Investor factbook

2023 Half-Year Results

LLOYDS BANKING GROUP

Consistent delivery in a changing external environment

- Fully focused on proactively supporting customers
- Group performing well and as expected
- Continuing to deliver on strategic ambitions; committed to 2024 and 2026 strategic benefits
- Well positioned to deliver for all stakeholders

Group performing well
13.6%
Q2 return on tangible equity

Delivering for shareholders
0.92p
Interim ordinary dividend

Asset quality remains resilient
29bps
Q2 pre-MES asset quality ratio

Costs in line
£2.2bn
Q2 operating costs

Q2 NIM step down, as expected
314bps
Q2 net interest margin

Resilience, anticipated mix shift
£470bn
Total deposits

Robust financial performance supporting higher interim dividend

- Statutory profit after tax of £2.9 billion, with net income of £9.2 billion up 11 per cent (stable on the second half of 2022), partly offset by expected higher operating costs and impairment charge. Strong return on tangible equity of 16.6 per cent in the first half of 2023 and 13.6 per cent in the second quarter
- Statutory profit after tax in the second quarter of £1.2 billion, reflecting broadly stable income compared to the first quarter, offset by increases in operating lease depreciation, operating costs and impairment charges
- Underlying net interest income of £7.0 billion, with a net interest margin of 3.18 per cent. Net interest margin of 3.14 per cent in the second quarter, down 8 basis points compared to the first, given expected headwinds from mortgage and deposit pricing. Average interest-earning assets of £453.8 billion, stable compared to the fourth quarter of 2022
- Other income of £2.5 billion, 7 per cent higher, reflecting continued recovery of customer activity and ongoing investment in the business, building confidence in growth potential
- Operating costs of £4.4 billion, up 6 per cent. The Group has maintained its cost discipline in the context of higher planned strategic investment, new business costs and continued inflationary pressure
- Impairment charge of £0.7 billion and asset quality ratio of 29 basis points reflecting broadly stable credit trends. Asset quality remains resilient and the portfolio is well-positioned in the context of cost of living pressures
- Loans and advances to customers reduced by £4.2 billion (£1.6 billion in the second quarter) to £450.7 billion, impacted by the first quarter £2.5 billion legacy mortgage portfolio exit and net reductions in the open mortgage book
- Customer deposits of £469.8 billion down £5.5 billion (1.2 per cent), including £6.2 billion in Retail current accounts, partly offset by a £3.5 billion increase in Retail savings. The second quarter benefited from broadly stable Retail balances. Commercial Banking was slightly lower including the expected reversal of short term placements, leading to an overall £3.3 billion reduction
- Loan to deposit ratio of 96 per cent; large, high quality liquid asset portfolio with all assets hedged for interest rate risk
- Strong capital generation of 111 basis points includes the full £800 million fixed pension contributions for 2023; 75 basis points after CRD IV model changes and phased unwind of IFRS 9 relief
- Interim ordinary dividend of 0.92 pence per share, up 15 per cent on the prior year and equivalent to £594 million
- CET1 ratio of 14.2 per cent after 44 basis points for ordinary dividend accrual and 21 basis points for the Tusker acquisition. Remains ahead of ongoing target of c.12.5 per cent, plus a management buffer of c.1 per cent

Enhancing guidance for 2023, delivering higher, more sustainable returns

Based on our purpose-driven strategy, robust financial performance and the Group's revised macroeconomic forecasts, we are enhancing our 2023 guidance and now expect:

- Banking net interest margin to be greater than 310 basis points
- Operating costs to be c.£9.1 billion
- Asset quality ratio to be c.30 basis points
- Return on tangible equity to be greater than 14 per cent
- Capital generation to be c.175 basis points[1]

1 - Excluding capital distributions and the impact of the Tusker acquisition. Inclusive of ordinary dividends received from the Insurance business.

Key financials

Profit and loss	Half-year to 30 Jun 2023 £m	Half-year to 30 Jun 2022 £m	Change %	Half-year to 31 Dec 2022 £m	Change %
Underlying net interest income	**7,004**	6,135	***14***	7,037	
Underlying other income	**2,538**	2,367	***7***	2,299	***10***
Underlying operating lease deprecation	**(356)**	(213)	***(67)***	(160)	
Net income	**9,186**	8,289	***11***	9,176	
Operating costs	**(4,413)**	(4,171)	***(6)***	(4,501)	***2***
Remediation	**(70)**	(79)	***11***	(176)	***60***
Total costs	**(4,483)**	(4,250)	***(5)***	(4,677)	***4***
Underlying impairment (charge) credit	**(662)**	(377)	***(76)***	(1,133)	***42***
Underlying profit	**4,041**	3,662	***10***	3,366	***20***
Restructuring	**(25)**	(47)	***47***	(33)	***24***
Volatility and other items[1]	**(146)**	(466)	***69***	(1,700)	***91***
Statutory profit before tax	**3,870**	3,149	***23***	1,633	
Statutory profit after tax	**2,864**	2,447	***17***	1,476	***94***
Banking net interest margin[A]	**3.18%**	2.77%	***41bp***	3.10%	***8bp***
Average interest-earning banking assets[A]	**£453.8bn**	£449.6bn	***1***	£454.3bn	
Cost:income ratio[A,1]	**48.8%**	51.3%	***(2.5)pp***	51.0%	***(2.2)pp***
Asset quality ratio[A]	**0.29%**	0.17%	***12bp***	0.48%	***(19)bp***
Return on tangible equity[A,1]	**16.6%**	11.8%	***4.8pp***	7.4%	***9.2pp***

A - The Group uses a number of alternative performance measures, including underlying profit, in the description of its business performance and financial position. These measures are labelled with a superscript 'A' throughout this document. 1 - 2022 comparatives have been restated to reflect the impact of IFRS 17.

Key balance sheet metrics	At 30 Jun 2023 £bn	At 30 Jun 2022[1] £bn	Change %	At 31 Dec 2022 £bn	Change %
Mortgages	**306.4**	309.7	***(1)***	311.2	***(2)***
Credit cards	**14.9**	14.2	***5***	14.3	***4***
UK Retail unsecured loans	**9.3**	8.5	***9***	8.7	***7***
UK Motor Finance	**14.9**	14.2	***5***	14.3	***4***
Retail other	**16.4**	14.5	***13***	15.7	***4***
SME and Mid Corporates	**35.5**	41.1	***(14)***	37.7	***(6)***
Corporate and Institutional	**56.6**	55.7	***2***	56.0	***1***
Central items[3]	**(3.3)**	(1.8)	***(83)***	(3.0)	***(10)***
Loans and advances to customers	**450.7**	456.1	***(1)***	454.9	***(1)***
Retail current accounts	**107.8**	113.4	***(5)***	114.0	***(5)***
Retail relationship savings accounts	**169.4**	165.8	***2***	166.3	***2***
Retail tactical savings accounts	**16.5**	16.9	***(2)***	16.1	***2***
Wealth	**12.2**	14.9	***(18)***	14.4	***(15)***
Commercial Banking deposits	**163.6**	166.7	***(2)***	163.8	
Central items	**0.3**	0.5	***(40)***	0.7	***(57)***
Total customer deposits	**469.8**	478.2	***(2)***	475.3	***(1)***

1 - The portfolios shown reflect the new organisation structure; comparatives have been presented on a consistent basis. 2 - Primarily Europe. 3 - Central items includes central fair value hedge accounting adjustments. 30 June 2022 included a £200 million ECL central adjustment that was not allocated to specific portfolios. In the third quarter of 2022 this central adjustment was released.

Our strategy

- We launched our new purpose-driven strategy in February 2022. Through our strategy we will look to grow the business, driving revenue growth and diversification across our main businesses whilst strengthening cost and capital efficiency. Maximising the potential of our people, technology and data will be critical for success
- This is supported by incremental investment of £3 billion over the three years, and £4 billion over five years. This will enable the Group to deliver higher, more sustainable returns. The Group is targeting additional revenues of c.£0.7 billon by 2024 and more than double that of c.£1.5 billion by 2026. Alongside, the Group expects to deliver c.£1.2 billion of gross annual cost savings from business-as-usual and strategic initiatives by 2024

Our purpose

Helping Britain Prosper

Our 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

Strategic priorities delivered in H1

Grow	Drive revenue growth and diversification	• **20.6 million** digitally active customers, up c.13 per cent vs. full year 2021 • **Growing mass affluent** customers, alongside proposition developments, e.g. ready-made investments • Launched **mobile first onboarding** for sole traders, incorporating point-of-sale card payments solution • **c.15 per cent Corporate & Institutional OOI growth1** supported by investment in DCM, FX & cash management
Focus	Strengthen cost and capital efficiency	• **c.20 per cent** reduction in office footprint to date • Customer journey enhancements, e.g. reduced sole trader account opening time up to **15x** • **c.50 per cent** of 2024 gross cost savings target realised
Change	Maximise the potential of people, technology and data	• **c.290** legacy applications decommissioned to date • **1,000** new hires in technology and data roles • **15 per cent** reduction in data centres to date

Other

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Our reporting

Our reporting is designed to facilitate better communication to a range of stakeholders.

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