



BANK OF ENGLAND
**PRUDENTIAL REGULATION
AUTHORITY**

Antonio Horta-Osorio
Lloyds Banking Group

Sam Woods
Deputy Governor, Prudential Regulation
CEO, Prudential Regulation Authority

31 March 2020

Dear Antonio,

Thank you for our discussions of recent days in response to the exceptional circumstances caused by Covid-19. The PRA welcomes the consideration given by you and your firm to suspending dividends and buybacks on ordinary shares until the end of 2020. Should your board take such a decision the PRA would publicly welcome it.

I am also writing to ask you to cancel payments of any outstanding 2019 dividends.

The PRA also expects banks not to pay any cash bonuses to senior staff, including all material risk takers, and is confident that bank boards are already considering and will take any appropriate further actions with regard to the accrual, payment and vesting of variable remuneration over coming months.

Please confirm to the PRA by 20:00 today whether or not your group is prepared to agree to this request. The PRA stands ready to consider use of our supervisory powers should your group not agree to take such action.

We would expect you to make a statement by 21:00 and the PRA would issue its own statement at that time. A draft text of a PRA statement and possible form of words for your statement, depending on your decisions on these matters, is included below (see Annex). The PRA intends to publish its letters to firms alongside any statement it issues.

Yours sincerely

Sam Woods
Deputy Governor and CEO, Prudential Regulation Authority



Annex

Draft firm statement

In order to help us to serve the needs of businesses and households through the extraordinary challenges presented by Covid-19, the board has decided that until the end of 2020 we will undertake no quarterly or interim dividend payments, accrual of dividends, or share buybacks on ordinary shares. In addition, in response to a request from the PRA and to preserve additional capital for use in serving our clients, the board has agreed to cancel payment of any outstanding 2019 dividend. Our board will decide on any dividend policy and amounts at year-end 2020.

Draft PRA Statement

The PRA welcomes the decisions by the boards of the large UK banks to suspend dividends and buybacks on ordinary shares until the end of 2020, and to cancel payments of any outstanding 2019 dividends in response to a request from us. The PRA also expects banks not to pay any cash bonuses to senior staff, including all material risk takers, and is confident that bank boards are already considering and will take any appropriate further actions with regard to the accrual, payment and vesting of variable remuneration over coming months.

In the assessment of the Financial Policy Committee and the Prudential Regulation Committee, the banks enter this period with strong capital positions, more than sufficient to accommodate the combined simultaneous impact of severe UK and global recessions and a financial markets shock – as demonstrated through their performance in our recent stress tests. Although the decisions taken today will result in shareholders not receiving dividends, they are a sensible precautionary step given the unique role that banks need to play in supporting the wider economy through a period of economic disruption, alongside the extraordinary measures being taken by the authorities. We do not expect the capital preserved to be needed by the banks in order to maintain adequate capital positions, but the extra headroom should help the banks support the economy through 2020.