Q1 2020 FREQUENTLY ASKED INVESTOR QUESTIONS

How was the Group's financial performance in Q1?

- The Group delivered a statutory profit before tax of £74 million, impacted by a significantly increased impairment charge of £1,430 million given the revised economic outlook. Statutory return on tangible equity was 5.0 per cent with tangible net assets per share of 57.4 pence.
- Net income of £3,952 million was 11 per cent lower than in the first three months of 2019, with both lower net interest income and lower other income, reflecting lower interest rates, competitive asset markets and the slowdown in retail and commercial markets in March following the coronavirus outbreak, as well as the non-recurrence of one off items recognised in the first quarter of 2019 and a write-down in the assets in our Lloyds Development Capital business.
- Operating costs of £1,877 million were 4 per cent lower, despite continued strategic investment and absorbing some emerging expenses related to the Group's response to the coronavirus outbreak.
- In this challenging external environment the trading surplus for the period was solid at £1,988 million, a reduction of 19 per cent compared to the first three months of 2019, but an increase of 7 per cent on the final quarter of 2019 (decrease of 4 per cent excluding the bank levy).
- The impairment charge in the quarter increased significantly to £1,430 million, primarily driven by updates to the Group's economic outlook and some charges relating to existing restructuring cases.
- Balance sheet strength was maintained with capital, funding and liquidity remaining strong.
- Loans and advances increased £2.7 billion in the quarter to £443.1 billion, with increased corporate lending, primarily drawdowns of existing corporate facilities, partially offset by expected reductions in the mortgage book along with reductions in credit cards, where customer activity reduced in March

How do you expect the Group to perform going forward?

- Over the last two years we have made significant progress against our ambitious strategy, while continuing to support our core purpose of Helping Britain Prosper. It is this purpose which helps to inform our response to coronavirus
- 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 longer-term impact of coronavirus remains unclear but the Group will maintain its focus on supporting customers and the UK economy while remaining well positioned to deliver for customers beyond the crisis
- Throughout this period of uncertainty we will continue to work closely with Government, regulators and other authorities and use the strength of our balance sheet and business model to ensure that we play our part in supporting our customers and the UK economy.
- Given the significant change in the operating environment and economic expectations the Group's previous guidance is no longer appropriate. The impact of lower rates, lower levels of activity and higher impairment on the Group's business will continue into the second quarter, but remains difficult to quantify given the significant uncertainty. The Group will update the market once there is greater clarity

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

- Underlying credit quality remains robust and the Group's loan portfolio remains well positioned.The impairment charge in the quarter increased significantly to £1,430 million primarily driven by updates to the Group's economic outlook and some charges relating to existing restructuring cases, net of Government support programmes
- Given the Group's clear UK focus, its performance is inextricably linked to the health of the UK economy and the Group will inevitably be impacted by the nationwide lockdown related to coronavirus which has already started to have a significant impact on the UK economy.
- Significant uncertainty remains. Although the existing book and new lending, including Government supported lending, will inevitably experience losses, partially offset by applicable Government guarantees, the extent of the impairment charge will depend on the severity and the duration of the economic shock experienced in the UK.

What do you think the impact of coronavirus will be on the Group?

- Given the Group's clear UK focus, its performance is inextricably linked to the health of the UK economy and the Group will inevitably be impacted by the nationwide lockdown related to coronavirus which has already started to have a significant impact on the UK economy.
- The longer-term financial impact of coronavirus is not yet clear and given the significant change in the operating environment and economic expectations, the Group's previous guidance is no longer appropriate
- The impact of lower rates and lower levels of activity on the Group's business will continue into the second quarter, but remains difficult to quantify given the significant uncertainty.
- We expect the Group will also experience further impairments, both in existing and new lending books, particularly if economic expectations deteriorate further from the base case.
- The UK faces an uncertain outlook, however, the Group remains focused on supporting our customers, whilst protecting our colleagues and remaining present in communities across the UK. The Group will update the market once there is greater clarity of the impact of coronavirus on the UK economy and any actions that the Group can take to mitigate them.

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:

Coronavirus Business Interuption Loan Scheme (CBILS)
- The scheme is designed to support lending to SMEs who are experiencing lost or deffered 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.
- Given our purpose of Helping Britain Prosper, lending to SMEs is a key target area of the Group and is aligned to our commitment of lending up to £18 billion to UK businesses in 2020.

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 £45 million to £500 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 £25 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.

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 Commerical Paper on behalf of HM Treasury with a maximum maturity of one year and the minimum issue size is £1 million.
- The scheme will operate for for at least 12 months, and for as long as steps are needed to relieve cash flow pressures on firms that make a material contribution to the UK economy.
- We are now an approved dealer to offer services as a Commercial Paper dealer under the CCFF scheme specifically.

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% 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 %

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
- The interest payments are then accrued and added to the balance owed by the customer
- As at 24 April 2020, the Group had already approved 880,000 payment holidays across mortgages, personal and business loans, credit cards and motor financing

How are you supporting your customers during this time?

- Given our purpose of Helping Britain Prosper, we are here to support our customers through this time and have announced a range of supportive measures for customers who need it:
  - No fees for missed payments on credit cards, loans, motor finance and mortgages;
  - Payment holidays on mortages, credit cards, loans and Protection and Home Insurance, with additional support provided where customers need it;
  - A delay in returning vehicles for up to three months for our Black Horse customers without penalty;
  - All customers with existing mortgage offers have been granted 3 months to complete their home purchase at the agreed mortgage rate;
  - Lloyds Bank, Halifax and Bank of Scotland customers are able to access a £500 interest-free overdraft,
  - In some cases, advanced payments for Life and Critical Illness claims can be made.
- You can find details on what the Group has done so far to support customers on slides 2 and 3 of the Q1 IMS presentation (here). More information on help available to customers can be found here.

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, around 45,000 colleagues are now working from home, up from the previous level of around 15,000. Further support measures are outlined below:
  - Suspended staff reductions to accommodate the immediate crisis
  - Regular Group-wide communications to colleagues, including commitment to pay colleagues in full, regardless of how their work has been impacted
  - Increased support for frontline colleagues
  - Enabling colleagues to work from home safely, including rolling out additional laptops and equipment
  - Increased support in Health and Wellbeing, providing colleagues with 24/7 access to support
- The Group is actively engaging with the Government and all of our stakeholders to frame our coronavirus response and are commited to supporting customers, colleagues and communities. Further details can be found in our ESG deck (here).

What is the Group's strategy?

- The Group is a simple, low-risk, customer focused UK financial services provider with distinctive and sustainable competitive strengths. As the bank with the largest retail and commercial presence throughout the UK, we have the largest digital bank and the largest branch network in the UK
- In 2017 we successfully completed the second phase of our strategic plan, achieving our priorities of creating the best customer experience, becoming simpler and more efficient and delivering sustainable growth. In the period of the second phase of the strategic plan the Group also resumed paying dividends (2014 results) and returned to full private ownership (May 2017).
- In February 2018 we launched the third phase of our strategic plan, which covers the period 2018 to 2020 and is based around four strategic priorities focused on the financial needs and behaviours of the customer of the future: further enhancing our leading customer experience; further digitising the Group; maximising Group capabilities; and transforming ways of working. Further detail on these priorities is outlined below.
- Over the last two years we have made significant progress against our ambitious strategy, while continuing to support our core purpose of Helping Britain Prosper. It is this purpose which helps to inform our response to coronavirus. 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.

- In 2020 we will also begin to consider the next phase of our journey. Work will begin at pace in the summer on the new strategic plan, which we expect to announce in February 2021, along with longer-term financial targets. This work will take into account a wide range of factors, including the evolving external environment, emerging changes across society and changing expectations of how companies should respond to such challenges.

Leading customer experience

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

- Remain number 1 UK digital bank with 16.9 million digital users and Open Banking functionality
- Unrivalled reach with UK's largest branch network, serving complex needs
- Data-driven and personalised customer propositions.

Digitising the Group

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

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

Maximising Group capabilities

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

- Our unique Single Customer View capability, which enables customers to view all of the pension and long-term savings that they hold with the Group alongside their banking products, was available to more than six million customers as at Q1 2020.
- As at FY 2020, increased net lending to start-ups, SMEs and Mid Market customers to £3.4 billion since 2018 together with achieving our target of lending £18 billion to UK businesses in 2019.

Transforming ways of working

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

- 50 per cent increase in training and development to 4.4 million hours, with 3.2 million cumulative future skills training hours delivered
- Up to 30 per cent change efficiency improvement
- As a result of the coronavirus pandemic, around 45,000 colleagues are now working from home, up from the previous level of around 15,000.

What are your aspirations for the Schroders joint venture?

- We are working hard to help people save for the future and in 2019 in partnership with Schroders, we launched Schroders Personal Wealth. Our joint venture with Schroders has harnessed the unique strengths of two of the UK's strongest financial services businesses to create a market-leading wealth proposition with the expertise and broad spectrum of investment and retirement products to optimise customers' entire financial lives. Schroders Personal Wealth has got off to a strong start since its launch, with Retail wealth referrals from the Group up 33 per cent in 2019.
- For the Group, the partnership is in line with the strategic objectives outlined in its latest strategic review and will accelerate the development of its financial planning and retirement business, and deliver significant additional growth.
- The strategic partnership includes two major initiatives: Financial Planning and High Net Worth Wealth Management.

Financial Planning

- The Group and Schroders have established a new financial planning joint venture company (JV) for affluent customers, Schroders Personal Wealth in the first half of 2019. We have launched the JV to the market, operating a restricted model with a wide product set.
- The Group and Schroders see significant growth opportunities in the financial planning and retirement market and the JV will aim to become a top three UK financial planning business by end of 2023.
- The Group owns 50.1 per cent of the share capital and Schroders the remaining 49.9 per cent. The JV will address the growing gap in the advice market through a personalised, advice-led proposition, backed by world-class investment expertise and best in class technology.
- The Group has transferred approximately £13 billion of assets and associated advisers from its existing Wealth Management business to the JV and there is a referral agreement in place to enable the Group's customers to benefit from this enhanced proposition.
- The JV is led by a management team comprising representatives from both partners. Antonio Lorenzo, Chief Executive of Scottish Widows and Group Director of Insurance & Wealth is Chairman of the JV.

High Net Worth Wealth Management

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

Where do you expect growth in the business?

- The Group has leading market shares in many of its retail banking business lines, including mortgages, credit cards and current account balances. The Group's average market share is around 18 per cent. Slide 40 of the 2019 FY Results presentation (here) gives a clear representation of this.
- Average interest-earning banking assets reduced by £1.8 billion year on year with growth in the open mortgage book and targeted segments, including UK motor finance, more than offset by lower balances in the closed mortgage book and the effects of the Commercial Banking portfolio optimisation.
- The Group continues to optimise funding and target current account balance growth, with Retail current accounts up 4 per cent over the last three months at £79.9 billion (31 December 2019: £76.9 billion) partly due to lower levels of customer spending.
- Since 2018, we have also increased net lending to start-ups, SMEs and Mid Market customers to £3.4 billion as at FY 2019 together with achieving our target of lending £18 billion to UK businesses in 2019.
- Going forward we aim to continue to grow our market share in targeted and under-represented segments such as SMEs, Motor Finance, Insurance and Wealth Management.

How do you expect to continue reducing costs going forward?

- Total costs of £1,964 million were 1 per cent lower than in the first three months of 2019 with a reduction in operating costs more than offsetting increased remediation charges.
- The Group's market-leading cost:income ratio of 49.7 per cent was higher than the first three months of 2019, having been impacted by lower net income in the period
- Operating costs of £1,877 million were 4 per cent lower, despite continued strategic investment and absorbing some emerging expenses related to the Group's response to the coronavirus outbreak
- The Group saw a 6 per cent reduction in business as usual costs, driven by continued cost discipline and efficiencies gained through digitalisation and other process improvements.
- 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.
- Operating costs will continue to fall in 2020 after absorbing additional coronavirus-related expenses

Did the Group take any additional charges for PPI in Q1?

- No further provision has been taken for PPI in Q1.
- Good progress has been made with the review of PPI information requests received and the conversion rate remains low and consistent with the provision assumption of around 10 per cent, although operations have been impacted by the coronavirus pandemic in recent weeks.
- The unutilised provision at 31 March 2020 was £1,018 million.

What is your dividend policy?

- In April we announced the cancellation of dividends. Our decision on the outstanding 2019 dividend was taken by the Group's Board at the specific request of our regulator, the Prudential Regulation Authority (PRA) and was in line with all other major UK listed banks.
- The Board also decided that until the end of 2020 we will undertake no quarterly or interim dividend payments, accrual of dividends, or share buybacks on ordinary shares in order to help us to serve the needs of businesses and households through the extraordinary challenges presented by the coronavirus pandemic.
- These are difficult decisions and, while we recognise the disappointment and frustration this will cause our shareholders, in particular those relying on dividends for income, we agreed that this is a prudent and appropriate response to what are exceptional circumstances.
- The Board will decide on any future dividend distributions at year-end 2020.

Do you still expect your AGM to go ahead?

- The Board has continued to monitor developments in relation to the COVID-19 pandemic closely and the health and wellbeing of the Company's shareholders, customers and employees continue to remain of paramount importance. As a result, and in line with the updated measures from the UK Government and the Scottish Government, this year's AGM must follow a different format and will, unfortunately, not be open to shareholders in the usual way.
- In recognition of the importance of shareholders being given the opportunity to ask questions of the Board, and in order to provide a business update during these unprecedented times, we will be webcasting a pre-recorded presentation on Thursday, 21 May 2020 at noon. During this presentation, shareholders will hear updates from our Chairman, Lord Blackwell and our Chief Executive Officer, António Horta-Osório, who will also be answering pre-submitted shareholder questions.
- More information on the logistics of the AGM and how to submit questions can be found on our website here.

What is the Group doing on climate change?

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

How are you performing on your Helping Britain Prosper Targets?

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

What else are you doing from an ESG perspective?

- We recognise being a responsible citizen is a fundamental component of maintaining a sustainable business model
- From an environmental perspective, we are helping the transition to a sustainable low carbon economy with our climate change commitments, partnering with the Woodland Trust to plant 10 million trees over the next 10 years, and aiming to be a leading UK provider of customer support on energy efficient, sustainable homes. We will be developing new carbon, energy and travel targets in 2020 having met our operational 2030 carbon target 11 years early, reducing our emissions by more than 60% since 2009.
- From an environmental and social perspective, we recognise the importance of savings to build financial resilience and help tackle disadvantage. We're making saving for the future as easy as possible by improving choice, flexibility and control and aim to be a leading UK pension provider offering sustainable investment choices, challenging companies we invest in to behave more sustainably
- From a social perspective, we use our scale to reach people in communities across the country to help improve lives and as such we are committed to providing banking services to those that need them; the Group currently supports >30% of all social bank accounts in the UK
- From a governance perspective, our Board of Directors has a diverse mix of skills and experience to provide independent and robust oversight of management. They actively engage with a wide variety of stakeholders and are committed to being responsive to them. Key focus areas for the Board in 2019 included: business strategy, culture and values, customers, ESG, financial performance, regulatory issues, risk management, cyber security, and the ringfenced bank
- We have a separate presentation on our approach to environmental, social and governance issues, which can be found on the Group's external website (here).