LLOYDS BANKING GROUP

HELPING BRITAIN RECOVER

Retail shareholder update: half-year 2021

29 July 2021

The Group is well positioned to deliver for all stakeholders whilst Helping Britain Recover from the pandemic. We have made good strategic and financial progress in the first half of the year.

William Chalmers

Interim Group Chief Executive and Chief Financial Officer

Dear Shareholder

Since the start of the pandemic the Group has continued to Help Britain Recover, supporting Retail and Commercial customers and communities across the UK. In this context, over the last six months the Group has delivered a solid financial performance, with continued business momentum and balance sheet growth. It has been an honour to be Interim Group Chief Executive since May and I am proud of the positive impact that we have been able to make. The dedication of colleagues and their support of customers and businesses in these unique and challenging times is impressive.

Today, the coronavirus pandemic continues to have a significant impact on the people, businesses and communities in the UK and Government support measures remain important. While we are clearly seeing positive developments and the macroeconomic outlook is improving, supported by the successful vaccine roll out in the UK and emergence from lockdown restrictions, the outlook remains uncertain.

As we look forward into the remainder of 2021, I am confident that the Group's people, financial strength and business model will continue to Help Britain Recover. I look forward to working with Charlie Nunn when he starts in August as our new Group Chief Executive. I am confident he will find a truly customer focused business in a strong financial and strategic position. We remain committed to supporting our customers, colleagues and communities and ensuring a sustainable recovery.

Financial Performance

In the context of continued business momentum and balance sheet growth the Group has delivered a solid financial performance with statutory profit before tax of £3.9 billion in the first half of 2021, significantly higher than the first half of 2020 and benefiting from a net impairment credit in the period. Net income of £7.6 billion was up 2 per cent, benefiting from increased average interest-earning assets and a strengthened net interest margin in the second quarter of 2021, as well as some early signs of recovery in other income and a reduction in operating lease depreciation. The Group continues to maintain its focus on cost management, with a market-leading cost:income ratio of 54.9 per cent. Operating costs increased slightly over the period due to the rebuilding of variable pay in the context of stronger than expected financial performance in income and impairments. Remediation charges also increased in the period as we took charges relating to a number of ongoing legacy issues. Increased profits were supported by the net impairment credit of £656 million, as a result of a release of expected credit loss (ECL) allowances of £837 million driven by the improved macroeconomic outlook for the UK, combined with robust credit performance.

The balance sheet continues to grow with loans and advances to customers at £447.7 billion, up 2 per cent in the first half of 2021, driven by strong growth in mortgage lending. Customer deposits continued to increase, with growth of £23.7 billion since the end of 2020, including significant growth in Retail current accounts and relationship savings balances. Deposit balances are now up c.£63 billion over the last eighteen months.

The Group's capital position remains strong with a CET1 ratio of 16.7 per cent after dividend accrual. Given the strength of the capital position and the regulator's clarification that banks may resume capital distributions, the Board has announced an interim ordinary dividend of 0.67 pence per share, in line with the Board's commitment to future capital returns, and has reintroduced a progressive and sustainable ordinary dividend policy.

Strategic progress

We launched Strategic Review 2021 in February this year, with a focus on Helping Britain Recover and further enhancing our core capabilities, specifically technology, payments, data and our people. Strategic Review 2021 supports the creation of sustainable shareholder value through revenue generation and diversification, further efficiency gains and disciplined growth as we accelerate our transformation and build the UK's preferred financial partner for personal customers and the best bank for business. In the first half of 2021, we invested £0.4 billion to support these strategic initiatives.

We are committed to helping our customers, clients, colleagues and communities through the coronavirus pandemic and rebuilding livelihoods, whilst delivering long-term sustainable returns for shareholders. We recognise that the focus of the Group's purpose, Helping Britain Prosper, must evolve in response to the current environment with changing societal and customer needs and expectations. We are therefore committed to Helping Britain Recover and supporting a sustainable recovery which benefits all of our stakeholders.

During the first half of 2021 we have made meaningful progress across all five of our Helping Britain Recover priority areas that are embedded in our business ambitions and where we can make the most difference. For example:

- We have helped rebuild households' financial health and wellbeing through directing customers to free independent debt advice for more than 130,000 accounts

- We have supported businesses to recover, adapt and grow through supporting over 48,000 businesses to start up and helping 75,000 small businesses boost their digital capability

- We have expanded the availability of affordable and quality homes with new lending of c. £9.0 billion to nearly 43,000 first-time buyers, almost reaching our full year 2021 target of £10 billion, as well as delivering £2.1 billion of new funding support to the social housing sector, exceeding our full year target

- We are accelerating the transition to a low carbon economy, expanding the funding available under our discounted green finance initiatives from £3 billion to £5 billion in the first half of 2021, with more than £8.6 billion of total green finance delivered since 2016. In addition, we have renewed our strategic relationship with Jaguar Land Rover, and have extended our contract with Tesla, supporting the delivery of the Group's goal of helping to reduce the emissions we finance by more than 50 per cent by 2030 on path to net zero by 2050, or sooner. Furthermore, our progress on reducing our own operational emissions has recently been recognised in being ranked sixth in the Financial Times' inaugural listing of Europe's Climate Leaders

- We are continuing to contribute to an inclusive society and build an inclusive organisation. In June 2021 we collaborated with City Mental Health Alliance to publish a research report on 'Mental Health And Race at Work' and have launched a pilot to improve free access to cash in underserved areas

Strategic progress cont.

Building the UK's preferred financial partnerfor personal customers and best bank for business

We are building on our position as the UK's largest personal customer franchise with our multi-brand, multi-channel model, leveraging our unique capabilities to meet more of our customers' needs. During the first half of 2021, we increased our net open mortgage book by £12.6 billion. We are exceeding our target to maintain record all channel net promoter score with a 3 point increase in the first half of 2021. We have seen positive annual net new money in Insurance and Wealth, with cumulative net flows for open book assets under administration of £4 billion in the first half of 2021.

We have today announced that we intend to acquire the Embark Group (Embark), a fast growing investment and retirement platform business. Embark enhances our capabilities to address the attractive mass market and self-directed Wealth segment, completing the Group's Wealth proposition. Embark will also enable us to re-platform the Group's pensions and retirement proposition, delivering a market-leading platform for intermediaries and significantly strengthening the Group's offering in Retirement, an important growth market.

As announced within Strategic Review 2021, the Group aims to meet more of its customers' broader financial needs, whilst retaining more of the c.£10 billion assets under administration which customers invest with third parties each year. The acquisition of Embark will deliver a modern, industry-leading mass market, direct-to-consumer proposition, complementing the Group's existing advice offerings through Schroders Personal Wealth and Cazenove Capital. The acquisition will see the Group acquire c.£35 billion of assets under administration on behalf of c.410,000 consumer clients.

We are targeting a top-three position in direct-to-consumer self-directed and robo-advice business in the medium term. We are also targeting a top-three position in the individual pensions and retirement drawdown market by 2025. The acquisition of Embark transforms our ability to achieve these objectives. As a consequence, we are increasing our Strategic Review 2021 net new money target from £25 billion to c.£40 billion by 2023, to reflect this increased growth potential.

Through a combination of the Group's new capabilities and its multi-brand, multi-channel distribution model across more than 25 million customers, the Group expects this acquisition to deliver attractive growth and returns over time and create value for shareholders. A consideration of c.£390 million will be paid for the entire share capital of Embark upon completion. The transaction is expected to have a c.30 basis points impact on Group CET1 capital and deliver a mid-teens return on invested capital in the medium term, both including all integration and restructuring costs.

We have progressed towards our vision to be the best bank for business, building on our outstanding reach, supported by our brand and scale, our historic above-market growth in SME and a strong presence among large corporate clients. During the first half of 2021, we increased our SME and Retail Business Banking digital net promoter score by 3 points, targeting a 5 point increase by the end of 2023. We have also improved our share of FX products for core clients in 2021 and have improved our GBP rates ranking by four places to sixth.

Enhanced capabilities

We are progressively modernising our technology architecture in order to deliver better customer propositions and to structurally improve our operational efficiency and agility. We have further strengthened our digital offering for customers, including increasing the volume of mobile releases and improving customer satisfaction, with our record mobile app net promoter score increasing by 4 points in the first half of 2021, surpassing our target. Additionally, in line with the technology R&D investment we highlighted at the full year, we safely migrated around 120,000 customer accounts to our pilot new bank architecture in the first half. Although fewer than the c.400,000 originally planned, it was sufficient to provide a significant proof-point for our investment, allowing work to progress.

We have further invested in our payments proposition with a leading market share of card spend, in line with target. In addition, we have achieved a twofold increase in the number of corporate clients onboarded to the new cash management and payments platform with its improved capability to meet client needs. We remain on track for a threefold increase by the end of the year.

We have further invested in data capabilities to deliver more effective outcomes for our customers and our colleagues. During the first half of 2021, we have extended machine learning capabilities to drive faster mortgage approvals for 20,000 franchise customers using automated income verification analysis. In addition, we migrated 45 million customer records to private cloud hosting to prove our data migration capabilities. This reflects another important proof-point.

Key metrics: first half of 2021

0.67p

interim dividend per ordinary share

£3.9bn

statutory profit before tax, significantly higher than the first half of 2020

£7.6bn

Net income of £7.6bn, up 2%

Dividend dates

5 August 2021 Shares quoted ex-dividend date

6 August 2021 Record date

13 September 2021 Dividend paid

Other dates for your diary

28 October 2021 Q3 interim management statement

24 February 2022 Full year results

Strategic progress cont.

Enhanced capabilities cont.

The pandemic has accelerated many of the trends previously evident in the workplace. These require a reduced office footprint, but also enhanced workspaces to foster collaboration and creativity. It is very important that we respond to this opportunity to best serve our colleagues and to enhance efficiency. During the first half of 2021, we have reduced office space by c.3 per cent, on track to meet our target of an 8 per cent reduction in 2021. We have also created three distinct workstyles, known as 'home', 'hub' and 'hybrid', as part of our planning for future ways of working. We expect around 80 per cent of colleagues to work in a hybrid manner under this model.

Much work remains to be done on Strategic Review 2021, but the first half represents a strong start on our programme.

Outlook

Given our solid financial performance and the improved UK macroeconomic outlook, the Group is enhancing its guidance for 2021. Based on the Group's current macroeconomic assumptions:

- Net interest margin now expected to be around 250 basis points
- Operating costs now expected to be c.£7.6 billion
- Net asset quality ratio now expected to be below 10 basis points
- Return on tangible equity now expected to be c.10 per cent, excluding the c.2.5 percentage point benefit from tax rate changes
- Risk-weighted assets in 2021 now expected to be below £200 billion

Although the macroeconomic outlook remains uncertain, the Group's people, financial strength and business model will ensure that we can continue to support our customers and Help Britain Recover. This is fully aligned with the Group's long term strategic objectives, the position of the franchise and the interests of our shareholders.

Best Regards

William Chalmers

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Statements to note
This 2021 half-year update should be read in conjunction with Lloyds Banking Group's 2021 half-year results. This 2021 half-year update is provided for information purposes only, and is not intended to be a substitute for reading the 2021 half-year results.