

Q3 2019 FREQUENTLY ASKED INVESTOR QUESTIONS**How was the Group's financial performance in Q3 2019?**

- The Group has continued to make strong strategic progress in the first nine months of 2019 and delivered a solid financial performance in a challenging external environment.
- The Group delivered a statutory profit before tax of £2.9 billion in the first nine months of 2019 and underlying profit of £6.0 billion, with slightly lower net income and higher impairment charges partly offset by lower total costs.
- The Group has a return on tangible equity of 6.8 per cent for the first nine months of 2019, impacted by the additional £1.8 billion PPI provision in Q3; underlying return on equity remains strong at 15.7 per cent.
- Balance sheet strength has been maintained with targeted lending growth in the quarter including the open mortgage book, which grew by £6.1 billion including £3.7 billion from the Tesco mortgage book acquisition; SME which increased £0.1 billion and UK Motor Finance which increased £0.1 billion in the quarter.
- The Group continues to target current account balance growth, with Retail current accounts up 2 per cent over the last 12 months to £76.1 billion and Commercial Banking current accounts up 3 per cent to £34.6 billion.

How do you expect the Group to perform going forward?

- The Group has taken a prudent approach to growth and risk in recent years, whilst reducing costs and increasing investment in the business for the benefit of our customers
- Since the launch of the third stage of our strategic plan in 2018, the Group has invested £1.7 billion in improving customer experience and increasing efficiency. This investment means the Group is well placed to continue to support its customers and Help Britain Prosper.
- Overall, the subdued environment is having an impact on the economy and therefore our business. Continued uncertainty could further impact the outlook.
- The resilience of the Group's business model is reflected in its 2019 guidance:
 - Net interest margin of 2.88 per cent, in line with previous guidance of c.2.90 per cent
 - Operating costs now expected to be less than £7.9 billion, ahead of previous guidance, and cost:income ratio to be lower than in 2018
 - Net asset quality ratio of less than 30 basis points
 - Free capital build of c.75 basis points, post the PPI charge of 121 basis points
- 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

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

- 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.
- Our financial performance has been solid in a challenging environment which continues to demonstrate the resilience of our business model and that our strategy remains the right one in the current environment. The resilience of the business model is reflected in our guidance for 2019.
- 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.
- 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 stress test work demonstrates that the Group has robust capital and liquidity levels.

Are you seeing any credit deterioration given Brexit uncertainty?

- Credit quality remains strong, reflecting the Group's ongoing prudent approach to risk, provisioning and a resilient economic environment.
- In Q3 we took a single large corporate charge which was a top up from one of the charges taken at H1 2019. We continue to have a high quality and diversified Commercial Banking portfolio.
- Consumers are continuing to drive the UK economy. Spending power is rising at above 2 per cent per year, the strongest for three years, reflecting a combination of rising pay growth and low inflation. The unemployment rate remains close to its recent 45 year low and although consumer confidence has weakened, it remains near to its long-term average level.
- The impairment charge of £950 million for the first nine months of 2019 was driven by a number of items including the single large corporate charge and lower used car prices.
- The Group has guided to a net asset quality ratio of less than 30 basis points in 2019.

What is the Group's strategy?

- The Group is a 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.
- 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. 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).

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 2019 we have increased our investment in our colleagues, with a focus on ensuring that we are able to continue to attract, develop and retain the talent and capabilities we will need in the future. As part of this, we have increased the 'skills of the future' training delivered to our colleagues and we are well on track to meet our target of 4.4 million hours by the end of the plan period. We have also hired over 900 colleagues across critical areas such as engineering, data science and cyber security, in line with our plan to treble our strategic hiring compared to 2018.

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.
- We believe that the business is well positioned to meet its ambition of becoming a top three financial planning business by the end of 2023, this means doubling our assets under management.
- 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 this quarter, 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. 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. Antonio Lorenzo, Chief Executive of Scottish Widows and Group Director of Insurance & Wealth is Chairman of the JV and James Rainbow, Schroders' Co-Head of UK Intermediary, is 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 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 19 per cent and we generally target growth in any of the businesses below this level. Slide 37 of the 2019 Half-Year Results presentation ([here](#)) gives a clear representation of this.
- Customer lending was up £6.2 billion in the quarter with targeted lending growth including the open mortgage book, which grew by £6.1 billion driven by the £3.7 billion Tesco mortgage book acquisition and £2.4 billion of organic book growth as the Group took advantage of market pricing in the third quarter and benefitted from a strong application pipeline.
- In the third quarter, SME increased £0.1 billion and UK Motor Finance increased £0.1 billion. 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.

Why did the Group take an additional PPI charge at Q3?

- The Group increased the provision for PPI costs by a further £1,800 million in the quarter, bringing the total amount provided to £21,875 million. This includes a provision in relation to the Official Receiver which was not previously taken.
- The charge in the third quarter is largely driven by the significant spike in PPI information requests (PIRs) in the days leading to the deadline.
- We have now largely completed the work to assess volumes, which were at the high end of expectations. We continue to see a conversion rate of around 10 per cent of PIRs into material complaints.

Why did you recently reduce your CET1 capital target?

- The Group was notified by the Prudential Regulation Authority (PRA) 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 resulted in a 40 basis point reduction and 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 reduced from around 13 per cent to around 12.5 per cent, plus a management buffer of 1 per cent.
- Further to this, in Q3 2019 the Group recently received notification from the PRA that its Pillar 2A requirement has reduced further by 10 basis points to 2.6 per cent.
- The Board's view of the current level of capital required by the Group remains unchanged at around 12.5 per cent, plus a management buffer of around 1 per cent. Given the recent Pillar 2A reduction, the headroom above the regulatory requirements has increased.
- The Group remains strongly capital generative, with capital build amounting to 149 basis points in the nine months before PPI, dividends and the acquisition of the Tesco book.
- 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 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).
- 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 expects to generate about 75 basis points of free capital in 2019 after PPI.
 - Capital requirement: The Board's view of the current level of capital required by the Group remains unchanged at 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?

- The share buyback programme of up to £1.75 billion announced with the 2018 Results commenced on 1 March 2019.
- In line with its prudent approach, and the uncertainty around the final outcome of PPI at the time, the Board decided to suspend, and subsequently cancel the remainder of the 2019 buyback programme on 9 September 2019.
- At the point the buyback was cancelled, there was around £650 million of the up to £1.75 billion unspent.

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.
- We support the aims of the 2015 Paris Agreement on Climate Change and the UK Government's Clean Growth Strategy and ambitions. We have also committed to implement the Task Force on Climate Related Financial Disclosures (TCFD) recommendations.
- 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.
- 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 are committed to playing a leading role in helping to finance the transition to a sustainable, low carbon economy and supporting our customers in the required transition.
- 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 2018 Responsible Business Update ([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 our 2018 Responsible Business Update ([here](#)).