

LLOYDS
BANKING GROUP



LBG INSURANCE

FIXED INCOME INVESTOR PRESENTATION

October 2020





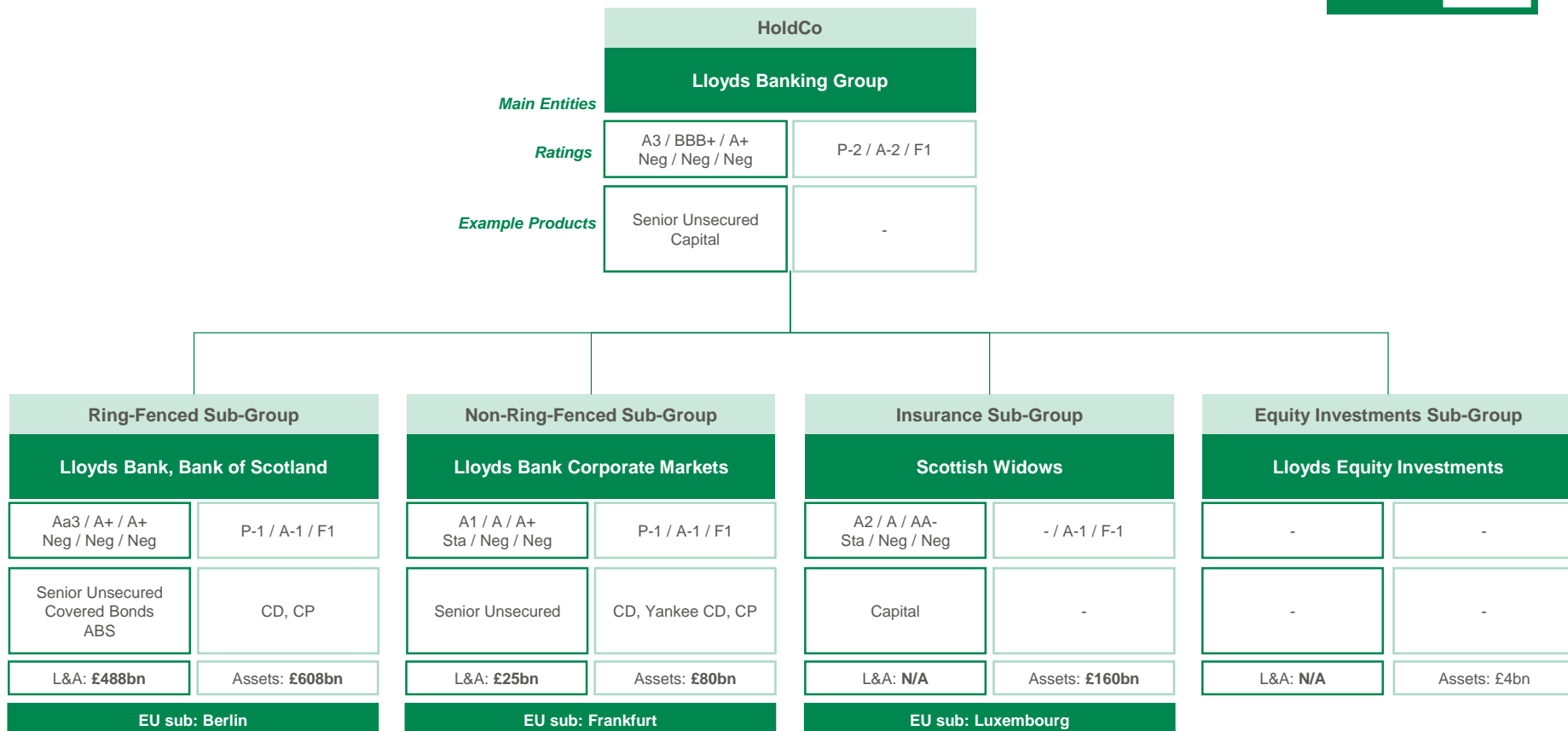
AGENDA

1. Strategy
2. Performance
3. Solvency
4. Q&A

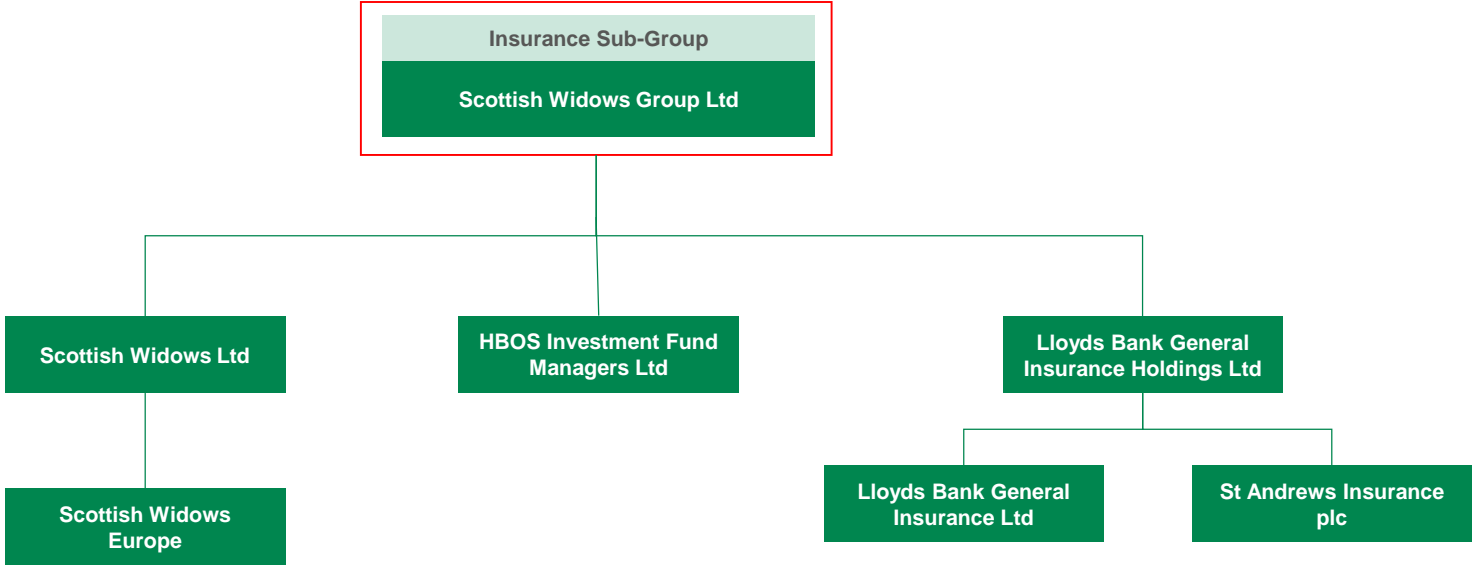
STRATEGY



Simple group structure with multiple issuance points



Simplified Insurance Group Structure



Our strategy is to Help Britain Prosper by helping our customers protect today and secure tomorrow



Group business model is unique with distinctive competitive strengths



UK's largest financial services provider

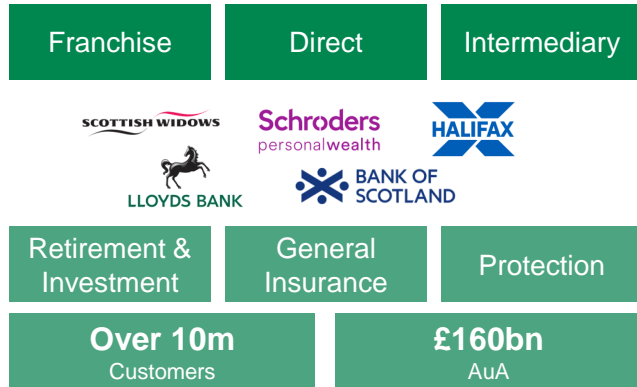
26m
customers

16.4m
Digitally active
customers - we
remain the UK's
largest digital bank

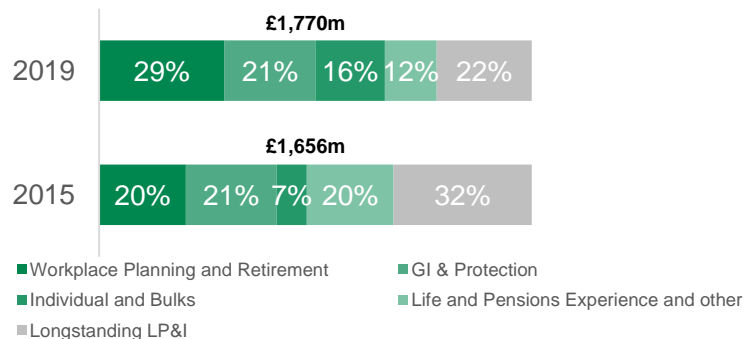
In 2019, we helped
350,000
people save for their
future



Uniquely positioned, integrated business, targeting growth in a number of attractive markets



Net income by product (%)



- Comprehensive insurance proposition, providing all financial needs in one place
 - Supported by unrivalled multi-brand and multi-channel model, including the largest UK digital bank
- Strong position in a number of markets following restructuring since 2015 and significant investment
- Clear strategy, focused on leveraging opportunities across the Group while extending digital capabilities to deliver new propositions and enhance engagement
- Provides capital synergies for Group, in addition to regular dividend upstreaming
- Well positioned for growth over medium term:
 - Full service offering across fast growing and attractive Financial Planning & Resilience markets

Significant progress since 2015, capturing growth in key markets

Market position¹ (Dec 2019)

Share Flow

New business CAGR 2015 - 2019

Share ambitions Flow

Workplace Pensions
(#2)

14.5%

 Market
+34% **+17%**

15% by 2020

Individual Annuities
(#4)

11.3%

+14% **0%**

15% by 2020

Home Insurance
(#1)

14.7%

+14% **+2%**

#1 Provider

Protection
(outside top 5)

4.4%

+45% **+5%**

Top 3 medium term

Bulk Annuities
(#6)

4.8%

+12% **+62%**

Market dependent

**Ind. Pensions &
Drawdown**
(outside top 10)

3.0%

+8% **+8%**

Increasing share

Key growth initiatives

- Wider access to Workplace pensions market supported by **single, integrated platform**
- Individual annuities **open market proposition launched H2 '19**
- **Increasing reach** through branch network and new products (e.g. landlord)
- Individual protection **platform** launching 4Q 2020
- **Equity release products** distributed through specialist advisers supporting growth of bulk annuities business
- Exploring range of options

Short term Covid-19 impacts felt across the business...

Customer Support

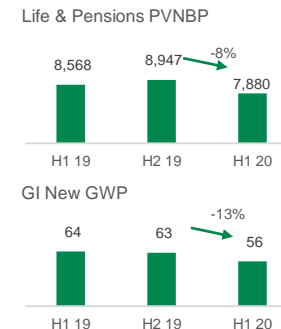
- Payment holidays on premiums and accelerated claims payments for life and critical illness
- Free additional personal belonging cover for NHS workers and reduced medical evidence requirements to alleviate pressure on GPs
- Over 3,700 laptops distributed to staff to enable them to continue to serve customer needs

Market Impacts

- Sensitivities to market movements have behaved as expected
- Negative impact of rate falls on solvency through increased SCR and Risk Margin
- Credit spread widening largely offset by Matching Adjustment
- £87m of credit downgrade capital impact on high quality £17bn annuity portfolio
 - 40% AA rated or higher; <1% sub IG
- Equity hedge provides protection

New Business

- Life & pensions up 15% if exclude auto-enrolment impact in 2019
- Individual annuity market impacted by lower rates; bulk annuity flow decreased
- GI and Protection relatively resilient but branch sales impacted



Solvency

- SWG H1 Solvency Ratio of 140%; in-line with risk appetite
- £250m dividend paid to Group in February before change in PRA guidance plus £185m special dividend related to gain on sale of assets to Schroders Personal Wealth joint venture

...but longer term, expect increased focus on unmet financial resilience

Unmet need for support in managing financial health



50%

of people feel they are **unprepared for retirement** with 61% concerned they will run out of money

63%

feel they **cannot manage and control long-term finances**

1 in 4

people will suffer an illness that limits their ability to work. **82% of UK adults have no form of critical illness cover**

Covid-19 has increased focus on gaps in long-term planning



Homogeneous desire across customer segments to manage long-term financial future in one place



Clear and **growing need for advice and guidance**; increased appetite for delivery through digital channels

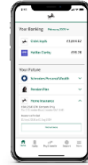


Helping people **make the most of all their assets**, up and into retirement



Greater focus on **protection and resilience** as a result of customer's crisis experience

Continued development of tech offering



<2018

- No modern tech
Digital proposition for insurance & investments
- Focus on digitising the retail bank

2018

- Digital Workplace pensions launched
- Scaled to **over 250k registered members**
- >250k people view their pension each month on the Employee Hub portal

2018 / 2019

- Engage customers as a segment of one
- ~1.5m customers view their pension each month via internet banking and over 9m via their mobile app

2020

- Scottish Widows app pilot launched with positive initial feedback
- **Biometric** log on
- Single customer authentication

2020+

- Scaling Scottish Widows app and unlocking the franchise
- Use of banking apps and internet banking to service accounts e.g. stockbroking



Raising Awareness of “future you”

Over 6m customers have access to their insurance products alongside their bank account, viewing these products 15m times a month, this was 0 in 2018



Empowering customers to make decisions

42% conversion rate within Employee Hub Pension Transfer journey.
Authenticated Pension transfer journey across all Banking Brands.
Iterative customer feedback loops has improved conversion rate (24% to 42%)



Moment of Truth/ Accessing my Pension monies

Workplace customers can access their pension monies digitally – value up to £30k. Previously a 1 hour, 2 step phone call can now be done at any time taking 2-10 mins.

Schroders Personal Wealth – aiming to become a top 3 financial planning business by end of 2023



A unique proposition...



Innovative product offering with wide range of best-in-class solutions



Schroders

Backed by trusted brands



Significant distribution footprint and digital reach

...in an attractive market

Referral channel allows for inflows from >1m LBG customers with a potential wealth advice need

Tapping into the growing mass affluent market backed by world-class investment expertise and technology

Potential inorganic expansion to accelerate growth in line with our strategic priorities

...well positioned to be Top 3

A clear ambition...



Top 3 financial planning business by end of 2023

Measuring growth across **four** areas:

Assets under administration

FY19: £14.8bn

Advisers

FY19: c.307 FTE

Net new business flow

FY19: £374m

Profitability

FY19: £6.3m¹

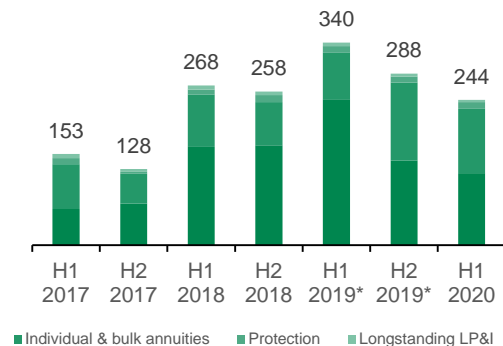
1. Profit after tax

PERFORMANCE

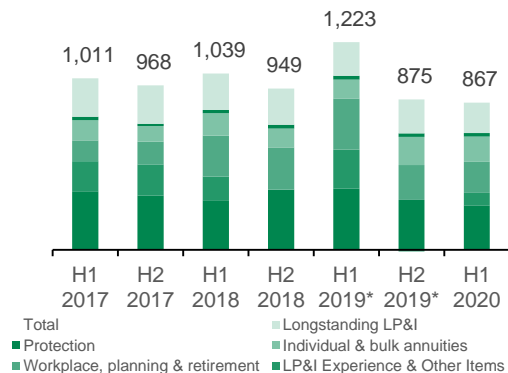


Overview of H1 2020 Financials

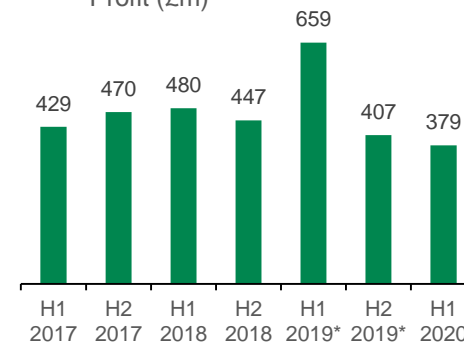
LP&I New Business Income (£m)



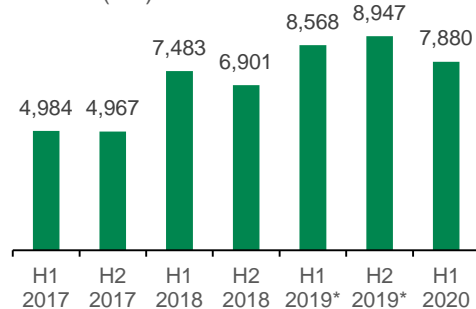
Total Underlying Income (£m)



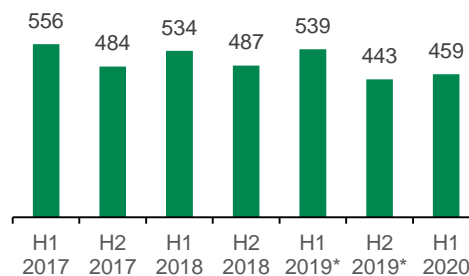
Insurance & Wealth Underlying Profit (£m)



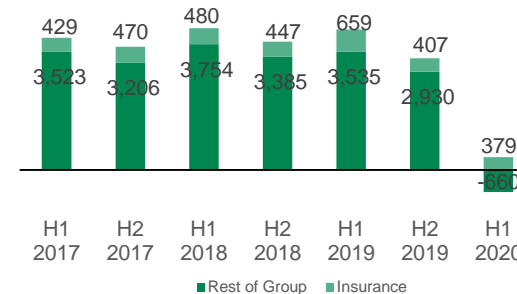
PVNB (P) (£m)



Insurance & Wealth Operating Costs (£m)



Underlying Profit (£m)



* 2019 restated to reflect the Group's adoption of the Sterling Overnight Index Average (SONIA).

SOLVENCY



Subordinated Debt Position

Scottish Widows Debt Instruments

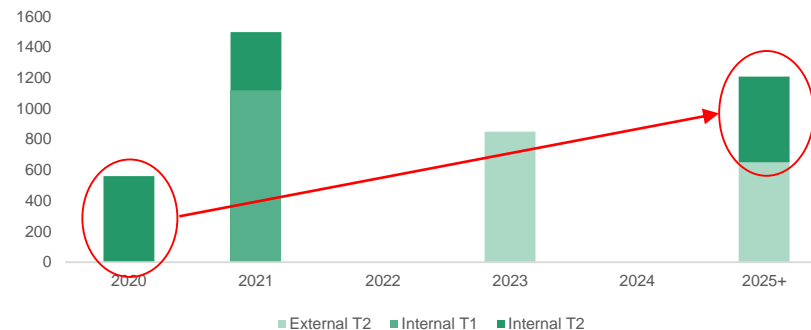
	Issuer	Tiering	Coupon	Issued	Call Date	Maturity	Notional
External	SW Ltd	Tier 2	5.5%	Apr-13	Jun-23	Jun-23	£850m
	SW Ltd	Tier 2	7.0%	Apr-13	Jun-43	Jun-43	£650m
Internal	SWG	Tier 1 ^{1,2}	L+7.75%	Jul-11	Jul-21	Perp	£595m
	SWG	Tier 1 ^{1,2}	L+5.5%	Jul-11	Jul-21	Perp	£524m
	SWG	Tier 2 ¹	L + 5.0%	Jul-11	Jul-21	Jul-41	£75m
	SWG	Tier 2 ²	L + 5.8%	Dec-16	Dec-21	Perp	£305m
	SWG	Tier 2	L+3.15%	Jun-15	Sep-20	Jun-25	£560m

¹ Grandfathered under Solvency II

² Convertible instruments

- External instruments issued mainly from Scottish Widows Ltd (post Part VII)
- Internal instruments issued by Scottish Widows Group to Lloyds Banking Group entities
- Number of debt instruments have convertible features which automatically convert to equity when solvency ratio falls

SWG Consolidated Group Subordinated Debt Profile (£m) ^(3,4)



³ Shown to 1st call date for illustrative purposes – this should not be interpreted as guidance for future intentions

⁴ Instruments classified as per Solvency II Grandfathering rules

- Stub CMF instrument called in November 2019
- 2020 internal instrument call date extended to 2025
- Continue to proactively manage relationship with investors

Solvency Position Breakdown YE19

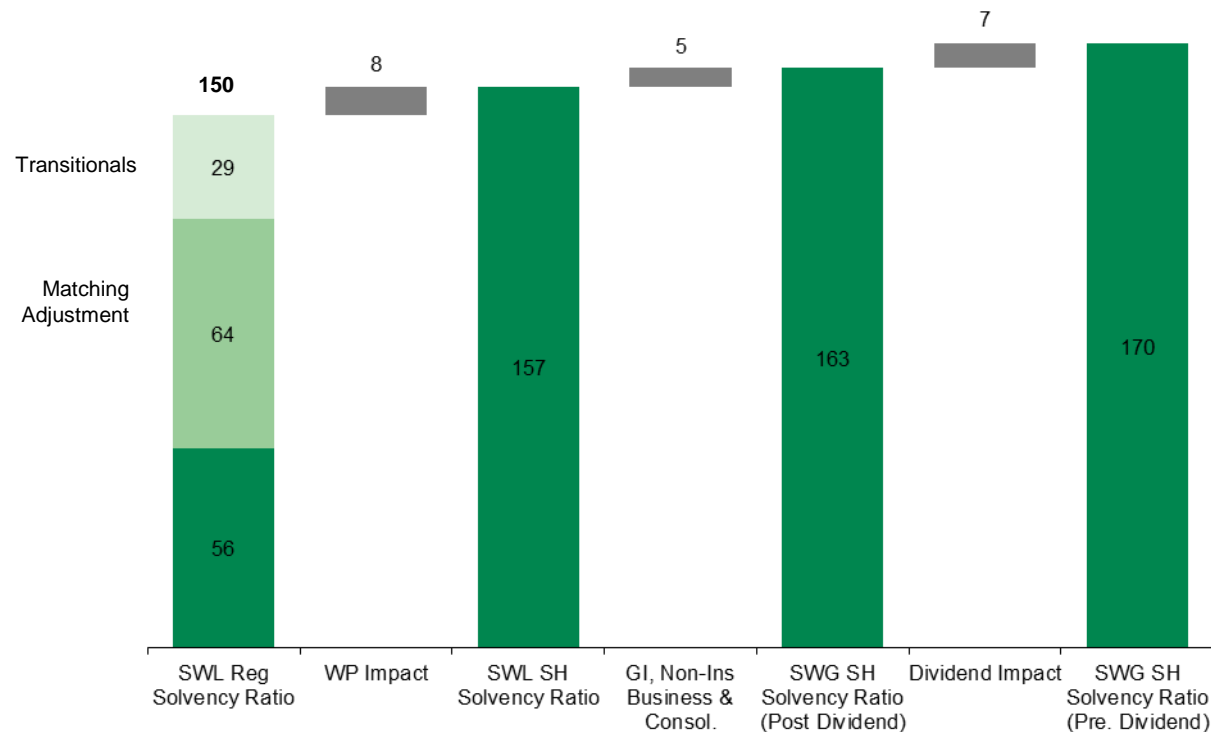


- Figures shown are for Scottish Widows Limited on a regulatory basis as shown in the SFCR
- Scottish Widows manages capital on a shareholder basis (i.e. excluding With Profits impact) at the Scottish Widows Group level:
 - 163% at YE 2019 post-dividend (170% pre dividend)
 - 140% at HY 2020 (Reduction from YE19 driven by impact of significant interest rate falls and new business strain).

Clear solvency strategy in-line with Group policy

- Risk appetite based on 1:10 event
- Group capital strategy to hold capital centrally – surplus capital typically returned to Group
- No external pressure to meet fixed payout ratio

Solvency Position Breakdown YE19



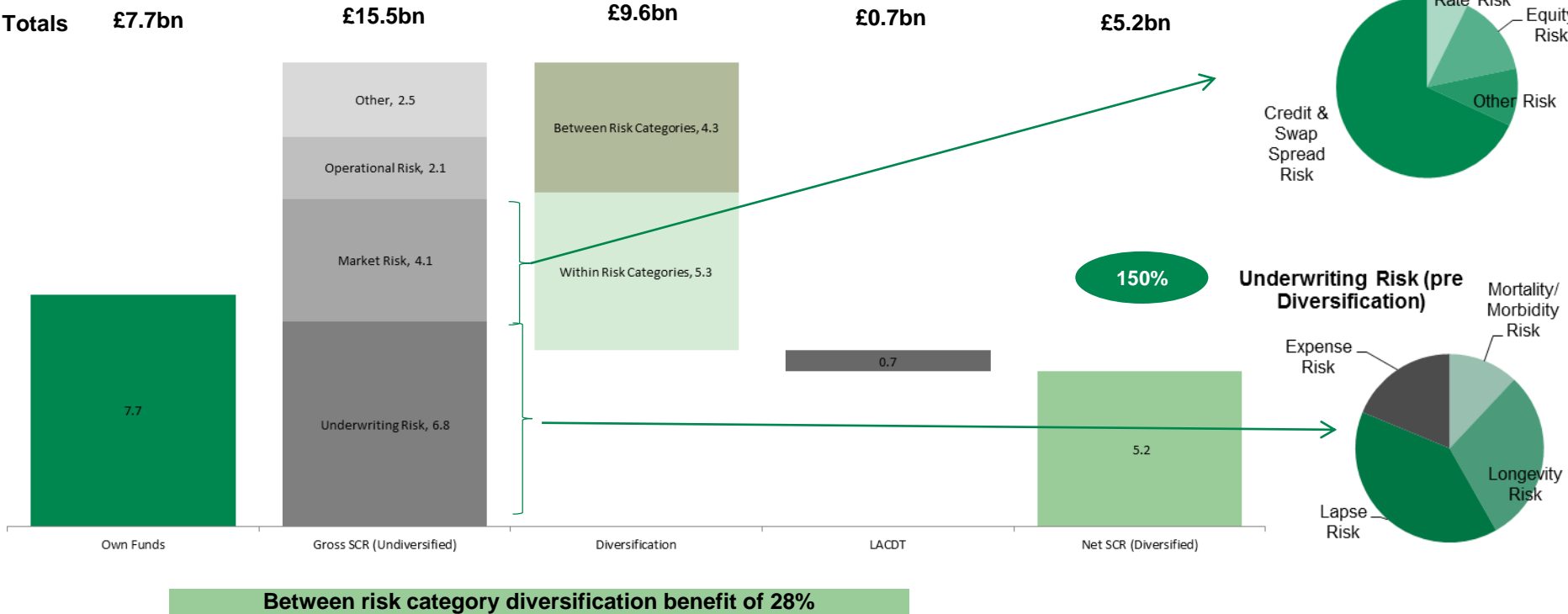
YE 2019 (£bn)	SWL	SWG
Own Funds	7.7	8.3
SCR	5.2	5.4
Regulatory Ratio (post dividend)	150%	155%

SWL Capital Generation – Capital generation over 2019 primarily from capital initiatives such as recognition of the equity hedge within the internal model calculation.

Solvency Position Breakdown



2019 Regulatory SWL Solvency Ratio Breakdown (£bn)



2018 – 2019 SWG Solvency Walk

As the predominant entity within Insurance Group, SWL's capital movements are materially consistent with SWG

£m	Eligible Own Funds	SCR
Opening balance : 31 December 2018	8,598	5,677
M & A ¹	166	101
Regulatory & other model changes ²	65	(540)
Operating impact : New business contribution ³	27	316
Expected in-force contribution	403	(179)
Assumption changes & experience variances	(11)	139
Debt costs	(275)	
Market variances	43	325
Material miscellaneous items ⁴	(56)	(486)
Other non-operating changes ⁵	(240)	
Capital management ⁶	(450)	
Closing balance : 31 December 2019	8,270	5,352

Notes

- 1) Changes in the valuation of underlying investment subsidiaries, driven by transfer of assets to Schroders Personal Wealth and acquired Zurich Financial Services business transferred by Part VII to SWL in 2019.
- 2) Impact of the PRA-approved 2019 Equity Hedge Major Model Change and other model methodology changes.
- 3) End of year impact from writing new business in 2019.
- 4) Includes recalculation of Transitional Measures on Technical Provisions and annual run-off, with-profits and GI changes and other significant one-off items.
- 5) Represents the change in Capital Tiering restrictions over 2019 and the difference between Foreseeable Dividends at YE18 and YE19.
- 6) Dividends paid in 2019.

Zurich UK Workplace acquisition

The acquisition is a key enabler to accelerate the Group's development of its financial planning and retirement business and completion of the Part VII transfer on July 1 2019, brought around £21bn of assets under administration.

Scottish Widows Europe

Scottish Widows Europe ("SWE"), was formed in 2018 to mitigate the risks arising from the UK's exit from the EU. SWE is a subsidiary of SWL and the existing European business (previously held within SWL) was transferred to SWE via an insurance business transfer scheme, under Part VII of the Financial Services and Markets Act 2000, on 29 March 2019.

Equity hedge

In November 2018, Insurance implemented a hedge of equity risk. The hedge was executed by selling equity futures and has since been rebalanced and rolled. Following regulatory approval as part of the 2019 Major Model Change, the Equity Hedge resulted in a reduction in capital requirements of £580m at year end 2019.

Joint Venture

In order to support the launch of the joint venture with Schrodgers, Scottish Widows Unit Trust Managers Limited ('SWUTM'), a subsidiary undertaking of SWL, transferred the management of £12.5bn of wealth-related assets to a subsidiary of the joint venture company, Scottish Widows Schroder Personal Wealth ACD Limited ('SPWACD'). In exchange for the transfer of the rights to manage the funds, SWUTM received £192m in cash consideration.

Market Impacts

Over 2019, interest rates fell considerably, with the 15-year EIOPA rate hitting a low of 0.51% at the end of August before rising again to 1% at the end of December. Whilst the recalculation of transitional benefits at 31 December 2019 reduced the impacts of interest rate falls, solvency ratios were adversely impacted in aggregate. Further adverse market volatility over 2020 associated with Covid-19 has resulted in further reductions in solvency ratios.

Q&A

Forward looking statements and basis of presentation



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 the business, strategy, plans and/or results of Lloyds Banking Group plc together with its subsidiaries (the Group) and its current goals and expectations relating to its future financial condition and performance. Statements that are not historical facts, including statements about the Group's or its directors' and/or management's beliefs and expectations, are forward looking statements. Words such as 'believes', 'anticipates', 'estimates', 'expects', 'intends', 'aims', 'potential', 'will', 'would', 'could', 'considered', 'likely', 'estimate' and variations of these words and similar future or conditional expressions are intended to identify forward looking statements but are not the exclusive means of identifying such statements. Examples of such forward looking statements include, but are 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; statements of plans, objectives or goals of the Group or its management including in respect of statements about the future business and economic environments in the UK and elsewhere including, but not limited to, future trends in interest rates, foreign exchange rates, credit and equity market levels and demographic developments; statements about competition, regulation, disposals and consolidation or technological developments in the financial services industry; 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 made by the Group or on its behalf include, but are not limited to: general economic and business conditions in the UK and internationally; market related trends and developments; fluctuations in interest rates, inflation, exchange rates, stock markets and currencies; 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; the ability to achieve strategic objectives; changing customer behaviour including consumer spending, saving and borrowing habits; changes to borrower or counterparty credit quality; concentration of financial exposure; management and monitoring of conduct risk; instability in the global financial markets, including Eurozone instability, instability as a result of uncertainty surrounding the exit by the UK from the European Union (EU) and as a result of such exit and the potential for other countries to exit the EU or the Eurozone and the impact of any sovereign credit rating downgrade or other sovereign financial issues; political instability including as a result of any UK general election; 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 coronavirus disease (COVID-19) outbreak) and other disasters, adverse weather and similar contingencies outside the Group's control; inadequate or failed internal or external processes or systems; acts of war, other acts of hostility, terrorist acts and responses to those acts, geopolitical, pandemic or other such events; risks relating to climate change; changes in laws, regulations, practices and accounting standards or taxation, including as a result of the exit by the UK from the EU, or a further possible referendum on Scottish independence; changes to regulatory capital or liquidity requirements and similar contingencies outside the Group's control; the policies, decisions and actions of governmental or regulatory authorities or courts in the UK, the EU, the US or elsewhere including the implementation and interpretation of key legislation and regulation together with any resulting impact on the future structure of the Group; the ability to attract and retain senior management and other employees and meet its diversity objectives; actions or omissions by the Group's directors, management or employees including industrial action; changes to the Group's post-retirement defined benefit scheme obligations; the extent of any future impairment charges or write-downs caused by, but not limited to, depressed asset valuations, market disruptions and illiquid markets; the value and effectiveness of any credit protection purchased by the Group; the inability to hedge certain risks economically; the adequacy of loss reserves; the actions of competitors, including non-bank financial services, lending companies and digital innovators and disruptive technologies; and exposure to regulatory or competition scrutiny, legal, regulatory or competition proceedings, investigations or complaints. Please refer to the latest Annual Report on Form 20-F filed by Lloyds Banking Group plc with the US Securities and Exchange Commission for a discussion of certain factors and risks together with examples of forward looking statements. Lloyds Banking Group may also make or disclose written and/or oral forward looking statements in reports filed with or furnished to the US Securities and Exchange Commission, Lloyds Banking Group annual reviews, half-year announcements, proxy statements, offering circulars, prospectuses, press releases and other written materials and in oral statements made by the directors, officers or employees of Lloyds Banking Group to third parties, including financial analysts. 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