Q1 Interim Management Statement

Lloyds Banking Group
3 May 2023

Robust business performance

LLOYDS BANKING GROUP

Purpose

Helping Britain Prosper

- **Purpose driven business model**, enabling continued support for customers and colleagues
- **Continued delivery** against strategic objectives
- **Solid financial performance**, supporting strong capital generation
- **2023 guidance maintained**, delivering higher, more sustainable returns

Solid financial performance

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Financial performance (£m)

	Q1 2023	Q1 2022	YoY
Net interest income	**3,535**	2,945	*20%*
Other income	**1,257**	1,182	*6%*
Operating lease depreciation	**(140)**	(94)	*(49)%*
Net income	**4,652**	4,033	*15%*
Operating costs	**(2,170)**	(2,059)	*(5)%*
Remediation	**(19)**	(52)	*63%*
Total costs	**(2,189)**	(2,111)	*(4)%*
Underlying profit before impairment	**2,463**	1,922	*28%*
Impairment charge	**(243)**	(177)	*(37)%*
Underlying profit	**2,220**	1,745	*27%*
Statutory profit before tax	**2,260**	1,544	*46%*
Statutory profit after tax	**1,641**	1,145	*43%*

	Q1 2023	Q4 2022	QoQ
Net interest margin	**3.22%**	3.22%	
Return on tangible equity	**19.1%**	11.0%	*8.1pp*
Tangible net asset value per share	**49.6p**	46.5p	*3.1p*
Pro forma CET1 ratio[1]	**14.1%**	14.1%	

- Strong net income, up 15%; NIM 322bps
- Operating costs up 5% given investment and inflation; on target for c.£9.1bn in 2023
- Resilient observed asset quality; £243m net impairment charge
- Underlying and statutory PBT largely aligned
- Statutory profit after tax £1.6bn; RoTE 19.1%
- Strong 52bps capital build, after full £800m fixed pension contribution
- CET1 ratio 14.1%, after dividend accrual
- TNAV 49.6p, up 3.1p since restated year end

1 – Q4 2022 includes dividend received from Insurance in February 2023 and full impact of announced £2bn share buyback.

Customer franchise resilience

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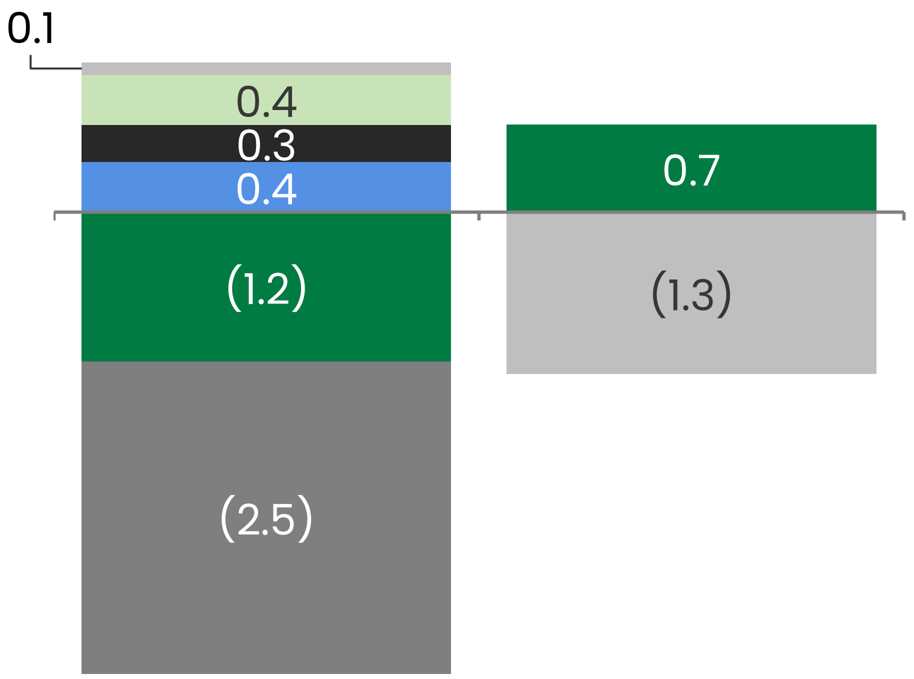
Q1 lending change (£bn)

Retail
-£2.5bn/0.7%

Commercial
-£0.6bn/0.6%

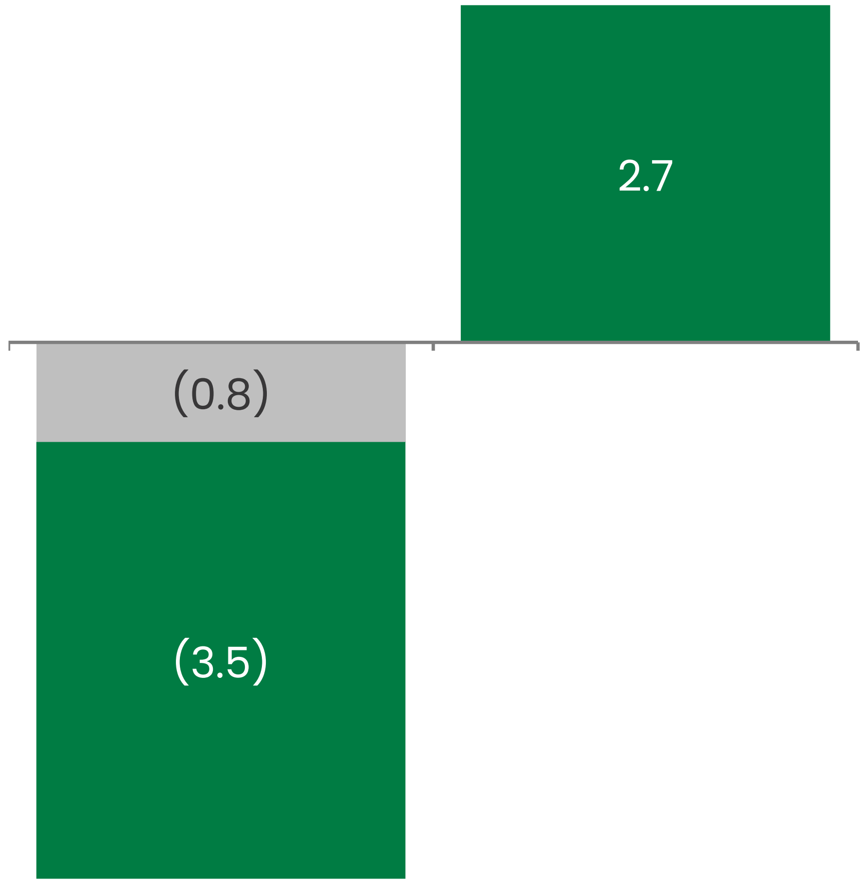


- Mortgages
- Legacy portfolio exit
- Credit cards
- Motor Finance
- Unsecured loans
- Other[1]
- Corporate and Institutional Banking (CIB)
- Small and Medium Businesses (SMB)

Q1 deposit change (£bn)

Retail
-£4.3bn/1.4%

Commercial
+£2.7bn/1.6%



- Retail current a/c
- Retail savings and Wealth
- Commercial Banking deposits

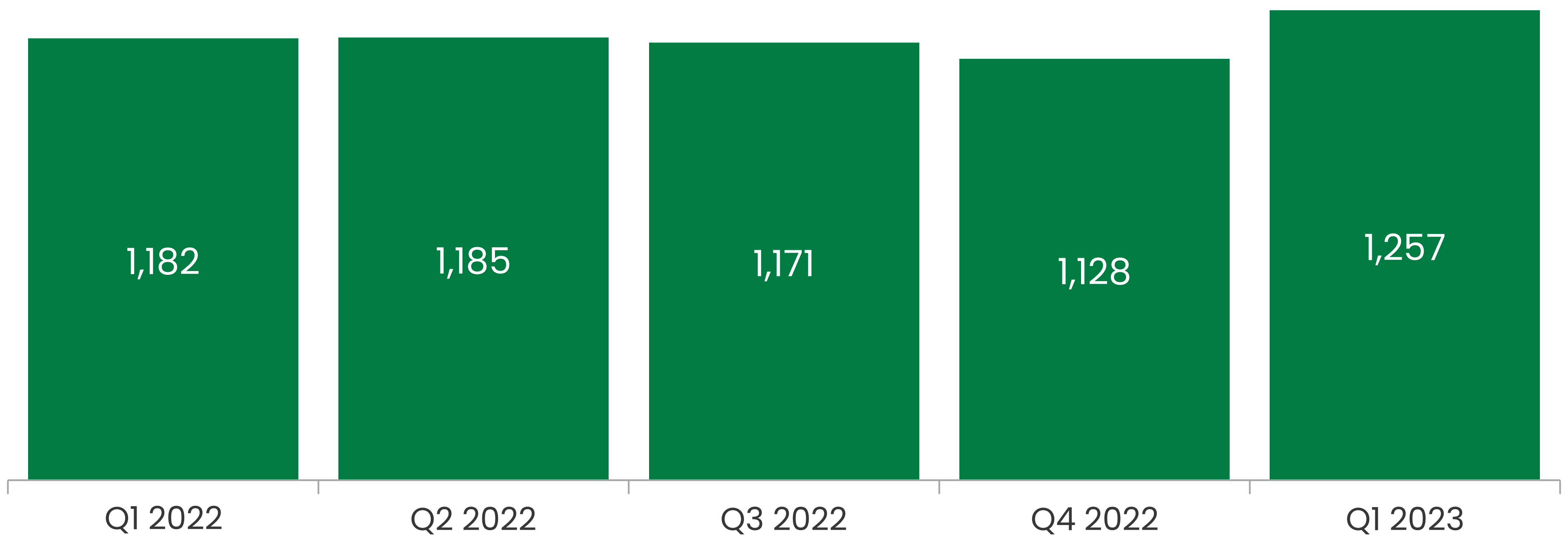
- **Mortgage balances down £3.7bn in Q1 including £2.5bn legacy portfolio exit**
- **Unsecured lending growth in credit cards, Motor and Loans**
- **Commercial lending down £0.6bn; net repayments in SMB including government-backed lending, partly offset by CIB growth**
- **Total deposits £473bn, down £2.2bn (0.5%) in Q1**
  - Retail down £4.3bn, £3.5bn in current accounts and £0.8bn in savings and Wealth
  - Commercial deposits up £2.7bn, including some short term placements
- **c.£2bn net new money in Insurance[2]**

1 – Includes Overdrafts, Europe and Wealth. 2 – Open book assets under administration; excludes market movements.

Strong income performance

Net interest income and banking margin (£bn, bps)

Other income[1] (£m)

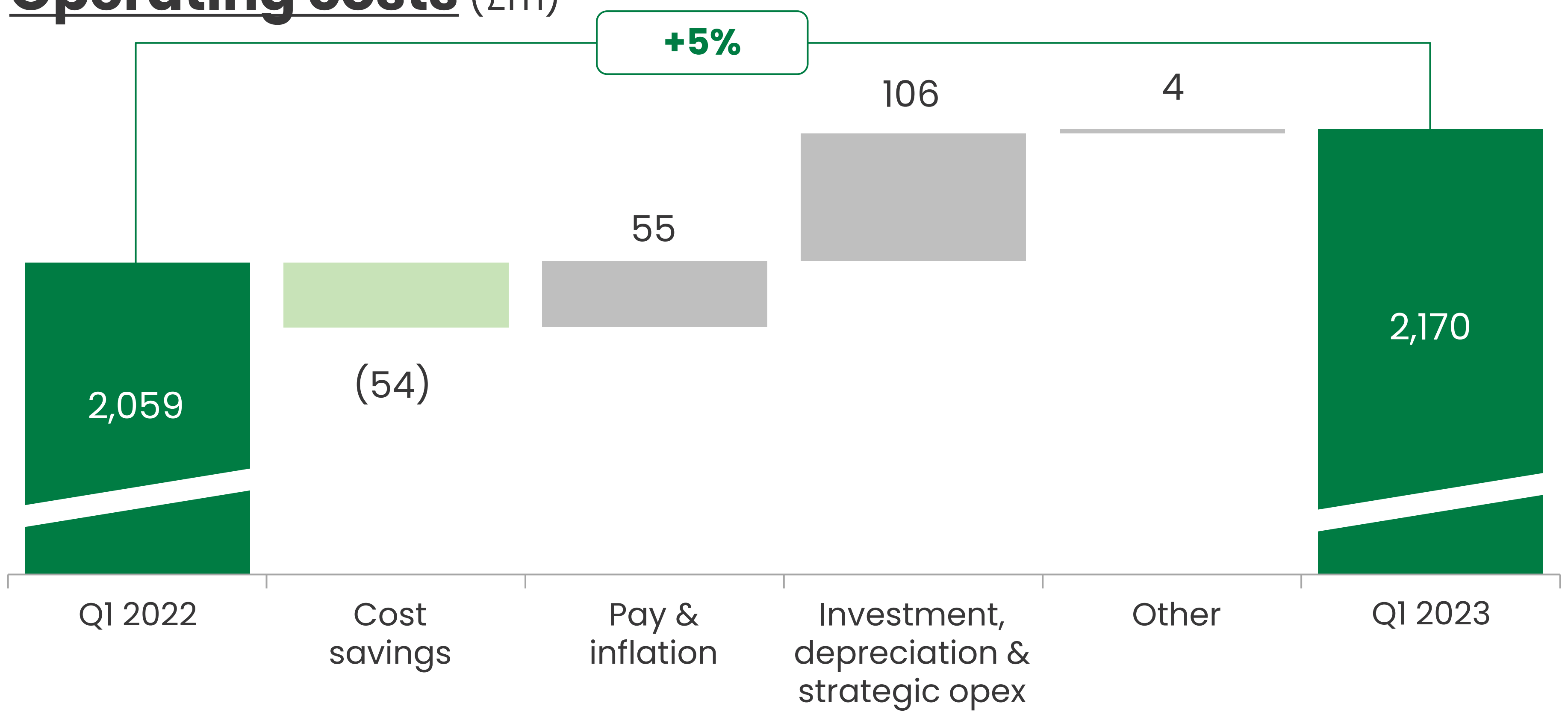


- **NII £3.5bn with stable AIEAs and resilient NIM**
  - Q1 AIEAs £454.2bn, broadly stable vs Q4
  - NIM 322bps, in line with Q4; mortgage completion margins c.50bps in Q1
  - Structural hedge nominal balance of £255bn with WAL c.3.5 years
- **Continue to expect AIEAs in 2023 to be broadly stable vs 2022**
- **Continue to expect 2023 NIM to be >305bps**
  - Q2 NIM expected to be lower than Q1 given expected headwinds from mortgages and deposit pricing
  - Increased hedge income to benefit NIM in H2
- **Improvement in other income given activity levels and investment benefits**

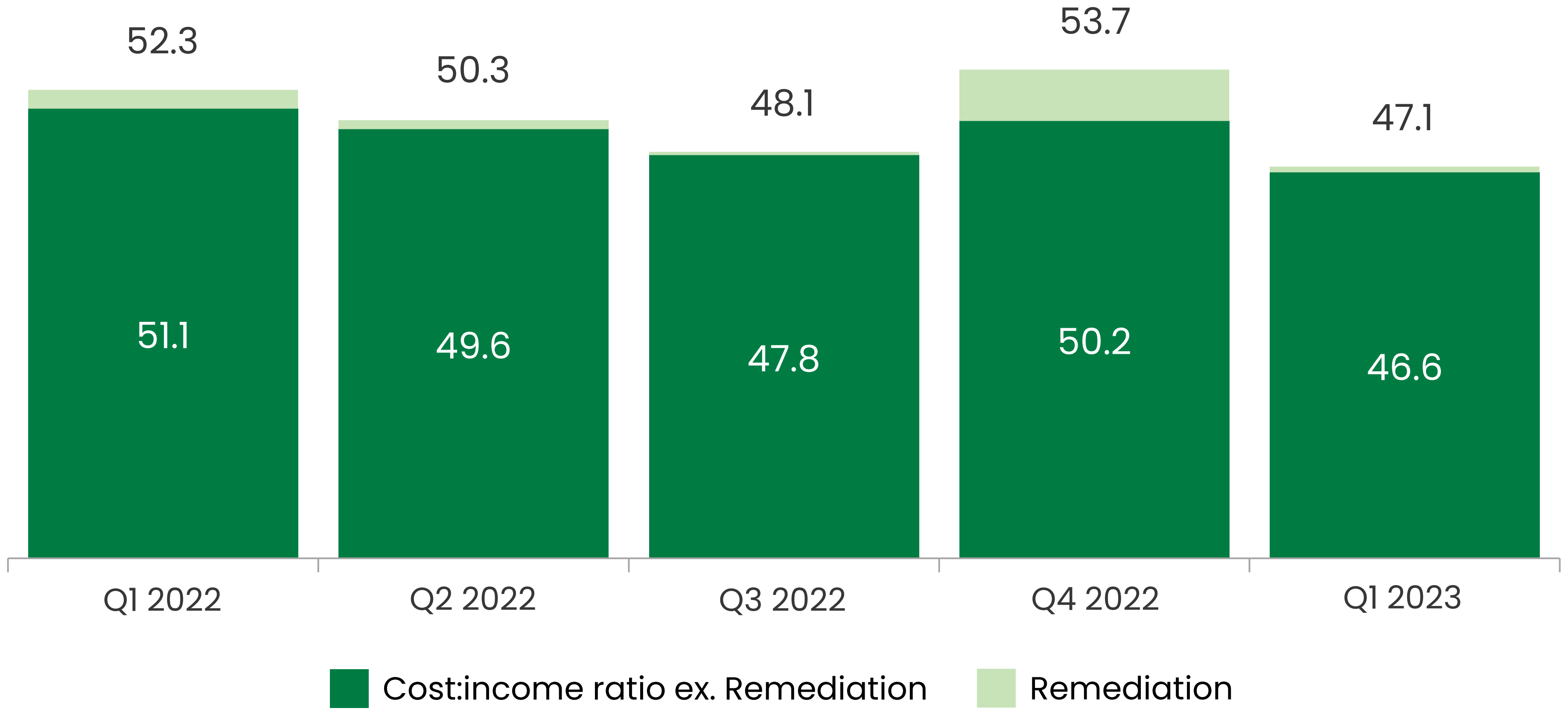
1 – Comparatives restated for IFRS 17.

Operating costs in line with expectations

Operating costs (£m)



Cost:income ratio (%)



- **Q1 operating costs £2.2bn, up 5% YoY given investment, new businesses and inflation**
- **Q1 cost:income ratio 47.1%; 46.6% excluding remediation**
- **Ongoing discipline in the context of inflationary pressures**
- **Continue to expect 2023 operating costs to be c.£9.1bn**
- **Low remediation charge of £19m**

Resilient asset quality

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Impairment[1] (£m)

	Q1 2023	Q4 2022	QoQ	Q1 2022	YoY
Charge pre updated MES[2]	**322**	**383**	***(61)***	**150**	***172***
Retail	**271**	253	*18*	149	*122*
Commercial Banking	**53**	121	*(68)*	1	*52*
Other	**(2)**	9	*(11)*	-	*(2)*
Updated economic outlook	**(79)**	**82**	***(161)***	**27**	***(106)***
Retail	**(66)**	59	*(125)*	(10)	*(56)*
Commercial Banking	**(13)**	23	*(36)*	37	*(50)*
Total impairment charge	**243**	**465**	***(222)***	**177**	***66***

Gross lending and coverage level[3] (£bn, %)

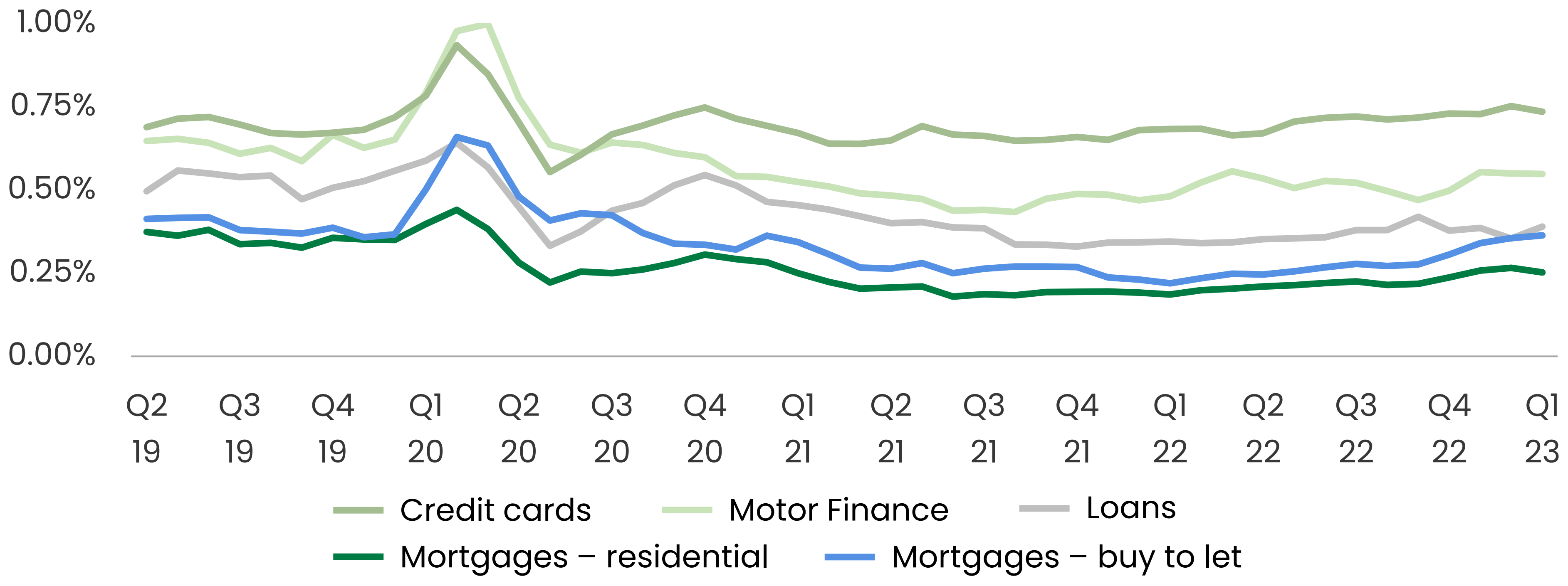
		Stage 1	Stage 2	Stage 3	Total
Q1 2023	Loans and advances	£386bn	£61bn	£10bn	£457bn
	Coverage	0.2%	3.2%	23.5%	1.1%
Q4 2022	Loans and advances	£383bn	£66bn	£11bn	£460bn
	Coverage	0.2%	3.2%	22.6%	1.1%

- **Resilient observed asset quality**
  - Retail credit performance remains resilient; all portfolios at or below pre-pandemic levels
  - Commercial performance strong, with Q1 charges largely from existing Stage 3 cases
- **Impairment charge £243m, AQR 22bps**
  - £322m charge pre updated MES, equivalent to AQR of 28bps, includes roll-forward impact
  - £79m MES credit given slightly improved economic outlook
- **Q1 stock of ECL £5.2bn, marginally down vs Q4**
- **Continue to expect 2023 AQR of c.30bps**

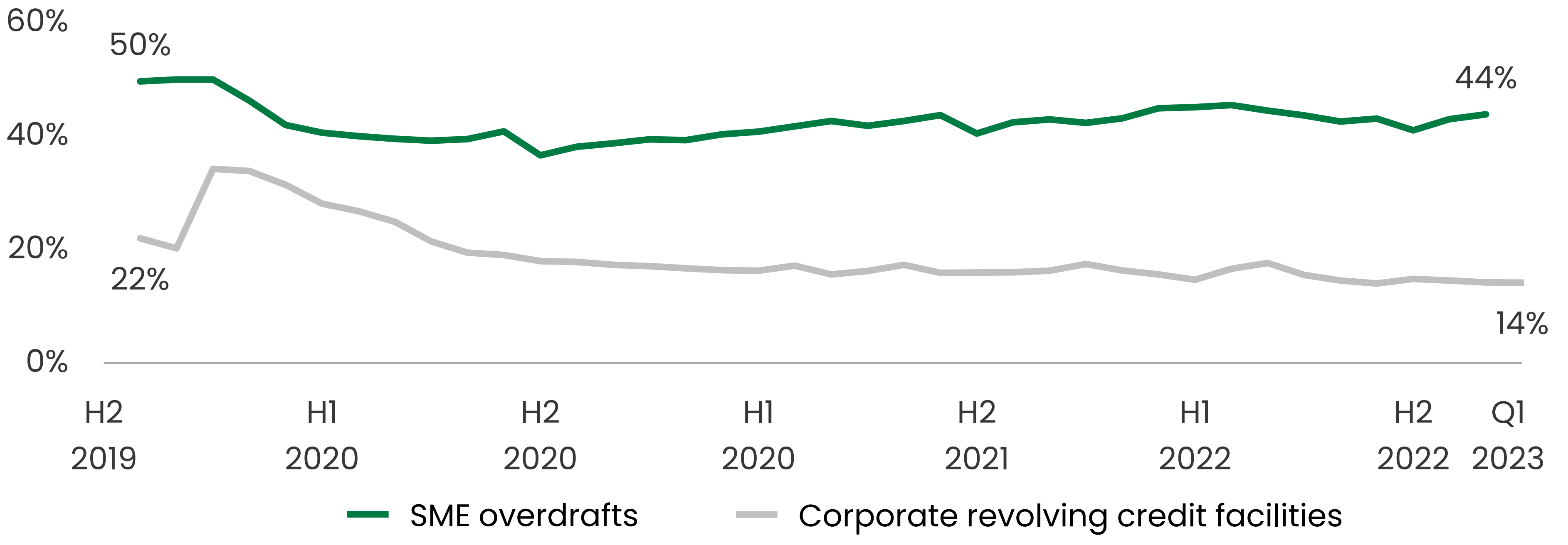
1 – Impairment charges for Retail, Commercial Banking and Other reflect the new organisation structure; comparatives have been presented on a consistent basis. 2 – Impairment charges absent the impact from updated economic outlook, thus reflecting only observed movements in credit quality. 3 – Underlying basis. Table uses rounded inputs.

Resilience across portfolios

New to arrears as a proportion of total balances
(3 month rolling average, %)



SME overdraft and corporate RCF utilisation (%)



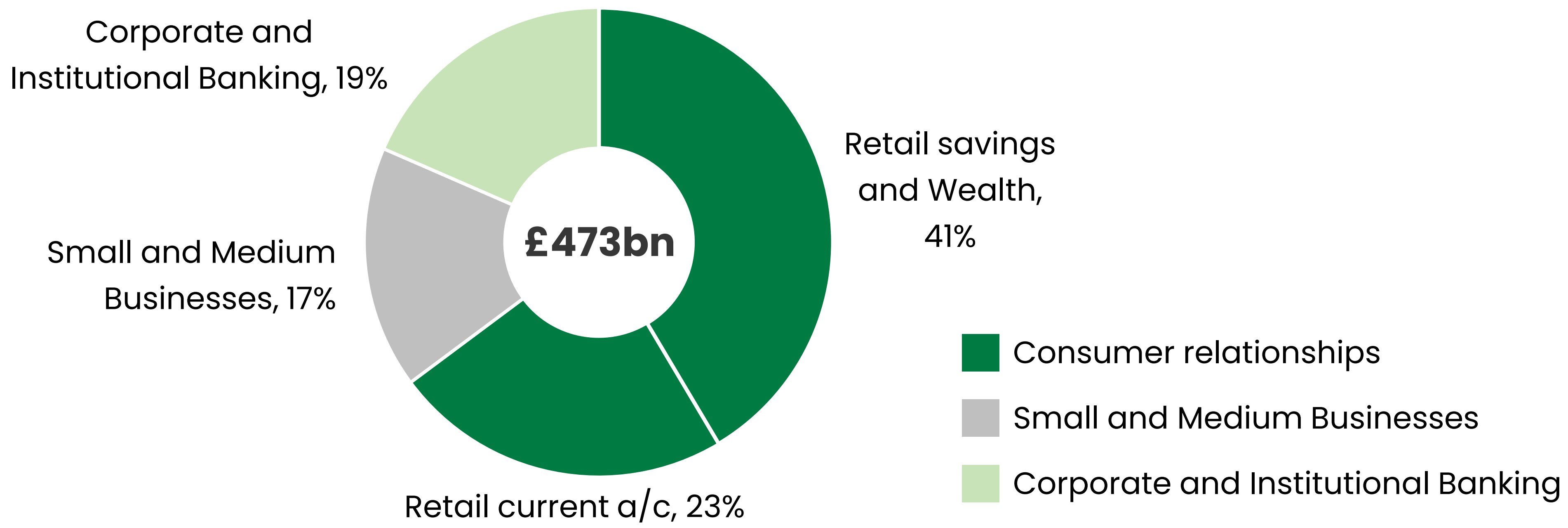
- **Modest increase in new to arrears in some portfolios, from a low base; still at or below pre-pandemic levels**
    - Mortgage increase driven by legacy book
- **Average mortgage LTV 42%; 93% of book ≤80%**
- **Stable SME overdraft utilisation trends**
- **RCF utilisation >30% below pre-pandemic**
- **c.90% of SME lending[1] secured; >75% of Commercial exposure[2] at investment grade**
- **Net CRE exposure £11.0bn, significantly de-risked with lending focused on cash flows**
    - Average interest cover ratio[3] 4.1x, with 84% above 2x
    - Average LTV[3] 44%; c.95% with LTV <70%

1 – SME excluding Business Banking; lending fully or partially secured. 2 – Commercial Banking excluding SME and Business Banking. 3 – Excludes Business Banking, development, CBILS and BBLS.

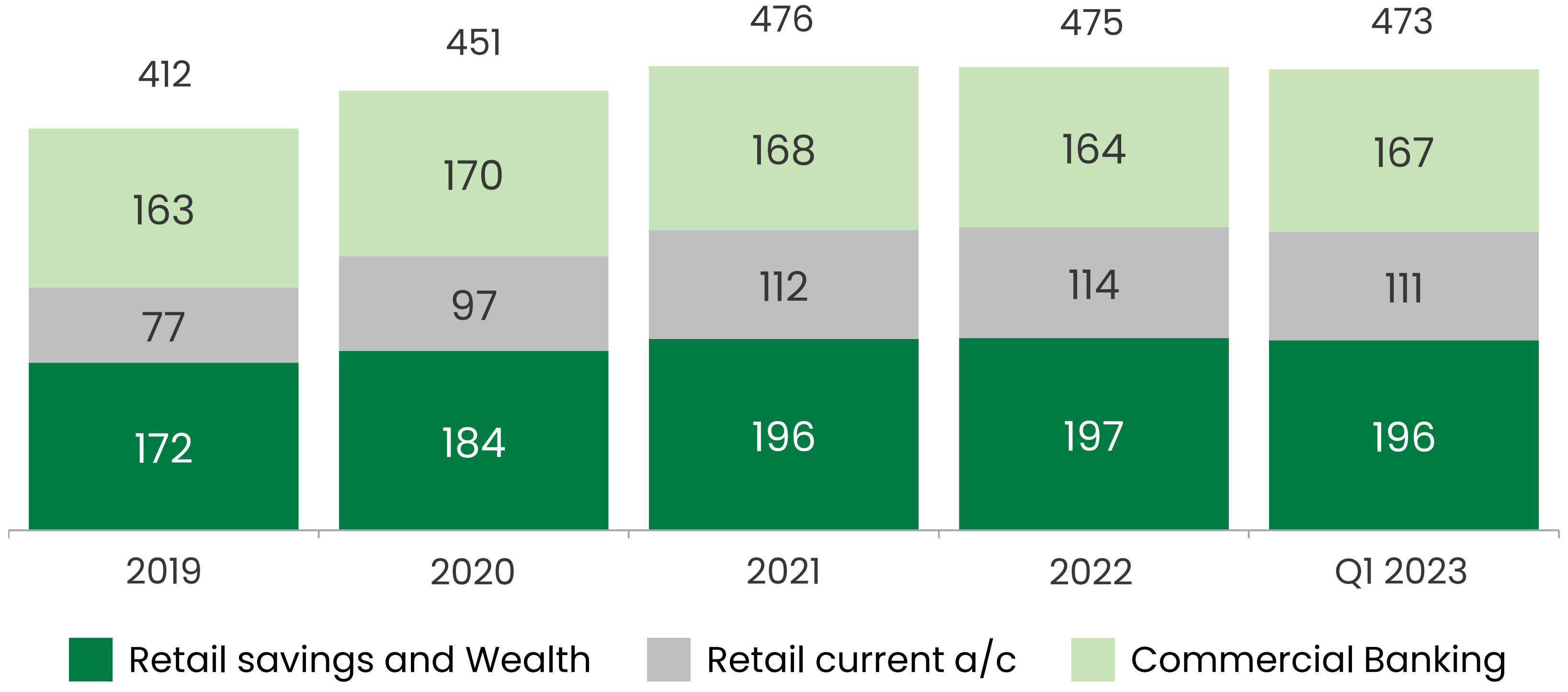
Diversified deposit base; strong liquidity position

Loan to deposit ratio 96%, Net stable funding ratio 129%, Liquidity coverage ratio 143%

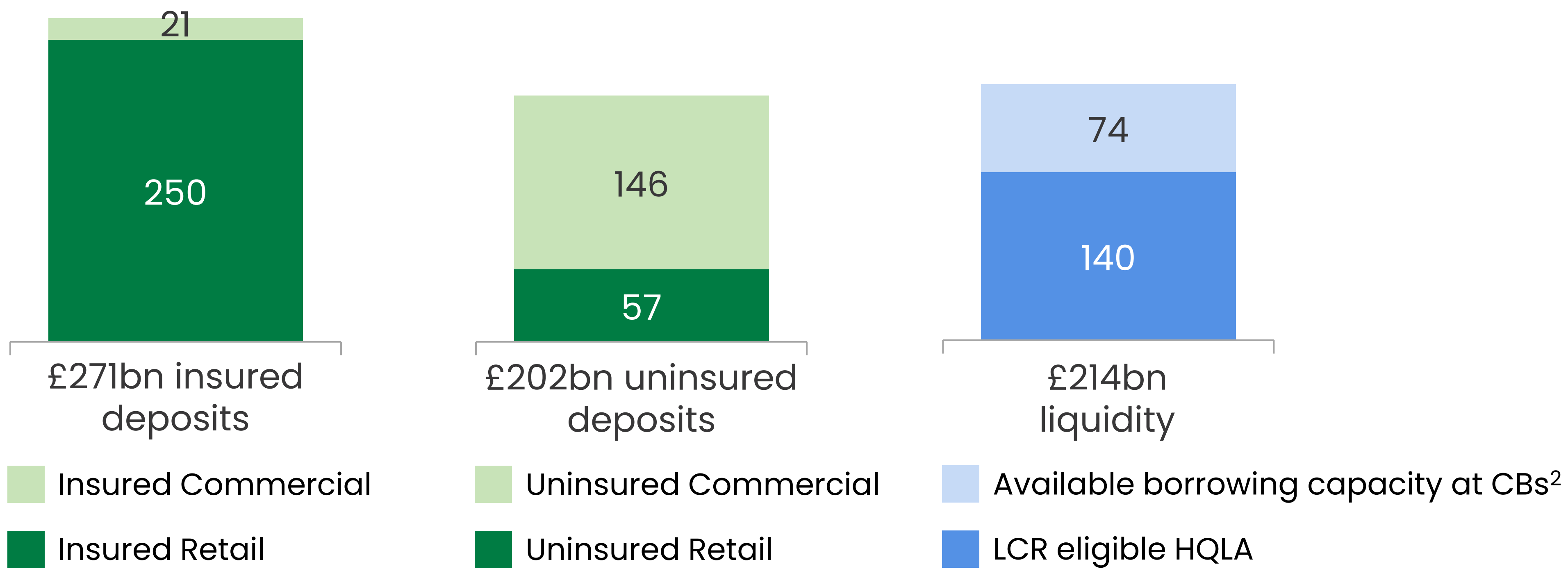
c.65% of deposits in Retail; diversified Commercial balances (£bn)



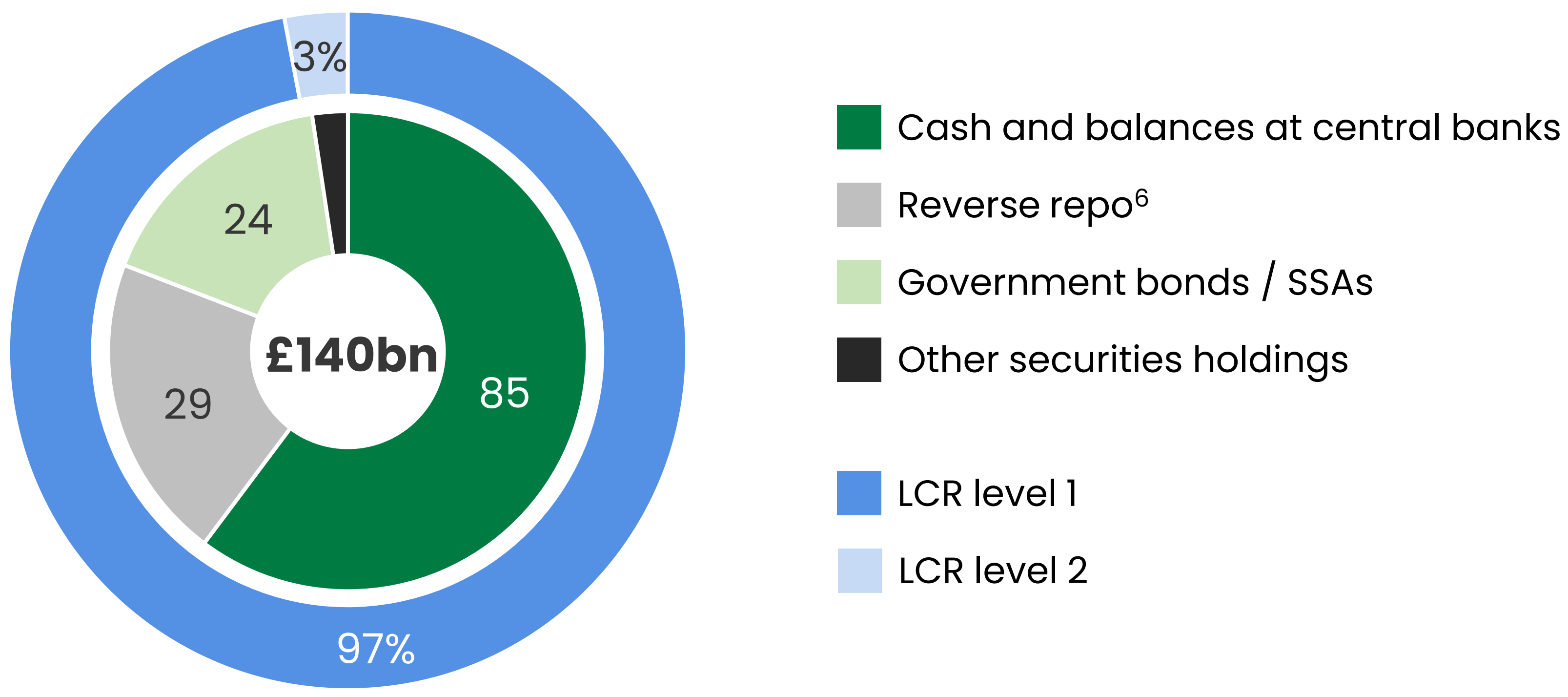
>90% of deposit growth since 2019 in diversified Retail[3] (£bn)



>80% of Retail and 57% of total deposits[1] insured (£bn)



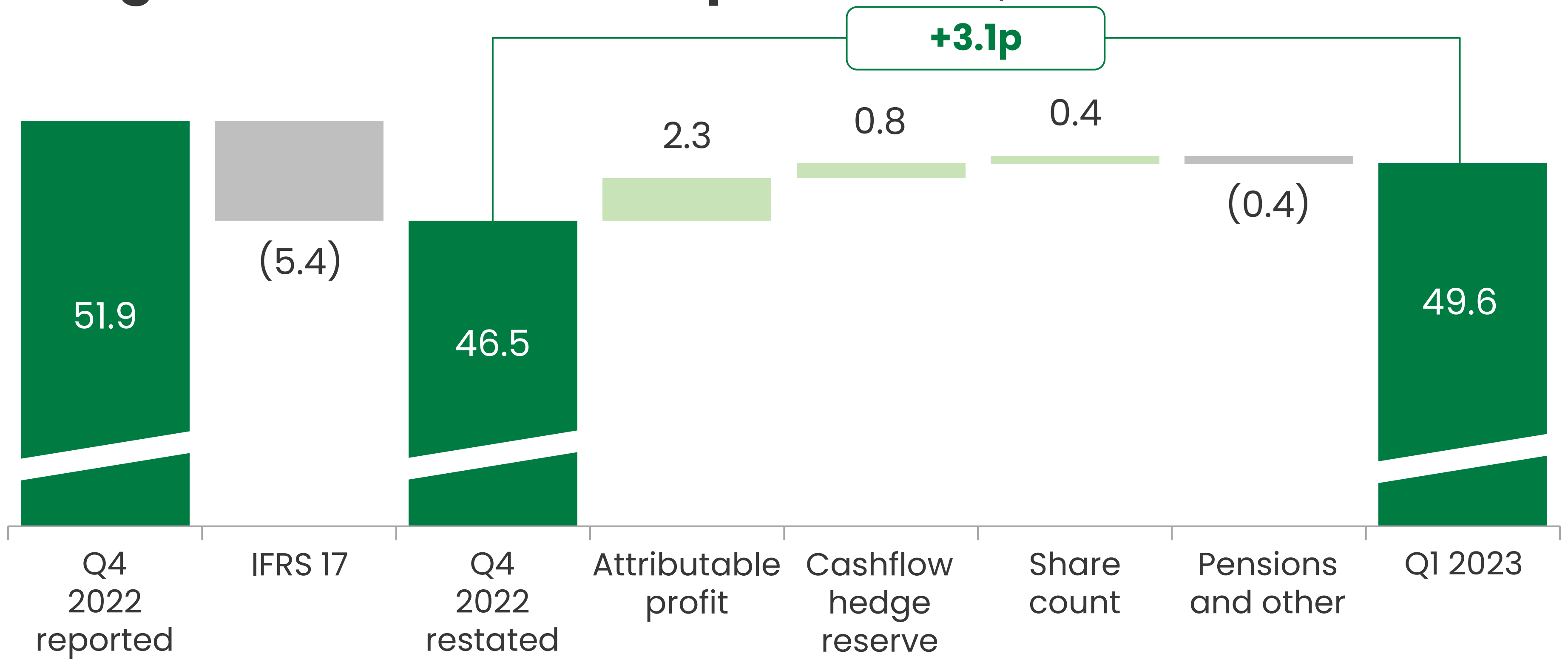
Liquidity portfolio[4] fully hedged for interest rate risk[5] (£bn)



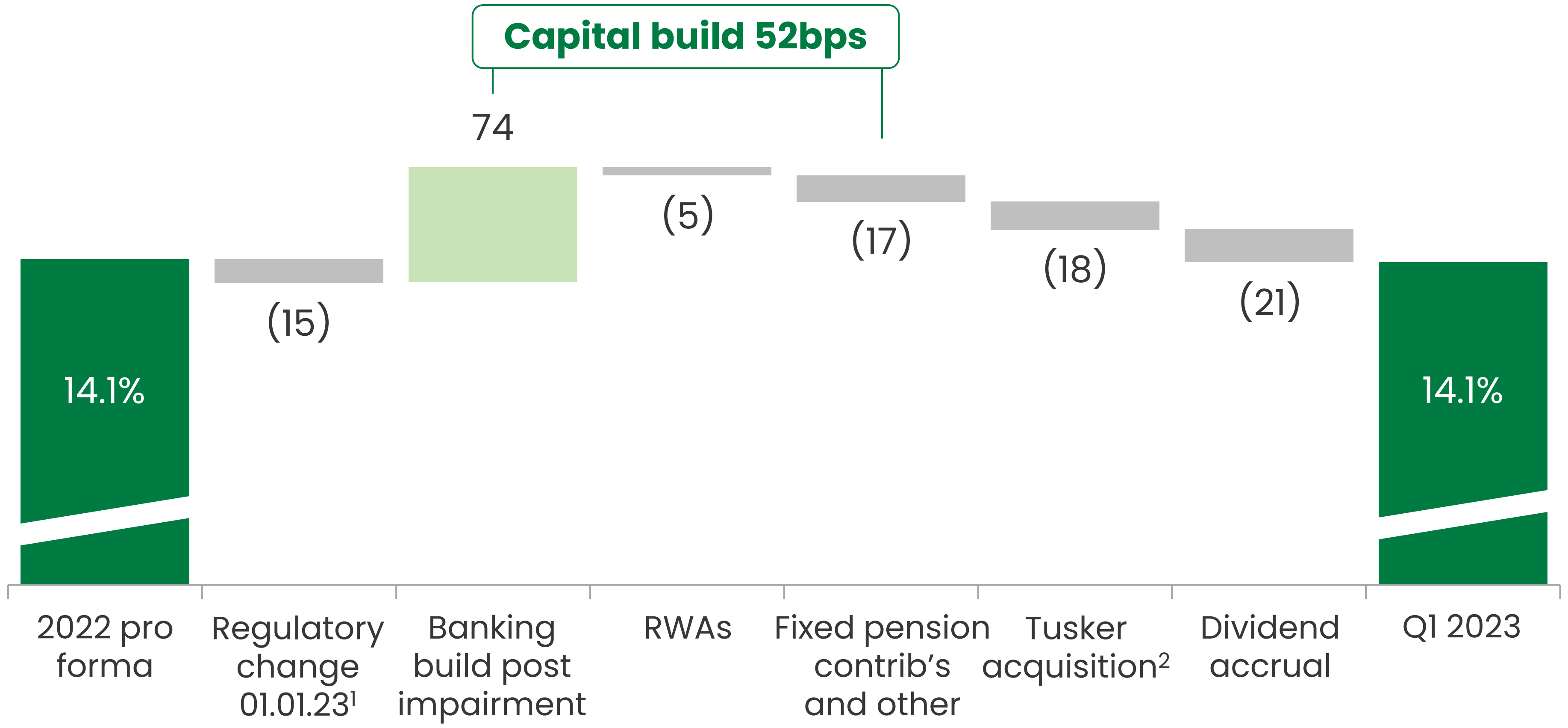
1 - Calculated on a spot basis; charts use rounded inputs. 2 – Central banks. 3 – Chart uses rounded inputs. 4 – Calculated on a 12 month average basis. 5 – Including c.3% of securities held at amortised cost.
6 – Primarily UK Government bonds; netted balance includes repo and other balancing items.

TNAV build and strong capital generation

Tangible net asset value per share (pence)



Common equity tier 1 ratio (%, bps)



- TNAV 49.6p, up 3.1p since restated year end
- RWAs flat in Q1 at £211bn; expect update on CRD IV later this year
- Strong 52bps capital build, after full £800m fixed pension contribution
- CET1 ratio 14.1% after dividend accrual
- Remain ahead of ongoing target of c.12.5% plus a c.1% management buffer
- Continue to expect capital generation to be c.175bps in 2023

1 – Phased IFRS 9 relief unwind. 2 – Approximate, subject to finalisation of fair value of the assets and liabilities acquired, including associated identifiable intangible assets and goodwill.

Robust business performance

LLOYDS BANKING GROUP

Purpose

Helping Britain Prosper

- **Solid financial performance**, supporting strong capital generation
- **2023 guidance maintained**, delivering higher, more sustainable returns
  - Banking NIM to be greater than 305bps
  - Operating costs to be c.£9.1bn
  - Asset quality ratio to be c.30bps
  - Return on tangible equity to be c.13%
  - Capital generation to be c.175bps

Q&A

Appendix

Quarterly P&L and key ratios

(£m)	Q1 2023	Q4 2022	Q3 2022	Q2 2022	Q1 2022
Net interest income	**3,535**	3,643	3,394	3,190	2,945
Other income	**1,257**	1,128	1,171	1,185	1,182
Operating lease depreciation	**(140)**	(78)	(82)	(119)	(94)
Net income	**4,652**	4,693	4,483	4,256	4,033
Operating costs	**(2,170)**	(2,356)	(2,145)	(2,112)	(2,059)
Remediation	**(19)**	(166)	(10)	(27)	(52)
Total costs	**(2,189)**	(2,522)	(2,155)	(2,139)	(2,111)
Underlying profit before impairment	**2,463**	2,171	2,328	2,117	1,922
Impairment charge	**(243)**	(465)	(668)	(200)	(177)
Underlying profit	**2,220**	1,706	1,660	1,917	1,745
Restructuring	**(12)**	(11)	(22)	(23)	(24)
Volatility and other items	**52**	(638)	(1,062)	(289)	(177)
Statutory profit before tax	**2,260**	1,057	576	1,605	1,544
Statutory profit after tax	**1,641**	982	494	1,302	1,145
Net interest margin	**3.22%**	3.22%	2.98%	2.87%	2.68%
Average interest earning assets	**£454bn**	£454bn	£455bn	£451bn	£448bn
Cost: income ratio	**47.1%**	53.7%	48.1%	50.3%	52.3%
Asset quality ratio	**0.22%**	0.38%	0.57%	0.17%	0.16%
Return on tangible equity	**19.1%**	11.0%	4.2%	13.0%	10.7%
Tangible net asset value per share	**49.6p**	46.5p	44.5p	51.4p	53.7p

Classification: Public

Updated economic scenarios

Scenario	ECL (£m)	Measure (%)	2023	*vs Q4 2022*	2024	2025	2026	2027	*Ave. 23-27*
Upside (30%)	3,814	GDP	0.6	*0.5*	1.8	1.9	1.8	1.7	*1.5*
		Unemployment rate	3.0	*0.2*	2.8	2.9	2.9	3.0	*2.9*
		HPI growth	(3.1)	*(0.3)*	4.9	7.1	5.9	4.8	*3.8*
		CRE price growth	6.9	*(1.6)*	3.3	2.4	3.2	3.2	*3.8*
		Interest rate	4.88	*(0.07)*	5.36	5.11	5.15	5.16	*5.13*
		CPI inflation	6.5	*(1.8)*	3.4	3.4	3.3	4.0	*4.1*
Base case (30%)	4,531	GDP	(0.6)	*0.6*	0.8	1.8	1.8	1.7	*1.1*
		Unemployment rate	4.3	*(0.2)*	4.9	5.0	4.7	4.6	*4.7*
		HPI growth	(5.3)	*1.6*	(1.2)	1.0	2.0	2.8	*(0.2)*
		CRE price growth	(2.8)	*0.5*	(0.3)	1.4	2.7	3.2	*0.8*
		Interest rate	4.25	*0.25*	3.69	3.25	3.25	3.25	*3.54*
		CPI inflation	6.4	*(1.9)*	3.1	2.6	2.1	2.5	*3.3*
Downside (30%)	5,704	GDP	(1.8)	*1.2*	(0.6)	1.6	1.8	1.7	*0.5*
		Unemployment rate	5.6	*(0.7)*	7.3	7.3	6.9	6.6	*6.7*
		HPI growth	(7.2)	*3.9*	(7.2)	(5.8)	(2.5)	0.4	*(4.5)*
		CRE price growth	(11.6)	*3.4*	(6.1)	(1.2)	0.6	2.3	*(3.3)*
		Interest rate	3.60	*0.67*	1.84	1.18	1.13	1.11	*1.77*
		CPI inflation	6.5	*(1.7)*	2.9	1.8	0.8	0.9	*2.6*
Severe downside (10%)	10,062	GDP	(3.4)	*1.8*	(1.8)	1.2	1.6	1.7	*(0.2)*
		Unemployment rate	7.6	*(1.4)*	10.4	10.3	9.7	9.1	*9.4*
		HPI growth	(9.6)	*5.2*	(15.4)	(14.7)	(8.8)	(3.0)	*(10.4)*
		CRE price growth	(24.1)	*4.7*	(14.4)	(8.8)	(2.1)	2.6	*(9.9)*
		Interest rate – adj.	5.94	*(1.06)*	6.25	3.81	3.25	3.25	*4.50*
		CPI inflation – adj.	11.7	*(2.6)*	9.5	5.2	4.5	4.0	*7.0*
Probability weighted	**5,221**								

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