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

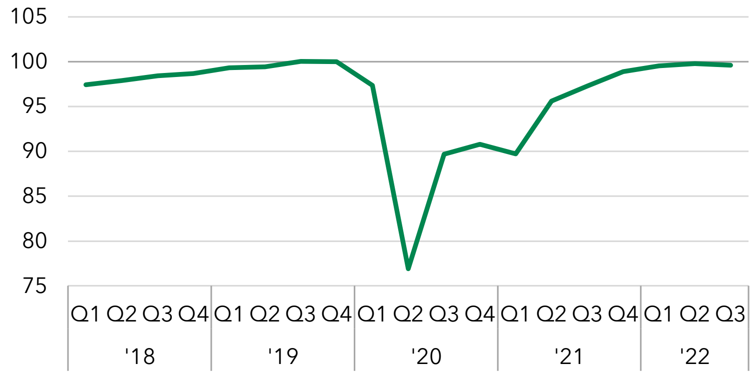
Andrew Pipe, Head Economist

Classification: Public

Better UK economic recovery than assumed

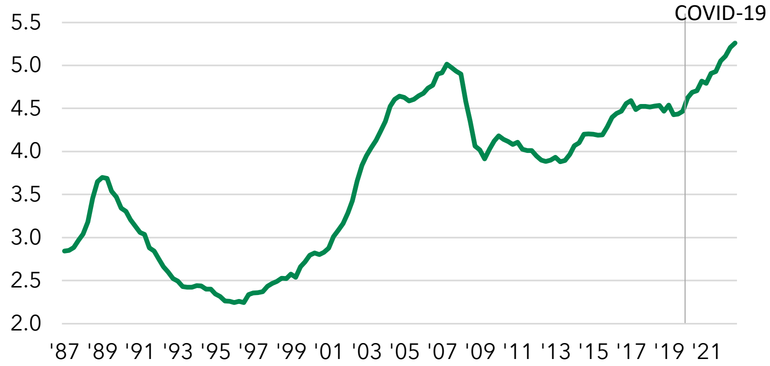
Real-terms GDP[1]

(index, 2019Q4 = 100)



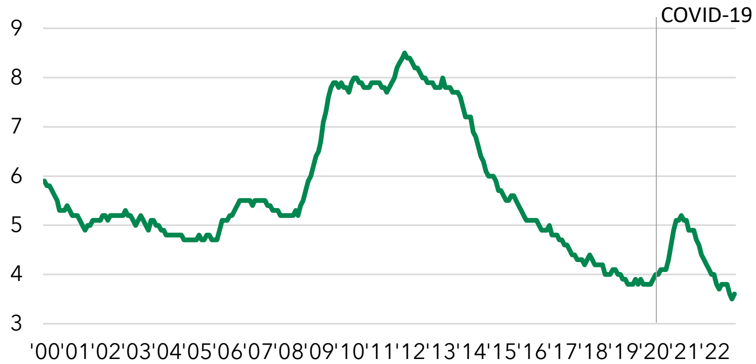
UK average house price[3]

(multiple of average household disposable income)



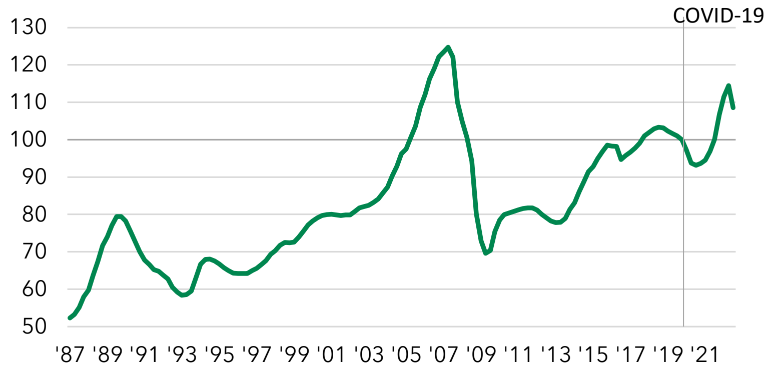
Unemployment rate[2]

(%)



UK Commercial Real Estate prices[4]

(index, 2019Q4 = 100)

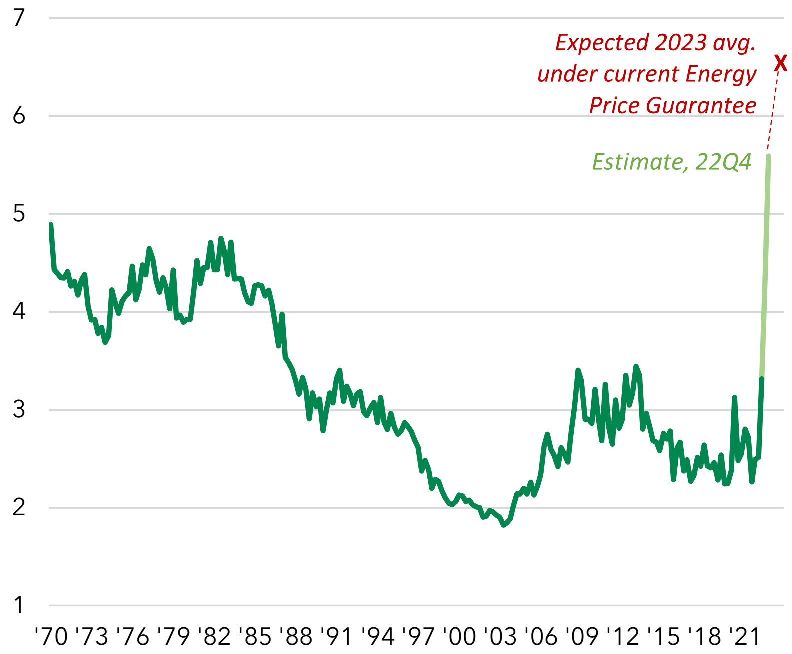


1 – Source ONS; LBG calculations. 2 – Source ONS. 3 – Source, ONS, Halifax; LBG calculations. 4 – Source IPD; LBG calculations. All charts via Refinitiv/Datastream.

But war & energy crisis now pushing economy into recession

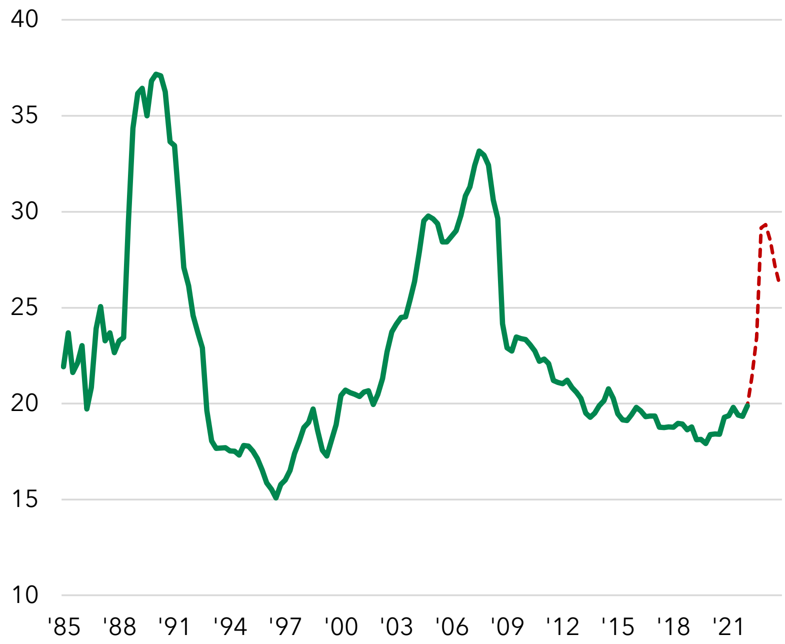
Households' spending on housing energy[1]

(% of total households' spending)



Mortgage payment for average buyer at 75% LTV[2]

(% of household disposable income)

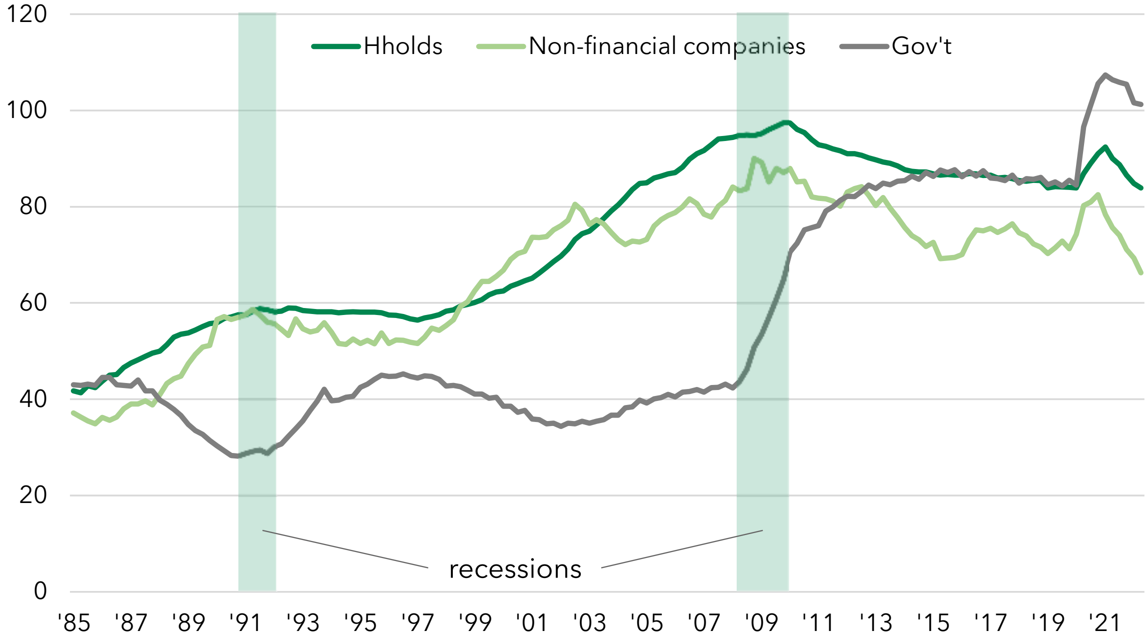


1 – Source ONS; LBG calculations, and estimates for 22Q3 and 22Q4. 2 – Source ONS, Bank of England; LBG calculations and forecasts. All charts via Refinitiv/Datastream.

Different debt problem to previous recessions

Debt level[1]

(% 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

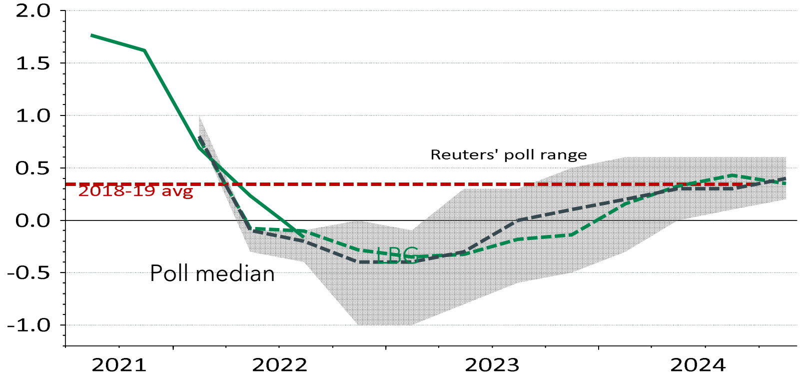
1 - Source BIS; via Refinitiv/Datastream.

Classification: Public

Prudent forecast at Q3

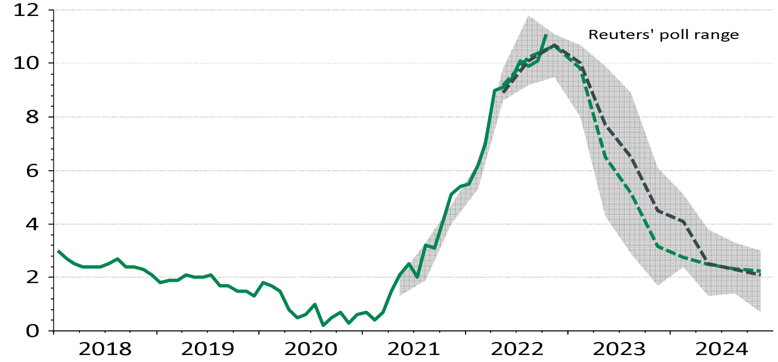
Real-terms GDP[1]

(one-quarter % change)



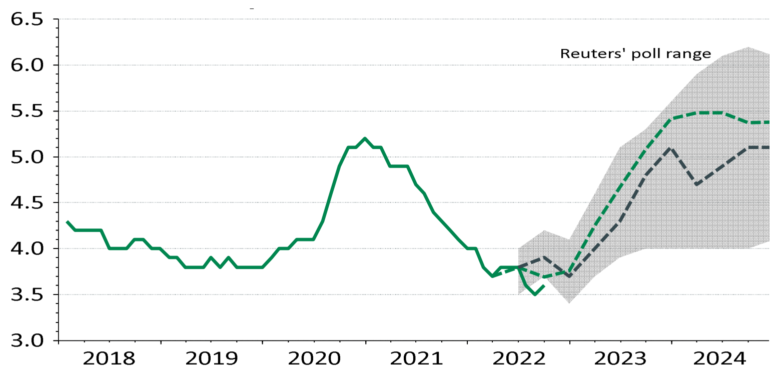
UK CPI inflation[3]

(%, quarter average)



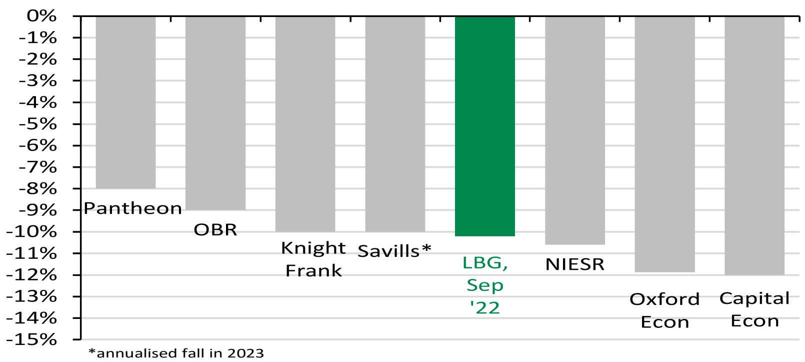
Unemployment rate[2]

(%, quarter average)



UK house prices[4]

(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

Classification: Public

Business and financial update

Douglas Radcliffe, Group Investor Relations Director

Classification: Public

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

1 **Deepen and innovate in Consumer**

2 **Create a new mass affluent offering**

3 **Digitise and diversify our SME business**

4 **Target our Corporate and Institutional offering**

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

Classification: Public

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 191bps[3] YTD; CET1 ratio 15.0%

1 – Comparatives have been presented to reflect the new costs basis, consistent with the current period. 2 – Q4 2021 comparative reflects the regulatory changes on 01/01/2022, Insurance dividend and the full impact of the 2022 share buyback. 3 – Excluding regulatory changes on 01/01/2022, variable pension contributions and ordinary dividends.

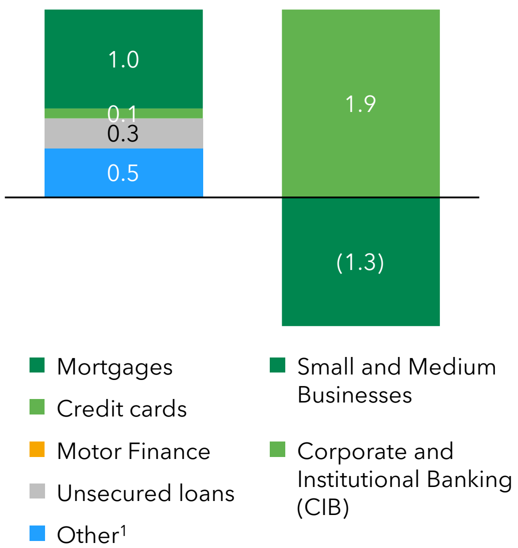
Ongoing strength in customer franchise

Q3 lending change

(£bn)

Retail
+£1.9bn/0.5%

Commercial
+£0.6bn/0.6%

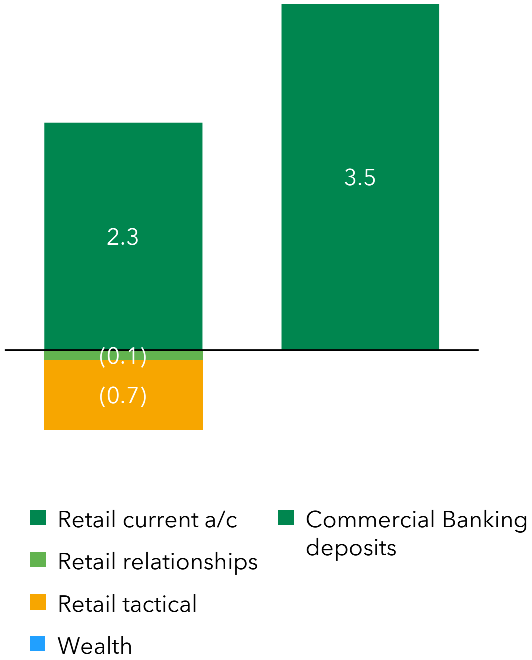


Q3 deposit change

(£bn)

Retail
+£1.5bn/0.5%

Commercial
+£3.5bn/2.1%



- 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

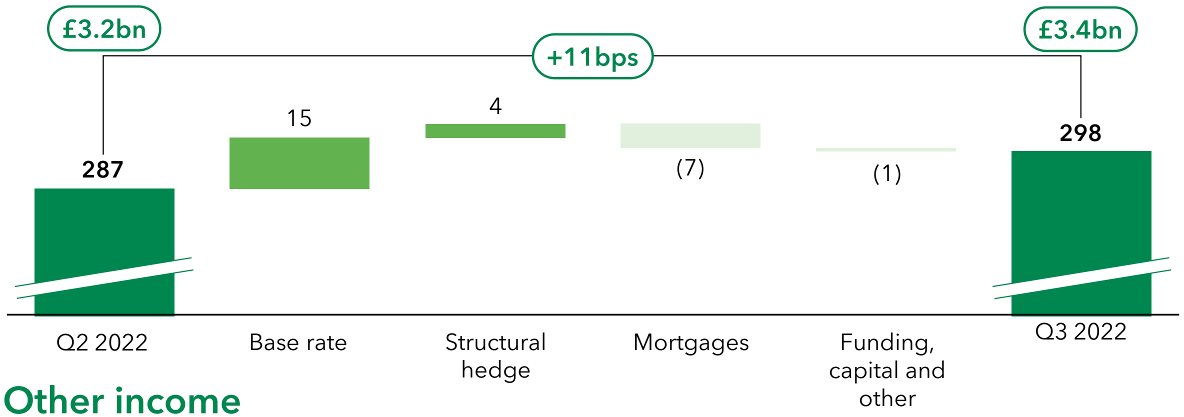
1 – Includes Overdrafts, Europe and Wealth.

Classification: Public

Continued income growth

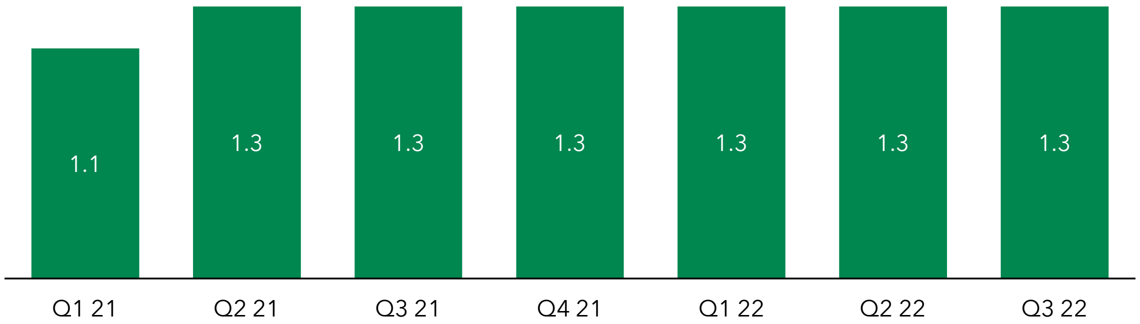
Net interest income (NII) and banking net interest margin (NIM)

(£bn, bps)



Other income

(£bn)

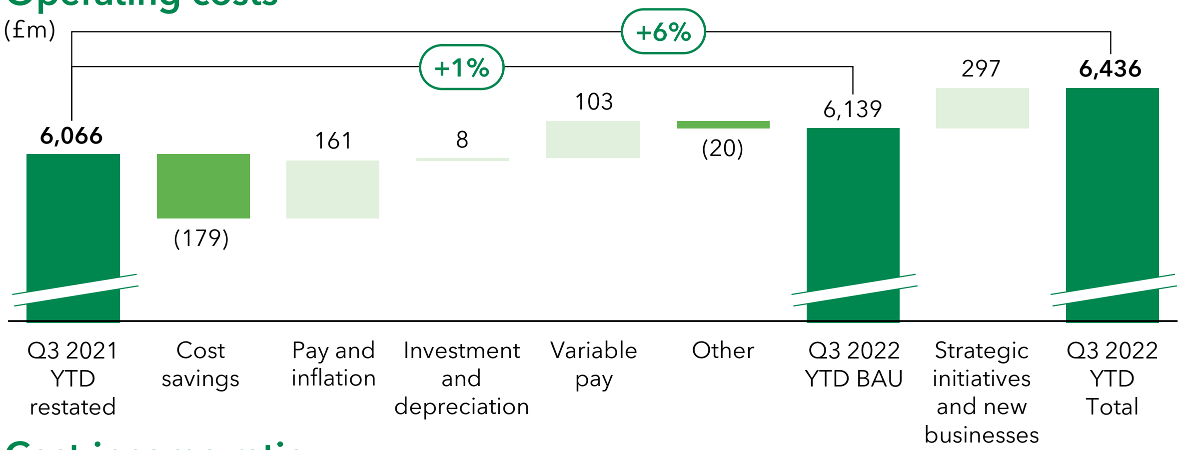


- NII £9.5bn YTD, up 15% on prior year
  - Stronger Q3 NIM 298bps given base rate movements, hedge earnings and robust balance growth
  - Competitive mortgage market and volatile swap rates; Q3 average completion margin c.60bps
  - Fully hedged nominal balance of £250bn with WAL c.3.5 years, £31bn buffer
  - 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

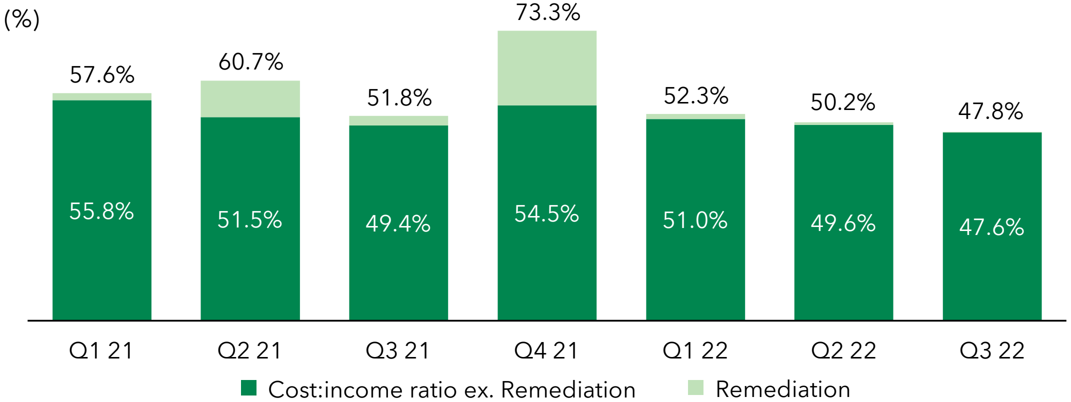
1 – Illustrative interest rate sensitivity; based on the assumptions shown in the appendix on slide 12.

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

Classification: Public

Strong observed asset quality; updated economic scenarios

Impairment[1]

(£m)	Q3 2022 YTD	Q3 2022
Charge/(credit) pre-updated MES[2]	**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 levels[3]

(%)		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

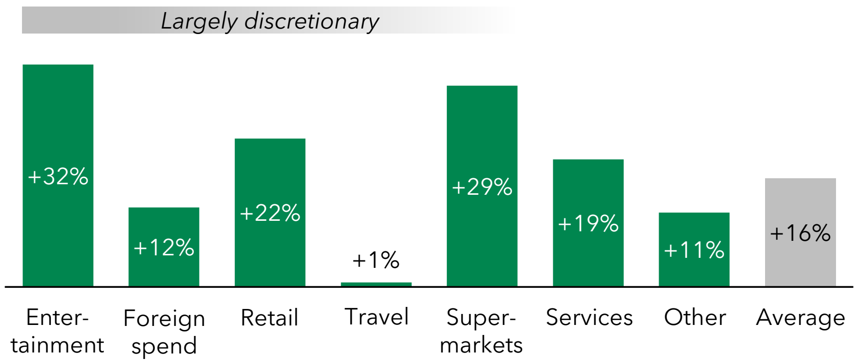
1 – Impairment charges for Retail, Commercial Banking and Other reflect the new organisation structure; comparatives have been presented on a consistent basis. 2 – Impairment charges absent the impact from updated economic outlook, thus reflecting only observed movements in credit quality. Coronavirus 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.

Classification: Public

Resilient customer behaviour

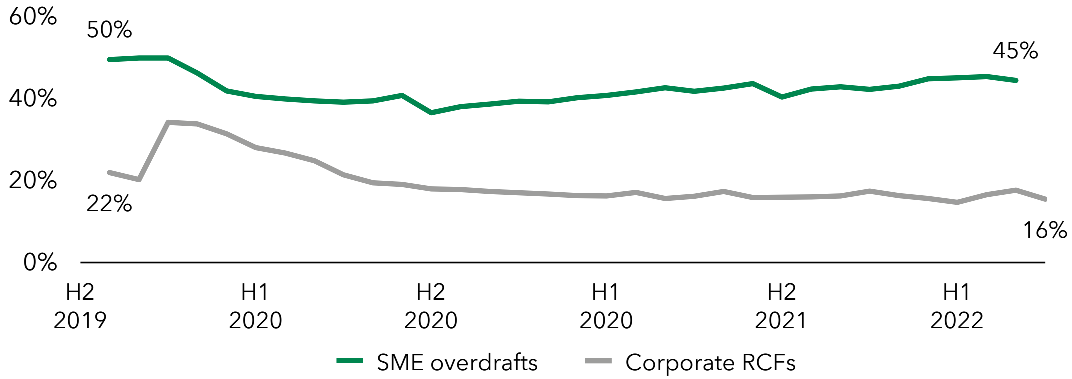
Increased credit card spend in discretionary categories

(% change, September 2022 vs September 2019)



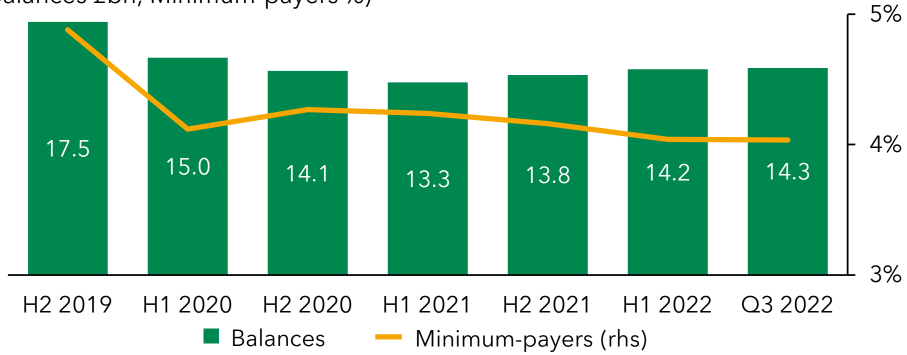
SME overdraft and corporate RCF[2] utilisation stable

(%)

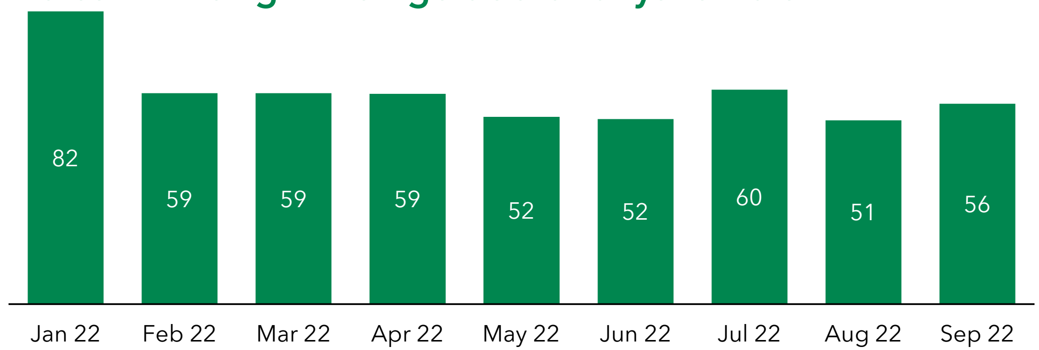


Credit card regular minimum-payers stable[1]

(Balances £bn, Minimum-payers %)



Invoice financing – average debtor days[3] 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

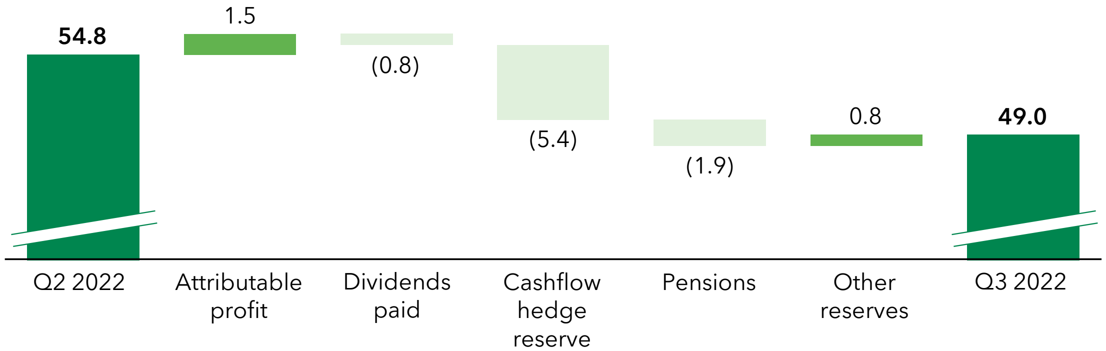
Statutory profit

(£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)

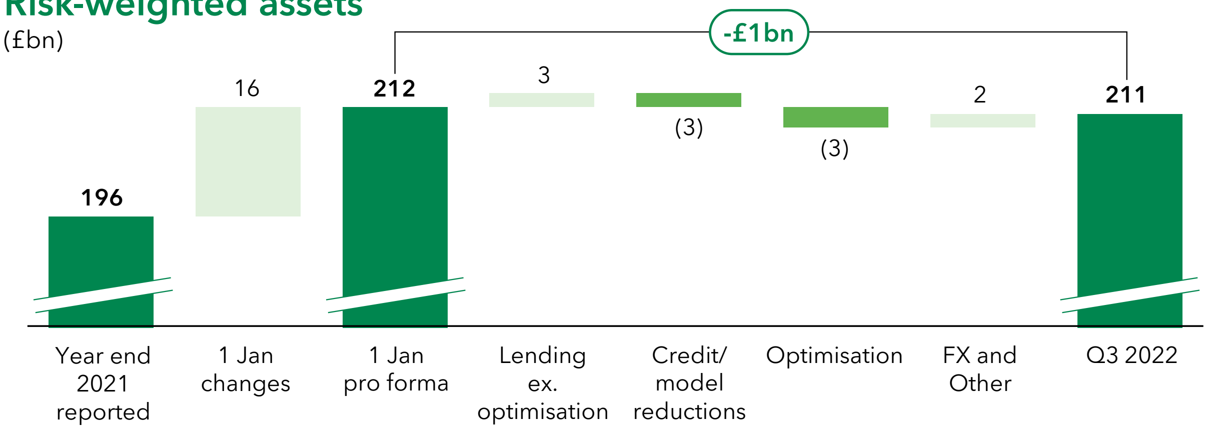


- Underlying and statutory profit converging following year end 2021 reporting changes
- Restructuring costs £69m, including Embark integration costs
- Negative market volatility impacts in Q3 alongside usual fair value unwind
- RoTE 12.9%; continue to expect 2022 RoTE to be c.13%
- TNAV 49.0p, down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

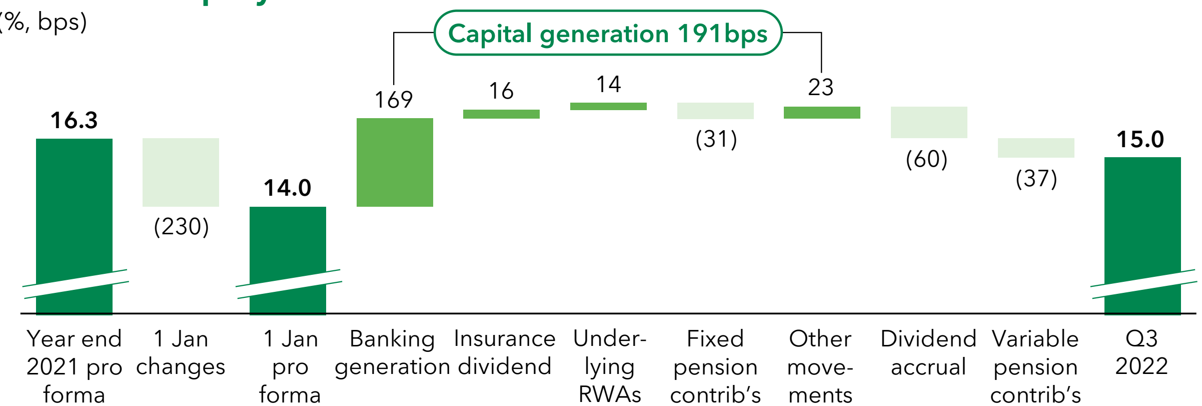
Classification: Public

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 programme[1]; >4.5bn shares bought, >6% of issued share capital
- Continue to expect 2022 RWAs c.£210bn
- Expect 2022 capital generation 225-250bps

1 - On 11/10/2022.

Robust performance, confidence in continued delivery

Helping Britain Prosper

- Maintaining support for customers
- Strong observed asset quality and stable credit trends
- Robust financial performance and revised economic outlook driving updated guidance for 2022

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

Classification: Public

Q&A

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