Q3 2023 FREQUENTLY ASKED INVESTOR QUESTIONS

How was the Group's financial performance in Q3 2023?

- The Group delivered a robust financial performance over the first 9 months of the year, with income growth, disciplined cost management and resilient asset quality together driving strong capital generation.
- Statutory profit after tax was £4.3 billion (£1.4 billion in the third quarter) which is up on the prior year, although note that the 2022 comparative included a one-off accounting charge.
- Net income was £13.7 billion, up 7 per cent on the prior year reflecting the higher rate environment; this contributed to a net interest margin of 315 basis points. The net interest margin of 308 basis points in the third quarter was down 6 basis points in the quarter given expected mortgage margin pressures and deposit churn.
- Other income was £3.8 billion for the year to date, 8 per cent higher than 2022, with broad based growth across all of our divisions as we progress against our strategic initiatives.
- Operating costs were £6.7 billion, up 5 per cent driven by planned strategic investment and inflationary effects.
- Observed asset quality remains resilient and the portfolio is well-positioned in the context of cost of living pressures. The impairment charge of £0.8 billion and asset quality ratio of 25 basis points reflect stable credit trends.
- Loans and advances to customers increased by £1.4 billion in the third quarter to £452.1 billion, driven by a £1.2 billion increase in Retail lending, including growth in the open mortgage book.
- Customer deposits of £470.3 billion are down £5.0 billion in the year to date, including a £9.4 billion reduction in Retail current accounts, partly offset by a combined £5.2 billion increase in Retail savings and Wealth. However, deposits increased by £0.5 billion during the third quarter, given growth in Retail savings.
- The Group has delivered strong capital generation of 129 basis points after regulatory headwinds (165 basis points before these), resulting in a CET1 ratio of 14.6 per cent. This remains ahead of our ongoing target of c.12.5 per cent, plus a management buffer of c.1 per cent.
- We have now substantially agreed the triennial pensions review; the funding deficit now stands at circa £250 million. After a closing contribution of this amount by March 2024, there will be no further contributions in this triennial period.
- Tangible net assets per share of 47.2 pence are up 1.5 pence in the quarter, largely due to a lower share count.
- We continue to focus on proactively supporting customers and delivering against our strategic ambitions.

For more on our Q3 results, please see our Q3'23 News Release.

How do you expect the Group to perform going forward?

- Based on our purpose-driven strategy and robust financial performance in the first nine months of 2023, we have reiterated our full year 2023 guidance, with slightly improved asset quality. We expect:
  - Banking net interest margin of greater than 310 basis points
  - Operating costs of c.£9.1 billion
  - Asset quality ratio now to be less than 30 basis points
  - Return on tangible equity of greater than 14 per cent
  - Capital generation of c.175 basis points[1]

  [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?

- As we set out in the first of our four strategic seminars earlier this month, we are successfully executing against our strategic priorities, with early evidence of delivery across all areas - Grow, Focus and Change - supported by £0.9 billion of incremental strategic investment in the first year and an additional £0.8 billion in the first nine months of 2023.
- We remain the UK's largest digital bank (21 million digitally active customers) 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.
- 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.
- 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
- A more detailed update will be provided as part of our 2023 full year results announcement in February 2024, and within four 'deep dive' strategic seminars over the second half of 2023 and the first half of 2024, covering our strategic growth priorities. The first of these seminars, 'Deepen and innovate in Consumer', was completed in October 2023.

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
- 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 committed to the Government's Mortgage Charter (launched in July 2023) which complements the existing support we offer; product transfers are also 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 2.9 million new savings accounts opened in the first nine months of 2023.
- We have launched a hub in partnership with Mental Health UK to support small business leaders and owners
- Observed asset quality remains resilient. The UK mortgage portfolio saw slightly increased levels of new to arrears in the second quarter, driven by legacy variable rate customers, although this stabilised in Q3.
- New to arrears remain broadly stable across the unsecured portfolios, with arears levels similar to, or lower than pre-pandemic levels.
- Commercial customers remain resilient and exhibit stable new to arrears and default trends broadly at, or below, pre-pandemic levels.

How are you progressing on your transition to net zero?

- Contributing to an inclusive society and supporting the transition to a low carbon economy is core to our purpose-driven strategy; through this focus we aim to deliver sustainable profit and growth.
- 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.
- We have published:
    - Our first Group climate transition plan, and second dedicated Environmental Sustainability Report in February 2023.
    - 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
- 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
- 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)

Can you give us an update on your defined benefit pension scheme valuation?

- The Group has three main defined benefit pension schemes, which are required to have valuations every 3 years.
- We have now substantially agreed the triennial valuation as at 31 December 2022; this resulted in a small residual aggregate deficit of £250 million. The Group has agreed to pay off this deficit by the end of March 2024. Thereafter, there will be no further funding payments, fixed or variable, for this triennial period.

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.

How is the share buyback programme progressing?

- The announced £2.0 billion share buyback was completed on 25 August 2023 with c.4.4 billion shares repurchased.

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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