FULL YEAR 2020 FREQUENTLY ASKED INVESTOR QUESTIONS

How was the Group's financial performance in the year?

- 2020 was a challenging year, given the significant impact coronavirus has had on our customers, colleagues and communities across the UK. Our long-run transformation and investment has enabled continued delivery and positioned us well through the pandemic. We have continued to serve customers through their channel of preference and testament to this customer focus, we have delivered record customer satisfaction levels during 2020 across multiple channels. We have also seen the strength of our franchise further reinforced, with deposit growth across our trusted brands of £39 billion in the year.
- The Group's financial performance was inevitably impacted by the low rate environment, as well as depressed customer activity and the significant deterioration in the economic outlook in the first half.
- Net income of £14.4 billion, down 16 per cent with net interest income of £10.8 billion, down 13 per cent. Net interest margin of 2.52 per cent, reflecting lower rates, actions taken to support customers and changes in asset mix, including growth in high quality UK mortgages and lower levels of unsecured lending; average interest-earning assets stable at £435 billion. Other income of £4.5 billion, impacted by lower levels of customer activity, the impact of negative assumption changes in Insurance and Wealth and lower non-recurring items.
- Total costs of £8.0 billion, 4 per cent lower, enabling continued investment in digital projects and enhanced support for customers during the pandemic.
- Trading surplus of £6.4 billion, a reduction of 27 per cent although providing significant capacity to absorb impairment impact of the coronavirus crisis.
- Impairment charge of £4.2 billion, including £3.8 billion in the first half, primarily reflecting a significant deterioration in the economic outlook and including a management overlay of £400 million applied in the second half, given ongoing uncertainties as a result of coronavirus.
- Statutory profit before tax of £1.2 billion and statutory profit after tax of £1.4 billion, both impacted by lower income and the increased impairment charge; tangible net asset value per share of 52.3 pence.
- Loans and advances broadly in line with prior year at £440.2 billion with growth in the open mortgage book andGovernment-backed lending of £11.1 billion (£12.4 billion approved at 12 February 2021), more than offsetting lower balances in unsecured Retail, Corporate and Institutional, and the closed mortgage book.
- Open mortgage book up £7.2 billion in the year, including £10.2 billion in the second half and with a strong pipeline.
- Customer deposits up £38.9 billion in the year to £450.7 billion with Retail current accounts up 27 per cent having grown ahead of the market.
- Loan to deposit ratio of 98 per cent, providing a strong liquidity position and significant potential to lend into recovery.
- Board has recommended a final ordinary dividend of 0.57 pence per share, the maximum allowed under theregulator's guidelines.
- CET1 ratio of 16.4 per cent before dividends and 16.2 per cent after, both significantly ahead of the ongoing target of c.12.5 per cent, plus a management buffer of c.1 per cent and regulatory requirements of c.11 per cent

How do you expect the Group to perform going forward?

- The Group has a clear purpose of Helping Britain Prosper, which drives our strategy. Given the pandemic and the challenging macroeconomic environment, our focus for 2021 is Helping Britain Recover. This is in the context of delivering co-ordinated growth opportunities by building the UK's preferred financial partner for personal customers and the best bank for business. Delivery of the Group's customer focused ambitions in our two main segments, will be underpinned by the enhancement of four core capabilities within our business. These capabilities focus on delivering a modernised technology architecture, building an integrated payments platform, creating a data-driven organisation and implementing reimagined ways of working. Strategic execution in 2021, supported by increased investment, is underpinned by long-term strategic vision in these customer segments and capabilities.
- We are using our multi-brand, multi-channel distribution model with the UK's largest branch network and digital bank along with the strategic capabilities developed to continue to support our customers through this challenging period.
- The impact of the coronavirus pandemic on the people, businesses and communities in the UK and around the world continues to be profound. Significant uncertainties remain, specifically relating to the pandemic and the speed and efficacy of the vaccination programme. We remain confident that the Group's clear purpose, unique business model, significant competitive advantages and the customer focused evolution of our strategy we have announced in Strategic

Review 2021 will ensure that the Group is able to Help Britain Recover and in so doing, help transition to a sustainable economy.

- The Group faces the future with confidence. This is reflected in our guidance for 2021, based on our current macroeconomic assumptions:
  - Net interest margin to be in excess of 240 basis points
  - Operating costs to reduce further to c.£7.5 billion
  - Net asset quality ratio to be below 40 basis points
  - Improving profitability with statutory return on tangible equity of between 5 and 7 per cent (on the new basis)
  - Risk-weighted assets in 2021 to be broadly stable on 2020
  - Intention to accrue dividends and resume progressive and sustainable ordinary dividend policy

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

- Observed credit quality remains stable with the flow of assets into arrears, defaults and write-offs remaining at low levels. The Group has built a significant ECL allowance in the expectation that when the support schemes unwind, insolvencies and unemployment will consequently increase. The Group's total ECL allowance across all asset classes has increased from £4.2 billion to £6.9 billion in the year, with the majority of the increase in provisions established for up to date assets in Stage 1 and Stage 2. This increase was established in the first half of 2020 in response to changes in the Group’s economic outlook. Subsequent improvements to the economic outlook are predicated upon coronavirus vaccine developments which have emerged, reversing some of the ECL increases in the second half, including in the fourth quarter.
- Despite action taken to mitigate the significant levels of uncertainty through the use of the central overlay, the extent of the impairment charge in 2021 will depend on the potential severity and duration of the economic shock in the UK. Based on current macroeconomic assumptions, the Group expects the 2021 net asset quality ratio to be below 40 basis points.
- Overall the Group’s loan portfolio continues to be well-positioned, reflecting a prudent through-the-cycle approach to credit risk and high levels of security. The Retail portfolio is heavily weighted toward high quality mortgage lending where low loan-to-value ratios provide security against potential risks. The prime consumer finance portfolio also benefits from high quality growth in past periods in the context of the Group’s prudent risk appetite.
- The commercial portfolio reflects a diverse client base with relatively limited exposure to the most vulnerable sectors so far affected by the coronavirus outbreak. Within Commercial Banking, the Group’s management of concentration risk includes single name and country limits as well as controls over the overall exposure to certain higher risk and vulnerable sectors or asset classes.

How is the Group being impacted by Coronavirus?

- The impact of the coronavirus pandemic on the people, businesses and communities in the UK and around the world in 2020 has been profound. Many countries, including the UK, have seen unprecedented levels of economic contraction as a result of lockdown measures, as well as comprehensive and co-ordinated Government support measures. In this environment, we remain absolutely focused on working with all our stakeholders to support our customers and ensure a sustainable recovery.
- The Group’s successful ongoing transformation, continued investment and growing franchise strength positioned us well to face the pandemic. In response to the challenging economic environment, we provided around 1.3 million payment holidays on mortgages, loans, credit cards and motor finance products while we also set up dedicated phone lines for customers over 70 years old and for customers who are working on the frontline in the NHS.
- We are also providing significant support for our business clients, providing more than £31 billion of gross lending to small and medium sized businesses, including Government-backed lending. Within Insurance and Wealth, we have supported the NHS by providing free additional insurance cover to its workers and by alleviating pressure on GPs with a reduction in medical evidence required for insurance claims.
- Given our clear UK focus, the Group’s financial performance is inextricably linked to the health of the UK economy and thereby the impact of the coronavirus pandemic. Significant uncertainties remain relating to the pandemic, the third national lockdown and the speed and efficacy of the vaccination programme. Nonetheless, the Group’s purpose, unique business model, competitive advantages and ambitious strategic evolution will ensure that it will be able to Help Britain Recover from the crisis whilst delivering long-term sustainable returns for our shareholders.

- We have managed to keep around 90 per cent of our branches open during the coronavirus pandemic, using appropriate safeguarding measures. In addition, we have maintained our ATM network at over 95 per cent capacity and have set up dedicated telephone lines for our customers over 70 years old and those working on the frontline in the NHS.

How are you supporting your customers during this time?

- The impact of the coronavirus pandemic on the people, businesses and communities in the UK and around the world in 2020 has been profound. We remain absolutely focused on working together with all of our stakeholders to support our customers and ensure a sustainable recovery.
- Given our purpose of Helping Britain Prosper, we are here to support our customers through this time and have continued to provide a range of supportive measures for customers who need it:
  - Over £12 billion lending to businesses through Government-backed schemes, including Bounce Back Loan, Coronavirus Business Interruption Loan and Coronavirus Large Business Interruption Loan schemes
  - Around 1.3 million payment holidays granted to retail customers and 34,000 capital repayment holidays to small businesses and corporates to alleviate temporary financial pressures whilst also supporting a number of Corporate and Institutional clients with Covid Corporate Financing Facility advances
  - c.90 per cent of branches remained open through the pandemic, enabling the Group to continue to serve customers
  - Supported customers through the pandemic with c.880,000 calls answered on dedicated lines for NHS workers and over 70s, along with over 750,000 wellbeing calls made by branch colleagues
- We have also supported customers through the Group's own £2 billion Coronavirus fund by providing c.34,000 capital repayment holidays and c.22,000 fee-free overdrafts as part of the Group's £2 billion COVID-19 fund.
- To support our Insurance and Wealth customers during the pandemic, we have offered payment holidays on insurance premiums and accelerated claims payments on life and critical illness policies. We have also supported the NHS by providing free additional insurance cover to its workers and by alleviating pressure on GPs with a reduction in medical evidence required for customers' claims.
- Beyond providing financial support, we have stood by our customers and communities, offering a range of expert support and guidance, to help alleviate the pressure of the current crisis. For example, the Group delivered a new dedicated phone line which provides guidance and remote training to customers less able to see us in branch, to help them stay connected with everyday digital activities, including online banking. Customers were contacted and able to access free and practical support to help them stay connected online.
- With guidance from We Are Digital's agents, users learn skills to help with everyday tasks such as online shopping, booking a doctor's appointment using the NHS website, connecting virtually with family and friends, as well as internet banking. The service provides not just remote help via a telephone, but has also allowed for customers and charities in need to be able to be provided with a basic tablet device. We provided over 1,000 devices and data, and helped 12,500 callers to the helpline.
- We are working hard to tackle social disadvantage across Britain. In 2020, the Group's four independent charitable Foundations received £25.5 million of funding, enabling them to continue their work in supporting nearly 2,800 charities. These charities tackle vital issues such as domestic abuse, mental health, modern slavery and human trafficking, and employability. The Group has committed to maintain its £25.5 million funding to the Foundations in 2021, ensuring that these charities can secure a more certain future during these difficult times and safeguard their important work.
- Consistent with our purpose to Help Britain Prosper, in 2021 we will focus on Helping Britain Recover, with objectives that are fully embedded in our business. Our response takes action in five key areas where we believe we can make a difference: 1) Help rebuild households' financial health and wellbeing, 2) Support businesses to recover, adapt and grow, 3) Expand availability of affordable and quality homes, 4) Accelerate the transition to a low carbon economy, 5) Build an inclusive society and organisation. You can read more about these key areas later in this document.

Can you explain how the various Government schemes work?

- The Government have introduced various schemes to ensure that businesses are supported and that banks can continue to help support customers. Details of the various schemes are outlined below:

The Bounce Back Loan Scheme

- The Bounce Back Loan Scheme was launched on 4 May for small businesses who wish to apply for a loan between £2,000 and £50,000 (up to a maximum of 25 per cent annual turnover), for 6 years which is a 100 per cent government backed.
- No repayments required for the first 12 months, with no early repayment charges and an interest rate fixed at 2.5 per cent
- As at 12 February £9.3 billion approved under the Bounce Back Loan Scheme.

Update since Q3

- Extended until end March 2021.
- From 24 September following the Chancellors announcements lenders would have the ability to extend the length of the loan from a maximum of 6 years to 10 years. This has been subsequently confirmed in January as only being available to customers who are designated as CIFID. Forbearance options are currently being discussed with Industry and Government.
- Post Chancellor's latest BBLs update on the 8 February, PAYG now includes option to pause repayments straight after business interruption payment matures, instead of after 6 repayments made.

Coronavirus Business Interruption Loan Scheme (CBILS)

- The scheme is designed to support lending to SMEs who are experiencing lost or deferred revenues, leading to disruptions to their cashflow. The Government will provide lenders with a guarantee of 80 per cent on each loan in the event a loan is not repaid by the borrower.
- The borrower can access up to £5 million and the Government will cover payments to banks for interest and initial fees levied by the lender (e.g. arrangement, security fees) for the first 12 months.
- The scheme is aimed at companies that make a material contribution to the UK economy, can evidence a borrowing proposal that the lender would consider viable, if not for the coronavirus pandemic, and are expected to continue trading with the support of additional finance.
- As at 12 February 2021, £2.4 billion CBILs in SME.
- Extended until end March 2021.

Coronavirus Large Business Interruption Scheme (CLIBLS)

- The CLIBLS was launched on the 20th April and the scheme is designed to support businesses with an annual turnover of over £45 million.
- The Government will provide lenders with a guarantee of 80 per cent on each loan in the event a loan is not repaid by the borrower and will enable banks to make loans of up to £200 million.
- Businesses can be in any sector (excluding banks, building societies, insurers, re-insurers, public sector funded organisations, membership organisations or trade unions), but must be able to evidence a borrowing proposal that the lender would consider viable, if not for the coronavirus pandemic.
- As at 12 February 2021, £0.7bn CBILs in SME
- Extended until end March 2021.

Covid Corporate Financing Facility (CCFF)

- The CCFF will provide funding to larger businesses and corporates in order to support their liquidity and working capital issues by helping them to pay wages and suppliers through the purchase of short-term debt in the form of Commercial Paper.
- The Bank of England will buy Commercial Paper on behalf of HM Treasury with a maximum maturity of one year and the minimum issue size is £1 million.
- We are an approved dealer to offer services as a Commercial Paper dealer under the CCFF scheme specifically.
- The scheme is closing to new issuers from the end of the year and it will cease to purchase commercial paper under the scheme from 23 March 2021.

Payment holidays

- If a customer has been financially affected by the coronavirus outbreak, they can apply for a payment holiday. A payment holiday is subject to approval, but if accepted the customer won't need to make the usual loan payments for up to 3 months, with extensions available should customers request them.
- For the duration of the payment holiday the Group continues to recognise interest on the loan under the effective interest rate method.
- As at 17 February 2021, c.1.3 million Retail payment holidays, on £68.3 billion of lending, have been granted to help alleviate temporary financial pressure on customers during the crisis. Payment holidays of up to three months have been granted across Retail mortgages, personal loans, credit cards and motor finance, with extensions available of up to three months should customers request them. There are c.44,000 (£1.7 billion) payment holidays where the first payment holiday is still in force and 1.2 million (£66.6 billion) that have matured, including c.64,000 (£4.1 billion) that have then been extended.
- The vast majority of first payment holidays (98 per cent) have now matured, of which 89 per cent by value have restarted payments, 6 per cent have been extended and 5 per cent have missed payment when due.
- Following the announcement of the latest national coronavirus-related lockdown, since 1 January 2021, the Group has granted c.28,000 new payment holidays on £0.8 billion of Retail balances.

How are you supporting your colleagues?

- The Group remains focused on supporting our customers, whilst protecting our colleagues. As a result of the coronavirus pandemic, more than 50,000 colleagues working from home for most of 2020, increased from up to 15,000 before the pandemic. Further support measures are outlined below:
  - Since March, more than 50,000 colleagues have worked remotely as a result of the pandemic. In order to facilitate this and to improve colleague experiences of working from home, we have enabled the distribution of over 100,000 office items to our colleagues' homes.
  - In addition to physical and technological support, we have also prioritised the mental health of our colleagues in a period of significant uncertainty and change with regular check-ins throughout the year and increasing access to a number of wellbeing tools. For example, over 14,000 colleagues have made use of the mindfulness app, Headspace, for which the Group provides a free annual subscription.
  - Increased frequency of engagement, including explanation of expectations around working from home and gradual opening of LBG sites.
  - Increased support in health and wellbeing by launching Wellbeing desks in London, Bristol, Edinburgh, Halifax and Manchester.
  - Regular Group-wide communications to colleagues.
  - Phased post COVID-19 transition plans and risk assessments undertaken across all our head offices and branches.
  - Gathered colleague feedback on wellbeing and working from home through Pulse employee survey – words "caring", "humour/fun" and "human" selected as top words to describe the organisation.
  - Paying each permanent staff member £400 worth of shares in recognition of their work in 2020.

What is the Group's strategy?

- The Group is a customer focused, sustainable, efficient and low risk UK financial services leader with a clear purpose of Helping Britain Prosper. 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, with distinctive and sustainable competitive strengths.
- In 2017 we successfully completed the second phase of our strategic plan, achieving our priorities of enhancing 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).
- The Group's previous three-year strategic plan was launched in February 2018 and we have now achieved our ambitious target of transforming the Group for success in a digital world by investing £2.8 billion across our four strategic pillars:

Leading customer experience

- In 2020, we successfully built on our track record of improving customer propositions, even in the context of our focus on supporting our customers and ensuring operational resilience during the coronavirus crisis. The pandemic has accelerated the shift towards digital for everyday banking needs.
- We are the largest digital bank in the UK and have seen our digitally-active customer base increase to 17.4 million customers, while our active mobile app users have increased by nearly two million in 2020 to 12.5 million customers. At the same time, we have continued to enhance our digital propositions, with a focus on convenience and control. As a consequence, we have seen our digital customer satisfaction scores improve to a year end record high of 67.
- Alongside creating the UK's leading digital bank, we have maintained the UK's largest branch network. We have managed to keep around 90 per cent of our branches open during the coronavirus pandemic, using appropriate safeguarding measures. In addition, we have maintained our ATM network at over 95 per cent capacity and have set up dedicated telephone lines for our customers over 70 years old and those working on the frontline in the NHS.

Digitising the Group

- We have accelerated the digitisation of the Group by progressively modernising and simplifying the IT architecture, continuing to digitise customer journeys and migrating applications to private cloud. We have now digitised 78 per cent of the Group's cost base, ahead of our GSR3 target of 70 per cent.
- With cumulative technology spend of more than £4 billion over GSR3, our ongoing focus on transforming the business and investing in digital enabled us to respond effectively to the accelerated shift to digital channels brought about by the coronavirus pandemic. The proportion of products originated via digital channels increased significantly in 2020, up 10 percentage points to 85 per cent, our highest level to date.
- Despite this significant progress, we are only just starting to see the transformation that technology is enabling. Customers will increasingly expect to interact with us in a more effective, agile and personalised way.
- To compete effectively against new entrants and respond to these evolving customer expectations, we need to continue to transform how we work, replace some of our legacy systems and enhance our use of data across the business. Some of this development will be internal but we will also increasingly use partnerships with specialist technology and fintech providers.

Maximising Group capabilities

- We have actively supported our Commercial Banking clients through the pandemic, exceeding our £6 billion target for increasing net lending to start-ups, SME and Mid Market clients over the last three years. Outside of our support for the Government lending schemes, in 2020 we also achieved our £18 billion commitment for gross lending to UK businesses.
- In 2020 we increased the number of customers with access to our unique Single Customer View capability by c.1.5 million to c.6.5 million. We also expanded the scope of Single Customer View to include Halifax Share Dealing so that customers with this functionality are now able to view their pensions and investment portfolios alongside their banking products.
- We have seen cumulative growth in open book assets under administration of £46 billion, or 69 per cent, over the GSR3 period to £113 billion, only narrowly missing the £50 billion growth target despite challenging market conditions.

Transforming ways of working

- The coronavirus pandemic is having significant implications for our colleagues, in both their personal and professional lives. These include accelerating the transition to new ways of working for the majority of the Group and accentuating the skills that we have sought to develop over the course of GSR3. Since March 2020, more than 50,000 colleagues (over 70 per cent of our workforce) have worked remotely and we have increased our adoption of remote working tools to greatly increase collaboration and support more agile working practices.
- In 2020 we delivered an additional 2.1 million training hours to develop the skills for the future, taking the total to 5.3 million hours over the course of GSR3, ahead of our target. In addition, the proportion of change programmes delivered using agile methodologies has increased to 65 per cent over the course of GSR3, ahead of our target of 50 per cent.
- Our 2020 Colleague Survey received almost 50,000 responses and showed positive increases in all main areas, including overall engagement up 7 percentage points to 81 per cent. This reflects the highest level since measurement started in 2011 and is above the UK high-performing norm.

Strategic Review 2021

- The next phase of our strategy, Strategic Review 2021, is focused on Helping Britain Recover and building the UK's preferred financial partner for personal customers and the best bank for business. It builds on our core capabilities and the strong foundations from previous strategic reviews, while reinforcing our customer focus
- Strategic Review 2021 will deliver co-ordinated growth opportunities in our two core customer segments, supported by enhanced capabilities in four areas
  - Preferred financial partner for personal customers, through leveraging our unique competitive advantages to significantly deepen customer relationships
  - Best bank for business, through building a leading digital SME proposition, with a disciplined and strengthened business for Corporate and Institutional clients
  - Further develop and leverage our core capabilities, including delivering a modernised technology architecture, building integrated payment solutions, creating a data driven organisation and implementing reimagined ways of working
- Clear execution outcomes for the coming year are outlined for all these areas and underpinned by long-term strategic vision. Strategic Review 2021 will thus enable the Group to deliver revenue generation and diversification whilst unlocking further efficiency gains, within our low risk and capital efficient business. The Group's purpose, unique business model and ambitious strategy will allow us to Help Britain Recover and deliver long-term sustainable returns for our shareholders.

Helping Britain Recover

- We recognise that the focus of the Group's purpose must evolve in response to the current environment and changing customer needs and expectations.
- With the evolution of our strategy, we will further embed our purpose across all of our activities. This will ensure we contribute to creating an environmentally sustainable and inclusive future for the UK and by doing so build a successful and sustainable business.
- The global pandemic will have lasting social and economic effects on the United Kingdom. Its impact has been felt by everyone, whether through financial hardship, reduced choices, mental distress or personal loss.
- Our focus will therefore be to Help Britain Recover, and we are committed to working with others in five areas where we can make the most difference.
  - **We will help rebuild households' financial health and wellbeing** - We remain committed to supporting our customers to become financially resilient and to plan and save for the future. We will provide practical support, and flexibility where possible, to help our customers facing financial difficulty to get back on track and help as many customers as we can to stay in their own home
  - **We will support businesses to recover, adapt and grow** - We will be by the side of businesses as they recover, supporting UK business to adapt and grow, and create quality jobs across the regions of the UK.
  - **We will expand the availability of affordable and quality homes** - As the UK recovers from the pandemic, we aspire to a UK in which all households have access to stable, affordable and safe homes in places they want to live. We are committed to broadening access to home ownership and exploring opportunities to increase our support to the UK rental sector.
  - **We will help accelerate the transition to a low carbon economy** - With recovery comes an opportunity to build a greener future, creating new businesses and jobs for the future. We want to play our part in supporting the transition to net zero and are committed to working with customers, Government and the market to help reduce the carbon emissions we finance by more than 50 per cent by 2030 on the path to net zero by 2050 or sooner.
  - **We will help build an inclusive society through our financial services offering and by creating an organisation that reflects the society we serve** - We believe that the economic and social recovery should be one that's truly inclusive and involves communities across the UK's nations and regions.

How do you ensure a smooth transition to the new CEO and Chairman's successors?

- The Board ensures that appropriate and effective succession planning arrangements are in place
- In October 2019, the Group announced Lord Blackwell will have served 9 years on the Group Board in 2021, and in line with the UK Corporate Governance Code 2018, plans to retire as Group Chairman at or before the AGM in 2021

- In early 2020, the Nomination and Governance Committee initiated a search process for a new Chairman to allow time to identify Lord Blackwell's successor and enable an orderly handover
- As announced in July 2020, Robin Budenberg joined the Group Board on 1 October 2020 taking over the role of Chair from 1 January 2021
- In July 2020, it was also announced that, with the Chair succession now in place, António Horta-Osório informed the Board of his intention to step down as Chief Executive in 2021 after having delivered three strategic plans and completed 10 years in the role next year.
- The Board announced in November the appointment of Charlie Nunn as new Group Chief Executive. Charlie will subject to regulatory approval join the Group in August this year from HSBC. As announced on 1 December 2020 António will step down from his role on 30 April 2021.
- The Board has agreed that William Chalmers, Group Chief Financial Officer, will, subject to regulatory approval, take on the role of acting Group Chief Executive when António Horta-Osório steps down on 30 April 2021 and until Mr. Nunn's arrival on 16 August 2021. Mr. Chalmers will continue to maintain ongoing responsibility as Group CFO, but arrangements will be made for other colleagues to support him in this role and to manage his wider responsibilities appropriately. He will also be supported by Robin Budenberg and Alan Dickinson in their roles as Chair and Deputy Chair.

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 a new financial planning joint venture (JV) company, Schroders Personal Wealth. Our JV 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 bring financial planning to more people across the UK.
- The partnership is in line with the objectives outlined in the Group's latest strategic review and will accelerate the development of its financial planning and retirement business, and deliver significant additional growth.
- While the pandemic has caused some delays, our ambition for Schroders Personal Wealth to become a top three UK financial planning business remains unchanged, although we now expect to achieve this by 2025.
- Our partnership with Schroders provides opportunities for the Group in two areas: Financial Planning and Wealth Management.

Financial Planning

– 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 2025.
– 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.

High Net Worth Wealth Management

– Our partnership with Schroders provides the Group the opportunity to offer the specialist investment management services of Cazenove Capital to our customers who require specialist wealth management services as well to as charities and family offices, with which the Group has strong relationships via its Commercial Banking business.

Where do you expect growth in the business?

- Average interest-earning banking assets were stable compared to prior year at £435 billion, with growth due to Government-backed lending to support business clients through the coronavirus crisis, open mortgage book growth and the full impact of the 2019 Tesco mortgage book acquisition. This was offset by lower balances in the closed mortgage book and in credit cards, as well as reductions in revolving credit facilities (RCFs) and the continued optimisation of the Corporate and Institutional book within Commercial Banking.
- Average interest-earning banking assets in the fourth quarter increased marginally to £437 billion as the Group continued to benefit from strong growth in the open mortgage book (lending balances up £6.7 billion in the fourth

quarter), offset by further RCF reductions in Commercial Banking. The Group expects average interest-earning assets in 2021 to be flat to modestly higher than in 2020.

- The Group's balance sheet remains very strong. Loans and advances to customers were flat on prior year at £440 billion. This includes an increase in open mortgage book net lending of £7.2 billion in the year, with £6.7 billion growth in the fourth quarter, reflecting the strength of the UK housing market.
- Total customer deposits increased by £38.9 billion in the year, to £450.7 billion. Retail current account growth was £20.5 billion in 2020 and ahead of the market, driven by lower levels of customer spending during the pandemic and inflows to the Group's trusted brands. Commercial Banking current account growth also illustrates the Group's strong customer relationships and a proportion of the Government-backed lending being retained on deposit by SME customers.
- We exceeded the Group's target to provide £6 billion of additional net lending to start-up, SME and Mid Market clients by end-2020 and surpassed the 2020 target of £18 billion gross new lending to these businesses
- Loans and advances to customers were stable at £440.2 billion (31 December 2019: £440.4 billion). Within Retail, the open mortgage book increased by £10.2 billion in the second half of 2020 with £6.7 billion in the fourth quarter, reflecting the strength of the UK housing market. Commercial Banking loans, including Retail Business Banking, reduced by £2.2 billion in 2020 as the continued optimisation of the portfolio and reduced revolving credit facilities balances more than offset support provided to clients through Government-backed lending schemes.
- For 2021, the Group expects net mortgage open book growth as well as maintenance of all channels' record net promoter scores. Beyond 2021, the Group expects to increase the number of priority customers with existing needs met by both Retail and Insurance and Wealth, and to achieve £25 billion in net new money in open book assets under administration by 2023. As previously mentioned, we continue to expect Schroders Personal Wealth to be a top 3 wealth provider by 2025.

How do you expect to continue reducing costs going forward?

- Market-leading efficiency continues to provide competitive advantage and the focus on cost discipline will continue. The Group will also ensure strategic investment is targeted appropriately to reflect the new operating environment.
- Total costs of £7,964 million were 4 per cent lower than in 2019, driven by continued reductions in operating costs and lower levels of remediation.
- Our relentless focus on cost efficiencies has led to a 4 per cent reduction in operating costs despite absorbing additional coronavirus-related expenses during 2020.
- Business as usual costs were down 4 per cent, driven by ongoing cost management as well as lower remuneration and reduced travel costs, partially offset by increased pension costs and coronavirus-related expenses.
- Total investment spend in 2020 amounted to £2.0 billion, down 14 per cent on 2019. This included £0.9 billion relating to strategic investment, taking the cumulative strategic spend since the start of GSR3 to £2.8 billion.
- Although investment spend continues to be managed carefully in response to the current operating environment, the Group has continued to prioritise technology and digital projects and will continue to invest in the long-term success of the business.
- The Group now expects operating costs to reduce further to c.£7.5 billion in 2021.

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

– The Group recognised a charge of £85 million for PPI in the final quarter of the year. This charge was driven by the impact of coronavirus delaying operational activities during 2020, the final stages of work to ensure operational completeness and final validation of information requests and complaints with third parties that resulted in a limited number of additional complaints to be handled.

- Of the approximately six million enquiries received pre-deadline, more than 99 per cent have now been processed. A small part of the costs incurred during the year also reflect the costs associated with litigation activity to date.
- At 31 December 2020, a provision of £201 million remained unutilised relating to complaints and associated administration costs excluding amounts relating to MBNA.

What is your dividend policy?

- Following a request made by the PRA to large UK banks in March 2020, the Group suspended the payment of dividends on ordinary shares for the remainder of the year and cancelled the payment of the final dividend for 2019. These actions were undertaken as a precautionary measure to preserve capital as the spread of the coronavirus pandemic led to a UK wide lockdown, with the potential to create a significant and prolonged downturn.
- In December 2020, the PRA announced that dividend payments could recommence, provided that this was subject to a prudent framework for the setting of such distributions. As a result the PRA has established a cap on distributions for year end 2020.
- Given the Group's strong capital position at the year end and the regulator's clarification that banks may resume capital distributions, the Board has recommended a final ordinary dividend of 0.57 pence per share, the maximum allowed under the PRA's guidelines.
- The PRA has additionally noted its intention to provide a further update on distributions ahead of the 2021 half year results for the large UK banks. It is expected that the PRA will take account of the outcome of the first stage of the Bank of England 2021 solvency stress test exercise in informing its approach to half year distributions. Ahead of the update at half year, dividends may be accrued for via capital, provided this is undertaken on an appropriately prudent basis, but may not be paid.
- The Group will update the market on interim dividend payments with the half year results, following receipt of the update from the regulator and based on macroeconomic conditions at the time.
- The Board remains committed to future capital returns. In 2021, the Board intends to accrue dividends and resume its progressive and sustainable ordinary dividend policy with the dividend at a higher level than 2020. As normal, the Board will give due consideration at year end to the size of the final dividend payment and any return of surplus capital in addition to the ordinary dividend, based on circumstances at the time.

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 has underpinned our environmental, social and governance efforts.
- We have made strong progress since we launched the Plan in 2014. Our Plan for 2018 – 2020 has now drawn to a close with key achievements including:
  - We have committed c.£40 billion of lending to help people buy their first home;
  - We have increased net lending to start up, SME and Mid Market businesses by over £6 billion to support businesses to start up and grow;
  - We have supported UK renewable energy projects that could power the equivalent of over 10 million homes;
  - We have trained 1.8 million individuals, SMEs and charities in digital skills, including internet banking;
  - We have grown assets that we hold on behalf of customers in retirement and investment products by £46 billion to help people save for the future;
  - We have increased representation of women in senior roles to 37.0 per cent (from 28 per cent in 2014 when the target was set) and the Black, Asian and Minority Ethnic colleagues in senior roles to 7.7 per cent (from 6.4 per cent in 2018 when the target was set);
  - We have supported nearly 2,800 charites in 2020 as a result of our £100 million commitment to the Group's independent charitable Foundations.
- Looking ahead into 2021, the Group will continue its work to Help Britain Prosper with a renewed focus of Helping Britain Recover. We will do this by concentrating on five key areas where we can make the most difference, all of which are embedded in our strategy. These five areas are described earlier in this document.

How are you supporting communities?

- As one of the UK's largest corporate donors, we use our scale to reach millions of people and help tackle social disadvantage in communities across the UK.

- Spanning across the past 35 years, our four regional Foundations have been providing essential funding and support to charities across the UK and Channel Islands, helping communities overcome complex social issues and rebuild lives.
- In 2020, the Foundations received £25.5 million enabling them to support 2,787 charities. These charities are tackling issues such as domestic abuse, mental health, modern slavery and human trafficking, and employability. The Group's commitment to maintain its £25.5 million in the Foundations funding in 2021 helps secure a more certain future for charities during these difficult times and safeguard the important work that they do.
- In addition to adapting many of our community engagement initiatives to virtual delivery, we have responded directly to community needs through new investments. These investments included the expansion of our Mental Health and Money Advice lines, CLIC online chat services run by our Charity of the Year partner Mental Health UK (MHUK) and the provision of mobile devices through a partnership with We Are Digital.
- Our total community investment in 2020 was £51.2 million and includes our colleagues' time, direct donations, and a share of the Group's profits given annually to the Foundations.
- Further information related to how we are supporting our community initiatives can be found in the 2020 Lloyds Banking Group ESG Report available on the Group webpage.

Can you give an update on your Race Action Plan announced in response to the Black Lives Matter movement?

- At Lloyds Banking Group, we stand against discrimination in all its forms, but the Black Lives Matter movement prompted many of us to reflect, learn and think about what more we must do to drive positive change.
- Prior to the announcement of our Race Action Plan we had made good progress:
  - We have a comprehensive Ethnicity Strategy to help us meet our goals, which focuses on attracting and retaining talented Black, Asian and Minority Ethnic colleagues, building cultural awareness at all levels, and increasing visibility of authentic role models from a wide range of backgrounds.
  - Our Race, Ethnicity and Cultural Heritage (REACH) colleague network has over 4,000 members and holds regular events to support and develop our colleagues from a Black, Asian and Minority Ethnic background.
  - Since 2019 we have sponsored the Pathway to Success programme, which aims to progress talented Black, Asian and Minority Ethnic candidates into public office. And in 2014 some of our colleagues established the RISE initiative, providing work experience and apprenticeships to young people from ethnic minority backgrounds at 10 colleges across the country.
- In 2018, we were the first FTSE100 company to set public goals to increase Black, Asian and Minority Ethnic representation overall and at senior levels, which has led to positive changes, however feedback from our Black colleagues told us there was still more to do.
- In July 2020, our Group Chief Executive, António Horta-Osório launched our Race Action Plan, which includes a new public goal to specifically increase Black representation in senior roles from 0.6 per cent at senior grades to at least 3 per cent by 2025 to align with the overall UK labour market.
- The plan aims to drive cultural change, recruitment and progression across the Group. In December 2020, we broadened our plan to go further and work beyond our own internal boundaries by actively supporting Black communities through our partnerships with Foundervine and the Black Business Network.
- We have already delivered a number of activities, including establishing a new Race Advisory Panel, made up of Black, Asian and Minority Ethnic colleagues to influence and inform our diversity strategy, delivering a series of race education sessions for all senior leaders, and publishing our Ethnicity Pay Gap report.
- We have commenced the roll-out of a wider race education programme for all colleagues, launched our new Talent Identification Programme for our Black senior managers, and have started to review our key people processes to remove any issues of racial bias within the Group.
- In addition to our target to specifically increase Black representation in senior roles to 3 per cent by 2025, we have also in February 2021 announced our other updated diversity aspirations to increase representation of women to 50 per cent in senior roles and Black, Asian and Minority Ethnic colleagues to 13 per cent in senior roles by 2025 to align with the overall UK labour market.

Can you give an update on your ambitions to support the transition to a sustainable low carbon economy?

- The Group is committed to helping the UK transition to a sustainable low carbon economy. To signal our commitment we set an ambitious goal at the start of 2020 working with customers, Government and the market to help reduce the emissions we finance by more than 50 per cent by 2030, on path to net zero by 2050 or sooner.
- We continue to make progress in implementing our ambitious goal and in doing so we are also focusing on enhancing our green finance products and services. For example, we have:
  - Supported UK renewable energy projects that could power the equivalent of 10.1 million homes since the start of 2018;
  - Launched an online tool for our mortgage customers that provides a tailored action plan on home improvements that could make their home more sustainable;
  - More than doubled the number of electric vehicles we finance in 2020;
  - Raised around £2.9 billion funding in green and sustainable bonds for our clients since launching our offering in 2016.
- In early 2021, we announced Scottish Widows' target to halve the carbon footprint of its investmenst by 2030, reaching net zero across our investment book by 2030.
- We intend to reach this target through proactive investment in climate solutions, selective divestments and using our influence through stewardship to drive the transition to a low carbon future.
- We also continue to improve the sustainability of our own operations. In 2019 we announced achievement of our 2030 carbon emission reduction goal for our own operations, 11 years early, and exceeding our 60 per cent reduction target.
- We have now announced three new operational climate pledges, including achieving net zero carbon operations by 2030, to accelerate our plan to tackle climate change.