LLOYDS BANKING GROUP

Helping Britain Prosper

Lloyds Banking Group plc
Annual Review 2023

For over 325 years we have supported Britain, helping people and businesses invest and grow. Today is no different.

Our purpose-driven strategy is focused on supporting the needs of our customers, colleagues and communities, whilst delivering long-term, sustainable returns and creating value for our shareholders.

As the UK's largest digital bank, with 27 million customers and 2.2 million shareholders, we're looking to create a more sustainable and inclusive future for people and businesses, shaping finance as a force for good.

Our purpose is Helping Britain Prosper...

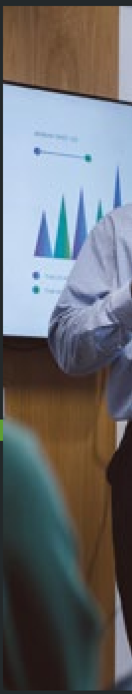
See inside cover ▶

...it's what drives us, what makes us different and defines how we profitably grow for...

Customers

Our purpose-driven business model and financial strength allow us to create new opportunities and propositions for our customers, whilst supporting them when they need it most.

27m
customers



Shareholders

We have 2.2 million shareholders, including a significant majority of our employees. In 2023, the Board recommended a total ordinary dividend of 2.76 pence per share and a further share buyback of up to £2.0 billion.

£3.8bn
returned to shareholders for 2023

Read more
on how we're supporting customers through the cost of living crisis.

Colleagues

Our colleagues are fundamental to the success of the Group and our future transformation. We will continue to build a fully inclusive organisation that is representative of modern-day Britain, where differences are embraced and everyone can reach their potential.

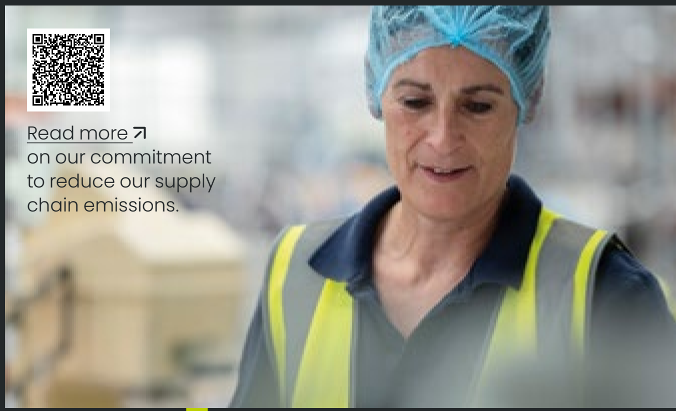
66,000
colleagues

Businesses

We support businesses of all sizes, helping them finance their ambitions and grow. We also provide targeted support to help them navigate challenging times, particularly those clients who may be at risk of falling into financial difficulty.

c.600,000

businesses proactively contacted to offer support



Read more ↗
on our commitment to reduce our supply chain emissions.

Suppliers

Our 2,600 suppliers are integral to how we fulfil our customers' needs. We're working collaboratively with them to reduce the Group's supply chain emissions.

c.80%

of supply chain emissions now assessed against our Emerald Standard on supplier sustainability

Communities

We play an active role in supporting communities, across the UK. This includes support for community groups and organisations; donations to our independent Foundations; colleague volunteering; and fundraising for local charities.

£120m

donated to our charitable Foundations since 2018 to help address complex social issues and opportunities

Regulators & government

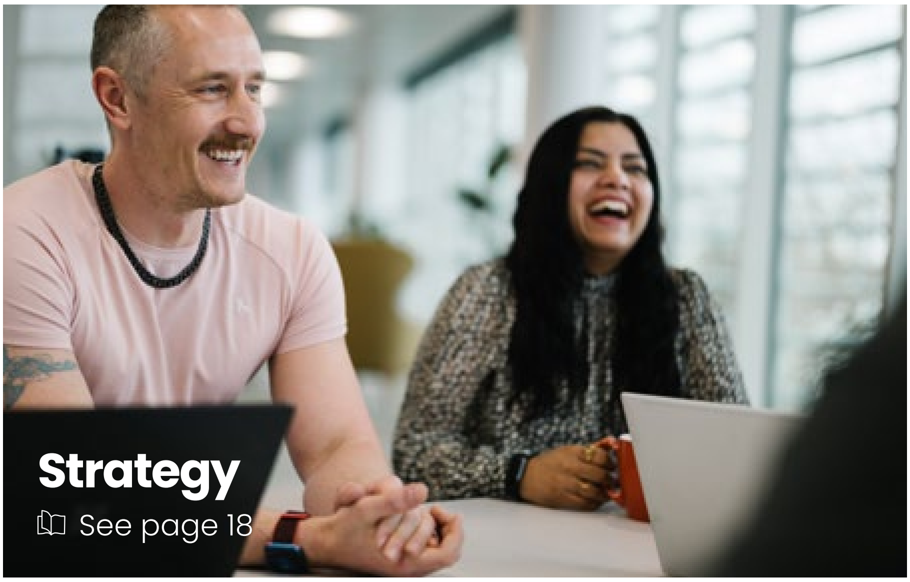
We continually engage with our regulators and other government authorities to ensure the Group supports and delivers in line with current and developing regulation and legislation. The Group is proud to be one of the UK's largest tax payers, helping finance public services.

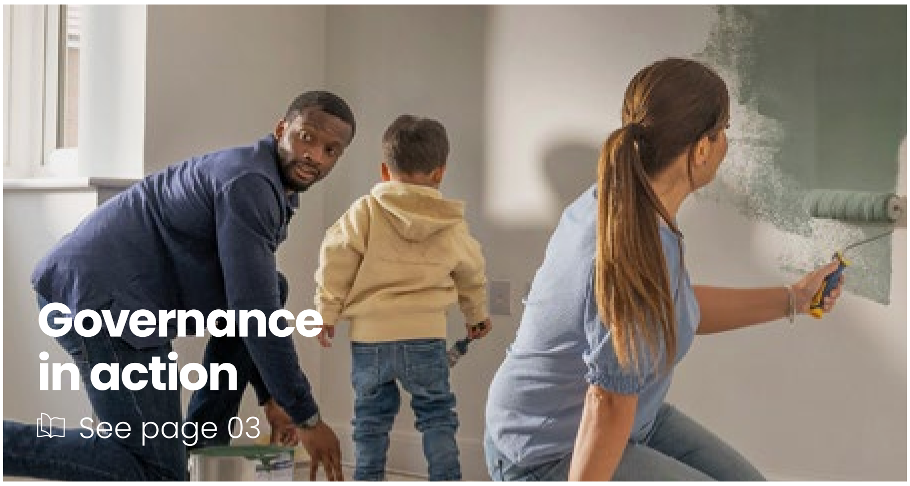
£4.4bn

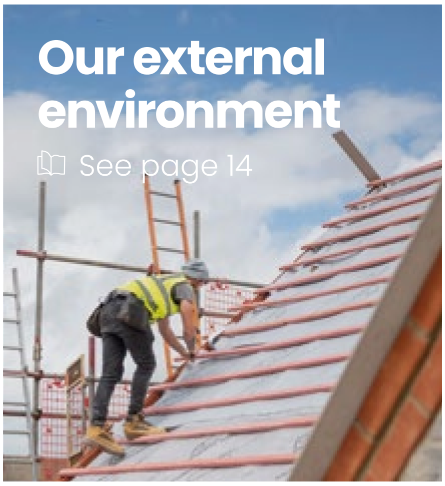
of cash taxes paid to the UK Government in 2023

In this review

Contents







This annual review incorporates the Strategic Report which forms part of the 2023 annual report and accounts along with certain consolidated financial information, some information about the Board of Directors, detail on remuneration as well as some general shareholder information.

On behalf of the Board

Sir Robin Budenberg
Chair, Lloyds Banking Group plc
21 February 2024

Our reporting

Our reporting network is designed to facilitate better communication to a range of stakeholders.

Our annual report and accounts provides disclosures relating to our strategic, financial, operational, environmental and social performance and provides detail on our strategy.

It also contains forward-looking statements relating to the Group's future financial condition, performance, results, strategic initiatives and objectives.

Our wider reporting suite provides supplementary information and disclosures, including our sustainability report. These are available online, and referenced throughout this report.

To access more content on a mobile device, point your camera at the QR codes seen throughout this report.

See our full reporting suite on the Investors page of our website.

Helping Britain Prosper provides us with a great opportunity for future success

Overview
As a financial services provider with more than 27 million customers, we have a financial relationship with over half of all adults in the UK and a strong presence in communities around the country. We play an integral role in the UK financial system and are in a unique position to deliver on our purpose of Helping Britain Prosper, whilst delivering long-term, sustainable returns for our shareholders. During 2023, our purpose has been more visible in our actions than ever before. We remain focused on helping people and businesses finance their ambitions and grow whilst proactively supporting our customers, colleagues and society to navigate the current environment.

Shareholder returns
Generating strong and sustainable earnings in the long-term is imperative. We have made good progress on our strategy, whilst continuing to deliver a robust financial performance in 2023. We continue to feel that our share price does not fully reflect the financial performance and outlook of the Group.

The Board recognises the importance of returns for our shareholders both through share price appreciation and capital returns. I am pleased to announce that the Board has recommended a total ordinary dividend of 2.76 pence per share for 2023, an increase of 15 per cent on 2022, in line with our progressive and sustainable dividend policy. The Board has also announced its intention to implement an ordinary share buyback of up to £2.0 billion in 2024. Implementation of the buyback helps us grow dividend per share in future periods. Based on the total ordinary dividend and the intended ordinary share buyback, the total capital return for 2023 equates to £3.8 billion. The mix of capital return between dividends and buybacks aims to meet the needs of all shareholders.

Our purpose and strategy
While the external environment remains uncertain, our ambitious strategy announced in February 2022 remains the right one, underpinned by a strengthened connection between our strategic goals, clear financial targets, purpose and culture. I am pleased with the Group's strategic achievements in 2023. Our purpose of Helping Britain Prosper means addressing social issues impacting our customers, investing in regional productivity and creating long-term, sustainable growth for the country. Building an inclusive and sustainable future is at the heart of this.

While more progress needs to be made on the transition to net zero, our progress will create significant opportunities for the Group, enabling us to share the benefits with all of our stakeholders. During 2023, the Group partnered with the charity Crisis to call for one million more social homes to be built over the next decade. Safe, affordable and sustainable homes are a fundamental human need and an important part of supporting the transition in a way that is fair and inclusive.

Our culture
Throughout 2023, the Board has listened to our people to better understand how it feels to work for the Group, the role our culture plays and what improvements could be made. While we have seen a drop across some of our employee engagement metrics in 2023, reflecting uncertainty created by our transformation, there continues to be positive feedback about the Group's culture, with our colleagues feeling the Group is inclusive, safe and respectful.

We were pleased to be the first FTSE 100 company to set targets to increase both gender and ethnic diversity at senior levels and we maintain our commitment to these stretching targets. In 2023, the Group also announced an additional target, to double the representation of senior colleagues with disabilities, the first public commitment of its kind to be launched by a UK bank.

Directors
I would like to thank Alan Dickinson and Lord Lupton, who will both retire at the 2024 annual general meeting, for the significant contributions that they have made over many years. I am pleased to report that Nathan Bostock will be appointed as a non-executive director of the Group and, subject to regulatory approval, Chair of Lloyds Bank Corporate Markets plc, in each case with effect from 1 August 2024. Read more on Board changes on **page 72** of the annual report and accounts.

We aim to ensure that the composition of the Board represents a diverse mix of experiences and backgrounds, enhancing the quality of Board deliberations and decisions. I am pleased to say that we meet the FTSE Women Leaders and Parker Review recommendations.

Remuneration
Our approach to remuneration aims to provide a clear link to delivery of the Group's strategic objectives whilst delivering higher, more sustainable returns for our shareholders. We have also carefully considered how best to support our colleagues. In 2023, we announced a two-year pay proposal for 2024 and 2025 to provide greater certainty to our colleagues. In light of the immediate cost of living challenges, there has also been an additional cash award for c.44,000 colleagues to support our most junior colleagues. We believe our reward package is fair and competitive. More information can be found in the directors' remuneration report on **pages 108 to 132** of the annual report and accounts.

Summary
I am immensely proud of how Lloyds Banking Group colleagues have supported our customers and made a positive contribution across our communities, while setting about the change we need for our long-term success. I am confident that the Group's purpose, customer focus and unique business model, alongside our continued strategic delivery will ensure the Group can deliver higher, more sustainable returns for our shareholders, alongside serving the interests of our broader stakeholders.

▶ **Sir Robin Budenberg,**
Chair

Governance in action

Overview

Effective stakeholder engagement is fundamental to good governance. Stakeholder engagement takes place at all levels within the Group and is an important part of how we are delivering on our purpose of Helping Britain Prosper. The Board continues to engage both directly and indirectly with many of its stakeholders. This engagement helps to provide a better understanding of stakeholders' points of view and the impact the Group has on their day-to-day lives. Read more about the engagement of Board members with stakeholders on **pages 82 and 83** of the annual report and accounts.

The Board requires stakeholder implications to be considered by senior management in all proposals submitted to the Board from across the Group, both within the papers and as part of the accompanying presentations.

Senior management routinely provides the Board with details of stakeholder interaction and feedback through their regular business updates and in their interactions both inside and outside of the board room. Managing stakeholder interests also forms a key part of the Board's delegation of the day-to-day management of the business to senior management.

Throughout 2023 the Board's key stakeholders remained the same as they were in 2022.

Key Board discussions and decisions

Stakeholder key:

Customers & clients	**Communities & environment**
Shareholders	**Suppliers**
Colleagues	**Regulators & government**

Section 172(1) statement

This section (**pages 03 to 05**) is our Section 172(1) statement for the purposes of the Companies Act 2006 (the Act), describing how the directors have had regard to the matters set out in section 172(1) (a) to (f) of the Act when performing their duty to promote the success of the Company under section 172. Further detail on key stakeholder interaction is also contained within the directors' report on **pages 82 to 83** of the annual report and accounts.

The directors remain mindful in all their deliberations of the long-term consequences of their decisions, as well as the importance of the Group maintaining a reputation for high standards of business conduct and the Board engaging with, and taking account of the views of, key stakeholders.

The five key Board decisions outlined in this section (cost of living, Consumer Duty, Senior Independent Director appointment, the Tusker acquisition and environmental sustainability) evidence how the Board is engaged in key decisions.

Cost of living

Stakeholder impact

The rising cost of living, including high levels of inflation and higher interest rates, was a key area of concern for many customers, clients and colleagues during 2023. The Board continued to consider the impacts upon these stakeholders, including the impacts on the Group's mortgage customers and clients with lending facilities and the action being taken to provide them with the necessary support.

The Group's support to customers and clients has been driven by our purpose of Helping Britain Prosper and has evolved as the Board and the Group have sought to better understand the varying impacts of the rise in the cost of living. The support provided included the offer of interest free overdraft facilities in certain circumstances, facilitating specialist third party support and forbearance options.

The Board was keen that particular support be provided to our mortgage, business and corporate clients. There has been a number of tailored means of assistance developed accordingly, with the understanding that the right support will help these customers become more financially resilient in the long-term, which is good for the business. This included the Group's participation in the Government-led Mortgage Charter, a sector-wide initiative to support those struggling with mortgage repayments.

The Board was also very aware of the feedback from colleagues on the impact of the current cost of living pressures on their personal finances. In order to provide colleagues with greater certainty while the economic environment remains uncertain, the Board was pleased to support the Group's commitment to a two year pay deal. This provided guaranteed minimum pay awards in 2024 and 2025 for the majority of our colleagues. In addition, we had a particular focus on colleagues in more junior roles who also received a further ad hoc cash award in December 2023.

The Board will continue to monitor the challenges which the rising cost of living causes our stakeholders as the Group continues to work with our regulators and our peers to ensure the most appropriate support can be provided to customers, clients and colleagues.

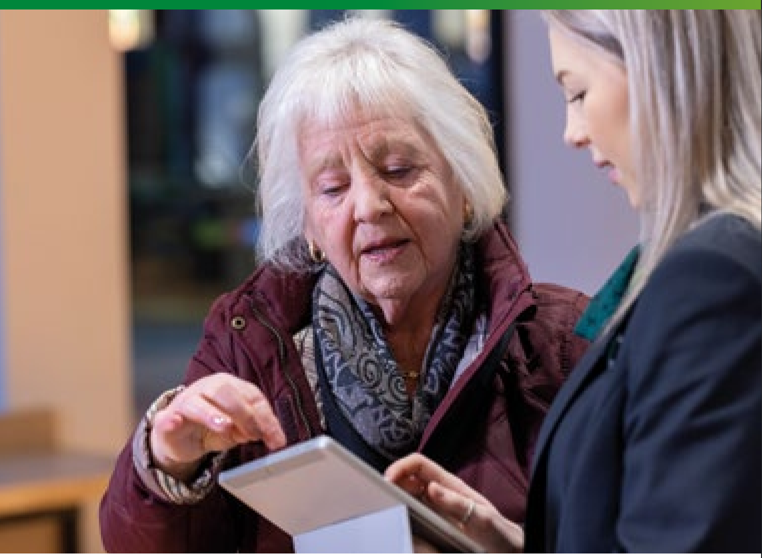
Consumer Duty

Stakeholder impact

The Board and its Board Risk Committee supported the Group in working towards the introduction in July 2023 of the Financial Conduct Authority's (FCA) new Consumer Duty requirements. In doing so, the Board acknowledged the strong alignment between the Group's purpose, values and existing customer-centric approach and the regulator's ambition to assist customers in achieving their financial objectives, while preventing customer harm.

The Board received several updates during the year on progress with meeting the regulator's requirements. This included reviewing the regulator's feedback and the steps taken by senior management in fully embedding the approach and ensuring improved customer outcomes.

The Board was mindful of the scale of the programme of work and the resulting risks to delivery and considered the approach to potential actions to mitigate those risks. The Board was pleased with the Group's successful delivery of the initial stages of the programme. The Board also considered the approach the Group would take as the programme moves into its second implementation period ending in July 2024 and also the approach which would be taken to ensure that focus remains strong in this area as it transitions into 'business as usual', which will be supported by the Group's strong focus on purpose. The Board will continue to be updated on progress prior to July 2024.



Read more ↗
Cathy's full bio

Senior Independent Director appointment

Stakeholder impact

The Board started a search for a successor to Alan Dickinson in the role of Senior Independent Director in early 2023. In doing so the Board was mindful of its obligations to, and the needs of, the Group's external stakeholders and its ambitions to build an organisation truly driven by Helping Britain Prosper when making the decision for this important role.

The appointment process was led by the Chair, with input from the wider Board and the support of the Board's Nomination and Governance Committee. The suitability of candidates was considered against agreed criteria, including the range of skills and prior related experience potential candidates would bring. A final recommendation was then made to the Board for its agreement.

After an extensive review of both external and internal candidates, the decision was made for Cathy Turner to succeed Alan Dickinson in the role of Senior Independent Director. In doing so the Board recognised Cathy's broad ranging executive and non-executive experience. This included her extensive experience in dealing with investors and with the sometimes competing interests of a variety of stakeholder groups.

The Board agreed that Cathy would provide invaluable support to the Chair and undertake the other aspects of the role to a high standard.

Read more ↗
within the press release

Tusker acquisition

Stakeholder impact

The Group's strategy is principally organic however the Board and senior management will always keep under review inorganic opportunities which can deliver sustainable profit and growth for the Group in strategically consistent areas while supporting our purpose. In early 2023 the opportunity to acquire Tusker, a business providing salary sacrifice car schemes for ultra-low emission vehicles, was presented to the Board.

The Group is committed to helping Britain build a more sustainable society. The Board therefore considered how the acquisition would align with the Group's existing business at acceptable risk and enable the Group to offer a bespoke product to its commercial clients to support those clients in their own transitions to net zero. The acquisition would also support the Group's ambitions to achieve its net zero emissions targets by 2050 or sooner through promotion of the use of electric and ultra-low emission vehicles as well as its growth ambitions for financing of electric and plug-in hybrid electric vehicles.

From an investor perspective, the Board considered a number of factors, including how Tusker was positioned for growth, the projected return on the Group's investment and the potential synergies with the Group's existing business, including supplier relationships. Other stakeholder considerations included the Group's regulators, with the FCA and Prudential Regulation Authority briefed in advance of the transaction.

The Board was pleased to support the transaction and provided final approval with the acquisition being announced on 22 February 2023.

Environmental sustainability

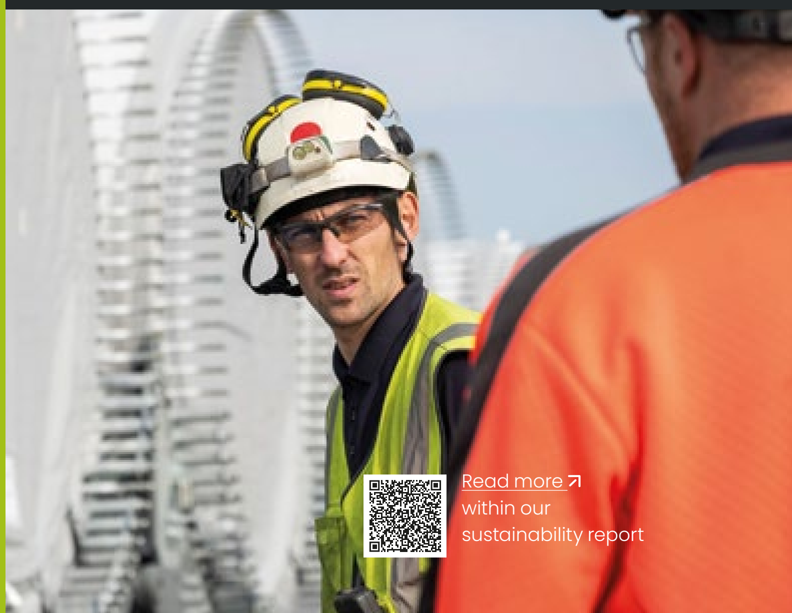
Stakeholder impact

Building a more sustainable future is a core part of our purpose-driven strategy and how we are Helping Britain Prosper. It is a key source of opportunity for the Group as well as risk management. As such, the Board has considered the importance of the Group's commitments to net zero, including both our emissions reduction targets and our role as a member of the Net Zero Banking Alliance. The Board received regular updates on the progress made in all areas related to our sustainability ambitions and has provided valuable challenge as we work towards meeting our commitments.

The Board is keenly aware of the importance of the Group's own ambitions as we support our customers and our clients through their transitions to net zero and the vital link this represents to delivering on the Group's climate ambitions. The Board has therefore encouraged further action to fully embed climate considerations into all of the Group's decision making, recognising the breadth of the action which needs to be taken and the importance of moving from target setting to action at scale. This recognises that there are many growth opportunities in helping our customers and clients transition to a net zero economy, while future-proofing our balance sheet.

The Board has encouraged clarity in the role that all areas of the Group will take as we transition to net zero. This has included ensuring cross-Group capabilities are fully utilised and emphasising the importance which bold decision making will play. In doing so the Board recognises the particularly important role which financial services organisations will take in supporting low carbon ambitions, including in key areas such as the housing and transport markets.

The Board is very aware of the challenges and risks to delivering on our commitments and has considered these throughout the course of the year. Further detail of the role of the Board in this area can be found in the report of its Responsible Business Committee on **page 107** of the annual report and accounts.



Read more ↗
within our sustainability report

Robust performance in a challenging environment

2023 was an important year for our Group. We continued to deliver on our purpose of Helping Britain Prosper, supporting both our customers and shareholders. We are seeing real evidence of strategic progress as we transform the business and have increased confidence in delivering the 2024 and 2026 strategic commitments. Our purpose-driven strategy is helping people and businesses across the UK finance their ambitions and grow whilst enabling us to build a more sustainable and inclusive business. This progress has been underpinned by continued strategic investment and contributed to a financial performance that has driven strong capital generation and increased shareholder distributions.

The Group delivered a robust financial performance in 2023, meeting our guidance. Income growth has been supported by a higher banking net interest margin and good momentum in underlying other income. We continued to manage costs tightly despite ongoing inflationary pressures. Asset quality remained strong. As a result, we delivered strong capital generation, enabling the Board to recommend a final ordinary dividend of 1.84 pence per share, implying a total dividend for the year of 2.76 pence. This is 15 per cent up year-on-year and in line with our progressive and sustainable dividend policy. In addition, the Group has announced a share buyback programme of up to £2.0 billion. In combination, this is a total capital return of up to £3.8 billion, or c.14 per cent of the Group's market capitalisation.

With continued cost of living pressures we know that 2023 was challenging for many. We were proactive in providing support. By using data and insights to gain a deeper understanding of customer needs, we contacted 7.5 million customers and around 600,000 businesses to help with their financial resilience. Alongside, we contacted more than 15 million deposit customers to ensure they are aware of their savings options, supported by our enhanced propositions, including attractive rates and products. We also recognise the importance of supporting our colleagues. We have agreed a two-year pay deal and paid an additional cash award to around 44,000 colleagues. This is alongside refreshed flexible working policies that balance the needs of our people and the strategic aims of the Group.

"We remain fully focused on supporting customers, whilst delivering strong strategic progress and sustainable returns, guided by our purpose of Helping Britain Prosper.

▶ **Charlie Nunn,**
Group Chief Executive

Watch ↗ Charlie's message, as he reflects on supporting our stakeholders in 2023 and beyond.

Robust financial performance, in line with guidance

Statutory profit after tax was £5.5 billion. The significant year-on-year increase was because of both robust 2023 performance and in particular a 2022 restatement in line with IFRS 17 accounting changes. Strong net income of £17.9 billion was up 3 per cent, driven by a higher banking net interest margin in line with guidance and 10 per cent growth in underlying other income, offset by higher operating lease depreciation. Operating costs of £9.1 billion increased in line with guidance, reflecting higher planned strategic investment, severance charges, new businesses and inflationary pressures. Remediation increased to £675 million and included a £450 million provision for the potential impact of the recently announced FCA review into historical motor finance commission arrangements. This charge includes estimates for costs and potential redress. There remains significant uncertainty as to the extent of any misconduct and customer loss, if any, the nature of any remediation action, if required, and its timing. Hence the impact could materially differ from the provision, both higher or lower. We saw strong asset quality with credit performance across portfolios broadly at or favourable to pre-pandemic levels. The impairment charge of £308 million includes a significant write-back and improved economic assumptions. Excluding these the asset quality ratio was 29 basis points, still in line with our guidance.

The Group's balance sheet was resilient in the face of a challenging operating environment. Excluding the impact of securitisations, loans and advances were flat. Within the mortgage book strong customer retention in fixed products was more than offset by continued roll-off from reversionary products. There was also growth in unsecured Retail lending and Motor Finance. The Group saw growth of over 12 per cent in assets under administration within Insurance, Pensions and Investments, including £5.1 billion of net new money. Customer deposits decreased £3.9 billion to £471.4 billion, although were largely stable in the second half of the year. Retail deposits were down £2.4 billion, which included an £11.3 billion reduction in Retail current accounts, and a £12.4 billion increase in Retail savings balances supported by an enhanced savings proposition and proactive customer communications. In Commercial Banking, deposits were 1 per cent lower at £162.8 billion, reflecting targeted growth in Corporate and Institutional Banking offset by a reduction in Small and Medium Businesses.

Delivery of our purpose-driven strategy

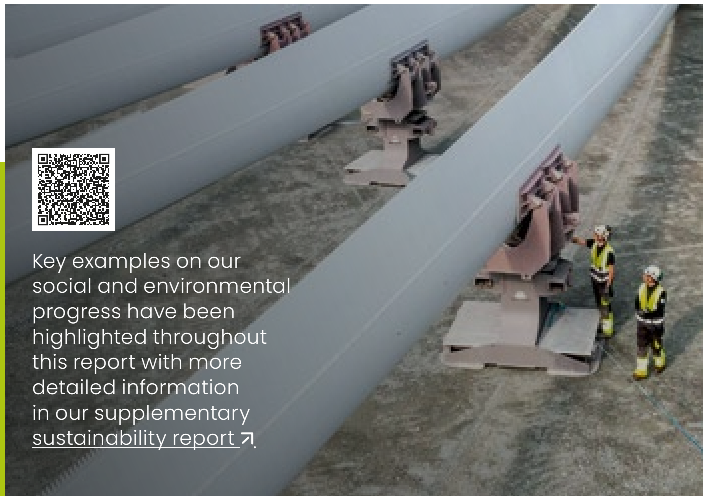
We have a clear strategic vision to become a customer-focused digital leader and integrated financial services provider able to capitalise on new opportunities at scale. Our strategy is purpose-driven, with a clear focus on areas where we can profitably grow and make the greatest impact in Helping Britain Prosper in a sustainable and inclusive way. We believe our day-to-day business activities that are helping customers finance their ambitions and growth are underpinned by our purpose. In that context, we also have particular initiatives that highlight the alignment of purpose and strategy.

In 2023, we launched a partnership with Crisis, the national charity for people experiencing homelessness. This is a hugely important cause for us given our business focus and unique ability to enact change. We have launched a cross-industry initiative to back our joint call for 1 million additional social and affordable homes. Since 2018 we have supported more than £17 billion of new funding to the social housing sector, including £2.7 billion in 2023. We are also aware of the importance of creating a fully inclusive organisation within our Group that is representative of modern-day Britain. We have pledged to double the representation of senior colleagues with disabilities by 2025, in addition to our existing significant commitments on gender and race.

Our strong commitment to sustainability

Lloyds Banking Group is committed to Helping Britain Prosper by identifying profitable solutions to building a more inclusive and sustainable future for people and businesses in the UK.

We believe that focusing on our purpose and doing right by our customers, colleagues and communities will help us identify new areas of growth, build a more resilient and profitable business and deliver higher, more sustainable returns for shareholders.



Key examples on our social and environmental progress have been highlighted throughout this report with more detailed information in our supplementary sustainability report ↗

In December, I joined global businesses and policy makers at COP 28 to discuss how to accelerate the environmental transition. Reaching net zero relies on government, industry and society acting together with certainty, pace and focus. We are realistic that insufficient progress in policy commitments will limit the Group's ability to achieve the net zero ambitions to which we remain committed.

We have made significant headway on our sustainability agenda in 2023, in particular exceeding our target for £15 billion of sustainable financing within our Corporate and Institutional Banking franchise, originally set for the end of 2024. We are continuing to challenge ourselves and have set a new Commercial Banking target of £30 billion of sustainable financing for 2024 to 2026, which will take the cumulative total within the division to £45 billion by 2026. This is alongside new emissions reduction targets for Commercial and Residential Real Estate, Road Passenger Transport and Agriculture lending.

Within our Retail business we have continued to support customers in reducing their emissions by growing our low carbon transport business through the acquisition of Tusker. We now finance 1 in 8 ultra low emission vehicles on UK roads. We have also launched a solar panel proposition with Effective Home to expand our home retrofitting ecosystem.

We increasingly recognise the need to expand our sustainability strategy to broader environmental goals and have launched our first pledge to halt and reverse nature losses in our own green spaces. Overall, our sustainability strategy represents a significant strategic and commercial opportunity, consistent with our purpose.

Stepping back, in the context of a fast changing external environment, it is clear that our purpose-driven strategy remains the right one. By focusing on Helping Britain Prosper we can deliver our strategic goals and produce higher, more sustainable returns to the benefit of all of our stakeholders. To achieve this, we are investing significantly in the transformation of the business. In February 2022 we committed to £3 billion of incremental investment in the three years to 2024 and £4 billion to 2026.

During 2023, the Group invested a further £1.3 billion as part of this plan and delivered tangible growth and cost outcomes that leave us well placed to meet our 2024 and 2026 financial commitments. We have started to demonstrate this successful execution to the market with two strategic seminars last year and two further seminars planned in the first half of 2024 as we continue to build confidence around our progress.

Our performance

Robust financial performance with continued business momentum and good strategic progress.

£5.5bn

Statutory profit after tax, up 41 per cent vs 2022

15.8%

Return on tangible equity, above guidance

£3.8bn

Total capital return including an ordinary dividend of 2.76 pence per share, up 15 per cent vs 2022

40.1%

Women in senior roles, up 2.4pp vs year end 2021

68.2pts

All-channel net promoter score, up 0.8 points vs 2022

21.5m

Digitally active users, up 9 per cent vs 2022

Alternative performance measures
To supplement our statutory results, we use a number of alternative performance measures. Unless otherwise stated, commentary within the strategic report is given on an underlying basis. Further information is set out on **page 67** of the annual report and accounts.

Driving revenue growth and diversification

Around two-thirds of our strategic investment is weighted towards growth and our ambition to generate c.£0.7 billion of additional revenues by 2024 and c.£1.5 billion by 2026. The Consumer business will deliver approximately 30 per cent of these incremental revenues and, as shown in the seminar in October, we are making strong progress in deepening and innovating within this business. We are the UK's largest digital bank, and now have 21.5 million digitally active users, up 17 per cent since 2021 and significantly exceeding our 2024 target of more than 10 per cent growth. This creates significant opportunities to deepen our customer relationships using data and insights. For example, we have personalised our communications to make them more targeted, with 18 million customers registered for marketing. We have also launched new propositions such as our mobile-first home onboarding journey and our home ecosystem, both of which are improving our retention of customers and our ability to offer complementary products such as protection insurance.

In 2023 we completed our acquisition of Tusker, a stand-out business in the salary sacrifice market for predominantly ultra-low emission vehicles helping us both meet our net zero ambitions and deliver capability and growth in an area in which we were underweight. Tusker has already grown its fleet by around 60 per cent since acquisition.

We have made good progress on our mass affluent business in 2023, launching 'Lloyds Bank 360', a mobile-first proposition that includes a holistic view of wealth, educational materials and financial coaching. In addition, we launched Ready-Made Investments, a proposition made possible through Embark, which we acquired in 2022. The mass affluent customer base continues to grow, now at more than 2.5 million customers, from just over 2 million at the end of 2021.

From a Commercial Banking perspective we continue to transform the business to help companies finance their growth and navigate an increasingly tough environment. Within our Small and Medium Businesses franchise we have made significant strides in our multi-year journey to build a front-to-back digital business, including mobile-first onboarding and personalised cash flow insights. We are continuing to deliver targeted growth in our Corporate and Institutional Banking business through serving additional client needs, particularly by extending our competitive advantage in transaction banking, and expanding our institutional footprint. This has helped deliver more than 20 per cent growth in Corporate and Institutional Banking underlying other income since full year 2021 as we build momentum with sustainable and capital efficient growth.

Investing in efficiency and enablers to improve delivery

Strengthening cost and capital efficiency in the context of growing and diversifying our revenues is crucial. We have guided to c.£1.2 billion of gross cost savings by 2024, an increase from the original £1 billion as we look to mitigate inflationary pressures. In 2026 we are targeting a below 50 per cent cost:income ratio. We have made strong progress against our 2024 cost saving target, and have now realised around 60 per cent of the savings. This has been achieved through continued investment in digital solutions and improving cost-to-serve by, for example, reducing our office footprint by more than 20 per cent since the end of 2021 and optimising our branch footprint. This active cost management is helping us deliver our guided cost outcomes at a time of heightened inflationary pressure.

In respect of capital efficiency we have continued to demonstrate risk-weighted assets discipline and careful balance sheet management whilst pursuing new growth opportunities through investments in capital-lite and fee generating business. We are also reducing the claims on our use of capital, including for example eliminating our pension deficit, with no further deficit contributions in this triennial period.

We are investing in maximising the potential of people, technology and data, the key enablers of our strategy. Investing in the talent, skills and capabilities needed for long-term growth is critical.

We have made more than 2,500 new hires in technology and data roles in 2023 and we have completed a senior leadership development programme centred around the organisational shifts we need in order to successfully execute our strategy. We are transforming our change process in the pursuit of increased efficiency and responsiveness. Since the start of our strategy, we have decommissioned more than 400 legacy technology applications and more than doubled the number of APIs we have created as we continue to migrate onto cloud-based platforms.

In conclusion, our purpose-driven strategy and strong business model ensures that we can continue to support customers and achieve our societal and strategic goals whilst delivering against our financial targets. We are successfully transforming the bank and will thereby continue to deliver for all of our stakeholders.

Grow with purpose

Our colleagues are fundamental to the delivery of the Group's growth strategy which includes our ambition to be a purpose-driven business.

We recognise our culture is a fundamental enabler. Throughout the year, we have been further embedding our purpose and values across the organisation, helping colleagues understand how our values guide not only the way we work together, but also how we make decisions.

In 2023, we completed a senior leadership development programme centred around the organisational shifts we need to make to Grow with Purpose. 340 leaders were brought together in sessions throughout the year, and immersed in our purpose, strategy and behaviours that we need to role model, setting clear expectations of our senior leadership population.

In driving the change, senior leaders are supported by a movement of more than 6,300 Catalysts across the business. These changemakers role model our values and purpose, share stories and drive improvements by challenging the status quo.

2024 guidance

We are progressing well towards our ambition of generating higher, more sustainable returns for shareholders and are on track to achieve our 2024 strategic financial outcomes. Based on our current macroeconomic assumptions the Group expects:

- Banking net interest margin of greater than 290 basis points
- Operating costs c.£9.3 billion
- Asset quality ratio of less than 30 basis points
- Return on tangible equity c.13 per cent
- Capital generation of c.175 basis points
- To pay down to a CET1 ratio of c.13.5 per cent

2026 guidance

Based on the expected macroeconomic environment and confidence in our strategy, the Group is maintaining its medium-term guidance for 2026:

- Cost:income ratio of less than 50 per cent
- Return on tangible equity of greater than 15 per cent
- Capital generation of greater than 200 basis points

The Board continually reviews the appropriate level of ongoing capital to hold. Based on regulatory, economic and business considerations, the Group now expects to pay down to c.13.0 per cent by the end of 2026.

Charlie Nunn

Charlie Nunn,
Group Chief Executive

Helping customers, colleagues and communities through our scale, capabilities and ambitions

Our purpose

Helping Britain Prosper
We do this by creating a more sustainable and inclusive future for people and businesses, shaping finance as a force for good.

Our vision

Our vision is to be the UK customer-focused digital leader and integrated financial services provider, capitalising on new opportunities, at scale.

Our strategy

We will achieve our vision through our strategic priorities: Grow, Focus and Change. Our strategy has been designed to transform the business and create higher, more sustainable growth and returns.

Read more on **pages 18 to 27**

Our competitive advantages

We have a number of distinct competitive strengths that collectively differentiate our proposition.

Leading UK customer franchise with deep customer insight
More than 27 million customers, with extensive reach across the UK. Customer data and analysis ensures we can meet the needs of these customers more effectively.

Dedicated colleagues with strong values
Highly engaged, customer focused, diverse workforce with significant expertise and experience.

Operating at scale with cost discipline
Our scale and efficiency enable us to operate more effectively.

Focused and capital generative business model
Allowing significant investment while returning capital to shareholders.

Unique customer proposition
Serving all our customers' banking, investment and insurance needs in one place through a comprehensive product range.

All-channel distribution focus with digital leadership and trusted brands
Operating through a range of distribution channels ensures our customers can interact with us when and how they want.

Financial strength and disciplined risk management
Strong capital position. Continue to take a disciplined approach to risk, as reflected through the quality of our portfolio and underwriting criteria.

Our values

They are the foundation of our culture and guide how our colleagues work together to deliver our purpose-driven strategy.

People-first
We listen and care for people as individuals.

Bold
We innovate and do things differently to better serve our customers and grow with purpose.

Inclusive
We learn about and embrace our differences, and seek out diverse perspectives.

Sustainable
We take responsibility for the impact of our actions on nature and Britain's transition to net zero.

Trust
We give each other the space and support to take things on and see them through.

Our structure

We have three core business divisions that have been structured to optimise synergies and efficiencies to best serve our customers' needs.

Read more about our Group structure and ring-fencing arrangements on **page 87** of the annual report and accounts.

Lloyds Banking Group plc

Retail

Consumer lending
- Mortgages
- Credit cards
- Personal loans
- Motor finance

Consumer relationships
- Current accounts
- Savings accounts
- Mass affluent proposition

Insurance, Pensions and Investments

Insurance, pensions and investments
- Home, motor and protection insurance
- Pensions
- Investments

Commercial Banking

Small and medium businesses
- Business loans
- Transactional banking
- Working capital

Corporate and institutional banking
- Lending and debt capital markets
- Risk management
- Cash liquidity

Our trusted brands

Our products and services are made available to our customers through our trusted brands, which enables us to address the needs of different customer segments more effectively.

Read more about each unique brand.

LLOYDS BANK | HALIFAX | BANK OF SCOTLAND | SCOTTISH WIDOWS
mbna | Schroders personalwealth | blackhorse | LEX AUTOLEASE
BIRMINGHAM MIDSHIRES | LDC | AMC | embark group
Citra | IWeb | cavendish online | Tusker

Our external drivers, opportunities and risks

We've built our business and strategy to manage the fluctuations in our external environment and to adapt to ever-changing stakeholder needs.

This helps ensure the Group remains sustainable over the longer term and can manage opportunities and risks as they emerge.

Read more on our effective risk management on **pages 39 to 44**.

Read more about our external environment on **pages 14 to 17**.

We regularly review the associated opportunity and risk implications to ensure the right choices are being made for customers, colleagues and the Group. As a large, UK-focused financial services provider our business model is influenced by a number of external factors:

- **Economy**
- **Customers**
- **Society and environment**
- **Technology and data**
- **Competitors**
- **Regulation**

By focusing on Helping Britain Prosper, we aim to deliver sustainable growth and returns

We are Helping Britain Prosper in a way that delivers sustainable profit and growth. We do this by continually innovating the products and services we offer, developing and investing in new solutions and using our expertise and influence to create positive change.

Our business model provides our customers with financial security, our colleagues with jobs and benefits and supports the communities in which we operate, all while delivering higher, more sustainable returns for shareholders.

Sustainable and inclusive growth

Our social and environmental impact

Supporting our
Customers

We provide vital financial services to over half of the UK adult population and around 900,000 businesses of all sizes, responding to the opportunities and challenges they are facing.

By supporting our customers through sustainable finance, investments, products and services, it enables us to unlock growth and transform the Group.

>£12bn
of funding to first time buyers in 2023

£15.8bn
of sustainable finance provided for corporate and institutional customers since 2022

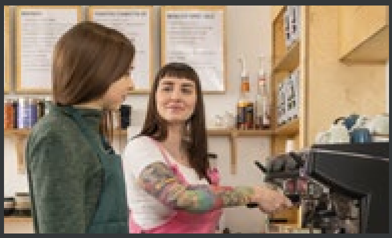
Supporting our
Colleagues

We are committed to building an inclusive and sustainable organisation that is truly representative of modern-day Britain. We know that colleagues who can show up to work as themselves are central to our success.

We are focused on embedding sustainability in all that we do to enable our colleagues to deliver on our purpose.

40.1%
of our senior manager roles were held by women in 2023

c.85%
of colleagues are shareholders of the Group



Supporting our
Communities

Our success is intrinsically linked with the success of the UK's regions and nations.

We are committed to helping communities through our support of regional development and our independent Foundations to build a sustainable and inclusive UK.

When local people, local businesses, and their communities prosper, so can we.

£24.7m
donated to our independent Foundations in 2023

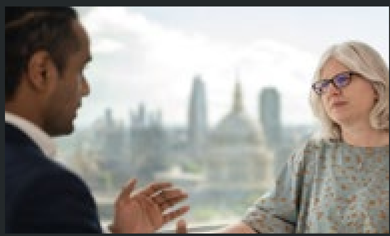
£2.7bn
of funding supported to the social housing sector in 2023

> **We have a great opportunity to transform our business to shape finance as a force for good and deliver for Britain for generations to come.**

▶ **Charlie Nunn,**
Group Chief Executive

Sustainably managing the value we create for all our stakeholders ensures that we can reshape financial services and Help Britain Prosper for generations to come.

Sustainable profit and returns



Returns for
Shareholders

The Group's robust financial performance has delivered a return on tangible equity that has exceeded our guidance and generated strong levels of capital, enabling higher returns for our shareholders.

2.2m
shareholders

£3.8bn
returned to shareholders for 2023

2.76p
ordinary dividend per share

Economy

- **Given our focus on UK customers, the Group's prospects are closely linked to developments in the UK economy**

Market context

The UK economy saw modest but resilient performance in 2023, with initial estimates indicating growth of 0.1 per cent. This was despite a large increase in interest rates intended to prevent elevated inflation becoming an entrenched problem after the surge in global energy and food prices caused in large part by Russia's invasion of Ukraine. Two elements were key to this resilience – government support to households, via an energy price cap, credits to energy accounts and 'cost of living' payments to lower-income households; and an unusually tight labour market after the pandemic, which enabled pay growth to accelerate to broadly match inflation.

While inflation fell rapidly in the second half of 2023, the cost of living squeeze is still ongoing. Energy prices are still around 50 per cent higher than 2021, and food prices broadly 30 per cent higher. As the UK imports a significant proportion of both, these cost increases reduce UK spending power by around 3 per cent. Government support protected households from some of the impact across 2022 and 2023, but this is not planned to continue through 2024. The reduction in living standards has been spread out to make it more manageable but with further impact to come. Also, interest rate rises to date have not yet had their full impact, with many households yet to refinance fixed-rate mortgages at higher rates.

The UK economy in 2024 is thus expected to echo its 2023 growth performance. GDP growth is likely to remain subdued, the unemployment rate is likely to continue drifting upwards by around 1 percentage point, and house prices are expected to edge downwards by around 2 per cent. Inflation should continue to fall, returning much closer to its target level of 2 per cent than its 7 per cent average of 2023, allowing the Bank of England to start reducing Bank Rate during the year. There are, of course, significant risks to this view, not least via consequences of any escalation of wars in Ukraine or the Middle East.

Weak economic growth and high interest rates in 2023 translated into subdued growth in our key markets. Housing transactions were around 14 per cent lower than normal levels, and mortgage and household deposit balances broadly flat. Consumer credit balances have only partially recovered their fall during the pandemic. SMEs continued to pay down debt after the large increase under the government-guarantee schemes during the pandemic, so non-financial companies' deposits declined for a second year. Financial companies' deposits also declined, as they purchased gilts sold by the Bank of England as it reverses 'quantitative easing' undertaken during the pandemic. Growth in our markets in 2024 is expected to follow these trends, albeit slightly improved.

Our response

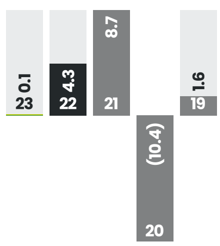
Given our UK focus, the Group's prospects are closely linked to the performance of the UK economy. Despite this, our business model and strategy, in particular the strength and resilience of our customer franchise, balance sheet and prudent approach to risk, position us well.

In line with our purpose of Helping Britain Prosper and a clear customer focus, we are helping people and businesses finance their ambitions and growth whilst proactively providing support to those most affected by changes to the economic environment.

In addition to revenue benefits from higher interest rates, our strategy and transformation will deliver growth and diversification, even in a more challenging macroeconomic environment, improving the sustainability of returns. At the same time, we are accelerating efficiency measures to offset inflationary pressures on our cost base, consistent with our ongoing discipline in this area.

UK economic growth
% GDP growth

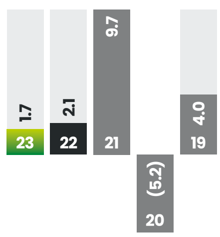
0.1%



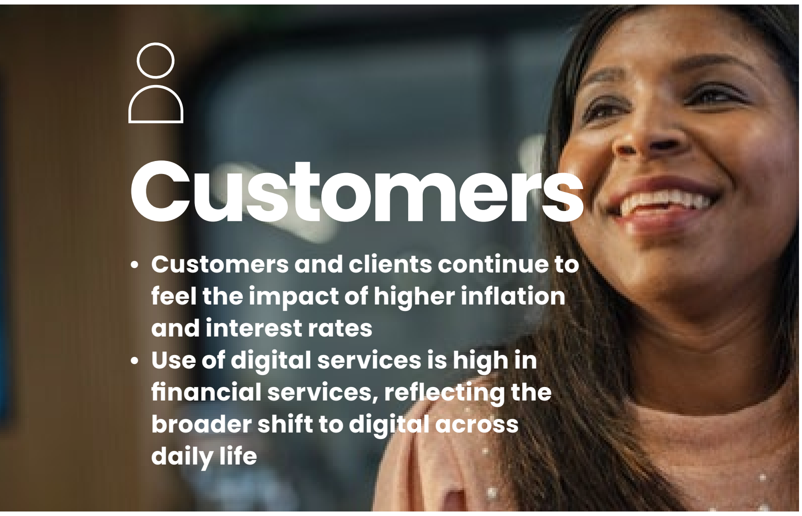
Source: Office for National Statistics

UK housing market, 2023
% house price growth (Dec vs Dec basis)

1.7%



Source: Halifax



Customers

- **Customers and clients continue to feel the impact of higher inflation and interest rates**
- **Use of digital services is high in financial services, reflecting the broader shift to digital across daily life**

Market context

Our customers and clients continue to be affected by the cost of living pressures, with higher interest rates feeding through to households' and businesses' finances. Despite falling inflation, these challenges will continue to be a factor in the coming year, with many customers refinancing fixed rate mortgages into a higher rate environment. Customers are adapting to these changes and we continue to support our customers' and clients' financial resilience.

Use of digital services and platforms remains high in financial services context, responding to customers' underlying needs for convenient and personalised experiences. Customers' expectation of seamless, simple and relevant digital financial services continues to be set by their experiences from across their lives. Customers' underlying focus on good service and value is reflected in changes in deposit behaviour, which has seen a movement from current accounts to higher yielding term deposits as customers seek greater returns.

Our response

We continue to support our customers enabling them to invest and grow. We have proactively contacted 7.5 million customers most in need of support since April 2022. We have also contacted more than 15 million savings customers to inform them about their savings options. We have also innovated our product offering with limited withdrawal products, which balances customers' desire for greater returns with flexibility in accessing funds should they need it. Given our market presence and the financing opportunities available, we continue to develop our propositions to support customers in managing their finances and our Your Credit Score feature has seen 3.2 million new customers, to reach 8.8 million customers registered.

Our strategy seeks to respond to customers' growing digital preferences and maintain our position as the UK's largest digital bank, serving our 21.5 million digital active users. Recognising the importance of customer engagement and satisfaction, we will trial new branch formats (such as kiosks) during the coming year to enable more efficient and flexible points of presence to continue to serve our customers. Furthermore, we have made significant progress in digitising our SME business, for example launching a new digital invoice finance platform.

>15m

savings customers contacted to inform them about their savings options

Society and environment

- **With complex environmental and societal issues, companies are expected to play an increased role in supporting the country and its people**
- **Our focus on Helping Britain Prosper enables us to deliver value for all stakeholders and sustainable returns for shareholders**

Market context

The UK economic environment has implications on society and people's lives, including the ability to access quality housing amid rising rates and living costs. To deliver across diverse stakeholder needs, it remains critical for organisations to be representative of modern-day Britain, and create an inclusive environment. Alongside, the UK continues to focus on climate change and the integrated approach to sustainability, moving beyond climate and recognising the importance of nature and biodiversity. There is continued regulatory focus on the impact of climate risk, demonstrating progress through understandable, relevant and reliable sustainability disclosures.

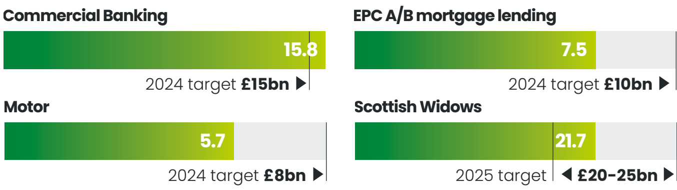
Our response

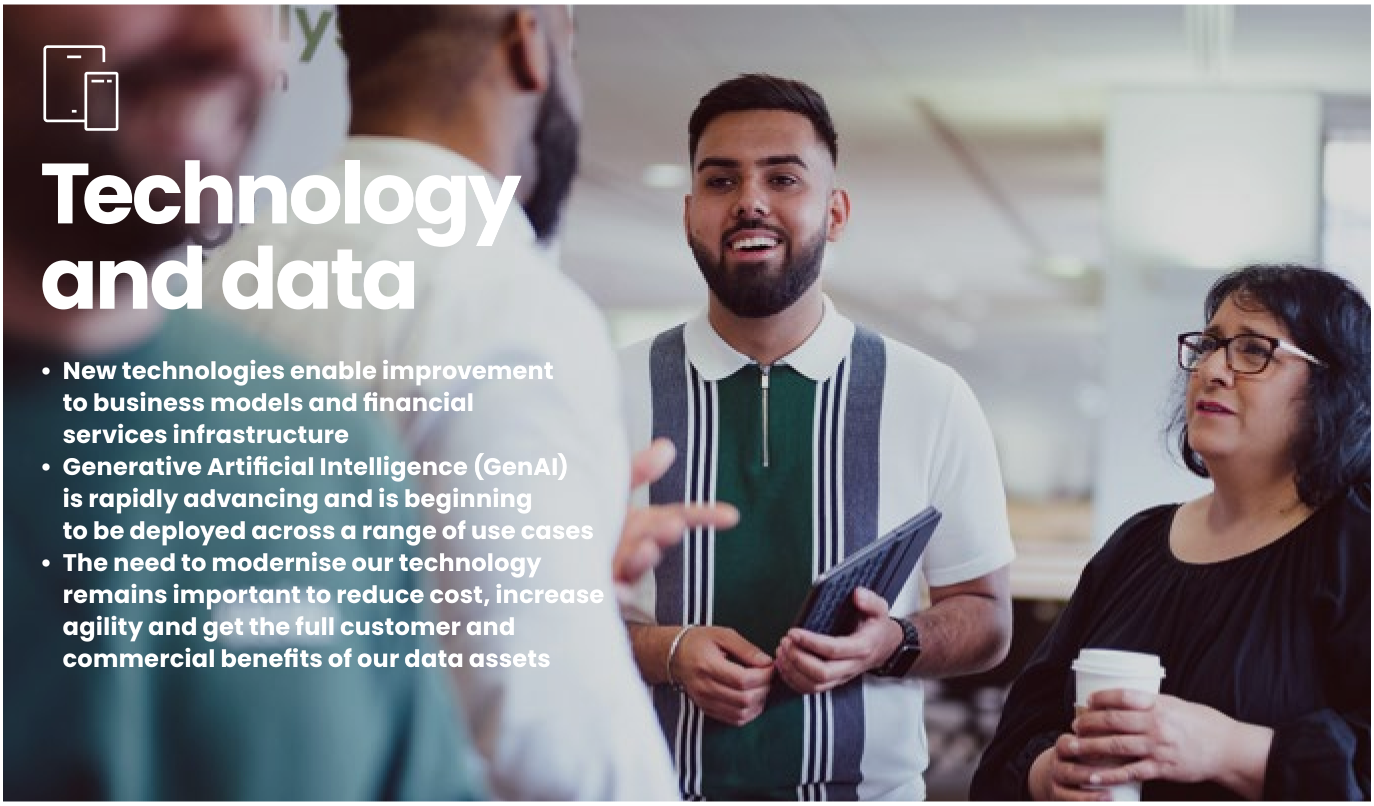
Creating an inclusive and sustainable future is core to our purpose of Helping Britain Prosper. Building on our scale and position in recognising the sustainable financing opportunities, we are aiming to make a meaningful and positive difference for our stakeholders and through this deliver profitable growth and long-term value for our shareholders. We are focused on supporting our customers in building financial resilience, enhancing digital capabilities and strengthening the growth in our customer propositions. Given our UK housing market presence, we have the capabilities and external relationships to drive positive change and support the growth in delivering sustainable quality housing.

Our success is dependent on our colleagues and how we represent communities we serve. Continued progress against our diversity targets allows us to create more inclusive products, services and solutions. Environmental sustainability is fundamental to our purpose. We have set three new targets for our agriculture, commercial and residential real estate and road passenger transport portfolios, complementing our existing sector targets to better assess the risk to our business. We are actively working with clients through our new credible transition plan initiative and have launched the Group's first sustainable financing framework to support our growth in sustainable lending.

Sustainable lending and investment targets

£bn of lending and investments





Technology and data

- **New technologies enable improvement to business models and financial services infrastructure**
- **Generative Artificial Intelligence (GenAI) is rapidly advancing and is beginning to be deployed across a range of use cases**
- **The need to modernise our technology remains important to reduce cost, increase agility and get the full customer and commercial benefits of our data assets**

Market context

New technologies enable changes to the business models and infrastructure of the financial system, posing both opportunities and challenges for banks. Customers and clients are able to interact with platforms that have financial services embedded within them, with new technology intermediaries such as payments providers connecting these customer interfaces with banking providers.

Generative Artificial Intelligence (GenAI) has developed at rapid pace over the year and has seen rising prominence. Firms across industries are seeking to deploy GenAI to realise potential customer experience improvements and productivity efficiencies. There is also a continuing debate about the risks that development of GenAI poses, with high relevance to financial services, for example through new types of customer fraud.

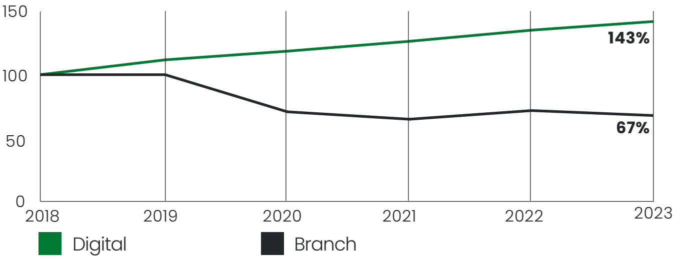
In the longer term, technologies such as tokenisation and distributed ledgers could reshape the core activities of banks, including activities in storing and transferring value. These technologies are beginning to see greater use within the existing financial system. This is primarily in capital markets, for example through digital bond issuance and more efficient repo transactions. Furthermore, the Bank of England, alongside other central banks, continues to explore development of a digital currency, which could have implications for the financial system.

Our response

We are investing in our consumer mobile app and will launch an enhanced version in 2024. This will provide improved customer experience with interactive tools, personalised insights and conversational prompts. We continue to develop value adding services around our core strengths. For example, our home ecosystem has seen strong customer usage and we are targeting 10 per cent growth in active users as we continue to build out functionality. In parallel, in responding to the changing ways in which our products reach our customers, we will launch an embedded lending proposition in partnership with NewDay. We continue our multi-year journey to build a front-to-back digital franchise for our SME business, improving client experience with enhanced app functionality.

We continue to invest in the technology transformation of our business to fully realise the value of our customer data assets and improve organisational agility. For example, since full year 2021, we have decommissioned more than 10 per cent of legacy applications. Continued investment has realised business and customer benefits, with interactions with our enhanced mobile messaging service more than doubling to 6 million. Further, as technology evolves we are engaging with the Bank of England as it explores the development of digital currencies.

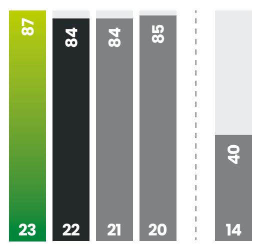
Change in channel usage versus 2018
Average visits per user (%)[1]

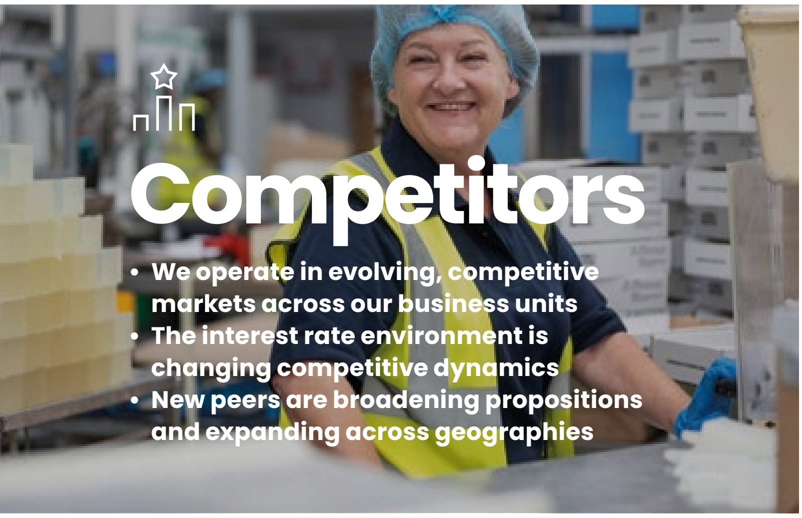


1 First part of 2021 includes effects of national lockdown.

Customers using the digital channel
% volume of simple products originated digitally

87%





Competitors

- We operate in evolving, competitive markets across our business units
- The interest rate environment is changing competitive dynamics
- New peers are broadening propositions and expanding across geographies

Market context

The UK financial services sector is highly competitive. Regulation, new technologies and customer adoption of digital has supported the development of new competitors and business models in recent years. Competition with traditional incumbent banks remains high. Higher interest rates has spurred significant competition in deposits and current account switching as customers and clients seek better returns, and mortgages competition remains elevated given the smaller market.

New and increasingly profitable neo banks, serving both retail and small business clients, continue to broaden their propositions and scale across markets, including international banks growing their UK presence.

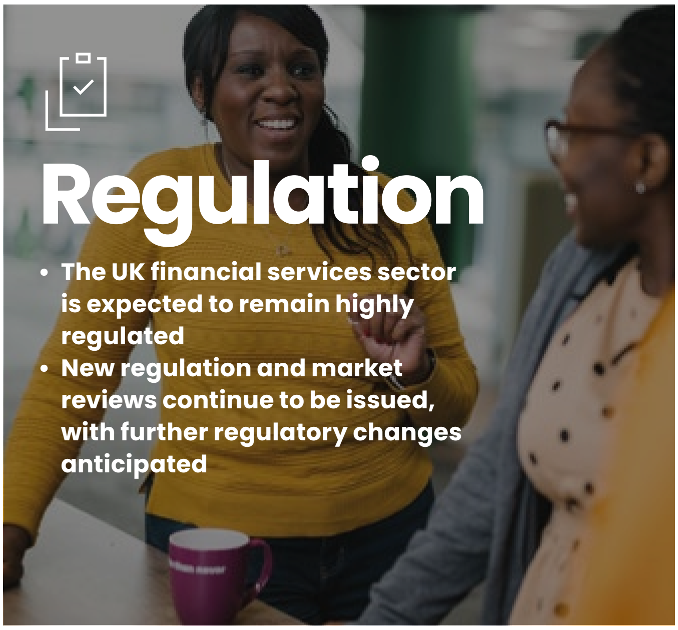
The growth in digital platforms presents new opportunities for accessing customers outside of the traditional financial services journeys, spanning both consumer and business segments. Regulations such as Open Banking are enabling new providers, including the Big Tech firms, to integrate financial services into their own digital services, providing customers with convenience and new distribution channels.

Our response

We continue to invest to deepen and innovate in Consumer, with 21.5 million digitally active users and strong participation in intermediary led markets. Our strong foundations of customer relationships, combined with innovation, enable us to meet a broader range of customer needs, in particular growing in higher value segments by creating a new mass affluent offering. For example, during the year we launched ready-made investments through Embark, offering customers simple and affordable investments. We have evolved our products and pricing in deposits, resulting in more customers trusting us with their savings and balances increasing in the year.

In our SME business, we are focused on diversifying and digitising our business front-to-back. For example, we have launched a mobile-first onboarding journey for sole traders and limited companies that has reduced account opening time by up to 15 times. Furthermore, new payments solutions have supported more than 20 per cent growth in new merchant services clients.

Disciplined sector focus and enhancements to our Corporate and Institutional business' Lending, Transaction Banking and Markets propositions have strengthened our competitive positioning and we have grown underlying other income by more than 20 per cent since full year 2021. We are focused on connecting our clients to wider Group solutions, such as workplace pensions and transport. For example, the acquisition of Tusker has allowed us to extend our salary sacrifice car schemes to our clients.



Regulation

- The UK financial services sector is expected to remain highly regulated
- New regulation and market reviews continue to be issued, with further regulatory changes anticipated

Market context

The UK financial services sector remains highly regulated with continued regulatory reform anticipated in 2024.

Customer treatment: Fair treatment of customers remains a priority for the FCA, and the introduction of Consumer Duty in 2023 requires an outcomes focused approach to prioritise customers' needs. We're also continuing to liaise closely with the FCA and Financial Ombudsman Service (FOS) on historic motor commission arrangements.

Capital regulation: In December 2023, the PRA published the first tranche of near-final rules on implementing the Basel 3.1 reforms, with the remaining rules to be published in 2024; these will lead to significant changes to the calculation of risk-weighted assets. CRD IV models also remain subject to further development and PRA approval.

Payments and technology: The HM Treasury commissioned 'Future of Payments Review' was published in November 2023, making several recommendations including a national strategy for the future of payments to be published in 2024.

ESG: We continue to enhance our sustainability reporting in line with the FCA listing rules and Companies Act requirements. Our 2023 progress is highlighted on **pages 30 to 38**, as well as within our non-financial and sustainability information statement on **page 46**.

Ring-fencing: The Government has proposed changes to the framework, reflecting the recommendations made in the ring-fencing and proprietary trading independent review.

HMT's Smarter Regulatory Framework: In July 2023, HM Treasury published its delivery plan, prioritising a number of reforms including Solvency II, Securitisation and Prospectus Regulations; many of these form part of the Government package of Edinburgh Reforms.

Other: A number of other initiatives are in progress or expected which seek to address, amongst other things: access to cash, capital markets reforms, the boundary between advice and guidance, and sustainable financing.

Our response

As a Group we always seek to comply with all applicable regulation and engage with regulators on all aspects to improve outcomes. Given the Group's customer-focused, sustainable and low risk business model, it is well placed to meet these requirements.

We have three strategic priorities which will enable us to deliver our vision of being the UK customer-focused digital leader and integrated financial services provider, capitalising on new opportunities, at scale

Grow

Drive revenue growth and diversification

Highlights

Balanced growth across our diversified priority areas, with c.£0.5 billion of additional growth revenues already delivered

What this means...

For the Group

Growth is a core focus of our strategy. Around two thirds of our £3 billion strategic investment over 2022 to 2024 is aligned to growing and diversifying revenue. We have prioritised opportunities across each of our businesses to ensure we generate value in the near term as well as creating new revenue streams which deliver over the longer term.

c.£1.5bn

additional revenues by 2026
(c.£0.7bn by 2024)

For Helping Britain Prosper

Our aim is to create profitable solutions which will help improve access to quality housing across the country, drive regional development, increase financial resilience of people and businesses, and navigate the UK's transition to a more sustainable future.

Read more on **pages 20 to 23**

Focus

Strengthen cost and capital efficiency

Highlights

Cost discipline in an inflationary environment, with c.£0.7 billion of gross cost savings to date

What this means...

For the Group

As we invest to grow and diversify our revenue, it is essential to maintain our disciplined cost management approach. Capital efficiency is also an objective as we maintain our strong balance sheet with a disciplined risk approach.

c.£1.2bn

gross cost savings by 2024

For Helping Britain Prosper

Deploying our funds in a way which is sustainable in the long term, helping customers and clients become more resilient and minimising our carbon footprint helps us achieve a disciplined approach to cost and capital management.

Read more on **pages 24 and 25**

Change
Maximise the potential of people, technology and data

Highlights

Technology and data transformation to improve agility and accelerate the pace of change to unlock the potential of our people

What this means...

For the Group

Delivering this strategy requires the Group to accelerate the pace at which it uses digital technologies and data to support customers. We seek to emulate our success in building the largest UK Retail digital bank on a larger scale across the Group.

>15%
reduction in legacy applications by end 2024

>30%
reduction in office footprint by end 2024

For Helping Britain Prosper

Improving the ways we use digital technology and our data enables us to drive better outcomes for our customers or provide targeted support when they might be falling into problems. We are committed to creating an inclusive environment for our people, representative of modern-day Britain, so that we can deliver for the communities in which we operate.

Read more on **pages 26 and 27**

Higher, more sustainable, returns and capital generation

Our strategic outcomes create value for our stakeholders and enhance the Group's financial performance

In 2024

c.13% RoTE

- c.£0.7bn additional revenues from strategic initiatives
- c.£9.3bn operating costs
- c.175bps capital generation

By 2026

>15% RoTE

- c.£1.5bn additional revenues from strategic initiatives
- <50% cost:income ratio
- >200bps capital generation

Growth is a core focus of our strategy. Around two thirds of our £3 billion strategic investment over 2022 to 2024 is aligned to growing and diversifying revenue.

There are four primary pillars of growth being developed:

1. **Deepen and innovate in Consumer**
2. **Create a new mass affluent offering**
3. **Digitise and diversify our SME business**
4. **Develop our Corporate and Institutional business**

Grow

Drive revenue growth and diversification

Selected 2024 outcomes

>5%

Increase in depth of relationship[3] through meeting more needs of existing customers

£8bn

Financing and leasing for electric vehicles and plug-in hybrid electric vehicles

1. Deepen and innovate in Consumer

We aim to deepen and innovate in Consumer to bring more of our products and services to our existing customers, as well as broaden our product offerings and make it easier for customers to access them through our intermediary partners.

Progress in 2023

- We remain the UK's largest digital bank and in 2023 **grew our digitally active users to 21.5 million**. The Group's market leading[1] mobile app has seen interactions with the mobile messaging service more than double to over 6 million. Banking on the go is now even easier as customers can open a new account in the app and use innovative features such as chip based passport scanning to open their account more easily
- We have enhanced our mortgage customer journey, including **mobile-first onboarding**, enabling customers to more easily navigate the mortgage journey through a seamless digital experience. We continued to make strong progress towards our sustainability targets, including **£7.5 billion of sustainable mortgage lending since 2022**
- Following roll-out of a new tool for advisors, we have seen a 5 percentage point increase in our **protection proposition take-up rate** by our new mortgage customers in branch
- We have been transforming customer affordability through **Your Credit Score**, offering easy access to credit scores, education on ways to improve scores, providing different borrowing options, and building eligibility confidence through likelihood messaging. In 2023, 3.2 million new users registered, bringing us to over 8.8 million in total and facilitated an improvement to other journeys which resulted in a **10 percentage point increase in loans conversion rate[2]**
- We completed our acquisition of Tusker, a leading ultra-low emissions vehicle salary sacrifice leasing specialist to broaden our proposition and support the Group's net zero ambitions. **Tusker's fleet has grown around 60 per cent** since acquisition, contributing to our overall **£5.7 billion financing and leasing for battery electric and plug-in hybrid vehicles** since 2022
- Our **workplace pensions** business saw strong new scheme wins performance and a significant increase in regular contributions, driving around **£5 billion of net assets under administration flows** in the year

2024 implementation

- As part of our strategy for **embedded finance,** we will launch a proposition in partnership with NewDay. Our innovative e-commerce instalment lending product is a unique dual lending solution, which will mean that a very large proportion of a merchant's customer base will be eligible for credit
- We will further develop and extend our **Home ecosystem** offering to more customers as we target growing the active user base by around 10 per cent through 2024
- We will launch our **enhanced mobile app** to offer our customers dynamic and contextualised navigation spaces, interactive tools, personalised insights and conversation prompts
- We will trial **new branch formats**, such as kiosks, as we plan for more efficient and flexible points of presence in the communities we serve, keeping customer engagement and satisfaction front of mind

1 Comparison to high street banks, based on the November 2023 Financial Research Survey for England and Wales.
2 Increase in loans conversion following sharing of income and expenditure data.
3 Product holdings across brands for franchise customers with active relationship.

Grow: our purpose in action

In 2023, we have supported over 340 housing associations and £2.7 billion of new funding to the social housing sector, of which £1.4 billion is sustainability-linked. **Our support for this sector drives future growth for the Group and improves access to quality housing.**

Read more on how we're committed to supporting the social housing sector and ending homelessness.

>£17bn

of funding supported to the social housing sector since 2018

We launched Ready Made Investments (RMI), a new proposition offering our customers simple and affordable investments through Embark, an investment platform, which we acquired in 2022. This year has seen our mass affluent customer base grow to more than 2.5 million. **RMI helps our customers save for the future and supports our growth ambitions in this segment.**

Read more about Embark.

c.45%

of RMI customers are under the age of 35

Read more on our progress towards our sustainability ambitions.

Driven by organic growth and the acquisition of Tusker, our business now finances 1 in 8 ultra-low emission vehicles on UK roads. **This supports the Group's ambition to grow its Motor business and supports the transition to net zero transport.**

£5.7bn

lending to electric vehicles and plug-in hybrid electric vehicles since 2022

Grow
continued

2. Create a new mass affluent offering

We are creating a new mass affluent offering to grow in this attractive and underserved market segment across banking, protection and investments.

Progress in 2023

- Growth in our **mass affluent customer base** to over 2.5 million[1]
- **Banking balances**[1] from customers meeting mass affluent criteria have grown by around 10 per cent since 2021 as we continued building our integrated and digitally led banking, insurance and investments propositions
- In September we launched **Lloyds Bank 360 to an initial group of 50,000 customers**. This mobile-first proposition includes a holistic view of wealth, educational materials and financial coaching. These can offer clarity and support around various products and services to help customers to get the most from their money
- We launched **ready-made investments** through Embark, which makes it easier for customers who want to start investing, with affordable options and simple terminology designed for those with little or no investment experience. Around 45 per cent of the customers we have helped start their investment journey are younger than 35, with 50 per cent making regular contributions

2024 implementation

- Our **Lloyds Bank 360** proposition will be extended across mass affluent customers, with additional products and features in plan, including goals functionality within the app
- We will continue to expand and enhance our product offerings, including the scale-up of **digital advice** for ready-made investments

Selected 2024 outcomes

>£5bn

Incremental total banking balances[1] for mass affluent increasing to between £10 billion and £15 billion by 2026

>£7bn

Incremental net flows into investment proposition increasing to £25 billion by 2026

1 Includes existing customers who have recently attained the more than £75,000 threshold. Balances include lending and deposits, excluding Motor.
2 In line with the Sustainable Financing Framework.
3 Includes clean growth finance initiative, commercial real estate green lending, renewable energy financing, sustainability linked loans and green and social bond facilitation; in line with the Sustainable Financing Framework. New cumulative to 2024.

3. Digitise and diversify our SME business

We aim to digitise and diversify our SME business, growing revenues in products and sectors where we have lower market share today.

Progress in 2023

- We have made significant strides in our multi-year journey to build a front-to-back digital franchise. In 2023 we launched a new **mobile-first business current account onboarding** journey for sole traders and limited companies along with personalised business customer cash flow insights. Our transformed customer experience has increased levels of automation with **account opening times reducing by up to 15 times**
- We exceeded our target of 20 per cent growth in new merchant services clients, supported by a new **point-of-sale card payments solution** for micro businesses integrated into the onboarding journey, enabling clients to transact more quickly
- Our digital capability strengthened with the launch of a new **digital invoice finance** platform, digitisation of our **asset finance journey** and improved mobile payment functionality. These enhance customer experiences, support our product development plans and reduce risk
- We continue to enhance our **digital servicing** capabilities, including moving more than 600,000 accounts to paperless statements, with an annual reduction of 6 million letters, and over half of all business address changes fulfilled digitally

2024 implementation

- The momentum on digitising the **onboarding** journey will continue as we shift focus to also enabling for larger SMEs, ensuring most customers are onboarded in two working days or less
- We will launch a **new omni-channel merchant services payment solution**, leveraging our existing partnerships. We will also extend the roll out of our innovative card terminals which help our SME clients accept payments and better run their business through integrated software apps
- We will further improve customer experience through enhancements to day-to-day **servicing**, including more self-serve journeys and improved app functionality

Selected 2024 outcomes

>15%
Income growth in mid-sized SME transaction banking and working capital

20% p.a.
Growth in new merchant services clients

>50%
Share of SME products originated and fulfilled digitally

4. Develop our Corporate and Institutional business

We are developing our Corporate and Institutional business to deliver disciplined growth.

Progress in 2023

- We continued to be a leading provider of **sustainable financing**[2], supporting clients' net zero journeys and reducing the Group's financed emissions. We achieved our £15 billion sustainable financing[2] commitment one year early. We have supported the UK's transition to net zero with continued investment in regional development by providing financing to infrastructure projects across the UK, including wind farms, solar panels, and investments in new technologies
- We improved our US and EU **debt capital markets** capabilities, outperforming the market in key product lines across our main currencies. We were a top five franchise in bond issuance for UK issuers (EUR, USD and GBP), number one in structured finance and ranked third in sustainable bond issuance
- We saw similar strength in our **financial markets** business, with new digital functionality in FX driving significantly increased executed volumes since 2021, well above market growth, and deepened our share of wallet. Similarly, in inflation-linked gilts, our volumes grew above the market and in GBP interest rate swaps we improved our ranking
- We have grown underlying other income by more than 20 per cent since full year 2021

2024 implementation

- To support our strategy of deepening client relationships, we are developing our capabilities to gain market share. This is being supported by a **redesign of our markets architecture, broadening our proposition across Rates, FX and Repo**. This will enable us to deliver a wider range of solutions to meet a greater proportion of our clients' risk management needs
- We will continue to support our clients as they transition to net zero. After achieving our 2024 target one year early, we have set a new target to provide a **further £30 billion of sustainable financing**[2] over the next three years. We are increasingly recognised as a leader in this space, supporting our clients' journeys to becoming more sustainable businesses

Selected 2024 outcomes

£15bn
Sustainable financing[3]

Top 5
GBP interest rate swaps ranking; deepen FX share of wallet

As we invest to grow and diversify our revenue, it is essential to maintain our disciplined cost management approach. We will also look to further improve capital efficiency as we maintain our strong balance sheet with a disciplined risk approach, pursuing growth in capital-lite, fee generating businesses and generating capital.

Progress in 2023

- We further refined our service model, resulting in branch rationalisation alongside our continued investment in digital propositions. These have increased the number of **customers served per distribution FTE** by over **10 per cent since end 2021**
- Cost discipline has been a key strength for the Group and remains a key focus in enabling capacity for investment in growth initiatives as well as offsetting inflationary pressures. Around **60 per cent of our 2024 gross cost savings target has been realised**
- We **agreed the triennial pensions review** with the trustee, with no further fixed or variable contributions required this triennial, thereby demonstrating the significant progress we have made
- In line with our focus on **capital efficiency**, we achieved risk-weighted asset reductions of more than £7 billion through optimisation initiatives, helping mitigate increases in risk-weighted assets from business growth and regulatory change, and delivering capital generation

Focus

Strengthen cost and capital efficiency

2024 implementation

- Our **disciplined approach** to cost and capital efficiency will remain unchanged as we focus on generating further efficiencies to mitigate inflationary pressures and create the necessary capacity for investment
- We will continue to invest in technology to deliver improvements in our **self-service** capabilities and **end-to-end journey digitisation**
- Our **office footprint** will further reduce in 2024 as we transform our workplaces by modernising our estate and embracing hybrid ways of working
- Our **capital efficiency** will be supported by our growth initiatives in capital-lite, fee generating businesses, as we optimise and recycle risk-weighted assets into higher returning businesses and sustain capital generation

Selected 2024 outcomes

>10%
Increase in customers served per distribution FTE

>30%
Reduction in office footprint

Focus: our purpose in action

At the end of 2019, our triennial valuation showed a pension deficit of £7.3 billion. Since then we have made pension contributions of more than £5 billion, helping to eliminate the deficit during 2023. **Our capital generation will no longer be impacted by pension contributions in this triennial period. It also helps protect the pension savings of our current and former colleagues.**

NIL
Pension deficit

We have introduced three new operational climate pledges which are committing us to be zero waste and water neutral by 2030 and to bring nature closer to our people and places, taking action to help achieve nature positive operations. **This creates good places to work for our colleagues whilst reducing our impact and associated running costs.**

Read more ↗
on how we're making sure that the places we work in are good not only for our people but also to the planet.

Read more ↗
on how we're supporting the UK to make homes more energy efficient.

We are working with our customers to move forward together towards the UK's net zero commitment. In 2023, we have launched new financed emissions targets for our road passenger transport, commercial and residential real estate (CRRE), as well as our agriculture portfolios. **This supports the Group and the UK with the transition, mitigating against potential loss of value for the Group.**

48%
reduction in emissions intensity by 2030 for our CRRE portfolio

Delivering our strategy requires the Group to accelerate the pace at which we use digital technologies and data to support customers. Our colleagues' expertise and skills are instrumental to our success. It is our people who offer the most distinctive customer experience, will innovate, take thoughtful risk and enable change at greater pace, delivering for our customers.

Change

Maximise the potential of people, technology and data

Technology & data

Progress in 2023

- We continued to progressively transform or improve our technology stack, with **more than 10 per cent of our legacy technology applications decommissioned** since 2021
- We delivered an internal **API marketplace** and a suite of contemporary API products, increasing reuse and standardisation to improve operational efficiency
- Interactions with our **enhanced in-app mobile messaging** increased to over 6 million, more than double the prior year

2024 implementation

- We will continue to modernise our technology estate and drive technology change savings in line with our ambitious targets
- **Operating model enhancements** will enable greater agile technology delivery to accelerate the pace of change
- Expansion of our new **Lloyds Technology Centre** in India will also accelerate transformation and enhance digital experiences

Selected 2024 outcomes

20%
Applications on cloud (private and public)

15%
Gross reduction in run and change technology costs

People

Progress in 2023

- We have made **more than 2,500 new hires in technology and data roles** in 2023 and we have completed a senior leadership development programme centred around the organisational shifts we need in order to successfully execute our strategy
- We set a new ambitious goal to **double the representation of senior colleagues with disabilities** by 2025
- We rolled out a **catalyst programme** to more than 6,300 colleagues to inspire others to think and act differently, unblock problems, and ignite change while role modelling our purpose and values

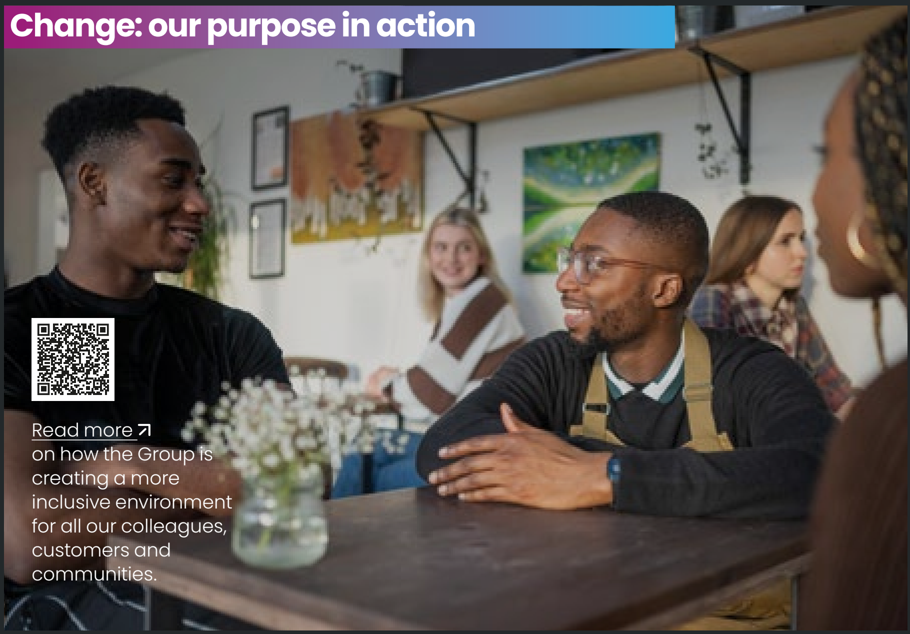
2024 implementation

- We will further modernise and enhance our office estate with around half of colleagues in **transformed workplaces** by the end of 2024 as part of our compelling proposition for top talent
- We are committed to building a **fully inclusive environment** that is reflective of the society we serve. We are progressing towards our targets, including 50 per cent women, 13 per cent Black, Asian and Minority Ethnic colleagues and 3 per cent Black Heritage representation at senior management levels by 2025

Selected 2024 outcomes

Improve
Employee engagement index

Change: our purpose in action

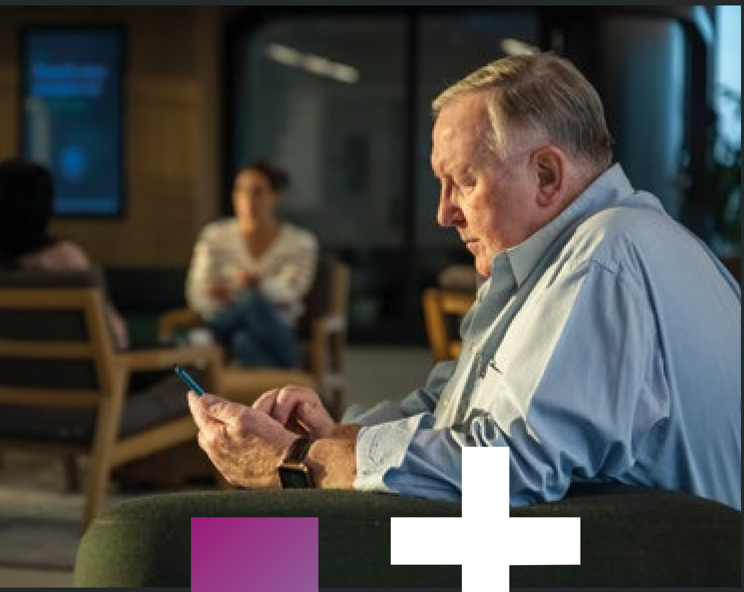


Read more
on how the Group is creating a more inclusive environment for all our colleagues, customers and communities.

Transforming the diversity, equity and inclusion of our business enables the Group to develop more inclusive and accessible products and develop strategies to support minority or disadvantaged business owners. This year we engaged more than 5,000 Black entrepreneurs and launched the 'Black in Business' initiative with Channel 4 alongside embracing our digital opportunities to tailor our products to meet customer needs. **A more inclusive society is a more prosperous society, and a diverse business is a better business.**

>5,000

Black entrepreneurs engaged

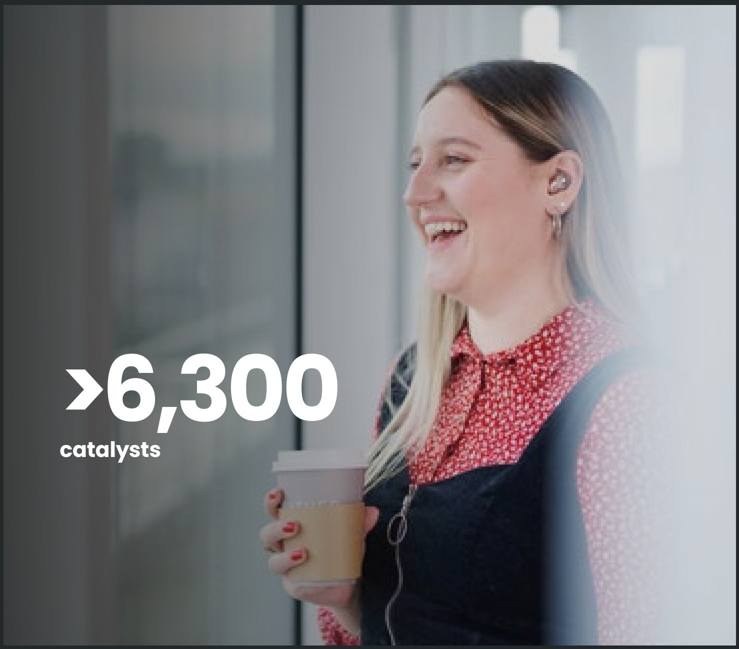


8.8 million customers have signed up to Your Credit Score, a free service helping customers to improve their creditworthiness and over 6 million unwanted subscriptions have been managed by our customers through our mobile app functionality, further helping with household budgeting. **This drives better outcomes for both our customers and the Group as we continue to enhance our technology and data capabilities.**

8.8m

customers signed up to Your Credit Score

Our catalysts role model our values and purpose and drive improvements by challenging the status quo. They have helped our leaders unblock issues that get in the way of how we work, whilst instilling a growth mindset as we transform the business. **The Group will benefit from this investment in our people, and allow us to grow with purpose.**



>6,300

catalysts

Key performance indicators evidencing performance against the Group's most important priorities

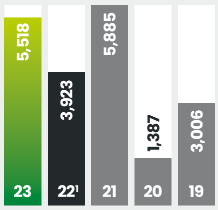
These include measures for assessing financial and non-financial performance and balancing the interests of various stakeholders including customers, shareholders and colleagues.

To ensure colleagues act in the best interests of customers and shareholders, variable remuneration at all levels across the Group is aligned to these priorities and takes into account the Group's financial performance and specific conduct and risk management controls. Within this year's report we have updated our key performance indicators to reflect these priorities.

Financial

Statutory profit after tax R
£m

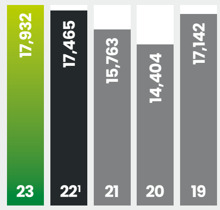
5,518



Statutory profit after tax higher than 2022 which included an exceptional charge given the IFRS 17 accounting change.

Net income A
£m

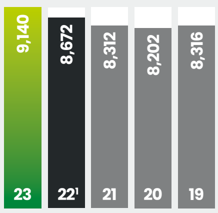
17,932



Net income higher than 2022 with higher net interest income and underlying other income, partially offset by an increased charge for operating lease depreciation.

Operating costs R A
£m

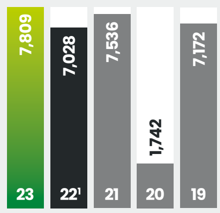
9,140



Operating costs increased, in line with guidance, given planned strategic investment, new business costs and inflationary impacts, partly mitigated by continued cost efficiency.
2024 guidance: Operating costs of c.£9.3 billion.

Underlying profit A
£m

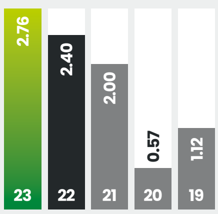
7,809



Underlying profit higher than 2022, with higher income and a lower impairment charge partly offset by higher operating costs and remediation.

Ordinary dividend R
p per share

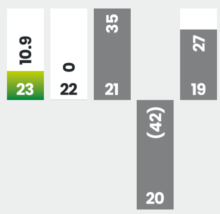
2.76



Total ordinary dividend of 2.76 pence per share, up 15 per cent, reflecting our progressive and sustainable ordinary dividend policy. Includes both interim and final dividends.

Total shareholder return
%

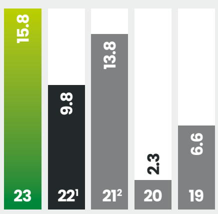
10.9



Total in-year shareholder return was 10.9 per cent. The share price was 5.1 per cent higher with capital return of 5.8 per cent.

Return on tangible equity R A
%

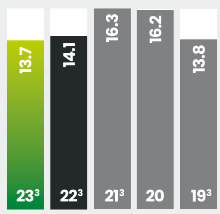
15.8



Return on tangible equity in 2023, above guidance, reflects the Group's robust financial performance.
2024 guidance: Return on tangible equity of c.13 per cent.

Common equity tier 1 ratio (CET1) R A
%

13.7



Pro forma CET1 ratio remains strong at 13.7 per cent after absorbing regulatory headwinds and the acquisition of Tusker, remaining significantly ahead of minimum capital requirements. Expect to pay down to a CET1 ratio of 13.5 per cent in 2024.

![R] Key performance indicators that are directly linked to our remuneration balanced scorecard and long term share plan are marked with this symbol. See **pages 108 to 132** of the annual report and accounts.

A We use a number of alternative performance measures in the description of our business performance and financial position. These measures are labelled with this symbol. See **page 67** of the annual report and accounts.

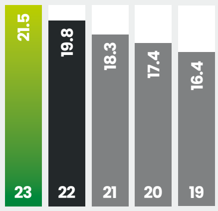
See our progress against our climate aspirations on pages 33 to 38.

Non-financial

Customers

Digitally active users
m

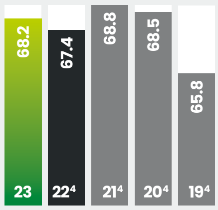
21.5



Reflecting the pace of digital adoption, the number of active digital users increased in the year to 21.5 million, up 9 per cent year on year. Within this we had 18.7 million app users which is a 12 per cent increase from last year.

Customer satisfaction
All-channel net promoter score

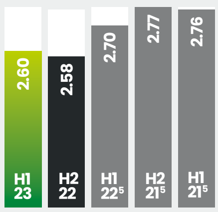
68.2



Our all-channel net promoter score measures the customer perception of day-to-day service across our channels, seeing strong performance and improvement on previous year.

Customer complaints
FCA reportable complaints per 1,000 accounts

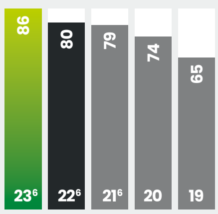
2.60



We always want to provide our customers with the best possible service and our colleagues work tirelessly to understand the concerns of those who contact us. H2 2023 data not available at time of publishing.

Group customer dashboard (GCD) R
% of customer experience metrics achieving target (November YTD)

86

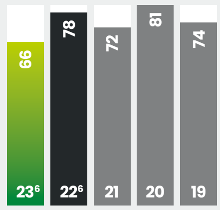


In 2023, 86 per cent of GCD measures achieved target, supported by ongoing strong performance relative to peers. Continued focus is required to maintain strong customer performance and to further improve scores in the context of our growth strategy.

Colleagues

Employee engagement index R
% favourable

66



Engagement has declined by 12 points compared to 2022 due to changes to our flexible working arrangements, read more on **page 30**. Despite this our in-year advocacy measure is moving in a positive direction.

Women in senior roles by 2025 R
Progress (%)

▼2021 baseline — We are here ▼ 40.1 — 2025 ambition ▼ 50

Black, Asian and Minority Ethnic representation in senior roles by 2025 R
Progress (%)

▼2021 baseline — We are here ▼ 11.3 — 2025 ambition ▼ 13

Black Heritage representation in senior roles by 2025
Progress (%)

▼2021 baseline — We are here ▼ 1.7 — 2025 ambition ▼ 3

Disability representation in senior roles by 2025
Progress (%)

▼2023 baseline — 2025 ambition ▼ 12 — We are here ▼ 12.4

1 2022 restated to reflect the impact of IFRS 17. Pre-2022 comparatives have not been restated.
2 From 2021, to aid comparability with peers, we began reporting return on tangible equity without adding back post-tax amortisation of intangible assets. Pre-2021 comparatives have been restated.
3 Reported on a pro forma basis, reflecting the dividend paid up by the Insurance business in the subsequent quarter and the full impact of the declared share buyback.
4 Re-stated to reflect structural changes to our measurement programme.
5 Excludes PPI, claims management companies and legacy TSB accounts.
6 Change in measurement approach, so comparison to prior years is not like-for-like.

Non-financial performance:

Colleagues

We will continue to support our colleagues and create a fully inclusive organisation that is representative of modern-day Britain, where differences are embraced, and everyone can reach their potential. Getting this right is at the heart of our purpose of Helping Britain Prosper.

This section provides an overview of key performance measures for colleagues and progress within the year.

40.1%

women in senior roles by the end of 2023

Colleague engagement

The Group understands that listening is a two-way process, so each year we ask colleagues to share their views via our colleague surveys. In 2023, we continued to capture a more regular and complete picture of sentiment.

Our regular pulse surveys, which focus on timely topics, gave us insights into the processes and bureaucracy that hamper effective working, and also sentiment around change. In May we heard from almost 60 per cent of our colleagues on our new flexible working arrangements, and we used this data to inform our flexibility offering.

Our annual autumn survey was completed by 81 per cent of the colleagues and gave us a complete view on our progress with purpose, strategy and culture. Despite engagement declining by 12 points compared to 2022 due to changes to our flexible working arrangements, our in-year advocacy measure (employee net promoter score) is moving in a positive direction. Additionally, perceptions of our line managers remain strong and the cultural changes we had made have been received positively by colleagues.

During the year the Group communicated directly with colleagues detailing Group performance, changes in the economic and financial environment, and updates on key strategic initiatives. Meetings were held throughout the year between the Group and our recognised unions. Please see **page 82** of the annual report and accounts for further examples of how the Board engages with the Group's workforce and why the Board considers those arrangements to be effective.

For 2023, the Remuneration Committee approved Group Performance Share awards for colleagues, and colleagues are eligible to participate in HMRC-approved share plans which promote share ownership by giving employees an opportunity to invest in Group shares. The vast majority of our colleagues hold shares in the Group.

Diversity, equity and inclusion

The Group aims to create a more inclusive future for our customers, colleagues and communities. We will continue to create a fully inclusive organisation that is representative of modern-day Britain, where differences are embraced, and everyone can reach their potential. We remain committed to driving this vital work forward and ensure we are a business that reflects the society it serves to best achieve our purpose, Helping Britain Prosper.

In September 2023, we launched our Inclusive Everyday campaign which brings to life our Group values and how inclusion is central to creating conditions for success and increased productivity. We know that raising awareness and education are the key levers which will help us unlock future progress. Our colleagues have now completed mandatory training promoting how to create an inclusive workplace and around 2,500 colleague Mental Health Advocates have been identified and trained.

Our focus on diversity, equity and inclusion is a source of pride for our colleagues with a large participation of colleagues as members of one or more of our colleague diversity networks. This success is reflected in our latest colleague engagement survey results, where 76 per cent of colleagues agreed that the Group is an inclusive place to work.

Our approach to flexible working

Flexibility Works is an important part of our transformation, as we strive to create a place where people love to work and feel supported in the moments that matter, while ensuring we are set up in the right way to meet the needs of our customers. All colleagues have access to a range of flexible working options, depending on their role. These include everyday flexibility, flexible bank holidays, compressed working, hybrid working, and reduced hours.

We also provide support for families of different shapes and sizes, through paid family leave, foster carers leave and support during extremely challenging times for colleagues such as fertility, miscarriage, stillbirth, and loss of a child. Our flexible working approach helps colleagues who need ongoing support either for their own health or as a carer to a family member.

Gender diversity

We have seen an increase in women in senior roles to 40.1 per cent during 2023, showing progress towards meeting our 2025 ambition of 50 per cent. We set our ambition to achieve gender diversity in our senior leadership knowing it was stretching and ambitious. We recognise that the journey will be challenging and we may not reach total parity by 2025, but we remain focused on actions that support this ambition and which will help us achieve this as soon as we can.

We continue to publish our Gender Pay Gap annually. Continued progress has been made in closing the Gender Pay Gap, with the gap reducing by 2.6 per cent to 26.7 per cent (April 2022 to April 2023), the largest improvement since we started reporting.

We continue to be proud co-sponsors of the FTSE Women Leaders Review and have exceeded their target to have at least 40 per cent women on boards and in leadership teams. In 2023, we are compliant with the FCA Listing Rule 9.8.6R(10) and (11).

Further information on the diversity of our Board can be found on **page 73** of the annual report and accounts.

Ethnic diversity

In 2023 we have shown progress towards meeting our goals of increasing the representation of Black, Asian and Minority Ethnic colleagues to 13 per cent, and Black representation in senior roles to at least 3 per cent by 2025. In 2023, we have increased the representation of Black, Asian and Minority Ethnic colleagues in senior roles from 10.2 to 11.3 per cent and the representation of Black Heritage colleagues in senior roles from 1.4 to 1.7 per cent. The Board continues to meet the Parker Review recommendation of at least one Black, Asian or Minority Ethnic Board member.

Our Race Action Plan, launched in 2020 to drive recruitment, progression and cultural change across the Group, continues to drive focus. As part of this plan, we also work beyond our own internal boundaries by actively supporting Black Heritage communities through our partnerships with Foundervine and the Black Business Network. As a Group we have continued to meet our commitment to publish our Ethnicity Pay Gap report and our race advisory panel continues to play a critical role in helping us to shape our initiatives.

More information on our Race Action Plan progress can be found on **page 63** of the 2023 sustainability report ↗.

Disability

Our aim is for the Group to be a leader in disability inclusion and to create an inclusive and accessible working environment in which all colleagues have access to a psychologically safe environment and equal opportunities, and where everyone is supported to reach their full potential.

In April 2023, we committed to doubling the number of colleagues with disabilities in senior management roles by 2025. Since launching our goal, we have seen a significant uplift in colleagues sharing their disability data with us. We believe the announcement of our goal has played a key role in this, raising awareness and encouraging colleagues to share their disability data with us.

At the time of setting our goal, 6 per cent of our senior management colleagues had shared that they had a disability, making our ambition to double representation feel like the right first step. At the end of 2023, 12.4 per cent of our senior management colleagues had shared their disability, meaning that we have achieved our representation of senior colleagues with disabilities goal earlier than anticipated. We will continue to encourage our colleagues with disabilities and neurodiverse conditions to share their data with us across the course of 2024, helping us to build a true picture of the diversity of colleagues within our organisation, whilst continuing to strive for greater representation.

We are proud to be recognised as an inclusive employer for people with disabilities. The Group continues to hold the Business Disability Forum Gold Standard, in addition to being recognised as a Disability Confident Leader by the Department for Work and Pensions. We offer specific career development opportunities, and workplace adjustments for colleagues with disabilities, in addition to opportunities to join our colleague network, Access.

Sexual orientation and gender identity

We continue to focus on building an inclusive and open working environment for our LGBTQ+ colleagues. Our LGBTQ+ colleague network, Rainbow, continues to play a pivotal role in our approach to supporting our LGBTQ+ colleagues.

Further details can be found in our sustainability report ↗

Colleagues continued

Our 2023 inclusion and diversity performance

Gender[1]

		Number 2023	% 2023	% 2022
Board members[4]	Men	6	54.5	54.5
	Women	5	45.5	45.5
Senior positions on the Board[4]	Men	3	75.0	NR
	Women	1	25.0	NR
GEC[4]	Men	8	53.3	53.3
	Women	7	46.7	46.7
GEC and GEC direct reports	Men	71	53.8	58.3
	Women	61	46.2	41.7
Senior managers	Men	4,801	59.9	60.6
	Women	3,216	40.1 ✓	39.4
All colleagues	Men	29,957	43.7	42.7
	Women	38,550	56.3	57.3

Ethnicity[1]

Board members ethnicity[2,4]	Number 2023	% 2023	% 2022
White British or other White	9	81.8	81.8
Asian Heritage background	1	9.1	9.1
Other ethnic group	1	9.1	9.1
Senior positions on the Board ethnicity[4]			
White British or other White	4	100.0	NR
GEC ethnicity[3,4]			
White British or other White	13	86.7	93.3
Asian Heritage background	2	13.3	6.7
Colleague ethnicity			
Senior managers from a Minority Ethnic background	890	11.3 ✓	10.2
Senior managers from a Black Heritage background	135	1.7 ✓	1.4
All colleagues from a Minority Ethnic background	10,362	15.3	13.4

Disability

	Number 2023	% 2023	% 2022
Colleagues who disclose that they have a disability	8,183	12.2	6.5
Senior managers who disclose that they have a disability	981	12.4	NR

Sexual orientation and gender identity

	Number 2023	% 2023	% 2022
Colleagues who disclose their sexual orientation	49,085	72.9	68.6
Colleagues who disclose that they are LGBT+	2,431	3.6	NR
Colleagues who disclose their gender identity	40,915	60.7	49.6

1 Data is collated and reported in compliance with the provisions of section 414C(8)(c) Companies Act 2006 and Listing Rule 9.8.6R(10) and (11). Further information on our Board diversity is available on **page 73** of the annual report and accounts.
2 In the current year there is no reported data for the categories of Black/African/Caribbean/Black British, Mixed/Multiple/Other ethnic groups including Arab and Not specified/prefer not to say.
3 In the current year there is no reported data for the categories of Mixed/Multiple ethnic groups, Black/African/Caribbean/Black British, Other ethnic group including Arab and Not specified/prefer not to say.
4 Senior positions on the Board refer to the roles of the Chief Executive Officer, Chief Financial Officer, Senior Independent Director and Chair of the Board.
✓ Indicator is subject to Limited ISAE 3000 (revised) assurance by Deloitte LLP for the 2023 Annual Responsible Business Reporting. Deloitte's 2023 assurance statement and the sustainability metrics basis of reporting 2023 are available online at our downloads ↗.
NR Data point not reported for period.

Methodology and definitions:
- Data is sourced from the HR system (Workday) containing all permanent colleague details
- All data as at 31 December 2023
- All diversity information for ethnicity, disability, sexual orientation and gender identity is based on voluntary self-declaration by colleagues. Our systems do not record diversity data of colleagues who have not declared this information and is for UK payroll only
- Gender data includes international, those on parental/maternity leave, absent without leave and long-term sick and excludes contractors, temporary and agency staff
- LGBT+ includes 'Asexual/Ace Spectrum, Bisexual/Bi, Gay Man, Lesbian/Gay Woman, Pansexual, Other Sexual Orientation and includes Transexual
- The Group Executive Committee (GEC) assists the Group Chief Executive in strategic, cross-business or Group-wide matters and inputs to the Board. GEC includes the Group Chief Executive and excludes colleagues who report to a member or attendee of the GEC, including administrative or executive support roles (personal assistant, executive assistant)
- GEC and GEC direct reports includes the Group Chief Executive and colleagues who report to a member or attendee of the GEC, including administrative or executive support roles (personal assistant, executive assistant)
- Senior managers: Grades F, G and Executive (F being the lowest).
- A colleague is an individual who is paid via the Group's payroll and employed on a permanent or fixed-term contract (employed for a limited period). Includes parental leavers and internationals (UK includes Guernsey, Isle of Man, Jersey and Gibraltar). Excludes leavers, Group non-executive directors, contractors, temps and agency staff
- Diversity calculations are based on headcount, not full-time employee value.
- Ethnicity data excludes non-UK colleagues

Non-financial performance:

Climate

Creating a sustainable future is core to our purpose of Helping Britain Prosper. Guided by our Group strategy, we are focusing on areas where we can have impact, supporting the UK's transition through our lending, investments, products and services.

Our environmental sustainability strategy aligns with the Group's strategic priorities of Grow, Focus, Change, with sustainability embedded into how we as a Group operate. In developing targets, our first transition plan and assessing the Group's risks and related opportunities to support our customers, the need to move from a sector focus to a system-led approach has become clear. The Group sees climate strategy as both an opportunity for the business to grow in support of our customers and a means of risk management in pursuit of our strategy.

We have four systems where we believe we can leverage our scale and reach in the market and the different financial services that we offer to consider climate and environmental issues across and between each system. These systems are focused on where we live through greening the built environment, how we move through low carbon transport, how we farm with a more sustainable farming and food system, and through the energy we use with an energy transition fundamental to broader decarbonisation. The delivery of our strategy and oversight of the related risks and opportunities is governed through our Board and executive committees; further details of our sustainability governance structure can be found on **page 84** of the annual report and accounts.

We continue to evolve how we identify, assess and manage climate-related risks and opportunities. While we are progressing on all ambitions to date, there are significant challenges and external dependencies in many of our sectors and systems that will need to be addressed for us to achieve our targets and our overall ambition to reduce the emissions we finance by more than 50 per cent by 2030.

Climate resilience

We have undertaken scenario analysis to assess the resilience of the Group's strategy, building on the lessons learnt from the Bank of England's 2021 Climate Biennial Exploratory Scenario (CBES). This included an initial assessment of the sectors most exposed to climate-related risks. This exercise has demonstrated that the Group has relatively low commercial lending exposure to some of the main sectors most negatively impacted by climate change. Similar analysis has also been undertaken on the Group's investment portfolio. This assessment has supported the focus for the Group's environmental sustainability strategy and emission reductions targets. This analysis has also informed consideration of climate risk in the Group's calculation of expected credit losses. This has included a top-down sector-level assessment for our commercial clients, as well as assessment of flood risk and affordability impacts relating to retrofitting costs based on energy performance certificates (EPCs) for our Homes portfolio. These estimated impacts are below the Group's materiality thresholds; therefore, no adjustments have been made to the expected credit losses measured as at 31 December 2023. On this basis, the Group's business model is also considered to be resilient against the risks from climate change.

Further details on this analysis can be found in the Climate Risk Scenario Analysis update in Risk Management **pages 154 to 157** of the annual report and accounts.

Our sustainability objectives

	Grow	Focus	Change
Group strategic priorities	**Drive revenue growth and diversification**	**Strengthen cost and capital efficiency**	**Maximise the potential of people, technology and data**
Core business environmental sustainability objectives	• Capitalising on sustainable financing and investment opportunities • Improving access to quality housing	• Reducing emissions and monitoring our sustainability-related risks to manage costs and mitigate against future losses	• Embedding sustainability in all that we do • Supporting and engaging with our colleagues

Environmental ambitions and targets

- 2030 and 2050 ambition and targets: bank financed emissions, including 10 bank sector 2030 emission reduction targets
- 2030 and 2050 ambition and targets: Scottish Widows financed emissions
- 2030 and 2050 targets: for our own operations and supply chain emissions
- 2024 and 2026 targets: for bank sustainable finance
- 2025 target: for Scottish Widows investments in climate-aware strategies

Climate continued

Climate risks and opportunities

Climate risk is a key area of focus for the Group, specifically the risk of experiencing losses and/or reputational damage, either from the impacts of climate change and the transition to net zero or as a result of the Group's response to tackling climate change.

We consider this risk to arise through two channels, physical or transition risks:

- Physical risks arising from changes in climate or weather patterns. These can either be acute (event driven such as floods or storms), or chronic (longer-term shifts such as rising sea levels or droughts)
- Transition risks due to the changes associated with moving towards a low carbon economy, including changes to policy, legislation and regulation, technology and market, or legal risks from failing to manage the transition

The impacts from climate risk largely manifest through other principal risks that the Group faces, therefore consideration of climate-related risk is integrated into some of our wider risk management processes. Further information on climate-related risks and how we identify, assess and manage them can be found on **pages 154 to 157** in Risk management, in the annual report and accounts.

How we identify, assess and manage opportunities

One of the main risks facing the Group is the failure to adequately support the transition to net zero. We have the responsibility to manage our own operational emissions and the opportunity to support our colleagues and customers to transition, noting our biggest opportunities are in relation to the areas where we have the largest lending including residential mortgages and our real estate sector. The identification, assessment and management of these opportunities is undertaken on a regular basis by our functional-level and divisional teams, and approval of new initiatives governed in line with our sustainability governance structure.

The time frames applied for considering the impact of climate-related opportunities is aligned with those used for business planning: short term: 0-1 year, medium term: 1-5 years, long term: 5+ years. We note that the timing is partly dependent on external factors such as UK government policy and regulation, technology developments, as well as our customers' response. The following is an indicative list of the climate-related opportunities that we have incorporated or will aim to incorporate in the medium to long term across the Group.

Opportunities

Opportunity	Driver	Time horizon
Increasing consumer preference for sustainable products including in relation to our pension offering, sustainability-linked loans, financing of EVs and home improvements	Transition (Technology, Market)	Short, medium, long
Providing finance to support investment in climate-related technology	Transition (Technology, Market)	Medium, long
Develop products to promote climate resilience such as the Build Back Better scheme for home insurance	Physical Transition (Technology, Market)	Short, medium, long
Reducing the emissions from our direct operations	Transition (Reputation, Technology, Market)	Short, medium long
Develop industry partnerships to help drive energy-efficient solutions for our customers and build knowledge on how we can further support our customers and suppliers to transition	Transition (Technology, Market, Policy, Reputation)	Short, medium, long

We have identified opportunities to:

1. Respond to increasing customer preference for sustainable products. We recognise the growing sentiment for sustainability-linked products as a key opportunity and are progressing against our sustainable financing and investment targets to deliver against our identified opportunities.
2. Support investment in climate-related technology, mobilising our net zero origination programme to monitor and identify the most significant transition technologies.
3. Develop products to promote climate resilience, engaging in this opportunity though the Build Back Better scheme for home insurance and our efforts in greening the built environment through our products and services.
4. Embrace the opportunity to reduce emissions from our own operations; we remain focused on removing all use of natural gas from our estate, replacing gas boilers with low-carbon heating technologies and creating more sustainable branches in communities across the UK.
5. Develop industry partnerships, such as with the Soil Association Exchange and Octopus Energy, which help build knowledge on how we can further support our customers and suppliers to transition.

Further details of our opportunities can be found within the sustainability report ↗.

Metrics and targets[1,2]

Our lending portfolio means our biggest exposure to sectors at increased climate risk is in relation to our residential mortgages and our real estate sector. For further details of our lending to sectors with increased climate risk see **page 110** of our sustainability report ↗. The scale of our emissions varies across different areas of the business. A breakdown of our Group's absolute emissions is shown below. Our emissions footprint has guided our approach to assessing the risks and opportunities and where we have the biggest role to play. We calculate our emissions in line with the Greenhouse Gas Protocol, further detail in our Sustainability Metrics Basis of Reporting ↗.

Area of the Group	Absolute emission ($MtCO_2e$)
Bank financed emissions (2022)	22.0
Scottish Widows financed emissions (2022)	10.2
Supply chain emissions (2022/23) ✓	0.8
Own operation emissions (2022/23) ✓	0.1

1 Based on 2022 data available for Bank and Scottish Widows financed emissions Scope 1 and 2 emissions only. 2022/23 period end data for supply chain emissions. 2022/23 period end data for own operations emissions includes Scope 1, 2 and 3 categories and is reported on a market basis.
2 ✓ Indicator is subject to limited ISAE 3000 (revised) assurance by Deloitte LLP.

We have set several ambitions across our own operations, supply chain and lending and investments to support the decarbonisation of our business in line with the Paris agreement to limit global warming to 1.5°C.

Please refer to our sustainability report ↗ for further detail on our system-led transition plans and environmental progress throughout 2023.

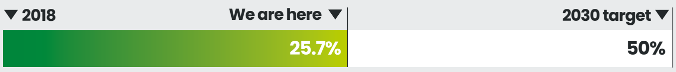
Our emissions and financing targets drive the delivery of our environmental strategy. With these targets supporting management of our climate-related risks and opportunities, notably the risk 'failure to support the transition to net zero'. Our 2023 balanced scorecard applies a meaningful 10 per cent weighting to environmental measures, having key performance measured by assessing the progress against our targets and sustainable financing and investments. From 2024 the Long Term Incentive Plan (LTIP) will include a weighting of 15 per cent against environment measures, reflecting that the transition to a low carbon economy is core to the Group strategy. Further details on the balanced scorecard and LTIP process can be found on **page 124** of the annual report and accounts.

Our emissions targets

Bank ambition

Work 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.

$MtCO_2e$ reduction

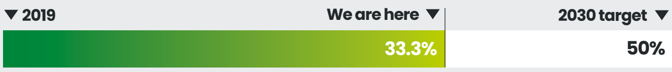


Our overall bank emissions reduction ambition is supported by 10 sector-specific targets covering our highest emitting sectors. These targets are supported by sector-specific transition plans which detail how we are supporting our customers and clients to transition in these areas.

Scottish Widows

Target halving the carbon footprint[1,2] of all of our investments by 2030 on the path to net zero by 2050.

tCO_2e/£m reduction



1 Carbon footprint is a measure of carbon intensity calculated as absolute value of emissions applicable to an investment divided by the value of investment. The carbon footprint measured, where data is available, for year-end 2022 was 77.4 tCO_2e/£m ✓ against a 2019 baseline of 116.1 tCO_2e/£m ✓.

2 ✓ Indicator is subject to limited ISAE 3000 (revised) assurance by Deloitte LLP.

Supply chain

Scope 3 supply chain emissions (tCO_2e)

	Restated baseline year 2021/22	**Current year 2022/23**
Scope 3 emission GHG Protocol Categories 1,2,4	679,326 ✓	**785,237** ✓

Reduce the carbon emissions we generate through our supply chain by 50 per cent by 2030 on the path to net zero by 2050 or sooner[3,4,5].

3 From a 2021/22 baseline.

4 ✓ Indicator is subject to limited ISAE 3000 (revised) assurance by Deloitte LLP.

5 We refined our methodology and approach to calculating our supply chain emissions in 2023 and have recalculated our baseline emissions for the period October 2021 to September 2022. A key refinement was the exclusion of VAT from our spend data used to calculate supplier emissions.

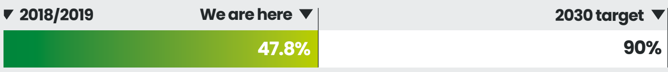
One year on from announcing our ambition to reduce supply chain emissions by 50 per cent by 2030 on our path to net zero by 2050, or sooner, we have seen an increase of 16 per cent in our disclosed supply chain emissions. This increase has been driven by business growth and investment that has resulted in a 21 per cent increase in spend with suppliers from £4.0 billion to £4.9 billion compared to our baseline year.

This highlights the limitations of a spend based methodology which relies on average carbon emission factors per £1 of spend and supports our objective of moving towards supplier-specific carbon emissions data. This will allow us to more readily assess the progress of our suppliers against our ambition by decoupling spend from emissions, reflecting the actions taken by suppliers to decarbonise their business activities. Further details are found within the sustainability report ↗

Own operations

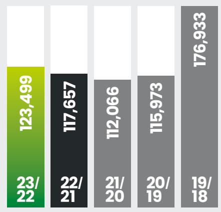
Demonstrating our commitment to managing our own operations emissions, this year, we have also reviewed and redefined our operational net zero target for 2030. We have increased our commitment to reduce operational Scope 1 and 2 carbon emissions from 75 per cent to at least 90 per cent by 2030, based on our 2018/19 baseline. We recognise that there is more that we can do to minimise the environmental impact of our direct operations, and have introduced a new pledge for nature across our operations. Further details can be found within the sustainability report ↗

Direct carbon emissions reduction[6]
Net zero carbon operations by 2030



Balanced scorecard KPI[7,8]
Operational carbon emissions target (tCO_2e)

123,499



6 Scope 1 and 2 emissions, market-based approach for electricity Scope 2. Emissions reduction is shown for the period 1 October 2022 to 30 September 2023.

7 Restated all prior periods data to improve the accuracy of reporting using actual data to replace estimates, historical emissions associated with Embark Group's properties, and improved escaped refrigerant related emissions.

8 Includes Scope 1, 2 emissions and Scope 3 categories 3, 5, 6 and 7. Scope 3 categories 1, 2, 4 and 15 are excluded.

In 2022/23, our overall market-based carbon emissions were 123,499 tonnes CO_2e, 30.2 per cent lower since 2018/19 and a 5.0 per cent increase since 2021/22, mainly driven by higher business travel and commuting related carbon emissions.

Climate continued

Our sustainable financing and investment targets

In 2022 we set sustainable finance targets through to 2024 totalling £33 billion across the bank and for up to £25 billion of investments in climate aware strategies for our Scottish Widows business from 2020 through to 2025. We have made great progress against these targets and have already reached our Commercial Banking target for our corporate and institutional customers.

We have built on our existing targets across the Group with a new 2024 to 2026 target for Commercial Banking which is in addition to our existing targets set out below.

Our sustainable financing and investment targets

	2023 progress
Commercial Banking £15 billion sustainable finance for corporate and institutional customers[1] by 2024	**£15.8bn** ✓ **target achieved**
Motor £8 billion financing for EV and plug-in hybrid electric vehicles by 2024[2]	**£5.7bn** ✓
EPC A/B mortgage lending £10 billion of mortgage lending for EPC A and B rated properties by 2024[3,4]	**£7.5bn** ✓
Scottish Widows £20–£25 billion discretionary investment in climate-aware[5] strategies by 2025	**£21.7bn** ✓
Our new target from 2024 Commercial Banking 2024 to 2026[6]	**£30bn**

1 Corporate and institutional customers (customers with a turnover >£100 million). Includes product types as defined on page 31 of the Sustainability Metrics Basis of Reporting. £7.9 billion achieved in 2023.
2 Includes product types as defined on page 31 of the Sustainability Metrics Basis of Reporting. £3.6 billion achieved in 2023.
3 Includes product types as defined on page 31 of the Sustainability Metrics Basis of Reporting. The target includes remortgages but excludes further advances.
4 £7.5 billion covers the period from January 2022 to September 2023. With £2.8 billion achieved from 1 January 2023 to 30 September 2023.
5 We are working with our strategic fund management partners BlackRock and Schroders to develop and refine a range of funds that have a bias towards investing in companies that are adapting their businesses to be less carbon-intensive and/or developing climate solutions.
6 New 2024 lending target for Commercial Banking. Includes product types as defined by the Group's Sustainable Financing Framework on page 26.
✓ Indicator is subject to limited ISAE 3000 (revised) assurance by Deloitte LLP.

Climate-related financial disclosures

The table below outlines our climate-related financial disclosures, the information listed is incorporated by cross-reference. For further details on how non-financial and sustainability (environmental, social and governance) information is integrated across the strategic report and other sections see **page 46**.

Climate-related Financial Disclosure

	Section of the 2023 annual report and accounts
A: Governance arrangements for assessing and managing climate-related risk and opportunities	**Governance pages 84 to 85**
B: Identify, assess and manage climate-related risks and opportunities	**Risk management pages 154 to 157** **Strategic report page 34**
C: Processes for identifying, assessing and managing climate-related risks are integrated into the overall risk management process	**Risk management pages 154 to 157**
D: (i) Principal climate-related risks and opportunities (ii) time periods by which reference to these risks and opportunities are assessed	**Risk management page 156** **Strategic report page 34**
E: Impacts of the principal climate-related risks and opportunities on the business model and strategy	**Risk management page 154 to 157** **Strategic report pages 33 to 34**
F: Analysis of resilience of the business model and strategy taking into consideration climate-related scenarios	**Risk management pages 156 to 157** **Strategic report page 33**
G: Description of targets used to manage climate-related risks and realise climate-related opportunities and performance against those	**Strategic report pages 34 to 36**
H: KPIs used to assess progress against targets used to manage climate-related risks and realise climate-related opportunities, description of which those KPIs are based	**Strategic report pages 34 to 36**

Further details on our targets available within the sustainability report ↗

Task Force on Climate-related Financial Disclosure (TCFD) recommendations

We comply with the FCA's Listing Rule 9.8.6R(8). Set out in the following table are our climate-related financial disclosures which are consistent with the 2021 TCFD recommendations and recommended disclosures across all four of the TCFD pillars: strategy; governance; risk management; and metrics and targets.

Further detail on our progress against the TCFD recommendations can be found in our sustainability report. Our separate supplement ensures we can provide a comprehensive response to the TCFD framework that is presented in a decision-useful manner for users of the reports. We have referenced specific pages where additional detail and technical content relevant to our TCFD disclosures can be found in the table below.

In addition to the compliance below, in-scope entities within our Insurance, Pensions and Investments business, which are incorporated as part of Scottish Widows Group, are required to report in compliance with FCA ESG Sourcebook (set out via FCA PS21/24) reporting requirements for the period ending 31 December 2023. This additional compliance will be met through Entity and Product level reporting to be published on the Scottish Widows website in June 2024.

We will continue to assess and develop our disclosures against the TCFD recommendations and recommended disclosures, considering relevant TCFD guidance and materials along with new disclosure requirements such as International Sustainability Standards Board: IFRS S1 'General requirements' IFRS S2 'Climate-related disclosures'.

Progress against TCFD recommendations

TCFD pillar	TCFD recommended disclosures	Reference	Summary of progress
Strategy **Recommendation** Disclose the actual and potential impacts of climate-related risks and opportunities on the organisation's business, strategy and financial planning where such information is material.	**A.** Describe the climate-related risks and opportunities the organisation has identified over the short, medium, and long term.	**Risk management pages 154 to 155 of the annual report and accounts** **Strategic report page 34**	• Defined the key climate-related risks and opportunities across the Group and identified the potential time horizons (aligned with Group financial planning) over which they may arise • Disclosures made on the cross-cutting nature of climate risks and how this can impact a broad range of principal risks
	B. Describe the impact of climate-related risks and opportunities on the organisation's business, strategy and financial planning.	**Risk management page 156 of the annual report and accounts** **Sustainability report 2023** **page 105** **page 107** **pages 164 to 166**	• The Group's financial statements consider the impact of climate-related risks on our financial position and performance, including expanded consideration of the impact on expected credit losses in 2023 • Continued to embed climate risk into our financial planning process with financed emissions ambitions considered as part of the forecasting process • Embedded monitoring of sector targets, as reported in our Group climate transition plan, into the internal reporting process with the aim to support climate considerations forming part of the Group's regular decision making
	C. Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.	**Strategic report page 33** **Risk management pages 155 to 157 of the annual report and accounts**	• We have assessed the resilience of our lending and investment portfolio to climate risk based on sector exposure, building on lessons learnt from the 2021 CBES • We have noted that our commercial lending exposure to sectors with increased impacts from climate risk is relatively low • Over the medium to long term, transition risk on our pensions and investment portfolio is significant but an orderly transition to net zero would provide an opportunity for better customer outcomes

TCFD pillar	TCFD recommended disclosures	Reference	Summary of progress
Governance **Recommendation** Disclose the organisation's governance around climate-related risks and opportunities.	**A.** Describe the Board's oversight of climate-related risks and opportunities.	**Governance pages 84 to 85 of the annual report and accounts**	• Our governance structure provides clear oversight and ownership of the Group's environmental sustainability strategy and management of risks and opportunities at the Board and executive levels • The Board is engaged through different committees on at least a quarterly basis on our sustainability agenda including our nature strategy and the monitoring of our progress against targets and ambitions
	B. Describe management's role in assessing and managing climate-related risks and opportunities.	**Governance pages 84 to 85 of the annual report and accounts**	• The Group Net Zero Committee provides direction and oversight of the Group's environmental sustainability strategy including opportunities, supported by divisional governance • The Group Risk Committee provides oversight of climate risk • Key Committee oversight in 2023 included development of sector targets for three new sectors and the evolution of our environmental strategy

Climate continued

TCFD pillar	TCFD recommended disclosures	Reference	Summary of progress
Risk management **Recommendation** Disclose how the organisation identifies, assesses, and manages climate-related risks.	**A.** Describe the organisation's processes for identifying and assessing climate-related risks.	**Risk management pages 154 to 157 of the annual report and accounts**	• Key climate-related risks have been identified at Group level across five themes: net zero; greenwashing; external disclosures; inbound physical and transition risks; and regulatory compliance • The materiality of these risks has been assessed based on their potential impact on the Group, with scenario analysis outputs used to inform this in key areas
	B. Describe the organisation's processes for managing climate-related risks.	**Risk management pages 154 to 157 of the annual report and accounts**	• We are continuing to embed consideration of climate risk within our existing risk management processes to mitigate the cross-cutting impacts of climate risk • We have developed some initial controls for managing these risks, although we expect to continue to enhance these as our understanding evolves
	C. Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organisation's overall risk management.	**Risk management page 154 to 157 of the annual report and accounts**	• Climate risk is embedded into our Enterprise Risk Management Framework, through consideration of climate risk as its own principal risk, and integration into other principal risks materially impacted • The Group climate risk policy provides an overarching framework for the management of climate risks across the Group

TCFD pillar	TCFD recommended disclosures	Reference	Summary of progress
Metrics and targets **Recommendation** Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material.	**A.** Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process.	**Sustainability report 2023 ↗** **pages 110 to 111** **pages 114 to 115** **pages 169 to 170** **Strategic report page 35 to 36**	• Our exposure to sectors with increased climate risk has been analysed, and used to set our bank emission ambition and Net Zero Banking Alliance (NZBA) sector targets • We monitor progress against our net zero ambitions, including measures related to our financed emissions, own operations emissions, supply chain emissions and sustainable finance and investment. We also monitor our progress in relation to our 10 NZBA sector targets
	B. Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks.	**Directors' report pages 134 to 135 of the annual report and accounts** **Strategic report page 34 to 35** **Sustainability report 2023 ↗** **pages 114 to 115** **pages 169 to 170**	• We have disclosed our Scope 1, 2 and 3 emissions for our own operations and supply chain, and continue to develop our approach to calculating financed emissions, now updated to period ended 2022 • We calculate our emissions in line with GHG Protocol and have released our first Scope 3 basis of reporting. This document includes details on our approach to all 15 categories of Scope 3 GHG reporting • In June 2023 Scottish Widows published product level TCFD reporting in compliance with FCA ESG Sourcebook (set out via FCA PS21/24), with an update to be published by June 2024
	C. Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets.	**Strategic report Pages 34 to 36** **Sustainability report 2023 ↗** **pages 88 to 89** **pages 96 to 99** **page 114** **pages 160 to 161** **page 169**	• We have defined sustainable financing and investment targets for our core business areas. Along with our emissions ambitions these make up the key metrics we use in the Group to monitor our progress against our strategy • To support our overall bank ambitions we have released 10 sector-specific 2030 NZBA targets. These are a mix of physical intensity and absolute emissions based targets

Effective risk management and control

Risk management is a key element in shaping our business model and delivering the Group's strategy to enable sustainable growth. A strong risk management culture is crucial to keep the Group, our colleagues and our customers safe and secure from existing and emerging risks.

Our approach to risk

The Group's business model is based on a prudent approach to risk, which guides participation decisions while safeguarding our colleagues, customers and the Group. An overview of risk management is included in this section, with the detailed risk management section from **pages 138 to 196** of the annual report and accounts, which provides:

- A **detailed overview** of how risk is managed within the Group, including the approach to risk appetite
- The **framework** by which these risks are identified, managed, mitigated and monitored

Risk profile and performance

The Group has remained committed to maintaining support for its customers despite challenges with the rising cost of living and economic uncertainties in the global and domestic markets.

The Group's loans and advances continue to be well positioned and heightened monitoring is in place to identify signs of affordability stress. The mortgage book remains resilient with arrears below 2019, with the new Mortgage Charter providing additional enhanced support to customers during 2023.

Unsecured and Commercial Banking portfolios continue to exhibit stable new to arrears and default trends broadly at, or below, pre-pandemic levels. Commercial Real Estate is demonstrating resilience and is well diversified with no speculative commercial development lending.

As part of the Group's strategy, there will be continuing investments in technology and infrastructure. The Group's operational resilience risks remain a key area of focus, particularly relating to cyber risk and supply chain management.

The Group has overseen the embedding of its operational risk and control framework during 2023 and its oversight of management of financial crime risks and consumer fraud.

Climate risk remains a key priority for the Group, with positive progress in 2023 and a commitment to continued focus in 2024.

The Group has enhanced the monitoring of progress against its strategic ambitions, alongside ongoing development of capabilities for measuring and managing key risks.

Our enterprise risk management framework

The enterprise risk management framework (ERMF) is the foundation for the delivery of effective and consistent risk control across the whole Group. It enables proactive identification, active management and monitoring of the Group's risks, which is supported by our risk and control self-assessment approach.

The ERMF is regularly updated to ensure it remains in line with regulation, law, corporate governance and industry good practice. **The Board and senior management** are responsible for the approval of the ERMF, together with Group-wide risk principles and policies. The effectiveness of the ERMF is assessed annually with the results reported directly to the Board.

The Board and senior management set and embed a positive **culture** of diversity, equity and inclusion. The Group's Code of Ethics and Responsibility and our established values, reinforce colleagues' accountability for the risks they take, their responsibility to explore customers' needs and consistently deliver good customer outcomes.

Risk appetite is defined within the Group as the amount and type of risk that the Group is prepared to seek, accept or tolerate in delivering its strategy. The Board is responsible for approving the Group's Board risk appetite statement annually. Board level risk appetite metrics are augmented further by executive-level metrics and cascaded into detailed business metrics and limits.

The Group adopts a continuous risk management approach, from identifying the risks through **risk and control self-assessment**, and managing the risks through to producing appropriate, accurate and focused risk reporting. The Group ensures that the appropriate **risk resources and capabilities** are in place, with colleagues provided with the necessary training to give them the skills they need.

Governance is maintained through delegation of authority from the Board down to individuals. Senior executives are supported by a committee-based structure which is designed to ensure open challenge and enable effective Board engagement and decision making.

The **three lines of defence model** defines the responsibilities and accountabilities for risk management, with effective independent oversight and assurance. Business lines have primary responsibility for the identification and management of risks, Risk division provides oversight and challenge, and Group Internal Audit provide independent assurance to the Board and Audit Committee.

More information on the Board's responsibilities can be found on **page 93** and our executive and Risk committees on **pages 141 to 142** of the annual report and accounts.

Enterprise risk management framework

1	**Role of the Board and senior management**	The Board delegates executive authorities to ensure there is effective oversight of risk management.
2	**Risk culture and the customer**	The appropriate culture ensures performance, risk and reward are aligned.
3	**Risk appetite**	The framework ensures our risks are managed in line with our risk appetite.
4	**Risk and control self-assessment**	The identification, measurement and control of our risks form an integral part of our risk and control self-assessment.
5	**Risk governance**	The governance framework supports a consistent approach to enterprise-wide behaviour and decision making.
6	**Three lines of defence**	The robust approach to monitoring oversight and assurance ensures effective risk management across the Group.

Principal risks

The principal risks outlined in this section are used to monitor and report the risk exposures posing the greatest potential impact to the Group.

All of the principal risks are Board-approved enterprise-wide risk categories which are reported to the Board Risk Committee and the Board regularly.

The Board Risk Committee report on **pages 101 to 106** of the annual report and accounts outlines its purpose, structure and responsibilities in addition to activities during the year.

The Group is in the process of conducting a detailed review of the enterprise risk management framework to ensure it remains in line with regulatory expectations, corporate governance and industry good practice, which will result in a reclassification of our principal risks in 2024.

In the risk management section, a summary of the Group's principal and secondary risks is on **page 145** of the annual report and accounts, with further information on how each principal risk is managed from **pages 146 to 196** of the annual report and accounts.

Risk trends	Link to strategy
Stable risk	Grow
Reduced risk	Focus
Elevated risk	Change

Capital risk

Risk trends
Stable risk

Link to strategy
See page 24

Risk performance
The Group maintained its strong capital position in 2023 with a CET1 capital ratio of 13.7 per cent on a pro forma basis, after absorbing regulatory headwinds and the acquisition of Tusker.

This remains significantly ahead of minimum capital requirements and in excess of the Group's revised ongoing target of 13.0 per cent (previously 13.5 per cent), which includes a management buffer of around 1 per cent. Downside risks from economic and regulatory headwinds, including the impact of further Retail secured CRD IV model updates, are being closely monitored. This is in addition to the potential impact from the FCA review of historical motor finance commission arrangements.

Risk appetite
The Group maintains capital levels commensurate with a prudent level of solvency to achieve financial resilience and market confidence.

Key mitigating actions
- Capital management framework that includes the setting of capital risk appetite, capital planning and stress testing activities
- Regular refresh and monitoring of a suite of early warning indicators and maintenance of a Capital Contingency Framework, designed to identify and act on emerging capital concerns at an early stage

Change and execution risk

Risk trends
Elevated risk

Link to strategy
See page 24

Risk performance
The Group's change and execution risk has remained elevated in 2023. Whilst change continues to be carried out safely and the new platform operating model has enhanced the change controls, the scale and complexity of the Group's strategic change agenda is significant. Further development of the model, change framework and the associated controls is expected in 2024.

Risk appetite
The Group has limited appetite for negative impacts on customers, colleagues, or the Group as a result of change activity.

Key mitigating actions
- Measurement and reporting of change and execution risk, including critical elements of the change portfolio through appropriate governance
- Providing sufficient skilled resources to safely deliver and embed change and support future transformation plans
- Continued evolution and enhancement of the Group's change operating model including the underpinning policy, method and associated controls

Climate risk

Risk trends
Stable risk

Link to strategy
See page 24

Risk performance
The Group is continuing to develop its capabilities for measuring and managing key climate risks including monitoring progress against its net zero ambitions.

However, the external landscape presents further challenges, both in relation to the policy changes required to support the transition to net zero, as well as increasing regulatory expectations.

Risk appetite
The Group takes action to support the Group and its customers' transition to net zero, and maintains its resilience against the risks relating to climate change.

Key mitigating actions
- Further embedding of climate risk policy, providing a framework for consideration of climate-related risks across the Group
- Established targets to reduce emissions across key areas of activity, as well as developing appropriate plans and strategies to support our transition to net zero
- Enhancing consideration of physical and transition risks within the credit risk process, including assessment of clients' credible transition plans
- Continuing to build an understanding of how greenwashing could impact the Group, including training for all colleagues to ensure it is avoided

Conduct risk

Risk trends
Stable risk

Link to strategy
See page 20

Risk performance
Conduct risk has remained stable in 2023, however there are several areas of emerging risks due to regulatory changes and areas of focus. The Group's focus is on supporting customers impacted by the rising cost of living, culture and diversity, mindset shift to embed the FCA's Consumer Duty requirements and ensuring good customer outcomes, amid the transformation of its business and technology. We are also continuing to liaise closely with the FCA and FOS on historical motor commission arrangements.

Risk appetite
The Group delivers good outcomes for its customers.

Key mitigating actions
- Robust policies in place to support good customer outcomes
- Active engagement with regulatory bodies and key stakeholders to ensure that the Group's strategic conduct focus continues to meet evolving stakeholder expectations

Credit risk

Risk trends
Stable risk

Link to strategy
See page 20

Risk performance
The Group's credit portfolio continued to be resilient with only modest evidence of deterioration to date. UK Mortgages new to arrears were relatively stable throughout 2023, having increased slightly at the start of the year, with other unsecured portfolios performing broadly at or favourable to pre-pandemic levels. Impairment was a net charge of £308 million, compared to £1,510 million for 2022 and includes a significant write-back following the full repayment of debt from a single name client in the fourth quarter and improvements in the Group's macroeconomic outlook. The Group's expected credit loss allowances have decreased to £4,292 million (2022: £5,222 million).

Risk appetite
The Group has a conservative and well-balanced credit portfolio through the economic cycle in line with the Group's target return on equity in aggregate. The Group's approach focuses on origination quality and levers at Board level while dynamically adapting to the risk environment, business growth strategy, industry practices and regulatory expectations.

Key mitigating actions
- Extensive and thorough credit processes, strategies and controls to ensure effective risk identification, management and oversight
- Significant monitoring in place, including early warning indicators
- Selective credit tightening reflective of forecast changes in the macroeconomic environment, including updates to affordability lending controls for forward-looking costs

Data risk

Risk trends
Stable risk

Link to strategy
See page 24

Risk performance
Data risk remained stable in 2023 with investment in end-to-end data risk management and capabilities. The Group's data strategy will support managing data risk and remediation to achieve the Group's growth objectives.

Risk appetite
The Group has zero appetite for data-related regulatory fines or enforcement actions.

Key mitigating actions
- Delivering against the data strategy and uplifting capability in data management and privacy
- Embedding data by design and ethics principles into the data science lifecycle
- Oversight of the data supply chain, emerging technologies, and data controls and processes

Funding and liquidity risk

Risk trends
Stable risk

Link to strategy
See page 24

Risk performance
The Group maintained its strong funding and liquidity position in 2023. The loan to deposit ratio decreased slightly to 95 per cent (2022: 96 per cent). The Group's liquid assets continue to exceed the regulatory minimum and internal risk appetite with a monthly rolling 12-month average liquidity coverage ratio (LCR) of 142 per cent (2022: 144 per cent). The Group maintains its access to diverse sources and tenors of funding.

Risk appetite
The Group maintains a prudent liquidity profile and a balance sheet structure that limits its reliance on potentially volatile sources of funding.

Key mitigating actions
- Management and monitoring of liquidity risks and ensuring that management systems and arrangements are adequate with regard to the internal risk appetite, Group strategy and regulatory requirements
- Significant customer deposit base, driven by inflows to trusted brands
- Participation in term issuance programmes

Insurance underwriting risk

Risk trends
Stable risk

Link to strategy
See page 20

Risk performance
Insurance underwriting risk remained broadly stable. Life and Pensions present value of new business premium reduced to £17.4 billion (2022: £19.0 billion), the reduction driven mainly by higher discounting rates. General Insurance total gross written premium increased to £579 million (2022: £486 million) due to improved trading.

Risk appetite
The Group has an appetite to take on insurance underwriting risks where they fit with our strategic objectives.

Key mitigating actions
- Significant reinsurance of mortality, morbidity and General Insurance weather risk
- Robust processes for underwriting, reinsurance, claims management, pricing, product design and product management
- Management through diversification and pooling of risks

Market risk

Risk trends
Stable risk

Link to strategy
See page 24

Risk performance
Market conditions in 2023 remained volatile creating an uncertain environment for the management of market risk. However, the Group remains well hedged ensuring near-term interest rate exposure is appropriately managed.

The Group's structural hedge decreased to £247 billion (2022: £255 billion) mostly due to the changing mix of customer deposits, from current accounts into fixed savings products. In 2023 the pensions triennial valuation completed and following final contributions of £250 million in December, the pension schemes funding deficit was cleared. The IAS 19 accounting surplus remained broadly unchanged at £3.5 billion (2022: £3.7 billion).

Risk appetite
The Group has effective controls in place to identify and manage the market risk inherent in our customer and client-focused activities.

Key mitigating actions
- Structural hedge programmes implemented to stabilise earnings
- Close monitoring of market risks and, where appropriate, undertaking of asset and liability matching and hedging
- Monitoring of the credit allocation in the defined benefit pension schemes, as well as the hedges in place against adverse movements in nominal rates, inflation and longevity

Model risk

Risk trends
Elevated risk

Link to strategy
See page 24

Risk performance
Model risk remained elevated in 2023, following the pandemic-related government-led support schemes weakening the relationships between model inputs and outputs in 2022. The economy has steadied somewhat compared to 2022, now being more typical of the environment used to build the models, reducing need for judgemental overlays to account for this, but many of the effects of the pandemic and other stresses to the economy are still working their way through. The control environment for model risk continues to be strengthened to meet revised internal and regulatory requirements.

Risk appetite
Material models perform in line with expectations.

Key mitigating actions
- Robust model risk management framework for managing and mitigating model risk within the Group

Operational risk

Risk trends
Elevated risk

Link to strategy
See page 20

Risk performance
Operational risk has elevated in 2023. Overall, operational loss event volumes have slightly increased due to fraud instances, but financial losses have reduced compared with 2022.

Key operational risk areas for the Group are security, technology and fraud, with an uplift in supplier issues over the last 12 months, although these have not been material in impact.

Risk appetite
The Group has robust controls in place to manage operational losses, reputational events and regulatory breaches. It identifies and assesses emerging risks and acts to mitigate these.

Key mitigating actions
- Review and investment in the Group's control environment, with a particular focus on automation, to ensure the Group addresses the inherent risks faced
- Deployment of a range of risk management strategies, including avoidance, mitigation, transfer (including insurance) and acceptance

Operational resilience risk

Risk trends
Stable risk

Link to strategy
See page 24

Risk performance

Operational resilience remained stable in 2023. Enhancing the Group's resilience for serving customers has been a key focus. The Group has used operational resilience scenario testing to shape a programme to deliver enhanced resilience of important business services by 2025.

The Group recognises the prominence of cyber security protection and the role that resilience of our suppliers plays in delivering resilient customer experiences. Technology resilience remains a focus area, with dedicated programmes to address key risks.

Risk appetite

The Group has limited appetite for disruption to services to customers and stakeholders from significant unexpected events.

Key mitigating actions

- Operational resilience programme in place to deliver against new regulation and improve the Group's ability to respond to incidents while delivering key services to customers
- Investment in technology improvements, including enhancements to the resilience of systems that support important business services

People risk

Risk trends
Elevated risk

Link to strategy
See page 20

Risk performance

People risk remains a key focus for the Group given the scale and pace of the transformation underway. The strategic focus of the leadership team continues to focus on colleague wellbeing and resilience, driving an inclusive, diverse and customer-centric culture, recruiting the required skills of the future and enabling colleague performance through enhancing their skills and capabilities. This is together with the Group's revised pay offering which aims to support colleagues facing cost of living pressures.

Risk appetite

The Group leads responsibly and proficiently, manages people resource effectively, supports and develops colleague skills and talent, creates and nurtures the right culture and meets legal and regulatory obligations related to its people.

Key mitigating actions

- Delivery of strategies to attract, retain and develop high-calibre people with the required capabilities, together with a focus on creating a strong and resilient talent pipeline
- Continued focus on the Group's culture by developing and delivering initiatives that reinforce inclusivity and appropriate behaviours
- Focus on providing a working environment which promotes colleague safety and enhances their wellbeing and resilience

Regulatory and legal risk

Risk trends
Stable risk

Link to strategy
See page 24

Risk performance

The regulatory and legal risk profile has remained stable, although we are conscious of upcoming regulatory changes and the ongoing implementation of Consumer Duty. Legal risk continued to be impacted by the evolving legal and regulatory landscape, changing regulatory and other standards and uncertainty arising from the current and future litigation landscape.

Risk appetite

The Group interprets and complies with all relevant regulation and all applicable laws (including codes of conduct which could have legal implications) and/or legal obligations.

Key mitigating actions

- Policies and procedures setting out the principles and key controls that should apply across the business which are aligned to the Group risk appetite
- Identification, assessment and implementation of policy and regulatory requirements by business units and the establishment of local controls, processes, procedures and resources to ensure appropriate governance and compliance

Strategic risk

Risk trends
Stable risk

Link to strategy
See page 20

Risk performance

Strategic risk is stable, with further evolution of the Group's methodology for assessing and prioritising emerging risks. Further information on emerging risks can be found on **pages 44 and 144** of the annual report and accounts.

Risk appetite

From 2024 strategic risk has been incorporated into emerging and horizon risk, and risk appetite is not set.

Key mitigating actions

- Considering and addressing the strategic implications of emerging trends
- Embedding of strategic risk into business planning process and day-to-day risk management

Emerging and horizon risks

The Group continues to focus on horizon scanning activity to inform and support identification of the most pertinent internal and external trends and developments.

Evolution of the Group's methodology for assessing and prioritising emerging risks

A series of deep dives on the 2022 emerging risk themes have taken place during the year. In addition, individual emerging risks themes have been taken to key executive-level committees throughout 2023, including the Board Risk Committee, with actions assigned to monitor more closely their future manifestation and potential opportunities.

The emerging risk themes were also considered as part of the annual financial planning cycle. Geopolitical risks, and how these may generate second order impacts for the Group, have been a focus.

Many emerging and horizon risk topics are reviewed on a recurring basis, alongside ongoing activity addressing their impacts. However, it is acknowledged that the nature of the emerging risks will evolve and could drive future trends in the long term which the Group will need to prepare for.

The 2023 emerging risk landscape has been simplified, combining emerging and strategic risks into a single view (see below), enabling greater management concentration on developing the appropriate responses. The Group will continue to monitor emerging and horizon risks, exploring how they may impact its future strategy, and how it can continue to best protect its customers, colleagues and shareholders.

For further information on the Board Risk Committee's Chair Report, see **pages 101 to 106** of the annual report and accounts.

For further information on how the Group is managing key emerging risks through its strategy, see **page 144** of the annual report and accounts.

Emerging risks

Customer propositions and societal expectations

The potential impacts of a failure to adapt our propositions to the continually evolving expectations and demographic of consumers, the evolution of and expectations relating to cybercrime, the threats posed by technology-enabled players and the risk of market disintermediation.

Digital currencies and tokenisation

Failure to keep pace with the potential expansion of decentralised financial systems, launch of private sector or government-backed digital currencies, growth of blockchain technologies and asset tokenisation and adoption of technologies which support the mainstream utilisation of blockchain technologies.

Environmental, social and governance expectations

Investor, shareholder and public perception of the Group's i) awareness of the ecological and environmental impacts associated with its operations and investments, ii) ability to offer sustainable financing options and services at pace, against a continuously evolving environmental and regulatory backdrop, and iii) role in supporting the UK to transition to a low carbon economy.

Generative AI and ethical data practices

Failure to keep pace with technological advancements relating to Generative AI and machine learning whilst balancing the competing requirements to i) maximise customer opportunities through adoption, ii) maintain trust and confidence in customer data privacy, iii) protect our customers from fraud and economic crime, iv) ensure transparency on data ethics practices, v) adhere to evolving data protection regulations and vi) prepare for potential business model disruptions caused by adoption of the technology.

Global macroeconomic and geopolitical environment

Inability to navigate changing international regulations, including sanction and trade compliance, economic fragmentation, deglobalisation, and geopolitical events that may impact operations, customers and suppliers.

Operational elasticity

Failure to adequately prepare for the aggregate threat posed by cyber-attacks, disruption of service, third- or fourth-party supplier failure, technology outages or severe data loss.

Strategic workforce vision

Failure to evolve the structure and skill set of a dynamic workforce in line with the Group's strategy, whilst maintaining pace with the industry and delivering strong customer outcomes.

UK political and macroeconomic environment

Failure to anticipate the longer-term impacts of a weak UK economy, quantitative tightening, change in government and the resulting policy and regulatory shifts (a bank levy, for example) and the potential consequences of the UK becoming less attractive to external investors.

Viability statement and going concern

Viability statement

The directors have an obligation under the UK Corporate Governance Code to state whether they believe the Company and the Group will be able to continue in operation and meet their liabilities as they fall due over a specified period determined by the directors, taking account of the current position and the principal risks of the Company and the Group.

In making this assessment, the directors have considered a wide range of information, including:

- The principal and emerging risks which could impact the performance of the Group
- The 2022 Strategic Review which sets out the Group's customer and business strategy for the period from 2022 to 2026
- The Group's operating plan which comprises detailed financial, capital and funding projections together with an assessment of relevant risk factors for the period from 2024 to 2026 inclusive

Group, legal entities and divisional operating plans are produced and subject to rigorous stress testing on an annual basis. The planning process takes account of the Group's business objectives, the risks taken to seek to meet those objectives and the controls in place to mitigate those risks to ensure they remain within the Group's overall risk appetite.

The Group's annual planning process comprises the following key stages:

- The Board reviews and agrees the Group's strategy, risk appetite and objectives in the context of the operating environment and external market commitments
- The divisional teams develop their operating plans, ensuring that they are in line with the Group's strategy and risk appetite
- The financial projections and the underlying assumptions in respect of expected market and business changes, and future expected legal, accounting and regulatory changes, are subject to rigorous review and challenge from both divisional and Group executives
- In addition, the Board obtains independent assurance from the Risk division over the alignment of the plan with Group strategy and the Board's risk appetite. This assessment performed by the Risk division also identifies the key risks to delivery of the Group's operating plan
- The planning process is also underpinned by a robust capital and funding stress testing framework. This framework allows the Group to assess compliance of the operating plan with the Group's risk appetite

The scenarios used for stress testing are designed to be severe but plausible, and take account of the availability and likely effectiveness of mitigating actions that could be taken by management to avoid or reduce the impact or occurrence of the underlying risks. The Group conducts internal stress testing and completes the PRA regulatory exercises. In 2023, stress tests have considered a range of economic conditions covering multiple outlooks and differing economic paths, including persistently high interest rates, and falling interest rates. Group stress results are segmented to provide insight, inform risk appetite, and allow for development of mitigating actions. In considering the likely effectiveness of such actions, the conclusions of the Board's regular monitoring and review of risk and internal control systems, as discussed on **pages 138 to 196** of the annual report and accounts, is taken into account. Further information on stress testing and reverse stress testing is provided on **page 143** of the annual report and accounts.

- Stress testing outputs are presented to the Board Risk Committee for review and challenge. All regulatory exercises are approved by the Board
- The final operating plan, Risk division assessment and the results of the stress testing are presented to the Board for approval. Once approved, the operating plan drives detailed divisional and Group targets for the following year

The directors have specifically assessed the prospects of the Company and the Group over the current plan period. The Board considers that a three-year period continues to present a reasonable degree of confidence over expected events and macroeconomic assumptions, while still providing an appropriate longer-term outlook. Information relevant to the assessment can be found in the following sections of the annual report and accounts:

- The Group's principal activities, business and operating models and strategic direction are described in the strategic report on **pages 02 to 46**
- Emerging risks are disclosed on **page 44**
- The principal risks, including the Group's objectives, policies and processes for managing credit, capital, liquidity and funding, are provided in the risk management section on **pages 138 to 196** of the annual report and accounts
- The Group's approach to stress testing and reverse stress testing, including both regulatory and internal stresses, is described on **page 143** of the annual report and accounts

Based upon this assessment, the directors have a reasonable expectation that the Company and the Group will be able to continue in operation and meet its liabilities as they fall due over the next three years to 31 December 2026.

Going concern

The going concern of the Company and the Group is dependent on successfully funding their respective balance sheets and maintaining adequate levels of capital.

In order to satisfy themselves that the Company and the Group have adequate resources to continue to operate for the foreseeable future, the directors have reviewed the Group's operating plan and its funding and capital positions, including a consideration of the implications of climate change.

The directors have also taken into account the impact of further stress scenarios as well as a number of other key dependencies which are set out in the risk management section under principal risks and uncertainties: funding and liquidity on **page 41** and **pages 180 to 185** of the annual report and accounts and capital position on **pages 147 to 153** of the annual report and accounts. Additionally, the directors have considered the capital and funding projections of the Company.

Accordingly, the directors conclude that the Company and the Group have adequate resources to continue in operational existence for a period of at least 12 months from the date of the approval of the financial statements and therefore it is appropriate to continue to adopt the going concern basis in preparing the accounts.

Non-financial and sustainability information statement

The Non-Financial Reporting requirements contained in Sections 414CA and 414CB of the Companies Act 2006 are addressed within this section. We provide cross references to indicate in which part of the Groups' reporting the respective requirements are embedded. The policies mentioned above form part of the Group's policy framework which is founded on key risk management principles. The policies which underpin the principles define mandatory requirements for risk management. Robust processes and controls to identify and report policy outcomes are in place and were followed in 2023.

Statement	Description and relevant policies	Information necessary to understand our Group and its impact, policies due, diligence and outcomes
Stakeholders	Policies and programmes which support our approach include: • Our approach to sustainability materiality • Code of ethics and responsibility • Code of supplier responsibility • Third party supplier policies	• Further information on stakeholder engagement and how the Group supports stakeholders is available on **page 03** and in our sustainability report • Further information on our approach to material sustainability issues and how they relate to our stakeholders is available in our sustainability report • Our Code of Ethics and Responsibility, Code of Supplier Responsibility and Third Party supplier policies are available at our downloads page
Environmental sustainability and climate-related financial disclosures	The Group's environmental strategy aligns to the Group's strategic priorities, with sustainability embedded into how we as a Group operate. Policies which support our approach include: • Sector statements • Enterprise wide risk management framework[1]	• Further information on our approach to managing climate change and environmental matters is available in our sustainability report • Our climate-related financial disclosures have been included within the 2023 non-financial progress and performance report on **page 33** • Sustainability governance on **page 84** of the annual report and accounts • Climate risk management details are on **page 155** of the annual report and accounts
Employees and colleague conduct	The Group supports our colleagues and aims to create a diverse, equitable, inclusive organisation. Policies and programmes which support our approach include: • Diversity, Equity and Inclusion Programme • Board diversity policy • Colleague policy[1] • Code of ethics and responsibility • Health and safety policy[1] • Speak up policy[1]	• Governance in action on **page 03** • Our 2023 non-financial progress and performance report on **pages 29 to 38** • Further information on how we are supporting our colleagues, building a diverse, equitable and inclusive organisation, and conducting our business responsibly is available in our sustainability report
Human rights and modern slavery	The Group's approach to human rights is supported by several Group policies. Policies and programmes which support our approach include: • Human rights policy statement • Modern slavery and human trafficking statement • Colleague policy[1] • Data privacy policy[1] • Data ethics policy[1] • Cyber security policy[1]	• The Group is committed to operating in accordance with internationally accepted human rights standards and with all relevant legislation including the UK Modern Slavery Act 2015 • Further information on our approach to human rights and modern slavery is available in our Human Rights Policy and our Modern Slavery Statement, as well as **page 80** of our sustainability report
Social sustainability	Social matters are critical in the delivery of our purpose. Policies and programmes which support our approach include: • Our business model • Volunteering standards[1] • Matched giving guidelines[1] • Colleague policy[1]	• Core to our purpose and strategy is our focus on building a more inclusive and sustainable society, as this is where we can make the biggest difference, while creating new opportunities for our future growth • Sustainability governance on **page 84** of the annual report and accounts • Further information on how we consider social matters is available on **pages 7 to 8, 11 to 12, 30 to 32**, and in our sustainability report
Economic crime	Policies and programmes which support our approach include: • Economic crime policy[1] • Anti-bribery policy statement	• The Group has a dedicated Economic Crime Prevention (ECP) function. The ECP policy sets out the minimum requirements to which all Group businesses must comply across anti-bribery and corruption (ABC); anti-money laundering and counterterrorist financing (AML); fraud; sanctions; and tax evasion • Further information on our approach to economic crime prevention is available on **pages 142 and 192** of the annual report and accounts, and **pages 19 to 22** of our sustainability report • Our anti-bribery policy statement is available at our downloads page
Principal risks	Policies and programmes which support our approach include: • Enterprise wide risk management framework[1]	• Further information on our approach to risk management is available in the risk overview section on **page 39**
Description of the business model and non-financial key performance indicators	Our business model provides our customers with financial security, our colleagues with jobs and benefits, and supports the communities in which we operate, all while delivering higher, more sustainable returns for shareholders.	• Our business model on **page 12** • Our strategy, on **pages 18 to 27** • Progress and performance, on **pages 28 to 38**

1 Certain Group policies, internal standards and guidelines are not published externally.

Remuneration Committee Chair's statement

Cathy Turner
Chair, Remuneration Committee

Throughout 2023 we have continued to support our people with the rising cost of living. We recognise the continued commitment of our colleagues and announced changes to our reward package providing greater certainty in what remains a fast-changing economic environment. This latest two-year pay deal means that between August 2022 and April 2025 we will have provided a minimum £5,000[1] pay award and £2,000[1] in cash support, worth a total of around 35 per cent of salary, for our colleagues at lower grades.

Supporting our colleagues

- Agreed a multi-year pay proposal for 2024 and 2025 reflecting our continued desire to support colleagues during uncertain times
- Made a £500[1] payment in December 2023 to around 44,000 colleagues recognising immediate cost challenges
- Consolidated a significant portion of our Group Performance Share (annual bonus) into base salary for around 32,000 colleagues giving more certainty and delivering reward faster

Dear shareholder

On behalf of the Board, it is my pleasure to present the directors' remuneration report for the year ended 31 December 2023. I would also like to take this opportunity to thank Alan Dickinson for his commitment and contribution to the work of the Remuneration Committee (the Committee) during his time as Chair.

Supporting our customers and colleagues in 2023

Helping Britain Prosper has been central to all that the Group has done in 2023, focusing on delivering for customers, clients and shareholders. This has meant providing support through a tough and uncertain economic period which, whilst inflationary pressures have eased somewhat, remains an uncertain outlook for 2024 for many of our customers and colleagues. Our colleagues have worked tirelessly to support our customers, clients and communities as they continue to navigate this fast-changing environment.

We remained committed to our ambition to be the Best Bank for Customers; we proactively targeted support for customers facing economic uncertainty, directly contacting around 675,000 mortgage customers to encourage a review of their options, contacted 7.5 million customers since April 2022 to offer support and enhance financial resilience and, contacted more than 15 million customers on their savings options.

The Group delivered a robust financial performance in 2023 enabling a total ordinary dividend of 2.76 pence per share for 2023 and its intention to implement an ordinary share buyback of up to £2.0 billion in 2024, benefiting our 2.2 million shareholders, including most of our employees.

Recognising the continued commitment of our colleagues, the Committee has reflected on how our overall reward package meets both their needs and the needs of the Group and, as a result, we have made a number of changes over 2023. For our more senior colleagues, including our executive directors, we are introducing greater performance differentiation in variable reward, including the return to a performance-based Long Term Incentive Plan (LTIP) for our Group Executive Committee members which will deliver stronger alignment and accountability for the delivery of our purpose-driven strategy. For our junior colleagues we've kept things simple, giving more certainty and delivering reward faster, with a continuing focus on supporting those impacted most by increased day-to-day living costs.

Recognising the importance of certainty of earnings for many employees, in July 2023, we consolidated a significant portion of our annual bonus, the Group Performance Share (GPS) into base salary for around 32,000 colleagues. We also consolidated our 4 per cent Flex cash allowance into base salary for the majority of colleagues, further simplifying their reward package.

Over the course of 2023 we have worked closely with our recognised unions, Accord and Unite, to agree an industry-leading, multi-year pay deal for 2024 and 2025, reflecting our continued commitment to support colleagues and to help them plan for the future. To recognise the immediate cost of living challenges, we made a further £500[1] payment in December 2023 to around 44,000 colleagues who, including this payment, will receive average pay increases of between 9.1 per cent and 14.4 per cent cumulatively over the two years. The overall increase to our total pay costs over this two-year period will be lower at 8.2 per cent, as we continue to direct spend to our lowest paid colleagues. As part of our multi-year pay commitment, we will also raise our minimum salary across the Group to £25,000[1] by April 2025, all part of delivering on our purpose of Helping Britain Prosper.

Our two-year pay deal means that between August 2022 and April 2025, we will have provided a minimum £5,000[1] pay award and £2,000[1] in cash support, worth a total of around 35 per cent of salary, for our colleagues at lower grades.

1 Pro rated for reduced hours.

2023 variable reward outcomes

In 2023, we are seeing real evidence of strategic progress as we transform the business and have increased our confidence in delivering the 2024 and 2026 commitments and growth. As a result of our robust financial performance this year, the Committee has approved a GPS pool of £384 million. This is a lower absolute pool than in 2022 because of the consolidation referred to above. On a like-for-like basis, including the consolidation of variable pay, the 2023 pool would be higher than 2022. Ensuring colleagues share in the success of the Group is an important element of our remuneration approach.

The approved pool includes the impact of a provision for the potential impact of the recently announced FCA review into historical motor finance commission arrangements.

In 2021, Long Term Share Plan (LTSP) awards were granted to around 600 colleagues and the Committee has determined that these should vest in full. In making this decision, the Committee considered several elements to satisfy itself that the vesting is appropriate. It noted that, during the 'pre-grant test' this award was reduced by up to 40 per cent to reflect the Group's performance in 2020, the share price at the time of award and the wider experience of our shareholders. Furthermore, the vesting is subject to a 'pre-vest test' consisting of three financial underpins and four key questions. Finally, there was careful consideration whether an adjustment for windfall gains would be appropriate and it was concluded that given the award was initially reduced by up to 40 per cent, granted at a share price of 39.3015 pence which is higher than the 31.2 pence over the pandemic period and consistent with our share price range over the performance period (33-55 pence), no windfall gain has arisen and therefore no further adjustment would be appropriate. More detail is provided on **page 115** of the annual report and accounts.

Executive directors' remuneration outcomes

Charlie Nunn, Group Chief Executive (GCE) continues to show strong leadership in all aspects of the business and consistently demonstrates the Group's values. He has led the strategic and cultural transformation which has maintained momentum whilst the Group has also navigated a challenging external environment. Once again, Charlie has overseen the Group's robust financial performance and achievement of broader Group balanced scorecard (BSC) targets whilst maintaining a strong regulatory and risk environment.

Likewise, William Chalmers, Chief Financial Officer (CFO), has played a critical role in the development, communication and execution of our new strategy, as well as embedding and delivering a strong commercial, capital and investment discipline across the Group.

The Committee determined that the GPS (annual bonus) awards for the GCE and CFO should be in line with the Group's performance as assessed by the Group BSC of 80.3 per cent of maximum, with resultant awards of £1,277,372 and £920,658 respectively. This BSC outcome was inclusive of a downward adjustment in recognition of the external factors which benefited the 'reduction in carbon emissions' measure. Further details are outlined on **page 113** of the annual report and accounts.

In 2021, William Chalmers was granted an LTSP award of 75 per cent of salary, a reduction of 40 per cent versus the typical award recognising the Group's performance in 2020. In line with the outcome for other participants set out above, William's award will vest in full. 2021 LTSP awards were granted prior to Charlie Nunn joining the Group and therefore he did not receive an award.

The 2023 Group BSC outcome also acts as part of a 'pre-grant test' for our 2024 LTIP awards. Given our robust 2023 performance, the Committee has determined to grant LTIP awards to the GCE and the CFO of 300 per cent of salary in line with the policy approved at the last AGM.

The vesting outcome of the LTIP award will be subject to the achievement of stretching performance targets (see **page 124** of the annual report and accounts) measured over the period 2024 to 2026.

Strengthening the Group's performance culture

The pivot towards a more demanding, high-performance culture is critical in delivering against the ambitious strategy we announced in 2022; returning to a performance-related LTIP directly aligns with that objective. We appreciated your overwhelming support having achieved 96 per cent support for the Remuneration Policy at the AGM in 2023.

Our principal reason for reintroducing an LTIP is to deliver stronger alignment between variable reward outcomes and the creation of shareholder value through the delivery of our strategy and the deepening of our relationships with our customers. Accordingly, the Committee has given careful consideration to the choice of LTIP performance measures ensuring that they are both stretching and transparent.

As set out in our Directors' Remuneration Policy (DRP) approved at the 2023 AGM, 50 per cent of the LTIP outcome will be weighted to robust measures directly linked to our financial performance as we build to higher and more sustainable returns – Return on Tangible Equity, Capital Build and relative Total Shareholder Return (rTSR).

Recognising that the delivery of our refreshed strategy is critical to the creation of value for shareholders and our purpose of Helping Britain Prosper, a further 35 per cent of the LTIP will depend on performance against our four strategic growth pillars – Deepen and innovate in Consumer, Create a new mass affluent offering, Digitise and diversify our SME business and Target our Corporate and Institutional offering.

Our strategy is purpose driven and we continue to aspire towards a more sustainable and inclusive future through support for areas in which we can make a difference, such as our commitment to sustainable financing and the transition to net zero. 15 per cent of the LTIP outcome will therefore depend on the extent to which we deliver on our Sustainable Finance and Investment commitments and make progress towards our 2030 Net Zero Banking Alliance (NZBA) sector targets and Scottish Widows' overall 2030 net zero ambition.

Full details of our new LTIP can be found on **page 124** of the annual report and accounts.

For the last two years, our priority has been pay for our most junior colleagues and we did not award pay increases to our executive directors in 2023. For 2024, we will be increasing the fixed pay of our executive directors by four per cent consistent with the pay rise awarded to the majority of the wider colleague population as part of our unique two-year commitment on pay.

We will also be recommending a resolution to the AGM to ensure our governance remains aligned with the PRA's updated Policy Statement on the setting of variable to fixed pay ratios for large UK institutions; the variable pay opportunity of our executive directors is determined by our Directors' Remuneration Policy and will not be impacted.

Finally, together with my Committee members, I would like to thank our shareholders for their continued support and our colleagues for delivering another robust set of results in 2023.

On behalf of the Board

Cathy Turner

Cathy Turner,
Chair, Remuneration Committee

2023 annual report on remuneration

Executive director single total figure of remuneration (audited)

£000	Charlie Nunn 2023	Charlie Nunn 2022	William Chalmers 2023	William Chalmers 2022	Totals 2023	Totals 2022
Base salary	**1,136**	1,133	**819**	817	**1,955**	1,950
Fixed Share Award[1]	**1,050**	1,050	**504**	504	**1,554**	1,554
Benefits	**48**	76	**62**	62	**110**	138
Pension	**170**	170	**123**	123	**293**	293
Total Fixed Pay	**2,404**	2,429	**1,508**	1,506	**3,912**	3,935
Group Performance Share[2]	**1,277**	1,338	**921**	689	**2,198**	2,027
Long-term incentive[3,4,5]	**–**	–	**674**	1,115	**674**	1,115
Total Variable Pay	**1,277**	1,338	**1,595**	1,804	**2,872**	3,142
Other remuneration[6]	**–**	–	**1**	1	**1**	1
Total Remuneration	**3,681**	3,767	**3,104**	3,311	**6,785**	7,078
Less: Performance adjustment	**–**	–	**–**	–	**–**	–
Total Remuneration less performance adjustment	**3,681**	3,767	**3,104**	3,311	**6,785**	7,078

1 The Fixed Share Award is part of fixed remuneration and is not subject to any performance conditions (see **page 129** of the annual report and accounts).
2 Awards for Charlie Nunn and William Chalmers will be made in March 2024 in a combination of cash and shares.
3 The 2021 Long Term Share Plan (LTSP) vesting (see **page 115** of the annual report and accounts) at 100 per cent was confirmed by the Remuneration Committee at its meeting on 15 February 2024. The total number of shares vesting will be 1,547,340 for William Chalmers. The average share price between 1 October 2023 and 31 December 2023 of 43.564 pence has been used to indicate the value. The shares were awarded in 2021 based on a share price of 39.3015 pence and as such 11 per cent of the reported value is attributable to share price appreciation.
4 The long-term incentive figures for 2022 have been adjusted to reflect the share price on the date of vesting (7 March 2023) of 51.764 pence instead of the average price of 44.04 pence reported in the 2022 report.
5 The 2021 LTSP awards were granted prior to Charlie Nunn joining as Group Chief Executive from 16 August 2021.
6 Other remuneration payments comprise income from all employee share plans, which arises through employer matching or discounting of employee purchases.

Single total figure of remuneration for Chair and non-executive directors (audited)

	Fees (£000) 2023	Fees (£000) 2022	Benefits (£000)[3] 2023	Benefits (£000)[3] 2022	Total (£000) 2023	Total (£000) 2022
Chair and non-executive directors						
Sir Robin Budenberg	**629**	624	**2**	1	**631**	625
Alan Dickinson	**402**	445	**3**	–	**405**	445
Sarah Legg	**228**	224	**5**	5	**233**	229
Lord Lupton	**286**	282	**6**	–	**292**	282
Amanda Mackenzie	**179**	175	**1**	–	**180**	175
Harmeen Mehta	**102**	98	**1**	–	**103**	98
Cathy Turner[1]	**157**	19	**–**	–	**157**	19
Scott Wheway[2]	**458**	189	**25**	–	**483**	189
Catherine Woods	**246**	242	**23**	10	**269**	252

1 Cathy Turner was appointed on 1 November 2022.
2 Scott Wheway was appointed on 1 August 2022.
3 Benefits for the non-executive directors relates to reimbursement for expenses incurred in the course of duties. The Chair's benefits also include private medical insurance, including a one-off settlement of tax relating to the restatement in the 2022 annual report. Non-executive directors do not receive variable pay.

Overseeing the implementation of our strategy

Alan Dickinson and Lord Lupton have notified the Board that they do not intend to seek re-election at this year's annual general meeting.
Nathan Bostock will be appointed as a non-executive director and, subject to regulatory approval, Chair of Lloyds Bank Corporate Markets plc, in each case with effect from 1 August 2024.

Sir Robin Budenberg CBE
Chair

Appointed: October 2020 (Board), January 2021 (Chair)
Skills, experience and contribution:
- Extensive financial services and investment banking experience
- Strong governance and strategic advisory skills in relation to companies and government
- Regulatory, public policy and stakeholder management experience

Robin spent 25 years advising UK companies and the UK Government while working for S.G. Warburg/UBS Investment Bank and was formerly Chief Executive and Chairman of UK Financial Investments (UKFI), managing the Government's investments in UK banks following the 2008 financial crisis. He is a qualified Chartered Accountant.
External appointments:
Chair of The Crown Estate.

Alan Dickinson
Deputy Chair

Appointed: September 2014 (Board), May 2020 (Deputy Chair)
Skills, experience and contribution:
- Highly regarded retail and commercial banker
- Strong strategic, risk management and core banking experience
- Regulatory and public policy experience

Alan has 37 years' experience with the Royal Bank of Scotland, most notably as Chief Executive of RBS UK. Alan was formerly Chairman of Urban&Civic plc and of Brown, Shipley & Co. Limited, a Non-Executive Director and Chairman of the Risk Committee of the Nationwide Building Society and of Willis Limited and a Governor of Motability. Alan is a Fellow of the Chartered Institute of Bankers and the Royal Statistical Society. Alan was Senior Independent Director of the Company between December 2019 and September 2023.
External appointments:
Non-Executive Director of the England and Wales Cricket Board.

Cathy Turner
Senior Independent Director

Appointed: November 2022 (Board), September 2023 (Senior Independent Director)
Skills, experience and contribution:
- Significant executive and non-executive financial services experience
- Knowledge of complex remuneration matters
- Communications expertise with a broad range of stakeholders including investors, regulators, government, media and unions

Cathy has significant financial services experience, having worked in senior executive positions at Barclays plc and at the Group. Cathy has previously been a Non-Executive Director and Chair of the Remuneration Committee of Aldermore Group plc, Quilter plc and Countrywide plc.
External appointments:
Non-Executive Director and Chair of the Remuneration Committee of Rentokil Initial plc and Non-Executive Director, Senior Independent Director and Chair of the Remuneration Committee of Spectris plc. Partner on a part-time basis at Manchester Square Partners LLP.

Sarah Legg
Independent non-executive director

Appointed: December 2019
Skills, experience and contribution:
- Strong financial leadership and regulatory reporting skills
- Significant audit and risk experience in financial leadership
- Strong transformation programme experience

Sarah has spent her entire executive career in financial services with almost 30 years at HSBC. She was the Group Financial Controller, a Group General Manager and CFO for HSBC's Asia Pacific region. She also spent eight years as a Non-Executive Director of Hang Seng Bank Limited.
External appointments:
Non-Executive Director and Chair of the Audit and Risk Committee of Severn Trent plc, a Trustee of the Lloyds Bank Foundation for England and Wales, Board Member of the Audit Committee Chair's Independent Forum and Chair of the Campaign Advisory Board, King's College, Cambridge University.

Lord Lupton CBE
Independent non-executive director and Chair of Lloyds Bank Corporate Markets plc

Appointed: June 2017 (Board), August 2017 (Chair of Lloyds Bank Corporate Markets plc)
Skills, experience and contribution:
- Extensive international corporate experience, especially in financial markets
- Strong board governance experience, including investor relations
- Regulatory and public policy experience
- Significant experience in strategic planning and implementation

Lord Lupton was Deputy Chairman of Baring Brothers, co-founded the London office of Greenhill & Co. and was Chairman of Greenhill Europe. He is a former Treasurer of the Conservative Party and became a Life Peer in October 2015, serving on the House of Lords Select Committee on Charities.
External appointments:
Senior Advisor to Greenhill Europe, a Trustee of The Lovington Foundation and Chairman of the Board of Visitors of the Ashmolean Museum.

Amanda Mackenzie LVO OBE
Independent non-executive director

Appointed: October 2018
Skills, experience and contribution:
- Extensive experience in ESG matters including responsible business and sustainability
- Strong customer engagement and digital technology experience
- Significant marketing and brand background

Amanda was Chief Executive of Business in the Community, of which King Charles III is the Royal Founding Patron and which promotes responsible business and corporate responsibility. Prior to that role, she was a member of Aviva's Group Executive for seven years as Chief Marketing and Communications Officer and was seconded to help launch the United Nation's Sustainable Development Goals. She is also a former Director of British Airways AirMiles, BT, Hewlett Packard Inc and British Gas.
External appointments:
Non-Executive Director of The British Land Company plc, Chair of The Queen's Reading Room and trustee of the charity Cumberland Lodge.

A	Audit Committee member
BR	Board Risk Committee member
NG	Nomination and Governance Committee member
Re	Remuneration Committee member

RB	Responsible Business Committee member
	Committee Chair

Committee Chairs and members shown as at 21 February 2024. Read about Committee changes during the year on **page 94** of the annual report and accounts.

Harmeen Mehta
Independent non-executive director

Appointed: November 2021
Skills, experience and contribution:
- Over 25 years' experience leading digital and complex transformation
- Experience of building and running technology-led businesses and creating new ventures
- A wealth of international and financial services knowledge having lived in 11 countries and worked across 30 countries on six continents

Harmeen was appointed Chief Digital and Innovation Officer at BT in April 2021. Prior to that role, she spent seven years as Global Chief Information Officer and Head of Cyber Security and Cloud Business at Bharti Airtel, leading its cloud and security businesses. Earlier in her career, Harmeen held CIO positions at BBVA, HSBC and Bank of America Merrill Lynch.
External appointments:
Chief Digital and Innovation Officer at BT.

Scott Wheway
Independent non-executive director and Chair of Scottish Widows Group

Appointed: August 2022 (Board), September 2022 (Chair of Scottish Widows Group)
Skills, experience and contribution:
- Significant financial services board and chair experience
- Extensive knowledge and experience of large-scale banking and insurance businesses
- Track record as a non-executive and executive in customer-centric companies

Scott was appointed Chair of Centrica plc in 2020 where he has served on the board since 2016. Scott was formerly Chair of AXA UK plc, Chair of Aviva Insurance Limited, a Non-Executive Director of Aviva plc and Senior Independent Director of Santander UK plc. He worked as an executive in the retail sector for over 25 years where he held positions including chief executive officer of Best Buy Europe, managing director of Boots the Chemist plc and a number of senior executive positions at Tesco plc.
External appointments:
Chair of Centrica plc.

Catherine Woods
Independent non-executive director

Appointed: March 2020
Skills, experience and contribution:
- Extensive executive experience of international financial institutions
- Deep experience of risk and transformation oversight
- Strong focus on culture and corporate governance

Catherine is a former Deputy Chair and Senior Independent Director of AIB Group plc where she also chaired the Board Audit Committee. In her executive career with J P Morgan Securities, she was Vice President, European Financial Institutions, Mergers and Acquisitions, and Vice President Equity Research Department, forming the European Banks Team.
External appointments:
Non-Executive Director and Deputy Chair of BlackRock Asset Management Ireland Limited.

Charlie Nunn
Executive director and Group Chief Executive

Appointed: August 2021
Skills, experience and contribution:
- Extensive financial services experience including in Chief Executive and other leadership roles
- Strategic planning and implementation
- Extensive experience of digital transformation

Charlie has over 25 years' experience in the financial services sector. Prior to joining the Group, Charlie held a range of leadership positions at HSBC, including Global Chief Executive, Wealth and Personal Banking, and Group Head of Wealth Management and Digital, as well as Global Chief Operating Officer of Retail Banking and Wealth Management.

Charlie began his career at Accenture, where he worked for 13 years in the US, France, Switzerland and the UK before being made a Partner. He then moved to McKinsey & Co. as a Senior Partner, leading on projects for five years.
External appointments:
None.

William Chalmers
Executive director and Chief Financial Officer

Appointed: August 2019
Skills, experience and contribution:
- Significant board level strategic and financial leadership experience
- Strategic planning and development, mergers and acquisitions, equity and debt capital structuring and risk management

William joined the Board in August 2019, when he was appointed Chief Financial Officer and was Interim Group Chief Executive from May 2021 to August 2021.

William has worked in financial services for over 25 years and previously held a number of senior roles at Morgan Stanley, including Co-Head of the Global Financial Institutions Group and Head of EMEA Financial Institutions Group. Before joining Morgan Stanley, William worked for J P Morgan, again in the Financial Institutions Group.
External appointments:
None.

Kate Cheetham
Chief Legal Officer and Company Secretary

Appointed: July 2019
Skills, experience and contribution:
- Significant legal and governance leadership experience within financial services
- Strategic functional planning and development, corporate, mergers and acquisitions, regulation and risk management

Kate became Group General Counsel (now Chief Legal Officer) in May 2015 and Company Secretary in July 2019. Kate joined the Group in 2005 from Linklaters, where she was a corporate lawyer specialising in mergers and acquisitions transactions. Before her current roles, Kate held a number of senior positions including Deputy Group General Counsel and General Counsel for Group Legal.

Summary of Group results

Income statement – underlying basis[A]

	2023 £m	2022[1] £m	Change %
Underlying net interest income	**13,765**	13,172	5
Underlying other income	**5,123**	4,666	10
Operating lease depreciation	**(956)**	(373)	
Net income	**17,932**	17,465	3
Operating costs	**(9,140)**	(8,672)	(5)
Remediation	**(675)**	(255)	
Total costs	**(9,815)**	(8,927)	(10)
Underlying profit before impairment	**8,117**	8,538	(5)
Underlying impairment charge	**(308)**	(1,510)	80
Underlying profit	**7,809**	7,028	11
Restructuring	**(154)**	(80)	(93)
Volatility and other items	**(152)**	(2,166)	93
Statutory profit before tax	**7,503**	4,782	57
Tax expense	**(1,985)**	(859)	
Statutory profit after tax	**5,518**	3,923	41
Earnings per share[1]	**7.6p**	4.9p	2.7p
Dividends per share – ordinary	**2.76p**	2.40p	15
Share buyback value	**£2.0bn**	£2.0bn	
Banking net interest margin[A]	**3.11%**	2.94%	17bp
Average interest-earning banking assets[A]	**£453.3bn**	£452.0bn	
Cost:income ratio[A,1]	**54.7%**	51.1%	3.6pp
Asset quality ratio[A]	**0.07%**	0.32%	(25)bp
Return on tangible equity[A,1]	**15.8%**	9.8%	6.0pp

A See page 67.
1 2022 comparatives have been restated to reflect the impact of IFRS 17. See note 1 on page 218.

Key balance sheet metrics

	At 31 Dec 2023	At 31 Dec 2022	Change %
Loans and advances to customers	**£449.7bn**	£454.9bn	(1)
Customer deposits	**£471.4bn**	£475.3bn	(1)
Loan to deposit ratio[A]	**95%**	96%	(1)pp
CET1 ratio	**14.6%**	15.1%	(0.5)pp
Pro forma CET1 ratio[A,1]	**13.7%**	14.1%	(0.4)pp
UK leverage ratio	**5.8%**	5.6%	0.2pp
Risk-weighted assets	**£219.1bn**	£210.9bn	4
Wholesale funding	**£98.7bn**	£100.3bn	(2)
Liquidity coverage ratio[2]	**142%**	144%	(2)pp
Net stable funding ratio[3]	**130%**	130%	
Tangible net assets per share[A,4]	**50.8p**	46.5p	4.3p

1 31 December 2022 and 31 December 2023 reflect both the full impact of the share buybacks announced in respect of 2022 and 2023 and the ordinary dividends received from the Insurance business in February 2023 and February 2024 respectively, but exclude the impact of the phased unwind of IFRS 9 relief on 1 January 2023 and 1 January 2024 respectively.
2 The liquidity coverage ratio is calculated as a monthly rolling simple average over the previous 12 months.
3 Net stable funding ratio is based on an average of the four previous quarters.
4 2022 comparatives have been restated to reflect the impact of IFRS 17. See note 1 on page 218.

Balance sheet analysis

	At 31 Dec 2023 £bn	At 30 Sep 2023 £bn	Change %	At 30 Jun 2023 £bn	Change %	At 31 Dec 2022 £bn	Change %
Loans and advances to customers							
Open mortgage book[1]	**298.5**	298.3		297.9		299.6	
Closed mortgage book[1]	**7.7**	8.1	(5)	8.5	(9)	11.6	(34)
Credit cards	**15.1**	15.1		14.9	1	14.3	6
UK Retail unsecured loans[1]	**6.9**	9.5	(27)	9.3	(26)	8.7	(21)
UK Motor Finance	**15.3**	15.1	1	14.9	3	14.3	7
Overdrafts	**1.1**	1.0	10	1.0	10	1.0	10
Wealth	**0.9**	0.9		0.9		0.9	
Retail other[2]	**15.7**	15.1	4	14.5	8	13.8	14
Small and Medium Businesses	**33.0**	34.2	(4)	35.5	(7)	37.7	(12)
Corporate and Institutional Banking	**55.6**	57.3	(3)	56.6	(2)	56.0	(1)
Central items[3]	**(0.1)**	(2.5)	96	(3.3)	97	(3.0)	97
Loans and advances to customers	**449.7**	452.1	(1)	450.7		454.9	(1)
Customer deposits							
Retail current accounts	**102.7**	104.6	(2)	107.8	(5)	114.0	(10)
Retail relationship savings accounts	**177.7**	173.8	2	169.4	5	166.3	7
Retail tactical savings accounts	**17.1**	17.0	1	16.5	4	16.1	6
Wealth	**10.9**	11.2	(3)	12.2	(11)	14.4	(24)
Commercial Banking deposits	**162.8**	163.7	(1)	163.6		163.8	(1)
Central items	**0.2**	–		0.3	(33)	0.7	(71)
Customer deposits	**471.4**	470.3		469.8		475.3	(1)
Total assets[4]	**881.5**	893.1	(1)	882.8		873.4	1
Total liabilities[4]	**834.1**	848.1	(2)	838.3	(1)	829.5	1
Ordinary shareholders' equity[4]	**40.3**	37.9	6	37.3	8	38.4	5
Other equity instruments	**6.9**	6.9		6.9		5.3	30
Non-controlling interests	**0.2**	0.2		0.3	(33)	0.2	
Total equity[4]	**47.4**	45.0	5	44.5	7	43.9	8
Ordinary shares in issue, excluding own shares	**63,508m**	63,486m		64,571m	(2)	66,944m	(5)

1 Reductions during 2023 reflect the impact of securitisation of £2.5 billion of legacy Retail mortgages (including £2.1 billion in the closed mortgage book) during the first quarter of 2023 and £2.7 billion of Retail unsecured loans in the fourth quarter of 2023.
2 Primarily Europe.
3 Central items includes central fair value hedge accounting adjustments.
4 2022 comparatives have been restated to reflect the impact of IFRS 17. See note 1 on page 218 of the annual report and accounts.

Report of the Auditor

The auditors' report on the full accounts for the year ended 31 December 2023 was unqualified, and their statement under section 496 (whether the Strategic Report and the Directors' Report are consistent with the accounts) of the Companies Act 2006 was unqualified.

Shareholder information

Annual report and accounts
This annual review summarises information from the Lloyds Banking Group annual report and accounts. As such, there is insufficient information to provide a full understanding of the results and state of affairs of Lloyds Banking Group. A copy of our annual report and accounts can be obtained from our registrar, Equiniti Limited (see below) and is available on our website at **www.lloydsbankinggroup.com**.

Annual general meeting (AGM)
The annual general meeting will be held at the SEC Armadillo, Exhibition Way, Glasgow, G3 8YW on Thursday 16 May 2024 at 11am. Further details about the meeting, including the proposed resolutions and where shareholders can stream the meeting live, can be found in our Notice of AGM which will be available shortly on our website ↗.

Share dealing facilities
We offer a choice of four share dealing services for our UK shareholders and customers. To see the full range of services available for each, please use the contact details below:

Service Provider	Telephone Dealing
Bank of Scotland Share Dealing www.bankofscotland.co.uk/sharedealing ↗	0345 606 1188
Halifax Share Dealing www.halifax.co.uk/sharedealing ↗	03457 22 55 25
Lloyds Bank Direct Investments www.lloydsbank.com/share-dealing.asp ↗	0345 60 60 560
IWeb Share Dealing www.iweb-sharedealing.co.uk/share-dealing-home.asp↗	03450 707 129

Note:
All internet services are available 24/7. Telephone dealing services are available between 8am and 9pm, Monday to Friday, excluding English and Welsh public holidays. To open a share dealing account with any of these services, you must be 18 years of age or over and be resident in the UK, Jersey, Guernsey or the Isle of Man.

Share dealing for the Lloyds Banking Group shareholder account
Share dealing services for the Lloyds Banking Group shareholder account are provided by Equiniti Shareview Dealing, operated by Equiniti Financial Services Limited. Details of the services provided can be found either on the shareholder information page of our website ↗ or by contacting Equiniti using the contact details provided on the next page.

Individual Saving Accounts (ISAs)
There are a number of options for investing in Lloyds Banking Group shares through an ISA. For details of services and products provided by the Group please contact Bank of Scotland Share Dealing, Halifax Share Dealing or Lloyds Bank Direct Investments using the contact details above.

American Depositary Receipts (ADRs)
Our shares are traded in the USA through a New York Stock Exchange-listed sponsored ADR facility with The Bank of New York Mellon as the depositary. The ADRs are traded on the New York Stock Exchange under the symbol LYG. The CUSIP number is 539439109 and the ratio of ADRs to ordinary shares is 1:4.

For details contact:
BNY Mellon Shareowner Services, 150 Royall St., Suite 101 Canton, MA 02021. Telephone: 1-866-259-0336 (US toll free), international callers: +1 201-680-6825. Alternatively visit **www.adrbnymellon.com** or email shrrelations@cpushareownerservices.com.

Security – share fraud and scams
Shareholders should exercise caution when unsolicited callers offer the chance to buy or sell shares with promises of huge returns. If it sounds too good to be true, it usually is and we would ask that shareholders take steps to protect themselves. We strongly recommend seeking advice from an independent financial adviser authorised by the Financial Conduct Authority (FCA). Shareholders can verify whether a firm is authorised via the Financial Services Register which is available at **www.fca.org.uk**.

If a shareholder is concerned that they may have been targeted by such a scheme, please contact the FCA Consumer Helpline on 0800 111 6768 or use the online 'Share Fraud Reporting Form' available from their website (see above).

We would also recommend contacting the Police through Action Fraud on 0300 123 2040 or visiting **www.actionfraud.org.uk** for further information.

Important shareholder and registrar information

Company website
www.lloydsbankinggroup.com

Shareholder information
help.shareview.co.uk
(from here you will be able to email your query securely)

Registrar
Equiniti Limited
Aspect House, Spencer Road, Lancing
West Sussex BN99 6DA

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(please use the country code when contacting Equiniti Limited from outside the UK)

* Lines are open 8:30am to 5:30pm (UK time), Monday to Friday (excluding public holidays in England and Wales).

For deaf and speech impaired customers, we welcome calls via Relay UK. See www.relayuk.bt.com ↗ for more information.

The company registrar is Equiniti Limited. They provide a shareholder service, including a telephone helpline and shareview which is a free secure portfolio service.

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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. Statements that are not historical or current facts, including statements about the Group's or its directors' and/or management's beliefs and expectations, are forward-looking statements. Words such as, without limitation, 'believes', 'achieves', 'anticipates', 'estimates', 'expects', 'targets', 'should', 'intends', 'aims', 'projects', 'plans', 'potential', 'will', 'would', 'could', 'considered', 'likely', 'may', 'seek', 'estimate', 'probability', 'goal', 'objective', 'deliver', 'endeavour', 'prospects', 'optimistic' and similar expressions or variations on these expressions are intended to identify forward-looking statements. These statements concern or may affect future matters, including but 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; the Group's ESG targets and/or commitments; statements of plans, objectives or goals of the Group or its management and other statements that are not historical fact 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. 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A number of these influences and factors are beyond the Group's control. Please refer to the latest Annual Report on Form 20-F filed by Lloyds Banking Group plc with the US Securities and Exchange Commission (the SEC), which is available on the SEC's website at www.sec.gov, for a discussion of certain factors and risks. Lloyds Banking Group plc may also make or disclose written and/or oral forward-looking statements in other written materials and in oral statements made by the directors, officers or employees of Lloyds Banking Group plc 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 whether as a result of new information, future events or otherwise. 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