Q1 2022 Fixed Income Investor Presentation

Lloyds Banking Group
27 April 2022

Classification: Public

Lloyds Banking Group – strong foundations

Our strong foundations…

Leading UK customer franchise with trusted brands

Largest UK digital bank

Operating at scale with strong cost discipline

Financial strength and disciplined risk management

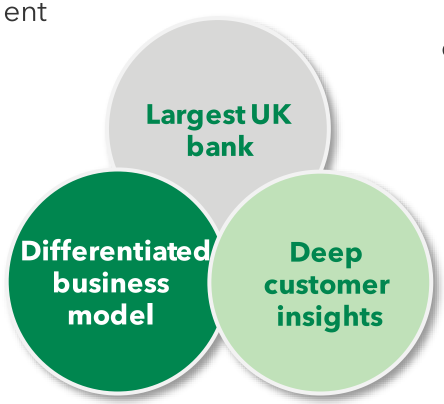
Dedicated colleagues with strong values

…have created distinct competitive strengths

Maintained leading market shares;
19% since 2017

>1m business client relationships

Relationship with c.50% of UK adults



UK's only integrated financial services provider

Significant data asset;
1bn monthly transactions

18.3m digitally active customers;
45% growth over last 5 years

Record all-channel NPS;
7pt growth over last 5 years

LLOYDS BANK | BANK OF SCOTLAND | HALIFAX | SCOTTISH WIDOWS | embark group | mbna | Schroders personalwealth | blackhorse | LEX AUTOLEASE | BIRMINGHAM MIDSHIRES | LDC

Solid performance in Q1, well positioned looking forward

- **Solid business and financial performance in Q1**
  - Strong revenue growth supported by increased NIM, continued recovery in customer activity and focus on costs
  - Asset quality remains strong and well positioned for a period of uncertainty
  - Strong capital position allowing for significant accelerated pension contributions in Q1
- **Uncertainties persist around the macroeconomic environment and its impact on consumers, although business model and strategy position the Group well**
- **The Group's confidence is reflected in enhanced 2022 guidance**
  - NIM now expected to be >270bps
  - RoTE now expected to be >11%
  - All other guidance for 2022 and the longer-term is reiterated
- **New strategy, supported by new business structure, enabling higher, more sustainable returns and capital generation**

Solid business and financial performance

LLOYDS BANKING GROUP

Summary P&L and key metrics

(£m)	Q1 2022	Q1 2021	YoY
Net interest income	**2,945**	2,677	*10%*
Other income	**1,261**	1,135	*11%*
Operating lease depreciation	**(94)**	(148)	*36%*
Net income	**4,112**	3,664	*12%*
Operating costs[1]	**(2,098)**	(2,045)	*(3)%*
Remediation	**(52)**	(65)	*20%*
Total costs	**(2,150)**	(2,110)	*(2)%*
Impairment	**(177)**	360	
Underlying profit	**1,785**	1,914	*(7)%*
Statutory profit after tax	**1,204**	1,397	*(14)%*
Return on tangible equity	**10.8%**	13.9%	*(3.1)pp*
	Q1 2022	**Q4 2021**	***QoQ***
Tangible net asset value per share	**56.5p**	57.5p	*(1.0)p*
CET1 ratio[2]	**14.2%**	16.3%	*(2.1)pp*
Risk-weighted assets	**£210bn**	£196bn	*£14bn*

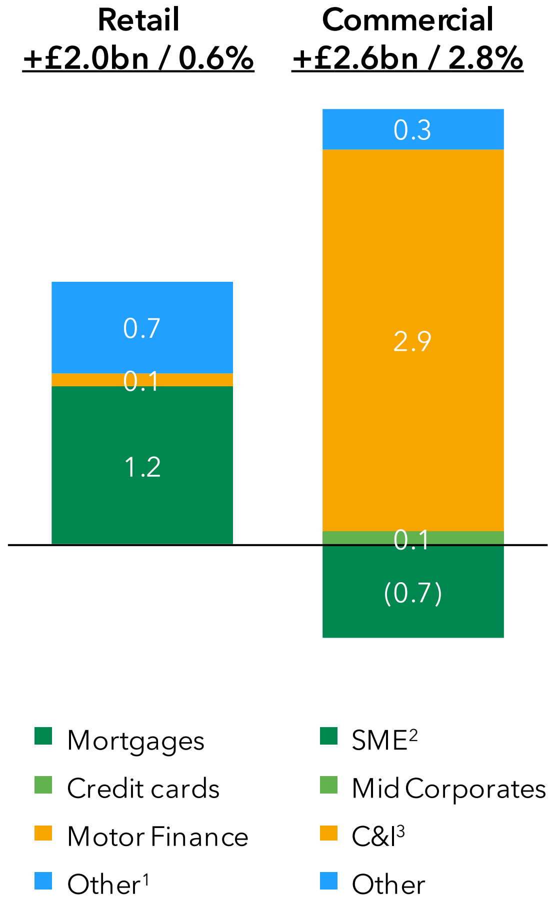
- Strong net income, up 12%; NIM 268bps
- Operating costs[1] 3% higher reflecting planned investment with stable BAU costs; on target for c.£8.8bn for 2022
- Continued strong asset quality; £177m net impairment charge
- Statutory profit after tax of £1.2bn
- Continued balance sheet franchise growth
- 50bps capital build[3] with CET1 ratio 14.2%
  - Full £800m fixed pension contributions and £500m variable contributions in Q1
- RWAs £210bn, post regulatory inflation of £16bn on 1 January 2022

1 – All costs previously reported within restructuring, apart from merger, acquisition and integration costs, are now included within operating costs. Non lendingrelated fraud costs, previously reported within underlying impairment, are also now included within operating costs. Comparatives have been presented on a consistent basis. 2 – Q4 2021 ratio reported on a pro forma basis. 3 – Excluding headwinds on 1 January 2022, variable pension contributions and dividend accrual.

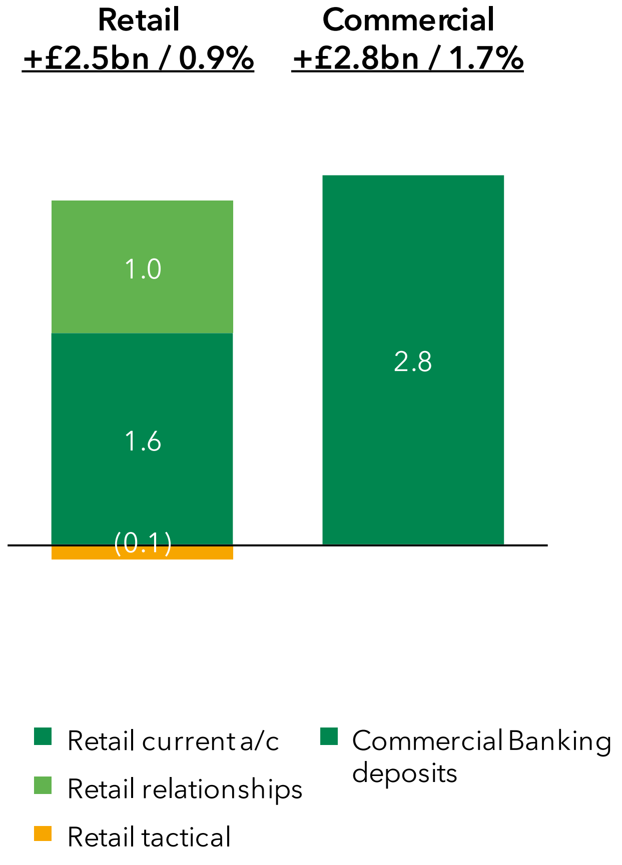
Classification: Public

Continued recovery in customer activity and franchise growth

Q1 lending change
(£bn)



Q1 deposit change
(£bn)



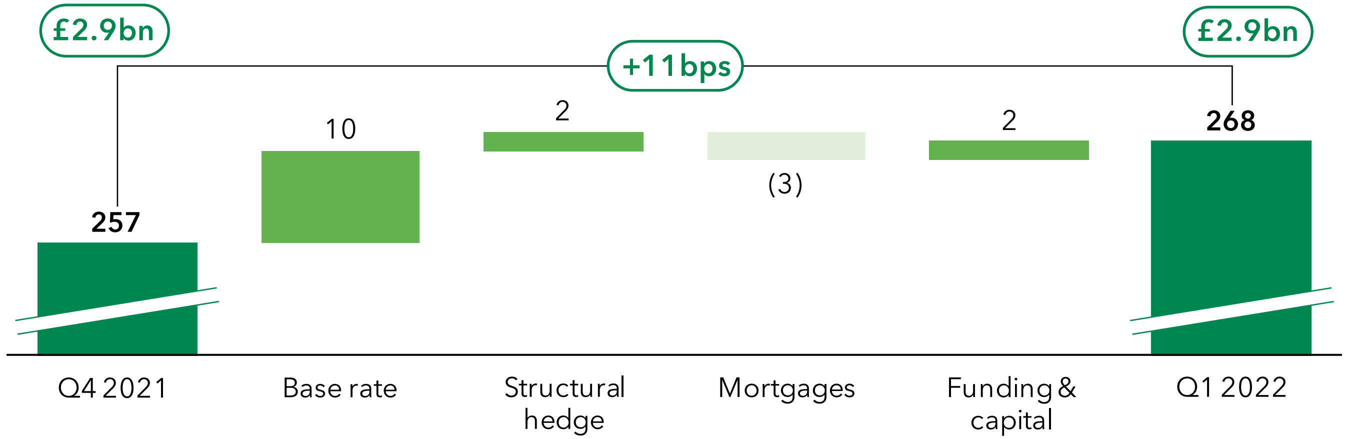
- Total mortgage balances up £1.2bn in Q1 to £308.7bn, driven by £1.7bn increase in open book
- Credit card balances flat in Q1 despite seasonal repayments
- Commercial Banking balances up £2.6bn in Q1 given growth of £2.9bn in C&I[3]
- Q1 AIEAs £448bn, down £1.4bn on Q4, up £8.6bn on prior year
- Continue to expect low single-digit percentage AIEA growth in 2022
- Retail deposits up £2.5bn in Q1 reflecting resilient inflows
- Commercial deposits up £2.8bn, driven by inflow of SME and C&I balances

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

Strong revenue performance

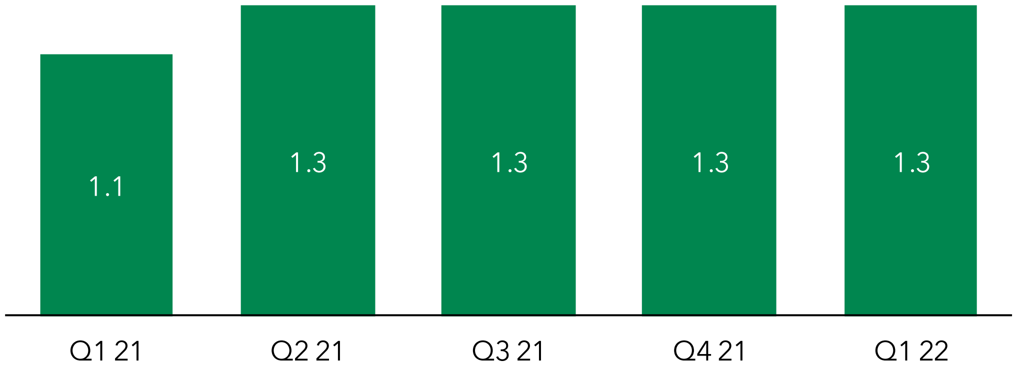
Net interest income (NII) and banking net interest margin (NIM)

(£bn, bps)



Other income

(£bn)



- NII £2.9bn, up 10% on Q1 2021
  - Stronger NIM 268bps, given base rate changes, deposit growth, hedge benefits and continued capital base optimisation
  - Competitive mortgage market; Q1 average completion margin c.85bps
  - Hedge nominal balance now £245bn; capacity increased by £10bn to £250bn
  - Illustrative c.£175m additional NII in year 1 for a 25bps parallel increase in rates[1]
- Now expect 2022 NIM >270bps
- Other income £1.3bn in Q1, up 11% YoY
  - Solid Retail fee income and LP&I new business; improving Commercial markets activity levels QoQ

1 – Illustrative interest rate sensitivity; based on the assumptions shown on slide 7.

Illustrative NII sensitivity

Cumulative impact of parallel shifts in interest rate curve[1]

(£m)

	Year 1	Year 2	Year 3
+50bps	c.350	c.525	c.800
+25bps	c.175	c.275	c.400
-25bps	c.(400)	c.(525)	c.(650)

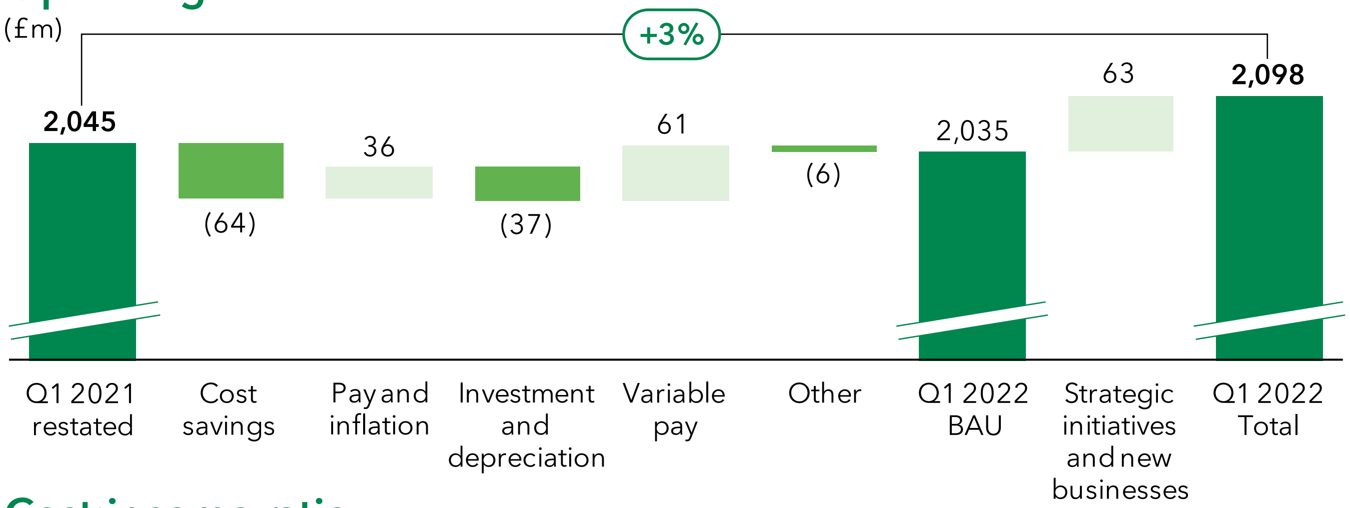
- Reflects shifts in forward rate curve
- Marginal reduction in Year 1 sensitivity since year end driven by higher structural hedge balance
- Actual impact also depends on regulatory and competitive environment at the time
- Illustrative sensitivity does not reflect new business margin implications and/or pricing actions, other than as outlined
- Assumptions
  - Instantaneous parallel shift in interest rate curves, including bank base rate
  - Balance sheet remains constant
  - Illustrative 50% deposit pass-through, which could be different in practice

1 – Sensitivity based on modelled impact on banking book NII (including structural hedge). Annual impacts are presented for illustrative purposes only and are based on a number of assumptions which are subject to change. Year 1 reflects the 12 months from 31/03/2022 balance sheet position.

Maintained focus on efficiency

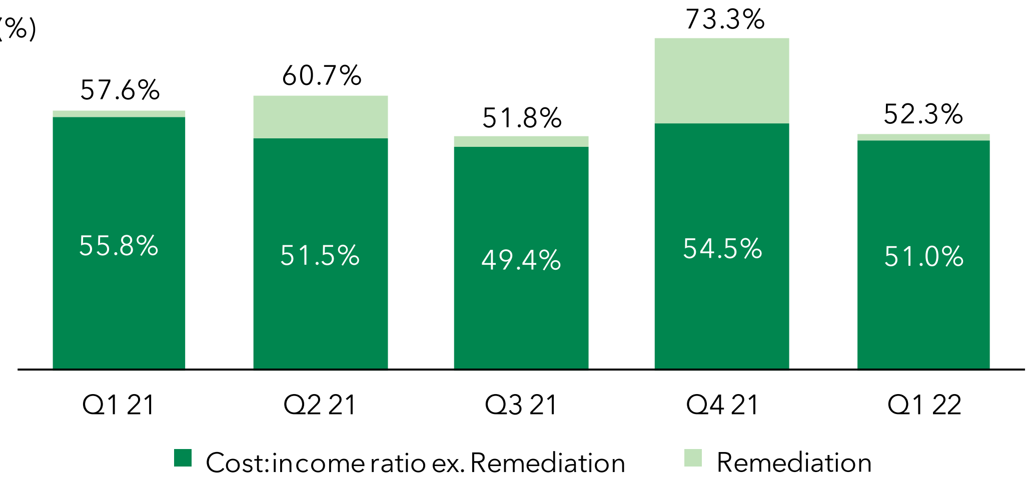
Operating costs

(£m)



Cost:income ratio

(%)



- Cost:income ratio of 52.3% and operating costs of £2.1bn, up 3% given planned investment and new businesses costs
- Sustained cost discipline with stable BAU costs, offsetting inflationary pressures
- Remediation of £52m, reflecting modest charges from pre-existing programmes
  - No charge in Q1 for HBOS Reading
- As previously indicated, most restructuring and fraud costs now in operating costs
- Continue to expect 2022 operating costs to be c.£8.8bn on new basis (2021: c.£8.3bn)
  - Stable BAU before further increased investment and new businesses costs

Classification: Public

Strong asset quality and sustained low new to arrears

Impairment

(£m)

	Q1 2022	Q1 2021	*YoY*
Charges pre-updated MES[1]	**150**	99	*51*
Retail	**165**	286	*(121)*
Commercial Banking	**(15)**	(186)	*171*
Other	**-**	(1)	*1*
Updated economic outlook	**27**	(459)	*486*
Retail	**(12)**	(240)	*228*
Commercial Banking	**39**	(219)	*258*
Total impairment charge / (credit)	**177**	(360)	*537*

- £177m net charge, AQR 16bps
- Sustained low levels of new to arrears; underlying charges below pre-COVID level
- Updated economic outlook: stronger HPI and unemployment with higher inflation
  - Limited exposure to customer segments most exposed to cost of living rise
- No direct exposure to Russia or Ukraine; indirect exposures monitored carefully
- Stock of ECL stable at £4.5bn
  - COVID judgements c.£0.8bn, including £0.4bn central adjustment retained[2]
  - Further judgements capture potential affordability risks
- Continue to expect 2022 AQR c.20bps

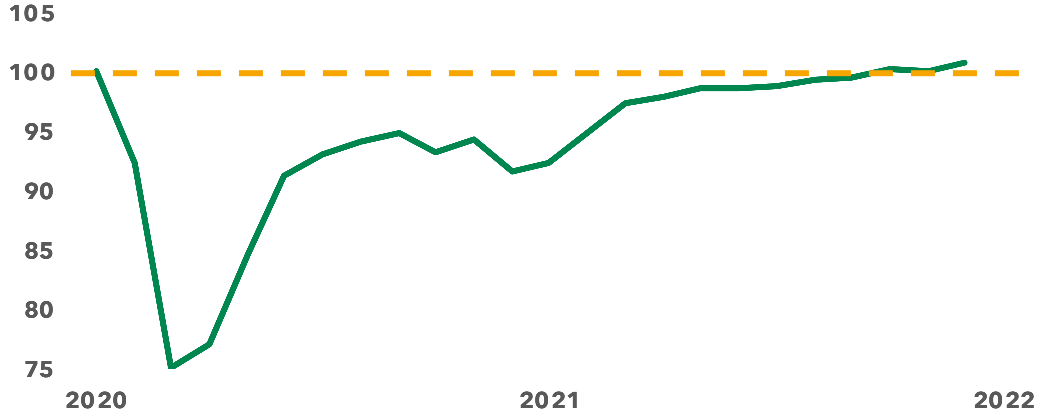
1 – Charges based on economic assumptions as at 31/12/2019. Coronavirus impacted restructuring cases, previously disclosed separately, are now reported within charges pre-updated MES (multiple economic scenarios). Non lending-related fraud costs, previously reported within underlying impairment, are now included within operating costs. Comparatives have been presented on a consistent basis. 2 – £400m central adjustment held for COVID-related risks to the Group's base case assumptions.

Classification: Public

UK economy resilient but pace of recovery expected to slow

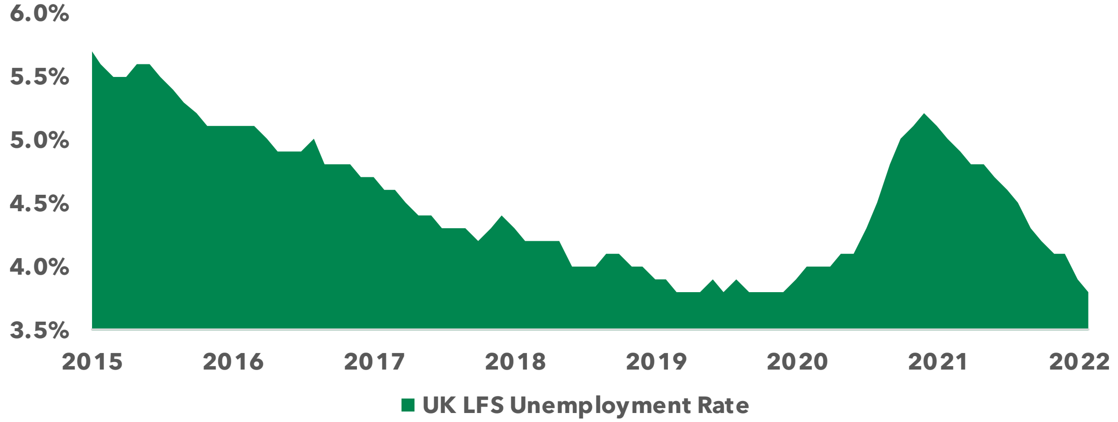
GDP has recovered to pre-pandemic levels

Monthly UK GDP – Index, February 2020 = 100[1]



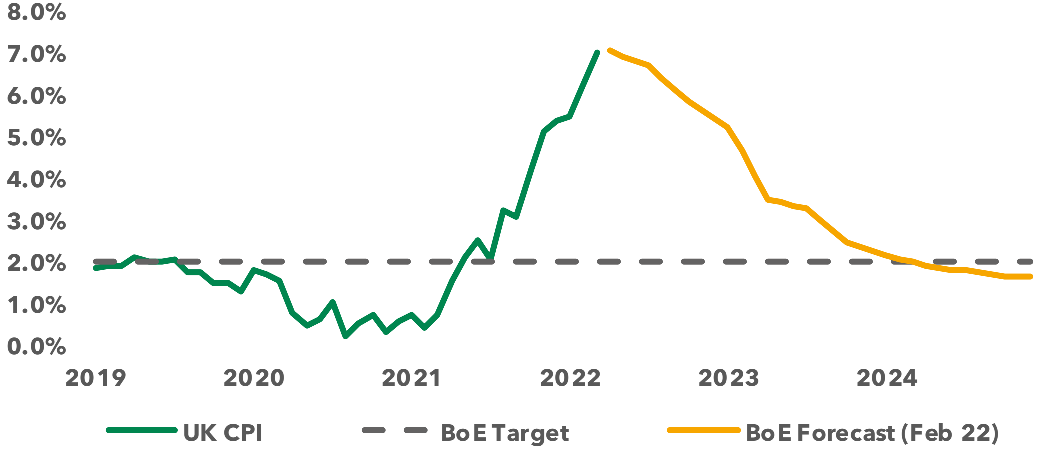
Unemployment remains low

UK unemployment rate, %[2]



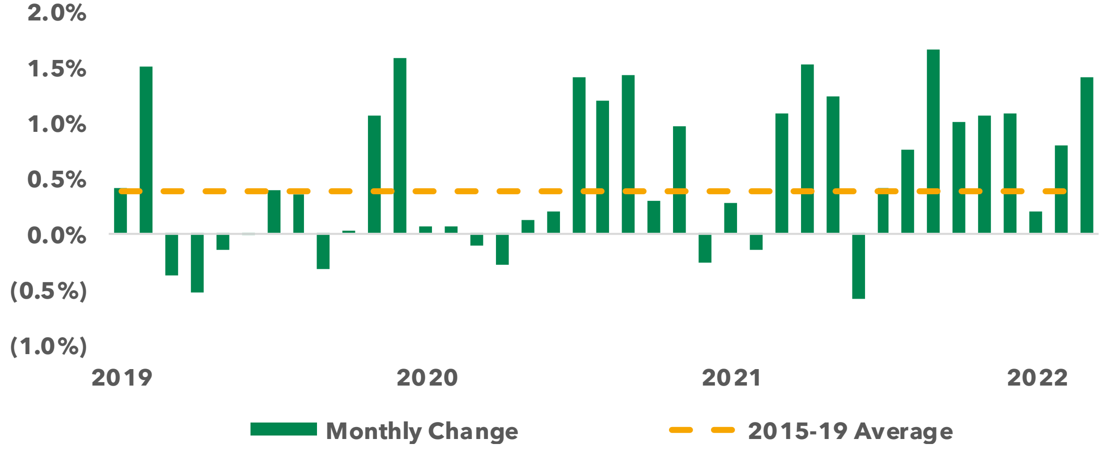
Higher inflation in 2022 before normalizing in 2023

CPI Inflation and Bank of England projected forecast[3]



HPI growth despite withdrawal of government support

Halifax UK House Price Index – monthly percentage change[4]



1 – Source: ONS and Lloyds Banking Group. 2 – Source: ONS. 3 – ONS and Bank of England February 2022 Monetary Policy Report. February remains latest BoE forecast but March MPC minutes did point to higher inflation expectations in 2022. 4 - Source: IHS Markit and Lloyds Banking Group.

Strategic Overview

Key messages

Transformation plan

Higher, more diversified, revenues

c.£0.7bn additional revenues from strategic initiatives in 2024; c.£1.5bn with a 50:50 NII/OOI split by 2026

Maintaining strong focus on cost discipline

Flat costs in 2024 vs. 2022, with savings offsetting cost pressures; cost:income ratio <50% by 2026

Enabling our strategy through our people, technology and data

Destination employer with purpose of Helping Britain Prosper; investing in end-to-end efficiency and upgrading data and technology capabilities

Delivering a step change in profitability

Higher, more sustainable, returns

>10% RoTE by 2024, with a step-change to >12% RoTE by 2026 as full investment benefits are realised

Higher, more sustainable, capital generation

Average capital generation of c.150bps per annum 2022-2024, sustainably improving to 175-200bps by 2026; committed to returning excess capital and paying down to target CET1 ratio by 2024

Strategic execution creates clear outcomes

Deepen and innovate in Consumer

- Meeting more needs of existing customers
- Increased digitally active customers
- Higher market shares with intermediaries

Create a new mass affluent offering

- New offering for underserved mass affluent segment
- Higher banking balances and net flows

Digitise and diversify our SME offering

- Digitised SME bank
- Greater proportion of OOI with non-lending products

Target our Corporate and Institutional offering

- Disciplined cash-debt-risk management offering
- Higher returns with increased OOI

Strengthen cost and capital efficiency

- Lower cost of technology
- Lower cost of change
- Lower cost to serve

Maximise the potential of people, technology and data

- Financial services' employer of choice
- Greater adoption of modern technology, data and analytics
- Driving business opportunity

Our new strategy is guided by our purpose

A clear strategic vision… | …with a transformation plan… | …creating higher and more sustainable value

Purpose

Helping Britain Prosper

Strategic vision

UK customer-focused digital leader and integrated financial services provider, capitalising on new opportunities, at scale

Building an inclusive society

Supporting the transition to a low carbon economy

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

Note: for more detail please refer to the Lloyds Banking Group 2021 Annual Report & Accounts.

Our purpose underpins our business and approach to ESG

Purpose and mission

Helping Britain Prosper

…by creating a more sustainable and inclusive future for people and businesses, shaping finance as a force for good

Approach to ESG

- Our purpose of Helping Britain Prosper is fundamental to the business
- Strong alignment between purpose and value creation
- Integrated with strategy to profitably deliver to all of our stakeholders
- Stakeholder outcomes embedded across business priorities
- ESG performance measures included in Group balanced scorecard
- Support the UN Sustainable Development Goals
- Transparent reporting (e.g. TCFD, SASB, GRI and UN PRB)[1]
- Effectively managed leadership transition

1 – TCFD – Taskforce on Climate-Related Financial Disclosures, SASB – Sustainability Accounting Standards Board, GRI – Global Reporting Initiative, UN PRB – United Nations Principles for Responsible Banking

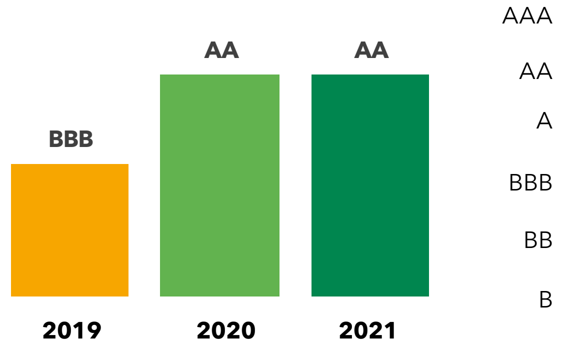
Strong ESG ratings supported by clear deliverables

Environmental
- Reduce carbon emissions we finance by >50% by 2030, on the path to net zero by 2050 or sooner
- Net zero for our own operations by 2030
- Sustainability embedded across business priorities

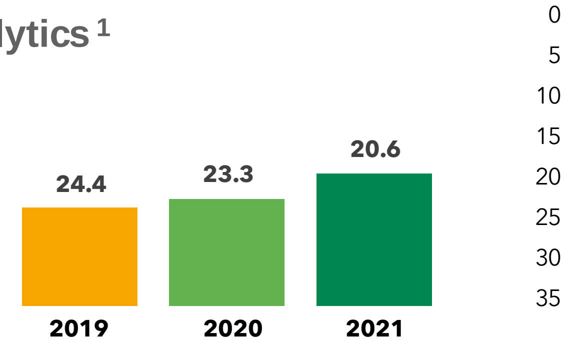
Social
- Improving access to quality housing
- Promoting financial inclusion and education
- Enabling regional development
- 50% female, 13% Black, Asian and minority ethnic with 3% Black heritage colleagues in senior roles by 2025

Governance
- 3 ESG performance measures in the Group Balanced Scorecard
- Transparency through ESG reporting: 2021 ESG Report and 2021 Climate Report
- Stakeholder outcomes incorporated in the Group's new strategy
- Effectively managed leadership transition

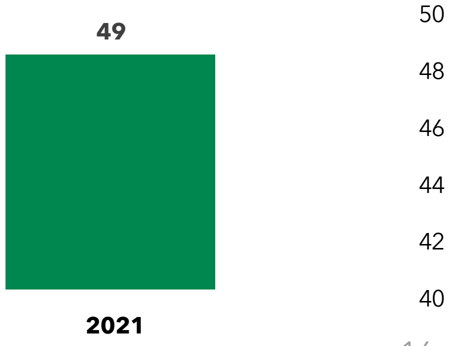
MSCI [1]



Sustainalytics [1]



S&P CSA [1 2]



1 – Ratings shown are all end of year scores. 2 – S&P only shows a score for 2021 as LBG did not participate in the CSA process in earlier years.

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Capital, Funding & Liquidity

Capital, MREL & Liquidity summary

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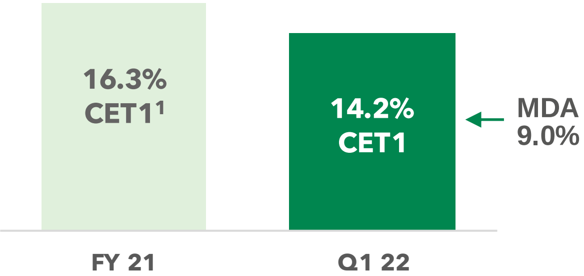
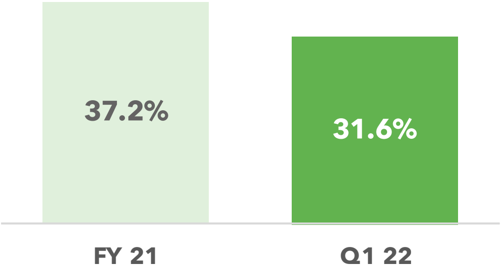
Capital



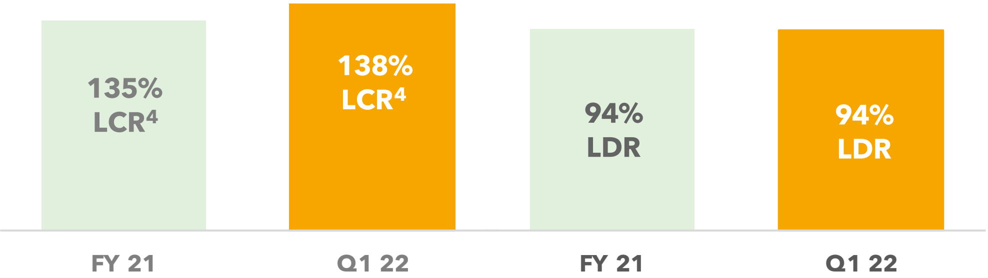
CET1[2] remains ahead of regulatory minimum and ongoing Group target of c.12.5% + c.1% management buffer

MREL



MREL[2] comfortably in excess of ongoing requirement of 27.2%[3]

Liquidity

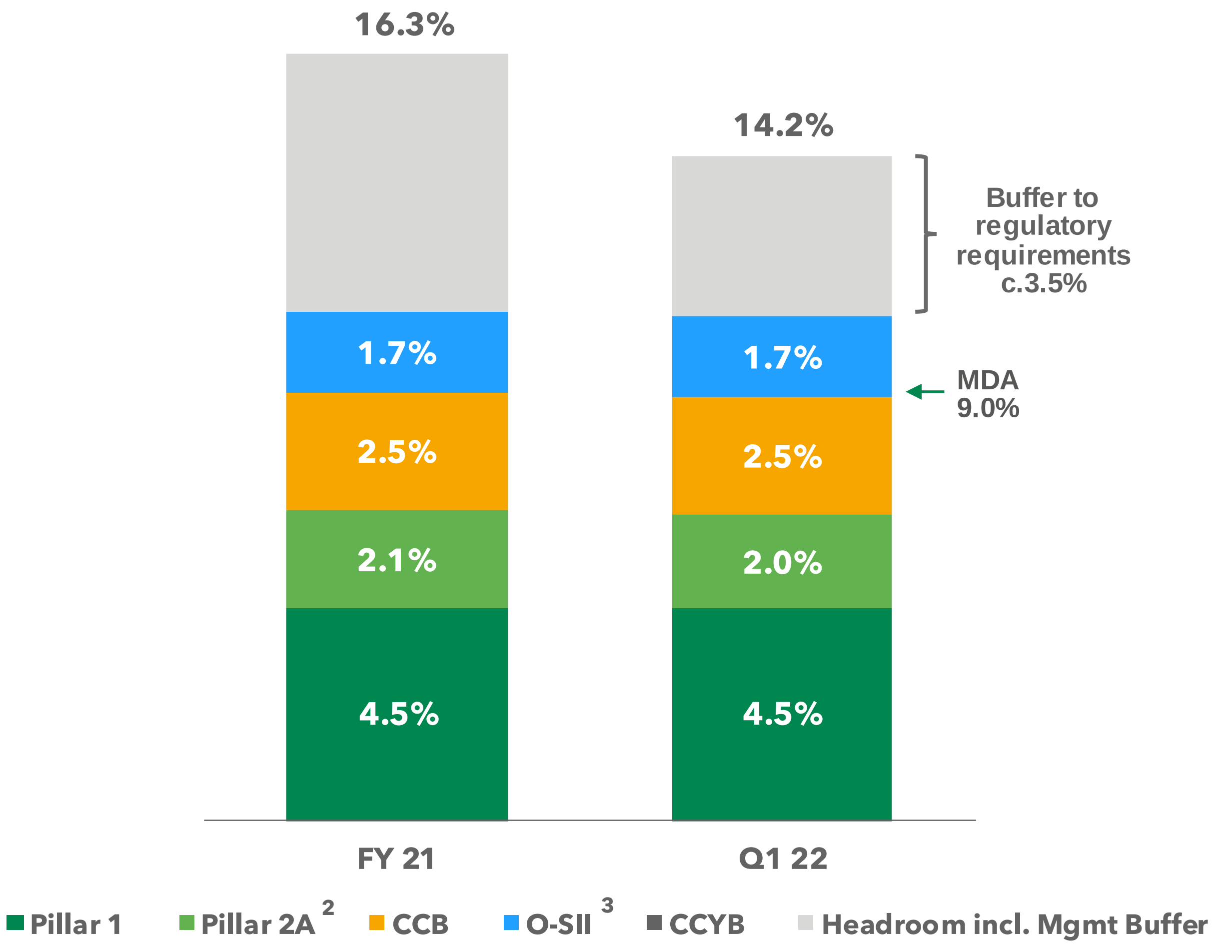


Strong liquidity metrics with deposits remaining elevated

1 – CET1 ratio at 31 December 2021 is proforma which reflects the dividend received from Insurance in February 2022 and the full impact of the share buyback. 2 – Capital ratios for Q1 2022 incorporate profits for the quarter that remain subject to formal verification. 3 - Pillar 2A reviewed annually by the PRA. Current P2A component based upon notional requirement as at 31 December 2021 and RWAs as at 31 March 2022. MREL requirements shown exclude any other PRA buffer requirement which we are not permitted to disclose. 4 – Calculated as a simple average of month end observations over the previous 12 months.

Capital strength maintained

Common equity tier 1 ratio [1]



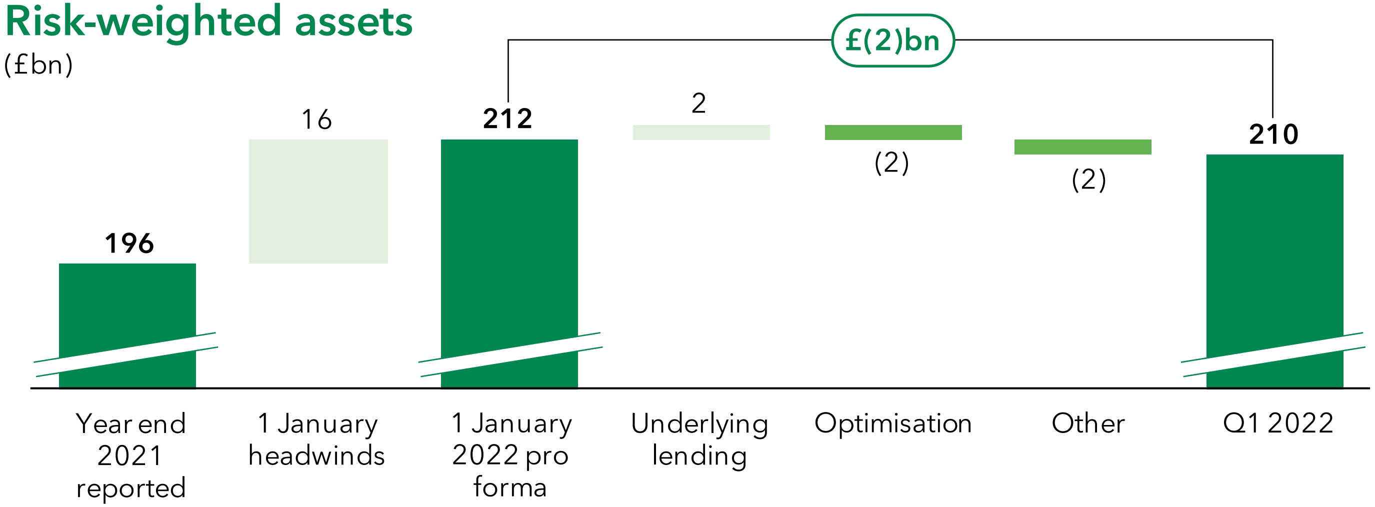
- Q1 CET 1 ratio 14.2% reflects strong capital build of 50bps during quarter after regulatory headwinds of 230bps on 1 January 2022
- UK CCyB rate set to increase to 1% in December 2022, which represents an equivalent increase in the Group's CCyB to 0.9%
- Given increasing uncertainty around the economic outlook, the FPC have announced they stand ready to increase or decrease the CCyB depending on circumstances
- O-SII buffer maintained at 1.7% until reassessment in December 2023; earliest implementation of any change January 2025. FPC and PRA consultation ongoing

1 – CET1 ratio at 31 December 2021 is proforma which reflects the dividend received from Insurance in February 2022 and the full impact of the share buyback. 2 – Pillar 2A reviewed annually by the PRA. FY 21 P2A component based upon notional requirement and RWAs as at 31 December 2021. Q1 22 P2A component based upon notional requirement as at 31 December 2021 and RWAs as at 31 March 2022. 3 – O-SII buffer of 2% is applicable to the RFB sub-group, equating to 1.7% at Group level.

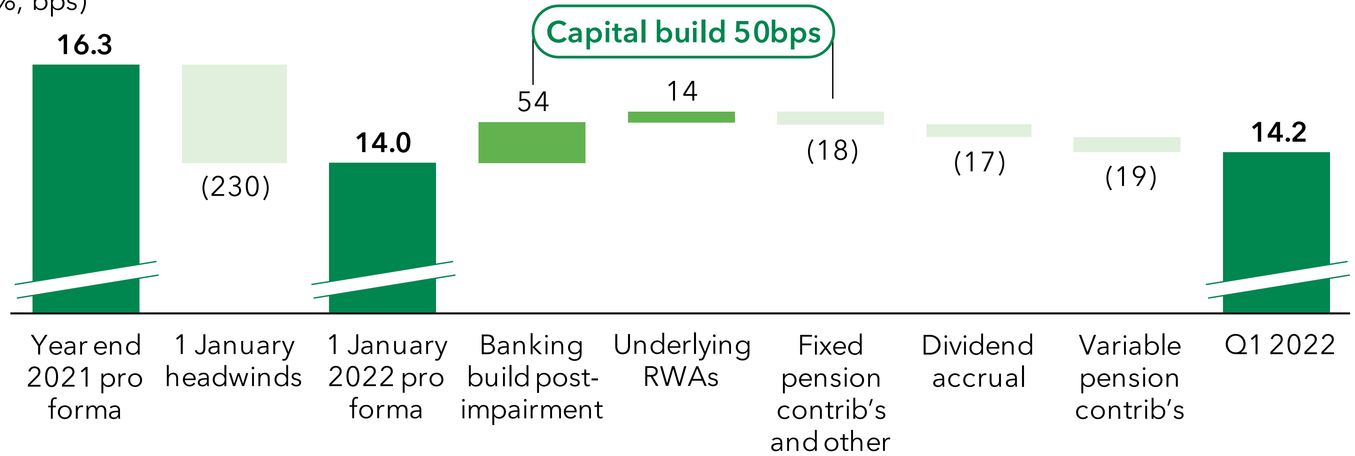
LLOYDS BANKING GROUP

Strong capital position enabling significant accelerated pension contributions

Risk-weighted assets
(£bn)



Common equity tier 1 ratio
(%, bps)

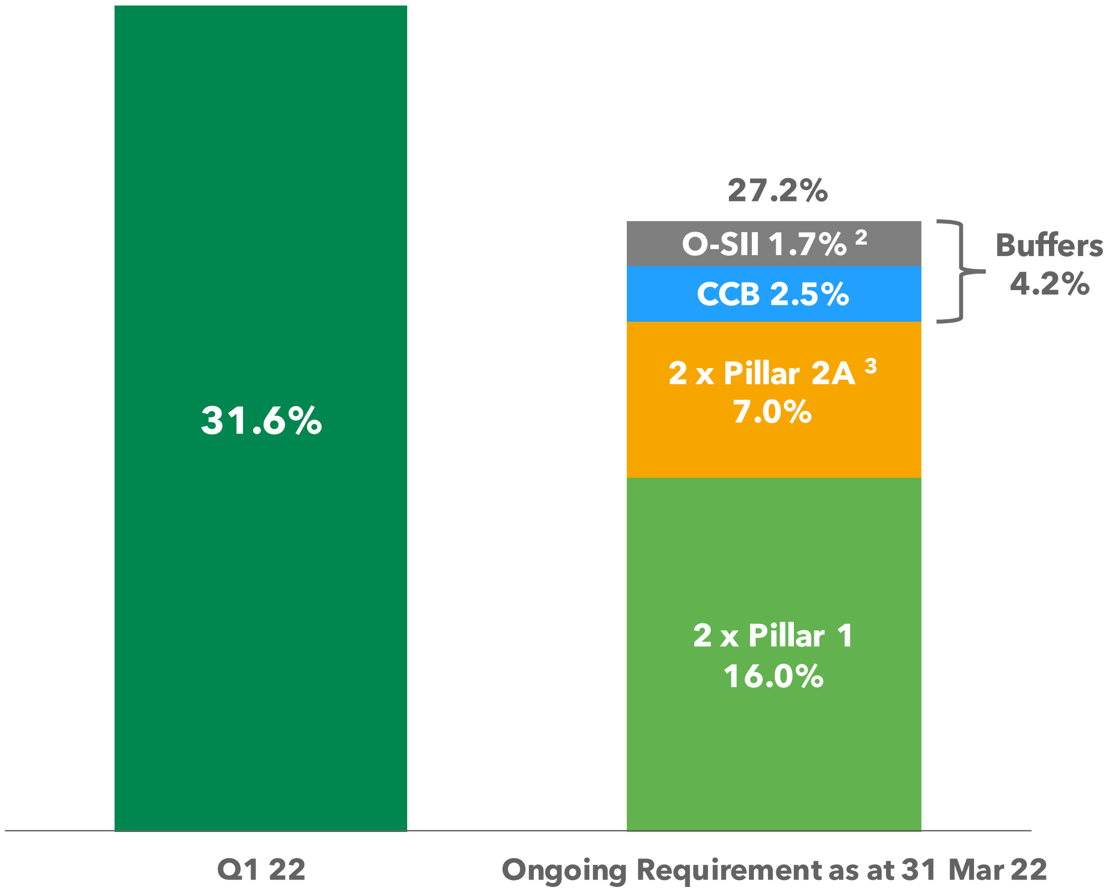


- RWA regulatory inflation of £16bn on 1 January
- RWAs down £2bn since 1 January supported by continued optimisation; limited credit impacts given book quality
- 50bps capital build after full £800m fixed pension deficit contributions in Q1, equivalent to 31bps
- CET1 ratio 14.2% after £500m variable pension contributions
- Continue to expect 2022 closing RWAs c.£210bn
- Expect continued strong capital build in 2022

Classification: Public

MREL comfortably in excess of ongoing requirements

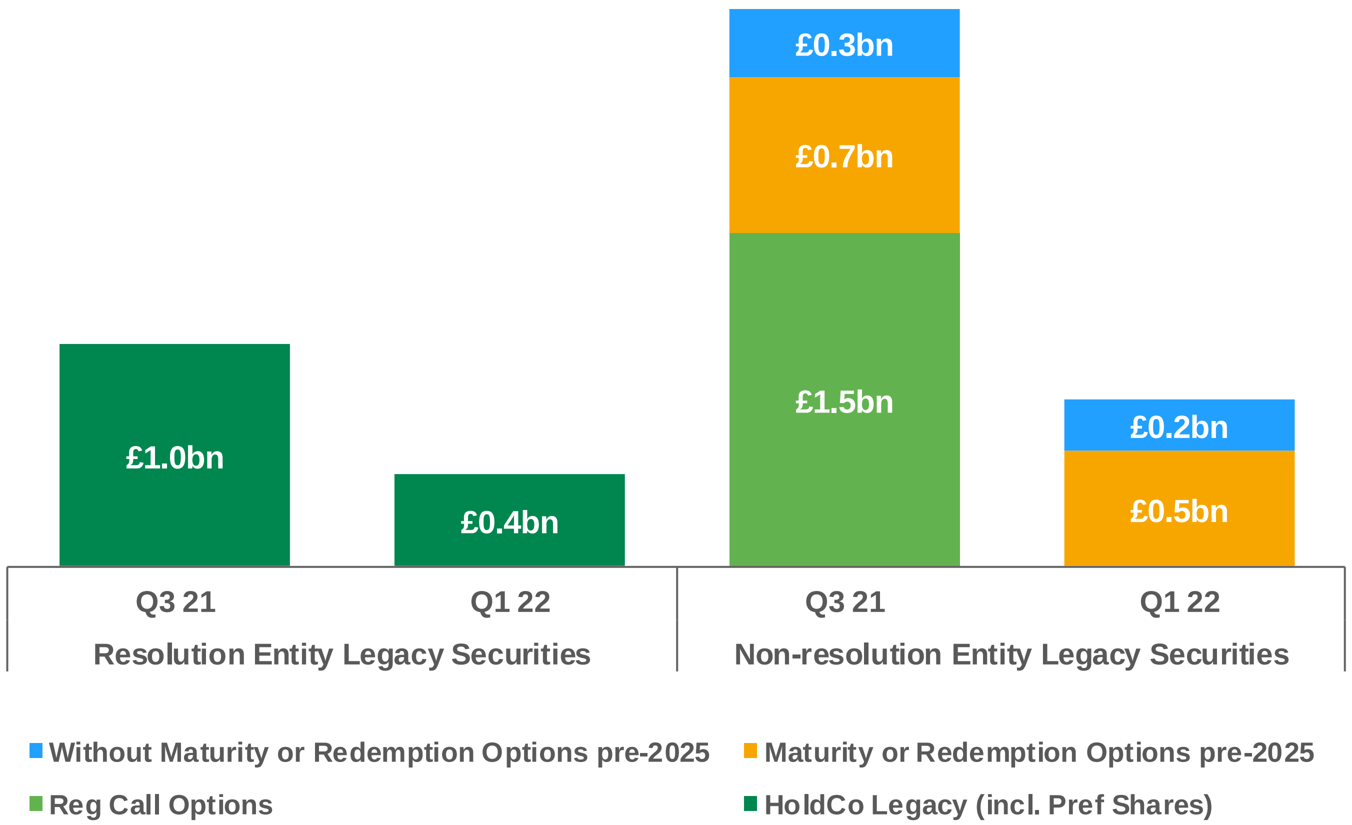
MREL ratio [1]



- Total capital ratio of 18.9% and MREL ratio of 31.6% remain strongly positioned
  - Reduction in MREL ratio a result of post 1 Jan 2022 regulatory changes impacting CET 1 and RWAs and completion of transition to end-point eligibility rules for regulatory capital and MREL
- The Group continues to operate prudent buffers over regulatory MREL requirements

1 – All capital ratios include profits for the quarter which remain subject to formal verification. 2 – O-SII Buffer of 2% is applicable to the RFB sub-group, equating to 1.7% at Group level. 3 - Pillar 2A reviewed annually by the PRA. Current P2A component based upon notional requirement as at 31 December 2021 and RWAs as at 31 March 2022. MREL requirements shown exclude any other PRA buffer requirement which we are not permitted to disclose.

Continued focus on legacy securities with significant reduction since Q3 2021



- Legacy capital securities now constitute only c.£1.2bn, a reduction of c.£2.3bn since Q3 2021 following LME and redemptions
- Outstanding amount immaterial when compared to c.£66bn of regulatory loss-absorbing capacity:
  - £0.4bn preference shares issued from the resolution entity
  - £0.5bn securities with maturity or redemption options pre-June 2025
  - £0.2bn securities without maturity or redemption options pre-June 2025

Guiding to increased funding requirements over strategic plan period

	2022	2023 onwards
HoldCo Senior	c.£5-6bn	Broadly limited to refinancing
Tier 2	Ongoing target of around 2.5%	Ongoing refinancing to c.2.5% target
AT1	Ongoing target of around 2.0%	Ongoing refinancing to c.2.0% target
OpCo	No current plans	Refinancing of maturities and government lending schemes

- c.£2.2bn equivalent issued YTD, out of planned c.£5-6bn
- 2023-24 likely to be closer to "steady state" volumes of c.£15-20bn a year as the Group considers TFSME refinancing options
- The Group continues to have access to a diverse range of funding programmes, products and markets
- No planned capital or OpCo funding needs for 2022 but we will retain flexibility for opportunistic issuance activity

Strong credit ratings across the Group

		HoldCo	Ring-Fenced Bank	Non-Ring-Fenced Bank	Insurance Sub-Group
	UK Sovereign	Lloyds Banking Group	Lloyds Bank, Bank of Scotland	Lloyds Bank Corporate Markets	Scottish Widows [1]
S&P	AA Stable	BBB+ Stable A-2	A+ Stable A-1	A Stable A-1	-
Moody's	Aa3 Stable	A2 Stable P-1	A1 Stable P-1	A1 Stable P-1	A2 Stable -
Fitch	AA- Stable	A Stable F1	A+ Stable F1	A+ Stable F1	A+ Stable F1

1 – Ratings shown for Scottish Widows are Insurance Financial Strength.

Appendix

Simple group structure with multiple issuance points

HoldCo

Lloyds Banking Group

BBB+ / A2 / A Sta / Sta / Sta	A-2 / P-1 / F1
Senior Unsecured Capital	-

Ring-Fenced Sub-Group		Non-Ring-Fenced Sub-Group		Insurance Sub-Group		Equity Investments Sub-Group	
Lloyds Bank, Bank of Scotland		**Lloyds Bank Corporate Markets**		**Scottish Widows [2]**		**Lloyds Equity Investments**	
A+ / A1 / A+ Sta / Sta / Sta	A-1 / P-1 / F1	A / A1 / A+ Sta / Sta / Sta	A-1 / P-1 / F1	- / A2 / A+ - / Sta / Sta	- / - / F1	-	-
Senior Unsecured Covered Bonds ABS	CD, CP	Senior Unsecured	CD, Yankee CD, CP	Capital	-	-	-
L&A: £431bn[4]	Assets: £603bn[5]	L&A: £17bn[4]	Assets: £89bn[5]	L&A: N/A	AuA: £193bn[3,5]	L&A: N/A	Assets: £3bn[5]
EU Sub: Berlin		**EU Sub: Frankfurt**		**EU Sub: Luxembourg**			

1 - Ratings shown are senior unsecured in the order of S&P / Moody's / Fitch. 2 – Ratings shown are for Scottish Widows are Insurance Financial Strength Ratings. 3 – Insurance assets includes Wealth but excludes the contribution of Embark. 4 – "L&A" refers to Loans & Advances to customers and all are shown as at FY21. 5 – Total Assets as at FY21, Scottish Widows AuA as at FY21.

Prudent economic scenarios

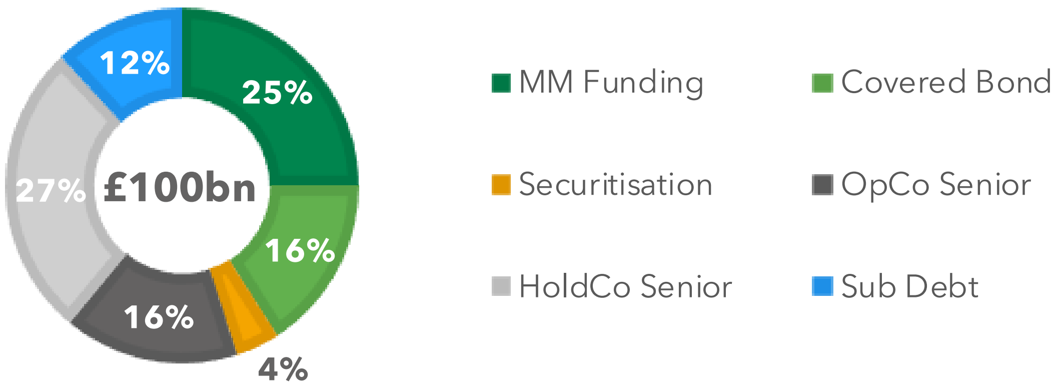
Scenario	Measure (%)	2022	vs Q4 21[1]	2023	2024	2025	2026	*Ave. 22-26*
Upside (30%)	GDP	3.6	*(0.4)*	1.0	1.8	1.6	1.6	*1.9*
	Interest rate	1.39	*(0.05)*	1.80	2.00	2.02	2.05	*1.85*
	Unemployment rate	3.3	-	3.4	3.6	3.8	3.8	*3.6*
	HPI growth	5.3	*2.7*	4.8	4.9	3.9	3.8	*4.5*
	CRE price growth	9.1	*3.3*	3.1	0.5	(2.9)	(0.8)	*1.7*
	CPI inflation[2]	7.6	*1.7*	4.6	2.2	2.1	2.3	*3.8*
Base case (30%)	GDP	3.5	*(0.2)*	1.2	1.7	1.7	1.5	*1.9*
	Interest rate	1.06	*0.25*	1.31	1.50	1.50	1.50	*1.38*
	Unemployment rate	4.1	*(0.2)*	4.3	4.4	4.5	4.5	*4.3*
	HPI growth	3.3	*3.3*	0.0	0.2	0.7	1.0	*1.0*
	CRE price growth	0.5	*2.7*	(1.3)	(0.3)	(1.5)	(0.3)	*(0.6)*
	CPI inflation[2]	7.5	*1.6*	4.3	1.6	1.2	1.3	*3.2*
Downside (30%)	GDP	3.3	*(0.1)*	0.7	1.6	1.7	1.5	*1.7*
	Interest rate	0.67	*0.22*	0.47	0.52	0.53	0.53	*0.54*
	Unemployment rate	5.1	*(0.5)*	6.1	6.1	6.0	5.9	*5.8*
	HPI growth	0.0	*4.9*	(7.0)	(6.7)	(5.0)	(2.2)	*(4.2)*
	CRE price growth	(6.8)	*3.3*	(6.1)	(3.6)	(3.4)	(0.2)	*(4.0)*
	CPI inflation[2]	7.5	*1.7*	4.1	1.2	1.2	1.4	*3.1*
Severe downside (10%)	GDP	1.1	*0.2*	(0.2)	1.6	1.7	1.5	*1.1*
	Interest rate	0.24	*0.20*	0.03	0.06	0.06	0.06	*0.09*
	Unemployment rate	6.8	*(0.9)*	8.5	8.5	8.1	7.8	*7.9*
	HPI growth	(1.4)	*5.9*	(12.1)	(12.3)	(9.4)	(6.1)	*(8.4)*
	CRE price growth	(17.9)	*1.7*	(12.8)	(6.5)	(4.3)	(0.8)	*(8.7)*
	CPI inflation[2]	7.5	*1.7*	3.9	0.6	0.4	0.7	*2.6*

1 – Comparison to scenarios modelled at Q4 2021; changes only shown for 2022 measures. 2 – CPI numbers are translations of modelled RPIX estimates, except for the base case view.

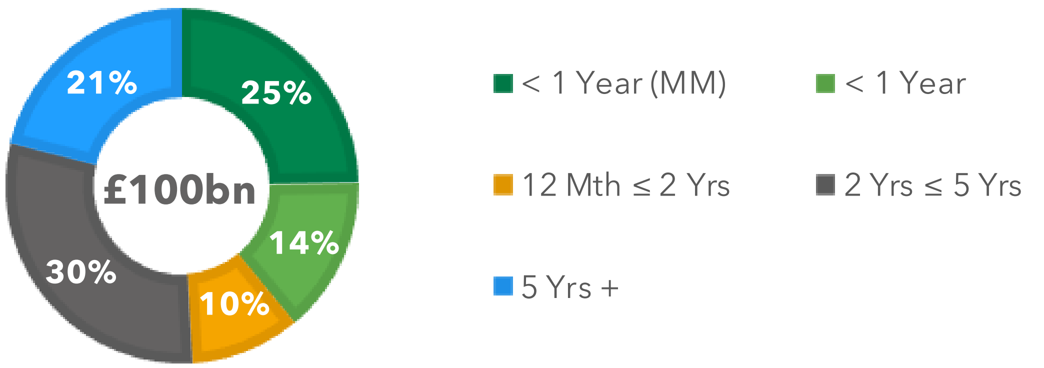
Classification: Public

Diverse funding portfolio

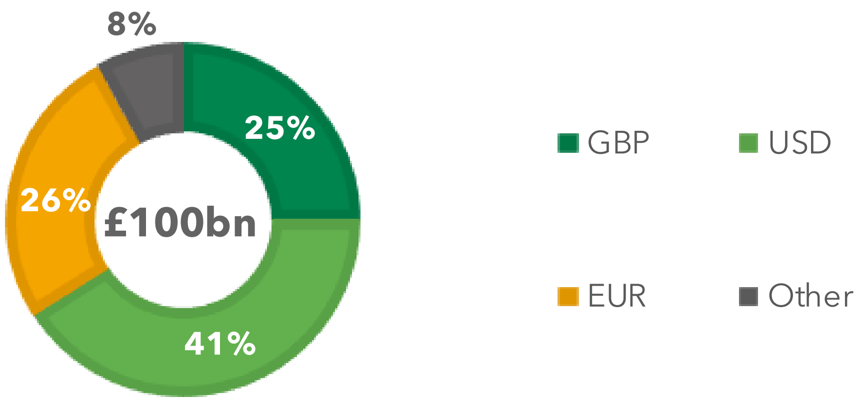
Wholesale funding portfolio by type



Wholesale funding portfolio by maturity

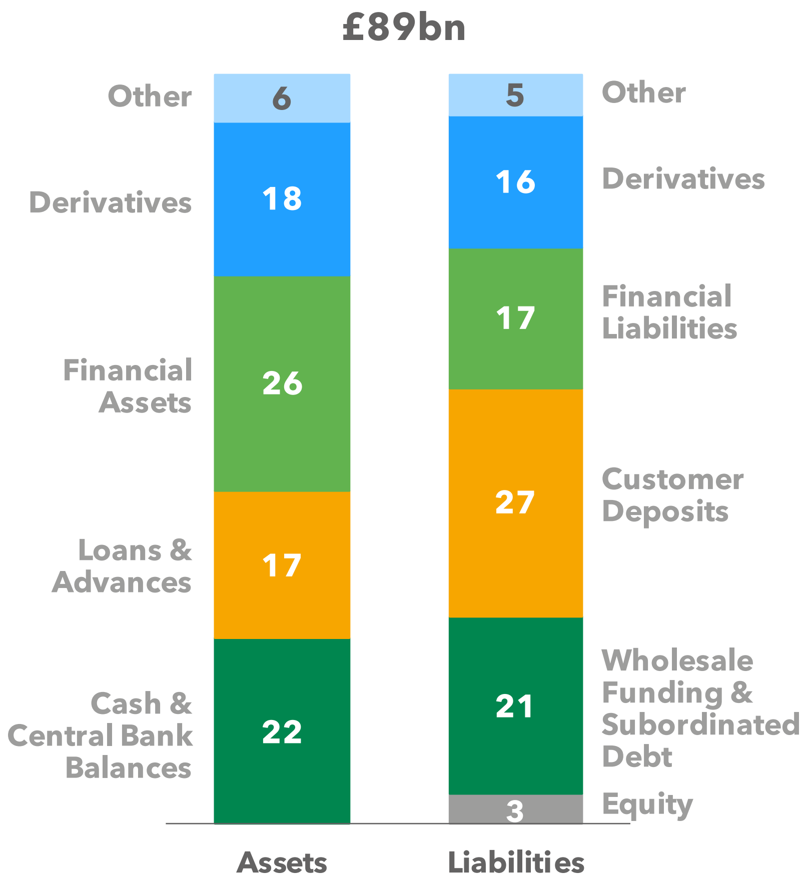


Wholesale funding portfolio by currency



LBCM balance sheet and income statement overview

Balance sheet and income statement key metrics as at FY 2021



RWAs	CET1	Total Capital
18bn	13.1%	20.1%

Total Income	Operating Expenses	PBT
0.6bn	0.4bn	0.3bn

- LBCM is well positioned to support the Group's strategy and ambitions for revenue growth and diversification
- LBCM has a stable balance sheet and strong capital and liquidity metrics
- Credit Ratings all have a stable outlook

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