Helping Britain Recover

- **Ongoing support for customers whilst Helping Britain Recover**
- **Strong progress on Strategic Review 2021 priorities**
- **Continued business momentum and solid financial performance**
- **Strong capital position, underpinned by ongoing strong capital build**
- **2021 guidance enhanced**
  - Net interest margin now expected to be modestly above 250bps
  - Operating costs expected to be circa £7.6bn
  - Impairment now expected to be a net credit for the year
  - RoTE now expected to be over 10%, excl. c.2.5pp benefit from tax rate changes
  - RWAs in 2021 expected to be below £200bn
- **Updated interest rate sensitivity analysis**
- **Continue to target a return on tangible equity in excess of the Group's cost of equity in the medium-term**
- **Strategic update to be provided in February**

Questions and Answers