

LLOYDS
BANKING GROUP



Q1 Interim Management Statement

Lloyds Banking Group
27 April 2022



Solid business and financial performance

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 costs¹ 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 build³ 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

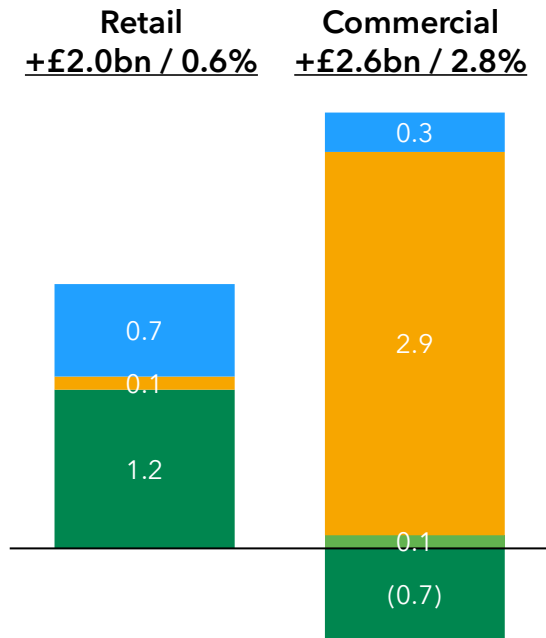
1 - All costs previously reported within restructuring, apart from merger, acquisition and integration costs, are now included within operating costs. Non lending-related fraud costs, previously reported within underlying impairment, are also now included within operating costs. Comparatives have been 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.

Continued recovery in customer activity and franchise growth

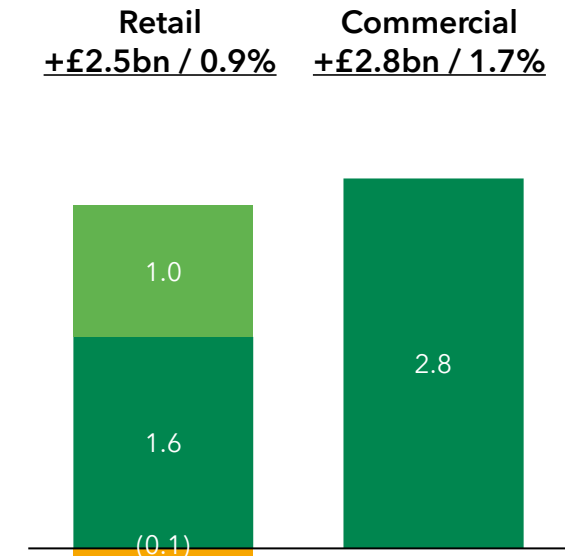
Q1 lending change

(£bn)



Q1 deposit change

(£bn)

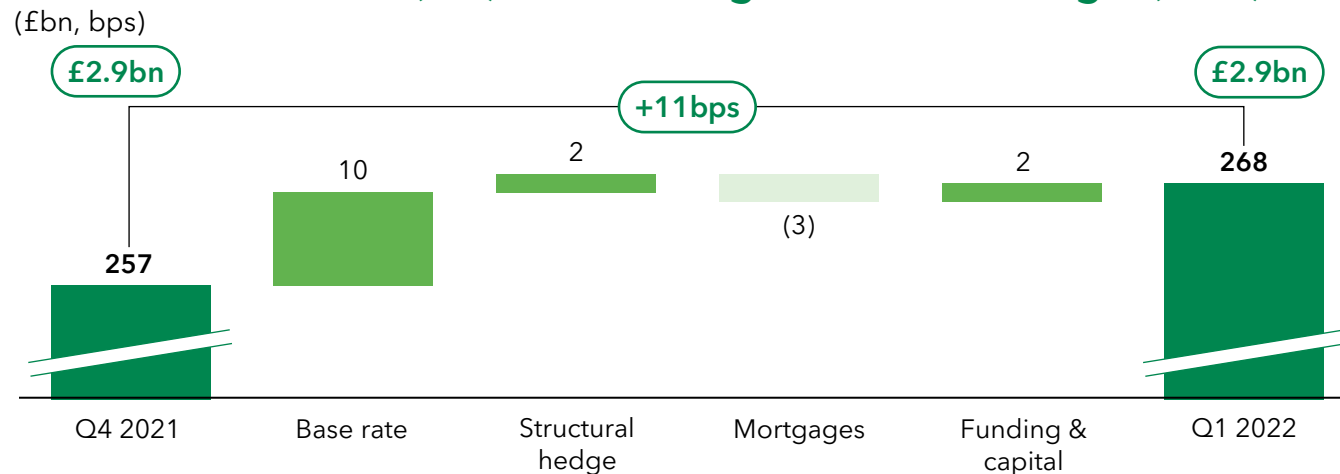


- Mortgages
- SME²
- Credit cards
- Mid Corporates
- Motor Finance
- C&I³
- Other¹
- Other
- Retail current a/c
- Retail relationships
- Retail tactical
- Commercial Banking deposits

- 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&I³
- 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

Strong revenue performance

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



Other income

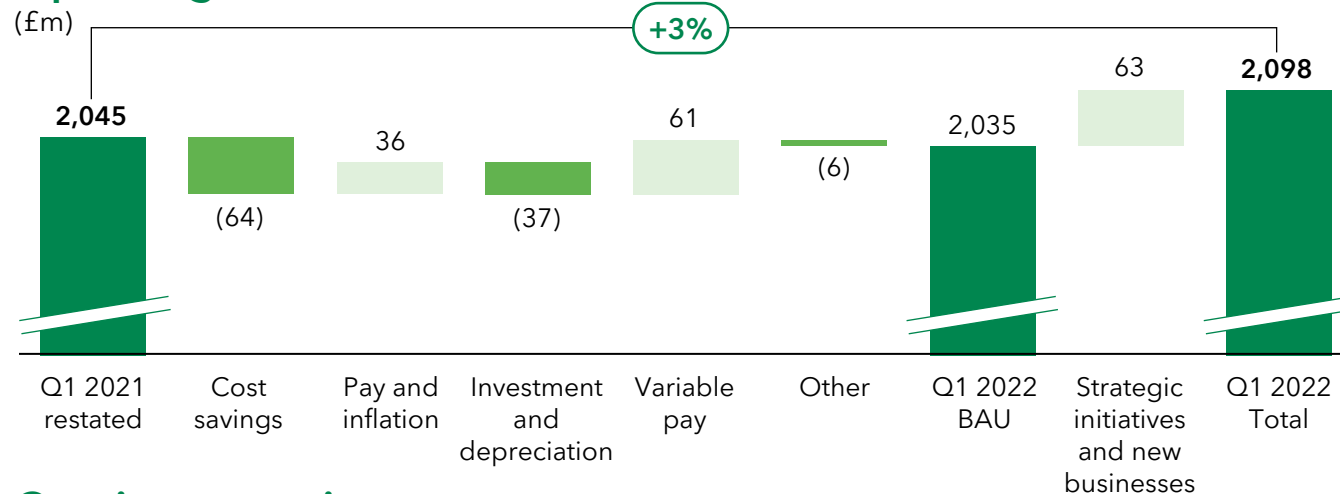


- NII £2.9bn, up 10% on Q1 2021
 - Stronger NIM 268bps, given base rate changes, deposit growth, hedge benefits and continued capital base optimisation
 - Competitive mortgage market; Q1 average completion margin c.85bps
 - Hedge nominal balance now £245bn; capacity increased by £10bn to £250bn
 - Illustrative c.£175m additional NII in year 1 for a 25bps parallel increase in rates¹
- 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

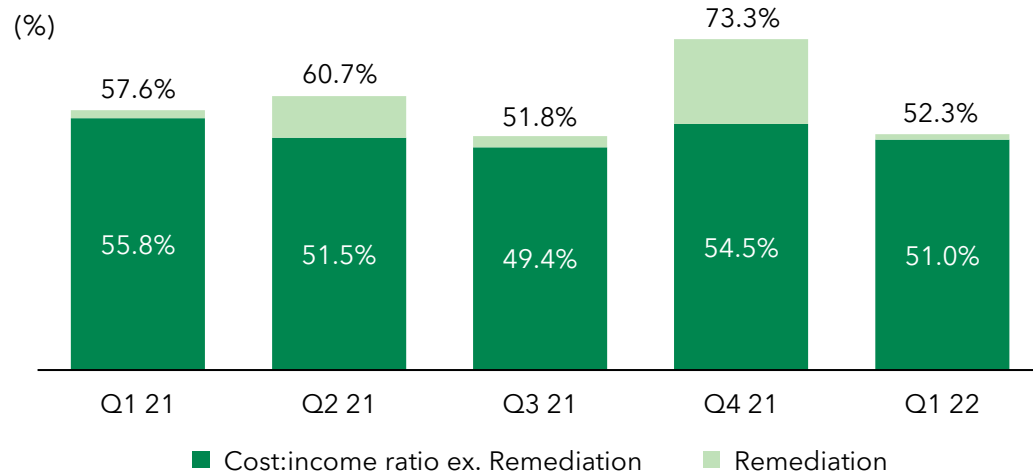
1 - Illustrative interest rate sensitivity; based on the assumptions shown in the appendix on slide 12.

Maintained focus on efficiency

Operating costs



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

Strong asset quality and sustained low new to arrears

Impairment

(£m)

	Q1 2022	Q1 2021	YoY
Charges pre-updated MES¹	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 retained²
 - 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.

Statutory profit after tax of £1.2bn

Statutory profit

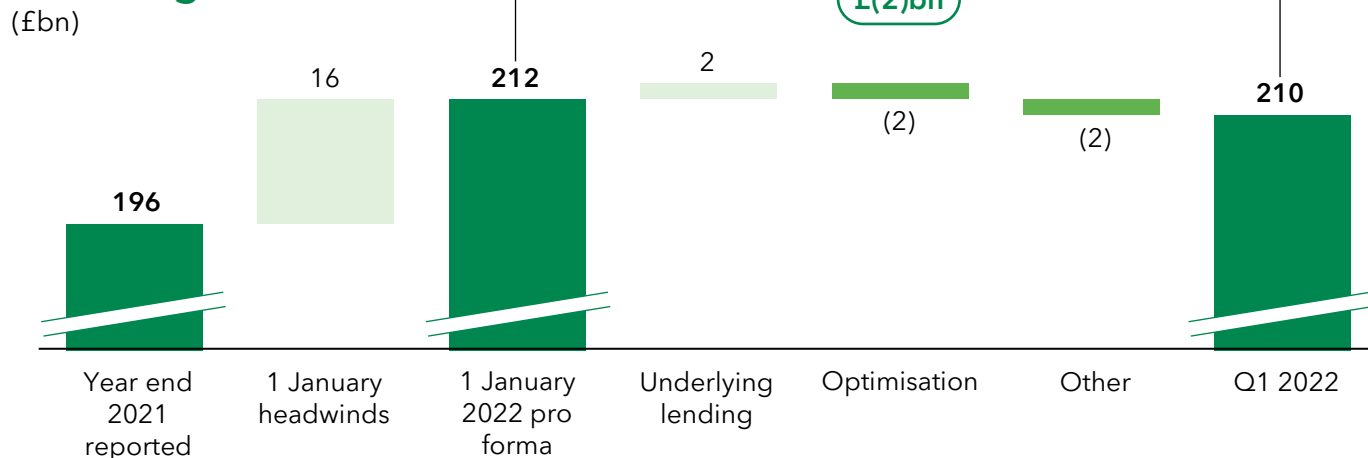
(£m)

	Q1 2022	Q1 2021	YoY
Underlying profit	1,785	1,914	(7)%
Restructuring costs	(24)	(16)	(50)%
Volatility and other items	(138)	-	
Statutory profit before tax	1,623	1,898	(14)%
Tax expense	(419)	(501)	16%
Statutory profit after tax	1,204	1,397	(14)%
Return on tangible equity	10.8%	13.9%	(3.1)pp
Tangible net asset value per share	56.5p	52.4p	4.1p

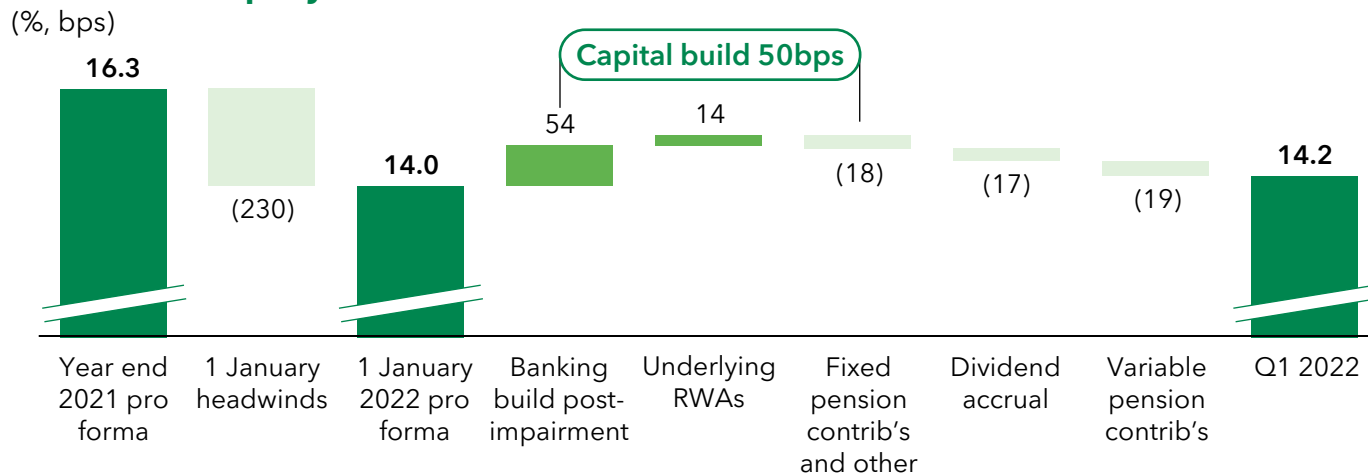
- Underlying and statutory profit converging following year end 2021 changes
- Restructuring costs £24m following reallocation of all non-M&A costs
- Negative insurance and banking volatility in addition to fair value unwind
- Tax expense £419m, broadly in line with expected medium-term tax rate of c.27%
- RoTE 10.8%; now expect 2022 RoTE >11%
- TNAV 56.5p, up 4.1p YoY (down 1.0p on year end given movements in the cash flow hedge reserve)

Strong capital position enabling significant accelerated pension contributions

Risk-weighted assets



Common equity tier 1 ratio



- 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

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**

Q&A

Appendix

Quarterly P&L and key ratios

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

Illustrative NII sensitivity

Cumulative impact of parallel shifts in interest rate curve¹ (£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.

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

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