LLOYDS BANKING GROUP PLC – Q3 2020 INTERIM MANAGEMENT STATEMENT – TRANSCRIPT
(amended in places to improve readability only)

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LBG PRESENTERS:
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António Horta-Osório
Good morning everyone and thank you for joining our 2020 third quarter interim management statement presentation. I will give a brief overview of our encouraging business recovery in Q3 with a return to profitability in the quarter, followed by how our digital transformation is creating new opportunities for the Group and being recognised as market leading by our customers, all this while we continue to strive for a more inclusive and sustainable future. I will then hand over to William to run through the financials and we will have time for questions at the end.

I will turn first to our business recovery in the quarter, on slide 2. Despite a challenging operating environment and while significant uncertainties remain, we have seen the open mortgage book grow by £3.5 billion in the quarter and with a 22 per cent share of approvals, this represents the highest volume of growth in approvals in a quarter since 2008.

We have also continued to see Retail current accounts growing ahead of the market through the third quarter and Group deposits are now £35 billion higher than at the end of the year.

We have seen a significant change in financial performance in Q3, with a return to profitability. This is largely due to impairments, but also to an increase in business volumes and has enabled the Group to deliver a return on tangible equity of 7.4 per cent in Q3.

Given the better than expected macroeconomic conditions over the quarter and our ongoing optimisation of the Commercial book, we are able to enhance our 2020 guidance for both impairments and risk-weighted assets. William will go through this in detail shortly.

The Group is also benefiting from our long-run investment in the business and continued focus on strategic execution. The benefits of our £2.6 billion of strategic investment can be seen in our record digital engagement and satisfaction scores, as I shall outline on the next slide.

So turning to slide 3 and how our recognised digital leadership position is creating new opportunities for the Group. We are the largest digital bank in the UK, with 17.1 million digital active users, of which 12.1 million use our mobile apps, up 1.4 million in the last nine months. We are very pleased with this continued customer growth and this is a clear strategic advantage as those customers logon to their app 25 times per month – that is a total of 3.1 billion logons so far this year. This has enabled us to serve more customer needs digitally throughout a challenging period and we have seen an 18 per cent increase in products originated digitally this year. Importantly, this is not at the expense of quality, and our digital net promoter score is up 8 per cent over the same period.

As you have heard me say many times before, our unique single customer view capability enables the Group to leverage our deep retail banking relationships in order to support customers' long-term savings needs. We now have over 6 million customers who are able to use this unique functionality.

Those customers view 16 million of their insurance and investment products alongside a bank account every month, including pensions, home insurance, protection and share dealing. This is up 8 per cent in the quarter and there were 70 per cent of those views come through our mobile apps.

Our long-run investment and digital transformation positioned the Group well to continue to serve our customers through the pandemic. I have great confidence in the future of the Group and in its competitive position. We will maintain our relentless focus on supporting our customers and the UK economy, while we will continue investing for the future and developing our competitive advantages further.

I will now turn to slide 4 and outline how the Group is continuing to strive towards an inclusive and more sustainable future. We have adopted a proactive response to the coronavirus pandemic and we are working closely with the government, our regulators and other stakeholders to support customers and businesses up and down the country as we help Britain recover, which is at the heart of the Group's purpose. We have particularly focused on mental health and well-being, while also committing £25.5 million of funding to our independent charitable Foundations for 2021, which will enable them to continue their vital work.

We have all been deeply moved by recent events around the world which have highlighted the vital importance of diversity, and how much we still have to do.

We have announced our Race Action plan which will drive cultural change across the organisation while ensuring diversity of recruitment and progression. We have quantified our target to increase Black representation in senior roles and this is in addition to our existing diversity targets.

This is clearly the right thing to do for our colleagues and for the benefit of the Group, but it is also important to note that Moody's has recognised the Race Action plan as a credit positive given improved diversity and reduced social risk.

Finally, on sustainability, we have announced an ambitious goal to reduce the carbon emissions we finance by over 50 per cent by 2030. At the same time, we have already met our internal carbon reduction target for 2030 so we are working on developing new targets.

These actions, and more, are the right things to do as supporting diversity and sustainability will directly aid the recovery of the UK economy, from which we will benefit. This is fully aligned with the Group's long-term strategic objectives, the position of the franchise and the interests of our shareholders.

That concludes my opening remarks and I will now hand over to William to run through the financials in more detail.

William Chalmers
Thank you António and good morning everyone. I am planning to give a run through of the Group's financial performance. As usual, we will then open up for Q&A at the end.

Turning first to slide 6 with an overview of the financials. The Group's resilient business model and the reduced impairment charge in the quarter has driven a return to profitability in Q3, with statutory profit before tax of £1 billion. Net income of £3.4 billion in Q3 is down 2 per cent on the second quarter, largely due to the performance in other income, which I will come back to in more detail later on. NII is supported by a net interest margin of 242 basis points and a small increase in average interest earning assets to £436 billion.

Costs remain an area of intense focus for the Group. The 4 per cent reduction in total costs is largely derived from 5 per cent lower BAU costs. The Group's cost:income ratio performance meanwhile, has clearly been impacted by the challenging revenue environment.

Pre-provision operating profit of £5 billion year to date includes £1.5 billion in the quarter and while this is down 6 per cent on Q2, it still gives very substantial loss-absorbing capacity.

The impairment environment in the third quarter has been benign relative to expectations. The charge of £301 million reflects a relatively stable macroeconomic environment and the significant reserving undertaken in Q2. I will come on to this in more detail in a few minutes.

TNAV is up 0.6 pence in the quarter at 52.2 pence per share. The CET1 ratio has increased to 15.2 per cent, or 14.0 per cent excluding transitionals, both comfortably ahead of our target and regulatory requirements.

I will now turn to slide 7 and look at how the Group's customer franchise performed in Q3. As António mentioned, we have seen strong growth in the mortgage book in the quarter. The open book is up £3.5 billion with a 22 per cent share of approvals, building a strong pipeline looking into Q4. Based on that, we expect the open book performance in Q4 to be stronger than in the third quarter.

Consumer finance has performed at the better end of expectations. I mentioned at the half year that we expected balances to be down around 5 to10 per cent in the second half. Given the performance in Q3, we now expect balances to be closer to 5 per cent down in H2.

In Commercial, we continued to see SME lending driven by the government support schemes. We have now delivered about £11 billion of guaranteed lending, with a market share of 18 per cent. Going the other way, Corporate and Institutional balances are down £4.8 billion in the quarter, as we have continued to see clients pay down their RCFs while we have also continued our work on low returning relationships. Commercial RCF drawings are now back at February's level, having seen significant drawdown's early on in the crisis.

Average interest-earning assets are up £1 billion on Q2 and as mentioned, looking forward to the fourth quarter, I would expect continued support for AIEAs from the strong growth in the open mortgage book.

As you have heard from Antonio, in total, deposits are now up over £35 billion in the year, a very strong performance. This growth has continued in Q3, indeed ahead of the market in Retail current accounts. Meanwhile Commercial is benefitting from around 50 per cent of support scheme lending remaining on deposit.

Turning now to net interest income on slide 8. NII is £8.1 billion year to date or £2.6 billion in the quarter. The Q3 margin of 242 basis points is in line with half year guidance and up a couple of basis points on Q2. In addition to better consumer finance balances versus expectations, we have also seen a full quarter's benefit of deposit repricing and the benefit of significant low-cost deposit growth, as well as overdraft charging starting to come back into the margin, consistent with the outline that I gave at the half year.

I have already mentioned the strong mortgage performance. New business mortgage margins are attractive and higher than maturing front book business. That attractive asset growth will continue to support AIEAs in the fourth quarter and thereby is supportive of Group interest income, albeit slightly dilutive to the Group margin.

The current low rate environment is also impacting the structural hedge. With the 5 year swap only around 7 basis points above 3 month LIBOR, we have been replacing maturities with shorter dated hedges. This strategy allows us to achieve income protection while preserving flexibility.

You see the consequence of that approach in the now roughly 2 year weighted average life of the hedge. In that context, hedge earnings of £1.1 billion, or 0.8 per cent, over average LIBOR year to date will likely continue to reduce gradually over time if the curve remains flat.

Taken together, the better than expected real economy lending is currently offsetting the flatter yield curve and is supportive of interest income. Based on this mix, we expect AIEAs to be up and expect the margin to remain broadly stable at around 240 basis points in Q4, resulting in a full year margin of around 250 basis points.

Turning now to slide 9 and other income. OOI of £3.4 billion for the nine months includes approximately £1 billion in Q3. This is clearly below our aspirations and is due to the continued relatively low levels of activity across our key markets. We have also seen an £80 million charge in respect of the Asset Management Market Review, following the FCA's review of pricing across the investment industry.

With respect to the divisions, Retail has benefited from a pick-up in card spend and Q3 OOI is in line with Q2, in an environment of relatively subdued levels of customer activity. Commercial saw lower markets income versus Q2, given our UK focus and transaction banking activity remains subdued. Insurance continues to be impacted by reduced levels of new business, the AMMR charge and the non-repeat of the illiquidity premium benefit of Q2.

Overall, I expect other income to remain subject to similar pressures in the fourth quarter, less the AMMR charge, but potentially impacted by the annual review of insurance persistency assumptions. However, we are now around the base level, from which we would expect activity to start to recover in 2021.

We are investing in both resilience and in diversification in other income, including for example, in our markets platforms and payments propositions in Commercial, as well as our products, platforms and the Schroder's Personal Wealth joint venture within Insurance and Wealth.

Now moving on to slide 10 and costs. You have heard about our intense focus on costs many times before and this remains as important as ever. Total costs have come down by 4 per cent year on year, including a 5 per cent reduction in BAU costs. This has been achieved despite deferring all role based restructuring activity for a number of months this year, resulting in a higher than expected average headcount, albeit with lower bonus accruals.

Remediation of £254 million for the nine months has increased by £28 million year on year. This reflects charges across a number of existing programmes. I expect this to be higher in Q4 given various small historic conduct programmes coming to an end. Overall, the cost in 2020 is likely to end up above our ongoing expectation of £200 to £300 million per annum.

Our track record of ongoing sustainable cost savings has enabled continued investment in the business. We have invested a total of £1.6 billion so far in 2020 and made a strategic investment of £2.6 billion over the life of the GSR3 programme to date.

Investment spend has been adapted to the pandemic situation but we remain absolutely committed to investing in the long-term success of the Group, especially in our digital capabilities. The benefit of this investment has been particularly evident during the pandemic, as you heard from António earlier on. While investment will remain a priority for the Group, we continue to expect operating costs to be below £7.6 billion for the year.

I will now move on to impairment, on slide 11. The impairment experience in Q3 has been benign, given the better than expected macroeconomic environment and the continued presence of government and bank customer support schemes.

The impairment charge of £301 million for Q3 recognises this benign picture and overall holds the Expected Credit Loss steady. This is consistent with our updated economic outlook and the front-loading of our reserving taken in Q2.

The Retail charge of £398 million in the quarter is only a little above the pre-pandemic run rate and in Commercial, we have not seen any significant charges this quarter.

Importantly, the Retail charge includes a management overlay of £205 million. This is taken to offset provision releases that our model generates as a result of the benign arrears experience in Q3. We have taken the judgement that arrears and losses have been kept low by the range of customer support measures available and hence it would not have been appropriate to recognise larger provision releases at this point.

As mentioned, we have also updated our forward-looking economic assumptions. The forecasts are re-profiled, but unchanged in the longer-term, essentially maintaining our view of a significant slowdown in activity, but delaying much of it by about a quarter into 2021. It also recognises some of the better performance we have seen in Q3.

The update results in a modest release of £105 million, largely reflecting benefits from higher HPI in 2020. It is also worth adding that we have slightly refined our triggers for staging in Cards, leading to £1.4 billion of up to date balances moving to Stage 2 and an associated increase in the provision of £40 million.

Given all of this, our stock of ECLs remains broadly stable at £7.1 billion, a pick-up of £0.5 billion on our base case ECL and providing significant protection against potential future credit impairments. The ECL continues to reflect a range of economic scenarios, including our Severe Downside, weighted at 10 per cent and incorporating peak unemployment of 12.5 per cent in Q2 2021.

Assuming no further changes to our economic scenarios, the front-loading of our provision under IFRS 9 in H1 means that we now expect the full year impairment charge to be at the lower end of our £4.5 to £5.5 billion range. The caveat of no material change to our economic scenarios is important, given the obvious uncertainties.

Now moving to slide 12, I will touch on how we have maintained our reserving across business lines. As I mentioned, the £3 billion increase in expected credit loss provisions in the first nine months means that we now have an ECL provision stock of £7.1 billion. This provides significant balance sheet resilience while currently write-offs remain in line with pre-crisis levels.

Overall balance sheet coverage of 1.4 per cent is in line with the half year. Within that, mortgages are 0.6 per cent and we have increased coverage on the Cards book from 6.3 to 6.7 per cent, including 44 per cent on Stage 3. We maintain our proactive charge-off policy on Cards at 4 months in arrears. Indeed, if we charged off after an additional 12 months, in line with some of our peers, our pro forma overall Cards coverage would be closer to 9.1 per cent, with Stage 3 at 69 per cent.

I am now going to look briefly at the Group's exposure to certain commercial sectors on slide 13. The Commercial portfolio has been subject to careful risk management in recent years. Around 70 per cent of total medium and large corporate exposure is to investment grade clients, while around 90 per cent of SME lending is secured. Within this, our exposure to the sectors most impacted by coronavirus is modest in the context of the Group. It is only around 2 per cent of Group lending, or around 12 per cent of commercial lending. There has been a small reduction in the exposure to these impacted sectors during the quarter.

As mentioned, Commercial RCF drawings have fallen by around £2 billion in Q3. This means that the full £8 billion which was drawn down at the beginning of the crisis has now been repaid and RCFs are back to pre-crisis levels, further reducing our balance sheet risk.

Finally on Commercial, our Commercial Real Estate portfolio has reduced by £0.4 billion since the half year whilst maintaining its average LTV at 49 per cent, with over two thirds below 60 per cent LTV.

I will now move on to payment holidays on slide 14. The vast majority of first payment holidays have now matured with around 82 per cent of customers now repaying, up from around 70 per cent at the half year. In total, payment holidays have been granted on around £69 billion of Retail lending with today less than £15 billion outstanding, including £2.4 billion having missed a payment. Our market share of mortgage payment holidays is now below our natural market share.

Around 30 per cent of extended mortgage payment holidays have also now expired with around 90 per cent resuming payment. As mentioned at the half year, the cohort of extensions across products is of lower credit quality, with higher balances, but it is also worth noting that around 35 per cent of outstanding payment holidays are already in Stage 2. Moving the remaining population of extensions across all assets, to Stage 2 would generate an incremental ECL of less than £100 million.

Early arrears are low, at just under 4 per cent of matured payment holidays. This includes missed first payments and notably around half of the mortgage and motor finance arrears were already in arrears at the start of their payment holiday.

Briefly on SME capital repayment holidays, over 90 per cent are secured lending and, while maturities remain at low levels, we are seeing a similar picture to Retail.

Now moving down the P&L to look at the below the line items on slide 15. Restructuring is broadly in line with prior year to date, but up significantly on Q2 as the Group resumed previously halted severance plans and property rationalisation work in Q3. This will continue and we expect another quarter of relatively high restructuring charges in Q4.

Volatility and other items in the quarter includes positive banking and insurance volatility, partially offset by the normal fair value unwind charge.

PPI provisions are again zero in the quarter and we remain happy with the circa 10 per cent modelled conversion rate and with the unutilised provision of £328 million. The year to date tax credit of £273 million reflects the DTA remeasurement benefit in Q1 and taxable losses thereafter.

As a result of all of this, we end with statutory profit after tax of £707 million for the year to date and £688 million in Q3. The return on tangible equity, as António said, is 7.4 per cent in the third quarter.

Now moving on to capital on slide 16. Our CET1 ratio of 15.2 per cent is comfortably above both our internal capital target and our regulatory capital requirements of around 11 per cent. It acts as substantial protection against potential credit impairment.

CET1 continues to benefit from the temporary addition of 121 basis points of IFRS 9 transitionals. We had previously expected up to half of the in-year increase to unwind with staging movements in H2, but this is now looking unlikely. We still expect to see this unwind as assets move into Stage 3, but this is now likely to be more of a 2021 story.

We have also had a 16 basis point benefit in Q3 from lower RWAs, partly because we have managed RWAs better and partly because we have not seen expected credit migration. Again while we still expect to see this migration take place, we now expect this to be largely a next year event. Therefore, on the basis of our macro forecast for 2020, we now expect RWAs at year end to be broadly stable on Q3.

In total, CET1 is up 64 basis points in the quarter, which is strong, albeit this is clearly helped by the RWA reduction and further transitionals benefit in the quarter.

Looking forward, and subject to regulatory approval, we see a circa 50 basis point benefit from the potential change in treatment of software intangibles in Q4. This is higher than our previous expectation given the change in prudential amortisation to over 3 years.

On capital requirements, we will hold to our ongoing CET1 target of around 12.5 per cent with a management buffer of around 1 per cent. This means that we are comfortably above both our internal target and regulatory capital requirements. As usual, the

Board will consider any capital return at year end, when they will look at all available information, including and in particular, the economic outlook, as well as capital levels and regulatory requirements.

Finally turning to slide 17. Strong growth on both sides of the balance sheet has enabled us to offset the impacts of the challenging rate environment. Together with a stable economic environment, this has contributed to a return to profitability in Q3.

The Group's solid pre-provision profitability, prudent reserving and enhanced capital strength give significant loss-absorbing capacity. It also means that we are in a strong position to support our customers despite the ongoing uncertainty.

As mentioned, in the relevant areas and based on our economic assumptions, we have updated guidance for 2020 impairment and risk-weighted assets. You can see a summary of our guidance on the slide in front of you.

In conclusion, we have great confidence in the future of the Group. We will emerge from this crisis having learned a great deal about the organisation, our customers and new ways of working. Whatever the future brings, we will maintain our focus on supporting our customers and the UK economy. This is the right thing to do and is in the best interests of the Group and our shareholders. We remain well positioned to deliver long-term superior and sustainable returns.

That concludes the presentation for this morning and we are happy to take your questions. Thank you for listening.

Question and Answer Session

Question 1 – Raul Sinha, JP Morgan
Good morning Antonio, good morning William. A couple of questions from my side, essentially the same topics we have been discussing on the calls for the last three quarters. Start with NII. Obviously pleasing to see the recovery in the Quarter and I hear you on the pickup in average interest earning assets. Can I just ask how much of this recovery is driven by your intention to take a greater share of the mortgage market given pricing trends has improved, versus just the sort of pent up demand related trends that we are seeing in the mortgage market right now which might peter out next year. So just trying to understand whether you think structurally pricing might have improved now sufficiently that you can actually operate with a higher share, and if you could give us some numbers around what sort of share you are comfortable with, that would be really helpful.

And then the second one just on non-NII, I'm still struggling with the consensus up above five billion of non NII for 2021, looking at what you have delivered and I do accept you have called that it have probably bottomed out now. If you have, trying to understand what are the growth drivers from here even if you assume 1.1 billion run rate, what bridges the gap from that sort of run rate to the 5 billion plus? Thank you.

António Horta-Osório
Good morning Raul, maybe I will start to give you an overview of the mortgage market to explain the environment of your question on NII and then William can build up on the specific numbers you mentioned on OOI.

So in terms of the mortgage market and you will remember as we have discussed this many times before that we have adopted in the last few years a prudent strategy in relation to the mortgage markets. We thought that prices were not where we would like to see them and we have therefore privileged capital and margins and risk versus volumes so that we basically held our open mortgage book at this level. The prices have improved from the start of the year as we discussed previously and they have continued to improve and therefore given our absolute focus on helping Britain prosper or recover in this case and being the largest mortgage lender in the country, we have been supplying the needs of our customers on mortgages and this has been very, strong in Q3 as you heard. And it has been quite strong across the board to your question. So this is both on first time buyers and on home movers. And I think that this basically is an outcome based on three factors. The first, as you mentioned, there was some pent up demand to satisfy.

Secondly, it is also a fact that we have strong incentives on people to buy a house, as you said role of stamp duty expiring next year.

But thirdly there is a significant change in customer behaviours. People have been on the one hand saving more as they have to spend less on travelling, hospitality and they have saved more in general. Secondly they have as you know most people spend much more time at home and therefore their home became if you like more valuable to them and they are strongly moving homes across the board and wanting to go into larger homes, outside cities with gardens if possible. So it is both the first time buyers and the home movers that are driving this significant demand in mortgages. And that is, in my opinion, the structural change in behaviours from people. So you have all of these three effects and this is quite important.

Our market share of approval has been 22 per cent at August which is the highest we have had since 2008. So within these conditions and with very strong customer demand we have been absolutely meeting those customer needs. To give an idea, on first time buyers, our market share has been even higher at 24 per cent. And given that there is as you know a time lag between applications and completions of around 3-4 months, we already know that we will have an even stronger growth in the open mortgage book in Q4, even we already know the applications that we have got.

And therefore this is a changing trend. We are the largest mortgage lender in the country as I said. We have a very strong capital position and therefore we are absolutely supporting our customers and supplying the mortgages that they need, and this is very important to sustain NII, and it has more than offset, as William said, the low income.

William Chambers
I'll comment on the other income question. Thanks Raul first of all on other income in Q3 what do we see? As you can see from the release today we had £988 million which included an AMMR charge of roughly £80 million which in turn means that we are around £1.07 billion if you take out that AMMR charge.

I think in terms of answering to your question, I obviously won't comment on consensus for next year, that is a matter for next year and not for today. But it is important to give a bit of context about what is in that OOI charge and to a degree what is not in there. What do we see? We saw relatively flat performance in retail. Retail continues to be subdued off the back of what is activity and in particular limited travel. We saw commercial banking performing relatively effective with our UK focus on markets which was down on the Quarter 2 performance. And we saw insurance modestly performing off the back of not just the AMMR charge but also some GI claims from weather events in August and absence of bulk activity and very limited new business in terms of some of our areas such as workplace where the Coronavirus virus impact is clearly taking its toll on new business schemes, as well as things like protection activity. So when we look forward for OOI, it is very activity sensitive, to the extent that you see things like return to travel and retail for example. Things like a bit more activity in UK markets for example. Things like a bit more activity in some of the insurance value streams that we have. Then you would expect OOI to respond to that.

I think added to that on a secular basis we are making a number of investments as I mentioned in my comments earlier on in the OOI stream in order to build the non-interest streams within the business. So examples of that might be package bank account propositions in retail, might be the transaction banking platform in commercial and cash management. Likewise the protection platform, the GI platform within insurance. And those investments over time will build this income stream.

I think your final comment Raul is I said before, this will be gradual, it is not going to change overnight but it is activity sensitive and it is also the subject of ongoing investment.

Raul Sinha
Thanks very much.

Question 2 – Aman Rakkar, Barclays Capital
Morning gents. Could I ask a couple please so the first on mortgages. Interested in what your application experience has been in October. Are we seeing a similar level of robust performance as you have observed in Q3 and does that give you any indication on drawdowns and completions in Q1? I am just trying to work out how much of this volume dynamic is a tailwind into next year?

As part of that could you help us understand the front and back book margin dynamic on the open book, presumably it is a nice tailwind now, but if you are able to quantify that, that would really help.

Another one on capital if I may. So it is good to see the upgraded guidance on RWAs which is good. It might be a matter of timing. I just wanted to come back to you know the regulatory headwinds that you guys called out before about £6-10 billion. I think you've nudged that number lower. I was interested in what is your best estimate of that and how much of that is captured in this year versus is expected to come through next year? I guess I am just trying to get a sense on the RWA inflation that might be coming next year as a combination of RWA pro-cyclicality but also the RWA regulatory headwinds that might be coming? Thank you.

António Horta-Osório
Thank you very much. I will elaborate on your first question in terms of the Q1 applications and real income take. And the second one on front and back book and then on capital. So just to comment on how we haven't seen any significant different behaviour in October from customers and we always as you know, we constantly adapt our prices and strategies according to our multi-brand strategy depending on demands, and especially on intermediary channel we are quite agile in terms of adapting. From the demand point of view we haven't seen any significant change in behaviour in October. I think relating to my previous points that as the stamp duty incentives deadline gets closer, you might have an additional rush into people that want to take advantage of that. And for people to take advantage of the stamp duty, they will more or less have to submit their applications by the end of the year as you know, in order to take advantage next year from the deadline. And after that of course that incentive will disappear, so you should expect that to disappear but a bit later on. On the other hand, the structural impact I told you about, the customer behaviour and people structurally investing more on their houses and wanting to have better houses, given they spend more time in their houses. I think it is a more structural demand point. So this could be the additional feedback and colour I could give you on this point.

William Chalmers
Thanks Antonio, thanks Aman for the question. On the mortgage margin question first of all. What we are looking at there is completions taking place around 160 basis points versus 140 basis points on maturities. But also having said that, applications are more like 190 basis points and above in Q3. So that gives you a sense as to the margin and the trends on the mortgage front.

You asked about RWAs, the RWA picture for next year again is really a matter for next year's guidance which we are not giving on this call. But two or three factors that are perhaps worth bearing in mind in that context. When we look at RWAs going forward I called out credit migration as a point in my comments earlier on, we haven't seen that in Q3. We don't really expect to see it on the basis of what we have seen so far in Q4, so it is perhaps more of a next year event, contingent upon your view of macroeconomics.

You asked about regulatory headwinds there. The only significant regulatory headwind that we see in 2021 at the moment is counterparty credit risk which we will call out in the early part of next year. That's modest, but it is there. Then offset against that we would expect our commercial business in particular to continue with its ongoing optimisation just as it has done this year. And that will then lead in combination to our picture for RWAs during the course of 2021. Again we will give more guidance on that in 2021 rather than today.

Aman Rakkar
Thanks for that then. Can I just clarify then. So does it sound like that £6-10 billion isn't happening in the way that you thought it was before or is it that actually you digested a decent chunk of it this year and there is only a little bit more to come next year?

William Chalmers
I think again it is a matter for guidance probably at the beginning of next year. It is more a question of timing I suspect and particular issues have been referred to.

Aman Rakkar
Okay, thank you.

Question 3 – Guy Stebbings, Exane BNP
Good morning, thanks for taking the questions. Can I come back to NII actually please. Just on NIM quickly and so the exit rate this year I am thinking into next year. You mentioned the references you made today on stability in the margin. I think if we look into next year clearly the hedge will be a meaningful drag based on prevailing rates. It looks like obviously much more secure than the unsecured lending. And then we have the interesting dynamic on spread widening on mortgages which maybe dissipates somewhat but probably is still a net positive into next year in terms of back to front book. But is it just that mortgage back to front which is enough to provide stability into next year or is there something else going on or actually are we looking at 240bps exit rate and maybe bits of pressure from that sort of level as we think into next year?

And then on volumes and average interest earning assets, we have ended the quarter £2 billion above the average for the Quarter, consensus this year is 433 and then 435 next year and we are someway above that already and have got the good pipeline into next year. So I am just trying to work out, is there anything you can see that should dissuade us from thinking that actually we are running some way above that into 2021? Thank you.

William Chalmers
Thanks very much Guy for the questions. Maybe dealing first of all with the margin picture. I'll start off with what we've seen in Q3. As you saw the Q3 margin ended at 242, that is consistent with the guidance that we gave at the half year. And in that we saw a couple of positives and a couple of negatives. The positives that we saw were the deposit repricing, number one, and the removal of interest free overdrafts. Chargeable balances for example were up 65 per cent in the context of Q3. Against that we saw a couple of negatives, the structural hedge was one of them. And the second was around asset mix which is to say unsecured balances came off a little bit as I called out in my comments earlier on. And mortgages, while they are very good for net interest income, by virtue of the comments that I made earlier on were a little bit diluted to the Group margin.

Our margin picture looking forward into Q4 is going to be subject to similar factors, that is why I was calling out margin stability into Q4. With the positives being a full quarter of deposit repricing, a full quarter of the interest free overdrafts coming to an end. And indeed some reduced funding costs from things like our drawdown in TFSME. The negatives again, not surprising they are very similar. The structural hedge of about £10 billion of maturities in the remainder of 2020. Again we will see a little bit more attrition in unsecured volumes albeit that slowing down. And we will see boosts in mortgages just as Antonio was commenting on earlier on which again is great for NII, but a little bit dilutive to margin.

That gives you a picture as to the margin. I think looking beyond that again guidance is really a matter for 2021, but you can see the factors at play in Q4 which are going to be not totally dissimilar. The important point here comes to your second question which is what is going on in AIEAs and the driver of that to net interest income? We've seen in the context of Q3 the strength in mortgages. We have seen that offset if you like, the unsecured balances from AIEA perspective and we have seen commercial combination of bounce back loans going up and RCFs coming down which more or less nets out. When we go into Q4 we are going to continue to see the mortgage growth based upon what we are seeing today in the pipeline and that continues to grow. We are going to continue to see a little bit of unsecured attrition just as I commented on in the margin earlier on. Overall that leads us to the view that AIEAs will continue to increase from what they are today into the year end. To the extent that we see those patterns continue in the course of 2021 then again that is a matter for 2021 guidance, but you can see where we head off at the end of this year. With a stable NIM that it is good news obviously from an NII perspective.

Guy Stebbings
Okay, great very clear thank you. Perhaps it is an obvious point, but I get the sense that in the past there was perhaps more emphasis based on net interest margin whereas given the environment we are in, it feels like NII should really be what we are a bit more focused on rather than simply the headline NIM. Is that a fair way on how you are thinking about it more these days?

William Chalmers
Yes I think it is, but I think it is important to say that it is in the context of making sure that we do things that are in the best interests of both customers and shareholders and we are in the context of relatively attractive mortgage margin pricing.

Guy Stebbings
Yeah. Thank you.

Question 4 – Chris Cant, Autonomous
Good morning. Thank you for taking my questions. Just on the structural hedge, you mentioned in your remarks you talked about the net contribution for the nine months being £1.1 billion I think it was. If I look at your hedge disclosures for 3Q and the equivalent disclosures at the 2Q stage, the nine months you say £1.1 billion, the six months was £0.6 billion net contribution. So we are at about a £0.5 billion net contribution for the third quarter specifically, annualising to about £2 billion. And if there is any rounding there that I am misunderstanding, that would be a helpful clarification. But if we say the £2 billion two year average lies on the hedge, are we basically looking at a headwind of about £500 million per annum from the 3Q NII level?

And if you could also give us a number on the hedge maturities next year specifically that would be helpful. Thank you.

William Chalmers
Thanks for the question Chris. The structural hedge, it is important first of all just to make sure that we refer to the right benchmark. So there is a structural hedge and absolute income if you like, which is around so far year to date is around £1.9 billion. There is a structural hedge contribution above and beyond LIBOR which is obviously a lower number because you have to subtract LIBOR from that £1.9 billion number. So just by way of reference it is important to benchmark against the right context. In terms of the look forward, I mentioned that we have £10 billion maturities in the context of 2020. What we have been doing as I mentioned in my comments earlier on is in the context of very low rates, we have been trying to preserve earning stability and preserve value,

just as we always do with the hedge. And that has led us to a strategy of short dated hedging which protects against further downsides for example, should - not our base case - but should we see negative interest rates emerge. We are protecting ourselves against that downside by virtue of this short dated hedging. At the same time we are preserving optionality if the curve kind of resumes back to normal again, by making sure that the hedging is appropriately short dated.

Looking forward, this is your second question, but it is part of my answer to the first. Looking forward because of that short-dated hedging we see slightly more maturities in 2021. We are now looking at a number of around £60 billion in 2021 maturities for the structural hedge.

Now if you look at that on a roll-forward basis, in terms of the headwind as you were referring to it, we have over the life of the hedge just over a two year weighted average life. But importantly an average life of the hedge that is more like 5-6 years. And so when you think about the structural hedge, as it rolls off, if we see a flat rate curve, then that is the type of, it is that type of 5-6 year parameter that you should be thinking about.

In terms of the headwind on an annualised basis, a couple of things that I caution against really. One is that the hedge profile is relatively lumpy, number one. Number two is that we will, in the interests of preserving earning stability and shareholder value, be just as we always are, careful about when we deploy the hedge in order to ensure that we achieve those objectives which one would hope would abate some of the headwinds that you are referring to.

The further point I would make, the more kind of strategic structural which is that we're in a low interest rate environment, I suspect that we are seeing some pricing moves - we have been talking about mortgages quite extensively this morning, that are offsetting some of the effects of that low interest rate environment. So you have to think about the industry response, I think, to the low rate environment that we have which is driving the structural hedge. But it is also driving some benefits in other product markets. We are in a rational, relatively well ordered market. When you think about the dynamics in our P&L, that is important context.

Chris Cant
I understand completely on the moving parts. If I could just come back to the numbers point though. I understand you do give the gross numbers as well and perhaps I misheard you, perhaps you were speaking to the gross. But if I am thinking about the contribution of the hedge NII, it is about £2 billion annualised in 3Q, the NII generated from the hedge. I think that is right, I mean the gross number you give is 1.9, for the six months it was 1.3. So the gross contribution in 3Q is £0.6 billion. The net contribution is £0.5 billion, the LIBOR component is about £0.1 billion which checks out versus your average hedge balance. But if I think about how much NII you would lose if the entire hedge just rolls into this very flat curve environment, it is essentially £2 billion annualised both in the life of the hedge which by the sounds of it quite a chunk of that into your next year?

William Chalmers
I think your numbers that you have given for the this year to date Chris are not terribly different to the numbers that I see, they are slightly different, but not much. I obviously won't comment on next year beyond what I have already said.

Chris Cant
Okay, all right. Thank you.

Question 5 – Martin Leitgeb, Goldman Sachs
Good morning. I just wanted to ask you on the potential impact of negative rates and how you see negative rates. I think the Bank of England has asked banks to comment on whether they are ready for negative rates, in terms of the first question. Is Lloyds ready and do you think the broader market is ready as of now? Meaning that anything could operationally come in the near to medium term?

And to the question on mortgage pricing, but related to mortgage pricing, what are the levels that banks have left to address being part of potentially lower rates? Is anything left in terms of repricing on the liability side or could there be a scenario where banks increasingly look at that pricing in order to try to find an offset to potentially lower rates? Thank you.

António Horta-Osório
Thank you very much Martin. In relation to negative rates I think we should bear in mind two factors. So there is an operational side and a financial side. From what the Bank of England said and the Governor and Andy Haldane in just the past week. The banks wants to have negative rates in their toolkit and for them to be in their toolkit, obviously that has to be operationally feasible.

So we are in discussions with the Bank of England about how to make that feasible, how long does it take, and what are the steps to make that part of their toolkit. So that is one point.

The second one is about financially, has the bank changed their mind about their view on interest rates, both the Governor and Andy Haldane have said they have they haven't changed their mind. Andy Haldane said last week that most likely if the Bank decides to do something else, they would restart with additional QE before thinking about anything about negative rates. So I am just repeating what the Governor said and what Andy Haldane said and we are on that side. Operationally we are discussing with the Bank what it would take to enable the toolkits to be available for the Bank of England.

In terms of pricing, and William will want to comment I am sure, just a comment I would advance is the following. As you know and as I said on a previous question, we have been prudent throughout the last few years in terms of the mortgage market as we thought pricing was not where we felt it should be sustainably considering capital risk, volumes and other considerations. And now that mortgage margins are in a more stable and more rational environment, almost for 12 months now, I would see it frankly very difficult why that environment would change while we still have significant uncertainties out there, there is significant demand as we discussed, and there is a different risk premium going forward especially for higher LTVs. So I would see it difficult to change in the current economic environment. William, is there anything you want to add?

William Chalmers
Well just to address the second of your two questions there Martin, which is around liabilities. And it was inherent in what Antonio said as well. The liability margin is, won't surprise you, relatively modest right now, not just for us but I am sure for the sector as a whole given where interest rates are. In that context it is interesting actually that some of the support to Q3 margin was indeed through liability repricing, as I mentioned in my comments. Looking forward it is more about asset repricing. So that is a point looking forward.

I think one point that is worth making is that the liabilities pricing being low is a function of where we are in rates curve. That in turn means that I suspect most of the opportunities going forward are from the asset side of the balance sheet.

Martin Leitgeb
Thank you very much.

Question 6 – Andrew Coombs, Citi
Thank you. Perhaps I could stay on the same theme looking at the mortgage dynamics, and thank you for the numbers on the margin on completion versus maturity and on application. Just on this theme, in the discussions you have with the Bank of England, it is quite interesting the dynamics this year and really the mortgage rates have been a function of supply and demand, whereas in the past we have really seen the passthrough of rates onto the mortgage market. You have just indicated you think this scenario, or the environment, is likely to remain similar. So the big pitch question here is in the discussions you have with the Bank of England when they are talking about the prospect of further rate cuts, and potentially moving to negative rates, what we've seen this year is that it hasn't passed through to the mortgage market and it hasn't passed through to the end consumer. In fact it has gone the other way, mortgage rates are higher. So does that disincentivize the Bank of England from introducing negative rates? Any discussions you have with them on that transmission mechanism.

And then the second question, a more boring number one, in the first half stage you gave the aggregate growth margin on consumer and on customer deposits, I think it was 681 on consumer and 20bps on customer deposits. Could you just give us the updated number please?

António Horta-Osório
Okay, Andrew, I will comment on the first and then William will comment on the second. Just a point I would add to what we have been discussing, Andrew. In terms of conversations with the Bank of England, the conversations have not been about implementing negative rates themselves, as I said to you, but they are about what it would take for banks in general, all of us, to be ready to operationally implement them, should they decide to do it. So we are on the operational side as I said. The Bank of England wants to have this available in the toolkit. For it to be available, it has to be feasible, it has to be implementable, and we are on that phase. And as I was just saying for example, Andy Haldane last week said publicly, that if they were minded to discuss additional liquidity or monetary policy measures, they would probably first resort to additional quantitative easing. So our conversations should be very clear about that, about implementation and having the tools available, not about the change of mind of the Bank in terms of whether they want to implement it or not.

On the second point, which connects to the first, I understand about passing this to consumers. Well, they have been passed to consumers, as base rates went from 75 basis points to 10 basis points, we and most of the banks have lowered their FDI rates exactly by the amounts that base rates have. And that is an immediate, very substantial impact which was passed to consumers. New business price has fluctuated over the years. It has increased a little bit from the beginning of the year in terms of margins. But given the decrease in terms of base rates, prices for consumers are lower than at the beginning of the year. You have to look at the different segments etc, but on average you have to distinguish which was the impact on absolute prices which takes into consideration the decrease on the base rate, and what are the dynamics of the market, which is very substantial demand, which I think will continue, and will continue both because of the incentives for the taking advantage of the lower stamp duty until the beginning of next year, that is going to continue. And apart from that, there is the structural shift in customer behaviour which is also driving the amount of price substantially. We have never had so many approvals as I told you since 2008, and we are the largest player in the segment. So that is quite important, the mortgage pricing in general are in a more rational position, in our opinion and I really don't see, given the factors I mentioned to you, the uncertainties out there and the risk factors of the high LTVs, I don't see that changing in the next one or two quarters.

William Chalmers

Maybe I could add one comment to Antonio's there Andrew, and then go on to address the second of your two questions. I think it is our view that the Regulator realises or the Bank of England more appropriately, realises the profit impact or the concerns around negative rates, from a financial sector point of view as a general matter. I think therefore as Antonio says, we have passed on in mortgage rates, with the rate reductions we have seen so far. Going forward, I suspect that the Bank of England will be sympathetic in terms of the form in which negative rates might get introduced, in order to ensure that bank sectoral profitability concerns are addressed. We are obviously in the realm of slight speculation, but I suspect there is an understanding and a desire to avoid unnecessarily significant negative impact on the introduction of negative rates if they get there.

Second point. On your growth margin point on consumer, we won't give that just because I don't want to get into the business of giving detailed 3Q disclosures along the same lines as we give at H1. We will save those for the halves. There has been, as a general matter, as a trend matter, been a very modest amount of pressure on the consumer finance margin, but I won't go into more detail beyond that.

Andrew Coombs

Okay thanks, perhaps just a quick follow-up then on that consumer margin. Given the dynamics you have seen in the credit card market, and obviously partly it was a mix shift effect that had weighed on that gross margin consumer book. Do you think that will now stabilise in terms of mix effect going forward?

William Chalmers

I think our margin as I mentioned at the Half Year is very dependent upon activity levels in general and what that does to the unsecured book. So if one sees a resumption in activity during the course of 2021, which would be our expectation, then you would expect to see that feeding through into the margin.

Andrew Coombs

Thank you.

Question 7 – Jonathan Pierce, Numis

Hello both. Two questions please. The first is just a clarification on that hedge maturity number. Did you say £60 billion next year? And if so is that a relatively smooth set of maturities through 2021? That is the first question.

The second question is on capital. I mean everything you were telling us suggests we get a small profit, probably again in Q4 you have got software benefits, RWAs are flat. It feels like the CET1 ratio probably ends the year up towards 16 per cent. And even if I fully load to your severe downside scenario, it would only be at sort of 13 per cent. I know it is difficult to comment but can you see any good reason now why the Regulator wouldn't let you turn distributions back on particularly given you have been lending into the important markets as well through the course of 2020?

William Chalmers

Thanks Jonathan. On the first of your three questions, the hedge maturity, I won't give a detailed breakdown as to the timing of that during the course of 2021 but the number of £60 billion is the right number, roughly £60 billion for next year, but again I won't go into detail about how exactly that breaks down.

The second of your questions around capital performance, the capital performance for the remainder of the year is obviously macro dependent. I mentioned how you might see our P&L and one or two of the trends within that in the course of my prepared remarks. We would expect to see continued capital build, but with that macro dependency. You mentioned the software exemption. I think we need to see where PRA goes on that and what it decides to do.

What does that all mean for the distributions question, the third of your questions. The organisation, I think, entirely recognises the importance of dividends to investors. We also see ourselves as you commented and we also agree with, we have a very strong capital position, both with and without transitionals. That is clearly appropriate given the uncertainties that we are in, the macro-economic uncertainties, the ones that we know about. And the distribution ultimately is the question for the Board at the end of the year based upon, I am sure, a number of considerations. But the types of things I would expect it to consider would obviously be the capital strength and the evolution of that position. And obviously it would be the macro outlook and where we stand. And it would obviously be the regulatory position and what the Regulator would like to see us, and the sector do. So again that is a question for the Board at the end of the year. But those are the types of considerations I would expect it to debate.

Jonathan Pierce
Okay, thank you.

Question 8 – Ed Firth, KBW
I have a question about the economic environment because it seems we are in a sort of slightly surreal world at the moment where all the banks not just you, are delivering very low impairment numbers. And yet if I am reading my newspaper, I'm reading of France going back into lockdown, Manchester in lockdown, Nottingham in Tier 3 etc. I guess my question is, in so far as you can or in those areas of the UK that you have seen going back into some form of lockdown and I am thinking of places like Manchester I guess is the most obvious one. How has the book performed in those areas and can you see a marked differential between those areas versus the rest which might give us some indication of what would happen if the whole of the UK goes back into some form of lockdown? I suppose that is my first question.

And then my second question related to that is if we do see some form of greater lockdown in Q4 would we expect that to be reflected in Q4 provisioning or would your first call be to utilise some of the impairments you have already made, rather than adding to them further? Thanks very much.

António Horta-Osório
I will take the first question and then William will take the second one. Look to be very frank, it is still too early to see where for your example, the Manchester lockdown have had any significant different impacts on the book because we are thinking about weeks. So it is really difficult to know about that. What I would say are probably two things. The first one is the Government measures of support to the economy are absolutely the right ones. First, because we have discussed in previous quarters, obviously it keeps the productive structure ready, that whenever economic effects dissipate, that productive structure can immediately be used, and not have to be reset. Of course as we move into the pandemic the Government has, and rightly so again, driven more targeted help to the sectors that will continue to operate post pandemic and has moved differently at sectors which have a structural impact from the pandemic. But overall speaking, the impact of supporting the sectors with very significant external and unexpected shock is the right thing to do. If you have not spent that money in that way, you would spend it through unemployment benefits, a lower taxation from corporations that kept operating etc. And you would not have the flexibility of going this quickly after the pandemic into production. That is the first important point.

The second important one I think which has been less discussed, is that this supports not only to businesses that I was just mentioning, but to individuals as well, through the furlough scheme, has also enabled people and businesses to adapt, with the transition period if you want, and to plan ahead. And that is what you see, by unsecured debt having decreased. So individuals have decreased their leverage and they save more. And they spend less, which is reflected in the balance sheets of the banks, by lower unsecured balances. And that makes those individuals more resilient to the unexpected, to the fact that they might lose their jobs going forward unfortunately. But they have had, number one they are in a stronger situation financially. And secondly they are having time to plan ahead for those uncertainties, which is also really important in terms of not having an unexpected shock. So I think that those are two important points that I think you should bear in mind.

A third one I would add, relating to us specifically because you were mentioning impairments and I will ask William to comment in a moment, is that you should bear in mind that us being a retail and a commercial bank, it is not really important what we do in a six month period leading to a shock like this one or during the shock itself. What is really relevant for vigilant commercial bank is what you have been doing for the past five years and the cohorts of loans you have been putting into the books. And as you know, we have always said we wanted to build a low risk simple, digital, financial institution based on the real economy in the UK. So we wanted to build a low risk bank, and we have, as we have discussed with you for several years now. We have taken that view sustainably, for example to give an example on mortgages. It was already five years ago that we had decided to lower our activity in mortgages in London and the South-East, by decreasing the loan to incomes from five to four in order to de-emphasise our focus on that part of the market. Because when you look at the slides we gave you in the appendix, the situation of our mortgage book again, just to give you a factual example, is completely different than before. So you look at 2010 and see that the bank had £45 billion of mortgages, above an LTV of 80 per cent. And after ten years only have £25 billion. And if you look at over 100 per cent of LTV when prices have gone down in certain areas of the country, we have less than £1 billion of mortgages over 100 per cent LTV in spite of that one ten years ago we had £45 billion. And our equity is around £40 billion to give you an example. So I think it is really important to bear in mind in our specific case that we have been building a low risk bank that is focused on prime businesses over many years now, and that is what most of our Group is now after so many years. William.

William Chalmers
I will address your second question Ed. The start point is probably just to better understand what is in and what is not in the IFRS9 provision as we see it today. So our forecasts currently include some measure of localised lockdowns, but also an end to Government support as it was articulated at the end of Q3. If you look at what we are seeing today it could be that the lockdowns get a bit worse, we will see how that transpires over the coming weeks. But it is also the case that Government support is a bit better than we have previously anticipated. So there is a bit of a net effect there and some positives and negatives going on.

As we look forward into the future you ask if we end up in a more adverse macro-economic situation, does that cause a change in our IFRS9 impairment provision or do we dig into provisions that we already have? It is perhaps just an important step I can say, our IFRS9 impairment provision is constructed based upon the macro-economic forecasts that we have given you. If those macro-economic forecasts change then so will our IFRS9 impairment provision.

Now having said that, it is important to recognise that the macro-economic forecasts are a *net* forecast based upon potential future impairments driven by Coronavirus or the Coronavirus scenario. But offset by whatever Government measures may be taken to soften those blows. So our macro-economic forecasts rest upon a net of those two. And we will have to see if there are any changes going forward, what the net impact of those two is.

Coming back to Q3, within Q3 as I said we have seen pretty benign arrears experience, we have more or less maintained our ECL now at £7.1 billion, and indeed within that we have had to work pretty hard to offset releases driven by the model to maintain that prudent stance. So our position right now, we feel very comfortable with based upon macro-economic assumptions as given to you today.

Ed Firth
Great. Okay thanks very much indeed.

Question 9 – Benjamin Toms RBC
Hi thank you for taking my questions. Two please. Firstly in relation to the PRA consultation paper that was published last week which includes the proposed change to the rules on MDAs. If the paper was to be implemented in its current form does it have the potential to change the way the management thinks about its 1 per cent management buffer?

And then secondly, do you expect to recalibrate your property costs following the crisis or is it still too early to say? Thank you.

William Chalmers
Thanks very much for the question. I think on the first of those two our ambition with Capital as we demonstrated today is to stay very comfortably ahead of any MDA or other regulatory constraints. As we stand today, we’ve got a BAU regulatory requirement of around 11 per cent. The capital ratio today is 15.2 per cent so that is obviously a very substantial buffer there. I think we would always look to manage the business comfortably in excess of whatever regulatory hurdles there may be.

On the property portfolio, I think that as we look forward one of the things that we have done in our restructuring charge and will continue to do is look at the overall property estate. And to the extent it makes sense in the context of new ways of working, in the context of some of the learnings that we are taking out of the Coronavirus environment, we will adjust that property portfolio accordingly. Again we have done a little bit of that in the course of 2020 and as we look forward we will clearly be planning what is the appropriate property network in the current environment.

Benjamin Toms
Thank you.

FORWARD LOOKING STATEMENTS

This document contains certain forward looking statements within the meaning of Section 21E of the US Securities Exchange Act of 1934, as amended, and section 27A of the US Securities Act of 1933, as amended, with respect to the business, strategy, plans and/or results of Lloyds Banking Group plc together with its subsidiaries (the Group) and its current goals and expectations relating to its future financial condition and performance. Statements that are not historical facts, including statements about the Group's or its directors' and/or management's beliefs and expectations, are forward looking statements. Words such as 'believes', 'anticipates', 'estimates', 'expects', 'intends', 'aims', 'potential', 'will', 'would', 'could', 'considered', 'likely', 'estimate' and variations of these words and similar future or conditional expressions are intended to identify forward looking statements but are not the exclusive means of identifying such statements. 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