LLOYDS BANKING GROUP PLC – Q3 2021 INTERIM MANAGEMENT STATEMENT – TRANSCRIPT
(amended in places to improve readability only)

Thursday 28 October 2021 – 9.30am

LBG:
Charlie Nunn, Group Chief Executive
William Chalmers, Chief Financial Officer

Charlie Nunn
Good morning everyone. Thank you for joining our third quarter results presentation. I would like to start by saying how pleased I am to be speaking to you today. It feels for me personally like it has been a long time coming so it is great to be here with you. As you know William would usually present a quarterly update, but I wanted to introduce myself to you. I am going to talk briefly about my initial thoughts since joining the Group, before handing over to William for the usual run through of the financials.

So this is my eleventh week with the Group. And since joining Lloyds in August, I have been struck by the power of the Group's purpose of Helping Britain Prosper.

This purpose runs through everything the organisation does and the Group is clearly playing its part during the pandemic. I have also seen first-hand the strength of the Group's colleagues, our customer franchise and the breadth of our digital banking proposition. These are significant competitive advantages, and they will give us a great base upon which to build.

The Group has a strong stewardship mindset and a proven track record of managing risk. Alongside our balance sheet and capital strength, this will provide a springboard for growth in the future. The Group has strong foundations and we are now working on the detail of the next evolution of our strategy. I am not going to talk today about our plans, as clearly they are still under development, but I wanted to let you know about some of the areas we will be thinking about.

Firstly, we have exciting opportunities to grow and deepen customer relationships across all of our businesses. Wealth and Insurance we have talked about. As I've started to land with the organisation, I can see opportunities across all of our businesses. Secondly, the pandemic is driving a shift in how customers transact. Given my digital experience, I am now very focused on how we can support this transition and leverage the increasing adoption of technology by both our customers and based on the incredibly strong starting position Lloyds Banking Group has around its digital capabilities and services. Thirdly, our commitment to efficiency will remain unchanged.

And finally, I am also very focused on enhancing the Group's investor proposition and delivering sustainable, long-term returns and distributions whilst investing in the business.

I think that gives you a quick sense of my initial views and some of the exiting opportunities we have. I will talk more about this in February, when we will provide a strategic update alongside the full year results.

And with that, I am going to hand over to William.

William Chalmers
Thank you, Charlie and good morning, everyone. Before covering the Q3 financials, I will turn first to the continued progress on Strategic Review 2021, as outlined on slide 3. We have made strong progress on Strategic Review 2021, ensuring the Group maintains momentum at a time of change, both for the organisation and, of course, in the external environment. We are pleased with our progress and we are delivering on our commitments.

Underpinning our strategy, our focus for 2021 is on Helping Britain Recover. In respect of this, we have so far delivered £12.8 billion of lending to first-time buyers, exceeding our full year target of £10 billion.

We are also expanding the availability of affordable and quality homes by increasing our funding to the Housing Growth Partnership. Within Scottish Widows, we have introduced a fossil fuel-free fund, allowing pension savers to invest with a positive environmental impact. We have continued to make progress against our customer-focused ambitions.

In becoming the preferred financial partner for personal customers, we have delivered our strongest open book mortgage growth in over a decade, generated £5 billion of net new assets under administration in Insurance and Wealth and announced the acquisition of Embark Group, which will complete our Wealth capabilities. Customers continue to improve our service rankings. We are exceeding our targets for both our all channel net promoter score, as well as our mobile app NPS.

In our ambition to be the best bank for business, we have seen over 50 per cent growth in SME products originated digitally. Meanwhile we have continued to improve our core Markets offering, improving our position in the league tables.

Enhancing our capabilities is an important part of our Strategic Review 2021 commitments. As examples, we have continued to build our infrastructure, including further investing in a data-driven business, and we have delivered an improved merchant services proposition in the payments area, the latter resulting in a 12 per cent growth in new clients so far this year.

And finally, we are rolling out hybrid ways of working for our colleagues, allowing us to remain on track for an 8 per cent reduction in office space in 2021.

I will now turn to the financial update, beginning on slide 4. We saw a solid financial performance in the first nine months of the year, built upon continued business momentum.

Net income of £11.6 billion is recovering, up 8 per cent on prior year, with Q3 up 5 per cent on Q2. Net interest income of £2.9 billion in the quarter is benefitting from higher average interest-earning assets of £447 billion and a Q3 margin of 255 basis points, which is up slightly on the second quarter.

Other income of £1.3 billion in the quarter is up 4 per cent on Q2. Net income of £11.6 billion includes a £111 million operating lease depreciation charge in the quarter. This remains below our typical run rate given the ongoing strength of used car prices.

As you heard from Charlie, we remain committed to efficiency. Our cost:income ratio in the quarter was 48.3 per cent. The small increase in costs versus prior year reflects the accelerated rebuild of variable pay, which I mentioned at the half year. And this, in turn, reflects our stronger-than-expected financial performance.

Underlying asset quality remains strong and, combined with the improved macroeconomic outlook, supports a net impairment credit of £84 million in the quarter, now totalling £740 million in the year to date.

Based on all of these inputs, statutory profit before tax of £5.9 billion for the nine months is significantly up against prior year and represents a solid recovery. Alongside, we have delivered continued balance sheet growth and seen strong capital build. The CET1 ratio now stands at 17.2 per cent, up from 16.2 per cent at 2020 year end.

Now let me turn to slide 5 and cover the continued franchise growth seen in the third quarter.

As you can see, continued mortgage growth was the main driver of our balance sheet momentum. Growth in the open mortgage book slowed in the quarter versus Q2. Nonetheless, it was still up £2.7 billion and is now £15.3 billion higher than at the end of 2020.

We are also just starting to see growth in credit card balances, which are up £0.2 billion in the quarter, partly driven by a recovery in travel spend. We would expect this gradual growth to continue over the coming quarters. Commercial Banking balances are up £1.5 billion in the quarter as we have seen higher Corporate and Institutional drawings more than offset repayments of lending from government support schemes.

On the other side of the balance sheet, we have seen continued inflows to our trusted brands. Deposit balances in Retail are up £4 billion in the quarter. Total Group deposits are now up more than £28 billion so far in 2021 and over £67 billion since the end of 2019.

I have spoken before about how this significant deposit growth will give us opportunities to diversify our customer relationships and indeed to increase our pool of hedgeable balances. In the context of the balance sheet growth just touched upon, average interest-earning assets saw growth of £5 billion in Q3. AIEAs now stand at £443 billion for the year to date. And we continue to expect low single-digit percentage AIEA growth for 2021 as a whole.

We expect mortgage growth to continue into next year, alongside a gradual recovery in unsecured balances in Retail. In Commercial balances, we expect AIEAs to be impacted by our government-guaranteed loans being repaid and our ongoing optimisation of the portfolio.

I will now turn to slide 6 and the resilient income performance in a bit more detail. Net interest income of £8.3 billion is up 2 per cent on the first nine months of last year, with Q3 up 4 per cent on Q2. This was off the back of increasing average interest-earning assets and a strengthening net interest margin of 255 basis points in Q3, up 4 basis points in the quarter.

Within the net interest margin, mortgage completion margins were around 160 basis points in Q3. Application margins were below this level, however we continue to see mortgage lending as attractive even at these lower rates, from both a returns and economic value perspective. Overall, the impact of this competitive mortgage pricing on the Group margin has been more than offset by improved income from the structural hedge, higher deposit balances and improved funding costs.

So taken together, we expect the margin to continue to be solid in Q4 and for 2021 to be modestly above 250 basis points. This represents a slight improvement versus our expectations at the half year. We remain positively exposed to rate rises and have provided some new disclosure on this in the appendix. You can see that we expect each 25 basis point parallel shift in the yield curve and associated base rate rise to benefit interest income by around £225 million in year 1. The assumptions on this are as stated in that appendix, including an illustrative 50 per cent pass-through assumption on deposits.

It is worth noting that changes in competitive pricing behaviour, pass-throughs and other assumption changes can have a significant impact on the actual outcome of moves in rates.

Now turning to other income, performance has improved to £3.8 billion for the year to date and £1.3 billion in the quarter. The year has benefitted from some gradual rebuilding of customer activity, as well as a strong contribution from the Group's Equity Investment businesses. Within that grouping, Lloyds Development Capital income was particularly strong in Q3, based upon a couple of very attractive exits.

If you were to strip out the circa £100 million out-performance in the quarter from these particular exits, you would get to a more reasonable run rate for other income in the current operating environment.

At this point it is also worth noting that we have included a further appendix, on IFRS 17, which will take effect in 2023.

IFRS 17 as you know is an accounting change which will have some impact on the timing of income recognition from 2023, primarily from the switch to Contractual Service Margin accounting, instead of embedded value accounting.
This switch will also reduce the volatility of earnings going forward.

For a growing business such as ours, income from insurance new business initially falls and then gradually gets added back in future years. Further explanation and illustrative effects are contained in the appendix.

In discussing IFRS 17, it is important to stress that there will be no change to the economic value of the insurance business, no change to the cashflows, or the capital position of the insurance business, including its ability to pay a dividend, and no change to the capital position of the Group.

Let me now turn to costs on slide 7. Efficiency remains fundamental to our business model and continues to provide competitive advantage, even in the context of the inflationary cost pressures we are all experiencing. Our market-leading cost:income ratio of 52.6 per cent for the year to date is evidence of this.

Operating costs, which excludes remediation charges, were £5.6 billion for the first nine months of the year. This is up 1 per cent on the prior year given the rebuild of variable pay that we discussed at the interim. We remain on track to deliver our operating cost guidance of circa £7.6 billion for the year, whilst continuing to invest circa £900 million in strategic initiatives in 2021.

Remediation costs meanwhile, were £100 million in the quarter and now total £525 million year to date. There were limited new HBOS Reading panel outcomes in Q3, but we continue to expect significant further charges in the coming quarters. And although uncertainty remains, this means the run-rate from HBoS Reading is likely to pick up in the fourth quarter.

Restructuring costs, which we report below the line, were £386 million for the nine months. As mentioned previously, higher technology R&D and severance costs are likely to drive an increase in restructuring costs for the full year, as compared to 2020. So again, I would expect the run rate in this area to pick up in the fourth quarter.

Now, turning to slide 8 to look at impairments. Asset quality remains strong, evidenced by sustained low levels of new to arrears and underlying charges below pre-Covid levels.

The net impairment credit of £84 million in the quarter and £740 million in the year to date is also significantly based upon our improved macroeconomic outlook. Our outlook improved slightly in Q3 versus Q2. In particular, our base case now assumes 2021 GDP growth of 6.3 per cent and house price inflation of 4.8 per cent, with an unemployment rate peaking at 5.8 per cent in Q4 2021.

These base case economic assumptions remain prudent. And in this context, our ECL remains £1 billion higher than at year end 2019 and within this, we have retained our circa £1.2 billion of additional management judgements, reflecting pandemic and macroeconomic related uncertainties ahead. With these underlying and forecast changes, we now expect impairment for 2021 as a whole to be a net credit.

Let me now turn to capital on slide 9. Our CET1 ratio has increased to 17.2 per cent in Q3, with 159 basis points of capital build year to date, supported by lower RWAs.

Prudently, if we exclude the impact of both the software intangibles and all of the IFRS 9 transitional relief, our CET1 ratio would still be 16.1 per cent. Capital thus remains significantly above our operating target of circa 12.5 per cent plus the management buffer of circa 1 per cent, as well as our regulatory capital requirement of circa 11 per cent.

Looking forward, we expect the Embark acquisition to consume around 30 basis points on completion, likely to be in Q4, subject to regulatory approvals. As mentioned previously, we expect 2021 closing RWAs to be below £200 billion and for 2022 to close at around £210 billion, after absorbing £15 to £20 billion of regulatory inflation on the 1st of January 2022.

We have a strong capital position and the Board remains committed to capital returns. We reintroduced a progressive and sustainable ordinary dividend policy at the half year and, as usual, any further decisions on surplus capital distributions will be taken by the Board at the full year.

Now, finally, moving to slide 10. To summarise, we have continued to support our customers through uncertain times and we are committed to Helping Britain Recover.

We are delivering strong progress against the priorities of Strategic Review 2021 alongside a solid financial performance built on continued business momentum. We have a strong capital position, with a CET1 ratio of 17.2 per cent, underpinned by capital build of 159 basis points in the first nine months of the year. Together the Group's financial performance and the improved macroeconomic outlook enable us to enhance the Group's 2021 guidance, as you can see on the slide.

To go through that, the net interest margin is now expected to be modestly above 250 basis points. Operating costs are expected to be circa £7.6 billion. Impairment is now expected to be a net credit for the year.

The return on tangible equity is now expected to be over 10 per cent, excluding the circa 2.5 percentage point benefit from tax rate changes. Risk-weighted assets in 2021 are expected to be below £200 billion. And in the medium term, we continue to target a return on tangible equity in excess of our cost of equity.

Next time we report, and as Charlie mentioned earlier, we will provide a strategy update alongside the 2021 results.

But for now, that concludes our prepared remarks for today.

Charlie and I are now available to take your questions. It is probably worth re-emphasising at this point that in the context of our ongoing strategic work, we are obviously not planning to answer questions on the outcome of that work. But nonetheless we will do our best to answer all other questions that you may have.

So thank you very much for listening and, operator, over to you.

Question and Answer Session

Question 1 – Joe Dickerson, Jefferies
Good morning and thank you for taking the question. Just a quick question on the margin and the hedge. I think you flagged at the half year results that you had £30 billion of hedge maturities in H2. I just wondered where we stand on that now, and if you expect the hedge to continue to be of benefit to the margin? I note that it was about 1 basis point of the 4 basis points quarter on quarter uplift in the margin, and I think at the half year it was around a 2 basis point headwind in the first half of the year. Do you expect that to continue to be a tailwind?

William Chalmers
Thank you Joe. A couple of questions there, just to take them in turn. The hedge maturities in H2, as we said at the half year, a further thirty billion to be hedged, most of that work has been done. But as we sit here, end of October 2021, there is not much further hedging to be done for this year. In terms of the maturities next year, we are looking at around £30 billion or so of maturities over the course of 2022 and then it ticks up from that level during the course of 2023.

In terms of the impact on the margin Joe, your second question. As you pointed out, we have seen some benefit from the reshaping of the curve, slightly steeper curve during the course of Q3. It has certainly been one of the tailwinds amongst one or two others in achieving the year to date margin of 252 and the Q3 performance of 255. We do expect that to repeat itself and the hedge to continue to be a tailwind during the course of Q4. We are looking, as I said in my comments, at a solid margin in Q4 and the hedge, alongside probably some growth in unsecured balances, probably some benefits from funding, are further tailwinds to the margin performance in Q4. There will be some headwinds in the form of volumes of net mortgages, which while good for net interest income, it is slightly diluted for the margin. But overall, the hedge will be part of the tailwinds that we expect to experience.

Joe Dickerson
Can I just follow-up on this interesting commentary, given the yield curve only started to steepen right at the end of the quarter? Aside from that, when I look at your retail tactical deposits, is there, on a forward basis, any flex on the retail tactical deposits? Because I note they grew another 2 per cent on the quarter and are up about 34 per cent year on year. I know it is not a large contributor to the deposit base any more but is there any flex there over time, and the better question is, what is the strategy with the retail tactical deposits?

William Chalmers
You made a couple of points there Joe. One point, in terms of the way in which we manage the hedge, we manage the hedge in an appropriate risk management way and so we don't necessarily wait for the end of the quarter to take action. We are taking action through the course of the year and through the course of any given quarter. At times you will see a sharpening of the curve, which makes it better to act in some cases than others, but we will take a balanced and measured approach to managing and implementing the hedge over the course of the year.

In terms of your second point, retail tactical deposits, overall there isn't terribly much left in the retail liability margin anymore. I think we have given you numbers on this before so I would be happy to do so again. Customer rates are averaging around 8 to 10 basis points on retail liabilities. Hopefully that gives you the sense as to there not being terribly much room left on the retail margin with current interest rates.

Joe Dickerson
That's great, thanks so much.

Question 2 – Rohith Chandra-Rajan, Bank of America
Hi good morning, I had a couple of questions please. The first one was on IFRS 17, and thank you very much for the disclosure there, I appreciate it is still uncertain. But I was wondering in terms of slide 14, firstly just to clarify, if what is shown on the bottom right there is the year one impact, so the implementation impact in terms of IFRS 17 on income? There is obviously a wide range of impacts over the last three years from £0.8 billion down to what looks like £0.2 billion potentially for this year and you detail some of the differences or some of the reasons for that in the footnotes.

I was just wondering if you could help us understand what you think the 2023 year one impact is, and when you see the tipping point? Because obviously it is just the deferral of earnings, as you highlighted, they don't disappear. So when would the tipping point be where IFRS 17 becomes neutral? That would be the first question.

William Chalmers
Yes sure, why don't I deal with that first, recognising that you may have a further question thereafter. You can see what we have put forward on page 14 of the presentation is an illustrative impact of the effect of IFRS 17 replacing IFRS 4 in our earnings for any given year and we have given you three historical periods to look at there. So that's what's on the chart. And in terms of the factors behind the chart, there are two or three factors that significantly influence that switch from IFRS 4 to IFRS 17. One is new business, and two, any net effect of assumption changes in the period. If you look at 2019 and 2021 in particular, you will see that that more or less worked out in terms of the transition between IFRS4 to IFRS17, that is, for new business and net assumption changes during the period. You don't see that so much in 2020, and the reason for that is because we had an interest rate fall in 2020, and that in turn impacts the experience variance differently to the way in which it impacts the contractual service margin. That is why you see a slight discrepancy within 2020, where the difference is above and beyond the new business and net assumption changes. So that is what is going on in terms of the factors there. We won't give you a precise number for 2023 as we look forward. It will be driven however, by very much the same things: that is to say, new business, net assumption changes, and if there is a significant interest rate change, then of course that will have an effect at that point, but I don't think we predict one.

In terms of the time that it takes for IFRS 17 to catch up with IFRS 4, that is an important point. It is somewhat mitigated by the fact that we retrospectively applied IFRS 17 back about five years to 2016, and so some of the CSM will be built into the performance over the course of the coming years. What that means is that while the average contract life is around 15 years in insurance, the catch-up period is going to be slightly less than that. The catch-up period for IFRS 17 from IFRS 4, we think is going to be about five years, prospectively, from the year of introduction. Now Rohith these are all illustrative numbers at this point, and as your comment highlighted just seconds ago, there is further work being done on IFRS 17, but hopefully that gives you a bit of a picture.

Rohith Chandra-Rajan
That is very helpful, thank you. And then the second question was again, sorry, just coming back to the structural hedge. You have got £15 billion of unutilised capacity at the end of the quarter. I just wonder if you put any of that to work given the moving rates in October? And in terms of how that then ties in to the rate sensitivity, is it right to think that every 20 billion increase in the structural hedge effectively reduces the sensitivity to a 25 basis point rate move by about £25 million? Assuming the 50 per cent pass through that you put in, which could obviously be different.

William Chalmers
I will answer the first part of that question, I probably won't give you a specific answer on the second part Rohith, for fear of working the numbers out, which I would prefer to leave you to do. In terms of the £15 billion outstanding, as said to Joe a second ago, we have done most of our work in respect to the hedge as we stand here at the end of October. We have been deploying the hedge over the course of this year, including in October, but as we stand now, when we look at the capacity of the hedge, most of the work has been done for the year of 2021. We then obviously look towards the £30 billion of maturities during the course of 2022, which is work we will undertake when we get to 2022. For the rate sensitivity of the hedge, again, I probably won't go there specifically, but the component of the rate sensitivity of £225 million that we put forward in the presentation, in the appendix, I think, just as a number of commentators have expressed over the course of this results season, in the first year at least, a relatively modest part of that is the hedge roll. A bigger part of that is the pass on of the base rate, for the deposits.

Rohith Chandra-Rajan
Thank you. Sorry just on the hedge capacity, I thought your response to Joe's question was that you'd largely done the £30 billion of maturities that were pencilled in for the second half. Have you also utilised some of the capacity?

William Chalmers
Yes Rohith, to be clear, as we stand here at the end of October we have done most of our hedging work for the year, and that includes up to the £240 billion.

Rohith Chandra-Rajan
Okay, thank you very much.

Question 3 – Chris Cant, Autonomous
Thank you for taking my questions, if I could just ask about IFRS 17 again please. If I read between the lines correctly on slide 14, it looks like you were talking about something like £400 million of insurance revenues going away in terms of new business recognition in 2023. So, when we think about other income at a group level, is it fair to say that for 2023 we should be thinking about something in mid-high £4 billion territory? Rather than slightly north of £5 billion which is where consensus is currently sitting?

And then as a follow-up to that, your commentary about the assumption change uncertainty, around how this actually comes in, am I correct in interpreting from what you said that if rates rise in 2023, then the year one impact will actually be more severe than that? Thank you.

William Chalmers
Thanks Chris. On the first question, as said, the effect of the switch from IFRS 4 to IFRS 17, is a function of new business, a function of the net assumption changes, and to a degree, a function of any of the variances that go beyond those two. But those first two are the primary ones. I think you very roughly put a number of circa £400m on it. Historically, if you look at our typical new business performance, that is probably not a bad proxy for where we end up. That, in turn, as you know, is probably around one third of the insurance income for any given period. And if you look at it in terms of the group OOI, it is roughly 7 to 8 per cent of the group OOI, just to give you some sense of proportion. Having said that, I would make a couple of related points which are important to bear in mind, which are: number one, this catch-up period of the CSM, and so you get these earnings added back over a period of time. As I mentioned in my earlier comments, that period of time looks like it is around five years. That give you a sense as to the fact that this may be a hit on day one of the earnings when IFRS 17 is introduced, but equally you get a faster run rate in the earnings growth thereafter, as that CSM gets added back into the numbers.

The second point which I would add on, which you will hear me say a number of times in connection with IFRS 17, is that it has nothing to do with cashflows, and therefore the performance of the business, the ability of the insurance business to dividend, the insurance capital or the group capital position. So, a further important point to bear in mind.

Your question about IFRS 17, and then into the question around OOI and the proportion of insurance earnings to OOI. I won't comment on your precise numbers for OOI in 2023, safe to say the OOI you have seen in our performance in this quarter, which is about £1.34 billion. We believe that once you have stripped out the LDC £100 million that we pointed out, you will get into a pretty solid underlying run-rate of earnings. That is likely to build as a result of economic activity, number one, as a result of our organic initiatives, number two, and as a result of things like Embark and Citra, which will contribute to OOI over time and hopefully build the pattern going forward.

On the third of your points, the assumption changes uncertainty. In essence what happened in 2020 was that you had a sharp rundown in rates. That rundown in rates contributed more to impact experience variances, than it did to impact contractual service margins, which is why you have got that slight discrepancy in the 2020 difference versus 2019 and 2021. So 2020 stands out a little bit in that respect. If in 2023 you see the reverse of that effect, then as your question implies, you will see the reverse in terms of the impact, or difference, between IFRS 4 and IFRS 17.

Chris Cant
Okay that is helpful. If I could ask just one more follow-up on IFRS 17, I completely understand your point around this doesn't change the cashflows from the insurance business, I am just trying to understand the impact on the numbers we are going to see when we get out to 2023. Is there anything in terms of an offset within the cost line of the insurance business? Do some of the costs get reshuffled into revenues? And how big an affect will that be in terms of any benefit to the opex line in 2023, how should we think about that?

William Chalmers
It's a good question Chris. Yes there is an impact on the cost line, and the impact on the cost line is roughly speaking in the £100 million type zone as we look at the numbers today. That is a number that is conceptually equivalent to the £400 million number you quoted earlier on in your comments. There is a benefit from the cost line from essentially similar spreading of acquisition costs, and therefore you do see that come through as IFRS 17 is implemented in 2023, of the order of magnitude that I just mentioned.

Chris Cant
Okay that is really helpful, thank you.

Question 4 – Raul Sinha, JP Morgan
Hi good morning, thanks for taking my questions, welcome Charlie. If I can maybe start just with a general question and then further detail as well. It was interesting to hear your opening comments when you talked about growth actually being point number one that you addressed. One of the pushbacks on Lloyds shares for the market over the last decade has been a lack of tangible book value growth and growth in general. So I was wondering what you think about tangible book value for a bank, should that be a priority in your opinion?

The question really is about growth and tangible book value cycles. I think one of the related impacts that we were talking about regarding IFRS 17 is a mid-single digit hit to TNAV as well. Obviously that would mean again, not a lot of book value growth from Lloyds. So alongside the focus on growth that Charlie outlined, I was interested in his thoughts and whether the tangible book value per share growth should also be a matrix that the market should be looking at?

The second one is around the sensitivity in terms of your disclosures, that would be quite helpful. Obviously it looks like you have made the same pass-through assumptions, or you have held pass-through assumptions static for the years. Is it fair to assume that if the pass-through was different in year one, then that rate sensitivity that you outline might understate the actual rate sensitivity that you would see, given where rates are today?

Charlie Nunn
It's Charlie, thanks for the question. Obviously my view on TNAV, and William will build on this is, it partly depends on the strategy for the bank firstly, and I will explain that in a second. But also, you just have to be careful around what is included in TNAV. Your points around IFRS 17 I think are important and William will probably expand on that a bit.

The point around TNAV is, if the organisation you are looking at is obviously optimising its balance sheet and focused on distributing income, TNAV won't progress materially, whereas if the organisation is focused on organic growth and building asset value, it will progress. Both of those strategies at a very simple level can give different outcomes for TNAV but still strong shareholder returns. I don't know if that makes sense to you Raul, but that is certainly the way we think about it.

In terms of how we are looking at the group going forward, as I said, we will talk about that in February, but one of the things that I could mention upfront is one of the priorities for us, is to look at how we provide and deliver sustainable long-term returns and distributions whilst investing in the business. As we think about that, we will be clear around how we think that might impact TNAV.

William, do you want to build on that?

William Chalmers
Yes, thank you Charlie. I think two comments that I would make just to add to that, one is we are interested in TNAV build, of course we are. It is an important ingredient to the financial metrics of the bank. There are a number of factors that affect that, a number of them have been going in the right direction over the course of this year, profit being obviously the primary one. At the same time, as you point out, IFRS 17 will have an impact on TNAV in its introduction in 2023. But I think it is very important to bear in mind that just as that gets built back into the earnings, it also gets built back into TNAV over a period of time. So this is a temporary effect that it will have on TNAV, and while it might take a hit on day one, it contributes also to a faster growth rate on day one, day two and beyond, so bear that in mind as you look at the TNAV impact of IFRS 17.

The second point that I would make is if we look at TNAV, for sure, we also look at returns on TNAV. That is clearly an incredibly important metric for the bank. Now, as it happens, the impact of IFRS 17 on the return on tangible equity is marginally accretive, so you might see a hit to TNAV but you will also see a marginal benefit to return on tangible equity. The business as we look to it, as we invest in it, and as we will discuss with you over the course of next year, is very much about building sustainable returns.

On your sensitivity point, I think the best way to answer that is, is the sensitivity linear, roughly speaking, to change in pass through assumptions? Yes it is. That is to say that if we do not pass through any of the benefits of the interest rate rise, then in turn the sensitivity will be roughly double what we stated as at the 50 per cent mark. So in that sense it is pretty linear.

The second point that I would also add to this, which I think is important, is the environment within which those interest rate rises have taken place. Interest rate rises happen because you are seeing an increase, a rising level of economic activity. With that rising level of economic activity, we would expect to see customer activity, and indeed borrowing, including things like unsecured, go hand in hand with that. Likewise, we would expect to see markets activity tick up. Likewise, if that interest rate curve stays where it is, that builds the performance and indeed the capital position of the insurance business. So all of these are factors that are not built into our interest rate sensitivity, that are likely to accompany a rising rate environment, which in turn will clearly drive earnings and ultimately capital of the institution.

Raul Sinha
Thank you.

Question 5 – Jonathan Pierce, Numis
Hello there. Two questions please, the first, I am really sorry to come back to IFRS 17 again. The net profit hit, by the sounds of it, is something in the order of 300 million taking into account the £100 million cost offset you just mentioned.

I think the run-rate in the Insurance and Wealth profits in the first half less the remediation was only about £400 million per annum. So at least initially, there is going to be a big dip in profits. Now as you say, the capital generation of Scottish Widows is not affected by this, but I think it does bring much greater focus now onto the dividend upstreaming potential of Scottish Widows, because for a period at least, that could be significantly larger than the accounting profits. So I guess what I am inviting you to give us more detail on, is what do you think the normal run-rate is for upstream dividends from Scottish Widows? It has been about £800 million a year on average over the last ten years, but there were all sorts of things going on within that. What do you think a normal dividend run-rate is from Scottish Widows up to the Group? That would be the first question.

The second question is just a bit of detail on the hedge. Obviously the maturities next year will be a combination of maturities out of the hedge that existed pre-pandemic, but also I guess a reasonable chunk of maturities from the hedge that was built post March of last year. Can you give us a scale of the split of that? Because the yield differential on those two parts of the maturities are very, very different. Thanks a lot.

William Chalmers

Thanks Jonathan. On the first question around IFRS 17, and don't worry, you don't have to apologise coming back to it - we saw that there was, in short, a level of interest during the course of today's call. The net profit hit, you are about right, £400 million minus about £100 million costs is about right, but again it does depend upon the volume of new business. So I don't want to be too categorical in putting a precise number on it but, your numbers, ball park, makes sense. That, as you say, will ensure a level of attention to cash generation from the insurance business. I don't think for us that is a new point actually, Jonathan, we have always looked at the cash generation of the business. We look at the Solvency II capital that the business uses and we also look at the Solvency II cash generation that the business uses, and those measures have been a longstanding part of our internal KPIs for the insurance business and they will be going forward.

The solvency position of the Scottish Widows business as at the end of September is just a fraction below 160 per cent, so it looks pretty healthy as of the end of September. It is, as you know, significantly influenced by rates, in particular long-term rates, as well as the underlying business performance. But that capital level does suggest a healthy level of capital, and we will see whether that persists over the course of the remainder of this year. If it does, we would have a discussion with the Scottish Widow Board at the appropriate time about what level of dividends might therefore come out of the Scottish Widows Business.

Looking forward as you say, we monitor Solvency II cash flow generation metrics and those are very much part of our business planning. We would hope that the dividend builds over time in conjunction with, not just rates, clearly, but the success of activity in the introduction of new business. I don't want to put a number on it too much, but I think, as your question highlights, if you look back at those numbers of 800 million for example, those numbers were significantly influenced by management actions that took place within the Scottish Widows Business, certainly in the years preceding my arrival. So I wouldn't use that £800 million as a guide mark for future ongoing sustainable dividends from Scottish Widows. We will look to ensure that business is successful, we will look to ensure that there is a consistent and reliable dividend from that Scottish Widows Business. I think £800 million frankly is a little bit too high, but that dividend is certainly part of the way in which we manage it.

I would also say as a final point on that Jonathan, as you know, the Scottish Widows Business is deconsolidated from the bank as a whole. That is indeed the other reason why IFRS 17 isn't making any difference to the group capital position. When we look at the management of that overall capital, it is therefore the dividend that we are most interested in as a group management team. So we do pay an awful lot of attention to it.

On the hedge, second of the two questions, pre-pandemic, post-pandemic, we won't give a split as to that. As said, the overall maturity next year is around £30 billion, it then picks up from that quite significantly in 2023. I will say though, which hopefully is helpful Jonathan, that the hedge is an overall tailwind next year. We expect it to be a tailwind based on where we are with the hedge today, and that is a contributor therefore to net interest income over next year.

Jonathan Pierce

Okay that is really helpful, thank you. Just one quick follow-up on the insurance point. I totally accept that the dividends from Scottish Widows have always been the only relevant aspect of what the insurance company is doing in the context of the group. But clearly if we are going to have a period where insurance profits, are, on an IFRS 17 basis, in the low hundreds of millions, we can't any longer ignore this difference in treatment of profits versus capital upstream. So can I just push you a little bit on this. Are we going to get insurance dividends out of Scottish Widows starting again at the end of this year or February next year, which is when you would normally pay them? And where we can split out ordinary dividends from everything else that has been going on in recent years, it does feel like a number of £400 to £500 million has been more in the order of normal dividends, would that be about right?

William Chalmers
Thanks Jonathan, happy to comment a little further. A couple of points I would make. One is that we do focus on dividends from the Scottish Widows insurance company up to the Group. Number two, having said that, Scottish Widows is also strategically and financially a very important part of our overall group, so we also focus on the contribution that the insurance company makes alongside our other divisions, and in that sense, achieve strategic and operational synergies within the group, which is also a source of value to us. So I do want to make sure that we portray the picture of the insurance company as it is, which is an integrated part of our overall group and a very strong part of our strategic future.

In terms of the start of dividends, as said, our solvency ratio at the end of September is just a shade below 160 per cent, that's a pretty solid number. If rates stay where they are, or if Solvency ratios stay where they are, or potentially improve, then we would look to have a discussion with the insurance board at the right time, as to the dividend at the end of this year. As to the run-rate dividend beyond that, I won't comment with any greater specificity than I have done so far, safe to say that we will look to build the insurance dividend over the course of time, in conjunction with the investments that we have been making in that area.

Jonathan Pierce
Okay, that's great, thanks a lot.

Question 6 – Andrew Coombs, Citi
Good morning, two questions, one on capital return, one on costs. If we look at your capital ratio you have had a very strong level year to date. Even if we adjust software amortization and IFRS 9 transition, Embark, the RWA growth regarding 2022, you are still looking at 15 per cent proforma ratio. So the question is regarding excess capital, I am intrigued as to your plans for that. I don't want to pre-judge the strategy update but any thoughts you can share on how you are thinking about buybacks versus dividends, versus maintaining a buffer for M&A, given that you have just acquired Embark, and whether there is anything else on horizon? Anything that you can comment on that would be welcome.

Secondly on the costs, restructuring costs ticked up year to date and you are guiding for more in Q4. Just would like an idea of what the payoff is on that, so what you think of in terms of the savings attached to those, the timeframe to recognise those savings and so forth? Thank you.

William Chalmers
Thanks Andrew. First of all in terms of capital return, a couple of points to make there. One is we obviously have a very strong capital position, and as you say, even if you take account of software amortisation, transitionals and RWA headwinds coming up in 1 January 2022, it remains a very strong capital position.

The second point is that we entirely recognise the importance of capital return. The interest of shareholders in capital return is entirely acknowledged, and that is why we committed to pay a progressive and sustainable dividend at the half year. Then as usual, we will look towards any further distribution of capital above and beyond the dividend as at the end of the year. That is nothing different to what we ordinarily do, so the fact that we are not engaged in a buyback right now means nothing other than that we are operating on a BAU basis and will look towards further distributions as appropriate at the end of the year and that will be a Board discussion at the time.

In terms of form, again any excess capital distribution question is really for the Board at the end of the year, but obviously they will do so in consideration of investor preferences, in consideration of where the share price is trading and so forth. So all of those deliberations will be taken into account at the time when that discussion is had.

In terms of things like M&A and other uses, from our perspective the strategic story has been, and will continue to be, primarily an organic story. Where an opportunity to invest in capabilities or potentially, at the margin, scale, comes up, typically small opportunities, then obviously we will look at that, but only if it is consistent with our shareholder return objectives. And so you have seen over the last couple of years, the Tesco acquisition, which is an example of building scale at very low marginal cost. You have seen this year, the Embark acquisition, which is an example of building capabilities. Both small acquisitions, but both important acquisitions, in terms of building either scale or capabilities. Importantly both acquisitions that satisfy our return requirements. But again I would leave you with the comment that M&A is a tool towards strategic objectives, it is not more than that, and our strategy remains very organic.

Your second question on restructuring costs. We do look for a return on restructuring costs just like we look for returns on any investment that we make. If you look at the types of restructuring costs that we have seen recently, severance for example is one, property reformation is another. We analyse those investments just like we analyse any other deployment of cash within the business and look at that on an ROI basis, an IRR basis and NPV basis. And our return requirements are generally relatively high for those investments. The other element of restructuring costs that we are working on right now is technology R&D. That is also subject to return requirements, but we are conscious of the need to invest over the course of time for future benefits - whether that is in terms of addressing our legacy platform, whether that is in terms of improving our customer proposition – it depends upon the particular technology investment that we are looking at. That is subject to return requirements, but with slightly different ends in mind.

So Andrew, I hope that is helpful.

Andrew Coombs
Thank you.

Question 7 – Guy Stebbings, Exane BNP
Hi good morning William, thanks for taking my questions. I have one on interest earning assets and one back on IFRS 17. On interest earning assets, it was a pretty strong third quarter, up another £5 billion, you referenced how commercial might be a little bit tougher from here, but then mortgage trends should remain fairly healthy and motor's been a bit lack lustre presumably, given some of the issues around availability of new cars, so hopefully a rebound there, and you're starting to see growth in other unsecured lines. Is there any commentary on the outlook around what you are expecting for interest earning asset growth? Consensus of £451 billion next year doesn't look overly stretched given the starting point, but any colour there would be very useful?

And then on IFRS 17, can we circle back on some of the prior comments? I guess beyond just the impact of net assumption changes, the normal new business impact you referenced, back in 2017-19, income was also distorted by the auto-enrolment rate changes which were very stable under IFRS 4 versus IFRS 17, within the workplace retirement line. I am just trying to gauge if that £400 million revenue number that you referenced, is relative to past years rather than the current run rates? I want to make sure we are applying it to the right sort of base, because we have been tracking a little bit below 2017-19 levels in workplace retirement income already. Thank you.

William Chalmers
Thanks Guy. On AIEAs, we won't give guidance looking forward, maybe just to comment on one or two historic trends. As you say, Q3 447 versus Q2 at £442 billion, that is up £5 billion on the quarter. The reason why there was a significant change during that quarter is because a lot of the mortgage growth got back ended into the end of Q2, which is I think consistent with the comments that we made then. As a result you saw a relatively sharp uptick going into Q3 because they were late in-quarter balances added in Q2.

As said, our overall profile for AIEAs during the course of 2021 is a low single digit percentage growth in the AIEAs, and the drivers behind that are ones that we have been talking about this morning. To your point about why we won't give any guidance for 2022 and what is it looking like in terms of the underlying balances? A couple of comments I would make. One is in mortgages, as you know in mortgages we are seeing both structural factors driving growth and we are seeing cyclical factors driving growth. Cyclical ones e.g. stamp duty somewhat died away at the half year. The structural ones - low rates, low unemployment, people moving to bigger spaces and so forth - those remain in place and therefore lead us to think that we will continue to see mortgage growth over the course of the coming periods. That obviously will include next year and potentially beyond.

In terms of motor, we have seen headwinds to motor over the course of this year and that has had a lot to do with, as your question pointed out, the supply side and the market there. It also at least has some impact from the business in terms of corporate appetite for overall fleet volumes and so forth, which in terms feeds through into operating lease depreciation. But the motor balances, as the motor market comes back to life a little bit, as some of the supply side constraints start to get sorted out, I would expect they would start to have an effect both upon new cars and on used cars and therefore drive balances a little bit more strongly, potentially, going forward than we have seen in recent periods. We will have to see, it is very activity dependent, but those are some of the things that are going on, beneath the headline.

Then finally unsecured, the unsecured balances in particularly cards, we saw a £0.2 billion increase in balances over the third quarter. We think that is the beginning of growth, but it is relatively early days to make that call, but we do think it is the beginning of growth and therefore we would expect that to continue in the coming quarters. Pleasingly, that growth is happening at the high end of the customer base, relatively high quality credit is building that growth, which is a good factor to see. We will see how that develops over the course of the coming periods. Again, very macro and activity dependent, but we think what we have seen in Q3 at least is the beginning of the turn.

On your second question, IFRS17, a couple of points there. Again, the factors driving the change between IFRS 4 to IFRS 17, we've talked about new business, we've talked about net assumption changes. I talked earlier about a sharp change in interest rate which changes the discount rate unwind, versus the CSM contribution. That is a further driver of difference between IFRS4 and IFRS17, and as you say in, let's say, 2016 -17 or 2017-18, we did indeed see auto-enrolment get added on, and that is favourable from an IFRS 4 perspective. I think as you look at the £400 million that we discussed in the earlier part of the conversation, I would use that as a very rough proxy for the development of the insurance earnings in the periods that we are showing on slide 14 and the years thereafter. So Guy, I won't give you a precise answer to your question, and again I would use that £400 income or net £300 million once you take account of costs, as just a rough proxy for the periods that we are showing on slide 14, and beyond.

Guy Stebbings
Okay, thank you very much.

Question 8 – Martin Leitgeb, Goldman Sachs
Good morning, just for the sake of time I will keep it short. I just wanted to ask on the outlook for mortgage pricing and the impact as we head into next year. I was just wondering if you could comment on what you have seen in the third quarter and how you see competitors acting, is this pricing at current levels still rational?

A number of peers have pointed out that the mortgage churn as we head into next year is expected to have a negative impact in the P&L, is that essentially the flip side of higher swap rates which is a benefit now on the hedge, but obviously could be a negative on the mortgage going forward? Could you help us size what the potential impact of such a churn could be for Lloyds next year? Thank you.

William Chalmers
Thanks for the question Martin. On mortgage pricing, I will actually start that off with a brief comment around volumes which have continued to be strong during the third quarter. As you saw, we had about £2.7 billion open book growth during the third quarter, that is about £15.3 billion year to date. So pretty strong volumes. That is a share of around 18 per cent versus what we saw in Q2 which was 19 per cent. So we are staying there or thereabouts in terms of share.

In answer to your question, during the third quarter we have seen completion margins of around 160 basis points, I think I mentioned that in my comments. We have seen application margins in the quarter of around 140, 1.4 per cent. With the trend in overall mortgage pricing that has been coming down since the end of the quarter, but the average for the third quarter is 1.4 per cent which, as I said, in the context of mortgage pricing coming down a little, thereafter. We are not being precise in terms of when the front book margin falls below the back book margin, but I think I have mentioned in the past that the back book margin is around 133 basis points. You can see from the numbers that I have given you that we are not far off now, and it might be reasonable to expect that turn to happen sometime during the course of the fourth quarter based on what we are seeing.

Then on the final part of your question Martin, in terms of the mortgage sensitivity, which is essentially what you are asking, we haven't given mortgage sensitivities in the past. I don't think that we are going to start now. I do think that the impact of any mortgage price change very much depends upon the timing of that price change, and that is obviously because the back book roll off goes up and down over periods of time. I also think it is relevant to say that at the same time as you see mortgage price changes, you see many other product moves at the same time. And so any pure mortgage analysis is questionable as to how meaningful it is in isolation. It needs to be viewed as part of a much bigger picture which envelopes our whole P&L and balance sheet.

Martin Leitgeb
Thank you very much.

Question 9 – Aman Rakkar, Barclays
Good morning William, good morning Charlie. A couple of questions. Can I start with costs? I guess inflation is a source of upward pressure on interest rates and positive for the top line, but I wonder is it getting harder to manage the cost base in this inflationary backdrop? Are you having to kind of run harder to stand still? Again, we don't necessarily want to pre-judge the strategy announcement in February, but I know consensus is probably looking for a slight reduction in operating costs year on year. I would be interested on your thoughts on that at all, if you are able to?

Second would be around capital, I note your Pillar 2A has come down 20 basis points in the quarter, I also note the comments in the last couple of quarters around the reduced impact of stress tests and what that might mean for the targets of the CET1 ratio. Is it right to think that we are one step closer perhaps now towards revising that target CET1

ratio down to 13 per cent? Again at the risk of pre-judging the announcement in February, is that the kind of thing that could happen in February, that this number comes down?

And then three, just one final point for clarification, basically on rate sensitivity slide 18, the £225 million, when I sit down with the spreadsheet, that number still looks quite low to me. I won't ask you to audit my spreadsheet, but if I was to take something out for the structural hedge benefit in year one, and the 50 per cent pass through that you are modelling, it does seem to imply quite a low amount of rate sensitive deposits that sit behind that number. Is there any colour or anything you could help explain what is going on there? I guess as part of that, is that 50 per cent pass-through on total deposits including current accounts, or is that just the rate sensitive deposits? Thank you.

William Chalmers
Thanks Aman. Three questions there so I will take them in turn. First of all, on the longer term cost outlook, first point to start is this year clearly. As you know, costs are and will remain an incredibly important part of our story going forward. We are committed, as Charlie said in his comments and I said in mine, to ensuring focus on efficiencies throughout the business. What that means for this year is circa £7.6 billion as we have highlighted and we continue to stick by that commitment for 2021. As we look forward into 2022, today isn't the time, obviously, to give guidance, that is really for next year. But as I said, costs will remain a source of competitive advantage to the Group. We have a very rigorous framework for looking at that - BAU, strategic initiatives - and that framework will remain in place and continue to be a source of focus.

Now having said that, just like everybody else we are subject to general inflationary pressures. Those will be in terms of people, those will be in terms of OPEX. We also are investing in new business lines, new income streams, for example Embark at the half year, also Citra, the housing project, as well as our ordinary BAU initiatives across the retail, insurance and commercial areas. And obviously those income generation activities sometimes come with costs, that will reflect that. Now having said that, we will continue to focus on efficiency throughout the business and so when we get to the strategic announcement as of February, we will obviously outline what the implications of all of that are, at that point in time. But Aman I think the takeaway from this is that obviously we experience some inflationary pressures but we remain very committed to cost discipline throughout the business and the efficiency of the business.

Your second question, Aman, on capital. As said and to reiterate really, the capital position of the bank remains very, very strong. Are we getting closer to looking at the targets again? A couple of points to make in that respect really. One is what do we think about when we set targets? What we think about, essentially, is a combination of the current regulatory requirements as well as the evolving regulatory requirements, which obviously in today's terminology, means RWAs that are coming up, means countercyclical buffer for example. But we also think about the requirements for the business, including BAU, including stress and obviously including the growth objectives of the business. What does that mean in practice? For now, we are at 12.5 plus 1 per cent, which is the capital requirement and we will continue to adhere to. It is apparent to us that as RWA intensity ticks up as it will on 1 January next year, if there is no change to economic risk, then there is no need to increase the absolute buffer as a result of that. That is then allied to your Pillar 2A point. Pillar 2A has been coming down. Now Pillar 2A is an absolute number rather than a percentage, so you need to be a bit careful about how one expresses that. Essentially, you have an increase in RWA intensity which should not necessarily lead to an increase in the absolute quantum of the buffer. You have a reduction in Pillar 2A, and therefore these are factors that we take into account alongside the difference between the regulatory requirements versus our targets. These are factors that we will take into account at the end of the year and figure out what the best capital target for the business is at the time.

And then finally your question on the rate sensitivity. The rate sensitivity is really as expressed - it is a combination of the effect of the parallel shift in yield curve plus the base rate change associated with that. Sensitivity is the effect of that upon the hedge, the effect of that upon the margin widening, if any, through the pass-through assumptions, and it is an effect upon the leads and lags within the business. I don't think it is anything much more complicated than that. The one comment that I would make is that we want to avoid double counting between those balances that are already taken account of in the hedge, versus those balances that benefit from a base rate change pass on. So as you think about the balances to which this is applied, one needs to bear in mind that there's an element of the balances within the balance sheet right now that are already hedged against, and therefore the incremental benefit from a base rate change is for those balances that are not currently hedged against. Otherwise you will end up double counting between the benefit of the hedge roll on the one hand and the benefit from the base rate change on the other hand.

Aman Rakkar
Thank you very much, that is really helpful, so that 50 per cent pass through then applies just to the rate sensitive portion, the un-hedged balances basically?

William Chalmers
That is right.

Aman Rakkar
Thank you so much.

William Chalmers
And Aman, just to add to that for the sake of clarity, effectively what we are saying therefore is that for those hedge balances, through the deployment of the hedge over the course of this year, we have locked in earnings for those hedge balances, which will then unfold over the course of 2022-23 and beyond, as that hedge gains maturity.

Aman Rakkar
Thank you very much.

END

FORWARD LOOKING STATEMENTS

This document contains certain forward-looking statements within the meaning of Section 21E of the US Securities Exchange Act of 1934, as amended, and section 27A of the US Securities Act of 1933, as amended, with respect to Lloyds Banking Group plc together with its subsidiaries (the Group) and its current goals and expectations. Statements that are not historical or current facts, including statements about the Group's or its directors' and/or management's beliefs and expectations, are forward looking statements. Words such as, without limitation, 'believes', 'achieves', 'anticipates', 'estimates', 'expects', 'targets', 'should', 'intends', 'aims', 'projects', 'plans', 'potential', 'will', 'would', 'could', 'considered', 'likely', 'may', 'seek', 'estimate', 'probability', 'goal', 'objective', 'deliver', 'endeavour', 'prospects', 'optimistic' and similar expressions or variations on these expressions are intended to identify forward looking statements. These statements concern or may affect future matters, including but not limited to: projections or expectations of the Group's future financial position, including profit attributable to shareholders, provisions, economic profit, dividends, capital structure, portfolios, net interest margin, capital ratios, liquidity, risk-weighted assets (RWAs), expenditures or any other financial items or ratios; litigation, regulatory and governmental investigations; the Group's future financial performance; the level and extent of future impairments and write-downs; the Group's ESG targets and/or commitments; statements of plans, objectives or goals of the Group or its management and other statements that are not historical fact; expectations about the impact of COVID-19; and statements of assumptions underlying such statements. By their nature, forward looking statements involve risk and uncertainty because they relate to events and depend upon circumstances that will or may occur in the future. 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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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