Q3 Interim Management Statement

Lloyds Banking Group
27 October 2022

Robust performance, confidence in continued delivery

Purpose

Helping Britain Prosper

- Maintaining support for customers
- Continued income growth supported by rate environment and robust business volumes; strong capital generation
- Strong observed asset quality and stable credit trends
- Robust financial performance and revised economic outlook driving updated guidance for 2022
- Supporting low carbon transition with new sector emissions targets
- Strategic delivery and business model position the Group well; significant investment underway, supporting growth strategy

Supporting our customers

Purpose

Helping Britain Prosper

- **Customers demonstrating resilience and adapting to higher cost of living**
- **Support provided where required with increased operational capacity**
  - **Retail**
    - Proactively contacting those most-impacted
    - Suppressed fees for vulnerable customers
    - >100k helped out of persistent debt so far this year
    - Increased use of digital tools to help manage finances
  - **Commercial**
    - Specialist relationship manager support
    - Ongoing outreach targeting clients in most-impacted sectors
    - Suppressed certain fees and charges for SME clients
  - **Insurance**
    - Removed monthly APR charges on home insurance policies
    - 'Be Money Well' hub helping customers manage finances

Robust financial performance

Summary P&L and key metrics

(£m)	Q3 2022 YTD	Q3 2021 YTD	YoY
Net interest income	**9,529**	8,270	*15%*
Other income	**3,811**	3,753	*2%*
Operating lease depreciation	**(295)**	(382)	*23%*
Net income	**13,045**	11,641	*12%*
Operating costs[1]	**(6,436)**	(6,066)	*(6)%*
Remediation	**(89)**	(525)	*83%*
Total costs	**(6,525)**	(6,591)	*1%*
Underlying profit before impairment	**6,520**	5,050	*29%*
Impairment	**(1,045)**	853	
Underlying profit before tax	**5,475**	5,903	*(7)%*
Statutory profit after tax	**4,035**	5,465	*(26)%*
Return on tangible equity	**12.9%**	17.6%	*(4.7)pp*

	Q3 2022	Q4 2021	YTD
Tangible net asset value per share	**49.0p**	57.5p	*(8.5)p*
Pro forma CET1 ratio[2]	**15.0%**	14.0%	*1.0pp*

- Balance sheet franchise growth
- Net income up 12%; NIM 284bps
- Operating costs up 6%; stable BAU costs with higher planned strategic investment
- Higher impairment reflecting revised macroeconomic outlook; continued strong observed asset quality
- TNAV 49.0p, down 8.5p YTD largely driven by rate increases
- Strong capital generation of 191bps[3] YTD; CET1 ratio 15.0%

1 – Comparatives have been presented to reflect the new costs basis, consistent with the current period. 2 – Q4 2021 comparative reflects the regulatory changes on 01/01/2022, Insurance dividend and the full impact of the 2022 share buyback. 3 – Excluding regulatory changes on 01/01/2022, variable pension contributions and ordinary dividends.

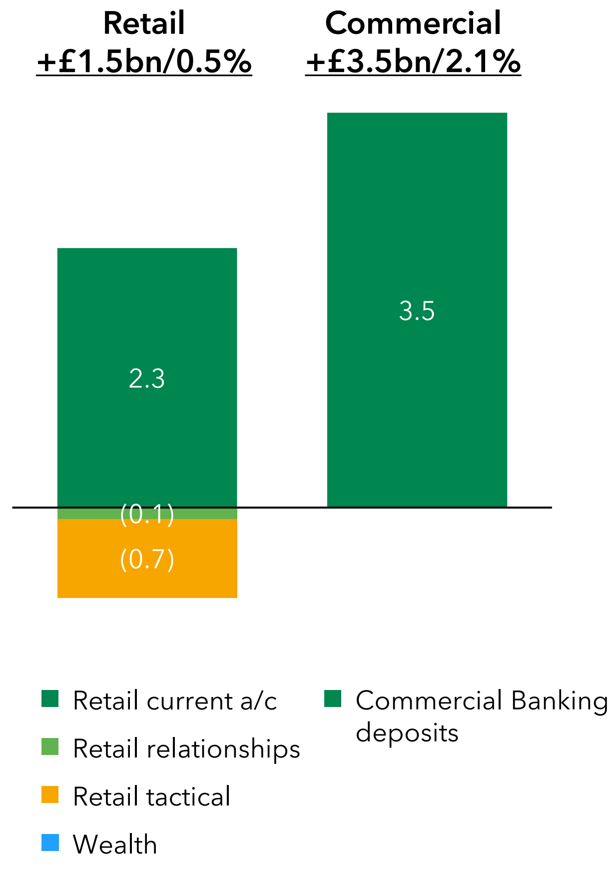
Ongoing strength in customer franchise

Q3 lending change

(£bn)

Q3 deposit change

(£bn)



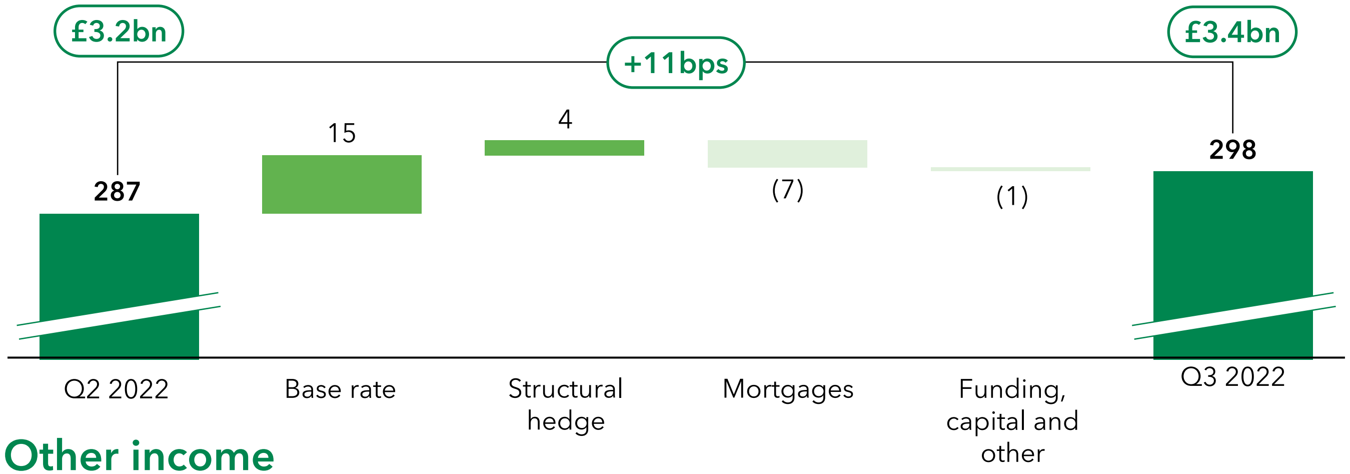
- Mortgage balances up £1.0bn in Q3 at £310.7bn; £1.8bn open book growth
- Credit card balances up £0.1bn in Q3; higher spend largely offset by repayments
- Commercial Banking balances up £0.6bn given CIB growth and FX, offsetting repayment of support scheme balances
- Retail deposits up £1.5bn with £2.3bn increase in current accounts, partly offset by lower savings balances
- Commercial deposits up £3.5bn in Q3
- >£6bn net new money in Insurance YTD

1 – Includes Overdrafts, Europe and Wealth.

Continued income growth

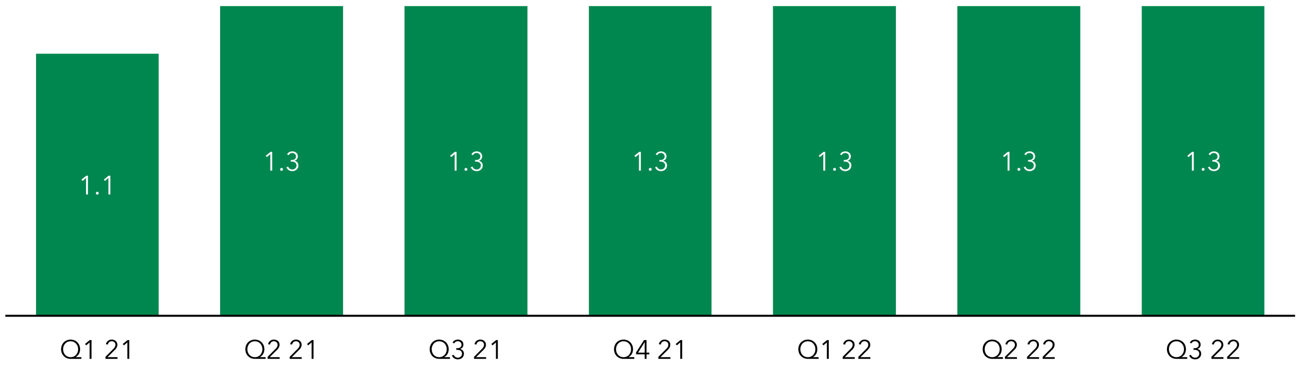
Net interest income (NII) and banking net interest margin (NIM)

(£bn, bps)



Other income

(£bn)



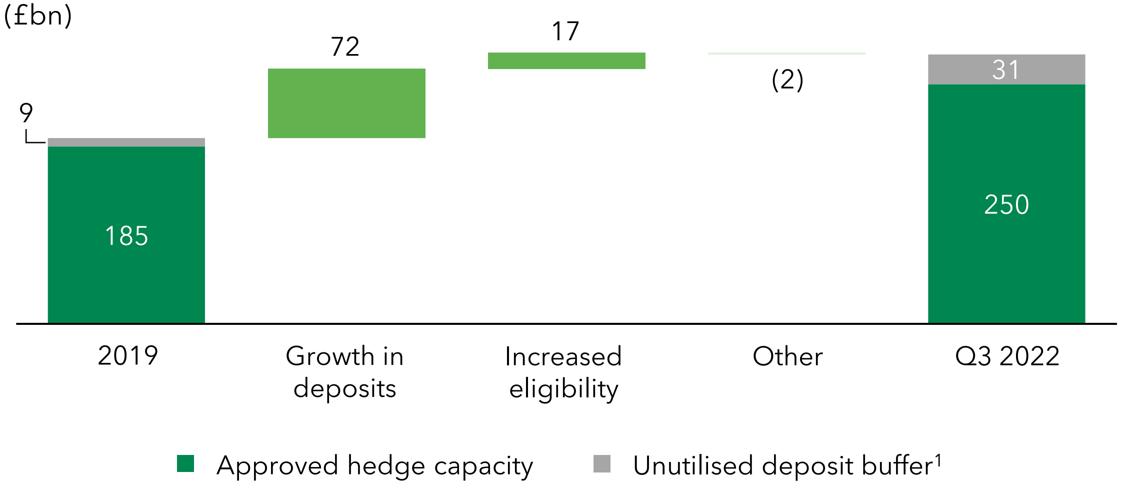
- NII £9.5bn YTD, up 15% on prior year
  - Stronger Q3 NIM 298bps given base rate movements, hedge earnings and robust balance growth
  - Competitive mortgage market and volatile swap rates; Q3 average completion margin c.60bps
  - Fully hedged nominal balance of £250bn with WAL c.3.5 years, £31bn buffer
  - Continue to expect low single-digit percentage growth in AIEAs in 2022
  - Now expect 2022 NIM to be >290bps
- Other income £3.8bn YTD, up 2%; £1.3bn in Q3, in line with prior quarters

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

Increased hedge earnings with enhanced buffer

Growth in structural hedge capacity and buffer since 2019

(£bn)



Cumulative impact of parallel shifts in interest rate curve[2]

(£m)

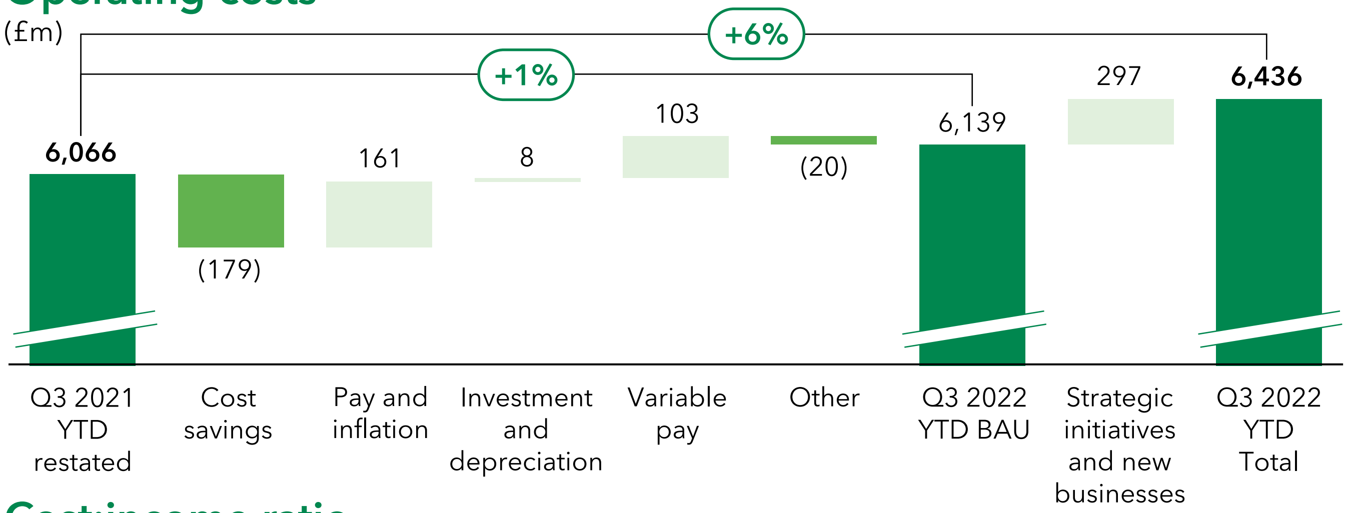
	Year 1	Year 2	Year 3
+100bps	c.625	c.1,025	c.1,450
+50bps	c.300	c.525	c.725
+25bps	c.150	c.250	c.350

- >£70bn growth in deposits since 2019 contributing to increased hedge income
  - Q3 hedge income c.£120m above Q3 21
  - Unutilised deposit buffer increased from £9bn to £31bn
- Rate sensitivity now c.£150m additional NII in year 1 for a 25bps parallel shift
  - Sensitivity reduced from Q2 given maturities now mostly invested
  - Future sensitivity increases given £38bn maturities in 2022/23 and if buffer utilised
  - Assumptions unchanged, including 50% illustrative deposit pass-through[3]
  - c.£50m additional year 1 NII for every 10pp reduction in assumed pass-through on 25bps shift; c.£100m on 50bps shift

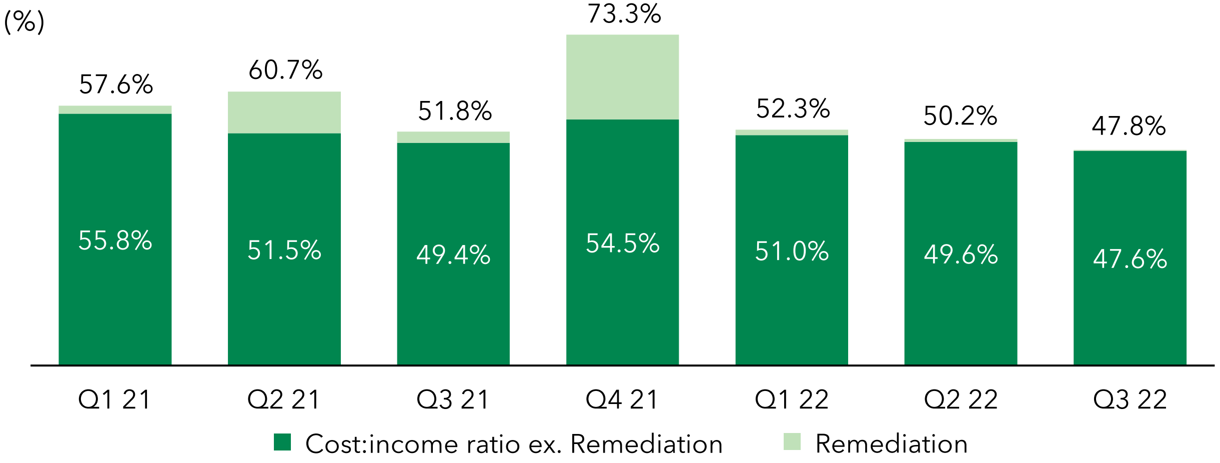
1 – Deposits not yet deemed hedgeable. 2 – Sensitivity based on modelled impact on banking book NII (including the future impact of structural hedge maturities). Year 1 reflects the 12 months from 30/09/2022 balance sheet position. 3 – Assumes instantaneous parallel shift in interest rate curves, including bank base rate; balance sheet remains constant; 100% pass-through on customer lending and analysis does not reflect new business margin implications and/or pricing actions, other than as outlined.

Rigorous cost discipline alongside planned investment increase

Operating costs



Cost:income ratio



- Operating costs £6.4bn YTD, up 6% given planned investment alongside stable BAU
- Sustained cost discipline with BAU cost management offsetting inflation pressure
- Continue to expect 2022 operating costs of c.£8.8bn
- Remediation £89m YTD, principally relating to pre-existing programmes
- Market-leading efficiency position; YTD cost:income ratio 50.0%, 47.8% in Q3
- Focused on managing efficiency in context of inflationary pressures

Strong observed asset quality; updated economic scenarios

Impairment[1]

(£m)

	Q3 2022 YTD	Q3 2022
Charge/(credit) pre-updated MES[2]	**532**	**250**
Retail	**520**	**235**
Commercial Banking	**1**	**8**
Other	**11**	**7**
Updated economic outlook	**513**	**418**
Retail	**541**	**370**
Commercial Banking	**372**	**248**
Other (COVID central adjustment)	**(400)**	**(200)**
Total impairment charge/(credit)	**1,045**	**668**

Gross lending and coverage levels[3]

(%)

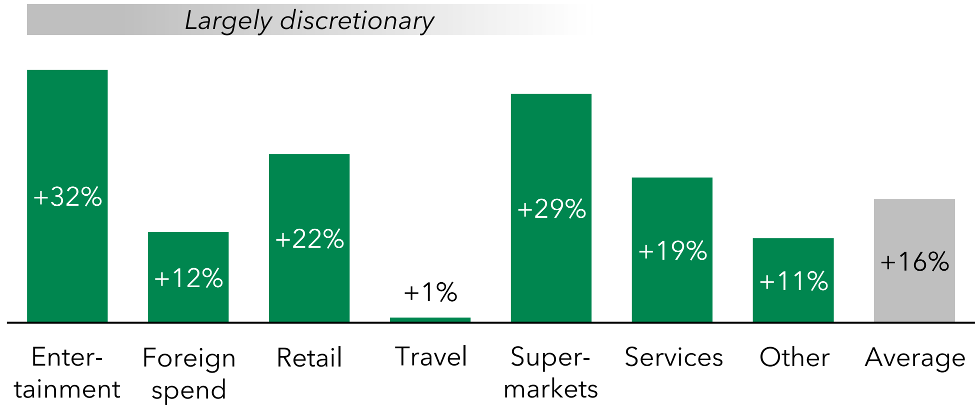
		Stage 1	Stage 2	Stage 3	Total
Q3 2022	Gross loans and advances	£386bn	£64bn	£11bn	**£461bn**
	Coverage	0.2%	3.1%	21.7%	**1.1%**
Q2 2022	Gross loans and advances	£399bn	£49bn	£11bn	**£460bn**
	Coverage	0.2%	3.0%	20.1%	**1.0%**

- Q3 net impairment charge of £668m
  - Updated net MES charge of £418m; £618m for updated scenarios alongside £200m central COVID adjustment release
  - Observed charge pre-updated MES of £250m, equivalent to AQR 21bps (15bps YTD): strong observed asset quality
  - Above prior periods largely from absence of debt sales and model adjustments
- £1,045m net impairment charge YTD; AQR 30bps
- Stage 3 balances flat on Q1 and Q2
- Stock of ECL £5.0bn, up £0.5bn YTD given updated economic outlook
- Now expect 2022 AQR c.30bps

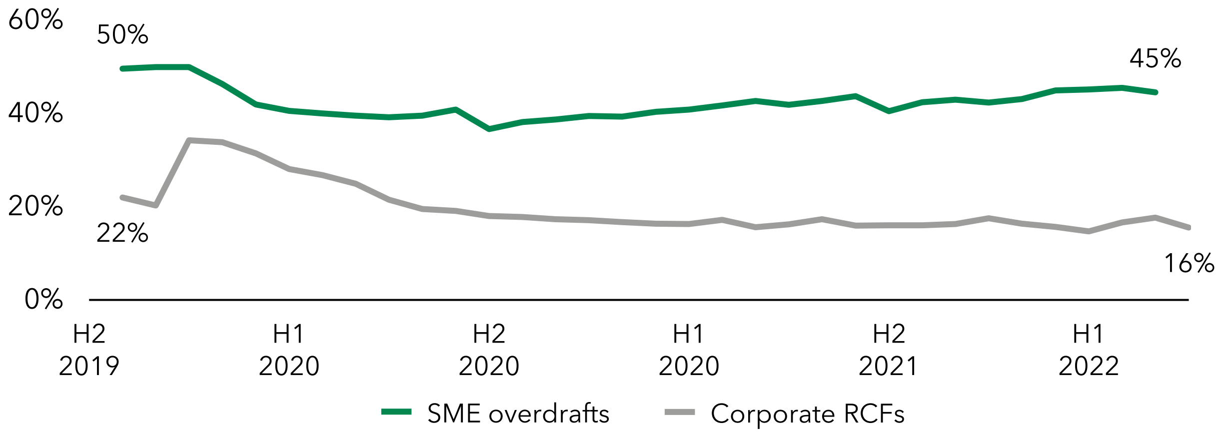
1 – Impairment charges for Retail, Commercial Banking and Other reflect the new organisation structure; comparatives have been presented on a consistent basis. 2 – Impairment charges absent the impact from updated economic outlook, thus reflecting only observed movements in credit quality. Coronavirus impacted restructuring cases, previously disclosed separately, are now reported within charges pre-updated MES (multiple economic scenarios). 3 – Underlying basis. Table uses rounded inputs. Stage 3 balances increased on 01/01/2022 given CRD IV changes.

Resilient customer behaviour

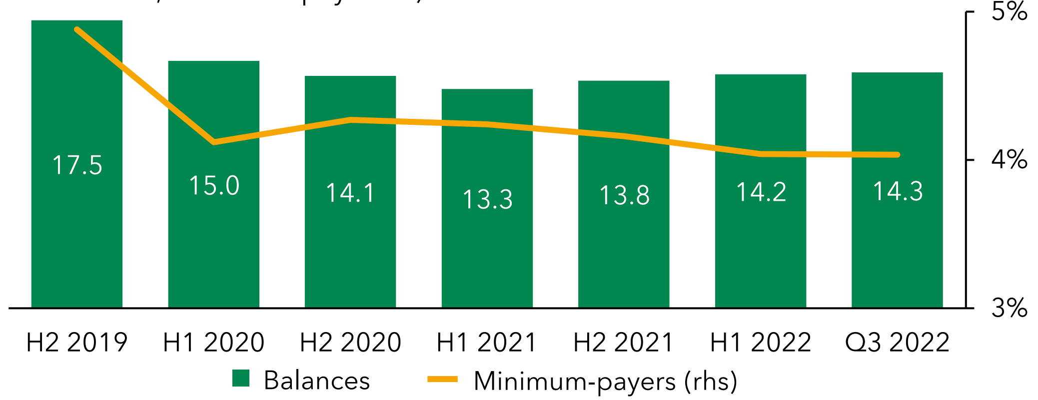
Increased credit card spend in discretionary categories
(% change, September 2022 vs September 2019)



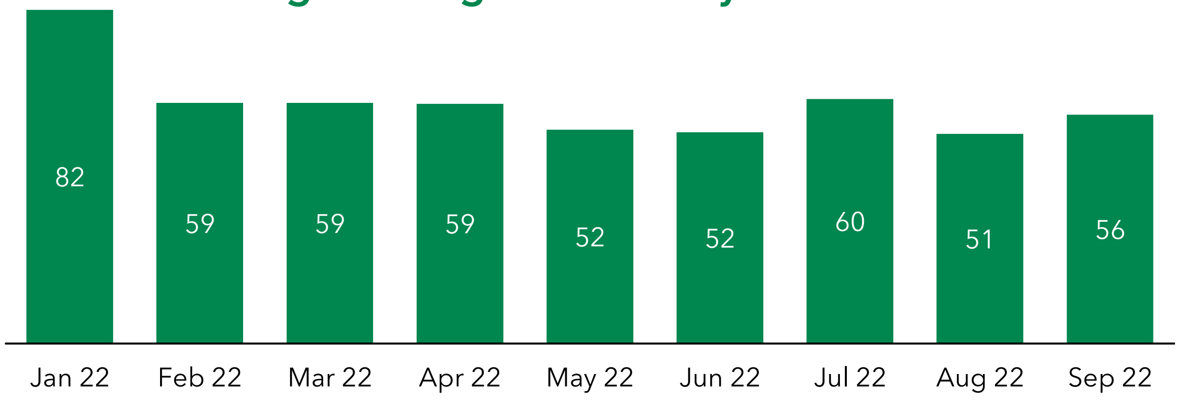
SME overdraft and corporate RCF[2] utilisation stable
(%)



Credit card regular minimum-payers stable[1]
(Balances £bn, Minimum-payers %)



Invoice financing – average debtor days[3] stable

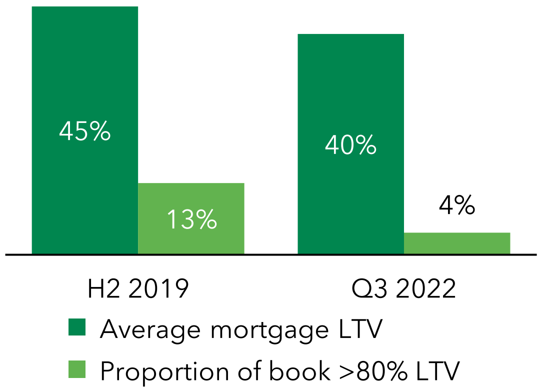


1 – Prior periods restated to reflect the new organisation structure. 2 – Revolving credit facilities. 3 – Debtor days calculated as a daily average at an active facility level across factoring and invoice discounting products; excludes syndicated deals.

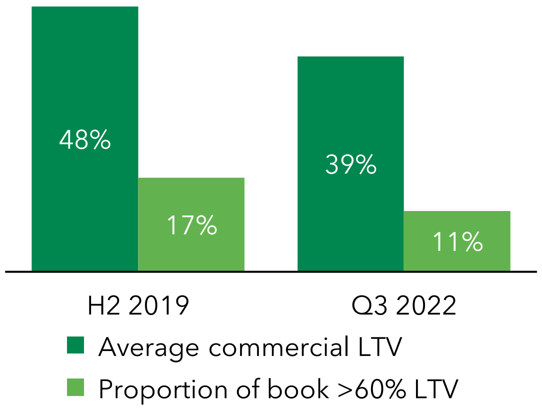
Resilient portfolios

LLOYDS BANKING GROUP

Average mortgage LTV

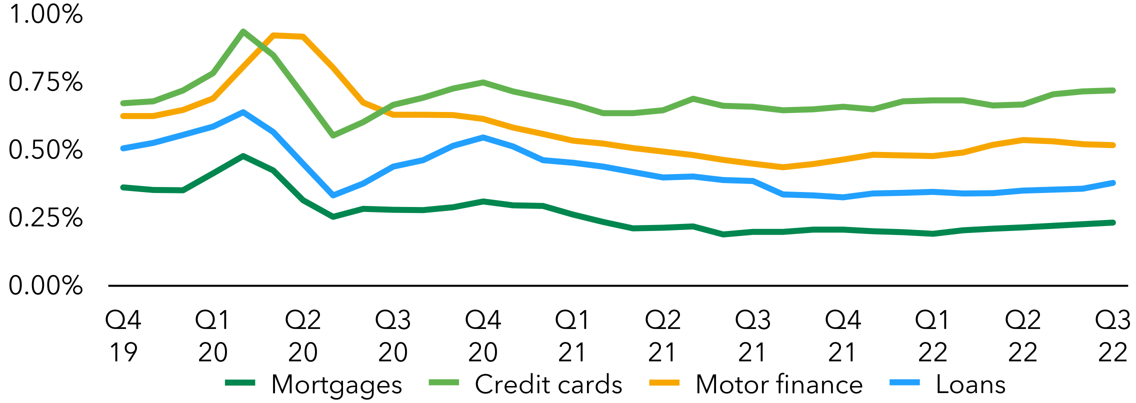


Commercial Banking UK direct real estate LTV[1]



New to arrears as a proportion of total balances

(3-month rolling average, %)

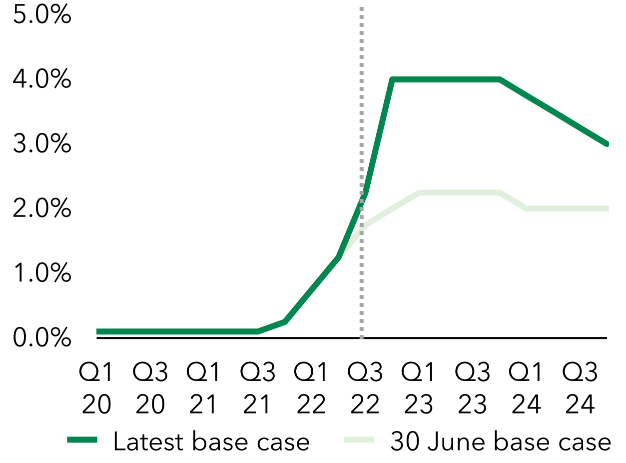


- Average mortgage LTV 40.3% with 96% of book below 80% LTV
  - Average household income for mortgages c.£75k p.a.[2]
- Net CRE exposure £10.9bn; average LTV 39% and c.89% with LTV <60%
  - Average interest cover ratio 4.4x
- >70% of Commercial exposure[3] at investment grade and c.90% of SME lending secured
- New to arrears remain low, at or below historical averages

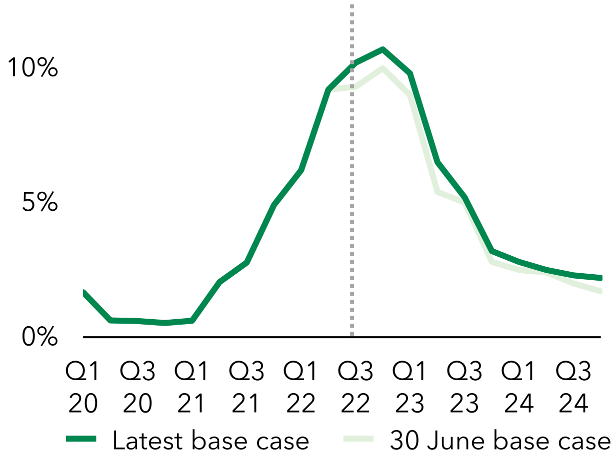
1 – H2 2019 excludes CRE exposures <£1m; Q3 2022 includes all CRE exposures. Difference is not expected to materially impact trends. 2 – Relates to mortgage completions in 2022.
3 – Commercial Banking excluding SME and Business Banking.

Updated macroeconomic outlook

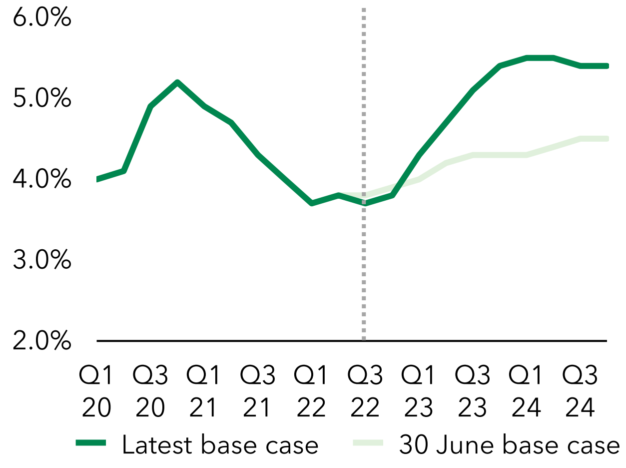
UK bank rate



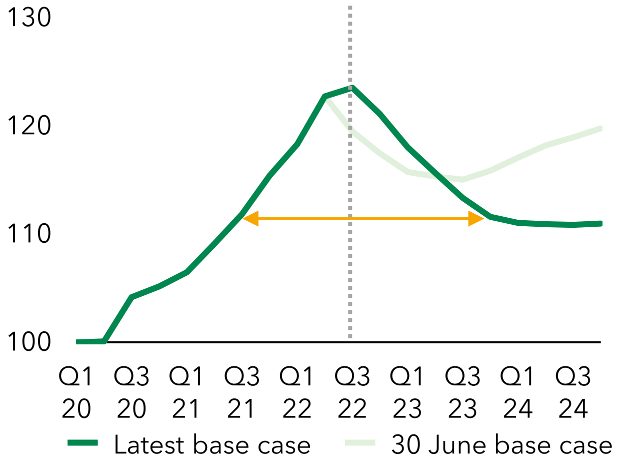
CPI inflation



Unemployment



Indexed house prices



- Latest macroeconomic base case reflects some deterioration in outlook
  - Base rate forecast to peak at 4.00% at year end 2022
  - Inflation forecast to peak at 10.7% in Q4
  - Peak unemployment forecast to be 5.5% in Q1 2024
  - After recent strong house price growth, expect a fall of c.8% in 2023; peak-to-trough fall c.10%
- Uncertainty remains

Statutory profit after tax £4.0bn YTD

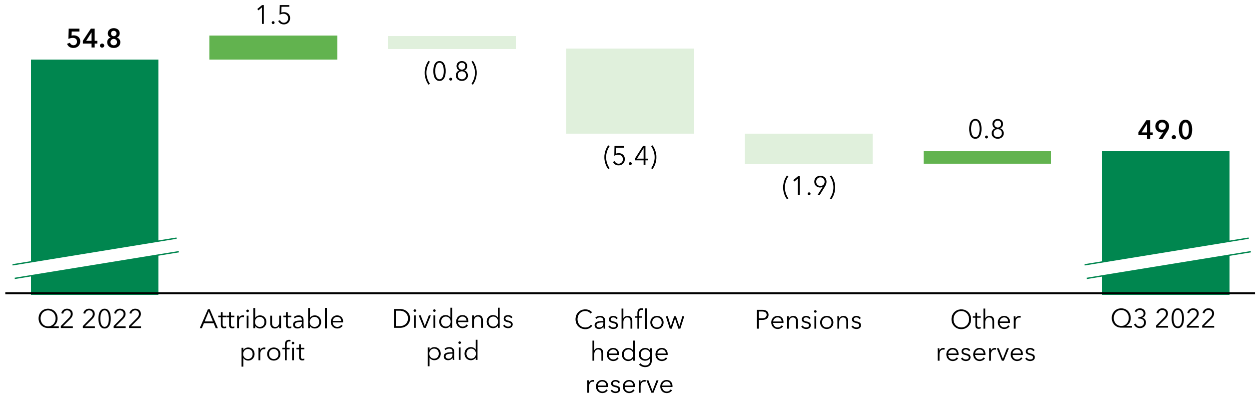
Statutory profit

(£m)

	Q3 2022 YTD	Q3 2021 YTD	YoY
Underlying profit	**5,475**	5,903	*(7)%*
Restructuring costs	**(69)**	(34)	
Volatility and other items	**(237)**	65	
Statutory profit before tax	**5,169**	5,934	*(13)%*
Tax expense	**(1,134)**	(469)	
Statutory profit after tax	**4,035**	5,465	*(26)%*
Return on tangible equity	**12.9%**	17.6%	*(4.7)pp*

Tangible net asset value per share

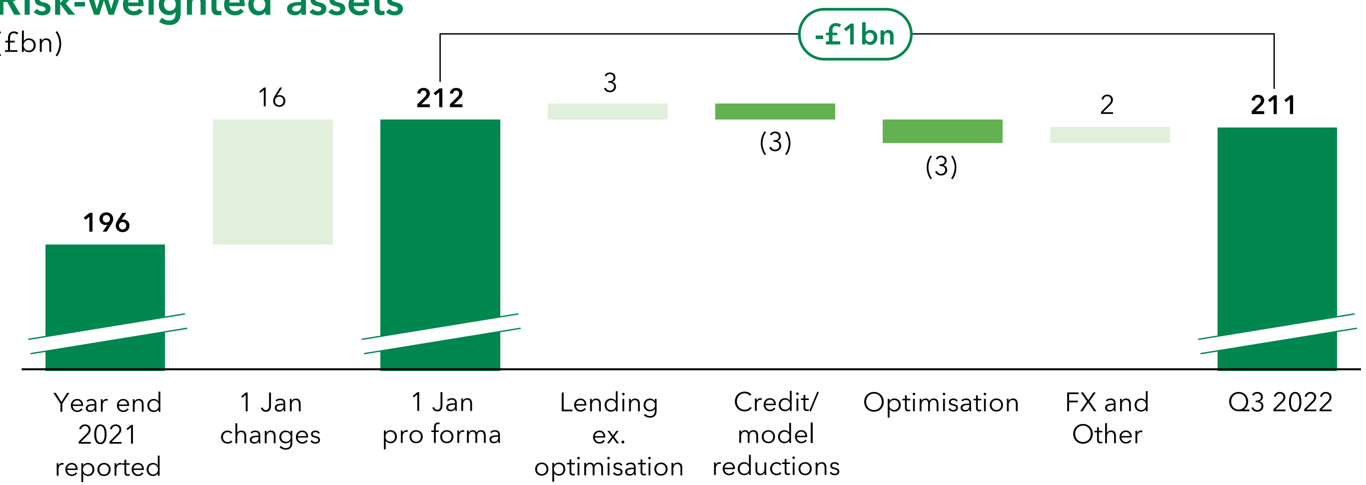
(pence)



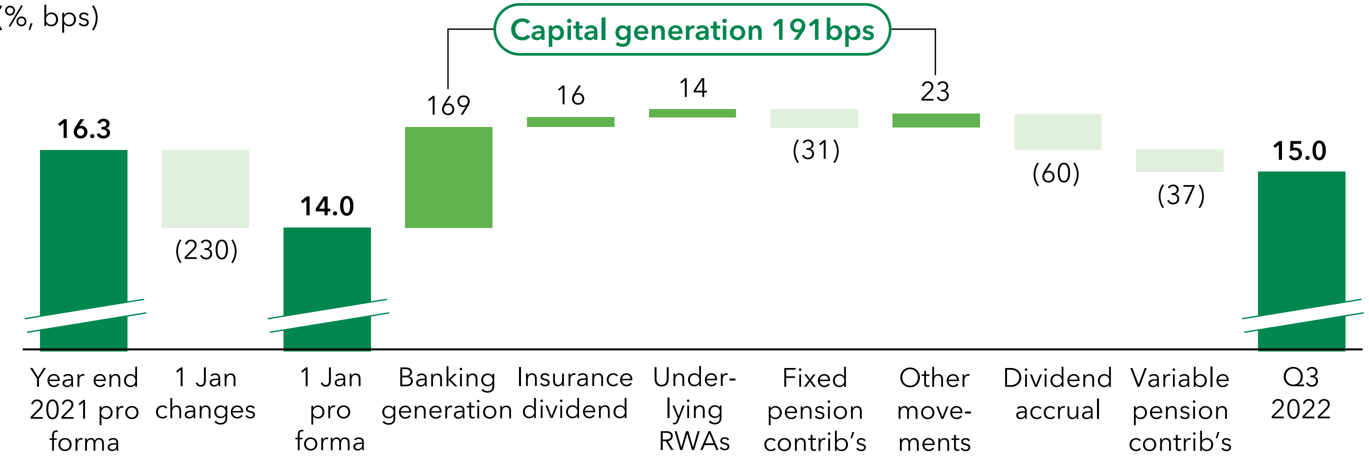
- Underlying and statutory profit converging following year end 2021 reporting changes
- Restructuring costs £69m, including Embark integration costs
- Negative market volatility impacts in Q3 alongside usual fair value unwind
- RoTE 12.9%; continue to expect 2022 RoTE to be c.13%
- TNAV 49.0p, down 5.8p in Q3, largely due to cash flow hedge reserve and pension surplus movements

Effective RWA management and strong capital generation

Risk-weighted assets
(£bn)



Common equity tier 1 ratio
(%, bps)



- RWAs down £1bn since 1 January: credit and model reductions and optimisation
- 191bps capital generation after (31)bps for full fixed pension deficit contributions
- CET1 ratio 15.0% after (60)bps dividends and (37)bps variable pension contributions
- Remain well ahead of ongoing target of c.12.5% plus a c.1% management buffer
- Completed £2bn 2022 buyback programme[1]; >4.5bn shares bought, >6% of issued share capital
- Continue to expect 2022 RWAs c.£210bn
- Expect 2022 capital generation 225-250bps

1 - On 11/10/2022.

Robust performance, confidence in continued delivery

Helping Britain Prosper

- Maintaining support for customers
- Strong observed asset quality and stable credit trends
- Robust financial performance and revised economic outlook driving updated guidance for 2022

Updated guidance for 2022

- NIM now expected to be >290bps
- Operating costs expected to be c.£8.8bn
- AQR now expected to be c.30bps
- RoTE expected to be c.13%
- RWAs expected to be c.£210bn at year end
- Capital generation now expected to be 225-250bps

Q&A

Appendix

Quarterly P&L and key ratios

(£m)	Q3 2022	Q2 2022	Q1 2022	Q4 2021	Q3 2021	Q2 2021	Q1 2021
Underlying net interest income	**3,394**	**3,190**	**2,945**	2,893	2,852	2,741	2,677
Underlying other income	**1,282**	**1,268**	**1,261**	1,307	1,336	1,282	1,135
Operating lease depreciation	**(82)**	**(119)**	**(94)**	(78)	(111)	(123)	(148)
Net income	**4,594**	**4,339**	**4,112**	4,122	4,077	3,900	3,664
Operating costs	**(2,187)**	**(2,151)**	**(2,098)**	(2,246)	(2,013)	(2,008)	(2,045)
Remediation	**(10)**	**(27)**	**(52)**	(775)	(100)	(360)	(65)
Total costs	**(2,197)**	**(2,178)**	**(2,150)**	(3,021)	(2,113)	(2,368)	(2,110)
Underlying profit before impairment	**2,397**	**2,161**	**1,962**	1,101	1,964	1,532	1,554
Underlying impairment (charge) credit	**(668)**	**(200)**	**(177)**	532	119	374	360
Underlying profit	**1,729**	**1,961**	**1,785**	1,633	2,083	1,906	1,914
Restructuring	**(22)**	**(23)**	**(24)**	(418)	(24)	6	(16)
Volatility and other items	**(199)**	**100**	**(138)**	(247)	(30)	95	–
Statutory profit before tax	**1,508**	**2,038**	**1,623**	968	2,029	2,007	1,898
Statutory profit after tax	**1,209**	**1,622**	**1,204**	420	1,600	2,468	1,397
Net interest margin	**2.98%**	**2.87%**	**2.68%**	2.57%	2.55%	2.51%	2.49%
Average interest-earning assets	**£455bn**	**£451bn**	**£448bn**	£449bn	£447bn	£442bn	£439bn
Cost:income ratio	**47.8%**	**50.2%**	**52.3%**	73.3%	51.8%	60.7%	57.6%
Asset quality ratio	**0.57%**	**0.17%**	**0.16%**	(0.46)%	(0.10)%	(0.33)%	(0.33)%
Return on tangible equity	**11.9%**	**15.6%**	**10.8%**	2.9%	14.5%	24.4%	13.9%
Tangible net asset value per share	**49.0p**	**54.8p**	**56.5p**	57.5p	56.6p	55.6p	52.4p

Updated economic scenarios

Scenario	ECL (£m)	Measure (%)	2022	*vs Q2 22[1]*	2023	2024	2025	2026	*Ave. 22-26*
Upside (30%)	3,778	GDP	3.6	*0.1*	0.4	1.0	1.5	2.1	*1.7*
		Interest rate	2.16	*0.52*	5.28	5.17	4.30	4.12	*4.20*
		Unemployment rate	3.3	*0.2*	2.8	3.2	3.5	3.8	*3.3*
		HPI growth	6.1	*2.9*	(2.7)	7.2	8.5	6.1	*5.0*
		CRE price growth	8.7	*(0.5)*	(3.6)	0.1	1.0	1.9	*1.6*
		CPI inflation	9.0	*0.4*	6.1	2.9	3.2	2.6	*4.8*
Base case (30%)	4,352	GDP	3.4	*0.1*	(1.0)	0.4	1.4	2.0	*1.2*
		Interest rate	2.06	*0.62*	4.00	3.38	2.56	2.50	*2.90*
		Unemployment rate	3.7	*(0.1)*	4.9	5.4	5.5	5.5	*5.0*
		HPI growth	5.0	*3.2*	(7.9)	(0.5)	2.5	2.3	*0.2*
		CRE price growth	2.8	*1.0*	(14.4)	(2.7)	0.4	1.9	*(2.6)*
		CPI inflation	9.1	*0.5*	6.2	2.5	2.2	1.3	*4.2*
Downside (30%)	5,462	GDP	3.2	*0.2*	(2.3)	(0.2)	1.2	1.9	*0.8*
		Interest rate	2.00	*0.75*	2.93	1.76	1.04	1.07	*1.76*
		Unemployment rate	4.1	*(0.4)*	6.6	7.5	7.3	7.2	*6.5*
		HPI growth	3.9	*4.0*	(12.9)	(8.9)	(5.4)	(3.3)	*(5.5)*
		CRE price growth	(1.4)	*3.0*	(23.0)	(6.5)	(2.5)	(0.2)	*(7.1)*
		CPI inflation	9.0	*0.3*	6.0	1.9	1.1	0.0	*3.6*
Severe downside (10%)	9,397	GDP	2.4	*0.8*	(4.5)	(0.3)	1.0	1.8	*0.0*
		Interest rate – adj.	2.44	*(0.50)*	7.00	4.88	3.00	2.75	*4.01*
		Unemployment rate	4.9	*(0.9)*	9.8	10.5	10.0	9.5	*8.9*
		HPI growth	2.4	*4.0*	(17.9)	(16.6)	(10.3)	(6.0)	*(10.0)*
		CRE price growth	(9.2)	*5.7*	(35.7)	(13.6)	(6.4)	(0.7)	*(14.1)*
		CPI inflation – adj.	9.9	*0.1*	14.3	9.0	4.1	1.3	*7.7*
Probability-weighted	**5,017**								

1 – Comparison to scenarios modelled at Q2 2022; changes only shown for 2022 measures.

Updated coverage after updated economic outlook

(£m, unless stated otherwise)[1]	Gross customer L&A (£bn)	Coverage (ex. Recoveries)[2] Stage 1	Stage 2	Stage 3	Total	Total coverage Q4 2021[1]	ECL Q4 2021	*Write-offs & Other*	*P&L charge/ (credit)*	Net ECL incr./ (decr.)	ECL Q3 2022	Write-offs & Other Q3 2021[3]
Retail	366.0	0.2%	2.8%	16.6%	0.9%	0.7%	2,640	*(491)*	*1,061*	570	3,210	(635)
UK Mortgages	*312.3*	*0.0%*	*1.5%*	*12.4%*	*0.5%*	*0.4%*	*1,284*	*8*	*284*	*292*	*1,576*	*(36)*
Cards	*14.8*	*1.5%*	*15.1%*	*54.4%*	*4.6%*	*3.7%*	*531*	*(255)*	*406*	*151*	*682*	*(299)*
Loans & Overdrafts	*10.3*	*2.0%*	*20.4%*	*72.6%*	*5.7%*	*4.7%*	*445*	*(208)*	*349*	*141*	*586*	*(254)*
Motor	*14.5*	*0.9%*	*4.4%*	*55.0%*	*2.0%*	*2.1%*	*298*	*(29)*	*16*	*(13)*	*285*	*(40)*
Other	*14.1*	*0.1%*	*2.8%*	*30.4%*	*0.6%*	*0.7%*	*82*	*(7)*	*6*	*(1)*	*81*	*(6)*
Commercial	99.0	0.3%	4.7%	34.9%	1.8%	1.5%	1,433	*(38)*	*373*	335	1,768	(155)
Other[4]	(4.0)	0.0%	0.0%	66.7%	(0.1)%	4.0%	426	*2*	*(389)*	(387)	39	(3)
Total	461.0	0.2%	3.1%	21.7%	1.1%	1.0%	4,499	*(527)*	*1,045*	518	5,017	(787)

1 – Figures for Retail, Commercial Banking and Other reflect the new organisation structure; comparatives have been presented on a consistent basis. 2 – Underlying basis. Loans and advances to customers only; excludes £39m of ECL on other assets at 30/09/2022 (£22m at 31/12/2021). 3 – Excludes £113m of non lending-related fraud costs now included within operating costs.
4 – 31/12/2021 coverage calculation for Other excludes £400m ECL central adjustment (nil at 30/09/2022).

Low mortgage LTVs

	September 2022[1]				2021[1]	2010[1]
	Mainstream	Buy to let	Specialist	Total	Total	Total
Average LTVs	39.6%	45.4%	34.5%	**40.3%**	42.1%	55.6%
New business LTVs	62.4%	58.8%	N/A	**61.9%**	63.3%	60.9%
≤ 80% LTV	95.4%	99.7%	96.6%	**96.1%**	95.4%	57.0%
>80–90% LTV	4.1%	0.1%	1.2%	**3.4%**	4.1%	16.2%
>90–100% LTV	0.4%	0.1%	1.0%	**0.4%**	0.3%	13.6%
>100% LTV	0.1%	0.1%	1.2%	**0.1%**	0.2%	13.2%
Value >80% LTV	£11.6bn	£0.2bn	£0.3bn	**£12.1bn**	£14.3bn	£146.6bn
Value >100% LTV	£0.2bn	£0.1bn	£0.1bn	**£0.3bn**	£0.5bn	£44.9bn
Gross lending	£252.6bn	£51.6bn	£8.1bn	**£312.3bn**	£308.8bn	£341.1bn

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

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