2022 Half Year Results Presentation

Lloyds Banking Group
27 July 2022

Introduction and business update

Strong performance with confidence in continued delivery

Purpose

Helping Britain Prosper

- Resilient customer franchise
- Strong financial performance with continued business momentum
- Enhanced guidance for 2022
- Strength of performance enabling increased interim dividend
- Strategic delivery and business model position the Group well

Positioned to navigate external uncertainties

Resilient customer franchise

Personal and business customers **demonstrating resilience** with **strong asset quality trends**

Cards spending higher than 2019 and **customers adapting** behaviour to manage their finances

Deposits up almost £70bn since end 2019; **over half** of customers have **increased savings**

Well placed for cost of living stress

Support where required

Deep customer insight enabling targeted engagement

Additional digital functionality including credit scoring hub and online customer support

Specialist Relationship Managers available for **dedicated support**

Early support for colleagues through one-off **£1,000** payment[1]

1 – Pro rated by contracted hours.

Strong financial performance with continued business momentum

£8.5bn
Net income up 12% vs H1 2021

51.2%
Cost:income ratio down 8.0pp vs H1 2021

13.2%
RoTE down 6.0pp vs H1 2021

139bps
Pro forma capital generation in H1 2022[1]

14.8%
Pro forma CET1 ratio up 0.8pp vs 1 Jan 2022

0.8p
Interim dividend per share up c.20% on H1 2021

+68
All-channel NPS, stable vs 2021[2]

72%
Employee engagement, stable vs 2021

c.39%
Women in senior roles, up >1pp vs year end 2021

1 – Excluding regulatory changes on 1 January 2022, variable pension contributions and dividend accrual; inclusive of the interim insurance dividend. 2 – 2021 comparative restated to reflect changes in measurement approach.

Enabling strategic delivery

Grow

>£4bn net new money in Insurance and Wealth and 1.5pp growth in protection market share

>20% increase in percentage share of FX wallet and 10% growth in new merchant services clients

Green lending on target: c.£4bn sustainable financing[1] and funding for electric vehicles up >£0.9bn

Focus

Continued cost discipline with BAU cost savings

Change

New organisation structure and leadership team aligned to delivering strategic objectives

New operating model implemented to deliver change more effectively

£0.3bn strategic investment so far

Update on strategic progress in first half of 2023

1 – Includes Clean Growth Finance Initiative, Commercial Real Estate Green Lending, Renewable Energy Financing, Sustainability Linked Loans and Green, ESG and Social Bond facilitation.

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Financial update

Strong financial performance with continued business momentum

Summary P&L and key metrics

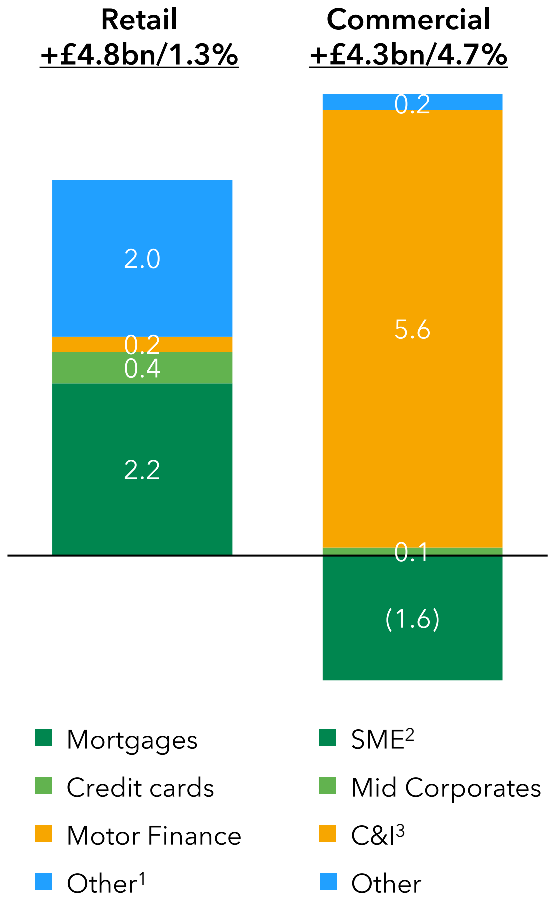
(£m)	H1 2022	H1 2021	*YoY*
Net interest income	**6,135**	5,418	*13%*
Other income	**2,529**	2,417	*5%*
Operating lease depreciation	**(213)**	(271)	*21%*
Net income	**8,451**	7,564	*12%*
Operating costs[1]	**(4,249)**	(4,053)	*(5)%*
Remediation	**(79)**	(425)	*81%*
Total costs	**(4,328)**	(4,478)	*3%*
Impairment	**(377)**	734	
Underlying profit	**3,746**	3,820	*(2)%*
Statutory profit after tax	**2,826**	3,865	*(27)%*
Return on tangible equity	**13.2%**	19.2%	*(6.0)pp*
	H1 2022	**H2 2021**	***HoH***
Tangible net asset value per share	**54.8p**	57.5p	*(2.7)p*
Risk-weighted assets	**£210bn**	£196bn	*£14bn*
Pro forma CET1 ratio[2]	**14.8%**	16.3%	*(1.5)pp*

- Net income up 12%; NIM 277bps
- Operating costs up 5%; stable BAU costs and higher planned strategic investment
- Continued strong asset quality; charges below pre-pandemic levels
- Balance sheet franchise growth
- TNAV 54.8p, down 2.7p in H1 given reserve movements driven by higher rates
- RWAs £210bn, post regulatory inflation of £16bn on 1 January 2022
- Strong capital generation of 139bps[3]; pro forma CET1 ratio 14.8%

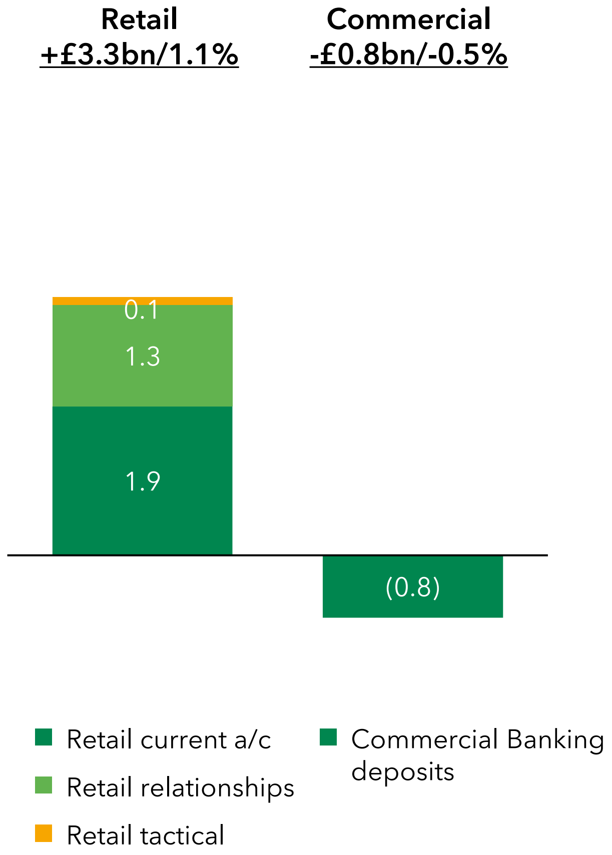
1 – Comparatives have been presented to reflect the new costs basis, consistent with the current period. 2 – H1 2022 includes the interim insurance dividend. 3 – Excluding regulatory changes on 1 January 2022, variable pension contributions and dividend accrual; inclusive of the interim insurance dividend.

Continued recovery in customer activity and franchise growth

H1 lending change
(£bn)



H1 deposit change
(£bn)



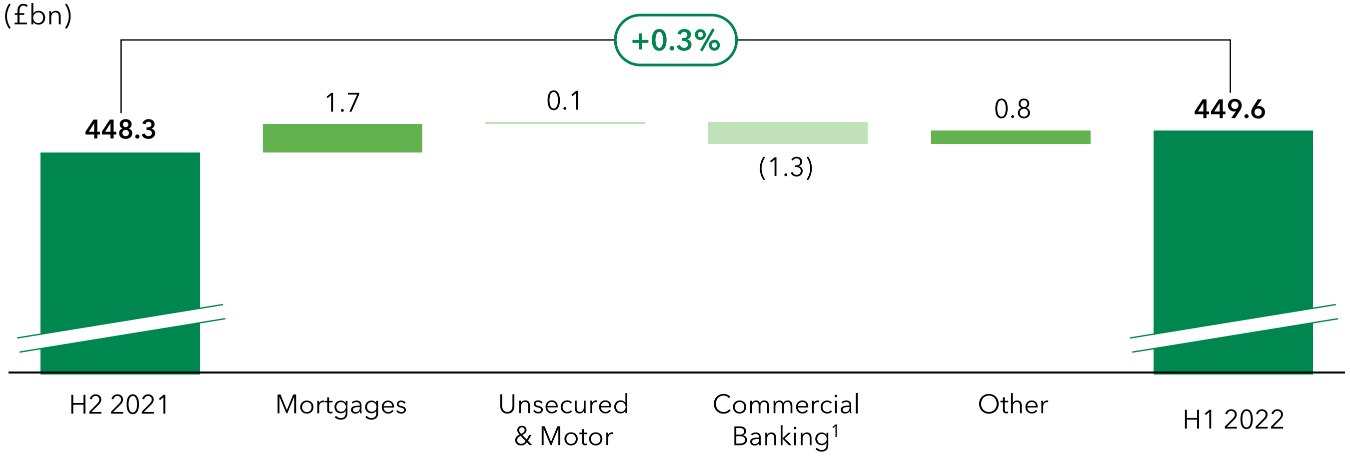
- Mortgage balances up £2.2bn to £310bn, driven by £3.3bn open book growth
- Credit card balances up £0.4bn in H1, all in Q2, given improving spend levels
- Commercial Banking balances up £4.3bn given growth and FX impacts in C&I[3]
- Retail deposits up £3.3bn in H1, reflecting continued resilient inflows
- Commercial deposits down £0.8bn
- Insurance & Wealth net new money >£4bn

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

Growth in net interest income

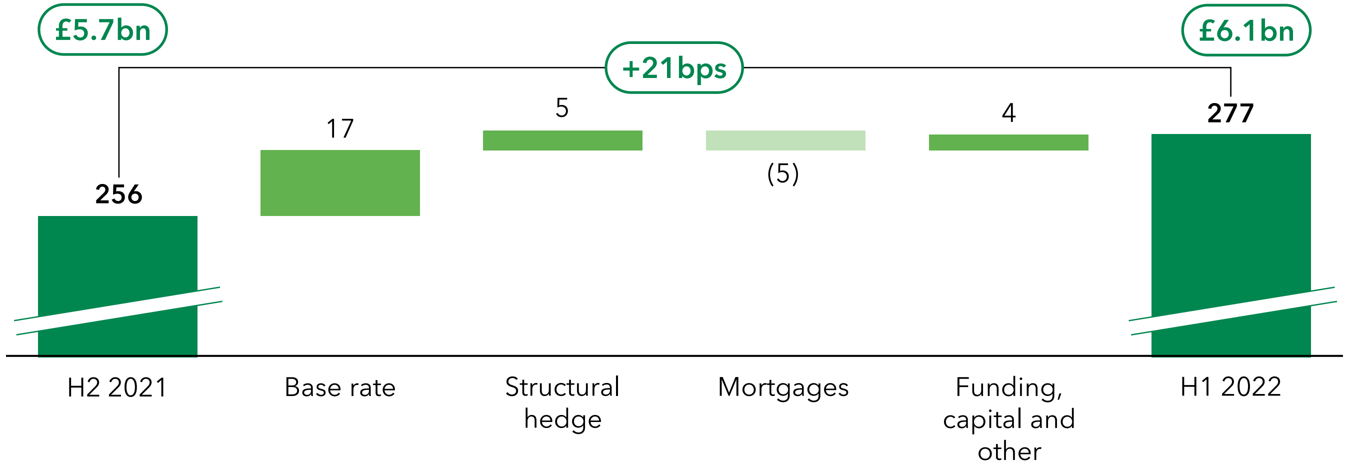
Average interest-earning assets (AIEAs)

(£bn)



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

(£bn, bps)



- NII £6.1bn, up 13% YoY and 7% HoH
  - Increased AIEAs, deposit growth and higher NIM
  - H1 AIEAs £449.6bn, up £8.8bn on prior year and £1.3bn on H2
  - NIM 277bps in H1, 287bps in Q2
- Positive impact from rising rates more than offsetting mortgage pricing pressure
- Continue to expect low single-digit percentage growth in AIEAs in 2022
- 2022 NIM now expected to be >280bps[2]

1 – Includes Retail Business Banking. 2 – Assumes UK base rate of 2% in Q4 2022.

Illustrative NII sensitivity

Cumulative impact of parallel shifts in interest rate curve – illustrative 50% deposit pass-through[1]

(£m)

	Year 1	Year 2	Year 3
+100bps	c.675	c.1,025	c.1,475
+50bps	c.350	c.525	c.725
+25bps	c.175	c.250	c.375

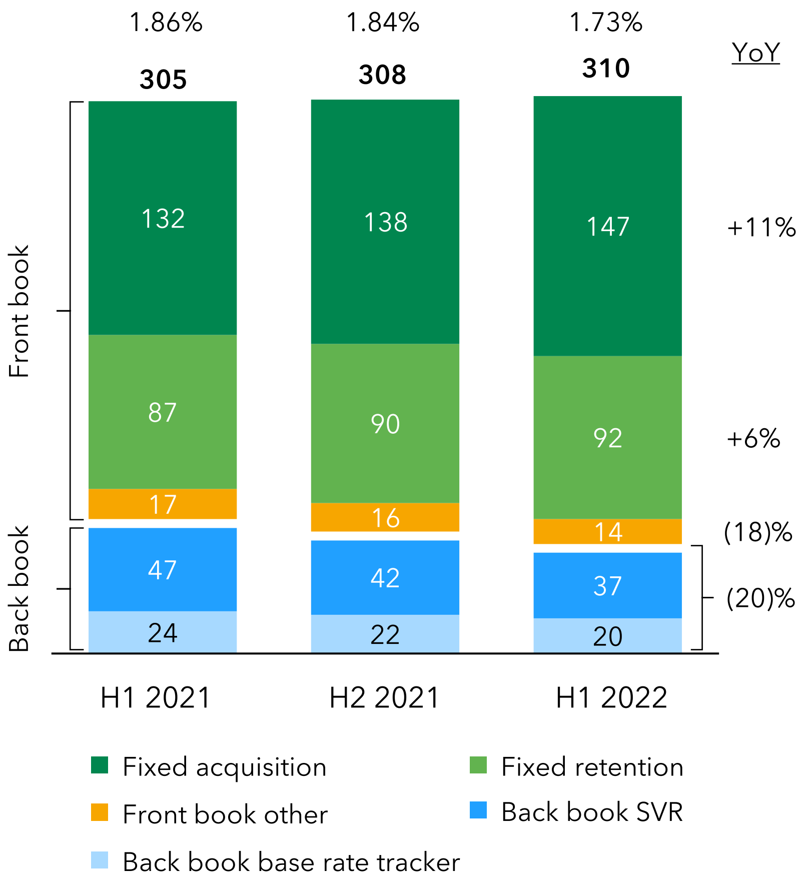
- c.£175m additional NII in year 1 for a 25bps parallel increase in rates
  - Sensitivities dependent on pass-through assumption
  - c.£50m additional year 1 NII for a 10pp lower assumed pass-through on 25bps shift; c.£100m on 50bps shift
- Significant growth in retail deposits embedded in increased hedge income
- Assumptions unchanged, including 50% illustrative through the cycle pass-through[2]

1 – Sensitivity based on modelled impact on banking book NII (including the future impact of structural hedge maturities). Year 1 reflects the 12 months from 30/06/2022 balance sheet position.
2 – Assumes instantaneous parallel shift in interest rate curves, including bank base rate; balance sheet remains constant; 100% pass-through on customer lending and analysis does not reflect new business margin implications and/or pricing actions, other than as outlined.

Profitable mortgage growth in a competitive market

Mortgage book

(Book size £bn, Gross margin %[1])



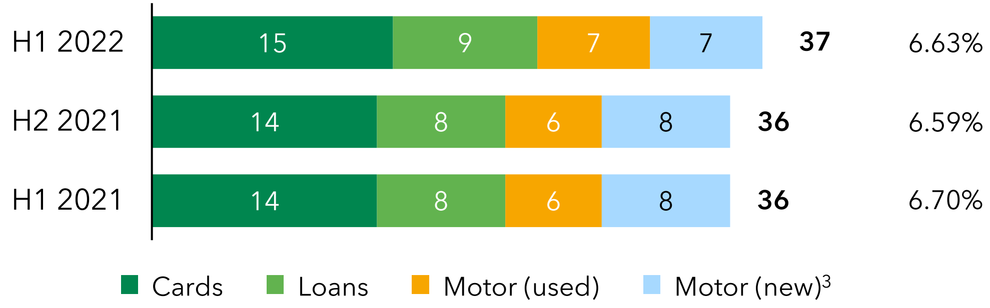
- Mortgage balances up £2bn in H1 to £310bn; open book growth £3bn
- Back book c.£57bn with attrition c.20%; absolute attrition £14bn vs prior year £13bn
- Average Q2 completion margin c.60bps[2]
- Impact on Group margin from maturity of high-yielding mortgages increases in H2
- Mortgage lending remains attractive from a returns and economic value perspective

1 – Gross margin is gross customer receivables, less short-term funding costs; references SONIA. Chart uses rounded inputs. 2 – Total completion margins include new business and product transfers and is the difference between the customer rate and the relevant funding rate.

Consumer and commercial lending growth in H1

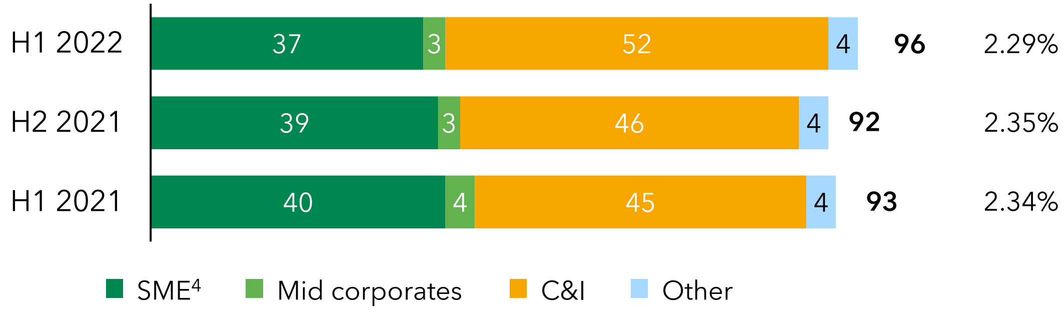
UK consumer finance[1]

(Book size £bn, Gross margin %[2])



Commercial Banking[4]

(Book size £bn, Gross margin %[2])



- UK consumer finance up £1.0bn in H1
  - Credit card balances up £0.4bn, all in Q2, given improving spend levels
  - UK Motor Finance up £0.2bn; continued impact of industrywide supply constraints
- Commercial Banking lending up £4.3bn
  - £5.4bn lending growth, including FX impacts in C&I
  - Government-backed lending scheme balances down £1.1bn versus year end

1 – Excluding overdrafts. 2 – Gross margin is gross customer receivables, less short-term funding costs; references SONIA. Chart uses rounded inputs. 3 – Includes Fleet, Stocking and Lex Finance.
4 – Includes Retail Business Banking; gross margin excludes Run-off.

Continued deposit franchise growth

Customer deposits[1,2]

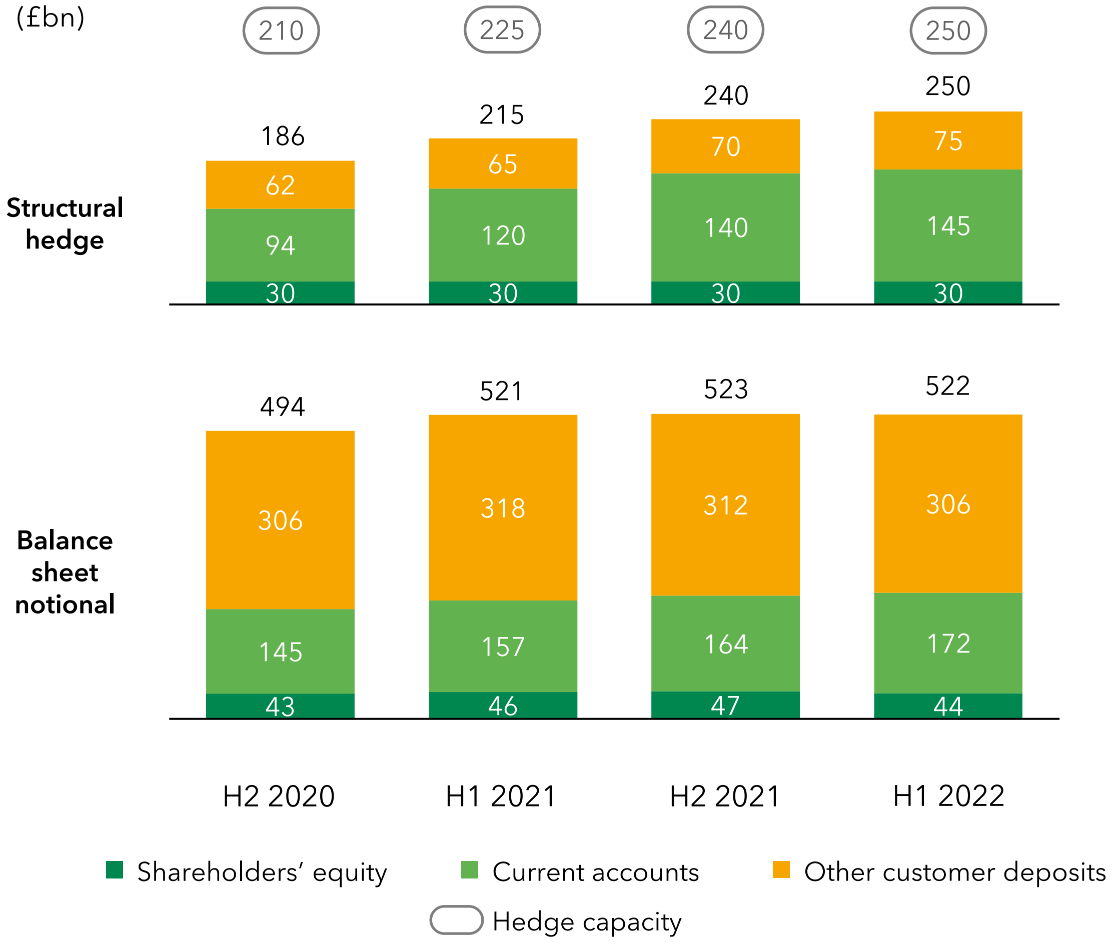
(Book size £bn, Gross margin %)

- Continued inflows to the Group's trusted brands, up almost £70bn since 2019
- Deposits increased £2bn in H1
- Retail current account balances up £1.9bn, c.2% in H1, including growth in Q2
- Commercial deposits down £0.8bn in H1, including £3.6bn in Q2 given reversal of short-term placements

1 – Retail Business Banking shown in Commercial. 2 – Gross margin is gross customer payables, less short-term funding costs; references SONIA and includes structural hedge income. Chart uses rounded inputs.

Continued franchise growth building hedge sustainability

Hedged balances[1]

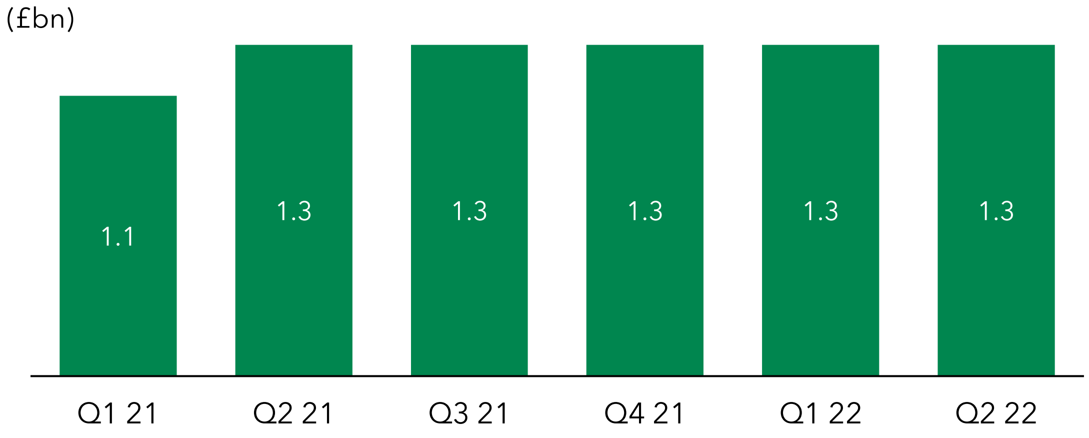


- Structural hedge approved capacity of £250bn, up £10bn in H1
- Nominal balance of £250bn with c.3.5 year weighted-average duration
- Prudent management of structural hedge
  - Deposits up almost £70bn since year end 2019
  - £65bn capacity increase in same period, of which £40bn from deposit growth
  - £13bn maturities in H2 and £35bn in 2023 provide further flexibility
- Hedge income in 2022 to be stronger than 2021 and continuing to build in 2023 and 2024

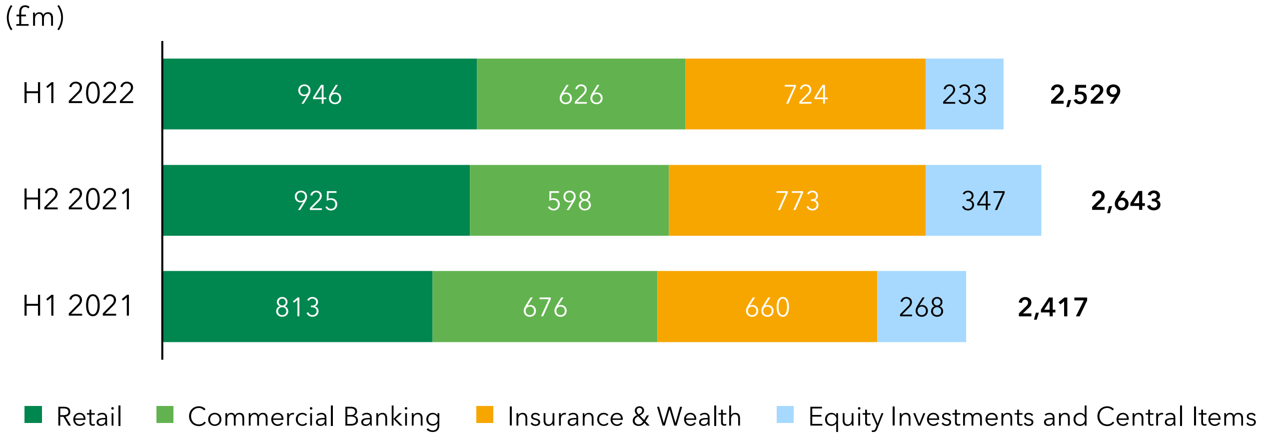
1 – The external sterling structural hedge notional is managed as a portfolio, split shown is indicative.

Other income supported by recovering customer activity

Other income



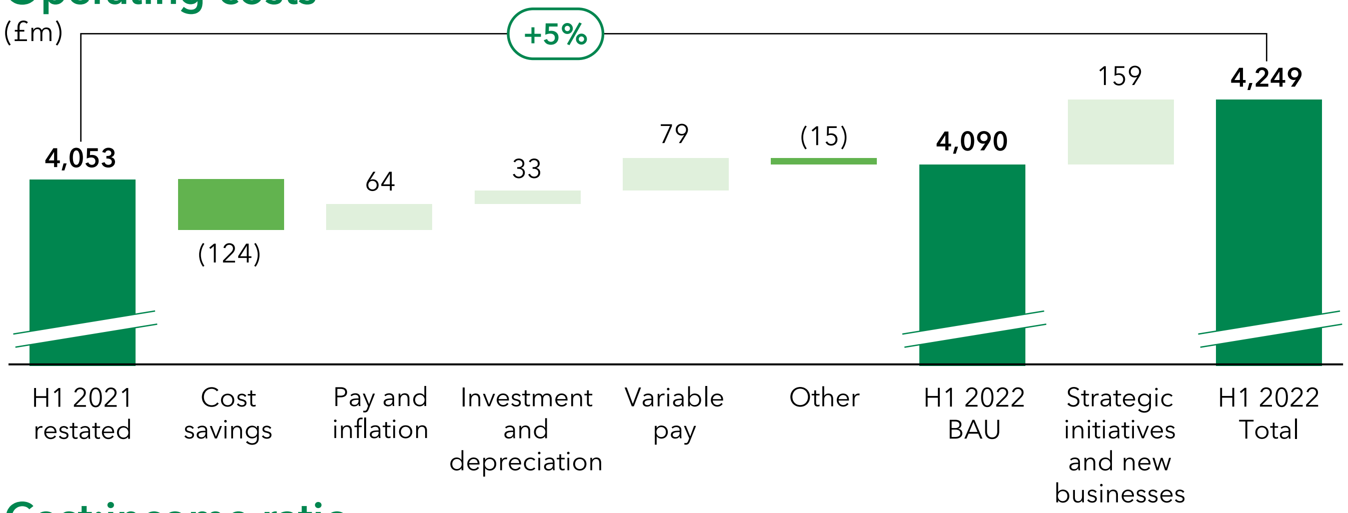
Divisional other income



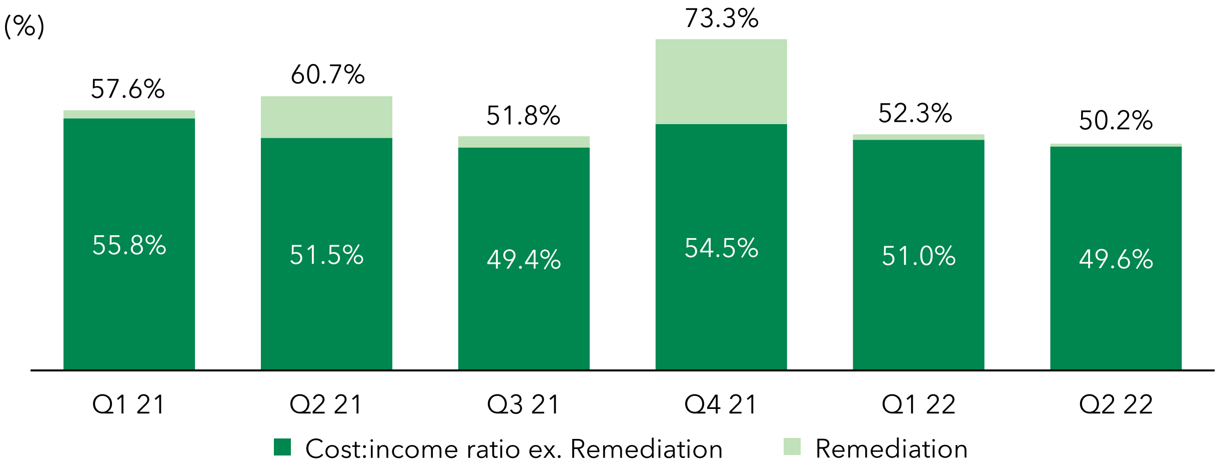
- H1 other income £2.5bn; £1.3bn in Q2
  - Retail: improved current account and credit card performance
  - Commercial: improving transaction banking and resilient financial markets
  - I&W: increased new business income in workplace pensions and bulk annuities
- Expect gradual development, dependent on customer activity, supported by investment

Stable BAU costs, increased investment as planned

Operating costs



Cost:income ratio



- Operating costs £4.2bn, up 5% given planned investment and new businesses
- Sustained cost discipline with BAU cost management offsetting inflation pressure
- Continue to expect 2022 operating costs of c.£8.8bn
  - Stable BAU plus planned increased investment and new businesses costs
  - Includes c.£65m impact of one-off £1,000 payment to staff[1]
- Remediation £79m, principally relating to pre-existing programmes

1 – Pro rated by contracted hours.

Strong asset quality and sustained low new to arrears

Impairment
(£m)

	H1 2022	H1 2021	*YoY*
Charges / (credits) pre-updated MES[1]	**282**	103	*179*
Retail	**315**	451	*(136)*
Commercial Banking	**(37)**	(345)	*308*
Other	**4**	(3)	*7*
Updated economic outlook	**95**	(837)	*932*
Retail	**170**	(544)	*714*
Commercial Banking	**125**	(293)	*418*
Other	**(200)**	-	*(200)*
Total impairment charge/(credit)	**377**	(734)	*1,111*

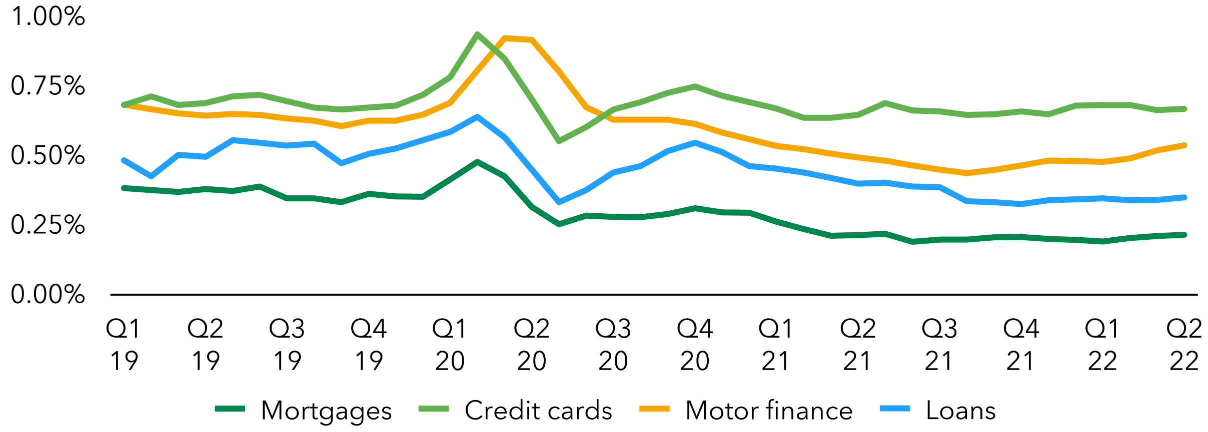
- £377m net impairment charge; AQR 17bps
- Sustained low levels of new to arrears; underlying charges below pre-COVID level
- Updated economic outlook and associated provision incorporates higher inflation
- Stock of ECL stable at £4.5bn
  - £0.3bn COVID release; £0.5bn ECL retained inc. £0.2bn central adjustment[2]
  - Cost of living ECL impacts £0.4bn, incremental to £60m established in Q4
- 2022 AQR now expected to be <20bps

1 – 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). 2 – £0.5bn ECL comprises £0.2bn within ECL models, £0.1bn in portfolio judgements and £0.2bn central adjustment held for COVID-related risks to the Group's base case assumptions.

Benign credit trends in a resilient Retail portfolio

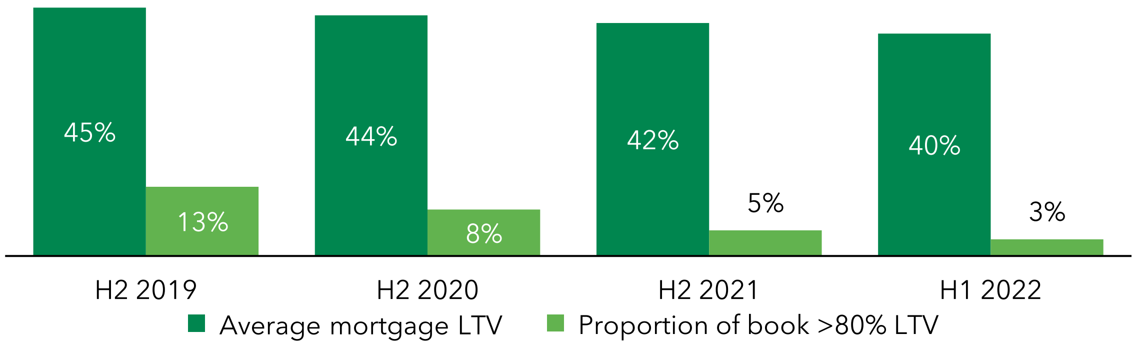
New to arrears as a proportion of total balances

(3-month rolling average, %)



Average mortgage LTV

(%)



- Customers demonstrating resilience with stock of arrears below pre-COVID level
- Cards charge-offs remain low and in line with historical average
  - Middle and high income customers account for c.90% of credit card spend
  - Credit card balances and regular minimum-payers stable
  - Charge-off at 4 months in arrears; c.6.2% coverage with further 12 month policy[1]
- Average mortgage LTV 40.2% with 97% of book below 80% LTV

1 – Estimated based on last 12 months' charge-offs retained in Stage 3 at appropriate coverage.

Resilient Commercial portfolio with stable trends

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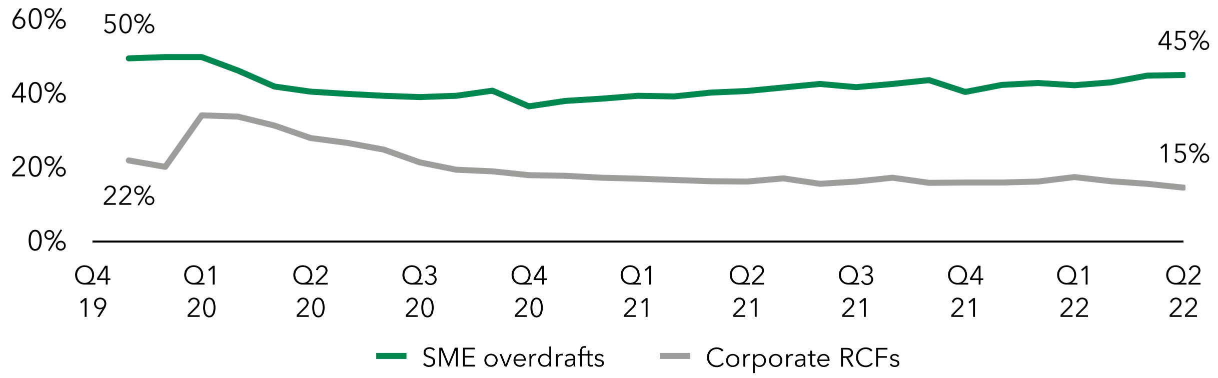
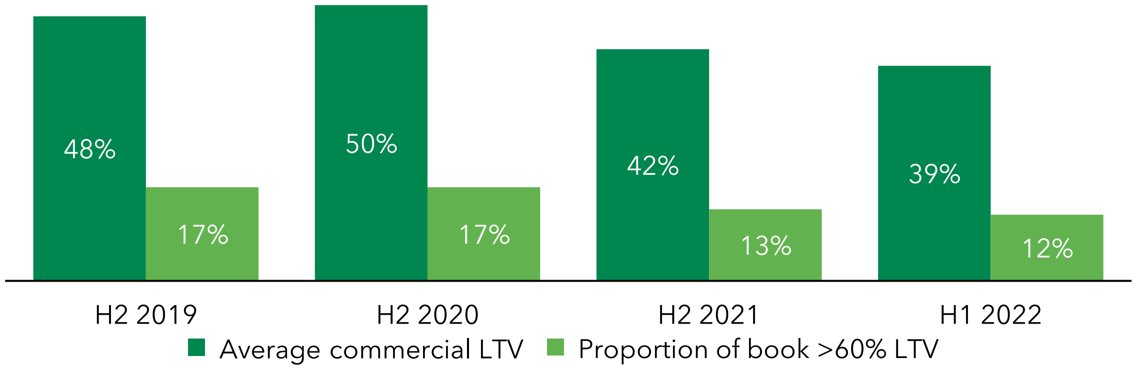
SME overdraft[1] and corporate RCF[2] utilisation
(%)



Commercial Banking UK direct real estate LTV[3]
(%)



- Stable SME overdraft utilisation through pandemic, below 8 year average
- Stable working capital utilisation through the year
  - RCF utilisation stable and c.50% below 2020 peak
- Net CRE exposure of £11.1bn significantly de-risked
  - Average LTV 39% and c.12% with LTV >60%
- Commercial clients moving to BSU remain low and c.70% then returned to good book
- Well-positioned to support customers, remaining vigilant for signs of stress

1 – SME excluding Retail Business Banking. 2 – Revolving credit facilities. 3 – H2 2019 to H2 2021 exclude CRE exposures <£1m; H1 2022 includes all CRE exposures. Difference is not expected to materially impact trends.

Statutory profit after tax of £2.8bn

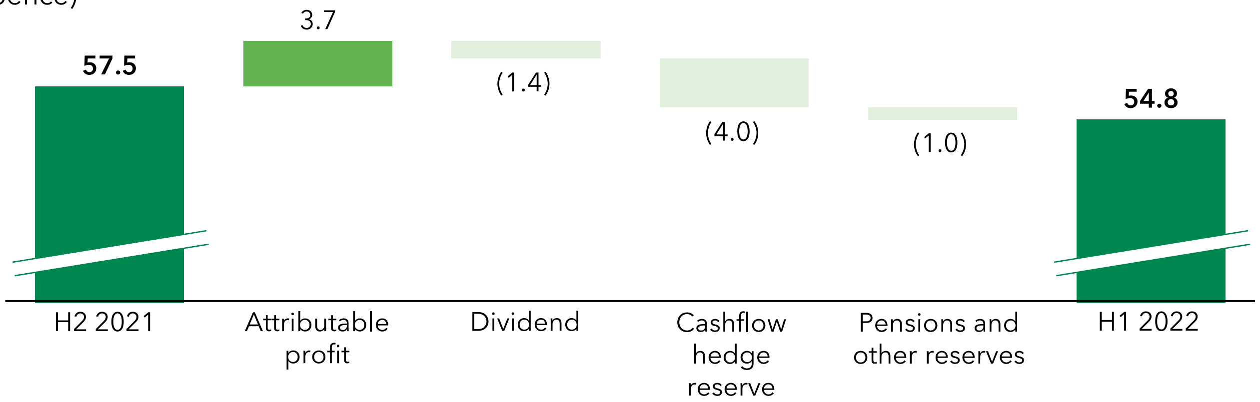
Statutory profit

(£m)

	H1 2022	H1 2021	*YoY*
Underlying profit	**3,746**	3,820	*(2)%*
Restructuring costs	**(47)**	(10)	
Volatility and other items	**(38)**	95	
Statutory profit before tax	**3,661**	3,905	*(6)%*
Tax expense	**(835)**	(40)	
Statutory profit after tax	**2,826**	3,865	*(27)%*
Return on tangible equity	**13.2%**	19.2%	*(6.0)pp*

Tangible net asset value per share

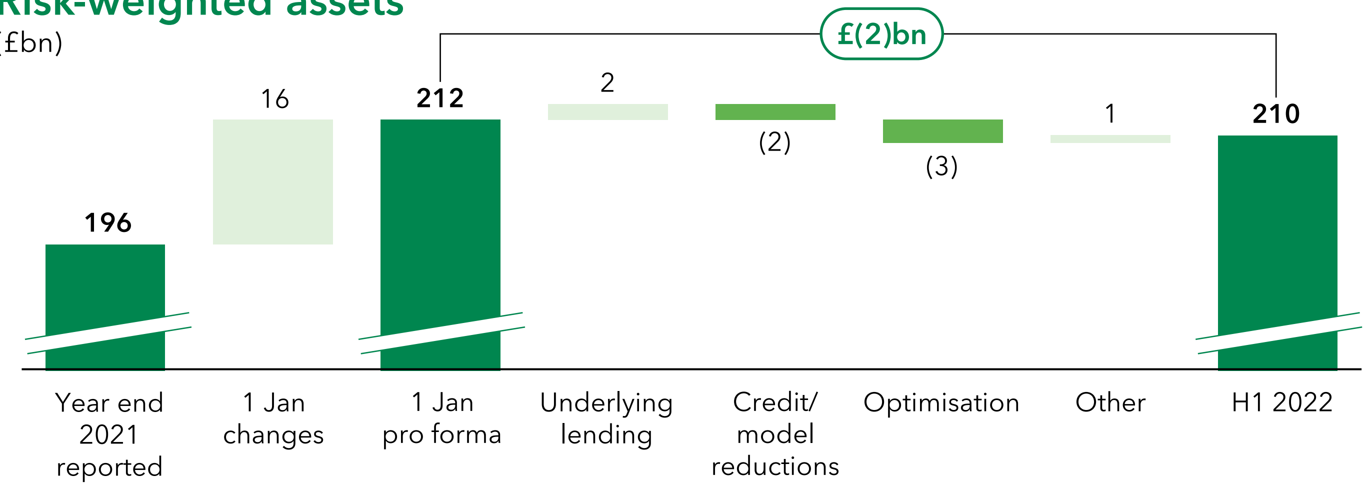
(pence)



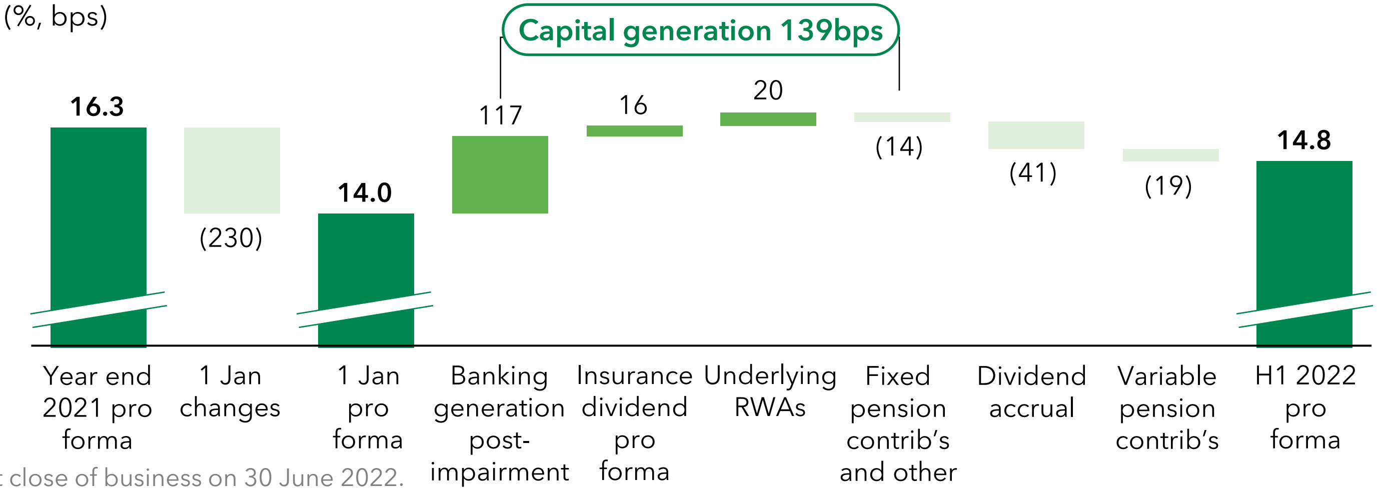
- Underlying and statutory profit converging following year end 2021 reporting changes
- Restructuring costs £47m, including Embark integration costs
- Positive market volatility impact offsetting usual fair value unwind
- RoTE 13.2%; 2022 RoTE now expected to be c.13%
- TNAV 54.8p, down 2.7p in H1, largely due to cash flow hedge reserve movements

Enhanced capital position and guidance

Risk-weighted assets
(£bn)



Common equity tier 1 ratio
(%, bps)



- RWAs down £2bn since 1 January given optimisation and credit/model reductions
- 139bps capital generation after 31bps for full fixed pension deficit contributions
- Pro forma CET1 ratio 14.8% after £500m variable pension contributions YTD
- Remain ahead of ongoing target of c.12.5% plus a c.1% management buffer
- Dividend accrual 41bps and interim dividend 0.8p per share, up c.20%
- Completed c.£1.3bn of 2022 buyback, with c.2.8bn shares bought[1]
- Continue to expect 2022 RWAs c.£210bn
- Expect 2022 capital generation >200bps

1 – At close of business on 30 June 2022.

Strong performance in H1, enhancing 2022 guidance

Strong financial performance with continued business momentum

- Net income £8.5bn, up 12% YoY, supported by higher NIM of 2.77%
- AQR 17bps with sustained low levels of new to arrears
- RoTE 13.2% given strong profitability
- Strong capital generation 139bps, after full fixed pension contributions
- Interim dividend increased c.20% to 0.8p per share

Enhanced guidance for 2022

- NIM now expected to be >280bps
- AQR now expected to be <20bps
- RoTE now expected to be c.13%
- Capital generation expected to be >200bps

Wrap up

Strong performance with confidence in continued delivery

Purpose

Helping Britain Prosper

- Resilient customer franchise
- Strong financial performance with continued business momentum
- Enhanced guidance for 2022
- Strength of performance enabling increased interim dividend
- Strategic delivery and business model position the Group well

Q&A

Appendix

Quarterly P&L and key ratios

(£m)	Q2 2022	Q1 2022	Q4 2021	Q3 2021	Q2 2021	Q1 2021
Underlying net interest income	**3,190**	**2,945**	2,893	2,852	2,741	2,677
Underlying other income	**1,268**	**1,261**	1,307	1,336	1,282	1,135
Operating lease depreciation	**(119)**	**(94)**	(78)	(111)	(123)	(148)
Net income	**4,339**	**4,112**	4,122	4,077	3,900	3,664
Operating costs	**(2,151)**	**(2,098)**	(2,246)	(2,013)	(2,008)	(2,045)
Remediation	**(27)**	**(52)**	(775)	(100)	(360)	(65)
Total costs	**(2,178)**	**(2,150)**	(3,021)	(2,113)	(2,368)	(2,110)
Underlying profit before impairment	**2,161**	**1,962**	1,101	1,964	1,532	1,554
Underlying impairment (charge) credit	**(200)**	**(177)**	532	119	374	360
Underlying profit	**1,961**	**1,785**	1,633	2,083	1,906	1,914
Restructuring	**(23)**	**(24)**	(418)	(24)	6	(16)
Volatility and other items	**100**	**(138)**	(247)	(30)	95	–
Statutory profit before tax	**2,038**	**1,623**	968	2,029	2,007	1,898
Statutory profit after tax	**1,622**	**1,204**	420	1,600	2,468	1,397
Net interest margin	**2.87%**	**2.68%**	2.57%	2.55%	2.51%	2.49%
Average interest-earning assets	**£451bn**	**£448bn**	£449bn	£447bn	£442bn	£439bn
Cost:income ratio	**50.2%**	**52.3%**	73.3%	51.8%	60.7%	57.6%
Asset quality ratio	**0.17%**	**0.16%**	(0.46)%	(0.10)%	(0.33)%	(0.33)%
Return on tangible equity	**15.6%**	**10.8%**	2.9%	14.5%	24.4%	13.9%
Tangible net asset value per share	**54.8p**	**56.5p**	57.5p	56.6p	55.6p	52.4p

Prudent economic scenarios

Scenario	ECL(£m)	Measure (%)[1]	2022	*vs Q1 22*[2]	2023	2024	2025	2026	*Ave. 22-26*
Upside (30%)	3,810	GDP	3.5	*(0.1)*	1.2	1.8	1.7	1.7	*2.0*
		Interest rate	1.64	*0.25*	3.12	2.97	2.88	2.78	*2.68*
		Unemployment rate	3.1	*(0.2)*	2.7	2.9	3.2	3.4	*3.1*
		HPI growth	3.2	*(2.1)*	3.6	9.3	5.9	4.3	*5.2*
		CRE price growth	9.2	*0.1*	1.8	0.9	(0.9)	(0.2)	*2.1*
		CPI inflation	8.6	*1.0*	5.5	2.5	1.9	2.2	*4.1*
Base case (30%)	4,138	GDP	3.3	*(0.2)*	0.6	1.5	1.6	1.7	*1.7*
		Interest rate	1.44	*0.38*	2.25	2.00	2.00	2.00	*1.94*
		Unemployment rate	3.8	*(0.3)*	4.2	4.4	4.5	4.5	*4.3*
		HPI growth	1.8	*(1.5)*	(1.4)	3.4	1.2	1.0	*1.2*
		CRE price growth	1.8	*1.3*	(5.0)	(1.6)	(1.3)	0.8	*(1.1)*
		CPI inflation	8.6	*1.1*	5.5	2.2	1.3	1.5	*3.8*
Downside (30%)	4,817	GDP	3.0	*(0.3)*	(0.1)	1.1	1.4	1.7	*1.4*
		Interest rate	1.25	*0.58*	1.23	0.80	0.85	0.95	*1.02*
		Unemployment rate	4.5	*(0.6)*	6.0	6.3	6.1	5.9	*5.8*
		HPI growth	(0.1)	*(0.1)*	(7.6)	(4.6)	(5.1)	(3.5)	*(4.2)*
		CRE price growth	(4.4)	*2.4*	(11.9)	(5.5)	(3.6)	(0.7)	*(5.3)*
		CPI inflation	8.7	*1.2*	5.5	1.8	0.6	0.7	*3.5*
Severe downside (10%)	6,844	GDP	1.6	*0.5*	(1.8)	1.0	1.4	1.6	*0.8*
		Interest rate – adj.	2.94	*2.70*	4.75	3.00	2.25	2.25	*3.04*
		Unemployment rate	5.8	*(1.0)*	8.7	8.7	8.3	7.7	*7.8*
		HPI growth	(1.6)	*(0.2)*	(14.0)	(12.3)	(10.5)	(6.4)	*(9.1)*
		CRE price growth	(14.9)	*3.0*	(20.9)	(11.0)	(5.6)	1.0	*(10.6)*
		CPI inflation – adj.	9.8	*2.3*	13.7	4.1	1.7	0.1	*5.9*
Probability-weighted	**4,514**								

1 – Interest rate and unemployment rate are shown as averages for the respective period. 2 – Comparison to scenarios modelled at Q1 2022; changes only shown for 2022 measures.

Classification: Public

Updated coverage after updated economic outlook

(£m, unless stated otherwise)	Gross customer L&A (£bn)	Coverage (ex. Recoveries)[1] Stage 1	Stage 2	Stage 3	Total	Total coverage Q4 2021[1]	ECL Q4 2021	*Write-offs & Other*	*P&L charge/ (credit)*	Net ECL increase/ (decrease)	ECL Q2 2022	Write-offs & Other H1 2021[2]
Retail	**370.9**	0.2%	2.8%	14.3%	**0.8%**	0.7%	2,723	*(351)*	*485*	134	**2,857**	(433)
UK Mortgages	***310.9***	*0.0%*	*1.3%*	*10.6%*	***0.4%***	*0.4%*	*1,284*	*11*	*(64)*	*(53)*	***1,231***	*(24)*
Cards	***15.1***	*1.4%*	*15.1%*	*53.6%*	***4.2%***	*3.7%*	*531*	*(175)*	*273*	*98*	***629***	*(200)*
Loans & Overdrafts	***10.1***	*1.9%*	*21.2%*	*70.7%*	***5.4%***	*4.7%*	*445*	*(144)*	*241*	*97*	***542***	*(167)*
Motor	***14.5***	*0.8%*	*4.4%*	*58.7%*	***2.0%***	*2.1%*	*298*	*(15)*	*7*	*(8)*	***290***	*(27)*
Other	***20.4***	*0.3%*	*2.7%*	*10.4%*	***0.8%***	*0.9%*	*165*	*(28)*	*28*	*–*	***165***	*(15)*
Commercial	**90.0**	0.2%	4.8%	38.8%	**1.6%**	1.6%	1,333	*(10)*	*88*	78	**1,411**	(114)
Other[3]	**(0.5)**	(1.2)%	3.1%	21.0%	**(4.1)%**	2.0%	443	*(1)*	*(196)*	(197)	**246**	3
Total	**460.3**	0.2%	3.0%	20.1%	**1.0%**	1.0%	4,499	*(362)*	*377*	15	**4,514**	(544)

1 – Underlying basis. Loans and advances to customers only; excludes £31m of ECL on other assets at 30/06/2022 (£22m at 31/12/2021). 2 – Excludes £78m of non lending-related fraud costs now included within operating costs. 3 – Coverage calculation for Other excludes £200m ECL central adjustment (£400m at 31/12/2021).

Continued low mortgage LTVs

	June 2022[1]				2021[1]	2010[1]
	Mainstream	Buy to let	Specialist	Total	Total	Total
Average LTVs	39.5%	45.4%	34.9%	**40.2%**	42.1%	55.6%
New business LTVs	62.3%	59.3%	N/A	**61.9%**	63.3%	60.9%
≤ 80% LTV	96.4%	99.7%	96.8%	**97.0%**	95.4%	57.0%
>80–90% LTV	3.2%	0.1%	1.1%	**2.6%**	4.1%	16.2%
>90–100% LTV	0.3%	0.1%	1.0%	**0.3%**	0.3%	13.6%
>100% LTV	0.1%	0.1%	1.1%	**0.1%**	0.2%	13.2%
Value >80% LTV	£8.9bn	£0.2bn	£0.3bn	**£9.4bn**	£14.3bn	£146.6bn
Value >100% LTV	£0.2bn	£0.1bn	£0.1bn	**£0.4bn**	£0.5bn	£44.9bn
Gross lending	£250.9bn	£51.4bn	£8.6bn	**£310.9bn**	£308.8bn	£341.1bn

1 – 2021-22 LTVs use Markit's 2019 Halifax HPI; 2010 LTVs use Markit's pre-2019 Halifax HPI and include TSB.

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