HALF YEAR 2023 FREQUENTLY ASKED INVESTOR QUESTIONS

How was the Group's financial performance in the first half of 2023?

- The Group delivered a robust financial performance in the first half of 2023, with strong net income and capital generation alongside resilient asset quality
- Statutory profit after tax was £2.9 billion, including net income of £9.2 billion which was up 11 per cent (stable on the second half of 2022), partly offset by expected higher operating costs and the higher impairment charge
- We also delivered a strong return on tangible equity of 16.6 per cent in the first half of 2023
- Underlying net interest income was £7.0 billion, with a net interest margin of 3.18 per cent and stable average interest-earning assets on Q4'22
- Other income was £2.5 billion, 7 per cent higher than the first half of 2022, reflecting continued recovery of customer activity and ongoing investment in the business, building confidence in growth potential
- Operating costs of £4.4 billion, up 6 per cent compared to the first half of 2022. The Group has maintained its cost discipline in the context of higher planned strategic investment, new business costs and continued inflationary pressure
- Asset quality remains resilient and the portfolio is well-positioned in the context of cost of living pressures. Impairment charge of £0.7 billion and asset quality ratio of 29 basis points reflect broadly stable credit trends
- Loans and advances to customers reduced by £4.2 billion (£1.6 billion in the second quarter) to £450.7 billion, impacted by the first quarter £2.5 billion legacy mortgage portfolio exit and net reductions in the open mortgage book
- Customer deposits of £469.8 billion down £5.5 billion (1.2 per cent), including £6.2 billion in Retail current accounts partly offset by a £3.5 billion increase in Retail savings balances
- Strong capital generation of 111 basis points includes the full £800 million fixed pension contributions for 2023; 75 basis points after CRD IV model changes and phased unwind of IFRS 9 relief
- Tangible net assets per share of 45.7 pence, slightly down on the end of 2022 and down 3.9 pence per share in the second quarter, largely due to the impact of rising rates on the cash flow hedge reserve
- Interim ordinary dividend of 0.92 pence per share, up 15 per cent on the prior year and equivalent to £594 million
- CET1 ratio of 14.2 per cent after 44 basis points for ordinary dividend accrual and 21 basis points for the Tusker acquisition. Remains ahead of ongoing target of c.12.5 per cent, plus a management buffer of c.1 per cent

For more on our HY results, please see our H1'23 News Release.

How do you expect the Group to perform going forward?

- Based on our purpose-driven strategy, robust financial performance and the Group's revised macroeconomic forecasts, we are enhancing our 2023 guidance and now expect:
  - Banking net interest margin to be greater than 310 basis points
  - Operating costs to be c.£9.1 billion
  - Asset quality ratio to be c.30 basis points
  - Return on tangible equity to be greater than 14 per cent
  - Capital generation to be c.175 basis points[1]

Why have you upgraded your guidance on net interest margin and return on tangible equity?

- Banking net interest margin now expected to be greater than 310 basis points as we are now forecasting a peak base rate of 5.5 per cent, significantly ahead of our previous expectations. This will support the margin through H2, alongside stronger hedge income, although mortgage margin pressures and deposit churn are both expected to continue in the second half.
- We now expect the return on tangible equity for 2023 to be greater than 14 per cent (from greater than 13 per cent), driven by both income performance and changes in tangible equity

[1] Excluding capital distributions and the impact of the Tusker acquisition. Inclusive of ordinary dividends received from the Insurance business.

How are you progressing against your strategy?

- We have made good progress on our new strategy, with early evidence of delivery across all areas - Grow, Focus and Change - supported by £0.9 billion incremental strategic investment in the first year and additional £0.6 billion in the first half of 23
- We remain the UK's largest digital bank (20.6 million digitally active customers, up 13 per cent vs FY21) and have continued to invest in personalisation and digitisation
- In wealth, our differentiated business model has integrated with Embark for a direct to customer offer that has now launched into the mobile banking apps and is supporting the new mass affluent proposition that started to roll-out to customers in 2023
- In SME, we continue to digitise and diversify our business, launching mobile first onboarding for sole traders and incorporating point-of-sale card payments solution
- Our targeted Corporate and Institutional offering has delivered c.£15 billion of green and sustainable financing to clients, supported by our purpose-driven growth within loan origination and businesses transitioning to net zero
- We have established an experienced, new leadership team with significant capabilities in strategic and digital delivery, alongside a flatter executive structure aligned with our strategic priorities
- We have decommissioned c.290 legacy applications, modernising our technology estate and improving resilience and operational agility, whilst making 1000 new hires in data and technology

For more examples, please see our 1H'23 Results Presentation.

How are your customers managing with current cost of living pressures, and what support are you providing to customers and colleagues?

- We know that rising rates, cost of living pressures and an uncertain economic outlook are proving challenging for many people and businesses
- Continue to provide proactive support for customers, clients, and colleagues; evolving support to ensure it is there for those who need it most
- For our mortgage customers there has been an average payment increase of £185 for customers rolling off fixed mortgages since October 2022, whilst analysis suggests residential customers on fixed rate still to expire in 2023 or 2024 could face a monthly increase of £390 based on a 6.5 per cent go-to rate
- 2023 residential mortgage maturities (residential, originated since 2015) tested to at least a 6.5 per cent pay rate
- We are continuing to proactively contact our customers to offer support due to the rising cost of living, including over 200,000 mortgage customers most affected by rising interest rates. We have also offered c.260,000 customers a £500 interest free overdraft buffer since the start of 2023
- We have committed to the Government's Mortgage Charter and product transfers are now available six months in advance for residential mortgage customers
- To enable our customers to build their financial resilience and develop a savings habit, we continue to launch competitive rated fixed products and have expanded our offering to include tiered rates and limited withdrawal accounts with attractive rates, as well as raising rates on instant access savings accounts.
- We have contacted over 10 million customers about their savings options and have seen 1.9 million new savings accounts opened in the first half of 2023
- Whilst our business customers continue to demonstrate resilience, we continue to proactively contact more than 550,000 customers with guidance on how to build financial resilience
- We have launched a hub in partnership with Mental Health UK to support small business leaders and owners
- Observed portfolio performance has seen slightly increased levels of new to arrears rates in UK mortgages. New to arrears remain broadly stable across unsecured portfolios, with only credit cards marginally above pre-pandemic levels
- UK mortgages flow to default rates have seen an increase to above pre-pandemic levels, primarily due to legacy variable rate assets, with credit performance among more recent vintages remaining resilient
- Unsecured flow to default rates remain broadly flat
- The Commercial Banking portfolio's credit quality remains resilient with only a small number of credit metrics indicating very modest deterioration

How are you progressing on your transition to net zero?

- We are working towards our 2050 and 2030 climate ambitions by working with customers, government and the market to reduce the carbon emissions we finance by more than 50 per cent, halve the carbon footprint of Scottish Widows Investments and drive net zero carbon operations by 2030 on our path to net zero by 2050 or sooner
- Our progress to date includes c.£20 billion of green & sustainable financing (since January 2022) and more than £20 billion of investment in climate-aware strategies (since January 2021)
- We have published:
    - Our first Group climate transition plan and second dedicated Environmental Sustainability Report in February 2022
    - 7 sectoral targets for high emitting sectors: Thermal Coal, Oil & Gas, Power Generation, Retail Motor, Automotive (OEM), Transport (Aviation) & UK Retail Homes
    - Our supply chain ambition to reduce emissions from suppliers by 50 per cent by 2030 on path to net zero by 2050 or sooner (Oct 22)
- We have partnered with Octopus Energy to help customers switch to an air-source heat pump in their homes and with Soil Association to help British farmers accelerate their transition
- Whilst in the first half of 2023 we have also announced a partnership with Green Finance Institute to develop a blueprint for property-linked retrofit finance and launched a new sustainability hub and training modules for mortgage brokers to promote sustainability in housing
- We are committed to exit from thermal coal by 2030 and not to directly finance new greenfield oil/gas developments approved after 2021 and we have financed one in ten new electric cars on the road today
- There are now two climate performance measures included in Group Balanced Scorecard (now 10 per cent of the scorecard)

What are you doing to address the deficit in your pension fund?

- The Group's three main defined benefit pension schemes continue to have an actuarial funding deficit, but are in a significantly stronger financial position than at 31 December 2021, when the deficit was c.£4 billion
- During 2022, deficit contributions of £2.2 billion were paid into these schemes (in accordance with the current agreement with the Trustee) being the full £800 million annual fixed deficit contribution, plus £1.4 billion variable contributions which included a £400 million acceleration of future planned contributions, following the strong capital generation in 2022
- The Group made an accelerated contribution of the full £800 million in the first half of 2023
- The Group has discussed with the Trustee the likelihood that further variable contributions will not be necessary in 2023 and beyond, dependent upon the outcome of the triennial valuation as at 31 December 2022. The Group expects to have substantially agreed the triennial valuation with the Trustee by the end of the third quarter of 2023, along with a revised contribution schedule in respect of any remaining deficit

What is your capital distribution policy?

- The Group has a progressive and sustainable ordinary dividend policy, whilst maintaining the flexibility to return surplus capital through buybacks or special dividends. At Half Year we announced an interim ordinary dividend of 0.92 pence per share, up 15 per cent on the prior year and equivalent to £594 million
- We have now completed over 80 per cent of the share buyback we announced at FY22 results

What is a share buyback and how might I benefit?

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

How can I participate in the share buyback programme?

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

Who are Tusker and what benefits does this acquisition bring to the Group?

- In February 2023, the Group announced its acquisition of Tusker, a UK-based vehicle management and leasing company focused on electric and low emissions vehicles via salary sacrifice schemes
- This acquisition will further develop the Motor business, and enable the Group to expand its salary sacrifice proposition in a way that is clearly aligned with the organisation's purpose and sustainability ambitions

How are you addressing the competitive threat posed by the rise of fintechs and challenger banks?

- We are well positioned to continue our market leadership across multiple markets and deliver on our ambition to grow
- We have a strong customer franchise and core capabilities including credit decisioning and market leading efficiency, which is increasingly important given inflationary pressures
- We have strong relationships with our 26 million customers and will continue to drive strong customer engagement through our multi-channel model and deepen customer relationships through a comprehensive offering
- Our multi-brand strategy allows us to compete effectively in intermediary driven markets, where we have headroom to grow as we improve our capability with technology investment, particularly in our pensions and protection businesses
- We continue to invest in front-to-back digitisation of our SME bank, and in our core strengths in cash, debt and risk management within corporate and institutional business
- We have also increased our focus on collaborating with fintechs during the year to broaden our product capabilities, for example a partnership to enable digital invoice financing and factoring for our SME bank clients

FORWARD LOOKING STATEMENTS

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; expectations about the impact of COVID-19; 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. Factors that could cause actual business, strategy, plans and/or results (including but not limited to the payment of dividends) to differ materially from forward looking statements include, but are not limited to: general economic and business conditions in the UK and internationally; political instability including as a result of any UK general election and any further possible referendum on Scottish independence; acts of hostility or terrorism and responses to those acts, or other such events; geopolitical unpredictability; the war between Russia and Ukraine; the tensions between China and Taiwan; market related risks, trends and developments; exposure to counterparty risk; instability in the global financial markets, including within the Eurozone, and as a result of the exit by the UK from the European Union (EU) and the effects of the EU-UK Trade and Cooperation Agreement; the ability to access sufficient sources of capital, liquidity and funding when required; changes to the Group's credit ratings; fluctuations in interest rates, inflation, exchange rates, stock markets and currencies; volatility in credit markets; volatility in the price of the Group's securities; tightening of monetary policy in jurisdictions in which the Group operates; natural pandemic (including but not limited to the COVID-19 pandemic) and other disasters; risks concerning borrower and counterparty credit quality; risks affecting insurance business and defined benefit pension schemes; risks related to the uncertainty surrounding the integrity and continued existence of reference rates; changes in laws, regulations, practices and accounting standards or taxation; changes to regulatory capital or liquidity requirements and similar contingencies; the policies and actions of governmental or regulatory authorities or courts together with any resulting impact on the future structure of the Group; risks associated with the Group's compliance with a wide range of laws and regulations; assessment related to resolution planning requirements; risks related to regulatory actions which may be taken in the event of a bank or Group failure; exposure to legal, regulatory or competition proceedings, investigations or complaints; failure to comply with anti-money laundering, counter terrorist financing, anti-bribery and sanctions regulations; failure to prevent or detect any illegal or improper activities; operational risks; conduct risk; technological changes and risks to the security of IT and operational infrastructure, systems, data and information resulting from increased threat of cyber and other attacks; technological failure; inadequate or failed internal or external processes or systems; risks relating to ESG matters, such as climate change (and achieving climate change ambitions), including the Group's ability along with the government and other stakeholders to measure, manage and mitigate the impacts of climate change effectively, and human rights issues; the impact of competitive conditions; failure to attract, retain and develop high calibre talent; the ability to achieve strategic objectives; the ability to derive cost savings and other benefits including, but without limitation, as a result of any acquisitions, disposals and other strategic transactions; inability to capture accurately the expected value from acquisitions; assumptions and estimates that form the basis of the Group's financial statements; and potential changes in dividend policy. 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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