Q1 2021 FREQUENTLY ASKED INVESTOR QUESTIONS

How was the Group's financial performance in Q1?

- The Group delivered a statutory profit after tax of £1,397 million, supported by business momentum and a release of expected credit loss provisions, given the improved economic outlook.
- Net interest income of £2,677 million was down 9 per cent year on year, impacted by a reduced banking net interest margin of 2.49 per cent, reflecting the lower rate environment. The Group's banking net interest margin was up 3 basis points compared to the fourth quarter of 2020, reflecting the continued optimisation of the Corporate and Institutional book within Commercial Banking, strong customer deposit inflows, and funding and capital benefits following the liability management exercise in the fourth quarter of 2020. Relative to the fourth quarter of 2020, lower structural hedge net interest income was largely offset by growth in mortgage volumes at attractive margins.
- Other income of £1,135 million was 7 per cent lower than in the first quarter of 2020, reflecting lower levels of customer activity and new business as a consequence of the coronavirus pandemic, particularly within Retail and Insurance and Wealth. This was in part mitigated by strong performance in the Group's equity investment businesses. In aggregate, the Group's other income was up 6 per cent relative to the fourth quarter of 2020, when the Group took a charge in Insurance and Wealth for the annual basis review.
- Total costs of £1,916 million were 2 per cent lower than in the first three months of 2020, driven by continued control of operating costs, down 1 per cent at £1,851 million, whilst continuing to prioritise investment in the business.
- Trading surplus is recovering at £1,748 million, down 12 per cent compared to the first three months of 2020, but up 21 per cent on the fourth quarter of 2020.
- Asset quality remains strong, with credit experience benign. A net impairment credit of £323 million in the quarter was driven by a £459 million release, given the UK's improved economic outlook. The Group retained management judgements in respect of coronavirus, which now total c.£1 billion including the £400 million central overlay taken in the fourth quarter.
- Capital build was 54 basis points in the quarter with CET1 ratio of 16.7 per cent, 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.
- Good balance sheet momentum with Loans and advances to customers up £3.3 billion in the quarter at £443.5 billion, benefiting from an increase of £6.0 billion in the open mortgage book, which more than offset lower unsecured Retail, Corporate and Institutional, and closed mortgage book balances.
- Customer deposits of £462.4 billion were up £11.7 billion in the quarter compared to £450.7 billion at 31 December 2020, and included a further increase in Retail current accounts of £5.6 billion to £103.0 billion. The Group's loan to deposit ratio of 96 per cent provides a strong liquidity position and significant potential to lend into recovery.

How do you expect the Group to perform going forward?

- The Group has a clear purpose of Helping Britain Prosper, which drives our strategy. In light of 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.
- 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 continues to have a significant impact on people, businesses and communities in the UK and around the world. Whilst we are seeing positive signs, notably the progress of the vaccine roll-out and the emergence from lockdown restrictions, the outlook remains uncertain. We remain confident that the Group's clear purpose, unique business model, significant competitive advantages and the customer focused evolution of our strategy will ensure that the Group is able to Help Britain Recover and in so doing, help transition to a sustainable economy.
- Given the solid financial performance in the first quarter of 2021, the Group is enhancing its guidance for 2021. Based on the Group's current economic assumptions:
  - Net interest margin now expected to be in excess of 245 basis points
  - Operating costs to reduce to c.£7.5 billion
  - Net asset quality ratio now expected to be below 25 basis points

- Risk-weighted assets in 2021 to be broadly stable on 2020
- Statutory return on tangible equity now expected to be between 8 and 10 per cent, excluding c.2.5 percentage point benefit from tax rate changes
- Accruing dividends with intention to resume progressive and sustainable ordinary dividend policy

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

- Asset quality remains strong. Observed credit performance has remained stable in the quarter, with the flow of assets into arrears, defaults and write-offs remaining at low levels in part due to the continued effectiveness of support schemes, including the Coronavirus Job Retention Scheme and payment holidays extended by the Group which have now largely matured.
- The Group has maintained judgemental ECL allowances in respect of losses assumed to have been suppressed over the last 12 months by support schemes, given that cumulative losses remain lower than would have ordinarily been anticipated.
- The Group's ECL allowance reduced in the quarter from £6.9 billion to £6.2 billion, of which £459 million resulted from improvements to the economic outlook, including the impact of the extension of the Government's Coronavirus Job Retention Scheme. Reductions in Commercial Banking ECL also reflect improved outcomes on restructuring cases, lower flows to default and recent reductions in exposures due to asset optimisation.
- The ECL allowance remains high by historical standards and is consistent with the Group's updated macroeconomic projections. It assumes that a large proportion of expected losses will crystallise over the next 12 to 18 months as support measures subside and unemployment increases.
- The Group's £400 million central overlay was added at year end in recognition of the significant uncertainty with regard to the efficacy of the vaccine, the vaccination rollout, potential virus mutations and economic performance post lockdown restrictions and Government support. Although the base case outlook has improved in the first quarter, the Group still considers these risks to remain and that the conditioning assumptions for the base case and associated scenarios around this do not necessarily capture these unprecedented risks.
- Given the benefit recognised in the first quarter of the year, the full year charge is now expected to be materially lower than the guidance set out at year-end. Based on the Group's improved economic assumptions, the net asset quality ratio for 2021 is now expected to be below 25 basis points.

How is the Group being impacted by Coronavirus?

- The coronavirus pandemic continues to have a significant impact on people, businesses and communities in the UK and around the world. Although we are seeing positive signs, notably the progress of the vaccine roll-out and the emergence from lockdown restrictions, the outlook remains uncertain.
- The Group remains absolutely focused on supporting its customers and Helping Britain Recover from the financial effects of the pandemic. The long-run transformation of the Group has positioned the business well to address the challenges of the pandemic.
- The Group's successful ongoing transformation, continued investment and growing franchise strength position us well to face the pandemic. In response to the challenging economic environment, to date we have provided around 1.3 million payment holidays on mortgages, loans, credit cards and motor finance products.
- 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. Whilst the outlook remains uncertain, 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.
- In 2021 we continue to anticipate elevated costs related to coronavirus, for example due to greater levels of customer support as well as enhanced hygiene measures.

How are you supporting your customers during this time?

- The coronavirus pandemic continues to have a significant impact on people, businesses and communities in the UK and around the world. Whilst we are seeing positive signs, notably the progress of the vaccine roll-out and the emergence from lockdown restrictions, the outlook remains uncertain. The Group remains absolutely focused on supporting its customers and Helping Britain Recover from the financial effects of the pandemic.
- 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:
  - Almost £13 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 around 35,000 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.
- 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 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, we are focussing on Helping Britain Recover, with objectives that are fully embedded in our business. Our response is taking 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 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

- Closed at the end of March 2021.
- 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,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 2 April £9.7 billion approved under the Bounce Back Loan Scheme.

- 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.
- 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)

- Closed at the end of March 2021.
- 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 2 April 2021, £2.5 billion CBILs in SME.

Coronavirus Large Business Interruption Scheme (CLIBLS)

- Closed at the end of March 2021.
- The CLIBLS was launched on the 20 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 2 April 2021, £0.7bn CBILs in SME.

Covid Corporate Financing Facility (CCFF)

- The scheme is closing to new issuers from the end of the year and has ceased to purchase commercial paper since 23 March 2021.
- The CCFF provides 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.

Payment holidays

- If a customer had been financially affected by the coronavirus outbreak, they could apply for a payment holiday. A payment holiday is subject to approval, but if accepted the customer wouldn'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 31 March 2021, c.1.3 million Retail payment holidays, on £68.0 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.29,000 (£1.1 billion) payment holidays where the first payment holiday is still in force and 1.3 million (£66.9 billion) that have matured, including c.43,000 (£2.3 billion) that have then been extended.

– The vast majority of payment holidays (95 per cent) have now fully matured, of which 94 have restarted payments.

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 worked from home for most of 2020, increased from up to 15,000 before the pandemic. Further support measures are outlined below:
  - Since March 2020, 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, 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.
  - Paid 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.
- The Group's previous three-year strategic plan was launched in February 2018 and in 2020 we 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, Digitising the Group, Maximising Group capabilities and Transforming ways of working.
- 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 is a combination of clear execution outcomes for the coming year, underpinned by long-term strategic vision and supported by significant strategic investment.
- Strategic Review 2021 is delivering co-ordinated growth opportunities in our two core customer segments, supported by enhanced capabilities in four areas – preferred financial partner for personal customers, best bank for business, data-driven organisation and reimagined ways of working. In Q1 we have delivered progress against a number of our priorities:
  - **Preferred financial partner for personal customers**, through leveraging our unique competitive advantages to significantly deepen customer relationships. In the first quarter we delivered £6 billion open book mortgage growth, a c.75% increase in Schroders Personal Wealth introductions (vs Q1 20) due to improved customer journeys and we also launched a new Halifax branded protection product; the latter increasing 'direct to site' volumes by 25 per cent year-on-year.
  - **Best bank for business**, through building a leading digital SME proposition, with a disciplined and strengthened business for Corporate and Institutional clients. In the first quarter we improved our ranking across core Markets products from 10th to 6th and we extended our Business Finance Assistant account proposition with a >130% increase in users in Q1.
  - **Data-driven organisation**. Further develop and leverage our core capabilities, including delivering a modernised technology architecture with our Q1 mobile app NPS of 74 up +5pts from full year 2020 average;

building integrated payment solutions with a c.50% increase in clients onboarded to Cash Management and Payments platform in the first quarter; and creating a data driven organisation with deposit balance management enhanced through embedding the use of advanced analytics techniques.

- **Reimagined ways of working**. Implementing reimagined ways of working by preparing for pilot use of above branch 'community offices' to offer flexible work spaces.

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 are further embedding our purpose across all of our activities. This ensures 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, with strong progress made in Q1.
  - **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. As per our commitment for 2021 we now have >6,500 colleagues trained to support customers in building financial resilience.
  - **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. In Q1, we launched the Pay As You Grow and our Recovery Loan Scheme to support clients through the next stage of their recovery where required.
  - **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. In Q1, we have lent nearly £4 billion to first time buyers on track to meet our target to provide £10 billion of lending to help people to buy their first home in 2021.
  - **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. As part of our commitment to help accelerate the transition to a low carbon economy and to achieve our net zero by 2050 ambitions, we joined in April 2021 the Net Zero Banking Alliance as one of its founding members.
  - **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. To support our diversity ambitions and our Race Action Plan, we launched in Q1 our new Line Manager Race Education training with >8,000 colleagues enrolled to attend the training.

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, was 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 stepped down from his role on 30 April 2021.
- William Chalmers, has taken on the role of acting Group Chief Executive after António Horta-Osório stepped 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 (SPW). 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.

– Schroders Personal Wealth has introduced a new proposition to tackle the £2.4 trillion protection gap in the UK and address a growing societal need. The new proposition is based on SPW's established existing relationships with Scottish Widows and Legal & General, providing life insurance, critical illness, income protection and whole of life. This forms part of a holistic financial planning service for clients.

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 up 2 per cent compared to the first quarter of 2020 at £439 billion, driven by growth in the open mortgage book and an increase in government-backed lending. This was partially offset by lower balances in credit cards, motor finance and unsecured personal loans, as well as the effects of the continued optimisation of the Corporate and Institutional book within Commercial Banking. Low single-digit percentage growth in average interest-earning assets is now expected in 2021.
- Loans and advances to customers were up £3.3 billion in the quarter at £443.5 billion, benefiting from an increase of £6.0 billion in the open mortgage book, more than offsetting lower unsecured Retail, Corporate and Institutional, and

closed mortgage book balances. Customer deposits of £462.4 billion were up £11.7 billion in the quarter compared to £450.7 billion at 31 December 2020 and included a further increase in Retail current accounts of £5.6 billion to £103.0 billion. The Group's loan to deposit ratio of 96 per cent provides a strong liquidity position and significant potential to lend into recovery.

- 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 £1,916 million were 2 per cent lower than in the first three months of 2020, driven by continued control of operating costs, down 1 per cent at £1,851 million whilst continuing to prioritise investment in the business.
- Strategic investment spend of £0.2 billion on track for our £0.9 billion target with a continued focus on strategic priorities including technology and data.
- 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 continues to expect operating costs for 2021 to reduce to c.£7.5 billion including net coronavirus-related costs and compensation headwinds.

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

- No further provision has been taken for PPI in Q1.
- The Group recognised a charge of £85 million for PPI in the final quarter of 2020. 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.
- At full year results of the approximately six million enquiries received pre-deadline, more than 99 per cent have been processed. A small part of the costs incurred during the year also reflect the costs associated with litigation activity to date.

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 2020 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 established a cap on distributions for year end 2020. Given the Group's strong capital position at the year end and the Board announced a final ordinary dividend of 0.57 pence per share, the maximum allowed under the PRA's guidelines.
- The Group will update the market on interim dividend payments with the half-year results, subsequent to reviewing the PRA's update on distributions which is expected ahead of the half-year results reporting cycle for the large UK banks. In the interim the Group's dividend accrual in the quarter equated to 5 basis points and is currently based upon a pro-rated amount of the 2020 full year dividend in accordance with PRA guidance.
- As previously stated, the Board intends to resume its progressive and sustainable ordinary dividend policy with the dividend at a higher level than 2020.

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 both 2020 and 2021, 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.
- 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, with >8,000 colleagues enrolled to attend our new Line Manager Race Eduction training launched in Q1, 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.

- To demonstrate the importance of diversity and inclusion to Lloyds Banking Group and to ensure management delivers its commitments, the 2021 Group balanced scorecard includes a performance measure on diversity which focuses on on increasing our gender and ethnic representation in senior roles.

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.
- In support of these commitments and to help accelerate the transition to a low carbon economy, the Group joined in April 2021 the Net Zero Banking Alliance as one of its founding members.
- 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.
- To demonstrate our focus and to ensure management delivers its commitments around our journey toward delivering zero carbon operations by 2030, the Group balanced scorecard for 2021 includes a performance metric on reducing operational carbon emissions.

FORWARD LOOKING STATEMENTS

This document contains certain forward looking statements within the meaning of Section 21E of the US Securities Exchange Act of 1934, as amended, and section 27A of the US Securities Act of 1933, as amended, with respect to the business, strategy, plans and/or results of Lloyds Banking Group plc together with its subsidiaries (the Group) and its current goals and expectations relating to its future financial condition and performance. Statements that are not historical facts, including statements about the Group's or its directors' and/or management's beliefs and expectations, are forward looking statements. Words such as ‘believes’, ‘anticipates’, ‘estimates’, ‘expects’, ‘intends’, ‘aims’, ‘potential’, ‘will’, ‘would’, ‘could’, ‘considered’, ‘likely’, ‘estimate’ and variations of these words and similar future or conditional expressions are intended to identify forward looking statements but are not the exclusive means of identifying such statements. Examples of such forward looking statements include, but are not limited to: projections or expectations of the Group’s future financial position including profit attributable to shareholders, provisions, economic profit, dividends, capital structure, portfolios, net interest margin, capital ratios, liquidity, risk-weighted assets (RWAs), expenditures or any other financial items or ratios; litigation, regulatory and governmental investigations; the Group’s future financial performance; the level and extent of future impairments and write-downs; statements of plans, objectives or goals of the Group or its management including in respect of statements about the future business and economic environments in the UK and elsewhere including, but not limited to, future trends in interest rates, foreign exchange rates, credit and equity market levels and demographic developments; statements about competition, regulation, disposals and consolidation or technological developments in the financial services industry; and statements of assumptions underlying such statements. By their nature, forward looking statements involve risk and uncertainty because they relate to events and depend upon circumstances that will or may occur in the future. Factors that could cause actual business, strategy, plans and/or results (including but not limited to the payment of dividends) to differ materially from forward looking statements made by the Group or on its behalf include, but are not limited to: general economic and business conditions in the UK and internationally; market related trends and developments; fluctuations in interest rates, inflation, exchange rates, stock markets and currencies; any impact of the transition from IBORs to alternative reference rates; the ability to access sufficient sources of capital, liquidity and funding when required; changes to the Group’s credit ratings; the ability to derive cost savings and other benefits including, but without limitation as a result of any acquisitions, disposals and other strategic transactions; the ability to achieve strategic objectives; changing customer behaviour including consumer spending, saving and borrowing habits; changes to borrower or counterparty credit quality; concentration of financial exposure; management and monitoring of conduct risk; instability in the global financial markets, including Eurozone instability, instability as a result of uncertainty surrounding the exit by the UK from the European Union (EU) and as a result of such exit and the potential for other countries to exit the EU or the Eurozone and the impact of any sovereign credit rating downgrade or other sovereign financial issues; political instability including as a result of any UK general election; technological changes and risks to the security of IT and operational infrastructure, systems, data and information resulting from increased threat of cyber and other attacks; natural, pandemic (including but not limited to the coronavirus disease (COVID-19) outbreak) and other disasters, adverse weather and similar contingencies outside the Group’s control; inadequate or failed internal or external processes or systems; acts of war, other acts of hostility, terrorist acts and responses to those acts, geopolitical, pandemic or other such events; risks relating to climate change; changes in laws, regulations, practices and accounting standards or taxation, including as a result of the exit by the UK from the EU, or a further possible referendum on Scottish independence; changes to regulatory capital or liquidity requirements and similar contingencies outside the Group’s control; the policies, decisions and actions of governmental or regulatory authorities or courts in the UK, the EU, the US or elsewhere including the implementation and interpretation of key legislation and regulation together with any resulting impact on the future structure of the Group; the ability to attract and retain senior management and other employees and meet its diversity objectives; actions or omissions by the Group's directors, management or employees including industrial action; changes to the Group's post-retirement defined benefit scheme obligations; the extent of any future impairment charges or write-downs caused by, but not limited to, depressed asset valuations, market disruptions and illiquid markets; the value and effectiveness of any credit protection purchased by the Group; the inability to hedge certain risks economically; the adequacy of loss reserves; the actions of competitors, including non-bank financial services, lending companies and digital innovators and disruptive technologies; and exposure to regulatory or competition scrutiny, legal, regulatory or competition proceedings, investigations or complaints. Please refer to the latest Annual Report on Form 20-F filed by Lloyds Banking Group plc with the US Securities and Exchange Commission for a discussion of certain factors and risks together with examples of forward looking statements. Lloyds Banking Group may also make or disclose written and/or oral forward looking statements in reports filed with or furnished to the US Securities and Exchange Commission, Lloyds Banking Group annual reviews, half-year announcements, proxy statements, offering circulars, prospectuses, press releases and other written materials and in oral statements made by the directors, officers or employees of Lloyds Banking Group to third parties, including financial analysts. Except as required by any applicable law or regulation, the forward looking statements contained in this document are made as of today's date, and the Group expressly disclaims any obligation or undertaking to release publicly any updates or revisions to any forward looking statements contained in this document to reflect any change in the Group’s expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based. The information, statements and opinions contained in this document do not constitute a public offer under any applicable law or an offer to sell any securities or financial instruments or any advice or recommendation with respect to such securities or financial instruments.