Q3 2020 FREQUENTLY ASKED INVESTOR QUESTIONS (4 Nov 2020)

How was the Group's financial performance in Q3?

- Trading surplus for the first nine months of the year was £5,000 million, a reduction of 28 per cent compared to the same period in 2019, reflecting the challenging external environment.
- Net income was £10.8 billion, down 17 per cent, with £3.4 billion in the third quarter, reflecting lower interest rates and lower other income. Lower net interest margin of 2.54 per cent reflected lower rates, actions taken to support customers and changes in asset mix. Net interest margin of 2.42 per cent in the third quarter was up 2 basis points sequentially and average interest-earning assets were slightly higher in the quarter, both supported by strong volume growth.
- Other income decreased by 23 per cent to £3.4 billion, with £1.0 billion in the third quarter, reflecting lower levels of customer activity across the Group's main business lines and the impact of the Asset Management Market Review.
- Total costs of £5.8 billion were 4 per cent lower, with business as usual costs down 5 per cent, enabling continued investment in digital projects and enhanced support for customers during the pandemic. Total costs of £1.9 billion in the third quarter were lower than the prior year.
- Trading surplus was £5.0 billion, including £1.5 billion in the quarter, providing significant capacity to absorb impairment impacts of the coronavirus crisis.
- Impairment experience was benign in the third quarter with a charge of £0.3 billion, in line with pre-crisis levels and reflecting no significant change in economic outlook; £4.1 billion charge in the nine months primarily reflecting deterioration in economic outlook recognised in the first half of 2020
- Return to profitability in the third quarter, with statutory profit before tax of £1.0 billion and profit after tax of £0.7 billion; return on tangible equity of 7.4 per cent in the quarter
- Activity levels picked up in the third quarter of 2020 after contraction in the first six months, particularly in mortgage applications and consumer spending.
- Loans were flat compared to the year end at £439 billion, with increased SME lending driven by Government support schemes, offset by expected reductions in the closed mortgage book as well as lower credit card, motor finance and other Commercial Banking balances.
- The open mortgage book was up £3.5 billion since June 2020; 22 per cent market share of approvals with a strong pipeline.
- Retail current accounts continued to increase ahead of the market in the third quarter, with Group deposits up £35 billion, or 9 per cent, over the first nine months of 2020 as a result of inflows to the Group's trusted brands.

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.
- Although our performance has clearly been impacted by the pandemic and the associated challenging economic environment, we are now seeing an encouraging business recovery and, with impairments significantly lower, a return to profitability in the third quarter. In particular, we increased open mortgage book lending by £3.5 billion in the quarter, with a 22 per cent share of approvals building a strong pipeline in the fourth quarter, and have supported businesses with an 18 per cent share of Government support scheme lending. The Group's 2020 guidance reflects a proactive response to the challenging economic environment and is based on the Group's current macroeconomic assumptions:
  - Net interest margin expected to remain broadly stable around c.240 basis points in the fourth quarter, resulting in a full year margin of c.250 basis points
  - Operating costs to be below £7.6 billion
  - Impairment charge for the full year now expected to be at the lower end of the £4.5 billion to £5.5 billion range
  - Risk-weighted assets now expected to be broadly stable compared to 30 September 2020

Although the economic outlook remains uncertain, the Group remains well positioned for long-term superior and sustainable returns, supported by its leading efficiency position and prudent balance sheet. This together with the Group's capital position and business model enables it to continue to support its customers and help Britain recover.

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

- In the third quarter of 2020, observed credit quality remained robust with arrears and defaults remaining low given the temporary support measures, including payment holidays and furlough arrangements, that were available. The Retail charge of £398 million, pre-updated multiple economic scenarios, included a £205 million management overlay to offset model releases based on third quarter performance, given temporary support programmes. The charge for the quarter also includes a £105 million release reflecting minor changes to the updated economic outlook, largely relating to house price growth assumptions.
- Significant uncertainty in the economic outlook remains, including that surrounding Brexit trade negotiations and the ongoing coronavirus pandemic. The extent of the impairment charge at the full year will depend on the potential severity and duration of the economic shock in the UK. Currently, given the stability seen in the portfolio since the half-year and based on current macroeconomic assumptions, the Group expects the impairment charge for the full year to be at the lower end of the £4.5 billion to £5.5 billion range.
- Overall the Group's loan portfolio continues to be well-positioned, reflecting a 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 and 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.

Updates since Q3

- Following the Government's announcement on 31 October 2020 of a second nationwide lockdown, taking place from 5 November - 2 December 2020, the furlough scheme will be extended until March 2021, with a similar level of support for the self-employed announced on 2 November 2020. The Government will also provide support in the form of business grants to businesses required to close in England due to these restrictions.

How is the Group being impacted by Coronavirus?

- The impact of the coronavirus pandemic on the global economy and on people and businesses within the UK has been unprecedented. We remain focused on working together with the Government and our regulators to ensure that we continue to support our customers in this challenging time.
- The spread of coronavirus has resulted in widespread industry disruption, with some sectors such as travel, transportation, retail and hospitality particularly impacted. As a proportion of the Group's overall lending, these sectors remain relatively modest. The Group expects recovery to be slow in a number of impacted sectors and anticipates longterm structural changes in these and other sectors. As a result, sector and credit risk appetite continues to be proactively managed to ensure the Group is protected and clients are supported in the right way.
- Although the outlook remains uncertain, our customer-focused strategy and the strength of the Group's business model will allow us to continue to help Britain recover and play our part in helping to return the UK to prosperity. This is fully aligned with the Group's long-term strategic objectives, the position of the franchise and the interests of our shareholders.
- The pandemic has accelerated many trends around ways of working and digital adoption and our long-run investment in digital propositions has positioned the Group well to continue to support our customers. As a result the number of digital users continued to increase, the proportion of products sold digitally is rising and customer satisfaction is at record levels. Our digital proposition and focus on technological change will remain a priority as we accelerate our transformation.

- Despite this challenging operating environment, the Group's financial strength, business model and successful strategic delivery have enabled us to play a significant role, together with Government, regulators and other authorities, in helping the country manage through this crisis, and will continue to ensure that we can support customers and help Britain recover.
- Throughout the pandemic, the business has remained fully operational and our technology infrastructure has performed well under significant pressure. Our digital banking proposition has performed well in a period of significantly heightened usage while also achieving all-time-high user feedback scores.

How are you supporting your customers during this time?

- Customers remain a priority throughout this crisis and beyond. Working closely with the UK Government and our regulators, we have continued to support our retail, small business and commercial customers through a comprehensive and unprecedented range of flexible measures.
- 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:
  - C.1.2 million payment holidays granted, >9 million benefitted from automatic interest-free overdraft buffer from 9 April
  - >90 per cent of UK's largest branch network remained open in lockdown and ATM availability exceeded 95 per cent
  - >120 million letters, emails and SMS messages sent to customers outlining available coronavirus support options
  - >£11 billion lending to businesses through Government-backed schemes, including BBL, CBIL and CLBIL
  - >33k capital repayment holidays and c.20k fee-free overdrafts granted via Group's £2 billion COVID-19 fund to support small businesses impacted by coronavirus
  - Simplified claims process with advance payments for life and critical illness claims
  - Extra measures to support NHS, e.g. extended cover for NHS workers and reduced requirements for medical evidence to alleviate pressure on GPs
- More information on help available to customers can be found here.
- Since the start of the crisis we have provided over 1.2 million payment holidays in respect of mortgages, loans, cards and motor finance to our retail customers. We also continue to support customers who have an overdraft and are in continued difficulty, an interest free facility up to £500 can continue to be offered. We contine to offer a dedicated phone line for elderly customers and ensure that NHS staff calls are answered as a priority.
- Similarly, we are providing significant support for our small business and commercial customers. We have approved c £11 billion in loans to businesses under the different Government schemes, including Bounce Back Loans (BBL), Coronavirus Business Interruption Loan Scheme (CBILS) and Coronavirus Large Business Interruption Loan Scheme (CLBILS).
- We have also supported customers through the Group's own £2 billion Coronavirus fund which includes fee-free lending for new overdrafts or overdraft limit increases as well as new or increased invoice discounting and finance facilities and, in certain circumstances, capital repayment holidays. For our SME customers, we are offering a mentoring service to help navigate a path beyond the pandemic.
- 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, we have helped our customers to stay digitally connected during the lockdown and have partnered with 'We Are Digital', a leading expert in supporting people with digital skills and financial inclusion, to deliver up to 2,000 tablet devices free of charge to over-70s to help them keep connected. Our Lloyds Bank Academy, which offers free digital skills training, has supported c.57,000 individuals, charities and small businesses in the first half of the year with online webinars and training courses. Through additional funding from the Group, our long-term charity partner Mental Health UK has been able to extend their mental health services at a time when social distancing and self-isolation can put significant pressure on many people.

- We are, of course, aware that the support we are providing to our personal and business customers to help them through the current crisis will have a cost to the Group. We believe this is the right thing to do, as supporting our customers directly aids the recovery of the economy from which we benefit. We view this as an investment in the business, which is fully aligned with our purpose of Helping Britain Prosper and the long-term success of the Group, and therefore in the interests of our shareholders.
- We have adopted a proactive response to the coronavirus pandemic and we are working closely with the government, our regulators and other stakeholders to support customers and businesses up and down the country as we help Britain recover, which is at the heart of the Group's purpose. We have particularly focused on mental health and well-being, while also committing £25.5 million of funding to our independent charitable Foundations for 2021, which will enable them to continue their vital work.

Can you explain how the various Government schemes work?

- The Government has 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 scheme.
- 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 26th October, £8.4 billion Bounce Back Loans in SME
- From mid-September, customers making new applications for loans under the Scheme will have an upfront choice to either open a BCA or a fee-free servicing account.
- On 24 September, HMT announced that the BBL repayment structure can be converted into 'Pay as you Grow' offering a more flexible repayment system over a longer period for businesses who borrowed under BBLs.
- Pay as you Grow will allow businesses to extend the length of their BBL loans from six to ten years, cutting monthly repayments in half. The trigger for this is expected to be in the 3 months leading up to the 1st anniversary.
- Businesses will also be able to take three interest-only repayments of up to six months each and have the option to apply for a complete payment holiday of 6 months after making 6 months of payments – payments include an interest only period.
- Offers up to 36 months of reduced cost since inception (12 months interest free, paid for by HMT, then up to a further 24 months of forbearance options)
- Applications to lenders extended until 30 November, with approvals closing on 31 December

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.
- 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.
- As at 26 October, £2.0 billion CBILs in SME
- From 24 September, lenders have the ability to extend the length of the loan from a maximum of 6 years to 10 years.
- Applications to lenders extended until 30 November with approvals closing on 31 December

The Undertaking in Difficulty (UID) test has also been amended in October such that if a business was a UID at 31 December but is no longer a UID, businesses could now be eligible who weren't before. This is particularly helpful for PE backed businesses whose capital structures can now be adjusted to meet the test.

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.

Updates since Q3

- Following the Government's announcement on Saturday 31st October that there will be a new national lockdown from 5 November- 2 December, HM Treasury has extended the application deadline for BBLs, CBILs and CLBILs schemes to the end of January (two months longer than the previous 30 November deadline).

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.
- The scheme will operate 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 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 of up to three months should customers request them.
- The interest payments are then accrued and added to the balance owed by the customer.
- As at 26th October 2020, c.1.2 million retail payment holidays 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 a range of retail products including mortgages, personal loans, credit cards and motor finance, with extensions available of up to three months should customers request them.

Update since Q3

- On Saturday 31st October, the Government announced a new England-wide lockdown, from 5 November-2 December.
- As a result, the FCA has announced an extension to payment deferrals for personal loans, credit cards and motor finance customers, as well as support for mortgage borrowers. Customers who have not yet had a payment holiday can request 2 payment holidays of up to 6 months in total. Those who have had a payment holiday can also extend it, so that the total duration is 6 months. Customers who have already benefitted from a 6 month payment holiday and are still experiencing payment difficulties should speak to their lender to agree tailored support.

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 50,000 colleagues are working from home, up from the previous level of around 15,000. Further support measures are outlined below:
  - c.50,000 colleagues working from home; c.30,000 laptops distributed during the pandemic
  - Pay and job security for all colleagues through the national lockdown in Spring 2020, a range of awards for frontline colleagues for contribution during the pandemic
  - 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

What is the Group's strategy?

- The Group is a digitised, 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 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).
- 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.
- The coronavirus pandemic has accelerated many trends around ways of working, digital adoption, societal expectations of companies, and our external environment and sustainability. Our third Group strategic review was and remains focused on many of these areas but we now expect to even further accelerate our transformation, and enhance and adapt customer propositions and colleague working practices as the Group is learning from the crisis.
- In 2020 we have begun to consider the next phase of our journey. 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 and will be announced in 2021.

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 largest UK digital bank with 17.1 million active digital users and Open Banking functionality
- Unrivalled reach with UK's largest branch network, serving complex needs
- Data-driven and personalised customer propositions.
- A new responsible investment and stewardship framework to enhance sustainability practices

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, which added another 1 million customers in the first half of the year
- Exceeded the Group's target to provide £6 billion of additional net lending to start-up, SME and Mid Market clients by year end 2020 and on track to meet the committed £18 billion gross new lending to UK businesses for 2020

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, more than 50,000 colleagues are now working from home, up from the previous level of around 15,000
- A new strategic collaboration with Google Cloud that will build on our multi-cloud strategy, accelerating our ambition to deploy smarter technology and bring new services to our customers quickly and at scale

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
- Robin Budenberg joined the Group Board on October 1st 2020 and, as announced on 29 October, will succeed Lord Blackwell as Chair of Lloyds Banking Group and as Chair of its Nomination and Governance Committee with effect from 1 January 2021, when Lord Blackwell will step down as Chairman and resign from the Board.
- At the same time in July 2020, it was also announced that, with the Chair succession now in place, António Horta-Osório had 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. António has agreed to time his stepping down as Group CEO to support a smooth transition, with a target date at end of June next year, at which point he will retire.

- The Board has initiated the search for António's successor. Until then he will continue to be completely focused with the executive team on delivering the remainder of the current strategic plan (GSR3), as well as the plans put in place to address the COVID-19 pandemic effects and support our customers during these difficult times.

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.
- 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 transition of customers to the new Schroders Personal Wealth platform on track. We remain committed to becoming a top three financial planning business by the end of 2023
- 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 £77 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

- 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.
- Average interest-earning banking assets were stable period-on-period at £434 billion with growth due to Government backed lending to support corporate clients through the coronavirus crisis and the full impact of the 2019 Tesco acquisition, offset by lower balances in the closed mortgage book and credit cards as well as the impact of the continued optimisation of the corporate and institutional book within Commercial Banking. The increase in the third quarter of 2020 to £436 billion was partly driven by an increase in mortgage lending, as a result of a release of pent-up demand following the lifting of lockdown restrictions that were in place in the first half of the year and changing customer behaviours. Given the pipeline of new mortgage business, the Group expects average interest-earning assets to continue to benefit in the fourth quarter from increased mortgage lending.

- The Group's balance sheet remains strong. Loans and advances to customers were flat on year-end at £439 billion whilst during the third quarter, open mortgage net lending increased by £3.5 billion and mortgage applications picked up strongly. Group deposits were up £35 billion to £447 billion. Retail current account growth was significant and ahead of the market in the third quarter, reflecting lower levels of customer spend during the pandemic and inflows to the Group's trusted brands. Commercial Banking current account growth reflects the Group's strong customer relationships and also the placement of Government-supported lending on deposit by SMEs.
- We have exceeded the Group's target to provide £6 billion of additional net lending to start-up, SME and Mid Market clients by year end 2020 and are on track to meet the committed £18 billion gross new lending to UK businesses for 2020.
- Loans and advances at £439 billion were flat on year end with increased SME lending driven by Government support schemes, offset by expected reductions in the closed mortgage book and lower credit card, motor finance and other Commercial Banking balances
- 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?

- 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 of £5,557 million for the first nine months of 2020 were 4 per cent lower, in the context of continued investment in the Group's digital proposition and added coronavirus-related costs.
- Business as usual costs were down 5 per cent on the prior year driven by ongoing cost discipline, efficiencies gained through digitalisation and other process and organisational improvements, as well as lower variable remuneration accruals.
- Total investment spend in the first nine months of 2020 amounted to £1.6 billion, down 16 per cent on the prior year. Of this, £0.7 billion related to strategic investment, taking the cumulative strategic spend since the start of GSR3 to £2.6 billion.
- Although the 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 through the cycle.
- Operating costs are expected to be below £7.6 billion in 2020.

Did the Group take any additional charges for PPI in Q3?

- No further provision has been taken for PPI in the first nine months of 2020.
- 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.
- The unutilised provision at 30 September 2020 was £328 million.

What is your dividend policy?

- We announced the cancellation of the final 2019 dividend on 31 March. 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.
- At that time, the Board also decided, again in line with all other major UK listed banks, 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 improve further our capacity 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 causes our shareholders, in particular those relying on dividends for income, we agreed that this was a prudent and appropriate response to what were and are exceptional circumstances.

- The Board will decide on any dividend distributions or buybacks on ordinary shares in respect of 2020 at year end, in line with the approved dividend policy. This is subject to the PRA allowing dividends to recommence
- In conjunction with this decision and in solidarity with the communities in which we operate, the whole of the Group Executive Committee have asked not to be considered for their Group Performance Share for 2020, meaning that they will give up all of their bonus entitlement for 2020. In addition, no cash bonuses are payable to senior staff for the rest of 2020.

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. We have 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.

How are you supporting communities?

- We continue to Help Britain Prosper throughout the UK during this time. Some examples are listed below:
  - Made a guarantee to provide £25.5 million of funding to our four Foundations in 2021 to provide certainty to the charities we support
  - Launched an innovative partnership with ‘We Are Digital’, to deliver up to 2,000 tablet devices free to over-70s to help keep them connected
  - Additional funding to our long-term charity partner Mental Health UK, enabling them to extend the Mental Health and Money Advice Service
  - Supporting The Silver Line (Age UK) to offer a 24/7 helpline/friendship service to those aged 55+ who may be feeling lonely or isolated
  - Free digital skills training through Lloyds Bank Academy; supported c.57,000 individuals, charities and small businesses in Q3 2020 YTD.

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

- Our goal is to be a leader in supporting the UK to successfully transition to a more sustainable, low carbon economy, which cannot happen overnight and relies on a phased approach
- We have set an ambitious goal to work with customers, Government, and the market to help reduce the carbon emissions we finance by >50 per cent by 2030
- Our 2030 internal carbon reduction target has already been met and we are developing new internal carbon, energy and travel targets
- In helping the transition to a sustainable low carbon economy our progress has been recognised:
  - We have provided >£6 billion in green finance since 2016 through our sustainable finance initiatives

  - Maintained leadership level in the 2019 CDP Climate Change survey, the only UK bank to score an A rating for a second year running
  - We have supported >40 renewable energy projects, the equivalent of generating power for 5.1 million homes, achieving our 2020 target a year early
  - Achieved the rank of “leader” and 2nd in Europe, moving up from last place in 2017, in ShareAction’s latest ‘Banking on a Low Carbon Future’ report

What action have you taken in response to Black Lives Matter?

- At Lloyds Banking Group, we stand against discrimination in all its forms, butthe Black Lives Matter movement has prompted many of us to reflect, learn and think about what more we must do to drive positive change.
- For example, we have made good progress so far:
  - We were one of the original founders of the Race for Opportunity campaignin the 1990s, and we were the first FTSE100 company to set public goals to increase Black, Asian and Minority Ethnic representation at senior levels although there is still much more work to be done here. In July this year we announced a new public goal to specifically increase Black representation in senior roles to at least 3 per cent by 2025.
  - 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.
- While we have made strides that we can be proud of, we know there is more to do.
- In 2018 we made a public commitment to increase the ethnic diversity of both our overall and senior workforce. And this commitment still stands. Today 10.3 per cent of all colleagues and 7.3 per cent of our senior management population identify themselves as Black, Asian and Minority Ethnic. This collective target has led to positive changes, but Black colleagues are still significantly under-represented – accounting for 1.5 per cent of our total workforce and 0.6per cent of senior management.
- We are aiming to address this with a ‘Race Action’ plan we announced in July 2020 to drive cultural change, recruitment and progression across the Group.
- Our ‘Race Action’ plan activity includes:
  - A new public goal, complementing our broader 2018 Black, Asian and Minority Ethnic target, 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.
  - A new advisory board made up of Black, Asian and Minority Ethnic colleagues to influence and inform our ongoing diversity strategy and ensure we are making the right progress.
  - Working in partnership with external experts to develop a race education programme.
  - Publishing our ethnicity pay gap report in 2020.
  - Ensuring that all recruitment shortlists at senior executive level have a Black, Asian and Minority Ethnic candidate.
  - Nurturing our talented Black colleagues through specific development and sponsorship programmes for both middle management and senior grades, so that we can help break the ceiling for senior role models – including additional secondment opportunities
  - You can read more about our stand for racial equality (here)