Helping Britain Prosper

Lloyds Banking Group plc
Performance Summary 2023

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.

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.

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

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

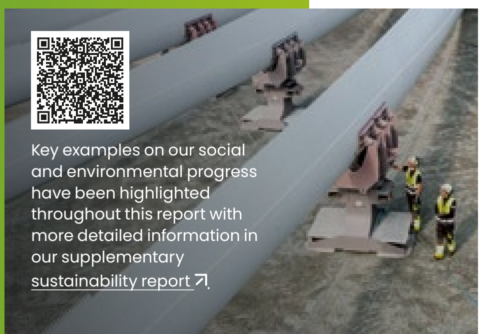
We have a clear strategic vision to become a customer-focused digital leader and integrated financial services provider able to capitalise on new opportunities at scale. Our strategy is purpose-driven, with a clear focus on areas where we can profitably grow and make the greatest impact in Helping Britain 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 ↗.

▶ Group Chief Executive's review continued overleaf

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.

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.

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

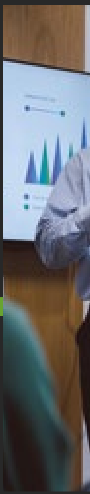
Helping Britain Prosper drives us, makes us different and defines how we profitably grow for...

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

Shareholder information

Our reporting

Our reporting 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.

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

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

Annual General Meeting (AGM)

The AGM 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 at **www.lloydsbankinggroup.com.**

Key dates

11 April 2024	Shares quoted ex-dividend
12 April 2024	Record Date
24 April 2024	Q1 interim management statement
29 April 2024	Final date for joining or leaving the dividend reinvestment plan
16 May 2024	Annual general meeting
21 May 2024	Dividend paid

Company website
www.lloydsbankinggroup.com

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

Shareholder helpline
0371 384 2990 from within the UK
(please use the country code when contacting Equiniti Limited from outside the UK)

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Aspect House, Spencer Road,
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