ShareSoc webinar

Lloyds Banking Group
5 December 2023

Welcome and introduction

Douglas Radcliffe, Group Investor Relations Director

Economic update

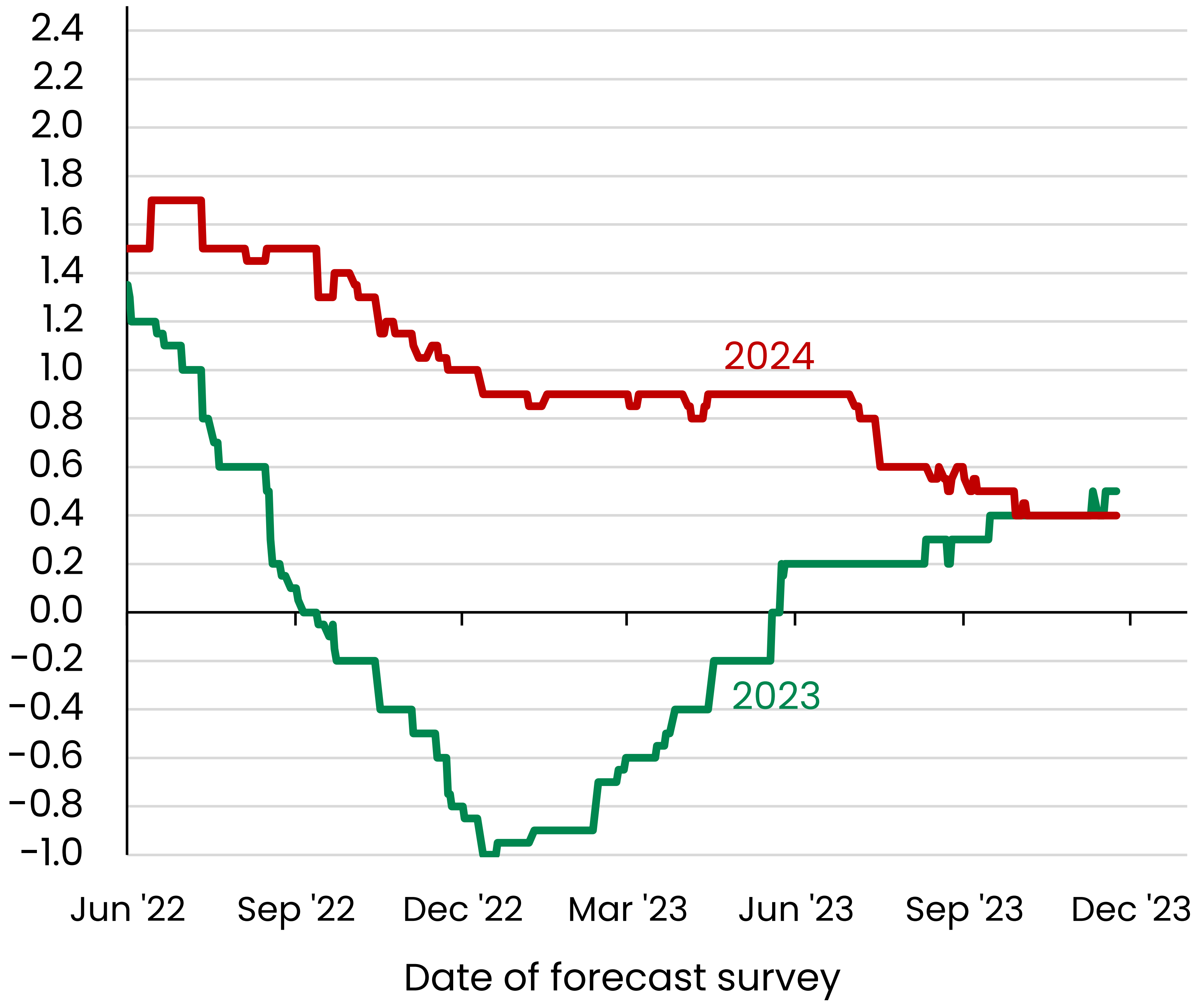
Andrew Pipe, Head Economist

Classification: Public

UK economy has proved resilient

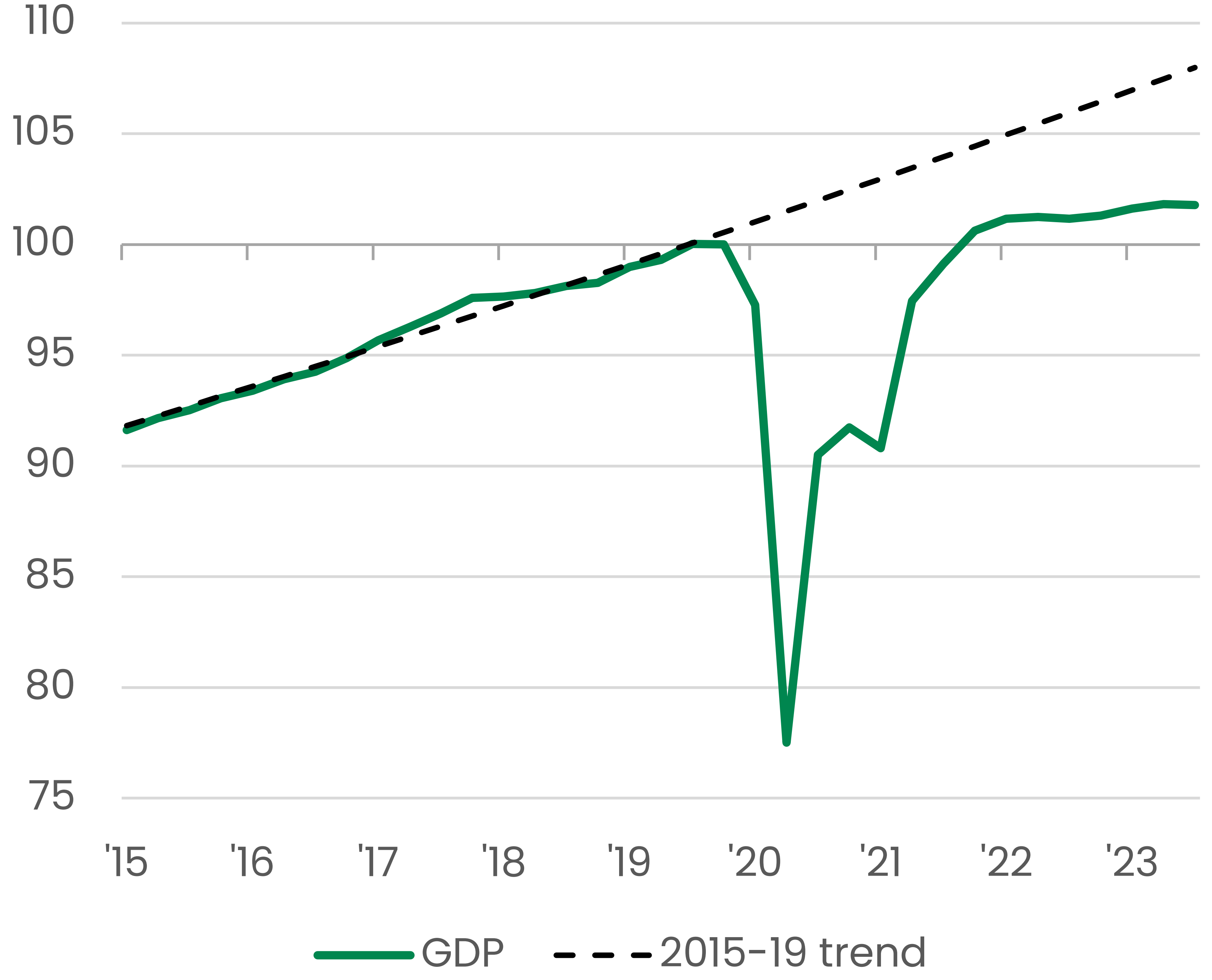
Consensus forecasts for UK GDP growth[1]

% change vs previous year, year average



UK GDP[2]

index, 2019 Q4 = 100

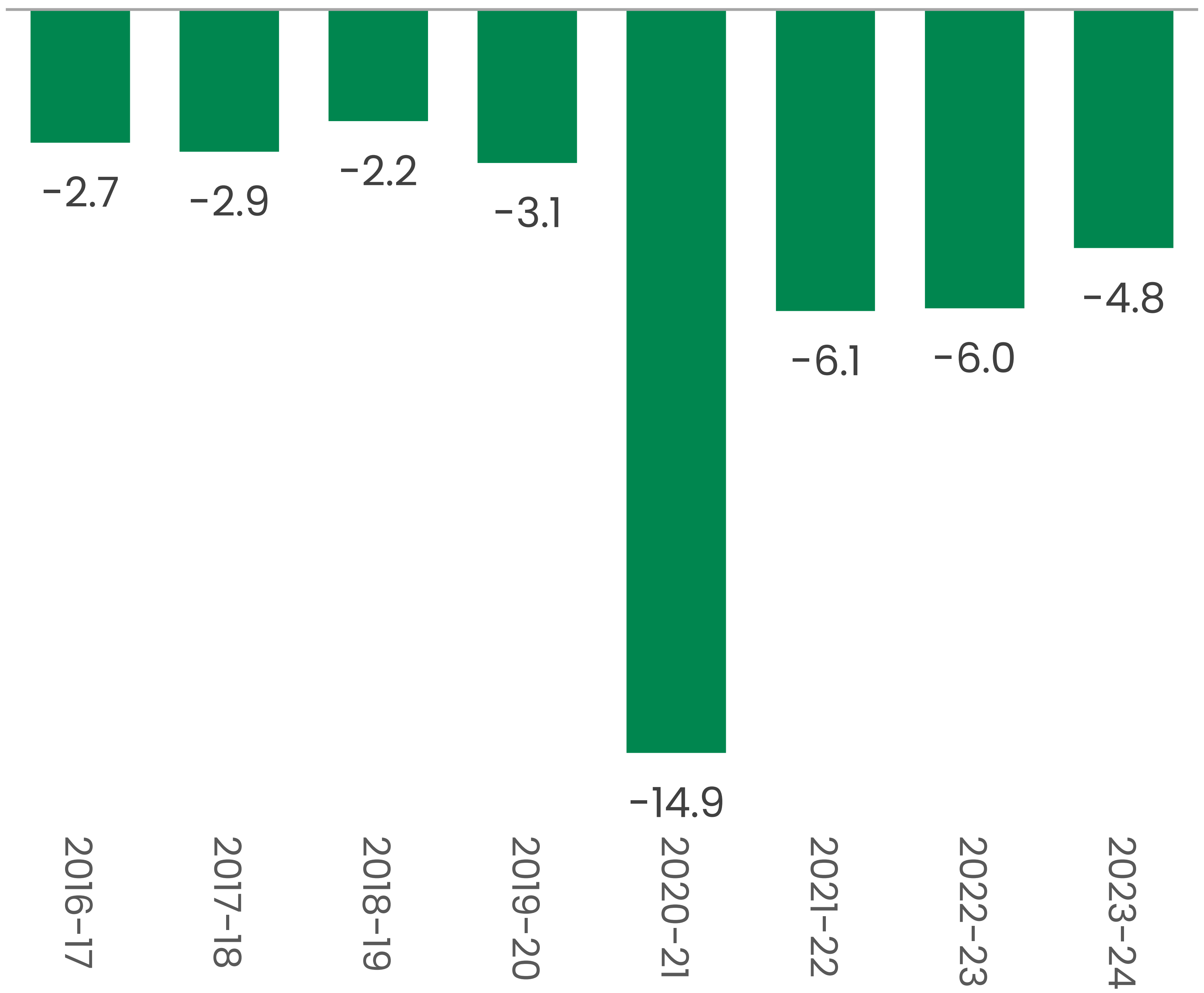


1 – Source Bloomberg. Latest survey date 13 Nov 2023; 2 - Source ONS, via Refinitiv Datastream, LBG calculations

Government support to households has been key

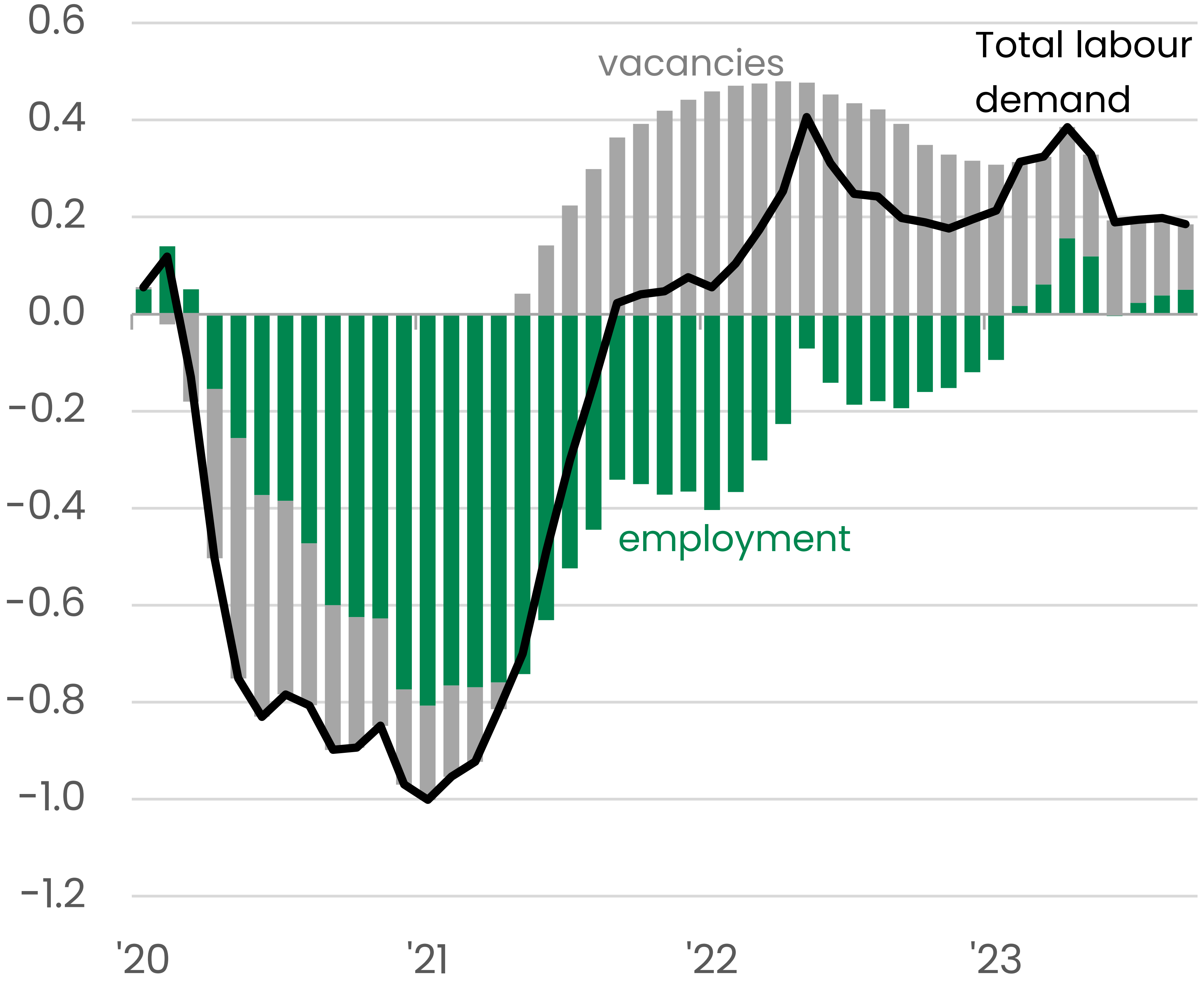
UK government financial balance[1,2]

Cyclically adjusted, % of GDP



Labour market demand[1]

Change in levels since Dec 2019, millions

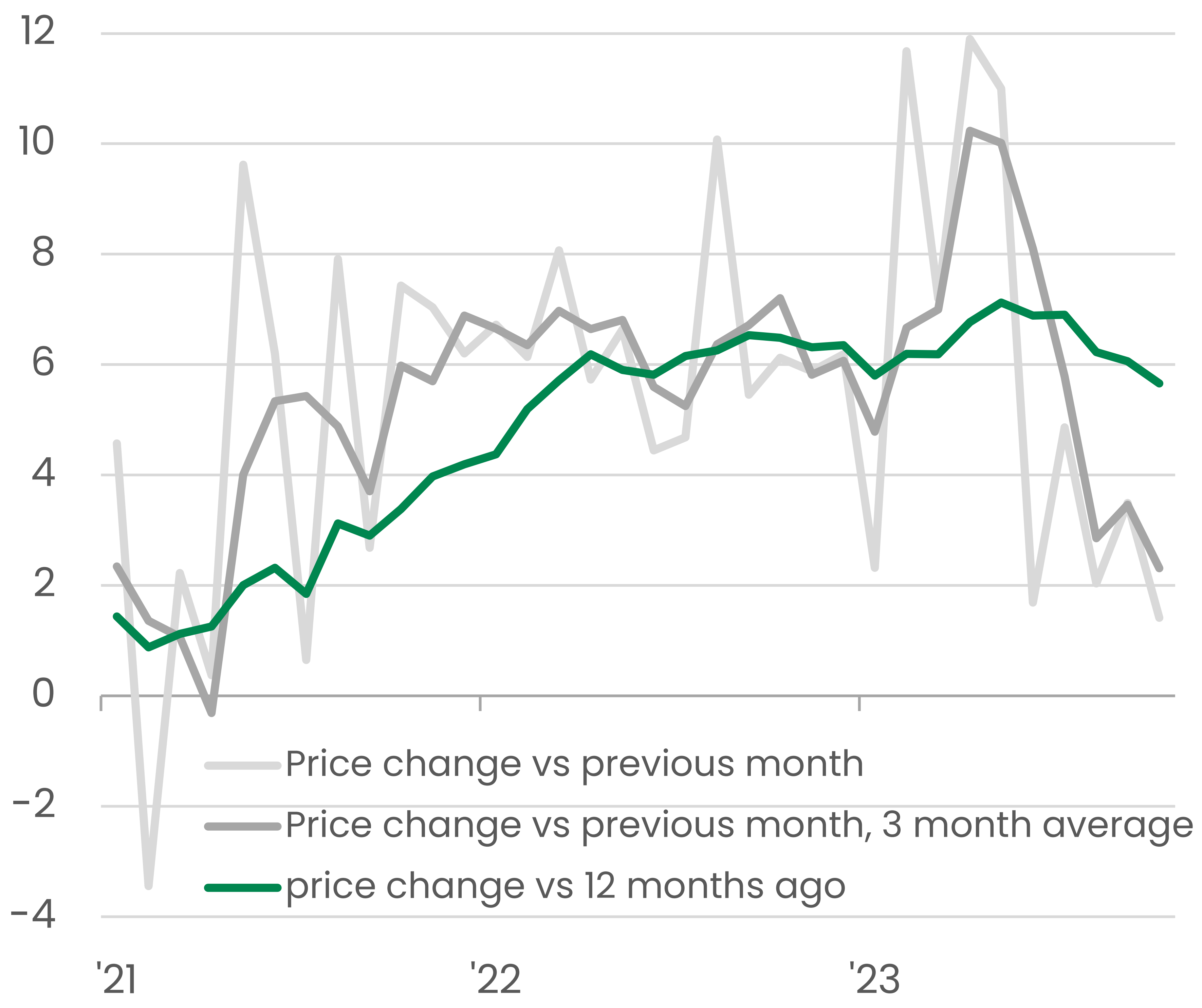


1 – Source ONS, via Refinitiv Datastream, LBG calculations; 2 - OBR forecast for 2023/24

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

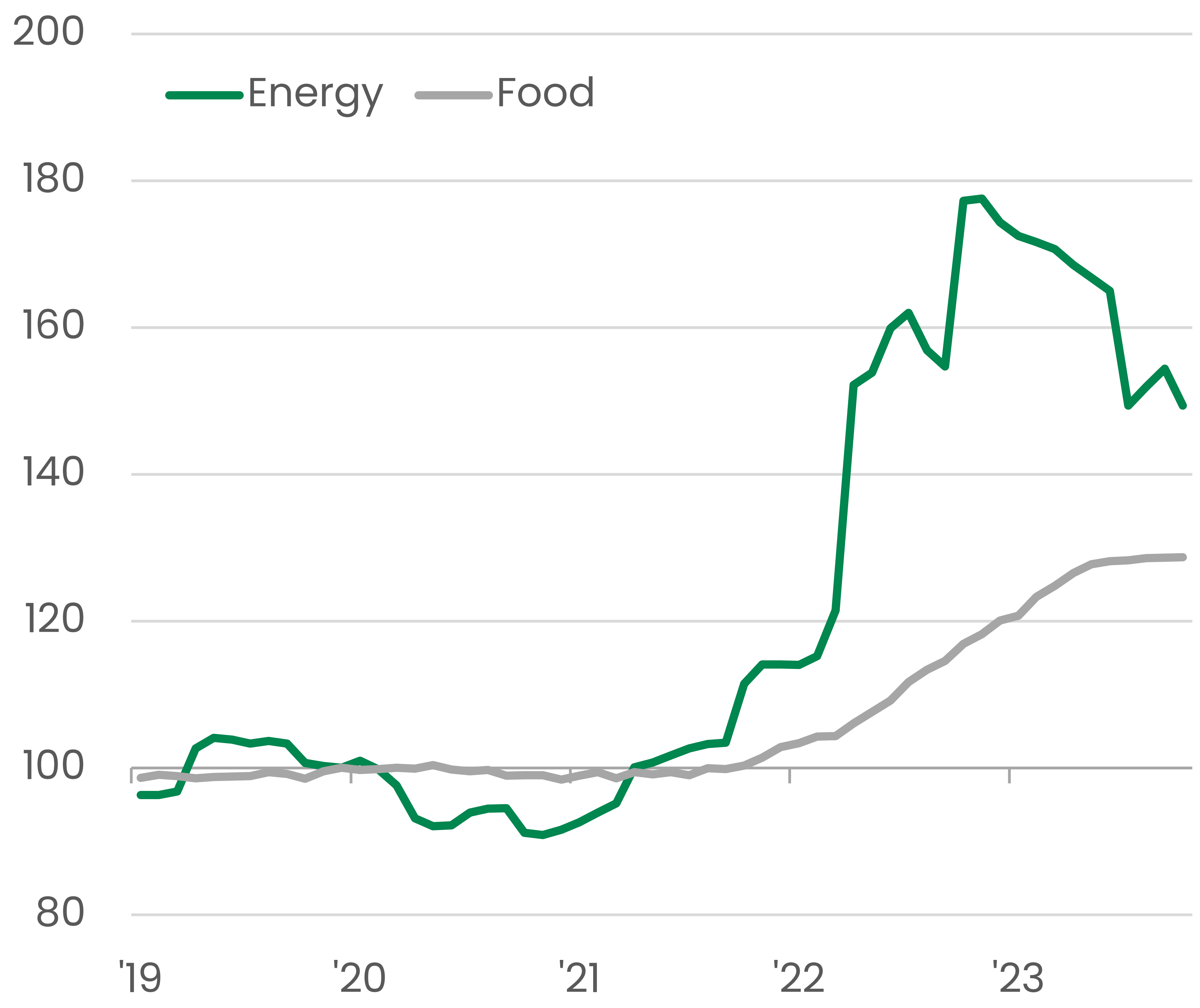
UK CPI 'core' inflation[1]

% (seasonally adjusted by LBG)



Price level of necessities[1]

Consumer price index, adjusted to Dec 2019 = 100

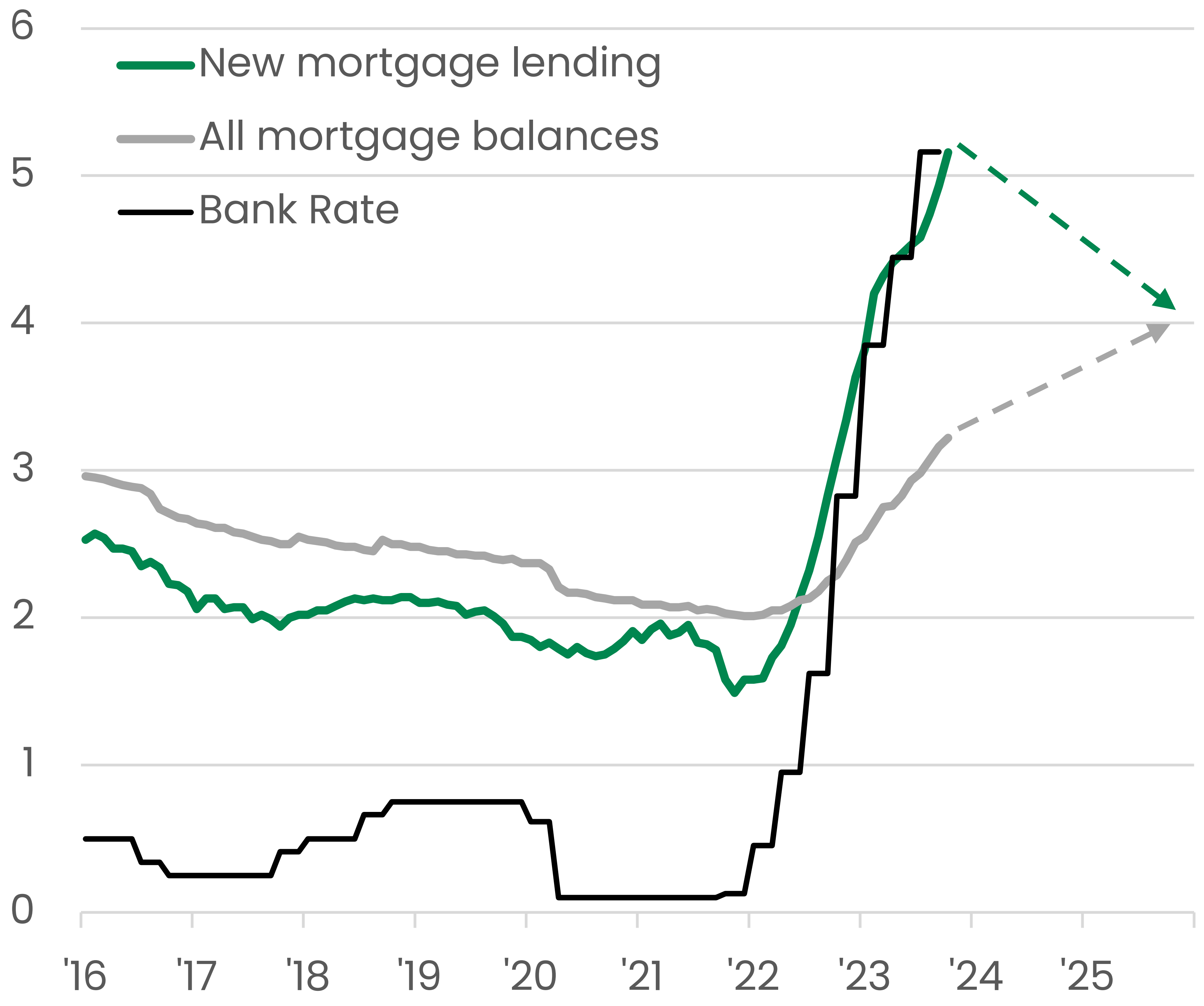


1 – Source ONS, via Refinitiv Datastream, LBG calculations

Remainder of cost-of-living squeeze still to come

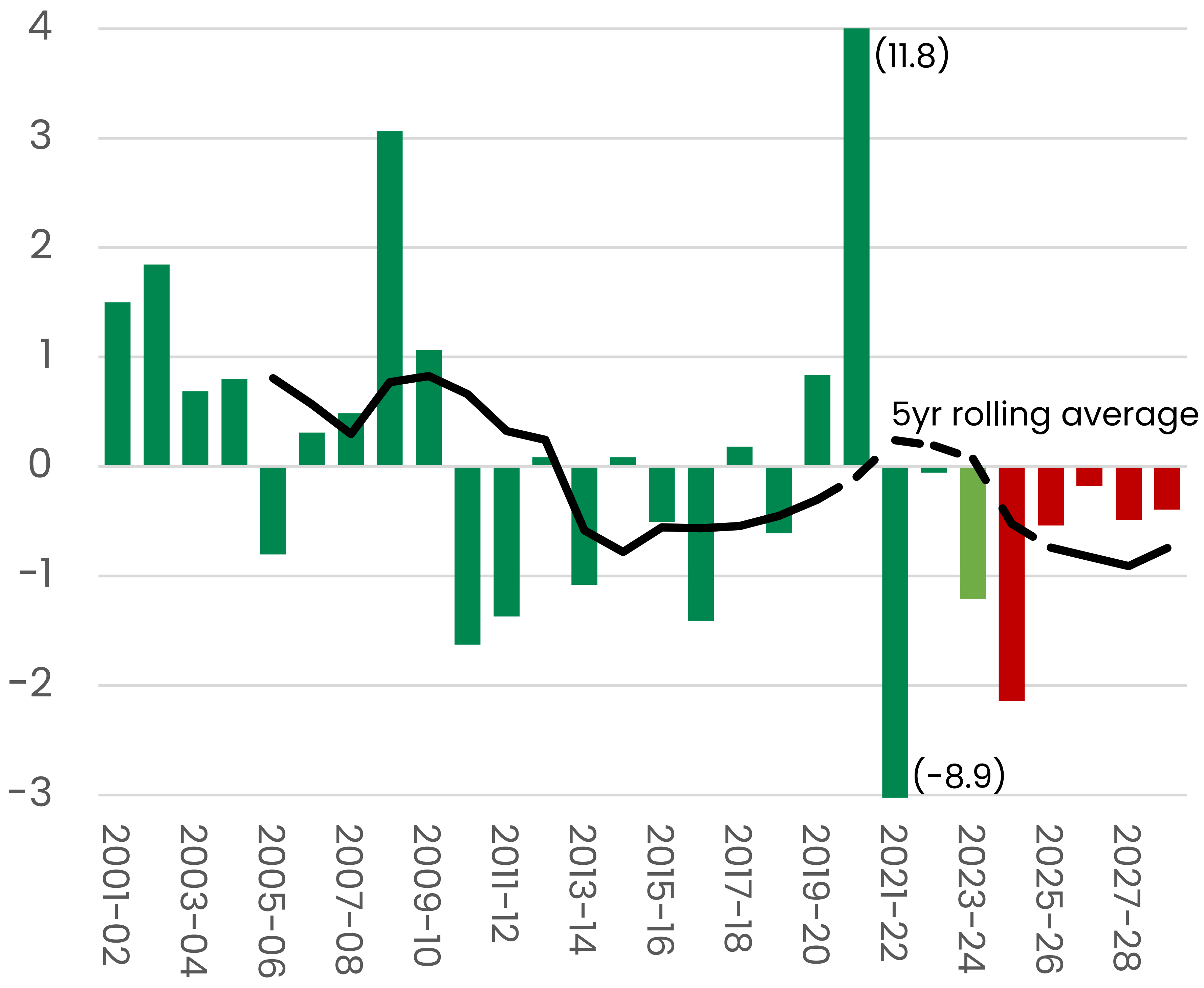
Mortgage interest rates[1]

%



Fiscal impulse[2]

% of GDP

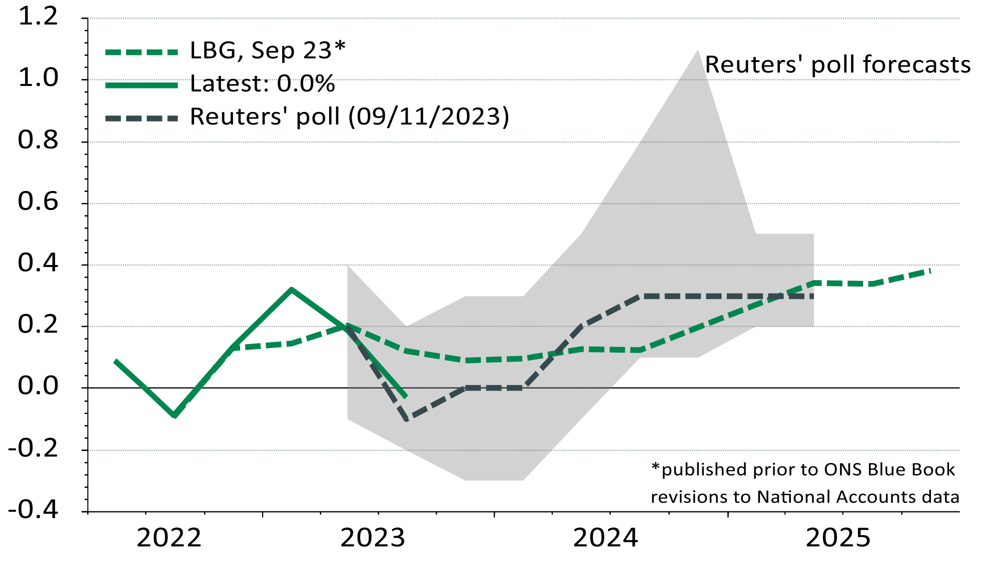


1 - Source Bank of England, LBG illustrative forecasts; 2– LBG calculations using data and forecasts from the Office for Budget Responsibility, November 2023. Year change in cyclically-adjusted public sector net borrowing; Dashed line smooths through impact of large changes in PSNB during pandemic. Y-axis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

Prudent forecast at Q3

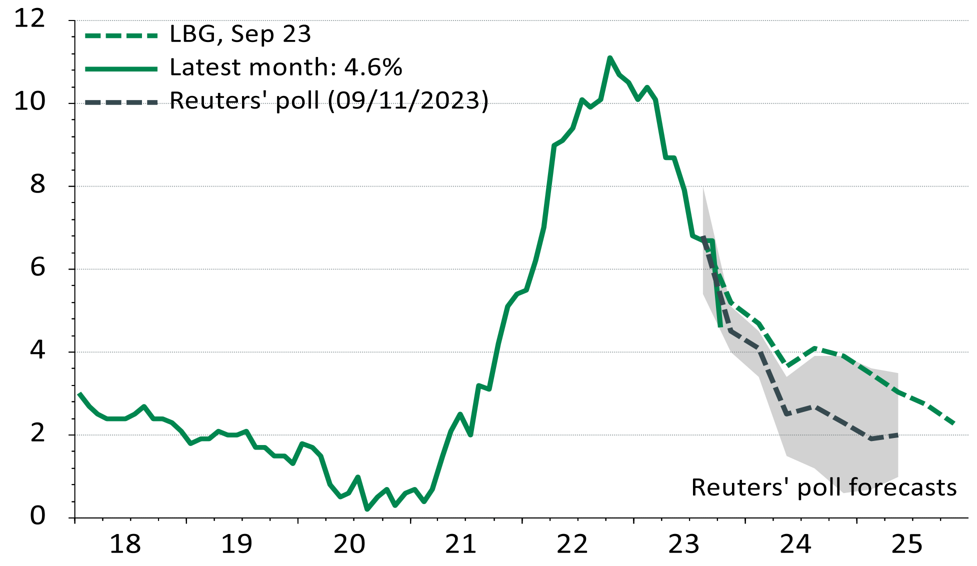
Real-terms GDP[1]

One-quarter % change



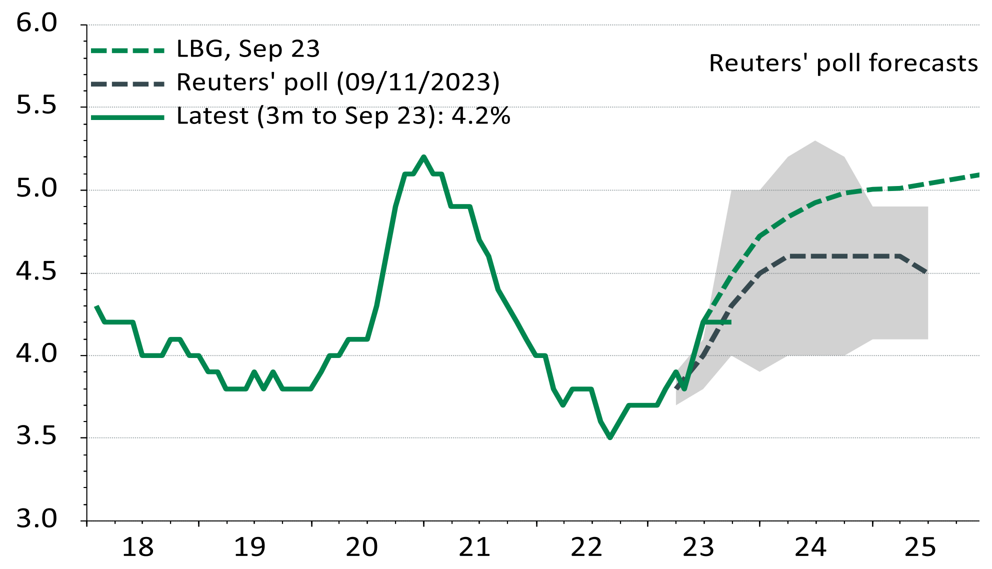
UK CPI inflation[1]

%, quarter average



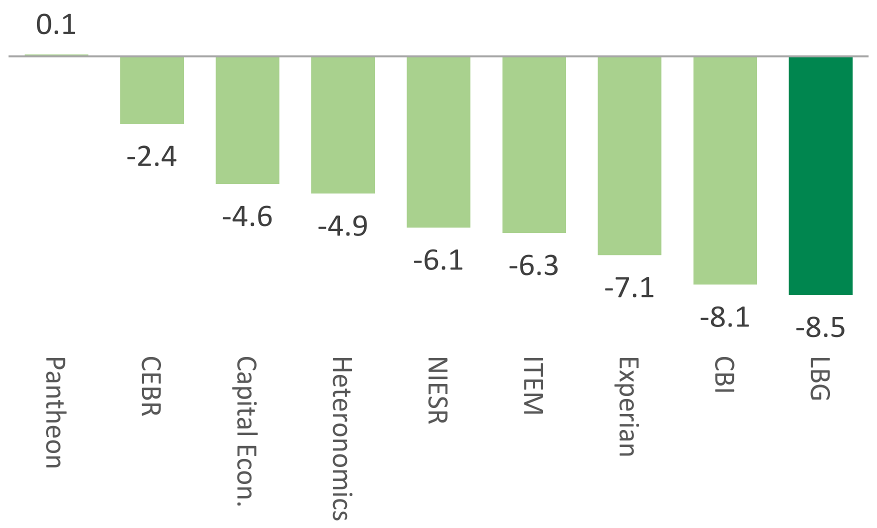
Unemployment rate[1]

%, quarter average



UK house prices[2]

% change 2022Q4 - 2024Q4



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

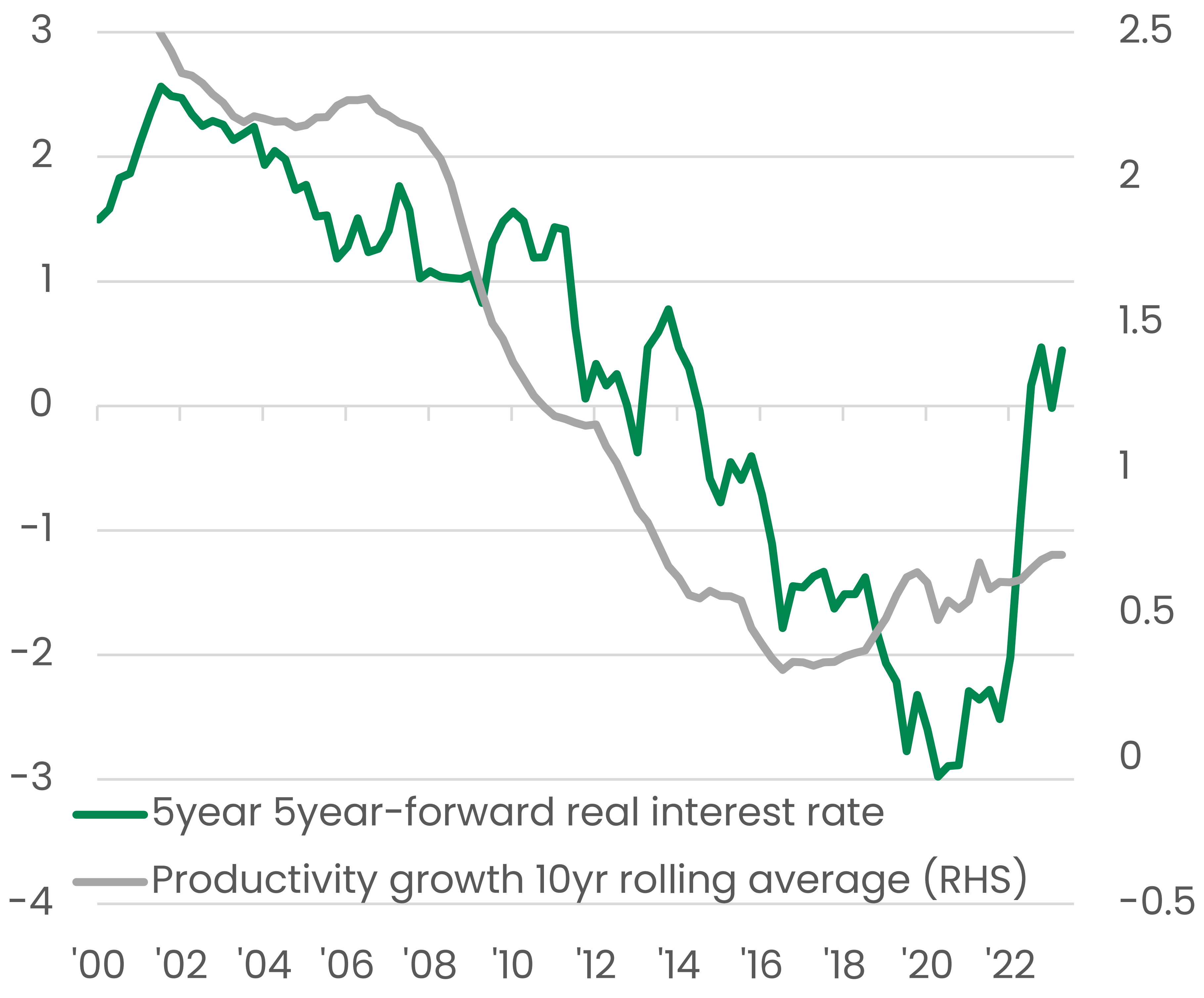
- **4.3% peak-to-trough decline in GDP**
  - -6.3% in 2008-9
- **10.5% peak in unemployment**
  - 8.5% peak in 2011
- **Inflation picks up again to 7%**
- **7.25% peak in Bank Rate**
- **42% fall in house prices**
  - -18% in 2007-9
- **53% fall in CRE prices**
  - -44% in 2007-9

1 – Source ONS, Reuters survey (22 Nov 2022), LBG; All charts via Refinitiv Datastream. 2 – Source HMT Survey of Professional Forecasters (November 2023), LBG calculations.

UK longer term prospects relatively good

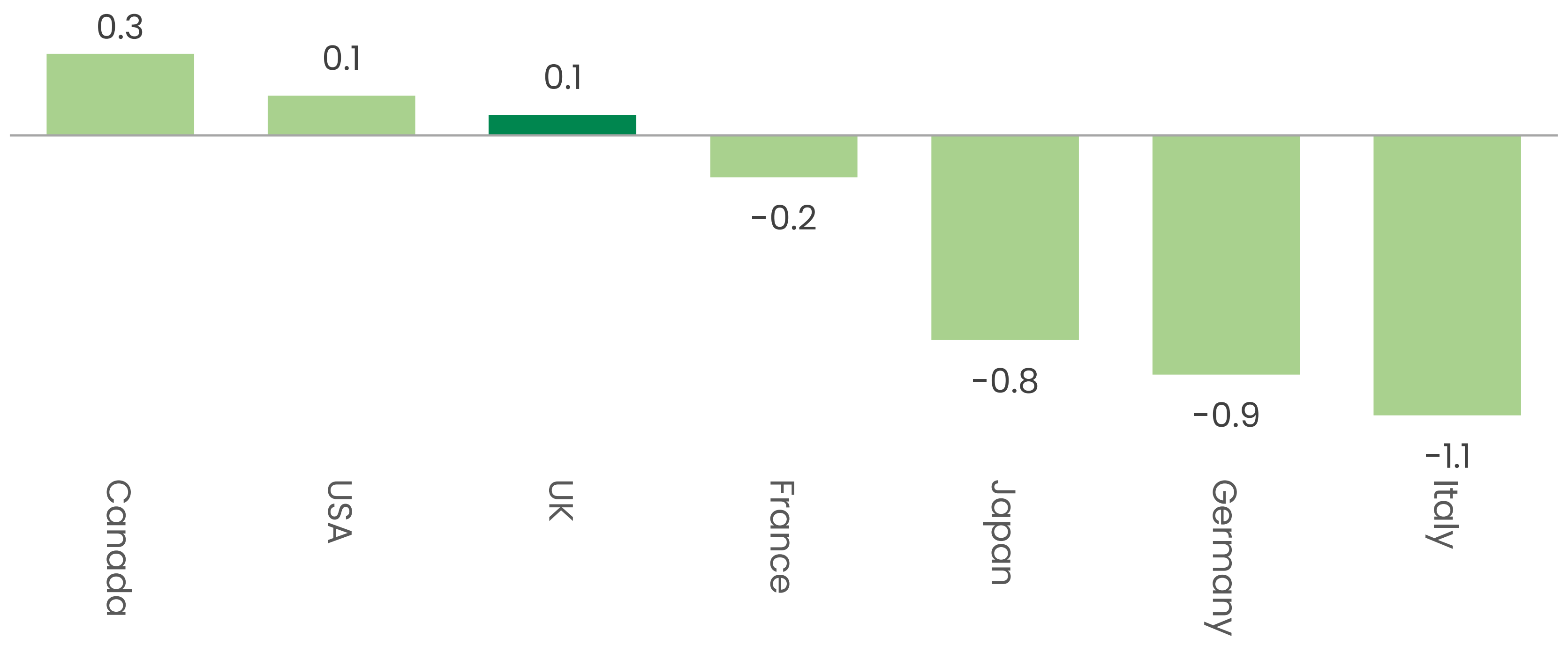
Real-terms interest rates vs productivity growth[1]

(% per year)



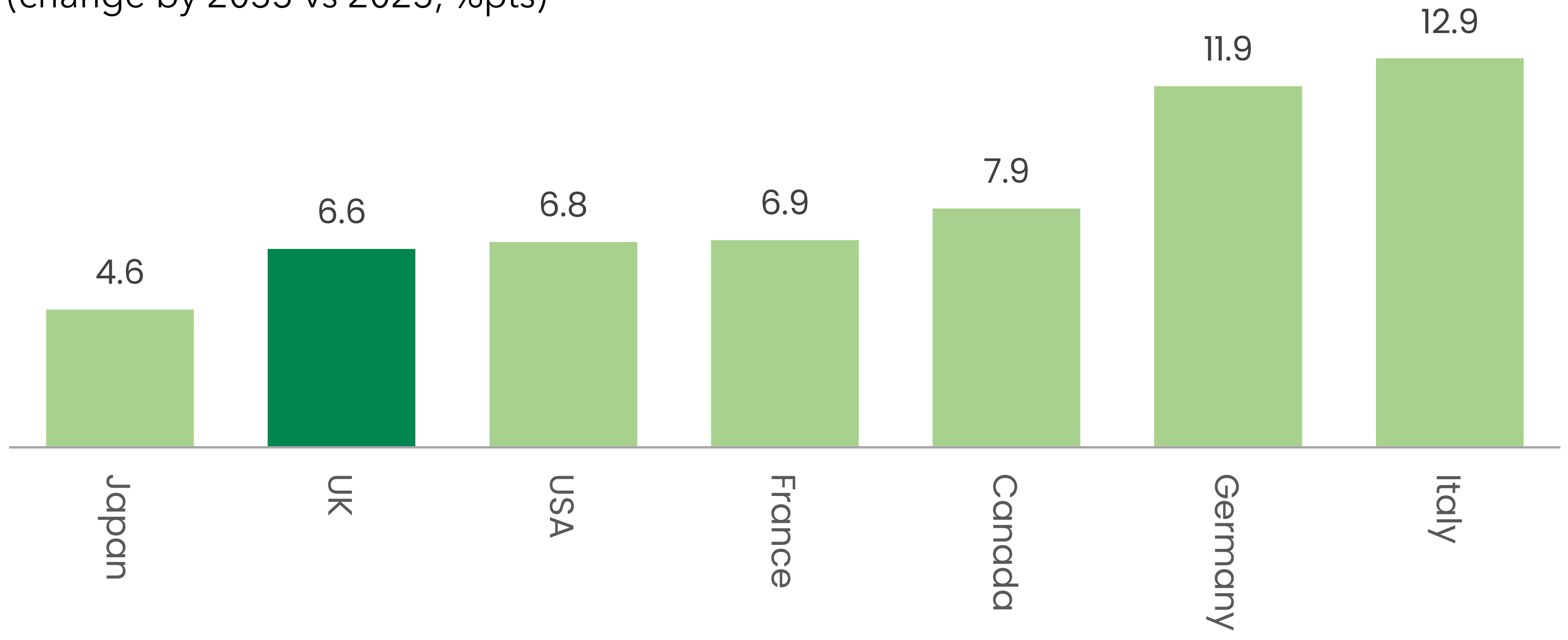
Working-age population growth forecasts[2]

(% 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	>£450bn	#1
Active customers	Loans and advances	UK distribution network

A trusted brand portfolio

Lloyds Bank, Halifax, Bank of Scotland, mbna, blackhorse, Lex Autolease, Scottish Widows

Robust financials year to date

3.15%	25bps	16.6%
Net interest margin (NIM)	Asset quality ratio (AQR)	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

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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*

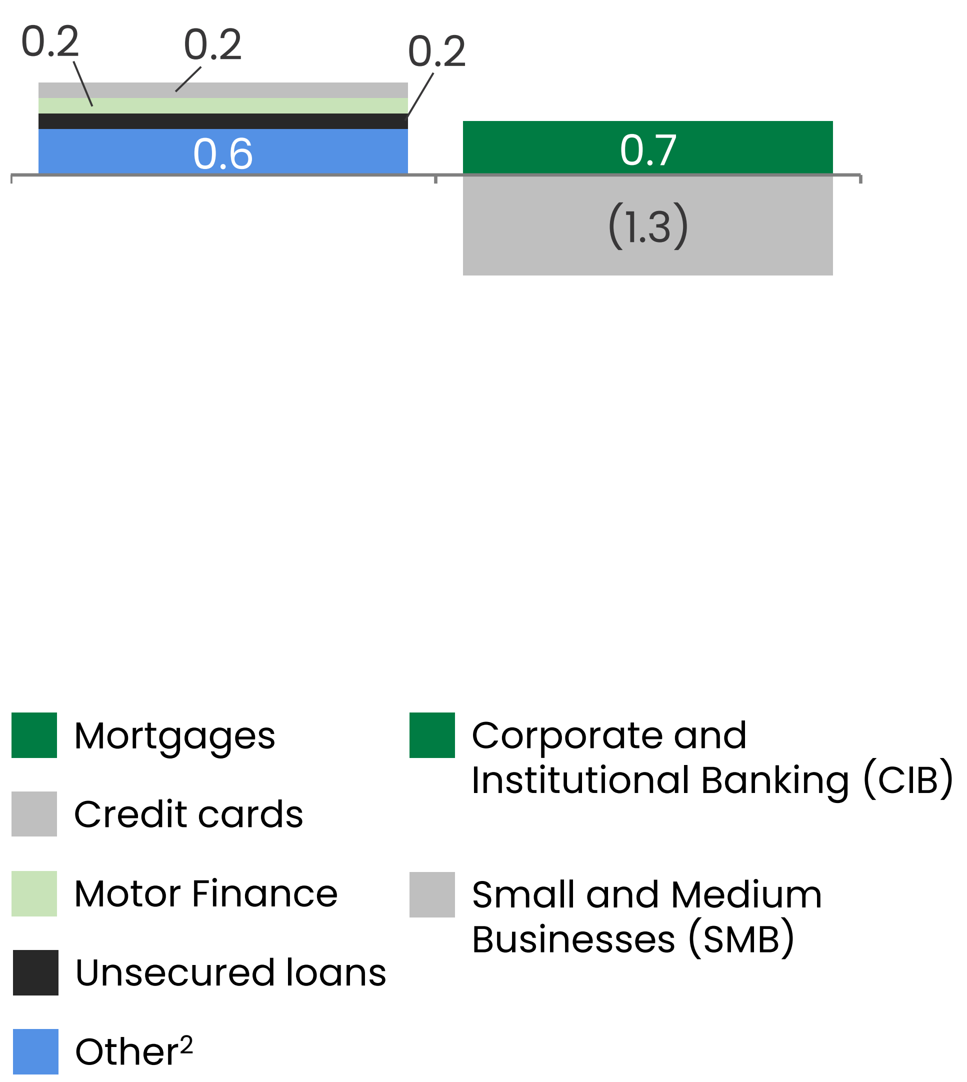
- **Statutory profit after tax £4.3bn; RoTE 16.6%**
- **Strong net income, up 7%, NIM 315bps**
- **Costs up 6% (5% ex. remediation), given investment and inflation**
- **Resilient asset quality; £849m impairment charge**
- **Strong capital generation 165bps; 129bps after regulatory headwinds; CET1 ratio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

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

Ongoing resilience in customer franchise

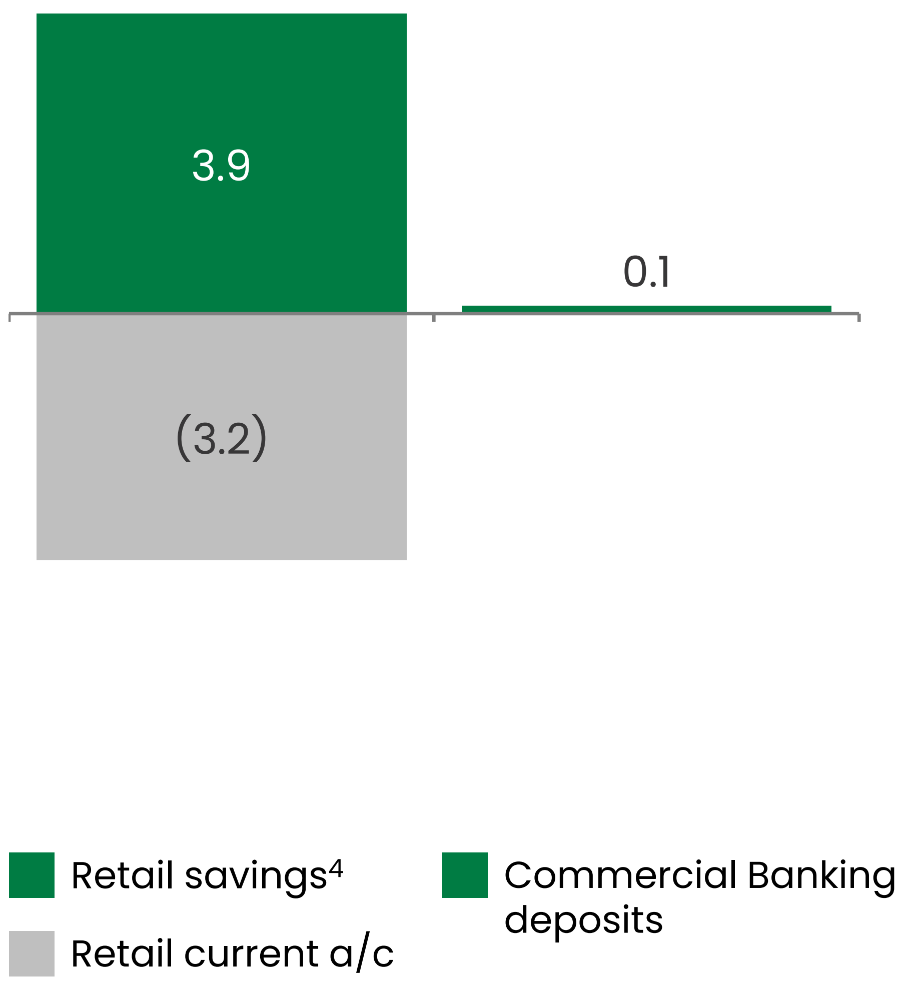
Q3 lending change[1] (£bn)

Retail	Commercial
+£1.2bn/0.3%	-£0.6bn/0.7%



Q3 deposit change[3] (£bn)

Retail	Commercial
+£0.7bn/0.2%	+£0.1bn/0.1%

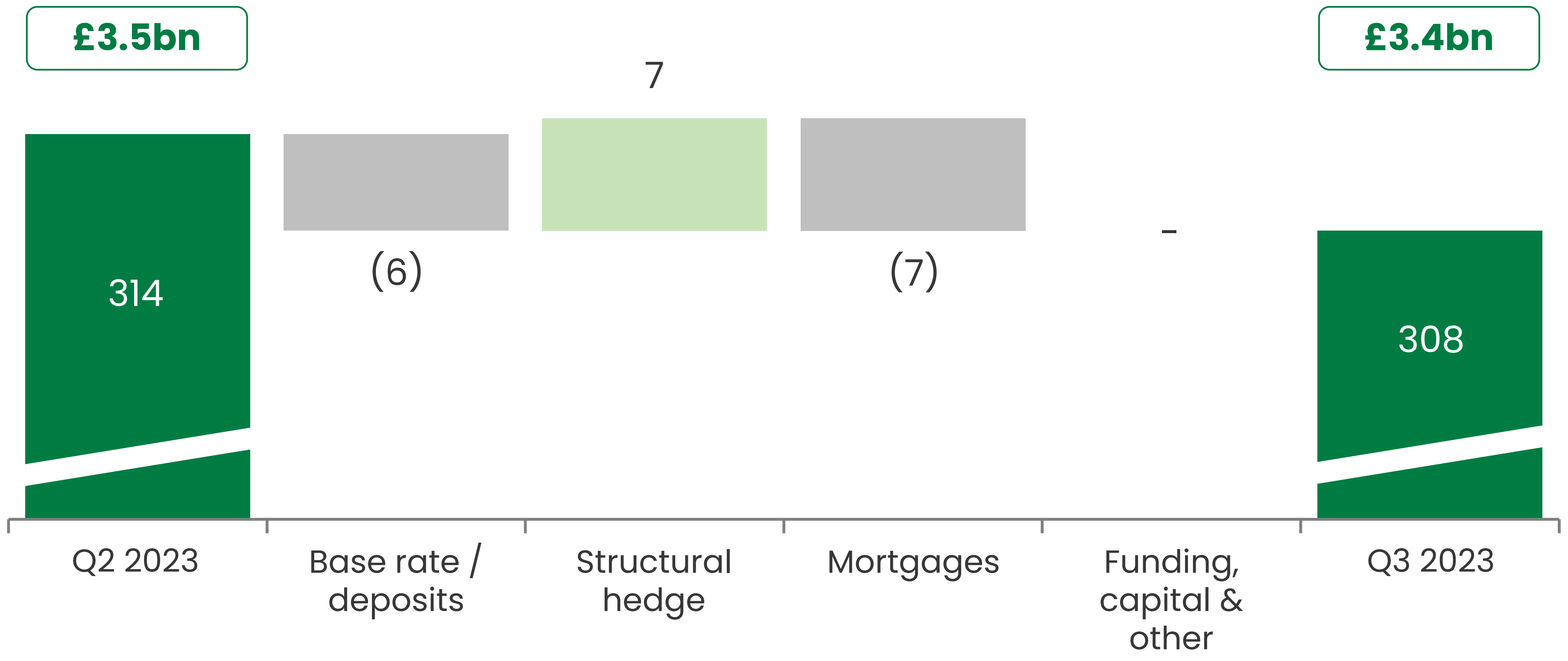


- **Total loans up £1.4bn in Q3; down 0.6% YTD**
  - Retail up £1.2bn in Q3; total mortgages stable
  - Commercial down £0.6bn in Q3
- **Total deposits £470bn, up £0.5bn or 0.1% in Q3; down 1.1% YTD**
  - Retail up £0.7bn in Q3; up £3.9bn in savings, down £3.2bn in current accounts
  - Commercial up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

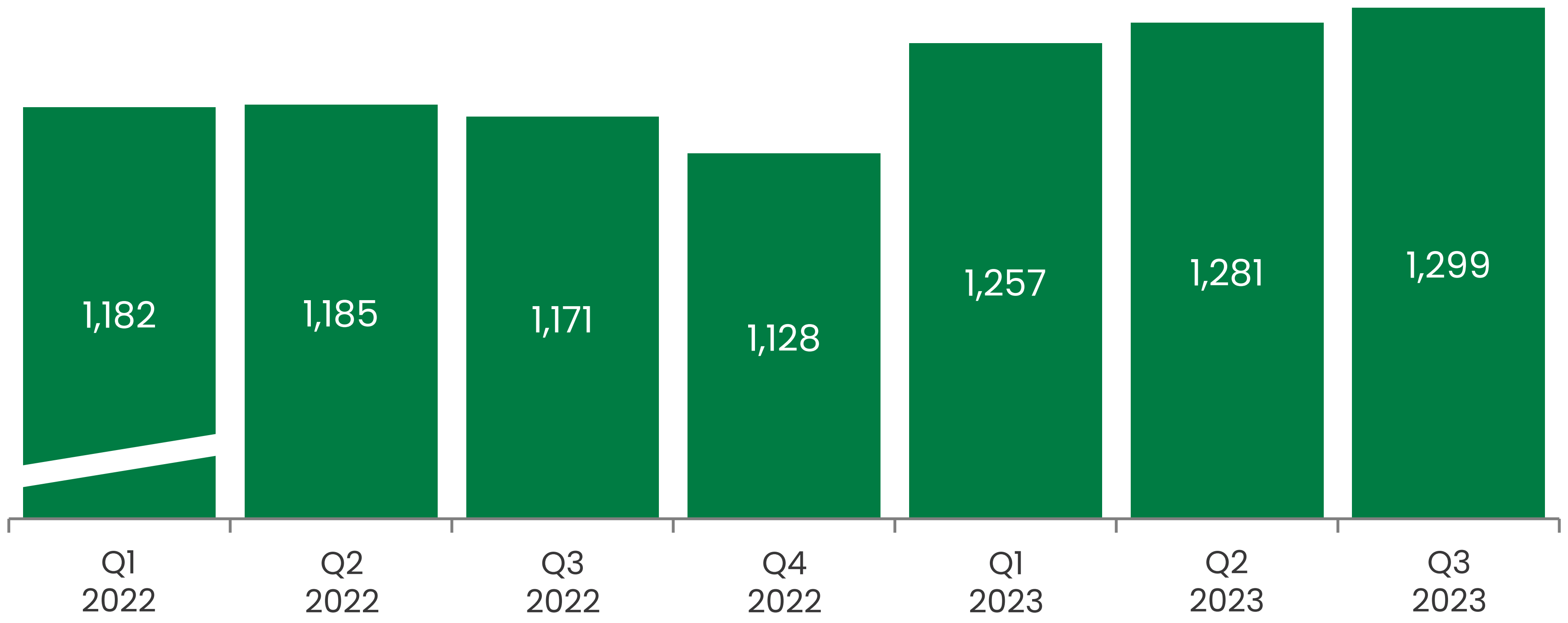
1 – Excludes balances relating to central fair value hedge accounting adjustments of £(2.5)bn (30 June 2023: £(3.3)bn). 2 – Includes Overdrafts, Europe and Wealth. 3 – Excludes balances relating to margin calls of £nil (30 June 2023: £0.3bn). 4 – Includes Retail relationship savings, Retail tactical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

Solid income performance

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



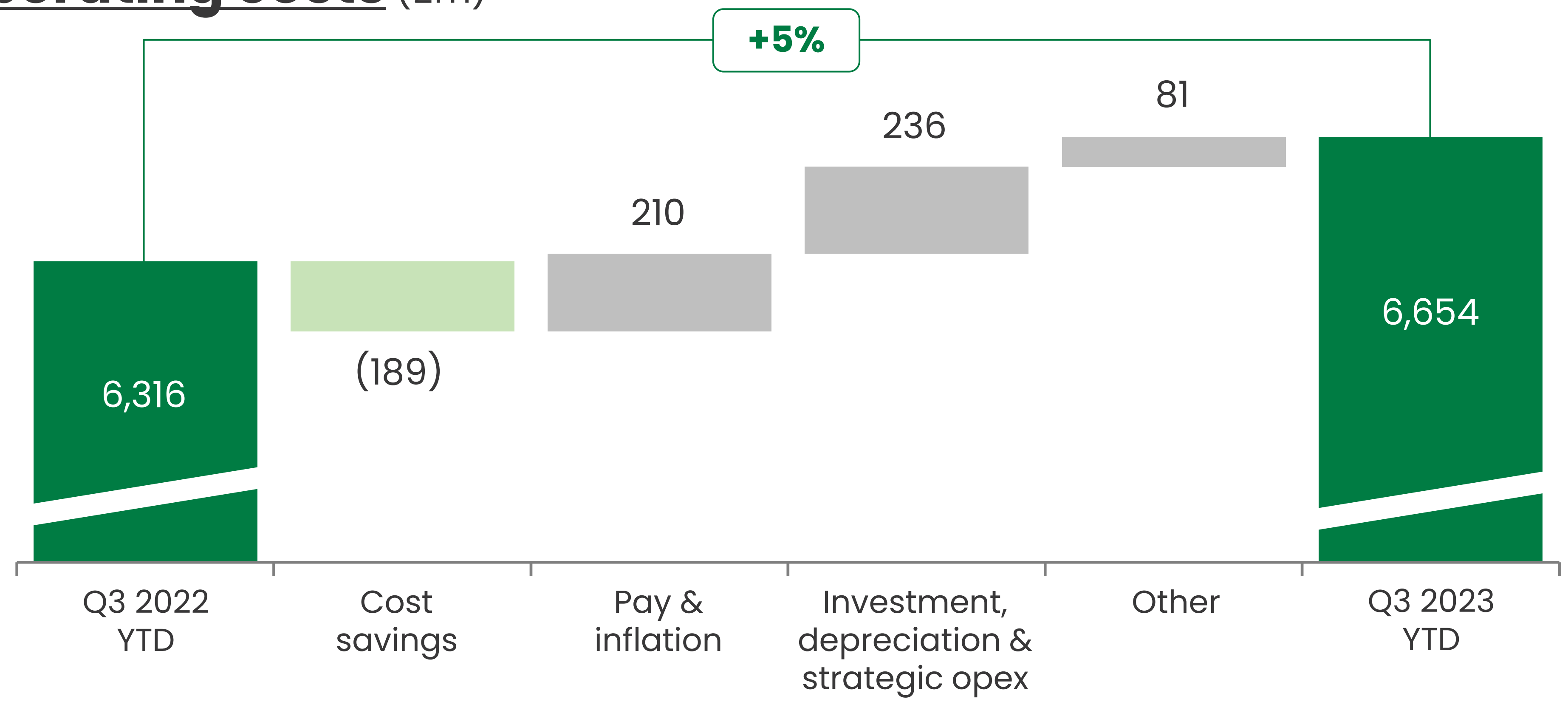
Other income (£m)



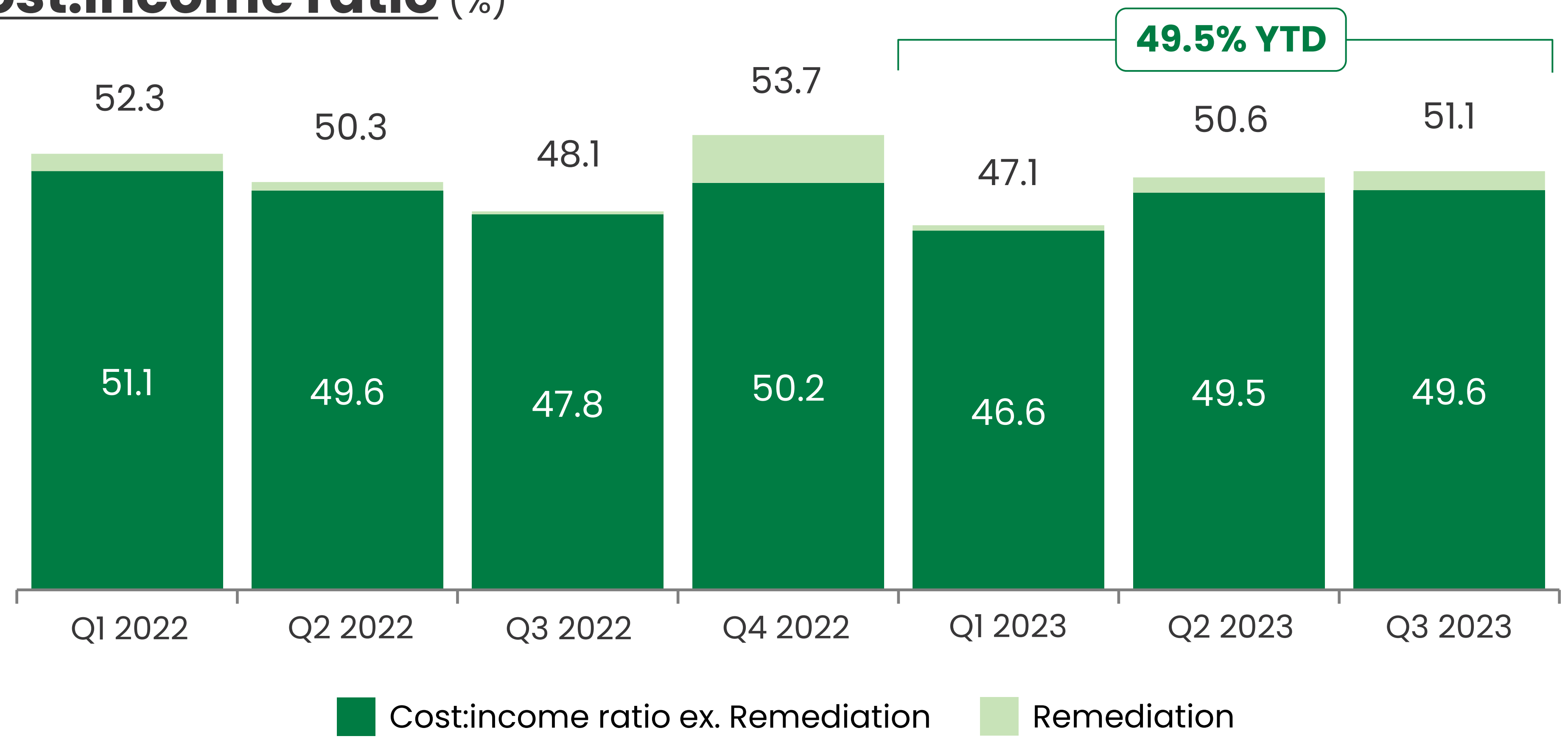
- NII £10.4bn YTD, £3.4bn in Q3
- YTD NIM 315bps; 308bps in Q3, down 6bps vs Q2, given expected headwinds
- Continue to expect 2023 NIM >310bps
- Expect 2023 Average Interest Earning Assets (AIEA) down slightly vs Q4 2022
- Other income £3.8bn YTD; continued improvement based on activity levels and investment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

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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 level[2] (£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

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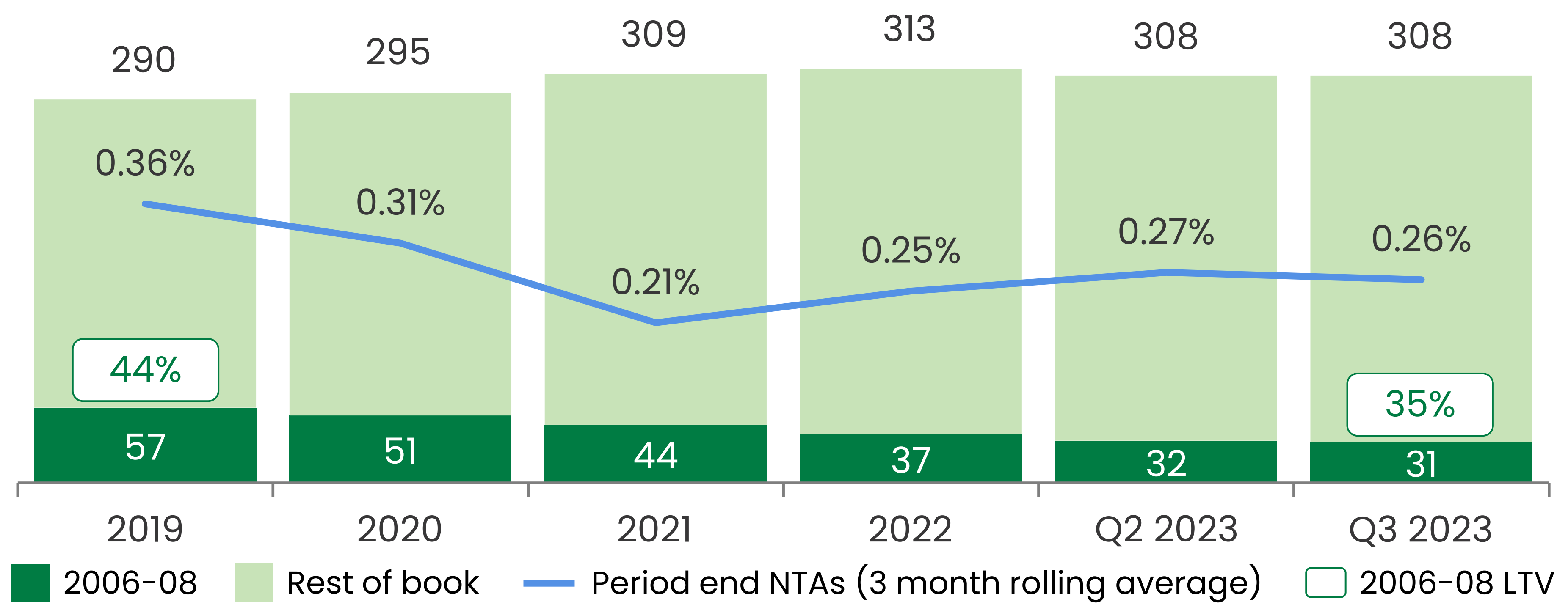
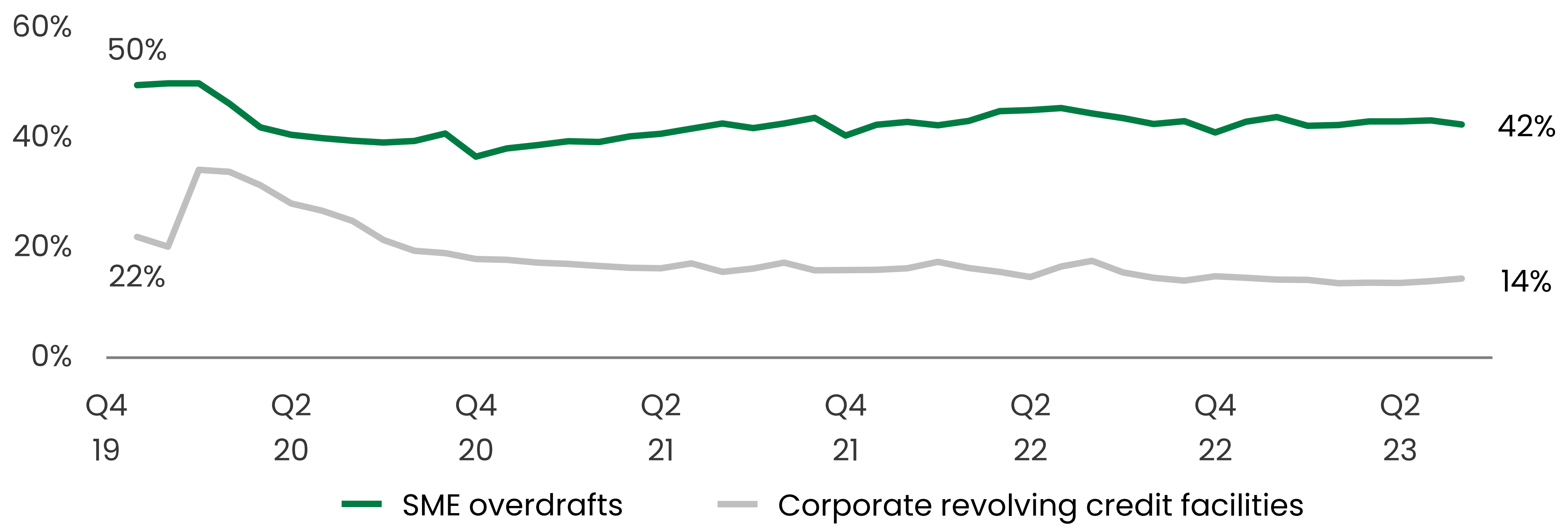
Mortgage portfolio mix and new to arrears (Balances £bn, NTAs %, LTV %)



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



- 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; RCF[2] utilisation >30% below pre-pandemic
- c.90% of SME lending[3] secured; c.80% of Corporate & Institutional exposure at investment grade
- Net Corporate Real estate exposure c.£11bn[4], remains robust

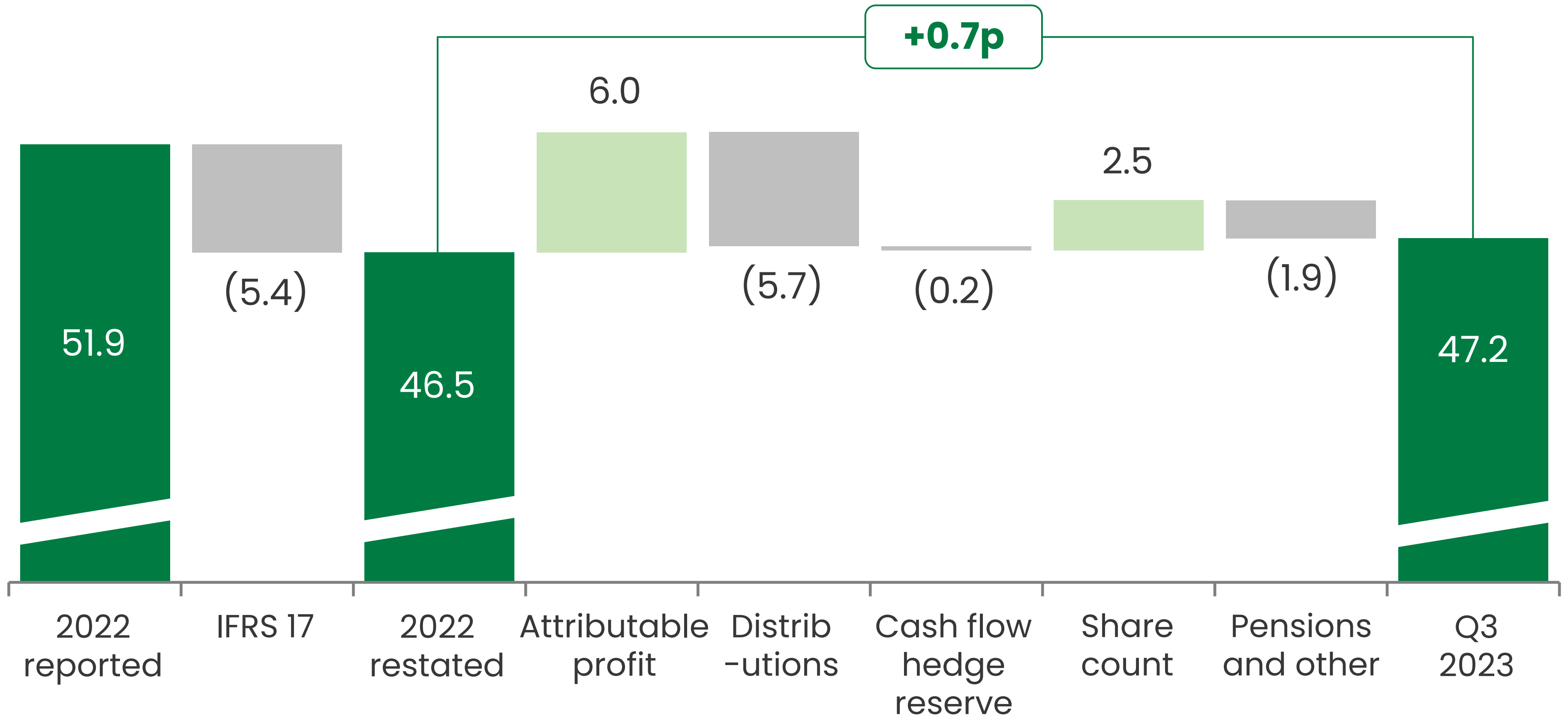
1 – August 2023. 2 – Revolving credit facility. 3 – SME excluding Business Banking; lending fully or partially secured. 4 – Post Significant Risk Transfer securitisations.

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

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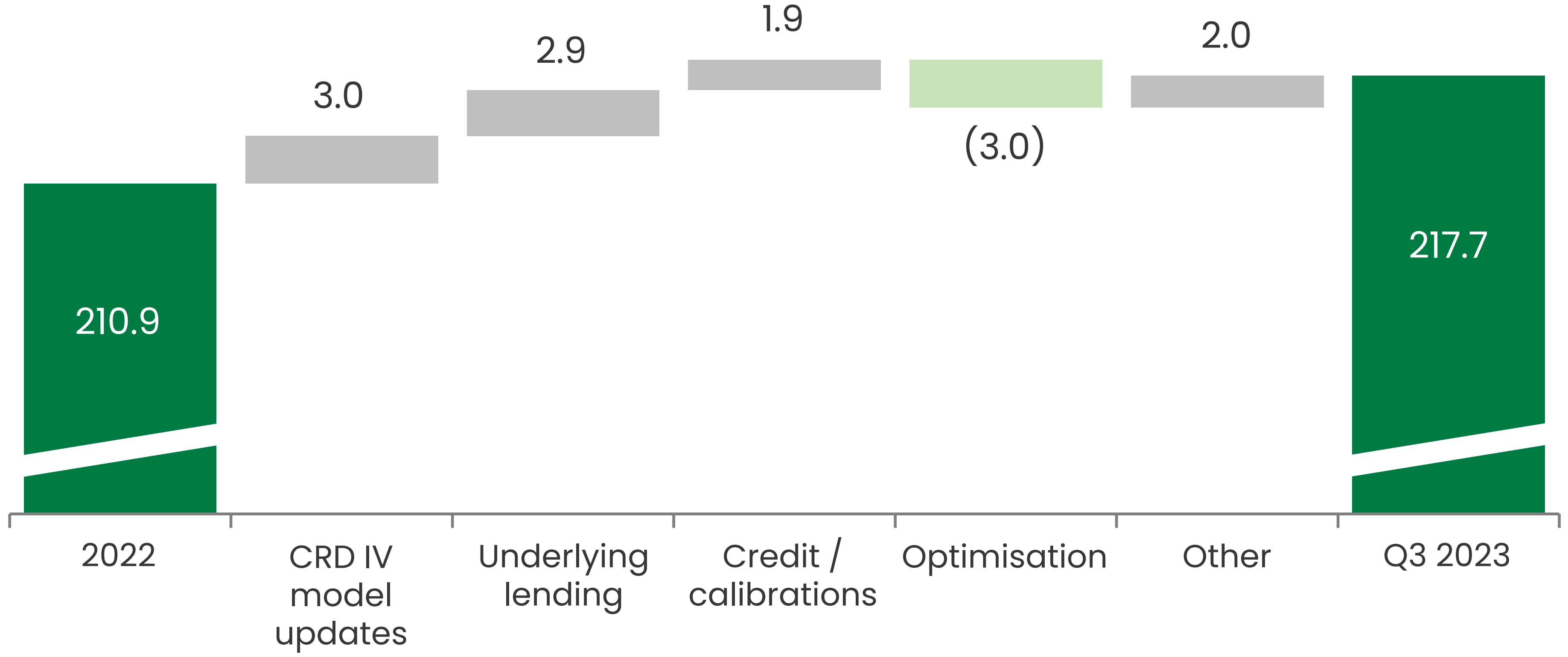
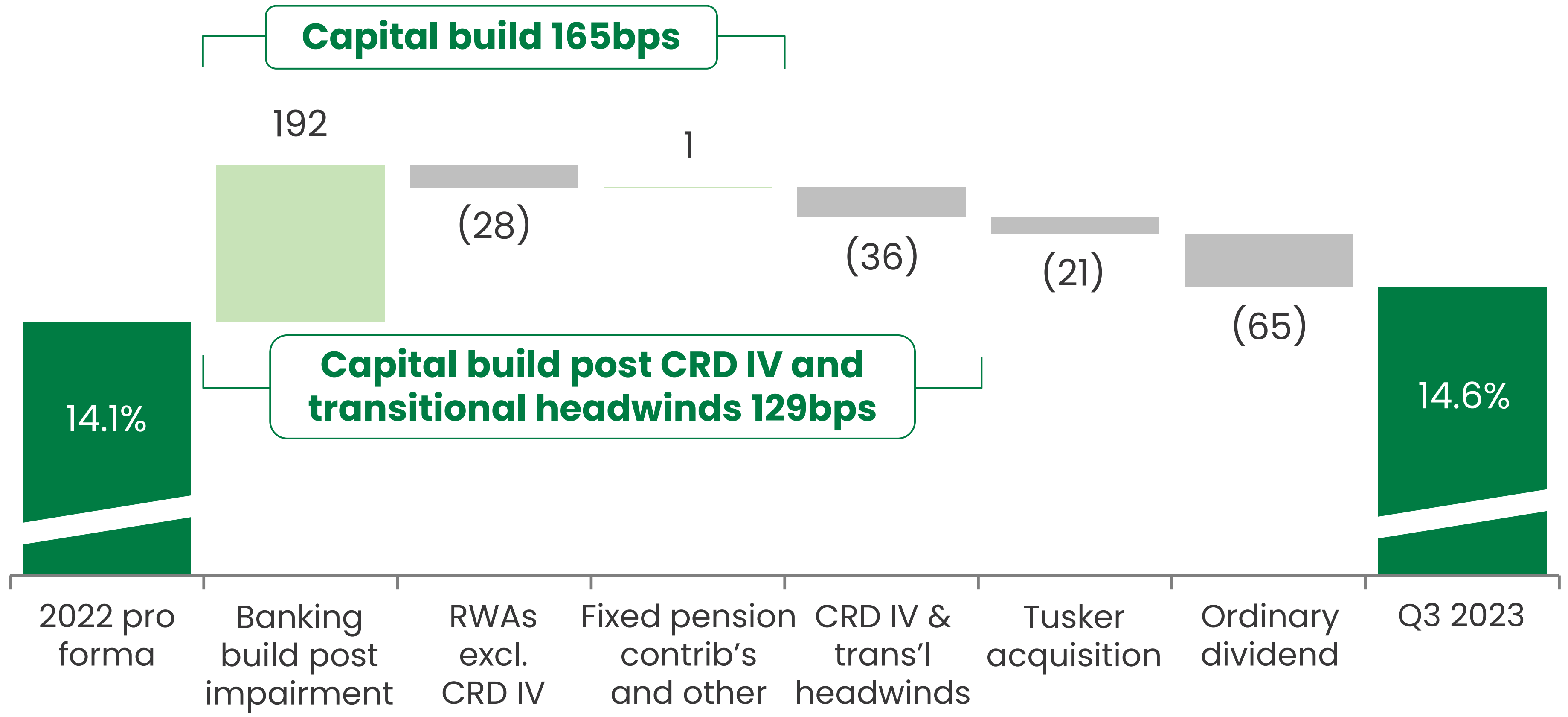
Risk weighted assets (RWA) (£bn)



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

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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

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