Q3 Interim Management Statement

Lloyds Banking Group
25 October 2023

Consistent delivery

LLOYDS BANKING GROUP

Purpose

Helping Britain Prosper

- Supporting customers
- Delivering strategic ambitions
- Continued robust financial performance
- Reaffirming 2023 financial guidance
- Well positioned to deliver for all stakeholders

Continued robust financial performance

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Financial performance (£m)

	Q3 2023 YTD	Q3 2022 YTD[1]	YoY[1]
Net interest income	**10,448**	9,529	*10%*
Other income	**3,837**	3,538	*8%*
Operating lease depreciation	**(585)**	(295)	*(98)%*
Net income	**13,700**	12,772	*7%*
Total costs incl. Remediation	**(6,788)**	(6,405)	*(6)%*
Underlying profit before impairment	**6,912**	6,367	*9%*
Impairment charge	**(849)**	(1,045)	*19%*
Underlying profit	**6,063**	5,322	*14%*
Statutory profit after tax	**4,284**	2,941	*46%*
Net interest margin	**3.15%**	2.84%	*31bp*
Return on tangible equity	**16.6%**	9.6%	*7.0pp*
Earnings per share	**5.9p**	3.7p	*2.2p*
Tangible net asset value per share	**47.2p**	44.5p	*2.7p*
CET1 ratio	**14.6%**	15.0%	*(0.4)pp*

- **Statutory PAT £4.3bn; RoTE 16.6%**
- **Strong net income, up 7%, NIM 315bps; Q3 margin 308bps, down 6bps vs Q2 as expected**
- **Costs up 6% (5% ex. remediation), given investment and inflation**
- **Resilient asset quality; £849m impairment charge; pre-MES charge £918m, equivalent to AQR 27bps**
- **TNAV 47.2p, up 0.7p YTD and 1.5p in Q3**
- **Strong capital generation 165bps; 129bps after regulatory headwinds; CET1 ratio 14.6%**

1 – 2022 comparatives have been restated to reflect the impact of IFRS 17.

Ongoing resilience in customer franchise

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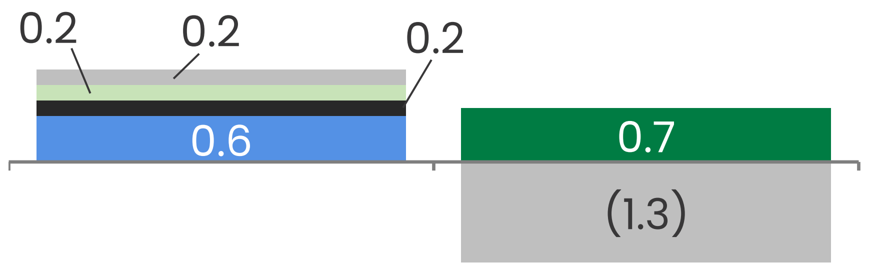
Q3 lending change[1] (£bn)

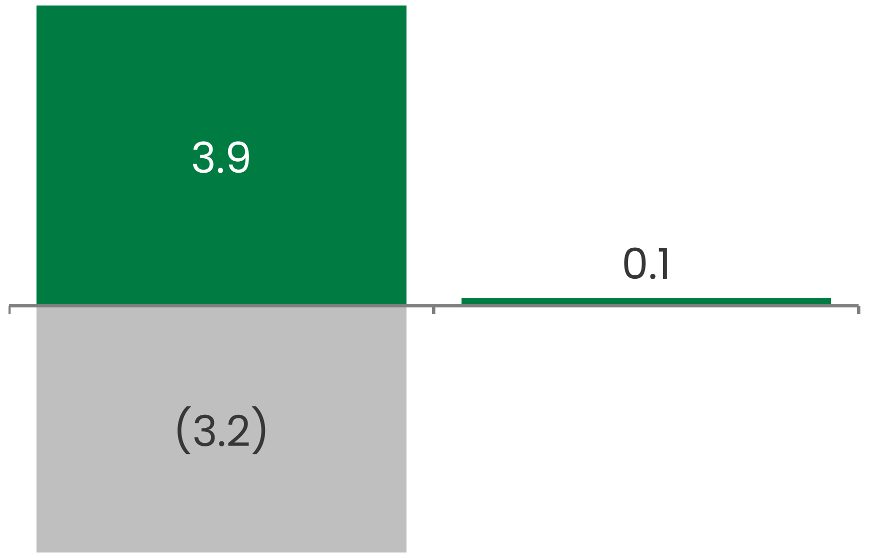
Retail	Commercial
+£1.2bn/0.3%	-£0.6bn/0.7%



- Mortgages
- Credit cards
- Motor Finance
- Unsecured loans
- Other[2]
- Corporate and Institutional Banking (CIB)
- Small and Medium Businesses (SMB)

Q3 deposit change[3] (£bn)

Retail	Commercial
+£0.7bn/0.2%	+£0.1bn/0.1%



- Retail savings[4]
- Retail current a/c
- Commercial Banking deposits

- **Total loans £452bn, up £1.4bn in Q3; down 0.6% YTD**
  - Retail up £1.2bn in Q3; total mortgages stable with modest growth in open mortgage book, cards, loans and motor
  - Commercial down £0.6bn in Q3; FX impacts in CIB and SMB repayments incl. CBILS/BBLS
- **Total deposits £470bn, up £0.5bn or 0.1% in Q3; down 1.1% YTD**
  - Retail up £0.7bn in Q3; up £3.9bn in savings, down £3.2bn in current accounts
  - Commercial up £0.1bn in Q3
- **£5.3bn net new money in IP&I YTD; £1.6bn in Q3[5]**

1 – Excludes balances relating to central fair value hedge accounting adjustments of £(2.5)bn (30 June 2023: £(3.3)bn). 2 – Includes Overdrafts, Europe and Wealth. 3 – Excludes balances relating to margin calls of £nil (30 June 2023: £0.3bn). 4 – Includes Retail relationship savings, Retail tactical savings and Wealth. 5 – Open book assets under administration; excludes market movements.

Solid income performance

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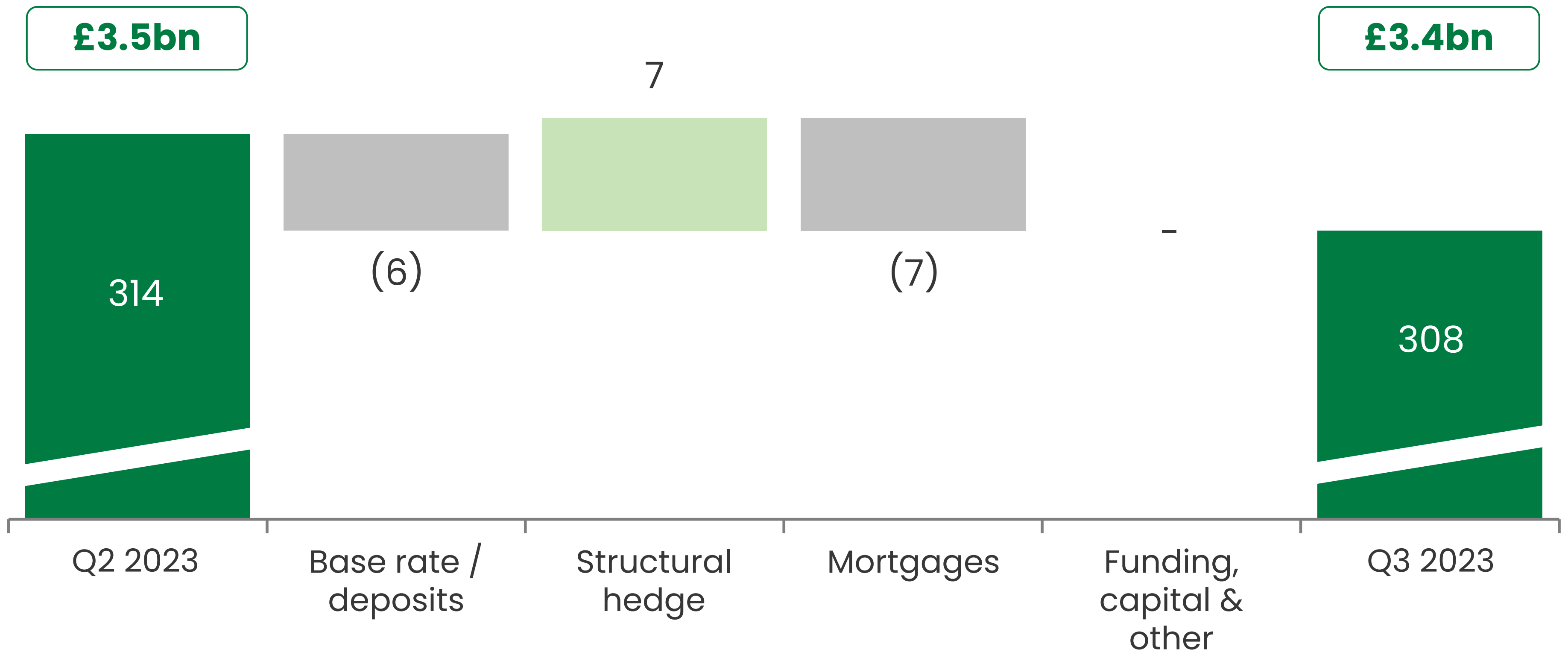
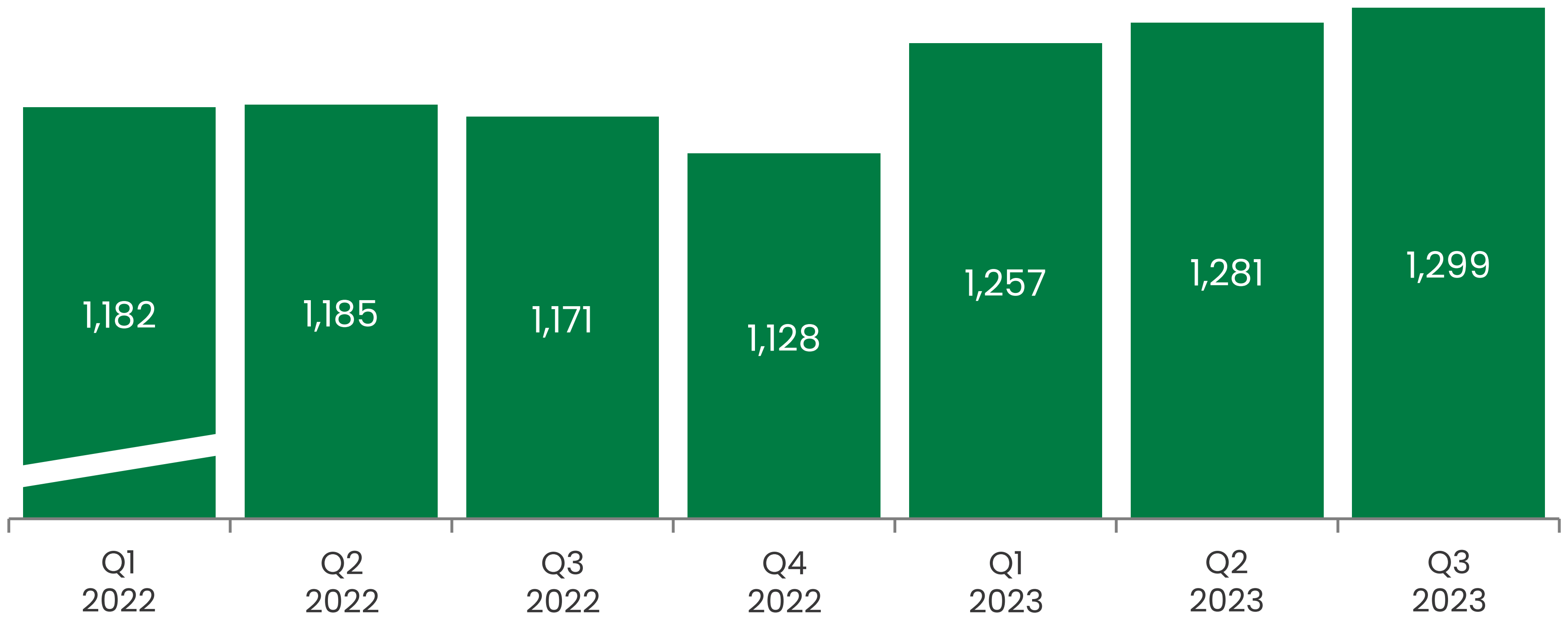
Net interest income and banking margin (£bn, bps)



Other income (£m)



- **NII £10.4bn YTD, £3.4bn in Q3**
  - YTD AIEAs £453bn; Q3 broadly stable vs Q2
  - YTD NIM 315bps; 308bps in Q3, down 6bps vs Q2, given expected headwinds
  - Structural hedge nominal balance £251bn, down £4bn in Q3; WAL c.3.5 years
  - Q3 non-banking NII £76m, broadly in line with Q2
- **Expect 2023 AIEAs down slightly vs Q4 2022**
- **Continue to expect 2023 NIM >310bps**
- **Other income £3.8bn YTD; continued improvement based on activity levels and investment benefits**
- **Operating lease depreciation continuing to normalise; £229m in Q3**

Costs in line with expectations

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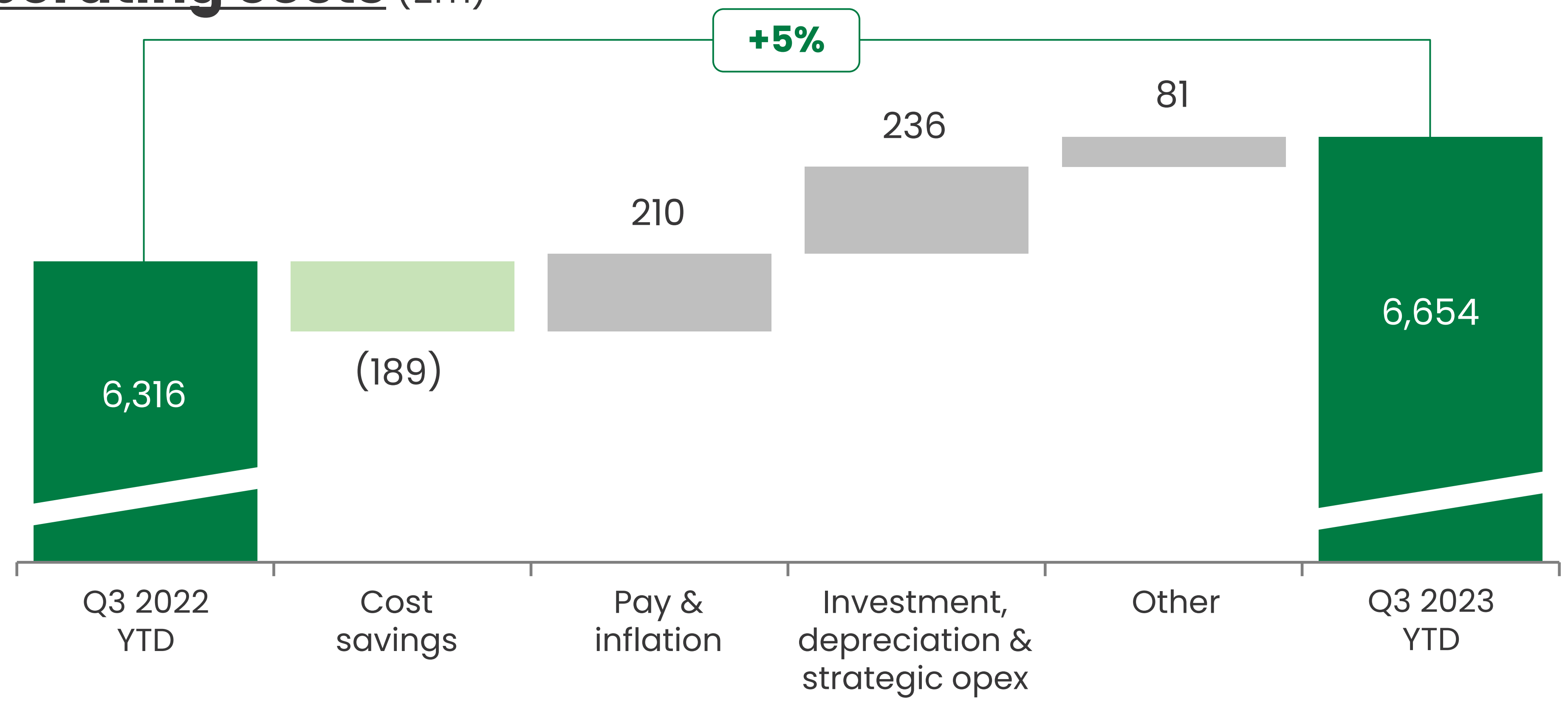
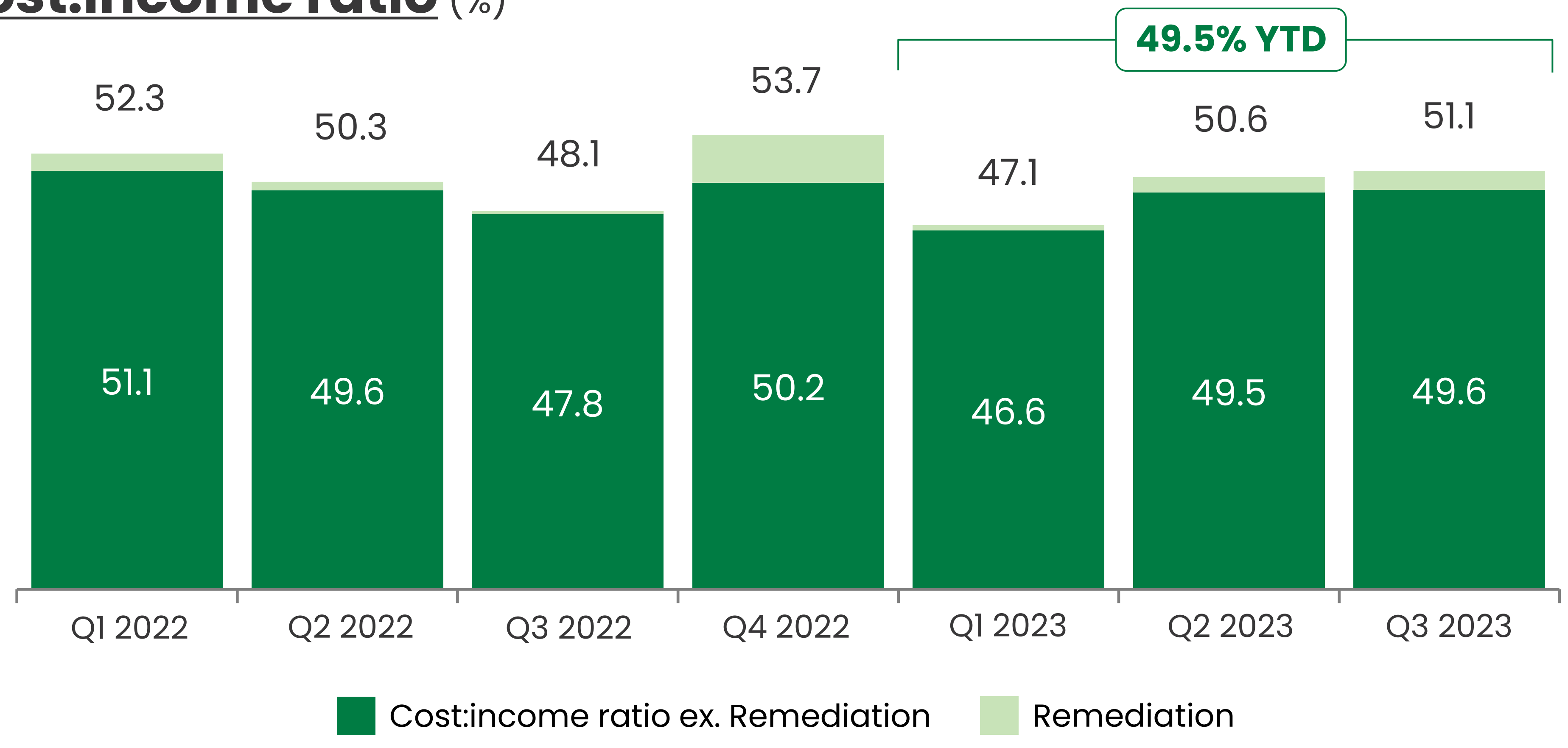
Operating costs (£m)



Cost:income ratio (%)



- YTD operating costs £6.7bn, up 5% given planned strategic investment, new business and inflation
- Cost:income 49.5%; 48.6% ex. remediation
- Ongoing discipline in the context of continued inflationary pressure
- Continue to expect 2023 operating costs c.£9.1bn
- Remediation charge of £134m YTD; Q3 £64m

Resilient observed asset quality

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Impairment (£m)

	Q3 2023	Q3 2023 YTD	Q3 2022 YTD	YoY
Charge (credit) pre updated MES[1]	**261**	**918**	**532**	***386***
Retail	*236*	*787*	*520*	*267*
Commercial Banking	*31*	*139*	*1*	*138*
Other	*(6)*	*(8)*	*11*	*(19)*
Updated economic outlook	**(74)**	**(69)**	**513**	***(582)***
Retail	*(71)*	*(30)*	*541*	*(571)*
Commercial Banking	*(3)*	*(39)*	*372*	*(411)*
Other (COVID central adjustment)	*-*	*-*	*(400)*	*400*
Total impairment charge	**187**	**849**	**1,045**	***(196)***

Gross lending and coverage level[2] (£bn, %)

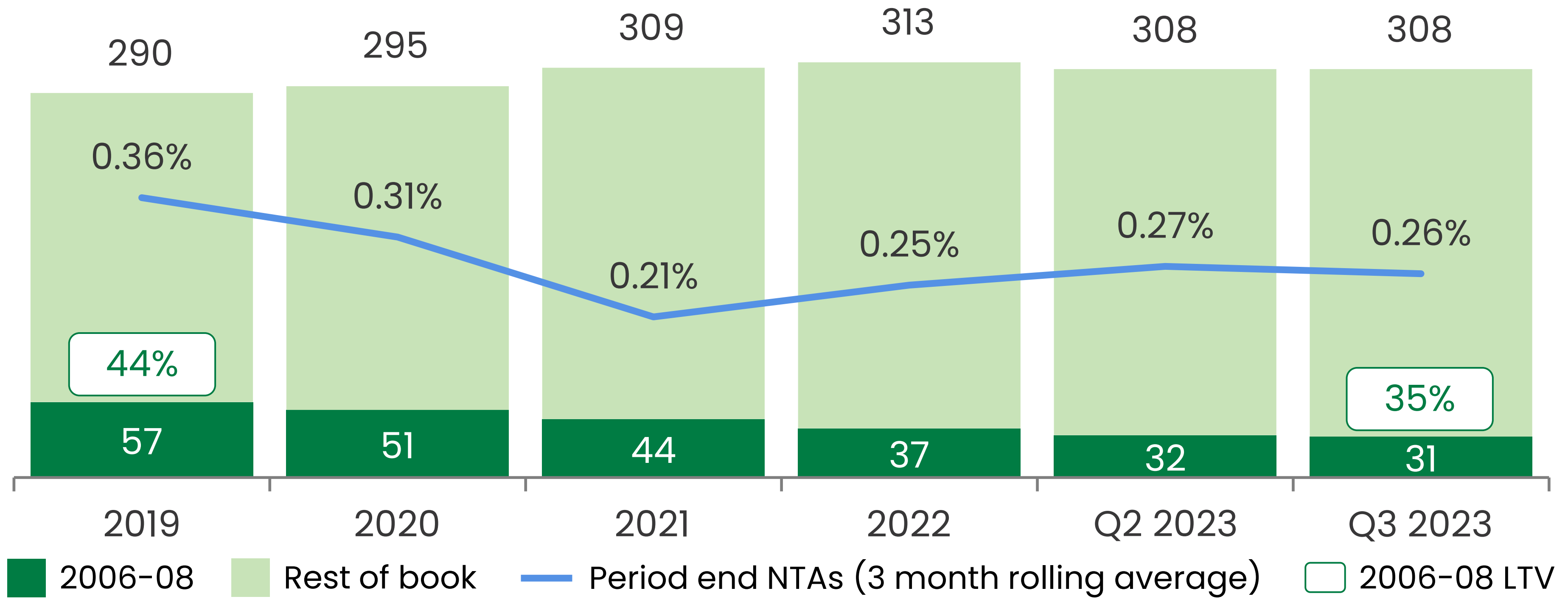
		Stage 1	Stage 2	Stage 3	Total
Q3 2023	Loans and advances	£383bn	£63bn	£11bn	£457bn
	Coverage	0.3%	3.0%	23.1%	1.2%
Q4 2022	Loans and advances	£383bn	£66bn	£11bn	£460bn
	Coverage	0.2%	3.2%	22.6%	1.1%

- **Q3 YTD impairment charge £849m, AQR 25bps**
  - Pre-MES charge £918m reflects continued resilience across portfolios
  - £69m MES release reflects modest improvements in GDP and HPI outlook
- **£187m charge in Q3, £232m below Q2, including £74m MES release**
  - Q3 pre-MES £261m, AQR 23bps, includes c.6bps net calibration benefit, run rate AQR 29bps
- **Stable stock of ECL £5.4bn**
- **Now expect 2023 AQR <30bps**

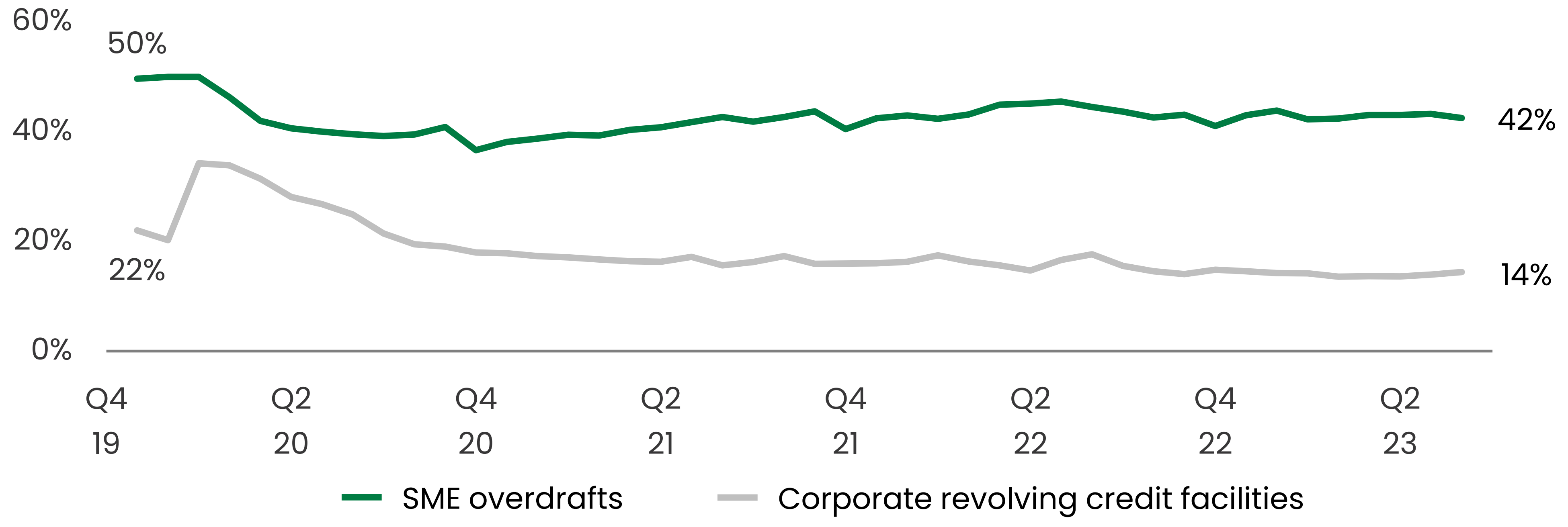
1 – Impairment charges absent the impact from updated economic outlook, thus reflecting only observed movements in credit quality. 2 – Underlying basis. Table uses rounded inputs.

Reassuring performance across portfolios

Mortgage portfolio mix and new to arrears (Balances £bn, NTAs %, LTV %)



SME overdraft and corporate RCF utilisation[1] (%)



- **Mortgage book remains resilient with arrears below 2019; average LTV 43% and new to arrears stable in quarter**
- **Underlying consumer finance trends stable; new to arrears similar to, or lower than pre-pandemic**
- **Stable SME overdraft utilisation trends; RCF[2] utilisation >30% below pre-pandemic**
- **c.90% of SME lending[3] secured; c.80% of CIB exposure at investment grade**
- **Net CRE exposure c.£11bn[4], remains robust**
  - Average interest cover ratio[5] 3.6x, with 75% >2x
  - Average LTV[5] 43%; c.90% with LTV <70%
  - c.14% office, c.12% retail and c.11% industrial; c.42% residential investment

1 – August 2023. 2 – Revolving credit facility. 3 – SME excluding Business Banking; lending fully or partially secured. 4 – Post Significant Risk Transfer securitisations.
5 – Excludes Business Banking, development, CBILS and BBLS.

Updated macroeconomic outlook

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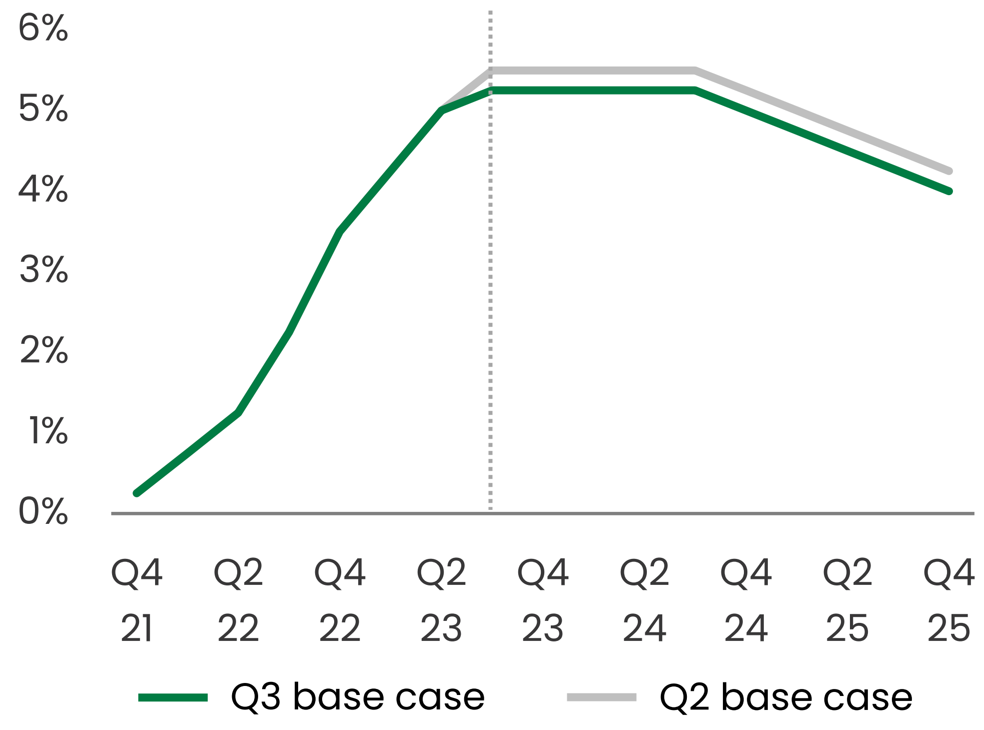
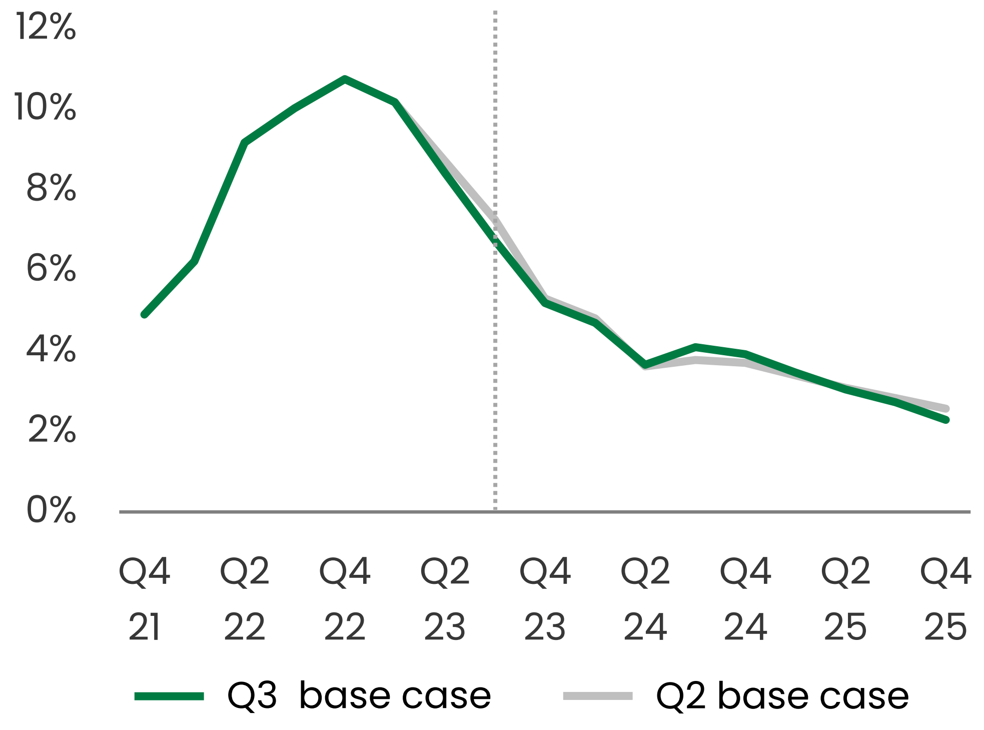
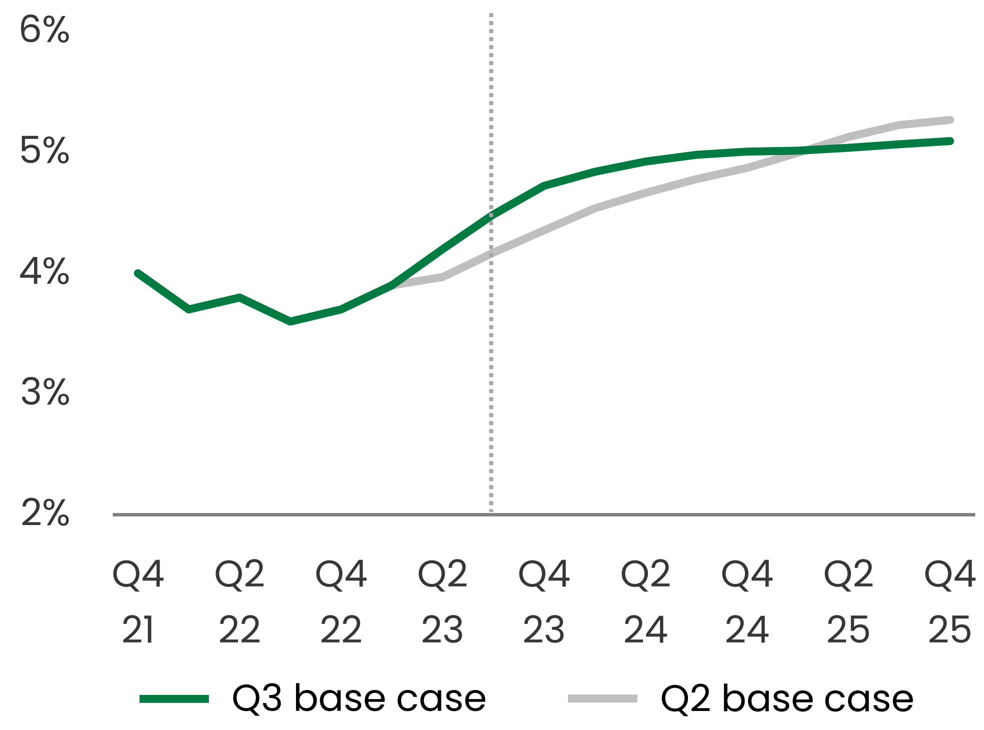
UK bank rate



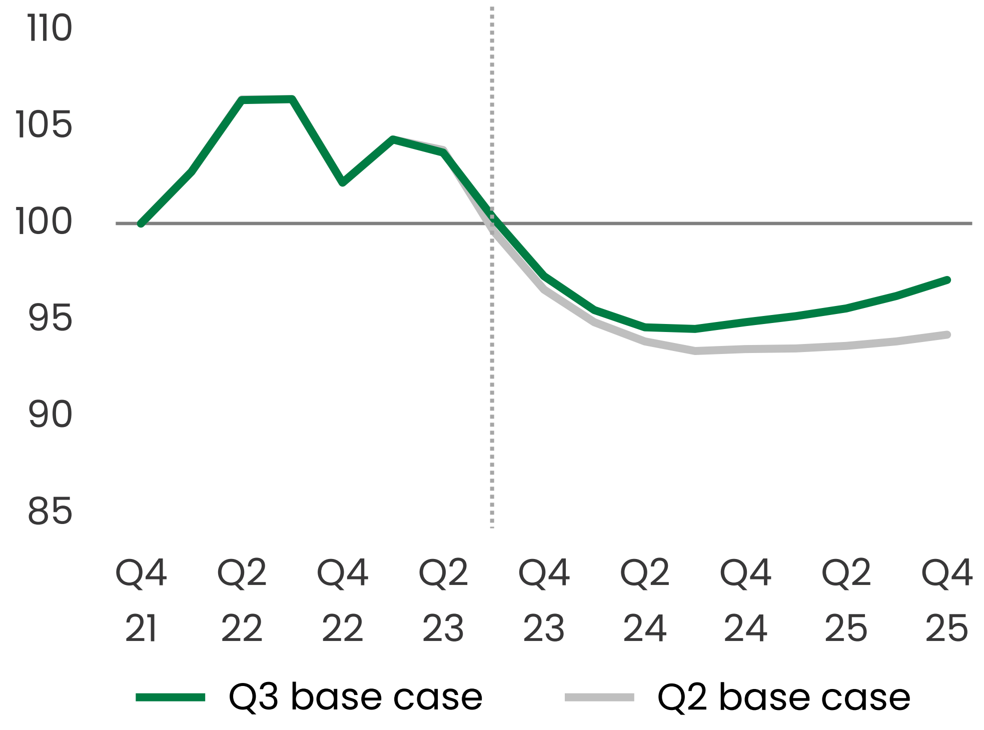
CPI inflation



Unemployment



Indexed house prices



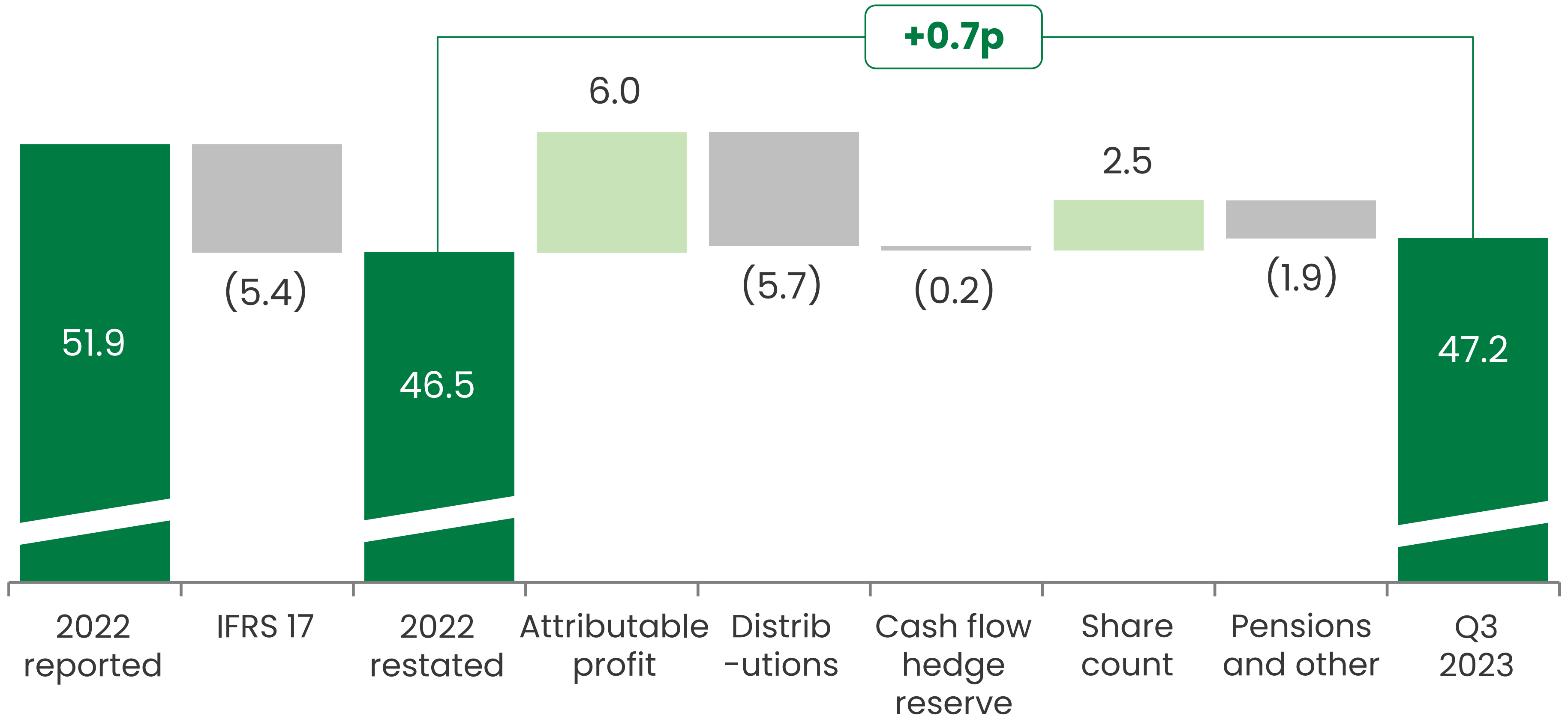
- **Modest growth improvement, lower base rate**
  - GDP now expected to strengthen 0.4% in 2023, versus 0.2% assumed at Q2
  - Base rate forecast to have peaked at 5.25% until falling from Q4 2024
  - Inflation forecast to reduce more slowly, still >5% in Q4 2023 and c.4% in Q4 2024
  - Peak unemployment revised down to 5.1%
  - After strong house price growth in 2022, expect a fall of c.5% in 2023; peak to trough fall c.11%

Underlying and statutory profit converge, TNAV building

Statutory profit (£m)

	Q3 2023 YTD	Q3 2022 YTD	YoY
Underlying profit	**6,063**	5,322	*14%*
Restructuring	**(69)**	(69)	
Volatility and other items	**(266)**	(1,528)	*83%*
Statutory profit before tax	**5,728**	3,725	*54%*
Tax expense	**(1,444)**	(784)	*(84)%*
Statutory profit after tax	**4,284**	2,941	*46%*
Return on tangible equity	**16.6%**	9.6%	*7.0pp*

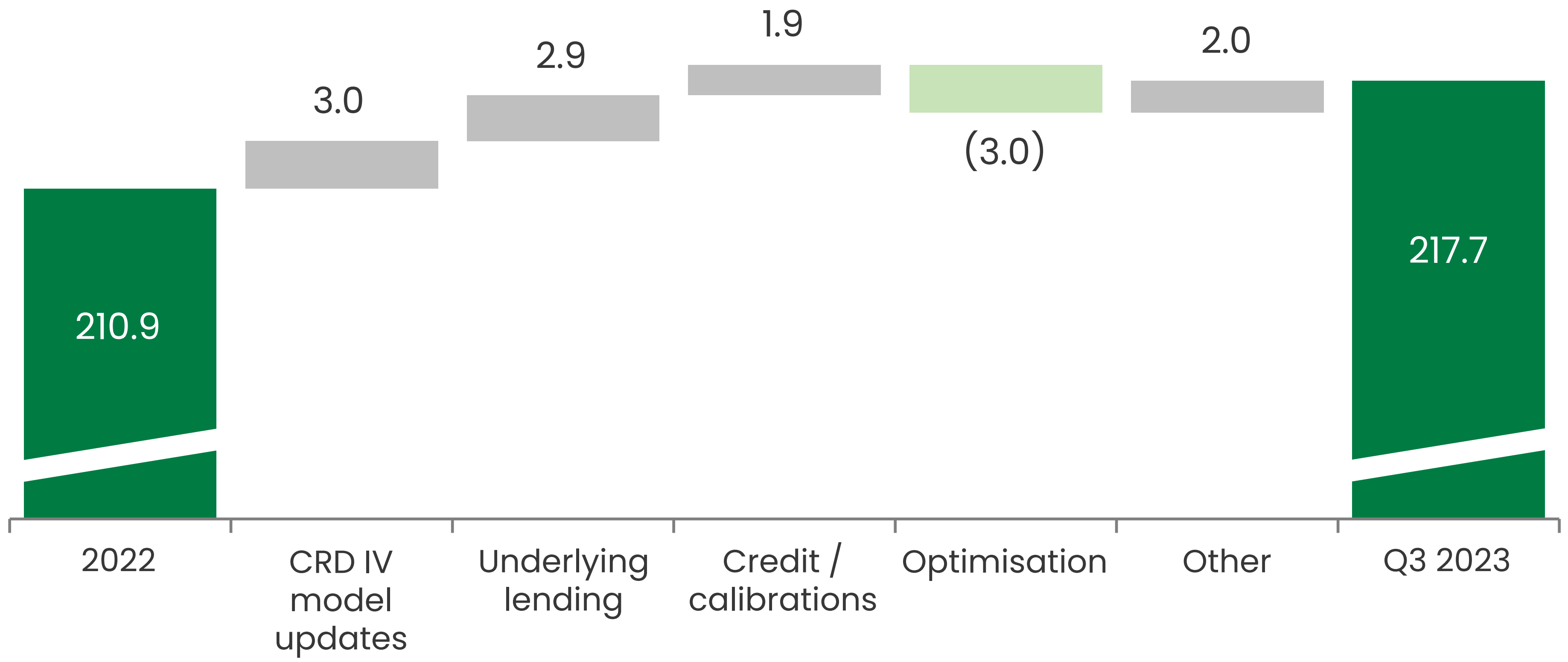
Tangible net asset value per share (pence)



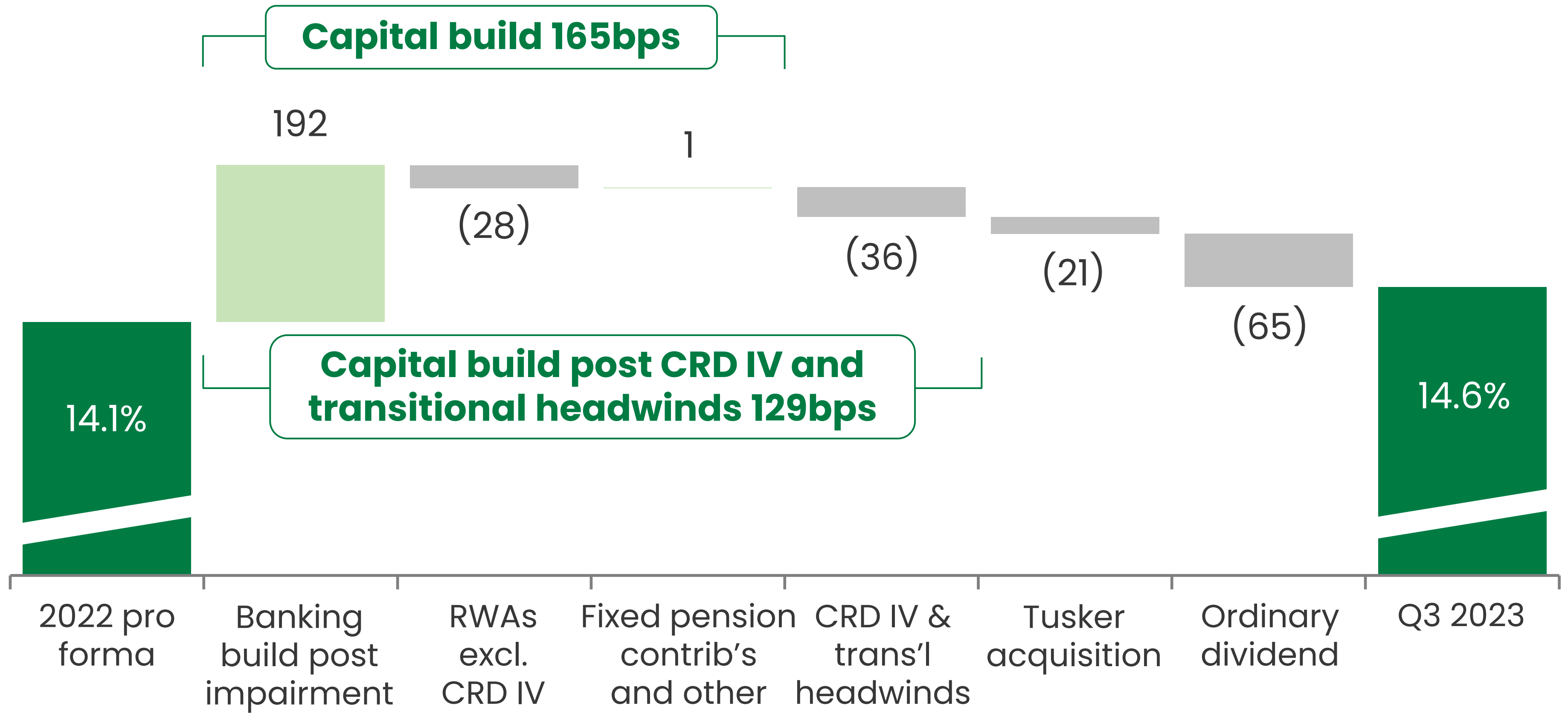
- YTD restructuring £69m with £44m in Q3
- Negative insurance volatility impact, alongside usual fair value unwind
- YTD RoTE 16.6%, 16.9% in Q3; continue to expect >14% RoTE in 2023
- TNAV 47.2p, up 0.7p YTD and 1.5p in Q3, largely due to profits, share count and cash flow hedge reserve movements
- Continue to expect TNAV to benefit from buybacks, growth and unwind of headwinds, including cash flow hedge reserve, over the medium term

Continued strong capital generation

Risk weighted assets (£bn)



Common equity tier 1 ratio (%, bps)



- **RWAs £217.7bn, up £6.8bn YTD incl. £2.4bn in Q3**
- **Strong 165bps capital generation after 30bps full fixed pension deficit contributions; 129bps after regulatory headwinds**
- **CET1 ratio 14.6% after 65bps dividend accrual**
  - Ahead of ongoing CET1 target of c.12.5% plus a c.1% management buffer
- **Continue to expect 2023 capital generation, post CRD IV and transitional headwinds, to be c.175bps**
- **Pensions triennial review substantially agreed**
  - Aggregate funding deficit c.£250m: after closing £250m by Q1 2024, no further contributions in this triennial period

Consistent delivery

Purpose

Helping Britain Prosper

- **Continued robust financial performance**
- **2023 financial guidance**
  - NIM of >310bps
  - Operating costs of c.£9.1bn
  - AQR now expected to be <30bps
  - RoTE of >14%
  - Capital generation of c.175bps
- **Well positioned to deliver for all stakeholders**

Q&A

Appendix

Quarterly P&L and key ratios

(£m)	Q3 2023	Q2 2023	Q1 2023	Q4 2022	Q3 2022	Q2 2022	Q1 2022
Net interest income	**3,444**	3,469	3,535	3,643	3,394	3,190	2,945
Other income	**1,299**	1,281	1,257	1,128	1,171	1,185	1,182
Operating lease depreciation	**(229)**	(216)	(140)	(78)	(82)	(119)	(94)
Net income	**4,514**	4,534	4,652	4,693	4,483	4,256	4,033
Operating costs	**(2,241)**	(2,243)	(2,170)	(2,356)	(2,145)	(2,112)	(2,059)
Remediation	**(64)**	(51)	(19)	(166)	(10)	(27)	(52)
Total costs	**(2,305)**	(2,294)	(2,189)	(2,522)	(2,155)	(2,139)	(2,111)
Underlying profit before impairment	**2,209**	2,240	2,463	2,171	2,328	2,117	1,922
Impairment charge	**(187)**	(419)	(243)	(465)	(668)	(200)	(177)
Underlying profit	**2,022**	1,821	2,220	1,706	1,660	1,917	1,745
Restructuring	**(44)**	(13)	(12)	(11)	(22)	(23)	(24)
Volatility and other items	**(120)**	(198)	52	(638)	(1,062)	(289)	(177)
Statutory profit before tax	**1,858**	1,610	2,260	1,057	576	1,605	1,544
Statutory profit after tax	**1,420**	1,223	1,641	982	494	1,302	1,145
Net interest margin	**3.08%**	3.14%	3.22%	3.22%	2.98%	2.87%	2.68%
Average interest earning assets	**£453bn**	£453bn	£454bn	£454bn	£455bn	£451bn	£448bn
Cost:income ratio	**51.1%**	50.6%	47.1%	53.7%	48.1%	50.3%	52.3%
Asset quality ratio	**0.17%**	0.36%	0.22%	0.38%	0.57%	0.17%	0.16%
Return on tangible equity	**16.9%**	13.6%	19.1%	11.0%	4.2%	13.0%	10.7%
Tangible net asset value per share	**47.2p**	45.7p	49.6p	46.5p	44.5p	51.4p	53.7p

Updated economic scenarios

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Scenario	ECL (£m)	Measure (%)	2023	*vs Q4 2022*	2024	2025	2026	2027	*Ave. 23-27*
Upside (30%)	3,986	GDP	0.8	0.7	2.0	1.5	1.8	2.1	1.6
		Unemployment rate	3.9	1.1	2.9	2.8	3.1	3.1	3.1
		HPI growth	(3.4)	(0.6)	1.4	9.5	9.7	7.6	4.8
		CRE price growth	(0.4)	(8.9)	9.5	3.2	2.3	2.0	3.3
		UK Bank Rate	5.06	0.11	6.61	6.27	5.76	5.59	5.86
		CPI inflation	7.6	(0.7)	4.2	3.4	3.2	3.6	4.4
Base case (30%)	4,733	GDP	0.4	1.6	0.5	1.0	1.7	2.1	1.2
		Unemployment rate	4.3	(0.2)	4.9	5.1	5.1	5.0	4.9
		HPI growth	(4.7)	2.2	(2.4)	2.3	4.0	4.1	0.6
		CRE price growth	(4.2)	(0.9)	1.0	0.5	1.2	1.8	0.0
		UK Bank Rate	4.94	0.94	5.19	4.38	3.75	3.50	4.35
		CPI inflation	7.6	(0.7)	4.1	2.9	2.1	2.3	3.8
Downside (30%)	5,884	GDP	0.0	3.0	(1.4)	0.5	1.7	2.2	0.6
		Unemployment rate	4.8	(1.5)	7.1	7.5	7.4	7.0	6.7
		HPI growth	(5.7)	5.4	(5.6)	(4.5)	(2.0)	0.2	(3.6)
		CRE price growth	(7.7)	7.3	(7.7)	(3.0)	(1.1)	0.3	(3.9)
		UK Bank Rate	4.83	1.90	3.69	2.34	1.61	1.27	2.75
		CPI inflation	7.6	(0.6)	4.0	2.4	1.1	0.9	3.2
Severe downside (10%)	10,076	GDP	(0.4)	4.8	(3.1)	0.1	1.5	2.1	0.0
		Unemployment rate	5.4	(3.6)	9.8	10.5	10.1	9.5	9.1
		HPI growth	(7.4)	7.4	(10.1)	(12.9)	(9.4)	(5.4)	(9.1)
		CRE price growth	(12.9)	15.9	(19.3)	(9.4)	(5.6)	(2.3)	(10.1)
		UK Bank Rate – adj.	5.44	(1.56)	7.00	4.94	3.88	3.50	4.95
		CPI inflation – adj.	8.1	(6.2)	6.3	5.4	4.2	3.9	5.6
Probability weighted	**5,389**								

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Factors that could cause actual business, strategy, plans and/or results (including but not limited to the payment of dividends) to differ materially from forward looking statements include, but are not limited to: general economic and business conditions in the UK and internationally; political instability including as a result of any UK general election and any further possible referendum on Scottish independence; acts of hostility or terrorism and responses to those acts, or other such events; geopolitical unpredictability; the war between Russia and Ukraine; the tensions between China and Taiwan; market related risks, trends and developments; exposure to counterparty risk; instability in the global financial markets, including within the Eurozone, and as a result of the exit by the UK from the European Union (EU) and the effects of the EU-UK Trade and Cooperation Agreement; the ability to access sufficient sources of capital, liquidity and funding when required; changes to the Group's credit ratings; fluctuations in interest rates, inflation, exchange rates, stock markets and currencies; volatility in credit markets; volatility in the price of the Group's securities; tightening of monetary policy in jurisdictions in which the Group operates; natural pandemic (including but not limited to the COVID-19 pandemic) and other disasters; risks concerning borrower and counterparty credit quality; risks affecting insurance business and defined benefit pension schemes; risks related to the uncertainty surrounding the integrity and continued existence of reference rates; changes in laws, regulations, practices and accounting standards or taxation; changes to regulatory capital or liquidity requirements and similar contingencies; the policies and actions of governmental or regulatory authorities or courts together with any resulting impact on the future structure of the Group; risks associated with the Group's compliance with a wide range of laws and regulations; assessment related to resolution planning requirements; risks related to regulatory actions which may be taken in the event of a bank or Group failure; exposure to legal, regulatory or competition proceedings, investigations or complaints; failure to comply with anti-money laundering, counter terrorist financing, anti-bribery and sanctions regulations; failure to prevent or detect any illegal or improper activities; operational risks; conduct risk; technological changes and risks to the security of IT and operational infrastructure, systems, data and information resulting from increased threat of cyber and other attacks; technological failure; inadequate or failed internal or external processes or systems; risks relating to ESG matters, such as climate change (and achieving climate change ambitions), including the Group's ability along with the government and other stakeholders to measure, manage and mitigate the impacts of climate change effectively, and human rights issues; the impact of competitive conditions; failure to attract, retain and develop high calibre talent; the ability to achieve strategic objectives; the ability to derive cost savings and other benefits including, but without limitation, as a result of any acquisitions, disposals and other strategic transactions; inability to capture accurately the expected value from acquisitions; assumptions and estimates that form the basis of the Group's financial statements; and potential changes in dividend policy. A number of these influences and factors are beyond the Group's control. Please refer to the latest Annual Report on Form 20-F filed by Lloyds Banking Group plc with the US Securities and Exchange Commission (the SEC), which is available on the SEC's website at www.sec.gov, for a discussion of certain factors and risks. Lloyds Banking Group plc may also make or disclose written and/or oral forward-looking statements in other written materials and in oral statements made by the directors, officers or employees of Lloyds Banking Group plc to third parties, including financial analysts. Except as required by any applicable law or regulation, the forward-looking statements contained in this document are made as of today's date, and the Group expressly disclaims any obligation or undertaking to release publicly any updates or revisions to any forward looking statements contained in this document whether as a result of new information, future events or otherwise. 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