H1 2019 FREQUENTLY ASKED INVESTOR QUESTIONS

How was the Group's financial performance in H1 2019?

- The Group has continued to make strong strategic progress during the first half of 2019 and delivered a good financial performance with market leading efficiency and returns
- The Group delivered a statutory profit after tax of £2.2 billion and robust underlying profit of £4.2 billion with slightly lower net income and expected higher impairment offset by lower total costs
- The Group has a strong return on tangible equity of 11.5 per cent; with earnings per share of 2.7 pence
- The balance sheet remains strong with targeted lending growth in the quarter including the open mortgage book up £0.8 billion, SME up £0.2 billion and UK Motor Finance up £0.2 billion
- The Group continues to target current account balance growth, with Retail current accounts up 4 per cent over the last 12 months to £76.0 billion and Commercial Banking current accounts up 1 per cent to £34.0 billion.
- Interim ordinary dividend of 1.12 pence per share, up 5 per cent, in line with our progressive and sustainable policy

How do you expect the Group to perform going forward?

- The Group has taken a prudent approach to growth and risk in recent years, whilst reducing costs and increasing the investment in the business for the benefit of our customers
- Since the launch of the third stage of our strategic plan in 2018, the Group has invested £1.5 billion in improving customer experience, increasing efficiency and delivering superior returns. This investment means the Group is well placed to continue to support its customers, help Britain prosper and deliver sustainable returns for shareholders
- The economy has remained resilient however, as indicated at the first quarter results, the continuing uncertainty is having an impact and leading to some softening in business confidence as well as in international economic indicators
- The resilience of the Group's business model is reflected in its 2019 guidance:
  - Net interest margin of c.2.90 per cent
  - Operating costs to be less than £8 billion and cost:income ratio expected to fall
  - Net asset quality ratio of less than 30 basis points and through the plan and expect a through the cycle asset quality ratio of c.35 basis points.
  - Given below the line charges, including PPI, in 2019 the Group now expects capital build to be at the lower end of the Group's ongoing 170 to 200 basis points range, and for return on tangible equity to be around 12 per cent
- Beyond 2019, longer term targets remain unchanged although continued economic uncertainty could impact outlook

What impact do you expect Brexit to have on Lloyds Banking Group?

- Given the vast majority of our business is in the UK, the direct impact on the Group from leaving the EU is relatively modest.
  - We have established a subsidiary of the Ring Fenced Bank in Berlin and this has a branch in the Netherlands.
  - We have also established a branch of Lloyds Bank plc for payments services in Berlin as well as a European investment firm in Frankfurt and a new insurance subsidiary of Scottish Widows in Luxembourg.
  - Like all UK banks, we have submitted contingency plans to the regulators both in the UK and elsewhere.
- Our results for the first half of the year continue to demonstrate the resilience of our business model and that our strategy remains the right one in the current environment. We expect the Group to continue to deliver sustainable, superior performance for our customers and shareholders, and the resilience of the business model is reflected in our guidance for 2019. Beyond 2019, our longer term targets remain unchanged although continued economic uncertainty could impact outlook.
- We stand ready to support customers, and the UK economy, in making the changes to business and regulatory processes that will be required by Brexit, in whatever form it takes. We have also committed to lending to up to £18 billion in 2019 to businesses as part of our continued support for the UK economy.
- Beyond 2019, our longer term targets remain unchanged although continued economic uncertainty could impact outlook.
- Our stress test work demonstrates that the Group has robust capital and liquidity levels.

Are you seeing any credit deterioration given Brexit uncertainty?

- Credit quality remains strong, reflecting the Group's ongoing prudent approach to risk and provisioning and a high quality, low risk loan portfolio that is well over 75 per cent secured.
- The economy has remained resilient although we are seeing continued uncertainty which is leading to some additional softening in business confidence and international economic indicators.
- Consumers remain well positioned as employment has continued to rise, with over 1.2 million more people working than at the start of 2016, and real wages are also rising at more than 1 per cent per year. All of this supports consumption and therefore GDP growth.
- The impairment charge increased to £579 million and was driven by a number of items including some softening in used car prices, alignment of credit card provisioning methodologies, lower cash recoveries following prior year debt sales and two corporate cases in Commercial Banking.
- The Group has guided to a net asset quality ratio of less than 30 basis points in 2019 and through the plan and expect a through the cycle asset quality ratio of c.35 basis points.

What is the Group's strategy?

- The Group is a simple, low risk, customer focused UK financial services provider with leading positions in retail and commercial banking, and insurance. As the largest bank in the UK, we have the leading branch network and largest digital bank, with 15.9 million digitally active users at H1 2019.
- In 2017 we successfully completed the second phase of our strategic plan, achieving our priorities of creating the best customer experience, becoming simpler and more efficient and delivering sustainable growth. In the period of the second phase of the strategic plan the Group also resumed paying dividends (2014 results) and returned to full private ownership (May 2017).
- In February 2018 we launched the third phase of our strategic plan, which covers the period 2018 to 2020 and is based around four strategic priorities focused on the financial needs and behaviours of the customer of the future: further enhancing our leading customer experience; further digitising the Group; maximising Group capabilities; and transforming ways of working.
- This is an ambitious agenda which will transform the Group for success in a digital world. We will invest more than £3 billion over the three years and this will drive our transformation into a digitised, simple, low risk, customer focused UK financial services provider. This significant investment is a 40 per cent increase on the previous plan and is made possible by the Group's market leading cost efficiency and reducing cost base. This transformation will in turn generate further cost reductions, which will enable us to further enhance the customer experience and continue to improve our financial performance and invest in the business.

Delivering a leading customer experience

Changing customer behaviour and expectations create opportunities, but require a proactive response. We will drive stronger customer relationships through best in class propositions while continuing to provide our customers with brilliant servicing and a seamless experience across all channels. This will include:

- remaining the number 1 digital bank in the UK with open banking functionality;
- unrivalled reach with UK's largest branch network serving complex needs; and
- data-driven and personalised customer propositions.

Digitising the Group

We recognise the need to simplify and modernise our IT and data architecture in order to transform the Group's cost base and make continuous improvements to everyday banking. This will be supported by increasing levels of technology spend, which currently equates to an amount representing c.19 per cent of operating costs. We will deploy new technology to drive operational efficiencies that will make banking simple and easier for customers whilst reducing operating costs, pursuing the following initiatives:

- deeper end-to-end transformation targeting over 70 per cent of cost base;
- simplification and progressive modernisation of our data and IT infrastructure; and
- technology enabled productivity improvements across the business.

Maximising the Group's capabilities

We will deepen customer relationships, grow in targeted segments and better address customers' banking and insurance needs as an integrated financial services provider. This will include:

- increasing Financial Planning and Retirement (FP&R) open book assets by more than £50 billion by 2020, having delivered customer net inflows of £13 billion in 2018 (excluding market movements), while also attracting more than 1 million new pension customers;
- implementing an integrated FP&R proposition with single customer view that will be available to more than 9 million customers by the end of the plan period; and
- start-up, SME and Mid Market net lending growth (more than £6 billion in the plan period).

Transforming ways of working

The success of our transformation will not only rely on new technologies but also on the skills of our people and how we work. We are making our biggest ever investment in people and embracing new technology to drive better customer outcomes. In 2019 we have increased our investment in our colleagues, with a focus on ensuring that we are able to continue to attract, develop and retain the talent and capabilities we will need in the future. As part of this, we have increased the 'skills of the future' training delivered to our colleagues to a cumulative 2.1 million hours since 2018, putting us well on track to meet our target of 4.4 million hours by the end of the plan period. We have also hired over 900 colleagues across critical areas such as engineering, data science and cyber security, in line with our plan to treble our strategic hiring compared to 2018. Consistent with our focus on improving our overall operating efficiency, building internal capabilities through these initiatives has also enabled us to reduce the use of external resource by 20 per cent since the end of 2017.

What are your aspirations for the Schroders joint venture?

- The Group and Schroders have announced a strategic partnership to create a market leading wealth management proposition. This partnership will combine the Group's significant client base, multi-channel distribution and digital capabilities with Schroders' investment and wealth management expertise and technology capabilities.
- 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 FP&R business, and deliver significant additional growth.
- We believe that the business is well positioned to meet its ambition of 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., The JV will launch to the market later this year, 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 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.
- The Group has transferred 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 the Group's customers to benefit from this enhanced proposition.
- The JV 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.

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 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 the Group's high net worth customers with access to Cazenove Capital's leading wealth management propositions.
- The partnership will provide the Group with 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.
- The Group has also transfered approximately £400 million of existing private client assets under management to the Schroders UK wealth management business.

Where do you expect growth in the business?

- The Group has leading market shares in many of its retail banking business lines, including mortgages, credit cards and current account balances. The Group's average market share is around 19 per cent and we generally target growth in any of the businesses below this level. Slide 37 of the 2019 Half-Year Results presentation (here) gives a clear representation of this.
- Customer lending was up £0.5bn in the quarter with targeted lending growth in the quarter including the open mortgage book up £0.8 billion, SME up £0.2 billion and UK Motor Finance up £0.2 billion
- Although open mortgage book balances are down £1.7 billion on December 2018 driven by expected maturities and ongoing pricing discipline, the Group still expects the open mortgage book to end 2019 in line with the end of 2018.
- The Group will continue to target loan growth in business segments in which it is underrepresented, such as SME, Mid Markets and Motor Finance.
- In February 2018 the Group set out an ambitious three-year strategic plan which included a £6 billion lending target for SME, Mid Markets and start-up businesses.
- Expected reductions in the closed mortgage book will continue to impact overall asset growth expectations despite the high quality targeted growth achieved elsewhere across the business.

Why did the Group take an additional PPI charge at Q2?

- The Group increased the provision for PPI costs by a further £650 million in the half-year to 30 June 2019, of which £550 million was in the second quarter, bringing the total amount provided to £20,075 million.
- The charge in the second quarter is largely driven by the significant increase in PPI information requests (PIRs) which is likely to lead to higher total complaints and associated administration costs.
- The Group has historically received around 70,000 PIRs per week, of which around 9,000 converted into a complaint. Through the second quarter, the number of PIRs received increased to around 150,000 per week and in recent weeks around 190,000 per week and the Group has assumed that PIRs remain at this elevated level until the industry deadline at the end of August 2019.
- At the same time, the quality of PIRs has deteriorated and the Group expects this to continue.
- While PIR and complaint volumes remain uncertain, the impact of these additional volumes is expected to generate around 200,000 extra complaints, increasing the total expected complaint volumes from 5.6 million to 5.8 million.
- At 30 June 2019, a provision of £1,083 million remained unutilised relating to complaints and associated administration costs.

Why did you recently reduce your CET1 capital target?

- The Group was notified by the Prudential Regulation Authority on 1st May 2019 that the Systemic Risk Buffer for the Group's Ring Fenced Bank will be 200 basis points which equates to 170 basis points at a Group level.
- This is less than the 210 basis points previously included in the Group's capital guidance following action to manage the size of the Ring Fenced Bank.
- This decrease in the Systemic Risk Buffer follows the net 30 basis point reduction in the Group's Pillar 2A, as announced to the market in 2018 and with effect from 1 January 2019.
- Given these decreases, the Board's view of the level of CET1 capital targeted by the Group has reduced from around 13 per cent to around 12.5 per cent, plus a management buffer of around 1 per cent.
- The Group remains strongly capital generative and continues to expect ongoing capital build of 170 to 200 basis points per annum.
- The Group has a progressive and sustainable ordinary dividend policy and the Board will continue to give consideration to the distribution of surplus capital at the end of the year.

What is your dividend policy?

- The Group has a progressive and sustainable ordinary dividend policy. This means that the ordinary dividend is likely to grow each year, at a rate that the Group is likely to be able to sustain – the interim ordinary dividend for 2019 of 1.12 pence was 5 per cent higher than H1 2018.
- The Board has also indicated that it will distribute any surplus capital (over and above the ordinary dividend) by way of a share buyback programme or a special dividend. For the last two years the Board has recommended the use of share buybacks (2017: £1 billion; 2018: up to £1.75 billion) and this is the current preference given the amount of surplus capital, the normalisation of ordinary dividends and the flexibility that a buyback programme offers.
- The Board will consider distributions at each year end and any decision around dividends and/or buybacks is for the Board at that point. They will take into account various factors, including:
    - Capital build: the Group is strongly capital generative and expects ongoing capital build of 170 to 200 basis points per year, pre-dividends.
    - Capital requirement: over the last year the Group has been notified by the PRA that the Systemic Risk Buffer and Pillar 2A components of its capital structure would be lower than previously expected by a combined net 70 basis points. As a result of these changes, the Board's view of the level of CET1 capital targeted by the Group has reduced from around 13 per cent to around 12.5 per cent, plus a management buffer of around 1 per cent.
    - The macroeconomic environment.

What is a share buyback and how might I benefit?

- A share buyback (also known as a share repurchase) is a form of returning surplus capital held by a company to shareholders involving the purchase by a company of its own shares.
- The effect of a buyback is to reduce the total number of shares in issue. It is expected that shareholders who retain their shares in the company will benefit from the share buyback programme as they will own an increased proportion of the total shares in the company and should therefore see an increase in the dividend per share going forward given the reduced number of shares in issue.

How is the share buyback progressing and will it be complete by year end?

- A share buyback of up to £1.75 billion was announced with the 2018 Results and is expected to be completed during 2019. The buyback programme started on 1 March 2019 and we have bought back approximately 1.4 billion shares, with around 50 per cent of the up to £1.75 billion programme now completed.
- The buyback is managed entirely by the Group's brokers (UBS and Morgan Stanley) and the expectation is that it will be reasonably evenly phased through the course of 2019 with completion around the end of the year.

How can I participate in the share buyback programme?

- The share buyback programme does not work by buying individual investors' shares, regardless of whether they are large or small holders. The buyback operates through the bank's brokers buying shares on the open market, as any investor can do every day. Once the brokers have bought the shares in the market, they transfer them to the Group treasury function, who then cancel those shares.
- If an investor wished to sell their shares, the appropriate way to do so would be on the open market, in the normal way.

What is the Group doing on climate change?

- Following a Board level review of our approach to environmental sustainability, we have developed a new sustainability strategy which focuses on the opportunities and threats related to climate change and the need for the UK to transition to a sustainable low carbon economy.
- We support the aims of the 2015 Paris Agreement on Climate Change and the UK Government's Clean Growth Strategy and ambitions. We have also committed to implement the Task Force on Climate Related Financial Disclosures (TCFD) recommendations.
- The UK is committed to the vision of a sustainable, low carbon economy, and has placed clean growth at the heart of its industrial strategy. This will require a radical reinvention of the way people, work, live and do business.
- We have a unique position within the UK economy with our purpose of Helping Britain Prosper and it is of strategic importance to us that the UK makes a successful transition to a sustainable, low carbon economy that is resilient to climate change impacts and sustainably uses resources.
- We are committed to playing a leading role in helping to finance the transition to a sustainable, low carbon economy and supporting our customers in the required transition.
- To meet our commitment, we will:
  - Take a strategic approach to identifying new opportunities to support our customers and clients and to finance the UK transition to a sustainable low carbon economy, embedding sustainability into Group strategy across all activities.
  - Identify and manage material sustainability and climate related risks across the Group, disclosing these and their impacts on the Group and its financial planning processes in line with the TCFD recommendations.
  - Use our scale and reach to help drive progress towards a sustainable and resilient UK economy, environment and society through our engagement with industry, Government, investors, suppliers and customers.
  - Embed sustainability into the way we do business and manage our own operations in a more sustainable way.
- Read more on this in our 2018 Responsible Business Update (here).

How does the Group ensure that it is operating responsibly?

- As a UK focused retail and commercial financial services company, we recognise that we have a responsibility to help address the economic, social and environmental challenges that the UK faces. We remain fully committed to Helping Britain Prosper. Our approach to responsible business ensures that colleagues are equipped to make the right decisions supported by our values-based culture, and the way we embed responsible business in our policies, processes and training.
- Each year we gather stakeholder views through a dedicated materiality study. In 2018, they identified demonstrating responsibility at our core as a key priority, including how we keep customers' data safe, support vulnerable customers, lend responsibly, support businesses and work with suppliers.
- Stakeholders also identified building capability and digital skills as a key issue, alongside tackling social disadvantage, inclusion and diversity and sustainability. We believe that the way we are addressing these issues places us in a unique position to Help Britain Prosper:
  - We are using our own capabilities in digital banking to help develop the skills of people, businesses and charities.
  - We are one of the UK's largest corporate donors and use our scale and reach to tackle some of society's more complex issues through our independent charitable Foundations.
  - We have taken a leading role in championing diversity and mental health, setting public goals for increasing Black, Asian & Minority Ethnic representation at all levels.
  - Our ambition is to take a leading role in supporting the UK's transition to a sustainable low carbon economy.
- Read more on this in our 2018 Responsible Business Update (here).