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LLOYDS AND SCHRODERS ANNOUNCE WEALTH MANAGEMENT STRATEGIC PARTNERSHIP AND AGREEMENT TO MANAGE £80 BILLION OF SCOTTISH WIDOWS AND LLOYDS ASSETS

Lloyds Banking Group (Lloyds) and Schroders plc (Schroders) today announce that they are entering into a strategic partnership to create a market-leading wealth management proposition.

This strategic partnership will combine Lloyds' significant client base, multi-channel distribution and digital capabilities with Schroders' investment and wealth management expertise and technology capabilities.

For Lloyds, 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.

For Schroders, the partnership will continue its expansion into the strategically important UK wealth management market, building on its core strengths in active investment management. It will also leverage Benchmark Capital's¹ award-winning adviser platform technology.

This strategic partnership includes:

Financial Planning

- Lloyds and Schroders will establish a new financial planning joint venture company (JV) for affluent customers. Lloyds will own 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.
- Lloyds will transfer approximately £13 billion of assets and associated advisers from its existing Wealth Management business to the JV. There will also be a referral agreement in place to enable Lloyds' customers to benefit from this enhanced proposition.
- The JV aims to commence activities by the end of H1 2019 (subject to required regulatory and other approvals) and will be led by a management team comprising representatives from both partners. From completion, Antonio Lorenzo, Chief Executive of Scottish Widows and Group Director of Insurance & Wealth will be Chairman and James Rainbow, Schroders' Co-Head of UK Intermediary, will be Chief Executive (both subject to regulatory approval).
- Lloyds 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 within five years.

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, Lloyds will receive up to a 19.9 per cent financial investment in the holding company of Schroders' UK wealth management business (subject to regulatory approval). This will provide Lloyds' high net worth customers with access to Cazenove Capital's leading wealth management propositions.

¹ Benchmark Capital is 77 per cent owned by Schroders.

- The partnership will provide Lloyds with the opportunity to offer the specialist investment management services of Cazenove Capital to charities and family offices, with which Lloyds has strong relationships via its Commercial Banking Business.
- Lloyds will also transfer approximately £400 million of existing private client assets under management to the Schroders UK wealth management business.

Investment Management

- Schroders will be appointed as the active investment manager of approximately £80 billion of the Scottish Widows and Lloyds insurance and wealth related assets (which includes the £13 billion to be transferred to the JV and the £400 million to be transferred to Schroders' UK wealth management business), following Lloyds' asset management review announced in February 2018. This appointment will be for at least five years.
- Lloyds remains confident in its rights to terminate the current asset management agreements and expects the arbitration process to conclude early next year.
- This appointment will benefit both Lloyds and its customers through providing access to a partner with leading investment management expertise, a stable investment team and strong performance across multiple asset classes.
- This mandate will enhance Schroders' scale in its core areas of equities, fixed income, multi-asset and private assets.
- The management of £67 billion of Scottish Widows insurance related assets will commence following conclusion of the current arbitration process with Standard Life Aberdeen or by no later than when the existing contract ends in March 2022.
- The management of the £13 billion of wealth related assets and the £400 million of existing private client assets will transfer to Schroders as soon as possible following the arbitration process, irrespective of the outcome.

Lloyds and Schroders have also agreed to work together and potentially develop other strategic opportunities, including investment propositions and advice for Lloyds' retail customers, for which Schroders would provide active asset management services.

Financial details of the overall transaction are set out in the attached appendix.

António Horta-Osório, Group Chief Executive of Lloyds, said:

"I am delighted to be announcing this exciting partnership with Schroders and the creation of a new market leading wealth management proposition. This provides a strong platform for growth and is a further step in the delivery of our strategic objectives."

Peter Harrison, Group Chief Executive of Schroders, said:

"Wealth management is a strategic priority for Schroders. In combining our award-winning technology and world-class investment expertise with Lloyds' significant client base and digital capabilities, we are creating a strategic partnership which is exclusively focused on the evolving needs of UK savers and investors. I am also delighted that we have been entrusted to manage £80 billion of assets for Lloyds' and Scottish Widows' clients."

Antonio Lorenzo, Chief Executive of Scottish Widows and Group Director of Insurance & Wealth, said:

"The unique combination of two of the UK's strongest financial services businesses will enable us to create a market-leading proposition which will benefit customers. The aim is to become a top three UK financial planning business within five years, given the significant growth opportunities in the financial planning and retirement market combined with the new company's ambitious medium term growth strategy."

Appendix

Financial information

Within this transaction, Lloyds Banking Group will contribute £13 billion of wealth-related assets under management into a new JV, 49.9 per cent of which will subsequently be transferred to Schroders. In addition, Lloyds Banking Group will transfer approximately £400 million of existing private client assets under management to Schroders' UK wealth management business.

The aggregated consideration for these two transfers is approximately £200 million, which will be satisfied through shares representing up to 19.9 per cent of the holding company of Schroders' UK wealth management business (Schroder Wealth Holdings Limited), subject to regulatory approval, and these shares will be retained by Lloyds subject to customary joint venture exit provisions.

The combined profit before tax for the JV and the private client assets being transferred is estimated at c.£35 million for 2018 (c.£130 million income and c.£95 million costs) with gross assets of c.£120 million.

The acquisition by Schroders of 49.9 per cent of the JV is subject to a true-up exercise, involving possible deferred consideration payable in cash, subject to caps, which will be determined after three years depending on the net new business performance of the JV.

The transaction is not expected to have a material financial impact on Lloyds Banking Group in the short term but provides significant growth opportunities in excess of the existing £50 billion target for additional Financial Planning and Retirement assets under administration by 2020.

On completion, Lloyds will recognise its share of profits from its stake in the JV, and from its investment in Schroder Wealth Holdings Limited, in Other Income within the Lloyds Banking Group accounts.

Evercore acted as financial adviser to Lloyds in relation to this transaction.

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FORWARD LOOKING STATEMENTS

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