Q3 2021 FREQUENTLY ASKED INVESTOR QUESTIONS

How was the Group's financial performance in Q3?

- The Group delivered a solid financial performance in Q3. Statutory profit before tax for the nine months ended 30 September 2021 was £5,934 million, benefiting from continued business momentum and a net impairment credit based upon the improved macroeconomic outlook. Statutory profit after tax was £5,465 million.
- Net income performance of £11,641 million was solid, up 8 per cent on the first nine months of 2020 with stronger net interest income and other income. Net interest income of £8,270 million was up 2 per cent year on year, benefiting from average interest-earning banking asset growth and a banking net interest margin of 2.52 per cent (nine months to 30 September 2020: 2.54 per cent).
- Average interest-earning banking assets were up 2 per cent compared to the first nine months of 2020 at £443.0 billion, driven by strong growth in the open mortgage book and the impact of three quarters of government-backed lending during 2021, compared to two quarters in 2020. This was partially offset by continued optimisation in Commercial Banking, the repayment of revolving credit facilities provided to support commercial clients during the pandemic and lower average balances in credit cards and Motor Finance for the year to date.
- Other income of £3,753 million was 9 per cent higher compared to £3,449 million in the first nine months of 2020, with £1,336 million in the third quarter. Performance reflected gradually increasing customer activity, particularly strong returns in the Group's equity investment business (including Lloyds Development Capital) both in the third quarter, and the year to date, partly offset by a reduced Lex fleet size and lower levels of gilt sales.
- Total costs of £6,126 million were 5 per cent higher than in the first nine months of 2020, due to both slightly higher operating costs and a higher remediation charge in the period. The Group continues to maintain its focus on cost management, with a market-leading cost:income ratio of 52.6 per cent.
- Asset quality remains strong, with sustained low levels of new to arrears. Impairment was a net credit of £740 million, compared to a net charge of £4,119 million in the first nine months of 2020. Within this, the first nine months of the year have seen a low impairment charge of £411 million before the impact of economic outlook revisions (first nine months of 2020: £1,192 million), including £159 million in the third quarter, reflecting continued strong asset quality. The net credit in the period was significantly driven by a £1,098 million release of expected credit loss (ECL) allowances based upon improvements to the macroeconomic outlook for the UK.
- The Group's balance sheet reflects continued franchise growth. Loans and advances to customers, excluding reverse repurchase agreements, were 2 per cent higher at £450.5 billion, compared to prior year, driven by strong growth in the open mortgage book of £15.3 billion. Customer deposits, excluding repurchase agreements, have increased by £28.4 billion since the end of 2020, with continued inflows to the Group's trusted brands.
- The Group's CET1 capital ratio increased to 17.2 per cent after dividend accrual, compared to 16.2 per cent at 31 December 2020. The strong capital build of 159 basis points during the first nine months of the year largely reflected banking profitability (pre-impairment credit) of 186 basis points, with a limited impairment offset of 17 basis points.

How do you expect the Group to perform going forward?

- Building on the strengths of the Group and its achievements in recent years, there are clearly significant opportunities for Lloyds Banking Group to further develop its platforms and capabilities and grow through disciplined investment, empowering colleagues, enhancing collaboration and increasing agility across the Group. This can be built on the foundation strengths of customer service, distribution, and cost management.
- 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 modestly above 250 basis points
  - Operating costs expected to be c.£7.6 billion
  - Impairment now expected to be a net credit for the year
  - Return on tangible equity now expected to be over 10 per cent, excluding the c.2.5 percentage point benefit from tax rate changes
  - Risk-weighted assets in 2021 expected to be below £200 billion
- The Group continues to target a return on tangible equity in excess of its cost of equity in the medium-term

Are you seeing any credit deterioration given the current challenging external environment?

- Asset quality remains strong, with sustained low levels of new to arrears. Impairment was a net credit of £746 million, compared to a net charge of £4,119 million in the first nine months of 2020. The first nine months of the year have seen a low run rate impairment charge of £415 million (first nine months of 2020: £1,192 million), including £163 million in the third quarter, reflecting continued strong asset quality. The net credit in the period was significantly supported by a £1,097 million release of expected credit loss (ECL) allowances driven by improvements to the macroeconomic outlook for the UK, of which £261 million was recognised in the third quarter of 2021.
- The Group's ECL allowance reduced in the first nine months of the year by £1.6 billion to £5.2 billion, c.£1 billion higher than 2019 (31 December 2020: £6.9 billion, 31 December 2019: £4.2 billion). Observed credit performance remained robust in the period, with the flow of assets into arrears, defaults and write-offs remaining at low levels. The Group has retained the judgemental overlays that were in place at the half-year, with management judgements in respect of coronavirus of c.£1.2 billion (31 December 2020: c.£0.9 billion), including the central £400 million overlay introduced at year end, as well as c.£800 million of judgements within the underlying portfolios (31 December 2020: c.£500 million).

What initial trends have you seen since Government support schemes have come to an end?

- We believe it is still too early to tell; arrears remain relatively stable up to September but, along with forbearance and defaults levels, are expected to increase, however circumstances will vary greatly. Losses can take some time to materialise, particularly given current market liquidity, so the Group will continue to monitor these metrics carefully and to observe customer trends and indicators for early signs of distress. Some businesses will struggle to stay viable; customers may lose their jobs. Many consumers have built up cash savings, supporting robust spending recovery when restrictions were lifted. Support schemes have provided liquidity and prevented wide scale business failures.
- Repayments have initiated on government loan schemes, and whilst some customers have opted to make use of Pay As You Grow on BBLs, the proportion of customers that have decided to repay (perhaps with a view to taking PAYG at a later date) is in line with expectations.
- Asset quality remains strong with credit experience benign, as impact of support schemes, now ended, have delayed and suppressed arrears & defaults. Q3 YTD 2021 Write offs and Other of £900m have reduced YoY (Q3 YTD 2020 £1,144m). In Retail (£765m) this is due to low flows to default as a result of strong underlying portfolio performance and government support schemes, partially offset by higher fraud costs (current accounts) and lower recoveries.
- We believe resilient underlying performance as seen again in Q3 is driven by our prudent approach to risk and support for customers in financial difficulty. That said, we acknowledge that the government led support schemes for individuals and businesses, as well as restrictions on consumer spending, have played a large part. Hence we remain cautious as we enter Q4, with the furlough scheme now complete, and anticipate that unemployment will see deterioration in our underlying metrics. We continue to hold >£1bn extra ECL relative to pre-pandemic to cover anticipated elevated levels of defaults. The Group has portfolios solidly positioned and we'll do everything we can to support customers, which will help minimise the losses we ultimately incur.

How is the Group being impacted by Coronavirus?

- 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 nine months the Group has delivered a solid financial performance, with continued business momentum and balance sheet growth. We are proud of the positive impact that we have had on businesses and within communities.
- The coronavirus pandemic continues to have a significant impact on the people, businesses and communities in the UK. While we have seen 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. However, 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.
- The Group's successful ongoing transformation, continued investment and growing franchise strength position us well to recover from the pandemic. In response to the challenging economic environment, we have provided nearly 1.3 million payment holidays on mortgages, loans, credit cards and motor finance products.
- We managed to keep 96 per cent of our branches open during the coronavirus pandemic, using appropriate safeguarding measures. In addition, we have set up dedicated telephone services for the over 70s and NHS workers with 2.4m customers supported.

How are you supporting your colleagues?

- The Group remains focused on supporting our customers, whilst protecting our colleagues.
- We introduced greater choice to use our office space with purpose, and set out our plans to transition to hybrid working gradually, aligned to government guidance and based on customer, business and individual needs.
- Training and support materials were developed and shared around future ways of working, and we asked all our colleagues to have individual and team conversations to prepare for the reopening of our offices.
- We continued to prioritise the mental health of our colleagues in a period of significant uncertainty and change with regular check-ins and increasing access to a number of wellbeing tools. For example, colleagues have made use of the mindfulness app, Headspace, for which the Group provides a free annual subscription.
- Regular Group-wide communications to colleagues have continued, with experts on hand to respond to comments and questions.
- Our groupwide Colleague Survey was designed ready for October launch, to understand how our colleagues are feeling and what they are experiencing.
- We have worked with our recognised Unions in shaping our internal response to the pandemic and to plan our transition to hybrid working for a significant proportion of our colleagues.

How are you supporting your customers during this time?

- Given our purpose of Helping Britain Prosper, we are here to support our customers through this time and have continued to provide a range of supportive measures for customers who need it:
  - More than £13 billion of approved lending to businesses through Government-backed schemes, including Bounce Back Loan, Coronavirus Business Interruption Loan and Coronavirus Large Business Interruption Loan schemes
  - Supporting customers on the Government's Pay as you Grow scheme for Bounce Bank Loans, such as contacting customers to discuss their options before their first repayment is due
  - Nearly 1.3 million payment holidays granted to retail customers, to alleviate temporary financial pressures
  - 96 per cent of branches remained open through the pandemic, enabling the Group to continue to serve customers
- To support our Insurance and Wealth customers during the pandemic, we offered payment holidays on insurance premiums and accelerated claims payments on life and critical illness policies. We also supported the NHS by providing free additional insurance cover to its workers and by alleviating pressure on GPs with a reduction in medical evidence required for customers' claims.
- Beyond providing financial support, we have stood by our customers and communities, offering a range of expert support and guidance, to help alleviate the pressure of the current crisis. For example, the Group delivered a new dedicated phone line which provides guidance and remote training to customers less able to see us in branch, to help them stay connected with everyday digital activities, including online banking. Customers were contacted and able to access free and practical support to help them stay connected online.
- We are working hard to tackle social disadvantage across Britain. In 2021, the Group's independent charitable Foundations received £25.5 million of funding, following the same funding in 2020, ensuring that these charities can secure a more certain future during these difficult times and safeguard their important work. These charities tackle vital issues such as domestic abuse, mental health, modern slavery and human trafficking, and employability.
- Consistent with our purpose to Help Britain Prosper, we are focussing on Helping Britain Recover, with objectives that are fully embedded in our business. Our response is taking action in five key areas where we believe we can make a difference: 1) Help rebuild households' financial health and wellbeing, 2) Support businesses to recover, adapt and grow, 3) Expand availability of affordable and quality homes, 4) Accelerate the transition to a low carbon economy, 5) Build an inclusive society and organisation. You can read more about these key areas later in this document.

What is the Group's strategy?

- The Group is a customer focused, sustainable, efficient and low risk UK financial services leader with a clear purpose of Helping Britain Prosper. As the bank with the largest retail and commercial presence throughout the UK, we have the largest digital bank and the largest branch network in the UK, with distinctive and sustainable competitive strengths.
- 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.

- Since the start of the year 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:
  - **Meaningful progress across our Helping Britain Recover priority areas.** We have expanded the availability of affordable and quality homes with new lending of c.£12.8 billion to first-time buyers, exceeding our full year 2021 target of £10 billion. We have helped rebuild households' financial health and wellbeing through directing customers to free independent debt advice for more than 130,000 accounts (as of H1 2021). In addition, we have continued to help businesses recover, adapt and grow through supporting over 70,000 businesses in start up and helping more than 130,000 small businesses boost their digital capabilities.
  - **We are accelerating the transition to a low carbon economy**. We are expanding the funding available under our discounted green finance initiatives from £3 billion to £5 billion. 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. We have also introduced a flagship fossil fuel-free fund allowing pension savers to invest with positive environmental impact.
  - **Building the UK's preferred financial partner for personal customers**. We are building on our position as the UK's largest personal customer franchise, leveraging our unique capabilities to meet more of our customers' needs. During the first 9 months of 2021, we have achieved net open mortgage book growth of more than £15 billion. Our all channel NPS and mobile app NPS have both continued to improve in 2021 and are ahead of the targets we outlined in February. The Group generated £5 billion net new open book Assets Under Administration in Insurance and Wealth, as well as enhancing our Wealth offering through the announced acquisition of Embark Group.
  - **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 9 months of 2021, we have delivered more than 50 per cent growth in SME products originated via a digital source compared to the same period in 2020. Alongside this, we have continued to improve our ranking in core Markets areas, such as GBP rates.
  - **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 are continuing to build our data-driven organisation with more than 25 per cent increase in SME client engagement following the roll out of data-driven targeted marketing in June 2021. We have successfully migrated c.120k customer accounts to a pilot of our new bank architecture. We have further invested in our payments proposition, including an improved merchant services proposition and distribution capabilities, delivering 12 per cent new client growth in the first nine months of 2021.
  - **Reimagined ways of working**. 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 nine months of 2021, we have continued the roll out of hybrid ways of working and remain on track for an 8 per cent reduction in office space in 2021, with 5 per cent delivered so far.
- The Group is going through the process of looking at the business in detail and working on the next evolution of our strategy to deliver growth, which the Group will announce to market in Feb. Lloyds Banking Group is a strong, purpose-driven bank, with a strong stewardship mindset and proven track record of managing risk, with significant de-risking over the last decade enabling the Group to deliver growth and operating leverage in a challenging environment. The strength of the Group's customer franchise and breadth of digital banking proposition are significant competitive advantages, alongside significant balance sheet and capital strength. Given this solid model, we are exploring opportunities to: i) grow and deepen customer relationships across all businesses, looking at overall proposition, customer experience, quality of service, enhancing capability in areas like SME and retail, ii) generate further savings and invest in improving productivity through technology, and iii) enhance the Group's investor proposition, delivering sustainable, long-term returns for shareholders, whilst continuing to support all stakeholders.

What are your aspirations for the Schroders joint venture?

- We are working hard to help people save for the future and in 2019 in partnership with Schroders, we launched a new financial planning joint venture (JV) company, Schroders Personal Wealth (SPW). Our JV with Schroders has harnessed the unique strengths of two of the UK's strongest financial services businesses to create a market-leading wealth proposition with the expertise and bring financial planning to more people across the UK.

- While the pandemic has caused some delays, our ambition for Schroders Personal Wealth to become a top three UK financial planning business remains unchanged, although we now expect to achieve this by 2025.
- Our partnership with Schroders provides opportunities for the Group in two areas: Financial Planning and Wealth Management.

Financial Planning

– The Group and Schroders see significant growth opportunities in the financial planning and retirement market and the JV will aim to become a top three UK financial planning business by end of 2025.

– The Group owns 50.1 per cent of the share capital and Schroders the remaining 49.9 per cent. The JV will address the growing gap in the advice market through a personalised, advice-led proposition, backed by world-class investment expertise and best in class technology.

– The Group has transferred approximately £13 billion of assets and associated advisers from its existing Wealth Management business to the JV and there is a referral agreement in place to enable the Group's customers to benefit from this enhanced proposition.

– Schroders Personal Wealth has introduced a new proposition to tackle the £2.4 trillion protection gap in the UK and address a growing societal need. The new proposition is based on SPW's established existing relationships with Scottish Widows and Legal & General, providing life insurance, critical illness, income protection and whole of life. This forms part of a holistic financial planning service for clients.

High Net Worth Wealth Management

– Our partnership with Schroders provides the Group the opportunity to offer the specialist investment management services of Cazenove Capital to our customers who require specialist wealth management services as well to as charities and family offices, with which the Group has strong relationships via its Commercial Banking business.

How do you expect to continue reducing costs going forward?

- Total costs of £6,126 million were 5 per cent higher than in the first nine months of 2020, due to both slightly higher operating costs (up 1%) and a higher remediation charge in the period. In the context of continued stronger than expected financial performance in income and impairments, as announced at the half-year, the Group accelerated the rebuild of variable pay, which has resulted in the increase in operating costs.
- As we look forward, it is clear that we are experiencing cost inflation stemming from wage inflation, as well as from investments based on operating decisions on some of our income-generating activities.
- The Group continues to maintain its focus on cost management, with a market-leading cost:income ratio of 52.6 per cent.Lower costs give us room to invest, and we will continue to consider opportunities through the rigorous process that we have in place to prioritize investments based on resilience and impact for customers, regulatory requirements and financial returns.
- We continue to believe that we have further long-term saving opportunities, with more structural savings enabled by investments

Who are Embark? When can we expect a material contribution from Embark?

- Embark Group (Embark), is a fast growing investment and retirement platform business. Embark enhances the Group's 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. We expect our acquisition of Embark to complete once regulatory approvals have been obtained, and for Embark to make a material contribution to our Insurance business from 2022.
- 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.
- Through a combination of the Group's new capabilities and its market-leading 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.

How are you supporting communities?

- As one of the UK's largest corporate donors, we use our scale to reach millions of people and help tackle social disadvantage in communities across the UK.
- Spanning across the past 35 years, our four regional Foundations have been providing essential funding and support to charities across the UK and Channel Islands, helping communities overcome complex social issues and rebuild lives.
- In both 2020 and 2021, the Foundations received £25.5 million enabling them to support many charities. These charities are tackling issues such as domestic abuse, mental health, modern slavery and human trafficking, and employability. In 2020, a total of 2,787 charities were supported.
- In addition to adapting many of our community engagement initiatives to virtual delivery, we have responded directly to community needs through new investments. These investments included the expansion of our Mental Health and Money Advice lines, CLIC online chat services run by our Charity of the Year partner Mental Health UK (MHUK) and the provision of mobile devices through a partnership with We Are Digital.
- Our total community investment in 2020 was £51.2 million and includes our colleagues' time, direct donations, and a share of the Group's profits given annually to the Foundations.
- Further information related to how we are supporting our community initiatives can be found in the 2020 Lloyds Banking Group ESG Report available on the Group webpage.

Can you give an update on your Race Action Plan announced in response to the Black Lives Matter movement?

- At Lloyds Banking Group, we stand against discrimination in all its forms, but the Black Lives Matter movement prompted many of us to reflect, learn and think about what more we must do to drive positive change.
- Prior to the announcement of our Race Action Plan in July 2020 we had made good progress:
  - We have a comprehensive Ethnicity Strategy to help us meet our goals, which focuses on attracting and retaining talented Black, Asian and Minority Ethnic colleagues, building cultural awareness at all levels, and increasing visibility of authentic role models from a wide range of backgrounds
  - Our Race, Ethnicity and Cultural Heritage (REACH) colleague network has over 4,000 members and holds regular events to support and develop our colleagues from a Black, Asian and Minority Ethnic background
  - Since 2019 we have sponsored the Pathway to Success programme, which aims to progress talented Black, Asian and Minority Ethnic candidates into public office. And in 2014 some of our colleagues established the RISE initiative, providing work experience and apprenticeships to young people from ethnic minority backgrounds at 10 colleges across the country.
- In 2018, we were the first FTSE100 company to set public goals to increase Black, Asian and Minority Ethnic representation overall and at senior levels, which has led to positive changes, however feedback from our Black colleagues told us there was still more to do.
- In July 2020, our former Group Chief Executive, António Horta-Osório launched our Race Action Plan, which includes a new public goal to specifically increase Black representation in senior roles from 0.6 per cent at senior grades to at least 3 per cent by 2025 to align with the overall UK labour market.
- The plan aims to drive cultural change, recruitment and progression across the Group. In December 2020, we broadened our plan to go further and work beyond our own internal boundaries by actively supporting Black communities through our partnerships with Foundervine and the Black Business Network.
- We have already delivered a number of activities, including establishing a new Race Advisory Panel, made up of Black, Asian and Minority Ethnic colleagues to influence and inform our diversity strategy, delivering a series of race education sessions for all senior leaders, and publishing our Ethnicity Pay Gap report.

- We have commenced the roll-out of a wider race education programme for all colleagues, which includes nearly 10,000 colleagues enrolled to attend our new Line Manager Race Education training launched in Q1, and in September we launched our Race Education training for Senior Leaders. We have also launched our new Talent Identification Programme for our Black senior managers, and have started to review our key people processes to remove any issues of racial bias within the Group.
- In addition to our target to specifically increase Black representation in senior roles to 3 per cent by 2025, we have also in February 2021 announced our other updated diversity aspirations to increase representation of women to 50 per cent in senior roles and Black, Asian and Minority Ethnic colleagues to 13 per cent in senior roles by 2025 to align with the overall UK labour market.
- To demonstrate the importance of diversity and inclusion to Lloyds Banking Group and to ensure management delivers its commitments, the 2021 Group balanced scorecard includes a performance measure on diversity which focuses on increasing our gender and ethnic representation in senior roles.

Can you give an update on your ambitions to support the transition to a low carbon economy?

- The Group is committed to helping the UK transition to a low carbon economy. To signal our commitment we set an ambition at the start of 2020 working with customers, Government and the market to help reduce the emissions we finance by more than 50 per cent by 2030, on path to net zero by 2050 or sooner.
- In support of these ambitions and to help accelerate the transition to a low carbon economy, the Group joined the Net Zero Banking Alliance (NZBA) as one of its founding members in April 2021.
- We continue to make progress in implementing our ambitions and in doing so we are also focusing on enhancing our green finance products and services. For example, we have:
  - Released our ambition for the power sector, reducing our emissions exposure to this sector
  - Launched an online tool for our mortgage customers that provides a tailored action plan on home improvements that could make their home more sustainable
  - Introduced a flagship fossil fuel-free fund allowing pension savers to invest with positive environmental impact
  - Delivered more than £8.6 billion of total green finance since 2016 to support our customers on their transition journey (as of H1 2021).
- In early 2021, we announced Scottish Widows' target to halve the carbon footprint of its investments by 2030, reaching net zero across Scottish Widows' investment book by 2030.
  - We intend to reach this target through proactive investment in climate solutions, selective divestments and using our influence through stewardship to drive the transition to a low carbon future.
- We also continue to improve the sustainability of our own operations. In 2019 we announced achievement of our 2030 carbon emission reduction goal for our own operations, 11 years early, and exceeding our 60 per cent reduction target.
  - We have now announced three new operational climate pledges, including achieving net zero carbon operations by 2030, to accelerate our plan to tackle climate change.
  - Our progress on reducing our own operational emissions has been recognised by being ranked sixth in the Financial Times' inaugural listing of Europe's Climate Leaders in May 2021.
- To demonstrate our focus and to ensure management delivers its commitments around our journey toward delivering zero carbon operations by 2030, the Group balanced scorecard for 2021 includes a performance metric on reducing operational carbon emissions.

How are you addressing the competitive threat posed by the rise of fintechs and challenger banks and how does the development of digital currencies impact your funding model, payments business and deposits?

- Our competitive environment continues to evolve, with a wide range of competitors from more traditional players, to smaller, more digitally enabled competitors who target the most valuable revenue pools of the industry. While these competitive threats are real, we are in a strong position to compete effectively on the market, not least through a leading digital business, underpinned by our robust pan-UK focused franchise.
- However, we are not complacent about the threat posed by other players in the market and our response is evident through our Strategic Review 2021 priorities, investing in growing revenue streams such as payments, enhancing the use of data for the benefit of customers and modernising our technology architecture to create a leaner, more nimble and more efficient business. We will be able to provide further updates on our medium term ambitions in February when we present our new strategic update.

- Digital currencies are gaining traction in the market and will have a part to play in future of banking as we transition even more to digital, but they are still at an early phase of development. The Group has no appetite to participate in cryptocurrencies given higher risk, volatility, financial crime and lack of transparency.
- On CBDCs and Stablecoins, we recently responded to BoE’s discussion paper on digital forms of money and will continue to work closely to help shape regulation in the UK, as a lead clearing bank and largest digital bank in the UK. Their recent paper modelled 20% of deposits could move to digital forms of money, which will have knock on impacts on funding models and commercial lending rates.
- It is hard to predict adoption and overall impact on deposits, given the early development phase. Lloyds Banking Group have a strong deposit base; outflows to digital forms of money base would impact our funding curve.
- We continue to actively participate in understanding and modelling consumer/ business exposure and impacts on our business. We see first use cases as wholesale, and continue to explore opportunities including financial system efficiency (through blockchain or distributed ledger tech) and client benefits through faster settlement and payments.
- Despite the move to digital currencies, we believe it is still important to ensure customers have access to cash where they need it . We play a key role to ensure accessible and inclusive payments network, especially for vulnerable, non-digitally active, and cash intensive clients.

How do you expect IFRS 17 to impact profit recognition, the economic value and capital position of the Group?

- IFRS 17, an accounting standard that will be effective from 1 January 2023, impacts the phasing of profit recognition for insurance contracts. Upon implementation, the Group's insurance-related retained earnings will be restated and the reporting of insurance new business revenue within other income will be spread over time as the Group provides service to its policyholders (versus recognised up front under current accounting standards), with the quantum and timing of the impact dependent on, inter alia, the amount and mix of new business and extent of assumption changes in any given year following implementation.
- Reduction in the Group's shareholders' equity from, inter alia, the removal of value in force from the Insurance business, remeasurement of insurance liabilities and the creation of a contractual service margin (CSM) liability, is expected to drive a mid-single digit pence per share reduction in the Group's tangible net asset value.
- The cash flow and economic value generated by the Group's Insurance business does not change. There will be no impact on the Group's or the Insurance business' capital position, nor the ability of Insurance to pay dividends to Group. Following implementation, recognition of Insurance income will be more stable

Can you comment on the new sensitivity disclosure and how it will impact the Group?

- We have published a revised interest rate sensitivity analysis illustrating the cumulative impact of parallel shifts in the interest rate curve to net interest income.
- The net interest income impact from the shift is driven by structural hedge maturity reinvestment and benefit on certain deposit balances.The actual impact will also depend on the prevailing regulatory and competitive environment at the time. This sensitivity is illustrative and does not reflect new business margin implications and/or pricing actions, other than as outlined. In reality, we’d also be taking management actions, not reflected in our analysis.
- The following assumptions have been applied: Instantaneous parallel shift in GBP interest rate curve, including bank base rate; balance sheet remains constant; assumes an illustrative 50 per cent pass-through on deposits (but could be different in practice); customer deposits and interest rates floored at 0 per cent.
- Our new sensitivity analysis shows a £225m benefit from 25bps rate increase in Y1, assuming a simple 50% pass through. Given our dynamic approach, our NII sensitivity has reduced since y/e 2020 as we have invested more in the hedge YTD, hence already crystallised this theoretical benefit into real income over the next 3-5Y.

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. 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; market related risks, trends and developments; fluctuations in interest rates, inflation, exchange rates, stock markets and currencies; volatility in credit markets; any impact of the transition from IBORs to alternative reference rates; the ability to access sufficient sources of capital, liquidity and funding when required; changes to the Group’s credit ratings; the ability to derive cost savings and other benefits including, but without limitation, as a result of any acquisitions, disposals and other strategic transactions; potential changes in dividend policy; the ability to achieve strategic objectives; management and monitoring of conduct risk; exposure to counterparty risk; credit rating risk; instability in the global financial markets, including within the Eurozone, and as a result of uncertainty surrounding the exit by the UK from the European Union (EU) and the effects of the EU-UK Trade and Cooperation Agreement; political instability including as a result of any UK general election and any further possible referendum on Scottish independence; 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; natural pandemic (including but not limited to the COVID-19 pandemic) and other disasters; inadequate or failed internal or external processes or systems; acts of hostility or terrorism and responses to those acts, or other such events; geopolitical unpredictability; risks relating to sustainability and 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; 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; projected employee numbers and key person risk; the impact of competitive conditions; and exposure to legal, regulatory or competition proceedings, investigations or complaints. 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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