FY 2019 FREQUENTLY ASKED INVESTOR QUESTIONS

How was the Group's financial performance in 2019?

- During 2019, the Group continued to make significant strategic progress while delivering solid financial results in a challenging external market.
- The Group delivered a statutory profit after tax of £3.0 billion after a £2.45 billion PPI charge and £1.4 billion tax expense in the year, and delivered underlying profit of £7.5 billion, down 7 per cent in a challenging external market.
- Underlying return on tangible equity remains strong at 14.8 per cent with statutory return on tangible equity at 7.8 per cent, largely driven by the PPI charge
- Balance sheet strength maintained with free capital build of 207 basis points before the PPI charge; 86 basis points post-PPI
- Sustainable growth in targeted segments including £1.0 billion in UK Motor Finance, £0.3 billion in SME and £3.2 billion in Retail current accounts, as well as growth of £3.5 billion in the open mortgage book, including the Tesco acquisition

How do you expect the Group to perform going forward?

- Given our clear UK focus, our performance is inextricably linked to the health of the UK economy. Throughout 2019, UK economic performance has remained resilient in the face of significant political and economic uncertainty, supported by record employment, low interest rates and rising real wages
- Although uncertainty remains given the ongoing negotiation of international trade agreements, there is now a clearer sense of direction and some signs of an improving outlook.
- We remain well placed to Help Britain Prosper, support our customers and deliver strong and sustainable returns for shareholders
- In February 2018 we announced an ambitious plan to transform the Group for success in a digital world, supported by over £3 billion of strategic investment. We are now two-thirds of the way through the plan and have made significant progress in further digitising the Group, enhancing customer experience, maximising Group capabilities as an integrated financial services provider and transforming the way we work.
- Guidance for 2020 reflects the Group's confidence in the business model and future performance:
    - Net interest margin of 2.75 to 2.80 per cent
    - Operating costs to be less than £7.7 billion with the cost:income ratio lower than in 2019
    - Net asset quality ratio expected to be less than 30 basis points
    - Capital build expected to be within the Group's ongoing guidance range of 170 to 200 basis points per year and risk-weighted assets to be broadly in line with 2019
    - Expect increased statutory return on tangible equity of 12 to 13 per cent, driven by resilient underlying profit and lower below the line charges
- The Group faces the future with confidence. As a result, we will continue to target a progressive and sustainable ordinary dividend. In 2020, the Group will also commence paying dividends quarterly, accelerating payments to shareholders, with the first dividend being paid in June 2020.

What impact do you expect Britain having left the EU to have on Lloyds Banking Group?

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- Although uncertainty remains given the ongoing negotiation of international trade agreements, there is now a clearer sense of direction and some signs of an improving outlook.
- Following the UK's exit from the EU, significant negotiation is now required on the terms of future trade agreements with both the EU and other countries.
- Given the vast majority of our business is in the UK, the direct impact on the Group from leaving the EU is relatively modest.
  - We have established a subsidiary of the Ring Fenced Bank in Berlin and this has a branch in the Netherlands.
  - We have also established a branch of Lloyds Bank plc for payments services in Berlin as well as a European investment firm in Frankfurt and a new insurance subsidiary of Scottish Widows in Luxembourg.
  - Like all UK banks, we have submitted contingency plans to the regulators both in the UK and elsewhere.
- We stand ready to support customers, and the UK economy, in making the changes to business and regulatory processes that will be required by Brexit, in whatever form it takes. In 2019 we achieved our target of lending £18 billion to businesses across the UK and have committed up to £18 billion further lending in 2020, showing our support for the UK economy.
- Although continued economic uncertainty could further impact the outlook, the Group remains well positioned with the right strategy to continue delivering for customers and shareholders. Our strategy remains the right one in the current environment and our guidance for 2020 reflects the Group's confidence in the business model and future performance

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

- Credit quality remains strong despite an uncertain environment, reflecting the Group's ongoing prudent approach to risk and provisioning.
- The 2019 impairment charge increased to £1,291 million with the increase primarily driven by two material corporate cases in Commercial Banking, along with some weakening in used car prices in Black Horse.
- The UK economy remained resilient despite the challenges in 2019 from the slowing global economy and elevated uncertainty from both domestic politics and the future relationship with the EU. With the new majority government now in place and the UK having left the EU, there is now a clearer sense of direction and some signs of gradually improving economic indicators.
- Households' spending power is rising at close to 2 per cent a year, the strongest for three years, reflecting a combination of stronger pay growth and low inflation.
- Employment continues to reach all-time highs, the unemployment rate remains close to its recent 45 year low and we are seeing some signs of improving consumer confidence.
- And similarly, housing market data displays early signs of upturn in both activity and prices, driven by the reduced uncertainty.
- However, despite the early signs of improvements in economic indicators and the expected significant Government stimulus through infrastructure projects to be potentially announced next month as part of the budget, the interest rate curves are yet to react. There also remains uncertainty given the ongoing trade deal negotiations which continues to weigh on absolute growth
- The Group has guided to a net asset quality ratio of less than 30 basis points in 2020.

What is the Group's strategy?

- The Group is a simple, low-risk, customer focused UK financial services provider with distinctive and sustainable competitive strengths. 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
- In 2017 we successfully completed the second phase of our strategic plan, achieving our priorities of creating the best customer experience, becoming simpler and more efficient and delivering sustainable growth. In the period of the second phase of the strategic plan the Group also resumed paying dividends (2014 results) and returned to full private ownership (May 2017).
- In February 2018 we launched the third phase of our strategic plan, which covers the period 2018 to 2020 and is based around four strategic priorities focused on the financial needs and behaviours of the customer of the future: further enhancing our leading customer experience; further digitising the Group; maximising Group capabilities; and transforming ways of working. Further detail on these priorities is outlined below.
- This is an ambitious strategy to transform the Group for success in a digital world. Over the last two years we have invested £2 billion in strategic initiatives and invested in building a leading customer experience, including the Group's unique Single Customer View, enhanced comprehensive product range and continued maximising Group capabilities with the launch of Schroders Personal Wealth whilst continuing to digitise the Group and transform ways of working
- In addition to completing the third stage of our strategic plan, in 2020 we will also begin to consider the next phase of our journey. Work will begin at pace in the summer on the new strategic plan, which we expect to announce in February 2021, along with updated longer-term financial targets This work will take into account a wide range of factors, including the evolving external environment, emerging changes across society and changing expectations of how companies should respond to such challenges.

Leading customer experience

In order to be the best bank for customers, we recognise that we must continue to adapt to changes in customer behaviour, technology-driven competition and regulation. Our propositions must be reflective of heightened customer expectations for ease of access, personalisation and relevance, as well as the needs created by changing life patterns. This will include:

- Remain number 1 UK digital bank with 16.4 million digital users and Open Banking functionality
- Unrivalled reach with UK's largest branch network, serving complex needs
- Data-driven and personalised customer propositions.

Digitising the Group

Our market leading cost position and customer franchise are sources of competitive advantage. However, we must not be complacent and must further digitise the Group to drive additional operational efficiencies, improve the experience of our customers and colleagues and allow us to invest more for the future. In addition, we must continue to simplify and progressively transform our IT architecture in order to use data more efficiently, enhance our multi-channel customer engagement and create a scalable and resilient infrastructure. This will include:

- Deeper end-to-end transformation targeting 70 per cent of our cost base, with 55 per cent achieved by end of 2019
- Simplification and progressive modernisation of our data and IT infrastructure
- Technology enabled productivity improvements across the business

Maximising Group capabilities

To better address our customers' banking and insurance needs as an integrated financial services provider and improve their overall experience, we will make better use of our competitive strengths and unique business model. This will include:

- Continuing to make progress towards the target of growing Financial Planning and Retirement (FP&R) open book assets under administration by £50 billion by the end of 2020, with cumulative net growth of £37 billion since 2018 while we have exceeded our goal of attracting over 1 million new pension customers, a year ahead of our original target;
- Our unique Single Customer View capability, which enables customers to view all of the pension and long-term savings that they hold with the Group alongside their banking products, is now available to more than five million customers
- Increased net lending to start-ups, SMEs and Mid Market customers to £3.4 billion since 2018 together with achieving our target of lending £18 billion to UK businesses in 2019.

Transforming ways of working

Our colleagues are crucial to the success of our business. In order to deliver our transformation during the current strategic plan and beyond, our colleagues will require new skills and capabilities to reflect the changing needs of the business as it adapts to the evolving operating environment. At the same time, colleagues' expectations of their employers are changing. As a result, we are making our biggest ever investment in colleagues to ensure that we continue to attract, develop and retain these skills and capabilities, while fostering a culture that supports a way of working that is agile, trust based and reinforces the Group's values. This will include:

- 50 per cent increase in training and development to 4.4 million hours, with 3.2 million cumulative future skills training hours delivered
- Up to 30 per cent change efficiency improvement

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 Schroders Personal Wealth. Our joint venture 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 broad spectrum of investment and retirement products to optimise customers' entire financial lives. Schroders Personal Wealth has got off to a strong start since its launch, with Retail wealth referrals from the Group up 33 per cent in 2019.
- For the Group, the partnership is in line with the strategic objectives outlined in its latest strategic review and will accelerate the development of its financial planning and retirement business, and deliver significant additional growth.
- The strategic partnership includes two major initiatives: Financial Planning and High Net Worth Wealth Management.

Financial Planning

- The Group and Schroders have established a new financial planning joint venture company (JV) for affluent customers, Schroders Personal Wealth in the first half of 2019. We have launched the JV to the market, operating a restricted model with a wide product set.
- 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 2023.
- 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.
- The JV is led by a management team comprising representatives from both partners. Antonio Lorenzo, Chief Executive of Scottish Widows and Group Director of Insurance & Wealth is Chairman of the JV.

High Net Worth Wealth Management

- In connection with the transfer of the £13 billion of assets to the JV and Schroders taking 49.9 per cent of the JV, the Group received a 19.9 per cent financial investment in the holding company of Schroders' UK wealth management business; providing the Group's high net worth customers with access to Cazenove Capital's leading wealth management propositions.
- The partnership provides the Group the opportunity to offer the specialist investment management services of Cazenove Capital to charities and family offices, with which the Group has strong relationships via its Commercial Banking business.

Where do you expect growth in the business?

- The Group has leading market shares in many of its retail banking business lines, including mortgages, credit cards and current account balances. The Group's average market share is around 18 per cent. Slide 40 of the 2019 FY Results presentation (here) gives a clear representation of this.
- For 2019, the Group had sustainable growth in targeted segments including £1.0 billion in UK Motor Finance, £0.3 billion in SME and £3.2 billion in Retail current accounts, as well as growth of £3.5 billion in the open mortgage book, including the Tesco acquisition
- We have also increased net lending to start-ups, SMEs and Mid Market customers to £3.4 billion since 2018 together with achieving our target of lending £18 billion to UK businesses in 2019.
- Going forward we aim to continue to grow our market share in targeted and under-represented segments such as SMEs, Motor Finance, Insurance and Wealth Management.

You've guided for costs to go down more, how do you plan to achieve this?

- Our relentless focus on cost efficiency has led to a reduction in operating costs, where we enhanced our guidance twice during 2019. This was achieved whilst increasing strategic investment and our net promoter scores.
- The Group's market-leading cost:income ratio continues to provide a competitive advantage and further strengthened to 48.5 per cent.
- Operating costs of £7,875 million were 4 per cent lower with a 6 per cent reduction in business as usual costs, largely driven by increased efficiency from digitalisation and process improvements, in parallel with strategic investment of £1.0 billion in the business, up 6 per cent in the year.
- The Group expects operating costs in 2020 to be less than £7.7 billion with the cost:income ratio lower than in 2019.
- We continue to operate a disciplined approach to cost management, supported by investment in transforming ways of working and new technological capabilities.
- Going forward, there remain further opportunities driven by investment, flexibility and focus. Examples of this are automation, reduction in our property footprint, our cloud strategy, and just doing things better. For example, there are meaningful further opportunities in private and public cloud for a more flexible and indeed a lower cost base.

Did the Group take any additional charges for PPI in Q4?

- No further provision for PPI was taken in Q4 with a total charge in 2019 of £2,450 million. We continue to work through the information requests received by the August deadline, with an initial review of over 60 per cent of the 5 million information requests undertaken.
- The PPI provision charge of £2,450 million was largely due to the significant increase in PPI information requests (PIRs) leading up to the deadline for submission of claims on 29 August 2019. The initial review of PIRs has been undertaken, with the conversion rate remaining low, and consistent with the provision assumption of around 10 per cent. The Group has also reached final agreement with the Official Receiver.
- The unutilised provision at 31 December 2019 was £1,578 million

What is your dividend policy?

- The Group has a progressive and sustainable ordinary dividend policy whilst maintaining the flexibility to return surplus capital through buybacks or special dividends.
- Given our strong capital position at the year end, the Board has recommended a final ordinary dividend of 2.25 pence per share, bringing the total ordinary dividend for the year to 3.37 pence per share. This represents an increase of 5 per cent on 2018 and is in line with our progressive and sustainable ordinary dividend policy. The Group's capital position remains strong with a pro forma CET1 ratio of 13.8 per cent after allowing for ordinary dividends.
- The Group has announced that it will move to the payment of quarterly dividends in 2020, with the first quarterly dividend in respect of the first quarter of 2020 payable in June 2020. The new approach will be to adopt three equal interim ordinary dividend payments for the first three quarters of the year followed by, subject to performance, a larger final dividend for the fourth quarter of the year.
- The first three quarterly payments, payable in June, September and December will be 20 per cent of the previous year's total ordinary dividend per share.
- The fourth quarter payment will be announced with the full year results, with the amount continuing to deliver a full year dividend payment that reflects the Group's financial performance and, subject to performance, its objective of a progressive and sustainable ordinary dividend. The final dividend will continue to be paid in May, following approval at the AGM.
- The Group believes that this approach will provide a more regular flow of dividend income to all shareholders whilst accelerating the receipt of payments.
- Further information can be accessed on our website (here) with dividend dates found in our financial calendar (here).

What is the Group doing on climate change?

- Given our unique position at the heart of the UK economy, the successful transition to a more sustainable, lower-carbon economy is of strategic importance to us.
- As we look forward, we want to play our part in tackling climate change by taking responsibility for the carbon generated through the use of our products and services by our different stakeholders.
- In response to the global issue of climate change, the Group reached a new milestone last year with the introduction of a new specific sustainability strategy, which included an ambitious goal, working with customers, Government and the market to help reduce emissions we finance by more than 50 per cent by 2030, in line with the UK's Net Zero Goal and the Paris Agreement.
- We are one of the first organisations in the world to commit to all three of The Climate Group's ambitious sustainability initiatives, which aim to speed up the transition to a low carbon economy by committing to 100 per cent renewable power, smarter energy use and electric transport.
- The UK is committed to the vision of a sustainable, low carbon economy, and has placed clean growth at the heart of its strategy. This will require a radical reinvention of the way people work, live and do business.
- To meet our commitment, we will:
  - Take a strategic approach to identifying new opportunities to support our customers and clients and to finance the UK transition to a sustainable low carbon economy, embedding sustainability into Group strategy across all activities.
  - Identify and manage material sustainability and climate related risks across the Group, disclosing these and their impacts on the Group and its financial planning processes in line with the TCFD recommendations.
  - Use our scale and reach to help drive progress towards a sustainable and resilient UK economy, environment and society through our engagement with industry, Government, investors, suppliers and customers.
  - Embed sustainability into the way we do business and manage our own operations in a more sustainable way.
- Read more on this in our 2019 ESG deck (here).

How are you performing on your Helping Britain Prosper Targets?

- We are committed to the long-term success of the UK with our purpose of Helping Britain Prosper. This is why we launched our Helping Britain Prosper Plan in 2014 which also underpins our environmental, social and governance efforts. For 2019 we met 20 out of 22 objectives of the Plan, and some key achievements are outlined below:
  - This year we lent £13.8 billion to first-time buyers, and introduced the Lend a Hand and Family Boost mortgage propositions, which make it easier for those with little or no savings to buy their first home;
  - Over the last five years we have raised over £2.8 billion in green bonds for UK corporate issuers, more than any other UK financial services company. We have also supported renewable energy projects that power the equivalent of 5.1 million homes;
  - The Group was the first FTSE100 company to establish targets for championing diversity within its business and we now have 36.8 per cent of senior roles held by women, up almost 8 percentage points since 2014 and we continue to aim to meet our target of 40 per cent by the end of 2020. With 10.2 per cent of roles across the Group held by Black, Asian and Minority Ethnic (BAME) colleagues, we have exceeded our 2020 target of 10 per cent;
  - We have also helped over 700,000 individuals, small businesses and charities to develop digital skills in 2019 and we are on track for our target of 1.8 million by 2020. Our Digital Knowhow workshops have also helped thousands of organisations learn how to avoid fraud and take advantage of digital marketing techniques; and
  - In 2019, the Foundations received £25.9 million, enabling them to support 2,929 charities.
- In helping the transition to a sustainable low carbon economy, in 2019 we have focused on developing new products, services and processes to achieve our ambitions, an our progress has been recognised:
  - Lloyds Banking Group achieved the Leadership level in the 2019 Carbon Disclosure Project (CDP) Climate Change survey, scoring an A minus; the highest placed financial services firm on the Fortune Sustainability All Stars list; and won the Real Estate Capital Sustainable Finance Provider of the Year;
  - One in 14 electric cars in the UK was supplied by Group subsidiary Lex Autolease in 2019;
  - We continue to partner with the Cambridge institute for Sustainability Leadership to provide high quality training to executives and colleagues in risk management, product development and client facing roles. In 2019, over 800 colleagues were trained, ensuring they are able to support clients on this journey;
  - Since 2018 the Group has also supported renewable energy projects that power the equivalent of 5.1 million homes, achieving our HBP 2020 target a year early.

What else are you doing from an ESG perspective?

- We recognise being a responsible citizen is a fundamental component of maintaining a sustainable business model
- From an environmental perspective, we are helping the transition to a sustainable low carbon economy with our climate change commitments, partnering with the Woodland Trust to plant 10 million trees over the next 10 years, and aiming to be a leading UK provider of customer support on energy efficient, sustainable homes. We will be developing new carbon, energy and travel targets in 2020
- From an environmental and social perspective, we recognise the importance of savings to build financial resilience and help tackle disadvantage. We're making saving for the future as easy as possible by improving choice, flexibility and control and aim to be a leading UK pension provider offering sustainable investment choices, challenging companies we invest in to behave more sustainably
- From a social perspective, we use our scale to reach people in communities across the country to help improve lives and as such we are committed to providing banking services to those that need them; the Group currently supports >30% of all social bank accounts in the UK
- From a governance perspective, our Board of Directors has a diverse mix of skills and experience to provide independent and robust oversight of management. They actively engage with a wide variety of stakeholders and are committed to being responsive to them. Key focus areas for the Board in 2019 included: business strategy, culture and values, customers, ESG, financial performance, regulatory issues, risk management, cyber security, and the ringfenced bank
- We have a separate presentation on our approach to environmental, social and governance issues, which can be found on the Group's external website (here).