Q1 2019 FREQUENTLY ASKED INVESTOR QUESTIONS

How was the Group's financial performance in Q1 2019?

- The Group continued to deliver strong business performance in the first quarter, with increased profits and market leading returns. Earnings per share increased 2 per cent to 1.49 pence and statutory return on tangible equity remained strong at 12.5 per cent.
- Statutory profit after tax was £1,200 million, up 2 per cent, with higher underlying profit offset by movements in below the line items. The Group's underlying profit of £2,168 million was 8 per cent higher driven by increased net income and lower operating costs.
- Customer lending was £441 billion with growth in targeted segments in the last 12 months, including £0.7 billion in SME and £1.5 billion in UK Motor Finance, offset by a reduction of £4.9 billion in mortgages. Open mortgage book balances were down £2.5 billion on 31 December 2018 driven by expected maturities and ongoing pricing discipline.
- The Group continues to target current account balance growth, with Retail current accounts up 3 per cent over the last 12 months to £75.2 billion and Commercial Banking current accounts up 14 per cent to £33.9 billion.
- Given the current strong performance, we are reaffirming all of our financial targets (see below).

How do you expect the Group to perform going forward?

- Over 2018 and the beginning of 2019 the UK economy has proved to be resilient, with record employment and continued GDP growth. Whilst the near term outlook for the UK economy remains unclear, we continue to believe that our simple, low risk business model will deliver strong financial performance and market leading returns.
- We are delivering on our ambitious strategic plan to transform the Group for success in a digital world. While Brexit uncertainty persists and continued uncertainty could further impact the economy, given the strong performance in the first quarter of 2019, we reaffirmed all of our financial targets.
- As a reminder, the full list of the Group's guidance is below:
  - Margin: expected to be around 290 basis points in 2019 and resilient through the plan; this is based on the assumption of one rate rise per year and the Group remains positively exposed to rising interest rates.
  - Costs: operating costs to be less than £8 billion in 2019 and the cost:income ratio to improve every year, reaching the low 40s exiting 2020.
  - Asset quality ratio: less than 30 basis points (on a net basis) in 2019 and through the plan, around 35 basis points through the cycle.
  - Capital build: 170 to 200 basis points pre-dividend per annum; the Group's capital guidance is c.12.5 per cent and a management buffer of c.1 per cent.
  - Intangible amortisation and fair value unwind: combined, these lines are likely to be around £100 million lower in 2019 than in 2018.
  - Strong statutory profit growth and an improved return on tangible equity of 14 to 15 per cent from 2019.
  - Progressive and sustainable ordinary dividends whilst maintaining the flexibility to return surplus capital to shareholders, likely via a share buyback.

What impact do you expect Brexit to have on Lloyds Banking Group?

- Over 90 per cent of the Group's business is in the UK so we do not expect a significant direct operational impact as we have limited cross-border activity.
  - 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. We have also committed to lending to up to £18 billion in 2019 to businesses as part of our continued support for the UK economy.
- Given our primary focus on the UK, the Group's performance is inextricably linked to the UK economy. While Brexit uncertainty persists and continued uncertainty could further impact the economy, given the current strong performance, we are reaffirming all of our financial targets.
- We continue to expect an orderly exit from the EU, and that is the basis for our guidance.
- Our stress test work demonstrates that the Group has robust capital and liquidity levels even in an unlikely scenario of no-deal Brexit and/or a weakening in the economy.

Are you seeing any credit deterioration given Brexit uncertainty?

- Credit quality across the portfolio remains strong, reflecting prudent participation choices, conservative provisioning and a resilient economic environment.
- The UK economy has continued to perform resiliently during this period of uncertainty. GDP growth was 1.4 per cent in 2018 and has picked up in Q1 2019, although we believe growth for the year as a whole could be a little slower than last year.
- Impairments increased in the quarter to £275 million (£258 million in Q1 2018) driven by the expected lower level of releases and write backs. The gross asset quality ratio (underlying impairment divided by average gross lending) was 30 basis points in Q1, in line with Q4 2018.
- The Group has guided to a net asset quality ratio of less than 30 basis points in 2019 and through the plan – and has reaffirmed that guidance in the Q1 release. The Group continues to expect a through the cycle asset quality ratio of c.35 basis points.
- Brexit uncertainty is not helpful for the UK economy. While it is not yet possible to be clear on how any uncertainty will impact impairments, the UK economy continues to be resilient and we are seeing no deterioration in credit risk across the portfolio.

What is the Group's strategy?

- The Group is a simple, low risk, customer focused UK financial services provider with leading positions in retail and commercial banking, and insurance. As the largest bank in the UK, we have the leading branch network and largest digital bank, with 15.9 million digitally active users at Q1 2019.
- 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.
- This is an ambitious agenda which will transform the Group for success in a digital world. We will invest more than £3 billion over the three years and this will drive our transformation into a digitised, simple, low risk, customer focused UK financial services provider. This significant investment is a 40 per cent increase on the previous plan and is made possible by the Group's market leading cost efficiency and reducing cost base. This transformation will in turn generate further cost reductions, which will enable us to further enhance the customer experience and continue to improve our financial performance and invest in the business.

Delivering a leading customer experience
Changing customer behaviour and expectations create opportunities, but require a proactive response. We will drive stronger customer relationships through best in class propositions while continuing to provide our customers with brilliant servicing and a seamless experience across all channels. This will include:
- remaining the number 1 digital bank in the UK with open banking functionality;
- unrivalled reach with UK's largest branch network serving complex needs; and
- data-driven and personalised customer propositions.

Digitising the Group
We recognise the need to simplify and modernise our IT and data architecture in order to transform the Group's cost base and make continuous improvements to everyday banking. This will be supported by increasing levels of technology spend, which currently equates to an amount representing c.17 per cent of operating costs. We will deploy new technology to drive operational efficiencies that will make banking simple and easier for customers whilst reducing operating costs, pursuing the following initiatives:
- deeper end-to-end transformation targeting over 70 per cent of cost base;
- simplification and progressive modernisation of our data and IT infrastructure; and
- technology enabled productivity improvements across the business.

Maximising the Group's capabilities
We will deepen customer relationships, grow in targeted segments and better address customers' banking and insurance needs as an integrated financial services provider. This will include:
- increasing Financial Planning and Retirement (FP&R) open book assets by more than £50 billion by 2020, having delivered customer net inflows of £13 billion in 2018 (excluding market movements), while also attracting more than 1 million new pension customers;
- implementing an integrated FP&R proposition with single customer view that will be available to more than 9 million customers by the end of the plan period; and
- start-up, SME and Mid Market net lending growth (more than £6 billion in the plan period, with £3 billion delivered in 2018).

Transforming ways of working
The success of our transformation will not only rely on new technologies but also on the skills of our people and how we work. We are making our biggest ever investment in people and embracing new technology to drive better customer outcomes. In 2018, we increased training hours by over 50 per cent to 4.3 million hours, with over 1 million of these relating to developing key skills for the future. We are on course to deliver our target of cumulative 4.4 million training hours relating to skills for the future by 2020.

What are your aspirations for the Schroders joint venture?

- The Group and Schroders have announced a strategic partnership to create a market leading wealth management proposition. This partnership will combine the Group's significant client base, multi-channel distribution and digital capabilities with Schroders' investment and wealth management expertise and technology capabilities.
- 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 will establish a new financial planning joint venture company (JV) for affluent customers. This business will trade under the name Schroders Personal Wealth and is on track to launch in Q2 2019. 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 within five years.
- The Group will own 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 will transfer approximately £13 billion of assets and associated advisers from its existing Wealth Management business to the JV. There will also be a referral agreement in place to enable the Group's customers to benefit from this enhanced proposition.
- The JV will be led by a management team comprising representatives from both partners. From completion, Antonio Lorenzo, Chief Executive of Scottish Widows and Group Director of Insurance & Wealth will be Chairman and James Rainbow, Schroders' Co-Head of UK Intermediary, will be Chief Executive.

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 will receive up to a 19.9 per cent financial investment in the holding company of Schroders' UK wealth management business (subject to regulatory approval). This will provide the Group's high net worth customers with access to Cazenove Capital's leading wealth management propositions.
- The partnership will provide the Group with 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.
- The Group will also transfer approximately £400 million of existing private client assets under management to the Schroders UK wealth management 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 19 per cent and we generally target growth in any of the businesses below this level. Slide 35 of the 2018 Results presentation (here) gives a clear representation of this.
- Customer loans were £441 billion at Q1 2019, with growth in targeted segments in the last 12 months, including £0.7 billion in SME and £1.5 billion in UK Motor Finance, offset by a reduction of £4.9 billion in mortgages, largely in the closed book. Although open mortgage book balances were down £2.5 billion on December 2018 driven by expected maturities and ongoing pricing discipline, the Group still expects the open mortgage book to end 2019 in line with the end of 2018.
- The Group will continue to target loan growth in business segments in which it is underrepresented, such as SME, Mid Markets and Motor Finance.
- In February 2018 the Group set out an ambitious three-year strategic plan which included a £6 billion lending target for SME, Mid Markets and start-up businesses.
- Expected reductions in the closed mortgage book will continue to impact overall asset growth expectations despite the high quality targeted growth achieved elsewhere across the business.

Why did the Group take an additional PPI charge at Q1?

- We have made an additional PPI provision of £100m in the first quarter reflecting increased costs from higher gross complaint volumes. The charge relates to a number of factors including higher than expected complaint volumes, an increase in average redress per complaint and additional operational costs to deal with potential complaint volatility.
- An industry-wide deadline of 29 August 2019 has now been imposed, and this will be the final day on which a claim may be submitted.
- Claims were around 13,000 per week in Q1 2019, in line with the assumption in the Group's outstanding PPI provision of £1 billion.

Why did you recently reduce your CET1 capital target?

- The Group was notified by the Prudential Regulation Authority on 1st May 2019 that the Systemic Risk Buffer for the Group's Ring Fenced Bank will be 200 basis points which equates to 170 basis points at a Group level.
- This is less than the 210 basis points previously included in the Group's capital guidance following action to manage the size of the Ring Fenced Bank.
- This decrease in the Systemic Risk Buffer follows the net 30 basis point reduction in the Group's Pillar 2A, as announced to the market in 2018 and with effect from 1 January 2019.
- Given these decreases, the Board's view of the level of CET1 capital targeted by the Group has reduced from around 13 per cent to around 12.5 per cent, plus a management buffer of around 1 per cent.
- The Group remains strongly capital generative and continues to expect ongoing capital build of 170 to 200 basis points per annum.
- The Group has a progressive and sustainable ordinary dividend policy and the Board will continue to give consideration to the distribution of surplus capital at the end of the year.

What is your dividend policy?

- The Group has a progressive and sustainable ordinary dividend policy. This means that the ordinary dividend is likely to grow each year, at a rate that the Group is likely to be able to sustain – the ordinary dividend for 2018 of 3.21 pence was 5 per cent higher than 2017.
- The Board has also indicated that it will distribute any surplus capital (over and above the ordinary dividend) by way of a share buyback programme or a special dividend. For the last two years the Board has recommended the use of share buybacks (2017: £1 billion; 2018: up to £1.75 billion) and this is the current preference given the amount of surplus capital, the normalisation of ordinary dividends and the flexibility that a buyback programme offers.
- The Board will consider distributions at each year end and any decision around dividends and/or buybacks is for the Board at that point. They will take into account various factors, including:
  - Capital build: the Group is strongly capital generative and expects ongoing capital build of 170 to 200 basis points per year, pre-dividends.
  - Capital requirement: over the last year the Group has been notified by the PRA that the Systemic Risk Buffer and Pillar 2A components of its capital structure would be lower than previously expected by a combined net 70 basis points. As a result of these changes, the Board's view of the level of CET1 capital targeted by the Group has reduced from around 13 per cent to around 12.5 per cent, plus a management buffer of around 1 per cent.
  - The macroeconomic environment.

What is a share buyback and how might I benefit?

- A share buyback (also known as a share repurchase) is a form of returning surplus capital held by a company to shareholders involving the purchase by a company of its own shares.
- The effect of a buyback is to reduce the total number of shares in issue. It is expected that shareholders who retain their shares in the company will benefit from the share buyback programme as they will own an increased proportion of the total shares in the company and should therefore see an increase in the dividend per share going forward given the reduced number of shares in issue.

How is the share buyback progressing and will it be complete by year end?

- A share buyback of up to £1.75 billion was announced with the 2018 Results and is expected to be completed during 2019. The buyback programme started on 1 March 2019 and around 164 million shares were cancelled in Q1, equivalent to £103 million.
- The buyback is managed entirely by the Group's brokers (UBS and Morgan Stanley) though the expectation is that it will be reasonably evenly phased through the course of 2019 with completion around the end of the year.

How can I participate in the share buyback programme?

- The share buyback programme does not work by buying individual investors' shares, regardless of whether they are large or small holders. The buyback operates through the bank's brokers buying shares on the open market, as any investor can do every day. Once the brokers have bought the shares in the market, they transfer them to the Group treasury function, who then cancel those shares.
- If an investor wished to sell their shares, the appropriate way to do so would be on the open market, in the normal way.

What is the Group doing on climate change?

- Following a Board level review of our approach to environmental sustainability, we have developed a new sustainability strategy which focuses on the opportunities and threats related to climate change and the need for the UK to transition to a sustainable low carbon economy. This strategy supports the Task Force on Climate Related Financial Disclosures (TCFD) recommendations and incorporates an implementation plan to address them and achieve full disclosure within five years. The strategy maps to the key headings used in the TCFD framework.
- The UK is committed to the vision of a sustainable, low carbon economy, and has placed clean growth at the heart of its industrial strategy. This will require a radical reinvention of the way people, work, live and do business.
- We have a unique position within the UK economy with our purpose of Helping Britain Prosper and it is of strategic importance to us that the UK makes a successful transition to a sustainable, low carbon economy that is resilient to climate change impacts and sustainably uses resources.
- We support the aims of the 2015 Paris Agreement on Climate Change, and the UK Government's Clean Growth Strategy. 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 the 2018 Annual Report & Accounts (here), from page 24, and the Group's approach to reducing its environmental footprint may be found here.

How does the Group ensure that it is operating responsibly?

- As a UK focused retail and commercial financial services company, we recognise that we have a responsibility to help address the economic, social and environmental challenges that the UK faces. We remain fully committed to Helping Britain Prosper. Our approach to responsible business ensures that colleagues are equipped to make the right decisions supported by our values-based culture, and the way we embed responsible business in our policies, processes and training.
- Each year we gather stakeholder views through a dedicated materiality study. In 2018, they identified demonstrating responsibility at our core as a key priority, including how we keep customers' data safe, support vulnerable customers, lend responsibly, support businesses and work with suppliers.
- Stakeholders also identified building capability and digital skills as a key issue, alongside tackling social disadvantage, inclusion and diversity and sustainability. We believe that the way we are addressing these issues places us in a unique position to Help Britain Prosper:
  - We are using our own capabilities in digital banking to help develop the skills of people, businesses and charities.
  - We are one of the UK's largest corporate donors and use our scale and reach to tackle some of society's more complex issues through our independent charitable Foundations.
  - We have taken a leading role in championing diversity and mental health, setting public goals for increasing Black, Asian & Minority Ethnic representation at all levels.
  - Our ambition is to take a leading role in supporting the UK's transition to a sustainable low carbon economy.
- Read more on this in the 2018 Annual Report & Accounts (here), from page 19.