Lloyds Banking Group

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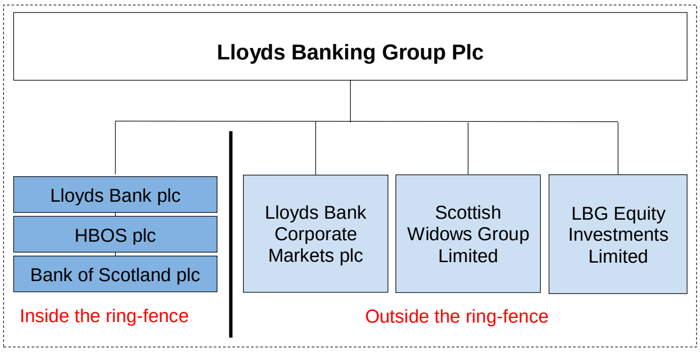
	Senior Preferred	Senior Non-Preferred	Outlook
Moody's	A3	Baa1	Negative
S&P	BBB+	BBB-	Negative
Fitch	A+	A-	Negative

Source: Moody's, S&P and Fitch

Background and ownership



Lloyds Banking Group plc ('LBG') is the holding company encompassing the ring-fenced, retail banking focused Lloyds Bank plc ('LLB'), and the non-ring-fenced entities of the group, which focus on investment banking (Lloyds Bank Corporate Markets; LBCM), insurance (Scottish Widows) and other equity participations (LBG Equity Investments). In 2018, the group transferred capital market activities, intra-bank lending and any business outside the European Economic Area to the aforementioned LBCM. As at FY20, LBCM accounts for 10.7% of LBG's total assets. In 2019, the group launched a strategic partnership with global investment management firm Schroders plc for the creation of a joint-venture (Schroders Personal Wealth) to which LBG transferred GBP13bn in assets from its retail division. Given Lloyds Bank's prevalence and size in the UK banking sector it is classified as a domestically systemic important bank and accounted for 85% of the group's RWA as at FY20.

Main activities

Lloyds Banking Group's main business activities are retail and commercial banking focused as well as providing general and life insurance. Scottish Widows provides pensions and investment provisions along with its subsidiaries. These activities are spread across three main business lines encompassing **retail** (64% of FY20 net revenues), **commercial banking** (25%) and **insurance and wealth** (9%). From a retail banking perspective LBG operates the largest UK bank network through its various brands (Lloyds Bank, Halifax, Bank of Scotland) with leading market shares in deposits and mortgage lending.

Financial strength indicators

Profitability – In recent years, Lloyds Banking Group reported stable core earnings, supported by its strong franchise and diversified products. In 1Q21 LBG generated GBP1.9bn in pre-tax profit, comfortably ahead of analyst consensus views of GBP1.1bn as well as the same period last year (1Q20: GBP74m). Bottom-line results benefitted from GBP323m impairment credits thanks to an improved economic outlook for the UK. Revenues dropped by 7% yoy to GBP3.7bn, mainly due to NII revenue weakness (-9% yoy). However, when reviewed on a quarterly basis, NII proved resilient and was up 2% qoq helped by slightly higher average interest earning assets of GBP439bn (+0.5% qoq) resulting in a NIM of 2.49% (1Q20: 2.46%). Other income from retail, insurance and wealth, and commercial banking stood at GBP1.1bn, down 7% yoy reflecting lower levels of customer activity and new business, particularly within retail and insurance and wealth. This was in part mitigated by strong performance in the group's equity investment businesses. Lloyds continues to pursue a prudent cost management stance with total expenses down 2% yoy to GBP1.9bn while strategic spending of GBP200m into technology and data management continue in line with the communicated GBP900m overall target amount. Lloyds revised up its RoTE target of 5-7% given during the last quarterly update to 8-10% for 2021 (FY20: 3.7%) on the back of 1Q21 RoTE of 13.9%. The net interest margin target was also slightly revised to 2.45% from 2.4% while annual operating costs are still expected to be reduced to GBP7.5bn (FY20: GBP7.9bn). Cost to income ratio was greatly improved qoq at 52.3%, one of the lowest domestically, yet still above 1Q20 where it stood at 49.7%.

Asset quality – Lloyds booked an impairment credit of GBP323m, which was the main offsetting factor to some of the above revenue weakness. The bank only booked additional charges in its retail division (GBP321m) that were more than reversed by commercial banking and others (GBP112m), credits booked for Coronavirus-impacted restructuring cases (GBP73m) and an updated economic outlook (GBP459m). The group's stock of expected credit losses decreased to GBP6.2bn from GBP6.9bn at FY20 but still remained GBP2bn higher than 2019 levels. Retail lending volumes were up by GBP4.5bn on the back of continued strong mortgage demand (+GBP5.4bn) offset by reductions in motor finance (-GBP800m) and net commercial lending (-GBP200m). The GBP300bn mortgage portfolio represents 60% of the total loan book with the risk profile only slightly increased qoq but significantly improved against previous years as average LTV's stood at 43.7% (FY19: 44.9%; FY10: 55.6%). Modest quarterly reductions in loan book coverage levels reflected the updated economic outlook.

Capitalisation – Lloyds' capital position remains sound, with a 16.7% transitional CET1 ratio (FY19: 13.8%) representing a capital build-up of 52bps over the past quarter alone. CET1 has a significant 670bps buffer over requirements and given the bank's medium-term CET1 target rate of ~13.5% we expect to see capital deployment towards payouts, business growth and possibly small acquisitions. The regulatory CET1 ratio benefited strongly from the impairment credit booked (+55bps) and RWA reductions of GBP3.8bn (+31bps). Total RWA's of GBP199bn are expected to remain stable for the rest of the year. Capital headwinds came from pension contributions (-26bps), partial release of IFRS9 transitional relief (-6bps) and dividend accrual (-5bps). The bank's transitional MREL ratio stood at 36.1% (1Q20: 34.5%).

Lloyds Banking Group – Key Data			
Key Ratios (%)	1Q21	1Q20	1Q19
CET1	16.7	14.2	13.9
Total Capital	23.0	21.9	21.9
NPL	1.8	1.8	n.a.
NPL Coverage	27.1	25.0	n.a.
LCR	134	138	129
Cost to Income	52.3	49.7	44.7
Balance Sheet (GBPbn)			
Total assets	869.5	861.7	818.3
Loans to customers	443.5	443.1	440.5
Customer deposits	462.4	428.4	417.0
Debt securities	106	126	n.a.
Total Equity	49.5	52.7	50.5
Income Statement (GBPbn)			
Revenues	3.7	4.0	4.4
o/w NII	2.7	3.0	3.1
Operating Expenses	1.9	2.0	2.0
Impairment charge	-0.3	1.4	0.3
Net Income	1.4	0.5	1.2

Source: Company earnings reports

Funding & Liquidity – Customer deposits totaled GBP462bn at 1Q21, up 8% yoy, funding 96% of the net customer loans. The group benefits from a strong, granular retail customer deposit base given its domestic market-leading position for customer current accounts. Wholesale funding decreased to GBP106bn, down GBP20bn yoy, but it still accounts for 13% of total non-equity funding. As at 1Q21, 32% of the wholesale funding portfolio had a remaining maturity of less than one year, which is offset by 2021 issuance plan just under GBP10bn. In this context, LBG is only looking to refinance senior HoldCo paper and limited funding at Lloyds Bank plc and LBCM from a senior OpCo perspective. 2020 GBP9.9bn funding was almost evenly split by currency into GBP (37% of total), EUR (32%) and USD (31%) and we would expect a similar distribution for 2021. The BoE has commenced a review of the current MREL framework and expects to consult on proposed changes during the year with a view to setting final end-state requirements from January 2022. LBG has communicated an expected final requirement of 27.9%, which it currently meets comfortably with its transitional MREL ratio of 36.1%. The group successfully raised GBP1.4bn in MREL eligible senior debt during 1Q21. Group liquidity indicators remained strong and adequate with LCR at 134% (GBP143bn) comfortably mitigating short-term wholesale debt maturities.

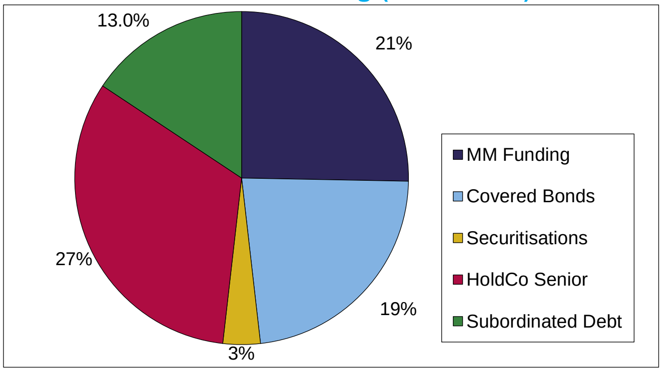
Rating agencies' views

Moody's: The ratings take into account: strong levels of capital and liquidity; low levels of profitability in 2020 due to the coronavirus-led drop in economic activity and high level of credit provisions. Moody's expects that profitability will recover in 2021 while low asset risk is likely to deteriorate due to the coronavirus-led macroeconomic slump. LBG's insurance and wealth division, which includes the subsidiary Scottish Widows Limited (Scottish Widows) provides earnings diversification to the group's banking activities carried out by the ring-fenced bank Lloyds Bank plc, and non-ring-fenced bank Lloyds Bank Corporate Markets.

S&P: The June 2020 S&P ratings report states that the ratings reflect Lloyds' market-leading U.K. franchise and a business model that appears well-adjusted to medium-term banking industry trends. S&P considers Lloyds well-placed to manage digital transformation, changing customer preferences, and the evolving competitive landscape. Lloyds' balance sheet--specifically, its asset mix, funding, capitalization, and additional loss-absorbing capacity (ALAC) buffer--supports the ratings and the agency expects these attributes to remain consistent. Its market-leading cost efficiency underpins strong underlying profitability. Statutory profitability improved steadily in 2015-2018, but suffered a setback in 2019 due to a resurgence in payment protection insurance (PPI) provisions. S&P doesn't anticipate any more PPI provisions. However, in 2020, high credit provisions as a consequence of the COVID-19 pandemic, and the negative impact of the lower rate environment, will weigh on earnings.

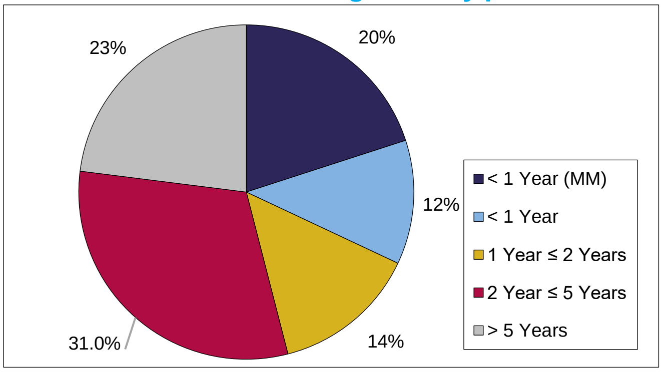
Fitch: LBG's ratings reflects its leading domestic retail franchise, strong record of pre-impairment profitability, solid capitalisation and funding. It also reflects its UK focus and appetite for higher-risk lending such as unsecured lending and motor finance. The Negative Outlook on LBG's Long-Term Issuer Default Rating (IDR) signals the potential implications of the pandemic's economic fallout. As a largely domestic banking group LBG's credit strength is correlated with the UK operating environment.

1Q21 LBG wholesale funding (GBP106bn)



Source: Company reports

1Q21 LBG wholesale funding maturity profile



Source: Company reports

Recent Benchmark Transactions

Issue Date	Security	Maturity/Call	Currency	Size (m)	Type	Coupon	Yield	Final Spread (bps)
04/03/2021	Sr. Unsecured (HoldCo)	3NC2	USD	1,000	Fixed	0.695%	0.695%	T + 55
04/03/2021	Sr. Unsecured (HoldCo)	6NC5	USD	1,000	Fixed	1.627%	1.627%	T + 85
08/06/2020	SEC registered	3NC2	USD	1,000	Fixed	1.326%	1.326%	T + 110

Source: BondRadar

This is an issuer profile and contains factual statements only. All statements are sourced from LBG financial reports, which can be found at https://www.lloydsbankinggroup.com/investors/financial-downloads.html

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Access our research at:

http://www.uk.daiwacm.com/ficc-research/research-reports

Explanatory Document of Unregistered Credit Ratings

In order to ensure the fairness and transparency in the markets, Credit Rating Agencies became subject to the Credit Rating Agencies' registration system based on the Financial Instruments and Exchange Act. In accordance with this Act, in soliciting customers, Financial Instruments Business Operators, etc. shall not use the credit ratings provided by unregistered Credit Rating Agencies without informing customers of the fact that those Credit Rating Agencies are not registered, and shall also inform customers of the significance and limitations of credit ratings, etc.

■ The Significance of Registration

Registered Credit Rating Agencies are subject to the following regulations:
1) Duty of good faith.
2) Establishment of control systems (fairness of the rating process, and prevention of conflicts of interest, etc.).
3) Prohibition of the ratings in cases where Credit Rating Agencies have a close relationship with the issuers of the financial instruments to be rated, etc.
4) Duty to disclose information (preparation and publication of rating policies, etc. and public disclosure of explanatory documents).

In addition to the above, Registered Credit Rating Agencies are subject to the supervision of the Financial Services Agency ("FSA"), and as such may be ordered to produce reports, be subject to on-site inspection, and be ordered to improve business operations, whereas unregistered Credit Rating Agencies are free from such regulations and supervision.

■ Credit Rating Agencies

[Standard & Poor's]

The Name of the Credit Rating Agencies group, etc

The name of the Credit Rating Agencies group: S&P Global Ratings ("Standard & Poor's")
The name and registration number of the Registered Credit Rating Agency in the group: S&P Global Ratings Japan Inc. (FSA commissioner (Rating) No.5)

How to acquire information related to an outline of the rating policies and methods adopted by the person who determines Credit Ratings

The information is posted under "Unregistered Rating Information" (http://www.standardandpoors.co.jp/unregistered) in the "Library and Regulations" section on the website of S&P Global Ratings Japan Inc. (http://www.standardandpoors.co.jp)

Assumptions, Significance and Limitations of Credit Ratings

Credit ratings assigned by Standard & Poor's are statements of opinion on the future credit quality of specific issuers or issues as of the date they are expressed and they are not indexes which show the probability of the occurrence of the failure to pay by the issuer or a specific debt and do not guarantee creditworthiness. Credit ratings are not a recommendation to purchase, sell or hold any securities, or a statement of market liquidity or prices in the secondary market of any issues.

Credit ratings may change depending on various factors, including issuers' performance, changes in external environment, performance of underlying assets, creditworthiness of counterparties and others. Standard & Poor's conducts rating analysis based on information it believes to be provided by the reliable source and assigns credit ratings only when it believes there is enough information in terms of quality and quantity to make a conclusion. However, Standard & Poor's does not perform an audit, due diligence or independent verification of any information it receives from the issuer or a third party, or guarantee its accuracy, completeness or timeliness of the results by using the information. Moreover, it needs to be noted that it may incur a potential risk due to the limitation of the historical data that are available for use depending on the rating.

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[Moody's]

The Name of the Credit Rating Agencies Group, etc

The name of the Credit Rating Agencies group: Moody's Investors Service ("MIS")
The name and registration number of the Registered Credit Rating Agency in the group: Moody's Japan K.K. (FSA commissioner (Rating) No.2)

How to acquire information related to an outline of the rating policies and methods adopted by the person who determines Credit Ratings

The information is posted under "Unregistered Rating explanation" in the section on "The use of Ratings of Unregistered Agencies" on the website of Moody's Japan K.K. (The website can be viewed after clicking on "Credit Rating Business" on the Japanese version of Moody's website (https://www.moodys.com/pages/default_ja.aspx)

Assumptions, Significance and Limitations of Credit Ratings

Credit ratings are Moody's Investors Service's ("MIS") current opinions of the relative future credit risk of entities, credit commitments, or debt or debt-like securities. MIS defines credit risk as the risk that an entity may not meet its contractual, financial obligations as they come due and any estimated financial loss in the event of default. Credit ratings do not address any other risk, including but not limited to: liquidity risk, market value risk, or price volatility. Credit ratings do not constitute investment or financial advice, and credit ratings are not recommendations to purchase, sell, or hold particular securities. No warranty, express or implied, as to the accuracy, timeliness, completeness, merchantability or fitness for any particular purpose of any such rating or other opinion or information, is given or made by MIS in any form or manner whatsoever.

Based on the information received from issuers or from public sources, the credit risks of the issuers or obligations are assessed. MIS adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from sources MIS considers to be reliable. However, MIS is not an auditor and cannot in every instance independently verify or validate information received in the rating process.

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[Fitch]

The Name of the Credit Rating Agencies group, etc

The name of the Credit Rating Agencies group: Fitch Ratings ("Fitch")
The name and registration number of the Registered Credit Rating Agency in the group: Fitch Ratings Japan Limited (FSA commissioner (Rating) No.7)

How to acquire information related to an outline of the rating policies and methods adopted by the person who determines Credit Ratings

The information is posted under "Outline of Rating Policies" in the section of "Regulatory Affairs" on the website of Fitch Ratings Japan Limited (https://www.fitchratings.com/site/japan)

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In issuing and maintaining its ratings, Fitch relies on factual information it receives from issuers and underwriters and from other sources Fitch believes to be credible. Fitch conducts a reasonable investigation of the factual information relied upon by it in accordance with its ratings methodology, and obtains reasonable verification of that information from independent sources, to the extent such sources are available for a given security or in a given jurisdiction. The assignment of a rating to any issuer or any security should not be viewed as a guarantee of the accuracy, completeness, or timeliness of the information relied on in connection with the rating or the results obtained from the use of such information. If any such information should turn out to contain misrepresentations or to be otherwise misleading, the rating associated with that information may not be appropriate. Despite any verification of current facts, ratings can be affected by future events or conditions that were not anticipated at the time a rating was issued or affirmed.

For the details of assumption, purpose and restriction of credit ratings, please refer to "Definitions of ratings and other forms of opinion" on the website of Fitch Rating Japan Limited.

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February 2020

IMPORTANT

Conflicts of Interest: Daiwa Securities Co. Ltd. may currently provide or may intend to provide investment banking services or other services to the company referred to in this report. In such cases, said services could give rise to conflicts of interest for Daiwa Securities Co. Ltd.

Daiwa Securities Co. Ltd. and Daiwa Securities Group Inc.: Daiwa Securities Co. Ltd. is a subsidiary of Daiwa Securities Group Inc.

Other Disclosures Concerning Individual Issues:
1) As of 26 April 2016, Daiwa Securities Co. Ltd., its parent company Daiwa Securities Group Inc., GMO Financial Holdings, Inc., and its subsidiary GMO CLICK Securities, Inc. concluded a basic agreement for the establishment of a business alliance between the four companies.
As of end-December 2017, Daiwa Securities Group Inc. owned shares in GMO Financial Holdings, Inc. equivalent to approximately 9.3% of the latter's outstanding shares. Given future developments in and benefits from the prospective business alliance, Daiwa Securities Group Inc. could boost its stake in GMO Financial Holdings, Inc. to up to 20% of outstanding shares.

2) Daiwa Real Estate Asset Management is a subsidiary of Daiwa Securities Group Inc. and serves as the asset management company for the following J-REITS: Daiwa Office Investment Corporation (8976), Daiwa Securities Living Investment Corporation (8986).

3) Samty Residential Investment became a consolidated subsidiary of Daiwa Securities Group Inc. effective 10 September 2019.

4) On 30 May 2019, Daiwa Securities Group Inc. formalized an equity/business alliance with Samty, and as of 14 June 2019 it owned 16.95% of shares outstanding in Samty along with convertible bonds with a par value of Y10bn. Conversion of all of said convertible bonds into common shares would bring the stake of Daiwa Securities Group Inc. in Samty to 27.28%.

5) Daiwa Securities Group Inc. and Credit Saison Co., Ltd. entered into a capital and business alliance, effective 5 September 2019. In line with this alliance, Daiwa Securities Group Inc. is to acquire up to 5.01% of Credit Saison's total common shares outstanding (excl. treasury shares; as of 31 Jul 2019).

Notification items pursuant to Article 37 of the Financial Instruments and Exchange Law
(This Notification is only applicable to where report is distributed by Daiwa Securities Co. Ltd.)
If you decide to enter into a business arrangement with our company based on the information described in this report, we ask you to pay close attention to the following items.

- In addition to the purchase price of a financial instrument, our company will collect a trading commission* for each transaction as agreed beforehand with you. Since commissions may be included in the purchase price or may not be charged for certain transactions, we recommend that you confirm the commission for each transaction. In some cases, our company also may charge a maximum of ¥2 million per year as a standing proxy fee for our deposit of your securities, if you are a non-resident.
- For derivative and margin transactions etc., our company may require collateral or margin requirements in accordance with an agreement made beforehand with you. Ordinarily in such cases, the amount of the transaction will be in excess of the required collateral or margin requirements**.
- There is a risk that you will incur losses on your transactions due to changes in the market price of financial instruments based on fluctuations in interest rates, exchange rates, stock prices, real estate prices, commodity prices, and others. In addition, depending on the content of the transaction, the loss could exceed the amount of the collateral or margin requirements.
- There may be a difference between bid price etc. and ask price etc. of OTC derivatives handled by our company.
- Before engaging in any trading, please thoroughly confirm accounting and tax treatments regarding your trading in financial instruments with such experts as certified public accountants.

* The amount of the trading commission cannot be stated here in advance because it will be determined between our company and you based on current market conditions and the content of each transaction etc.
** The ratio of margin requirements etc. to the amount of the transaction cannot be stated here in advance because it will be determined between our company and you based on current market conditions and the content of each transaction etc.

When making an actual transaction, please be sure to carefully read the materials presented to you prior to the execution of agreement, and to take responsibility for your own decisions regarding the signing of the agreement with our company.

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Memberships: Japan Securities Dealers Association, The Financial Futures Association of Japan, Japan Investment Advisers Association, Type II Financial Instruments Firms Association