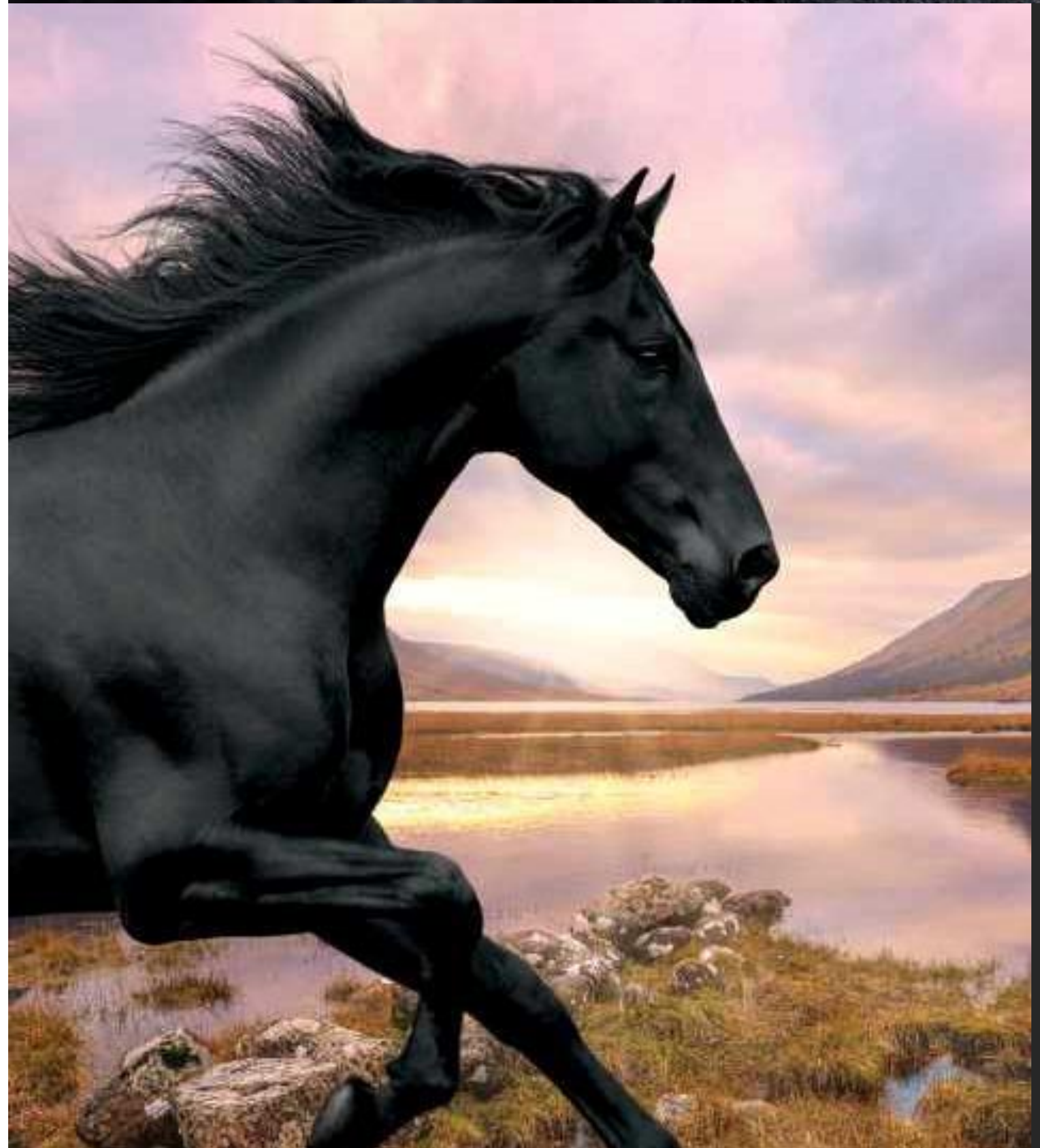
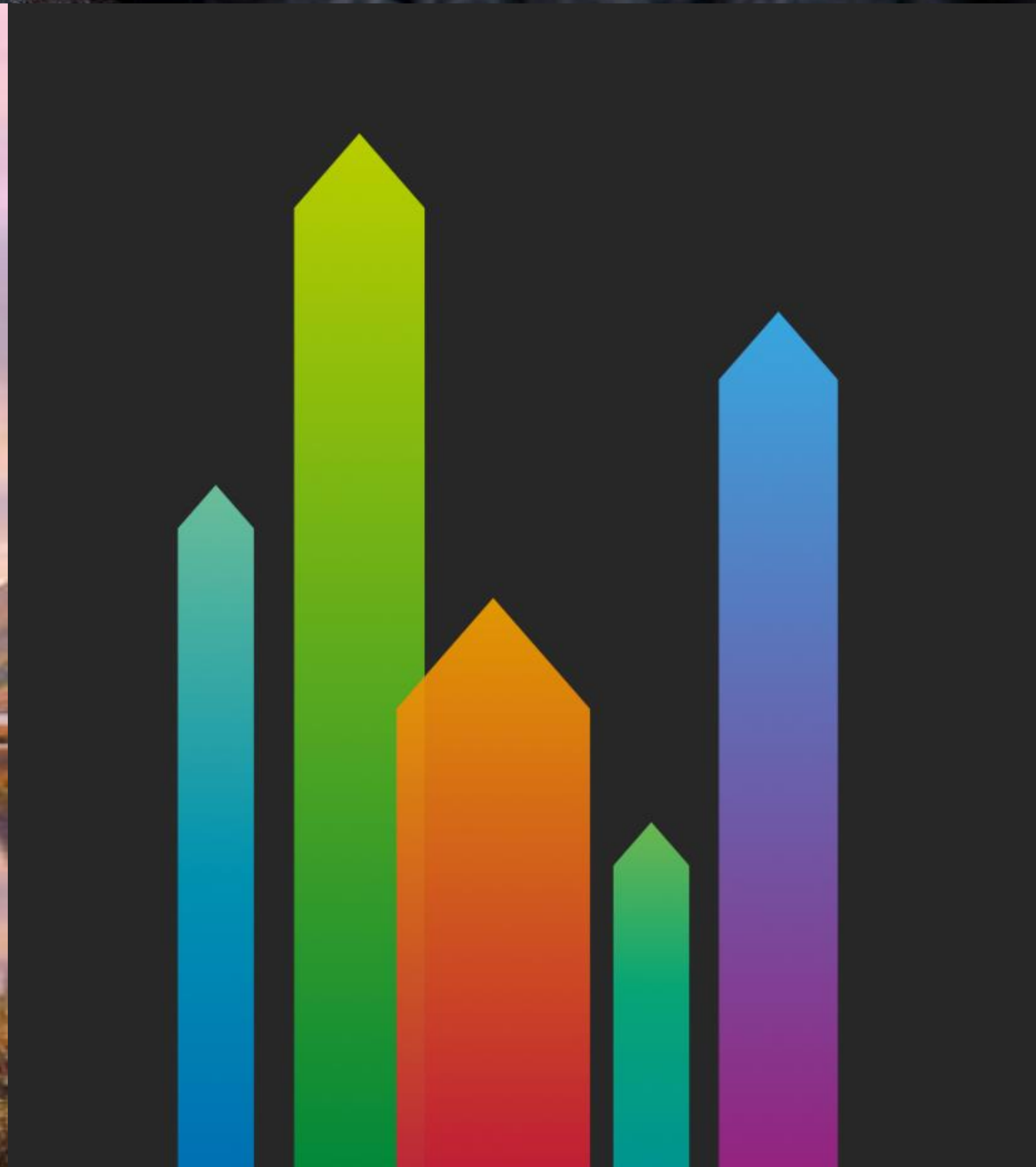
LBG Insurance

Lloyds Banking Group
17th May 2023





1. Strategy

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IP&I Strategy overview

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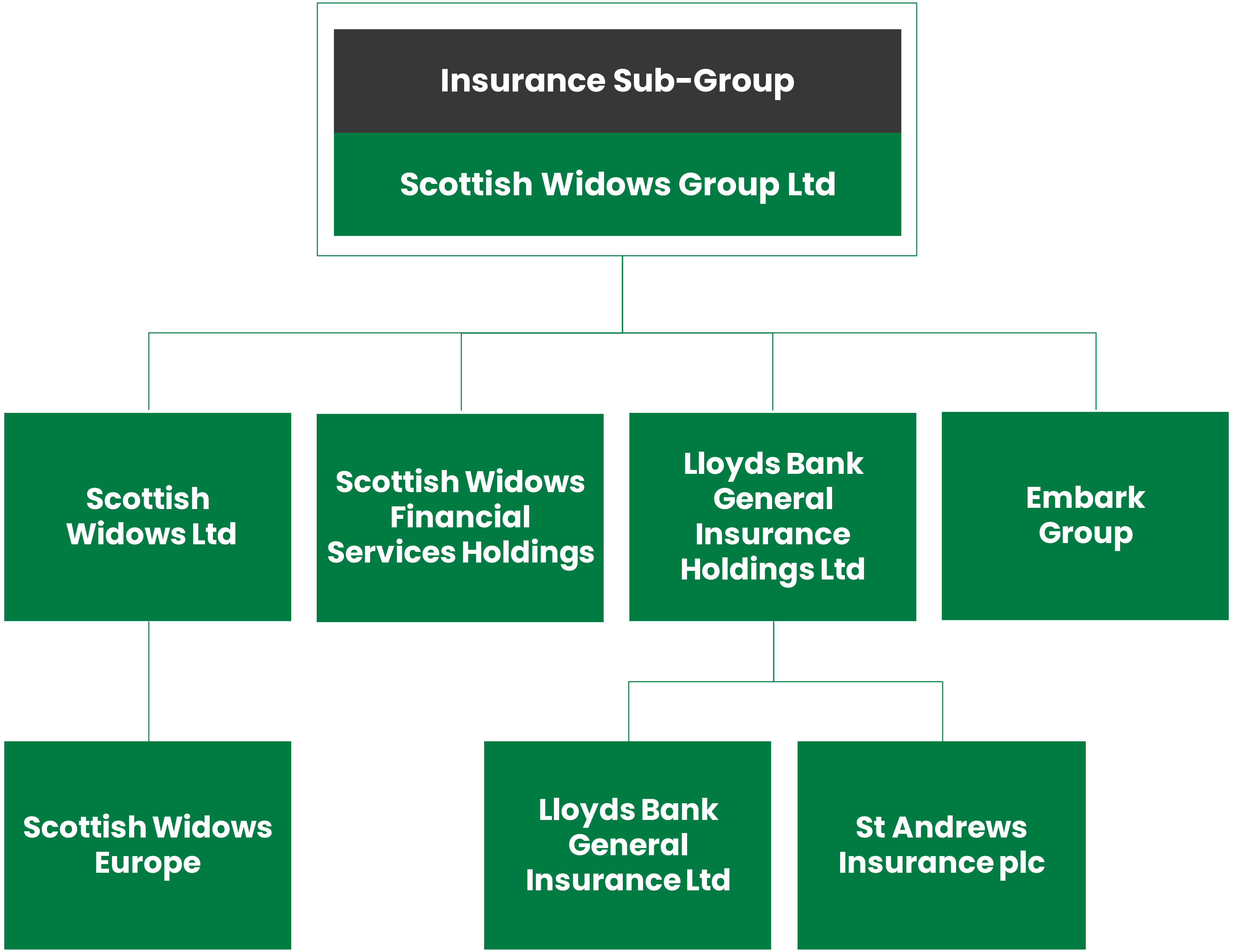
Simplified Insurance Group Structure



Lloyds Banking Group Purpose and Strategy

Our strategy serves our purpose and builds upon our participation choices

Purpose

Helping Britain Prosper

Strategic participation choices

Customer focus
UK consumers and UK-linked businesses and corporates

Product focus
Meeting all consumer and business financial needs in one place

Distribution focus
All-channel distribution, digital leadership, and trusted brands

Financial focus
Strong balance sheet efficiency and disciplined risk approach

Strategic vision

UK customer-focused digital leader and integrated financial services provider, capitalising on new opportunities, at scale

Participate at Scale in Growth Markets – Market Share

Strong momentum and clear path to leadership in our chosen markets

Market position [1] *(FY22)*	*Market Share* [2]*, FY22 (FY15)*	*2015 – 2022* [3]	Market	*Ambitions*
Individual Protection *(#8)*	5.2% *(1.2%)*	+27%	+3%	Top 3 provider, #1 in Bank market
Workplace Pensions *(#2)*	17.7% *(9.9%)*	+22%	+12%	#1 for AuA
Ind. Pensions & Drawdown *(#8)*	5.2% *(2.9%)*	+14%	+5%	Top 3 provider by 2025
Individual Annuities *(#3)*	15.6% *(6.9%)*	+10%	-2%	Maintain 15% share
Home Insurance *(#5)*	8.3% *(9.6%)*	-5%	-3%	Regain #1 Home Insurer position, FY21 12% share
Bulk Annuities *(#7)*	3.4% *(n/a)*	N/a	13%	Optimise for capital & returns

1 – Market positions based on internal estimates and analysis of various data sources including Corporate Adviser, Ipsos MORI's FRS, Lane, Clarke & Peacock report and published results.
2 – Market data sources: internal estimates of whole of market, new business flow for Corporate Pensions, Bulk Annuities, Individual Pensions & Drawdown; ABI for Individual Annuities and Individual Protection; e-Benchmarkers for Home Insurance
3 – New business flow CAGR

Participate at Scale in Growth Markets - Societal Needs

LLOYDS BANKING GROUP

UK societal needs (selected)

1 in 4 people will suffer an illness that limits their ability to work (2.5m currently economically inactive due to long-term sickness)

60% of UK adults have no form of life insurance and only 12% have critical illness cover. 34% of respondents said they could not afford such cover

29% of non-retirees aged 45 and over expect the state pension (£185 per week) to be their main source of income during retirement

1 in 2 UK adults have low confidence in managing their money and making decisions about financial services and products

The average UK homes has **£35k** of contents, but **25%** of households have no cover and only **30%** of renters have contents cover

6 in 10 UK adults have no investments

1 in 3 UK adults have less than £1000 of savings

Sources: UK Gov., YouGov, FCA Financial Lives Survey, MAPS, ABI, FCA

Insurance alignment with growth drivers

	Growth drivers	Insurance capabilities
Advice Gap	- Post-RDR reduction in supply - Greater complexity / choice - Aging IFA population	✓ Ethical data-driven, personalised nudges, guidance & tools ✓ Financial concierge service [1] ✓ Robo / hybrid advice [1]
Savings Gap	- Sub inflation returns on cash - Higher housing costs - Insufficient savings rate, (despite auto-enrolment)	✓ Workplace, adviser & direct investment platforms ✓ Full range of investment solutions and tax wrappers ✓ Integration with cash savings
Aging Population	- Life expectancy & morbidity - Intergenerational transfers - Reliance on property wealth	✓ Pension consolidation & SCV ✓ Drawdown, annuities, lifetime mortgages ✓ Inheritance planning & trusts via Mass Affluent
Financial Resilience	- Cost of living challenges - Climate change and extreme weather	✓ Online/ branch financial health check [1] ✓ Protection & home insurance ✓ Savings & investments
UK Investment	- Levelling up, Net Zero commitments, private sector rental accommodation	✓ Bulk annuities ✓ Shareholder investments in UK real economy ✓ ESG and responsible investing

1. Proposed capabilities, which may be developed by, or in conjunction with the Group's Mass Affluent proposition

Insurance Purpose & Strategy

We continue to enhance and embed responsible investment activities throughout the business

Our Six Principles of Responsible Investment

1. We will be a responsible investor. We will strive to Protect our investments from material ESG-related risks and seek to capitalise on ESG-related opportunities

2. To help us manage downside risk, we will take a position on the companies we will not support and will implement exclusions throughout funds managed or mandated by us

3. We will aim to reduce the carbon intensity of our whole portfolio to 50% by 2030 and achieve net zero by 2050

4. We will aim to offer an industry-leading fund range to our customers to help support causes that are close to their hearts whilst growing their savings for the future

5. We will seek to extend our responsible investment principles into all asset classes over time

6. We will work with policymakers and industry participants to promote private market investment opportunities required to successfully transition to a lower carbon economy

Our Targets

2025
Increase investment in companies adapting their businesses to be less carbon-intensive and developing climate solutions

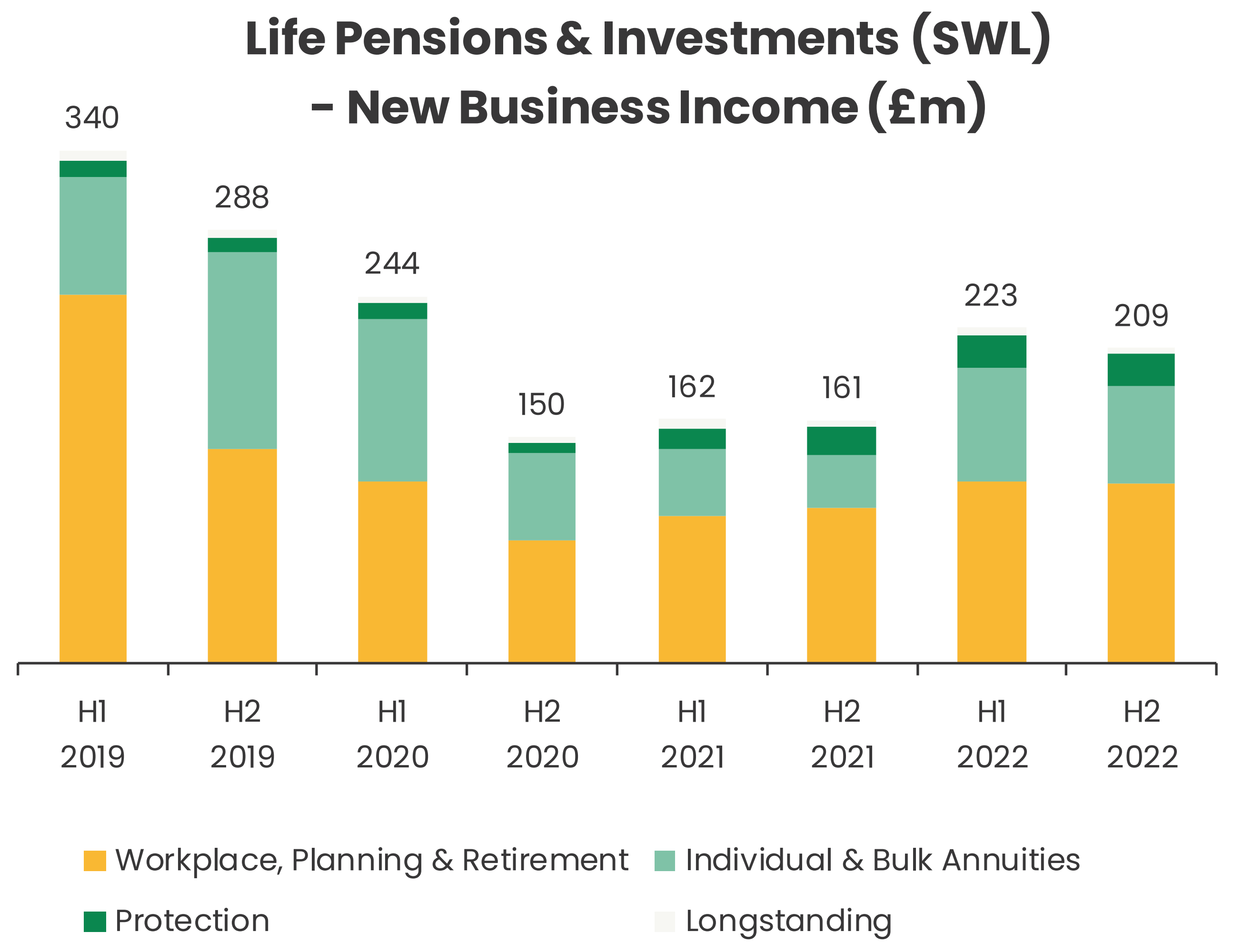
2030
Halve the carbon footprint of our investments

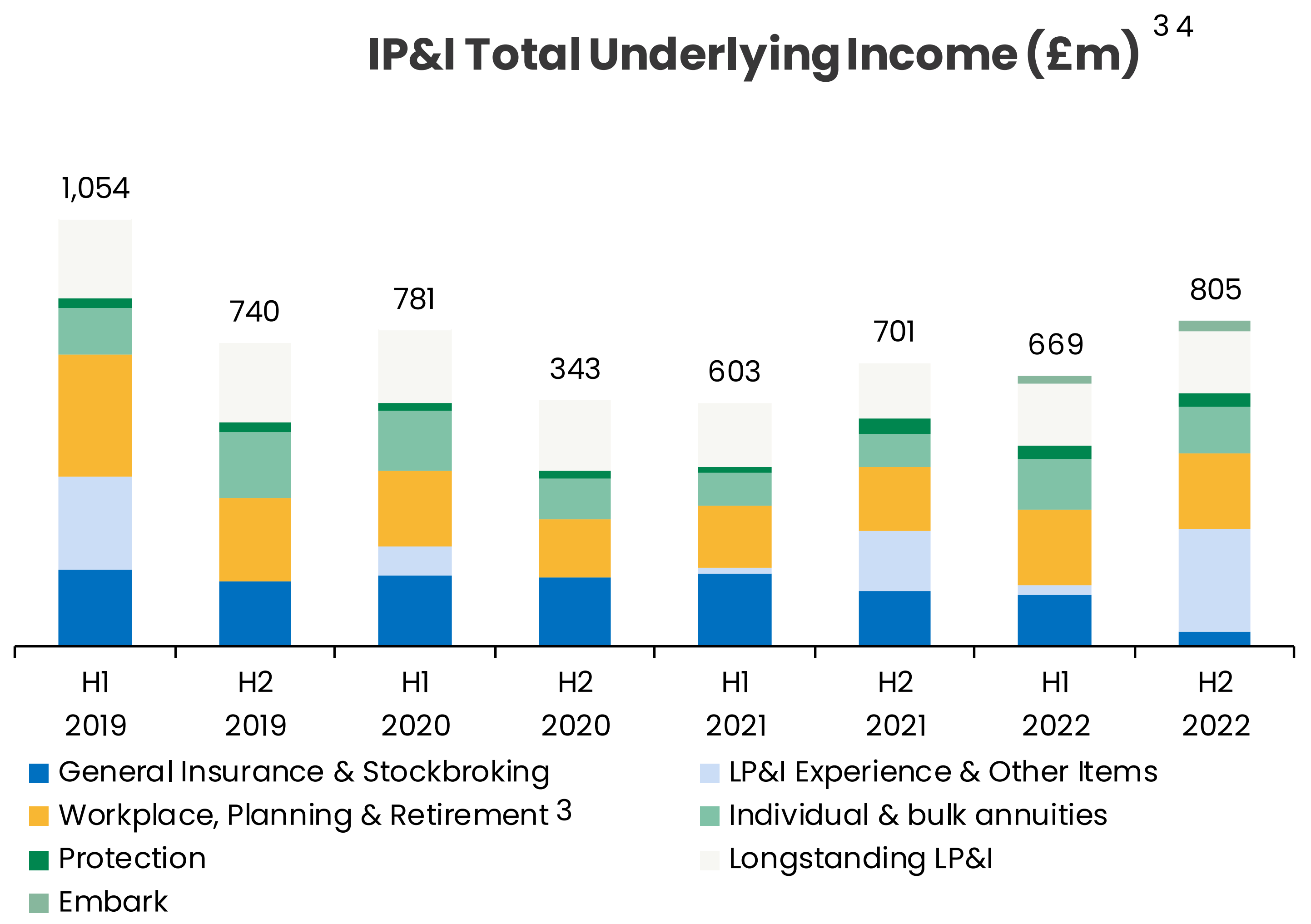
2050
Target of net zero across the entirety of Scottish Widows' investments

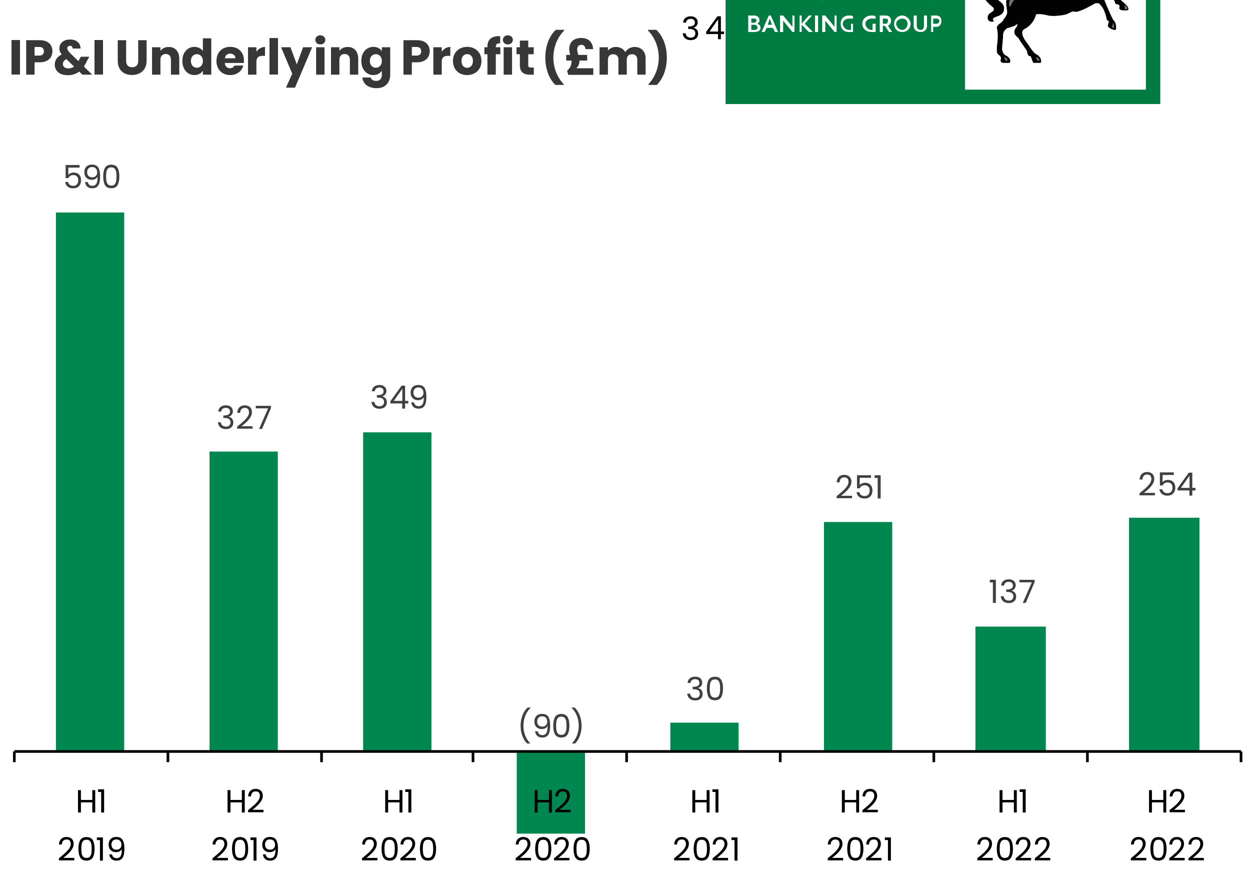
Performance

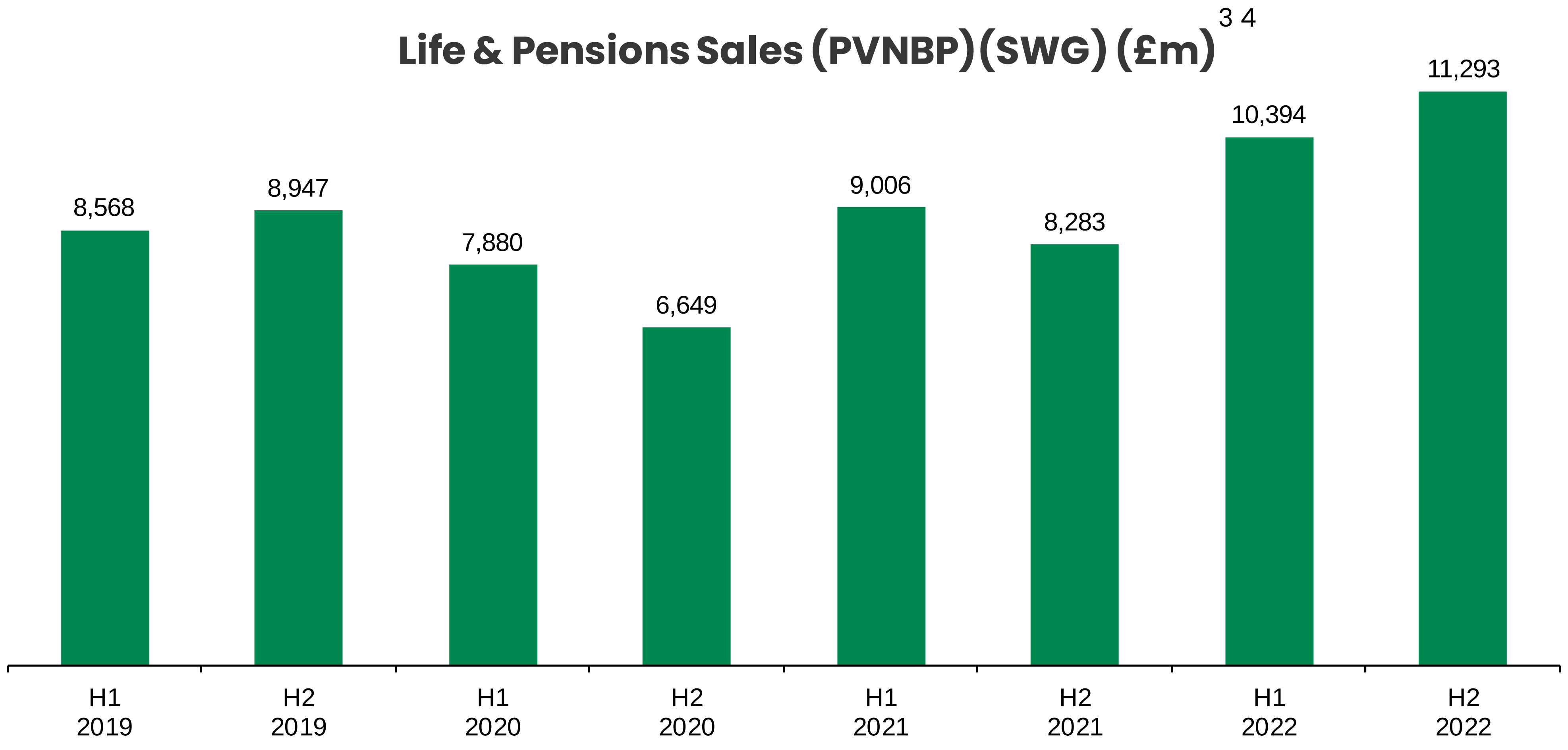
Lloyds Banking Group
17th May 2023

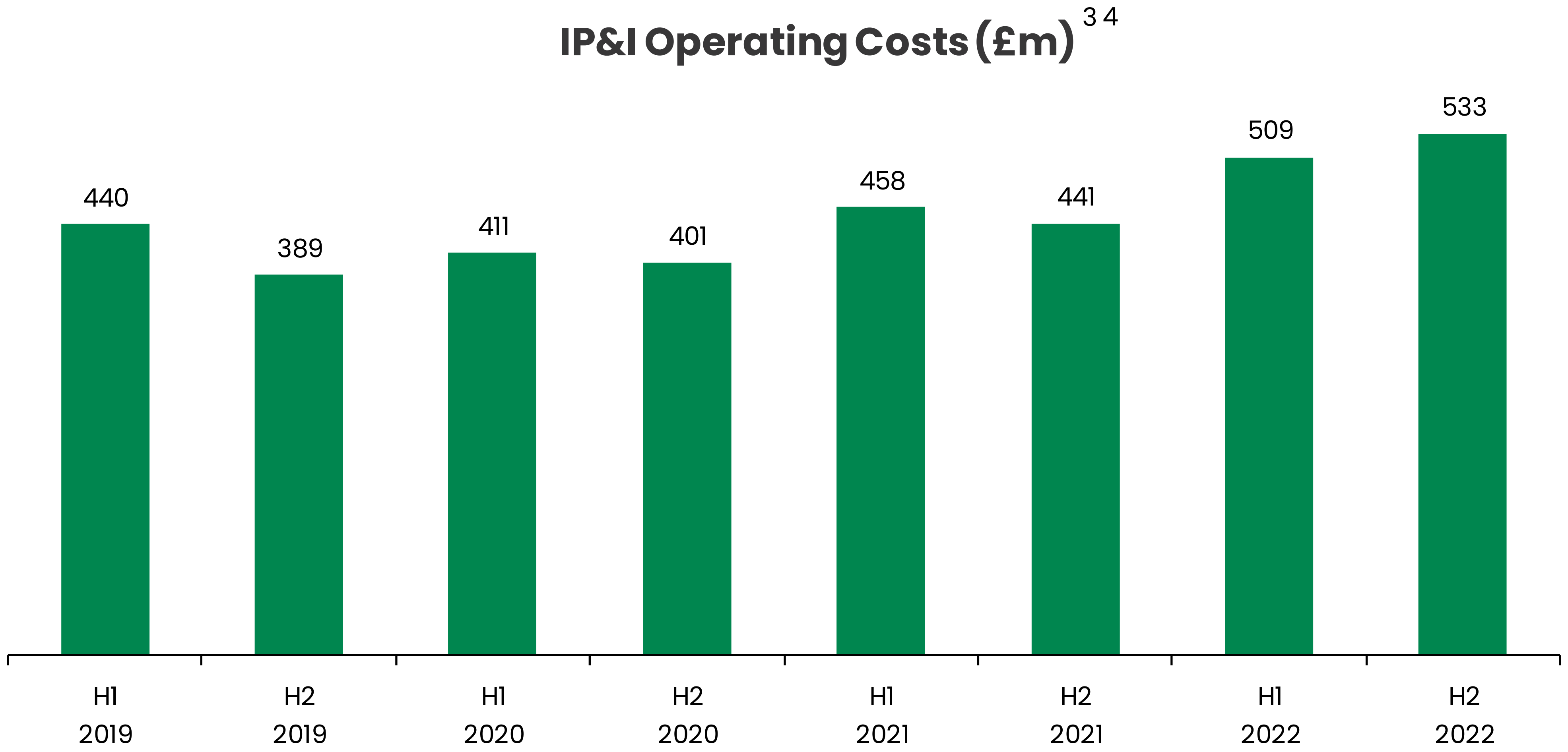
Overview of 2019–2022 Financials (IFRS4)









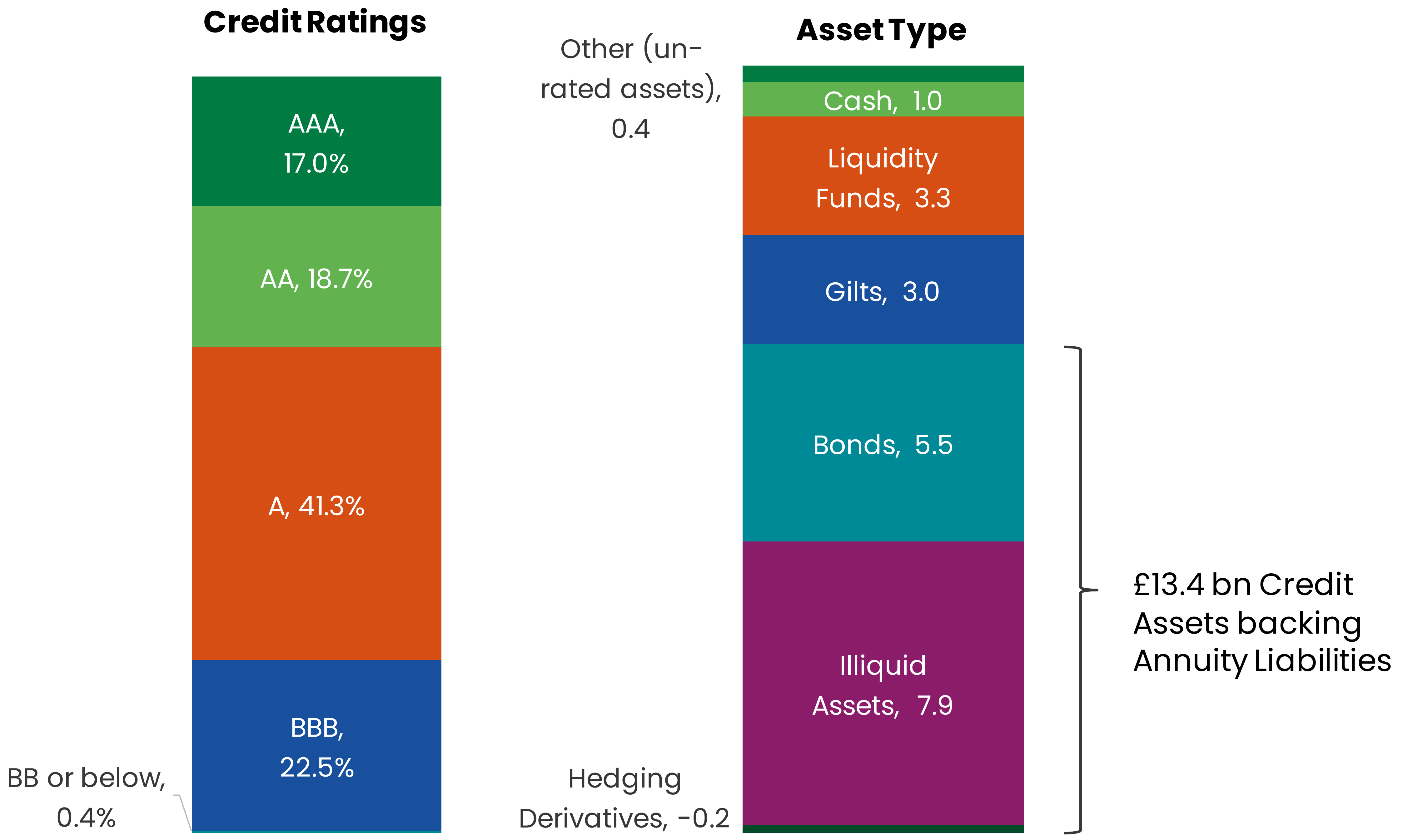


1 – Figures for H1 2019 – H2 2021 have been updated to reflect the new Organisation structure (removal of SPW and Private Banking).
2 – 2021 comparatives have been presented to reflect the new cost basis, consistent with the current period
3 – GI business is outside of SWL Group, but within SWG Group of companies. Stockbroking is included in divisional results but outside of the SWG group of companies
4 – Includes Embark Group post acquisition (2022)

Shareholder Assets

High quality, diversified UK focused portfolio

Shareholder portfolio £21.1bn



- **High quality portfolio; 75% A or better**
- **UK focused – 70% of portfolio invested in UK**
- **Portfolio well spread across sector and counterparty, with single largest exposure being c1%**
- **Illiquid assets average rating has been stable A-; 99% invested with UK borrowers**
- **Bond Portfolio average rating A**
- **Credit rating analysis excludes £0.4bn un-rated assets – consisting of other fund investments, pre-securitisation lifetime mortgages and post-securitisation junior notes**

Data as at 31 March 2023

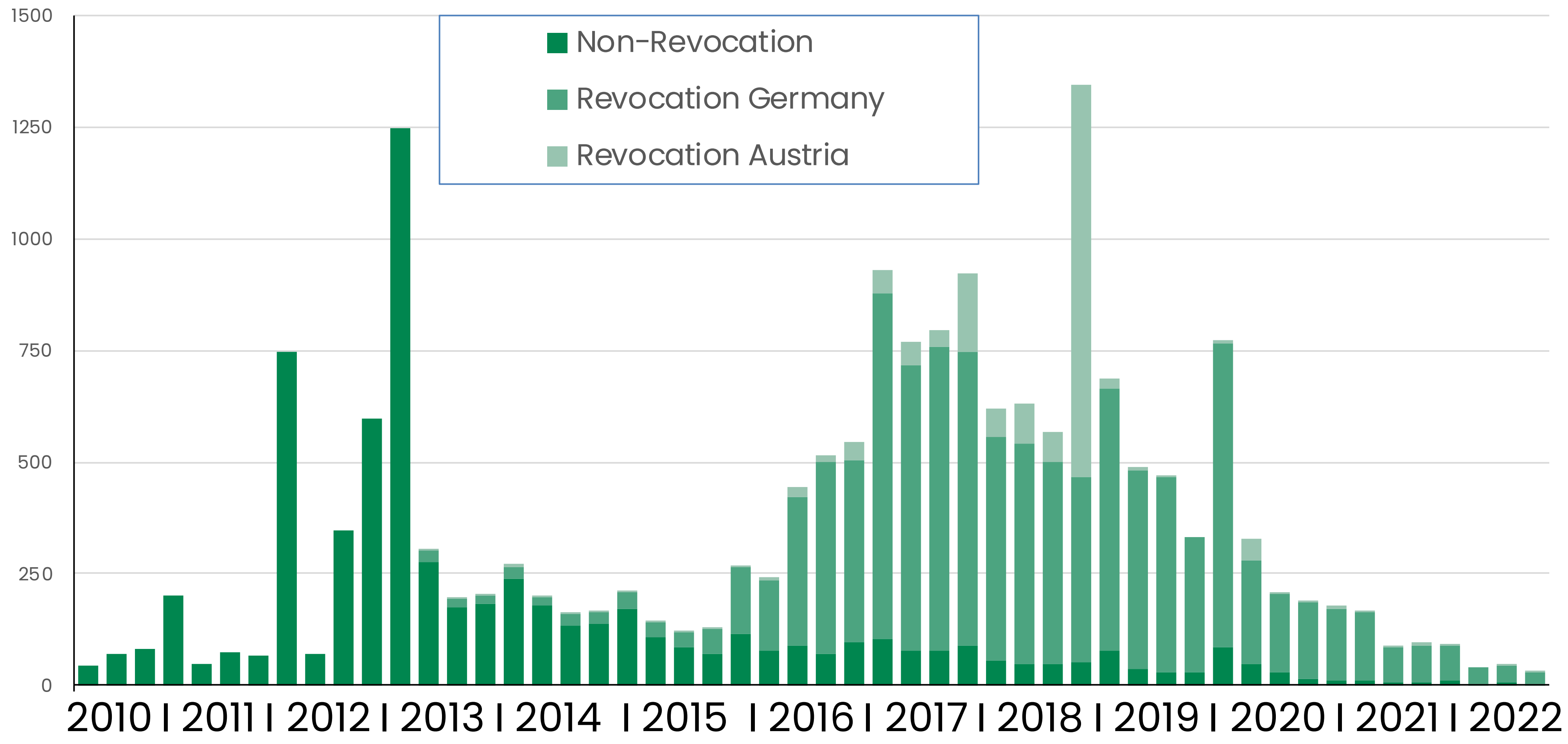
German Litigation Update

New claim volumes are reducing over the longer term

Provisions

Basis	Settled	Remaining	Total
YE 2022 Best Estimate IFRS	£620m	£88m	£708m

New Claims by Quarter



Year of claim	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Ave. Settlement (€k)	148	81	58	50	40	17	16	16	18	20	23	25

- Volumes for the more expensive non-revocation claims continue to decline, having peaked in 2012
- German revocation claim volumes have largely been declining since 2017. New complaint volumes are now at historically low levels
- The Austrian law has changed from August 2022 to allow a higher amount to be paid on revocation. However we have received virtually no new claims since this law change
- Average settlement amounts vary between periods and there is no systemic trend
- We have retained a capital add-on for this risk of c.£0.4bn pending the implications of a new EU collective action procedure due to be implemented by HY 2023

IFRS 17 – Income spread over contract life; no change to economic value

	IFRS 4	IFRS 17
New business profit	Expected profit recognised on day 1 in income	Day 1 P&L impact deferred on balance sheet and spread over contract life through CSM release
Assumption changes	Recognised immediately in income	Day 1 P&L impact deferred on balance sheet and spread over contract life through CSM release
Value in Force	VIF asset on Group balance sheet	No VIF asset – CSM held on balance sheet as a liability
Acquisition costs	Recognised immediately in costs	Deferred on balance sheet and spread over contract life through CSM release, alongside related income
Market related volatility	Taken in the period	Some volatility spread through CSM (unit linked)
Equity	Net reduction in shareholders' equity as prior periods' earnings restated on IFRS 17 basis with IFRS 4 past earnings derecognised and recognised as CSM	

2022 net income (£m)	IFRS 4	IFRS 17
New business	425	largely deferred to CSM
Assumption changes	348	
Investment return uplift > risk free rate	68	
Other (incl experience variances)	61	
CSM and RA release 2022	n/a	319

Net 2022 reduction in income £583m, partly offset by lower costs; excluding significant assumption change benefit in 2022 implies future net income impact c.£300-400m

IFRS 17 – Key messages for IP&I division

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Overview

- **IFRS 17 does not impact the economic value of the Insurance business** or the total profit recognised over the lifetime of any insurance contract. The move to IFRS 17 is an accounting change impacting the phasing of profit recognition on insurance contracts
- Implementation 1 January 2023. Transition Document issued 4 April 2023 (first in UK)
- Under IFRS 17, insurance contract profit is recognised over the lifetime of the contract rather than substantially at inception, as was the case under IFRS 4. Deferred profit is recognised within the Contractual Service Margin (CSM) included on the balance sheet. CSM is released as insurance contract services are provided. In addition, the Risk Adjustment is released as uncertainty within the calculation of the liabilities diminishes

Balance sheet and capital

- The CSM and Risk Adjustment was £5,108 million, net of reinsurance, as at 31 December 2022 . This will provide a more stable, predictable earnings stream over time. This includes the impact from contract modifications in relation to workplace pensions business (£1,331m uplift to CSM in FY22)
- **No impact on the Insurance capital position and generation**, nor Insurance dividends to Group. Within the Insurance business, Solvency II position is unchanged and all cash flows are unaffected

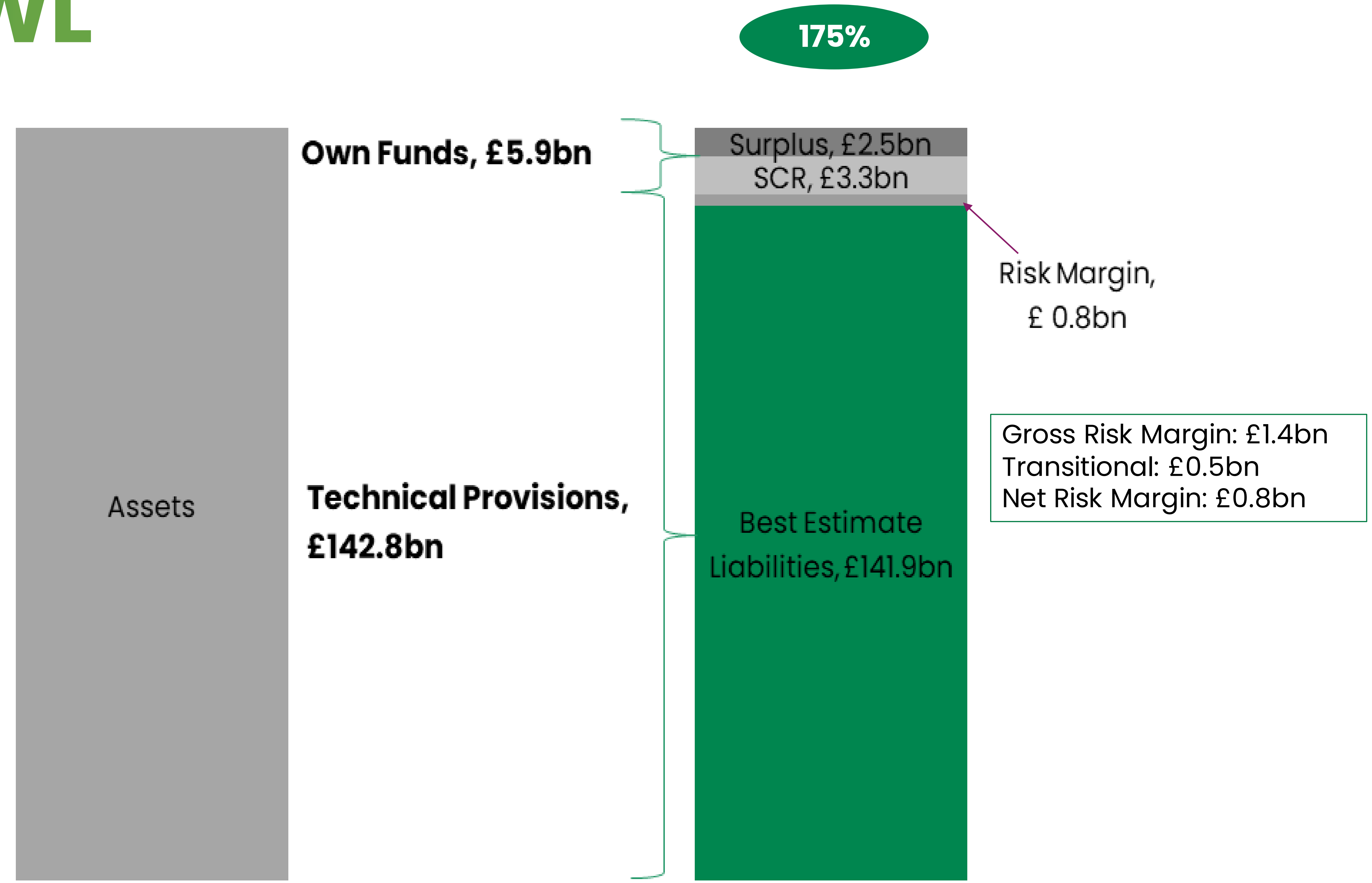
Profit & loss

- IFRS 17 will have **no impact on the Insurance business financial results over the longer-term although near-term reported other income is expected to be lower**. Significant impacts on phasing of income for life, protection and pensions business; general insurance impacts are minimal
- 2022 underlying profit reduced under IFRS 17 by £453m – decrease in other income of £616m given deferral of new business profits and assumptions changes to CSM, offset by deferral of acquisition expenses of £163 to CSM
- Impact of contract modifications on workplace pensions business leads to an income statement charge of £1,242m (recognised 'below the line'), with associated uplift to CSM of £1,330m, to be spread over future periods
- FY22 results on IFRS 17 basis - £62m underlying loss, given adverse impacts from weather related claims, GI pricing following the FCA consumer review and increase in operating costs (due to temporary strategic investment and new Embark BAU costs)
- CSM and Risk Adjustment release was £319m in FY22 (from combined CSM and risk adjustment balance of £3,419m at 1 January 2022). At 31 December 2022 the higher CSM and Risk Adjustment means the release into the income statement during 2023 will be higher than 2022

Solvency

Lloyds Banking Group
17th May 2023

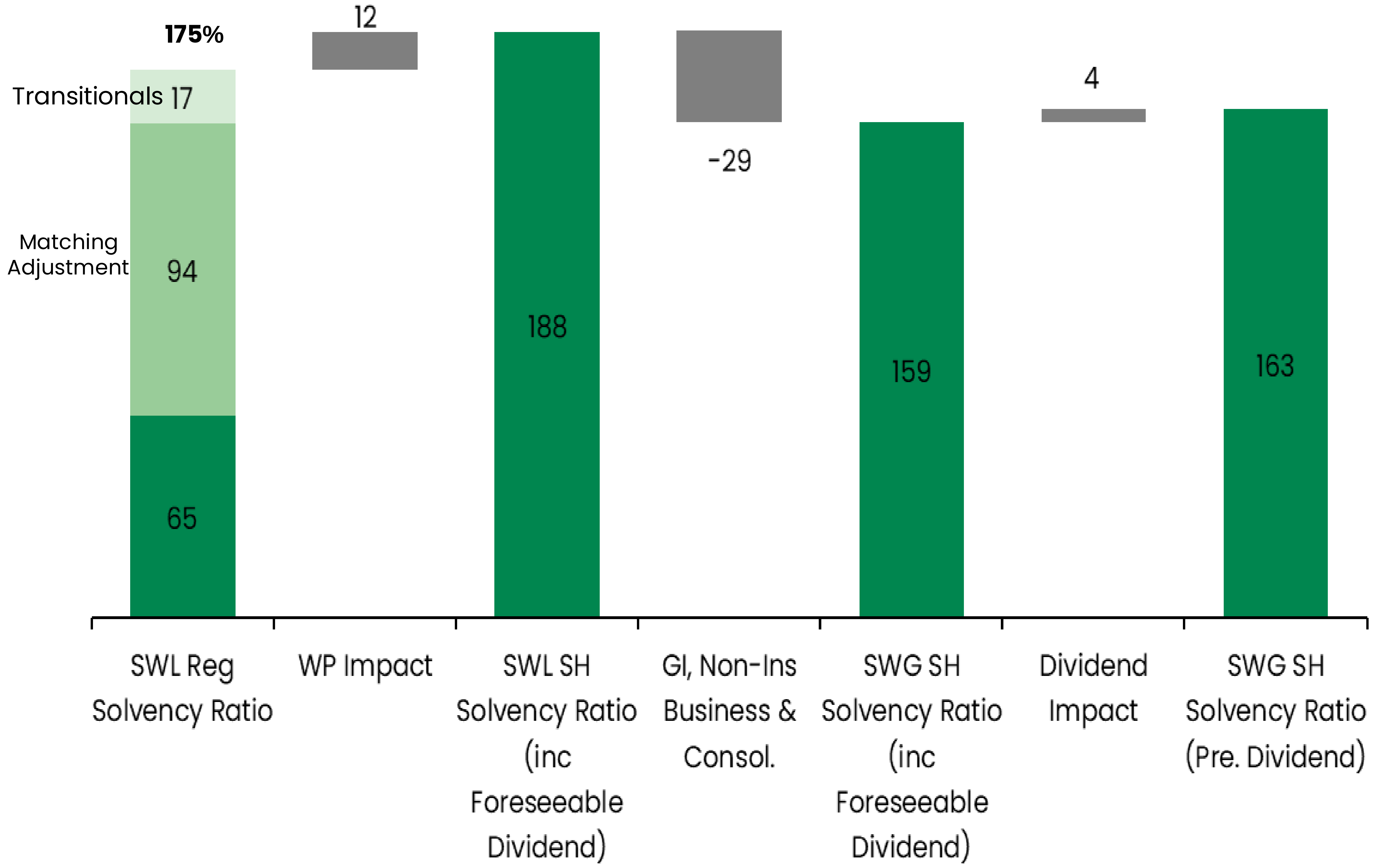
Solvency Position Breakdown YE 2022 – SWL



- Figures shown are for Scottish Widows Limited (SWL) on a regulatory basis – consistent with annual SFCR disclosures
- Scottish Widows manages capital on a shareholder basis (i.e. excluding With Profits impact). Equivalent SWL shareholder solvency ratio of 191% (post dividend of 188%)
- The market volatility in 2022, particularly the rise in long term interest rates materially increased the amount of excess capital available in both SWL and SWG
- The Solvency position of the Insurance Group and subsidiaries was therefore sufficient to pay a dividend of £100m in February 2023, following a £300m dividend in July 2022, to Lloyds Banking Group. The position shown on the left is after these foreseeable dividends

Source: Scottish Widows Group Solvency & Financial Condition Report 2022

Solvency Position Breakdown YE 2022 – SWL to SWG



YE 2022 (£bn)	SWL	SWG
Own Funds	5.9	5.5
SCR	3.3	3.6
Regulatory Ratio*	175%	152%
Shareholder Ratio	191%	163%

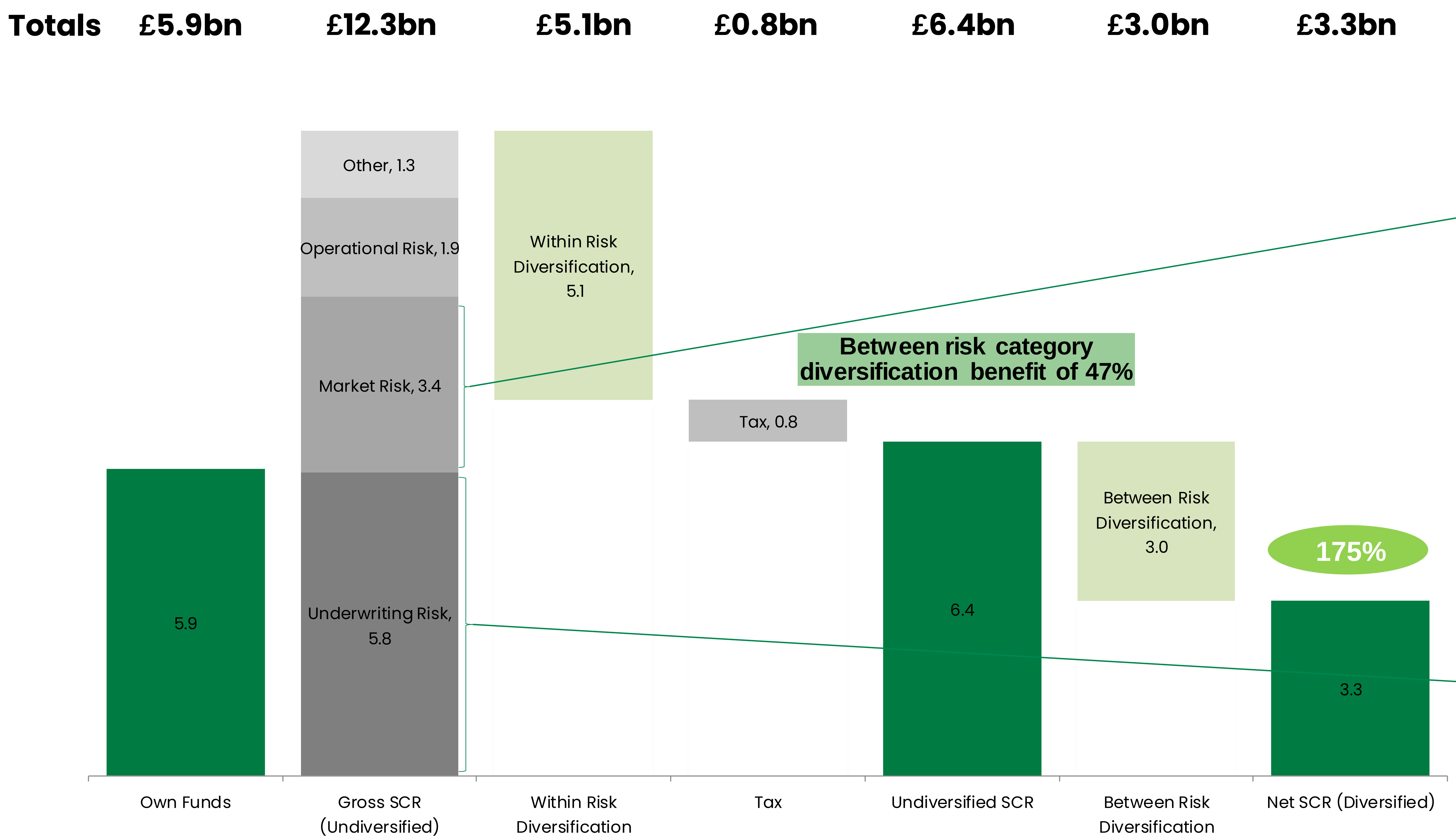
*includes foreseeable dividends paid in Q1 2023

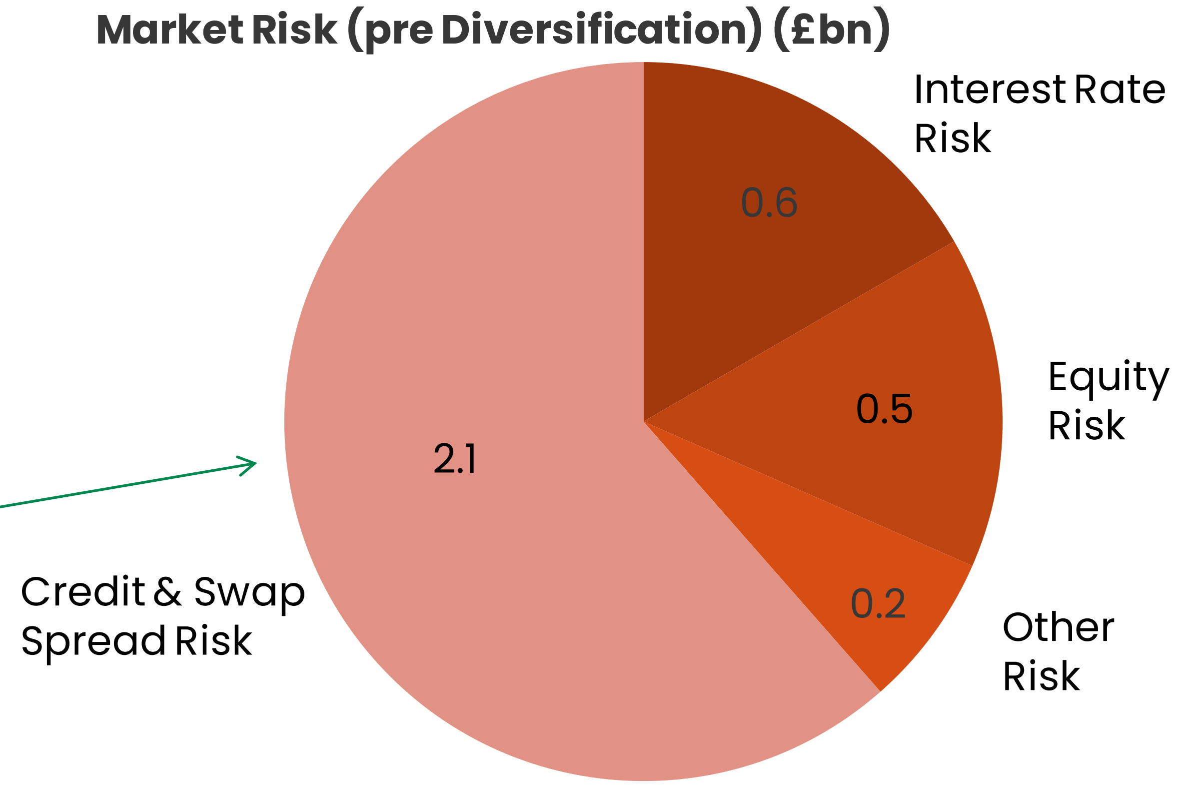
SWL Capital Generation – Capital generation over 2022 is primarily due to:

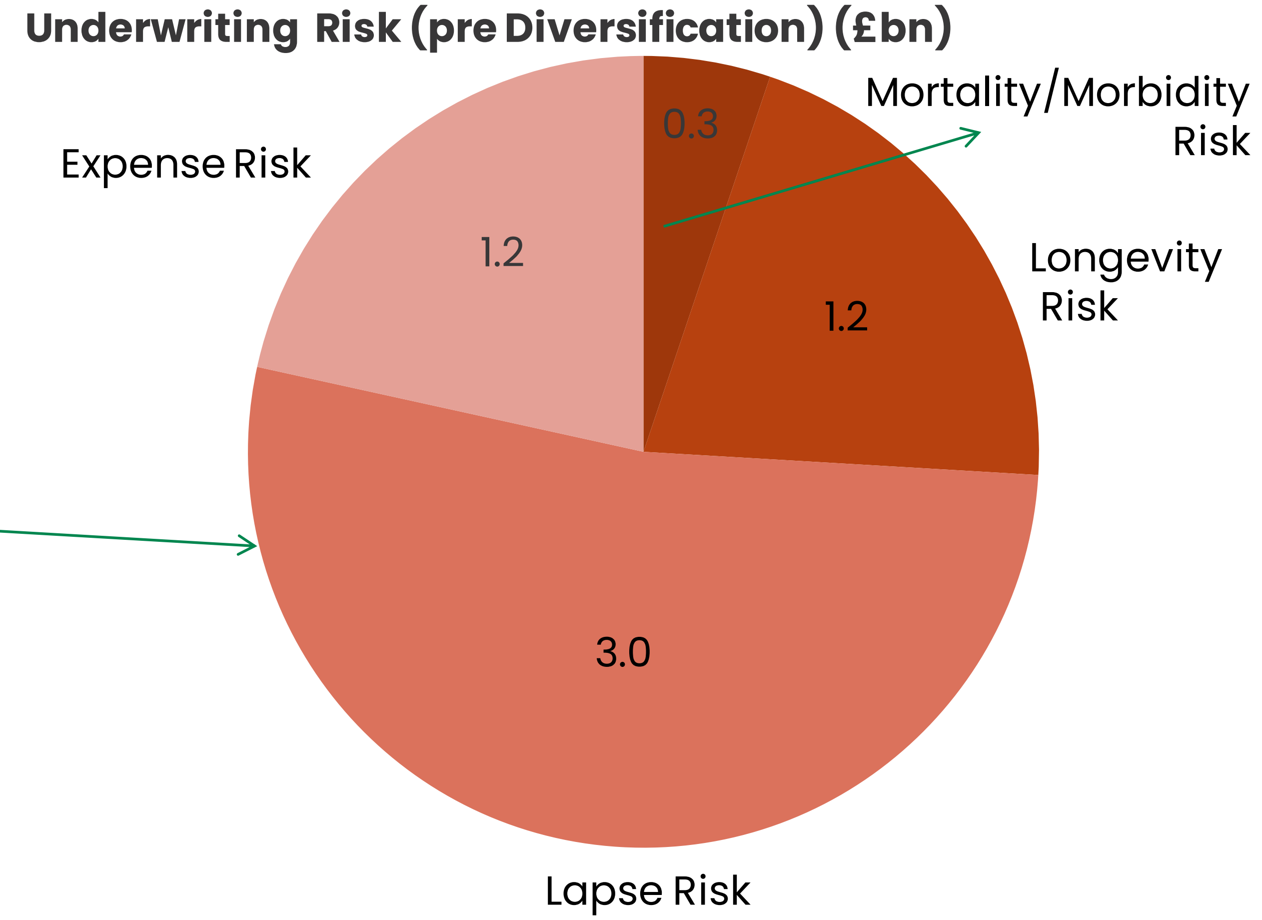
- The positive impact of long term interest rate increases
- Positive earnings from in-force business
- Positive impact of annual assumption changes

Source: Scottish Widows Group Solvency & Financial Condition Report 2022

Solvency Position Breakdown YE 2022 – SWL SCR







Source: Scottish Widows Group Solvency & Financial Condition Report 2022

YE 2021 –> YE 2022 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 2021	**7,779**	**4,573**
M&A	(409)	19
Regulatory & other model changes	(75)	20
Operating impact:		
New business contribution	22	270
Expected in-force contribution	218	(223)
Assumption changes & experience variances	217	(137)
Debt costs	(149)	
Market variances	53	(833)
Material miscellaneous items (see note 1)	(1,113)	(64)
Other non-operating changes(see note 1)	(449)	
Capital management (see note 3)	(600)	
Closing balance : 31 December 2022	**5,492**	**3,624**

Notes:
1. Includes recalculation and annual run-off of Transitional Measures on Technical Provisions and movement in With-Profits Funds, which have both reduced due to interest rate rises in 2022
2. Represents the change in Capital Tiering restrictions over 2022 and the difference between Foreseeable Dividends at YE21 and YE22
3. Dividends paid in-year in 2022 from SWG up to LBG. Includes £300m in February and £300m in July

Eligible own funds: Capital available (as defined in Solvency II) which is eligible to cover the Solvency Capital Requirement
Solvency Capital Requirement: The amount of funds required to be held to protect from a 1-in-200 year stress

Source: Scottish Widows Group Solvency & Financial Condition Report 2022

Sensitivity to Market Risk YE 2022

Sensitivities (£m)	Change in working capital excluding TMTP recalculation	Change in working capital including TMTP recalculation
25% equity fall	27	6
100 bps rise in interest rate (parallel shift)	154	51
100 bps fall in interest rate (parallel shift)	(313)	(92)
25% fall in GBP exchange rates	(226)	(226)
Widening of credit spreads (varies by credit rating)	(55)	(568)

Notes:
1. Working Capital equals eligible Own Funds less capital requirements
2. TMTP refers to Transitional Measures on Technical Provisions
3. Credit spread widening by rating: 125 bps (AAA rating), 175 bps (AA rating), 250 bps (A rating), 300 bps (BBB rating) and 400 bps (BB or lower rating)

- **Equity risk is materially removed through the equity hedging program**
- **Interest rate movements impact the SCR and the Risk Margin (which both increase when interest rates fall). However, recalculation of the TMTP offsets the movement in the Risk Margin**
- **The TMTP reduces as credit spreads widen, since the Solvency II Matching Adjustment increases by more than the Solvency I ICA Illiquidity Premium and the TMTP reflects the net movement**

Source: Scottish Widows Group Solvency & Financial Condition Report 2022

2022 Risk & Capital Management Update

Embark Acquisition	• SWG completed the acquisition of Embark Group in the first quarter of 2022 • The purchase was supported by a capital injection from Lloyds Banking Group • The acquisition of Embark will enable significant transformation of our Financial Planning & Retirement business, creating a compelling Direct to Consumer proposition, whilst building scale in a strategic growth market and significantly improving the existing customer experience
Market Impacts	• Significant rises in interest rates over 2022 lead to increases in Excess Capital & Equity positions driven by reduction in capital requirement, SCR and Risk Margin • However, this benefit was partially offset by a recalculation of the SII Transitional at both half-year and year-end
Dividends	• Strong Capital Generation over 2022 enabled a total dividend of £400m to be paid from SWG to LBG
Liquidity	• Strong operational liquidity position with liquid assets more than sufficient to withstand a 1-in-200 year diversified liquidity stress
Subordinated Debt	• There was no change in debt profile in SWG or SWL in 2022. • £850m SWL external tier two subordinated debt maturity in June 23 (only other external subordinated debt is £650m SWL tier two in 2043)

Liquidity Monitoring

Liquidity Monitoring	• Liquidity is monitored on a Primary (3 month) and Total (12 month) basis
	• Primary classes liquid assets as cash and gilts. Total liquidity also classes bonds as liquid assets
	• Two metrics are monitored for both Primary and Total liquidity
	    • Liquidity coverage = Available liquid assets ÷ stressed liquidity requirements
	    • Excess liquidity = Available liquid assets less stressed liquidity requirements

Available Liquidity	• Available liquid assets allow for future expected best estimate cashflows and restrictions such as coupon payments, tax, derivative collateral • Appropriate deductions are included such as asset haircuts
Risk Appetite	• Our internal risk appetite level is whether we have sufficient liquid assets to cover a 1-in-200 year liquidity stress • There is an additional risk appetite metric to ensure that sufficient liquid assets are available to fund debt coupon payments
YE 2022	• YE 22 operational liquidity is strong and SWL, and all other legal entities, were above risk appetite levels
Credit Facility	• A revolving credit facility with LBG is available should we need to use it to meet our internal risk appetite level

Q&A

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