

FULL YEAR 2023 FREQUENTLY ASKED INVESTOR QUESTIONS**How was the Group's financial performance in the year?**

- The Group delivered a robust financial performance, meeting our 2023 guidance, driven by income growth, cost discipline and resilient asset quality, enabling strong capital generation and increased capital returns for shareholders.
- Statutory profit after tax was £5.5 billion (£1.2 billion in the fourth quarter) which is significantly up year on year, driven by restatement of earnings for IFRS 17 accounting change in 2022.
- Net income was £13.8 billion, up 5 per cent on the prior year, with a net interest margin of 311 basis points, in line with guidance. The net interest margin of 298 basis points in the fourth quarter was down 10 basis points in the quarter given mortgage pricing and deposit mix headwinds, partly mitigated by the structural hedge.
- Other income was £5.1 billion for the year, 10 per cent higher than 2022, reflecting the broad-based recovery of customer activity and ongoing investment in the business.
- Operating costs were £9.1 billion, up 5 per cent compared to 2022, reflecting higher planned strategic investment, new businesses, severance charges and inflationary pressures.
- Strong asset quality with impairment charge of £308 billion and asset quality ratio of 7 basis points, or 29 basis points excluding both a significant write-back in the fourth quarter and economic outlook improvements across the year.
- Loans and advances to customers reduced by £5.2 billion in the year to £429.7 billion, which includes the securitisation of £2.5 billion of legacy Retail mortgages in the first quarter and £2.7 billion of Retail unsecured loans in the fourth quarter; excluding these, loans and advanced to customers were essentially flat.
- Customer deposits of £471.4 billion reduced by £3.9 billion in 2023, including a £11.3 billion reduction in Retail current accounts, partly offset by a combined £8.9 billion increase in Retail savings and Wealth.
- The Group has delivered strong capital generation of 173 basis points in the year after regulatory headwinds of 50 basis points. The 173 basis points of capital generation includes both the significant impairment write-back and the higher remediation charge in the fourth quarter.
- Pro forma CET1 ratio of 13.7 per cent after capital distributions and pension contributions, remained ahead of the ongoing target of c.12.5 per cent, plus a management buffer of c.1 per cent.
- Pensions triennial valuation completed with an additional contribution of £250 million paid in December 2023 to clear the remaining deficit. There will be no further contributions in this triennial period.
- Tangible net assets per share of 50.8 pence, up 4.3 pence on 31 December 2022 and 3.6 pence in the fourth quarter, given continued profitability and movements in the cash flow hedge reserve, partly offset by pensions surplus changes.
- Strong return on tangible equity of 15.8 per cent (13.9 per cent in Q4), reflecting the Group's robust financial performance. Earnings per share were 7.6 pence for the year (2022: 4.9 pence).
- The Board has recommended a final ordinary dividend of 1.84 pence per share, resulting in a total ordinary dividend for 2023 of 2.76 pence per share, up 15 per cent on prior year and in line with the Group's progressive and sustainable ordinary dividend policy.
- Given the Group's strong capital position, the Board has also announced its intention to implement an ordinary share buyback program of up to £2.0 billion.
- Total capital returns in respect of 2023 of up to £3.8 billion, are equivalent to c.14 per cent of the Group's market capitalisation value.

For more on our FY results, please see our [FY 2023 News Release](#).

How do you expect the Group to perform going forward?

Based on our current macroeconomic assumptions, for 2024 the Group expects:

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

Based on the expected macroeconomic environment and confidence in the Group's 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
- To pay down to a CET1 ratio of 13.0 per cent

How are you progressing against your strategy?

- 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 financial commitments of £0.7 billion additional revenues and £1.2 billion of cost efficiencies.
- We have started to demonstrate this successful execution to the market with two strategic seminars last year and we will be delivering two further seminars in the first half of 2024 as we continue to build confidence around our progress.
- We are the UK's largest digital bank, and now have 21.5 million digitally active customers, up 17 per cent since 2021.
- In Wealth, we launched 'Lloyds Bank 360', a mobile-first proposition that includes a holistic view of wealth, educational materials, and financial coaching.
- In SME, we have made significant strides in our multi-year journey to build a front-to-back digital business, including digital onboarding, personalised cashflow insights, a digital invoice finance platform and digital asset finance journey.
- We are investing in maximising the potential of people, technology and data, the key enablers of our strategy. We have decommissioned more than 400 legacy technology applications and in turn increased the number of APIs we have created by more than 100 per cent as we continue to migrate onto cloud-based platforms.

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.
- We contacted 7.5 million customers and around 600 thousand businesses to help with their financial resilience. Alongside, we contacted more than 15 million savings customers to ensure they are aware of their savings options.
- Proactively contacted 675,000 mortgage customers to encourage review of their available options. Created mortgage charter support site where customers can request temporary interest only payments and term extensions.
- Continued to proactively support small UK business leaders and owners with provision of resources and coaching sessions, including partnering with the Soil Association Exchange and Mental Health UK.

- Asset quality remained resilient. New to arrears were relatively stable throughout 2023, albeit at an elevated level compared to the prior year.
- Unsecured portfolios continue to exhibit stable new to arrears and default trends broadly at, or below pre-pandemic levels.
- 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.

How are you progressing on your transition to net zero?

- Building an inclusive society and sustainable future is core to our purpose-driven strategy; through this focus we aim to deliver sustainable profit and growth.
- To support the transition to a low carbon economy we have funded £29 billion of sustainable financing from 2022 to year end 2023.
 - With £15.8 billion sustainable finance for Corporate & Institutional customers we have exceeded our £15 billion 2024 target a year early. Have now set a new Commercial Banking target of £30 billion between 2024 and 2026, taking the cumulative target to £45 billion from 2022 to 2026.
 - £7.5 billion EPC A/B mortgage lending¹; launched a new solar panel proposition together with Effective Home, complementing our partnership with Octopus Energy to help our customers improve the energy efficiency of their homes.
 - £5.7 billion financing for EVs and PHEVs; supported by the acquisition of Tusker announced in February 2023 we now finance 1 in 8 ULEVs on UK roads.
- Through Scottish Widows, we have made £21.7 billion of discretionary investment in climate-aware strategies from 2020 to year end 2023.
- Working towards our 2030 financed emissions ambitions to reduce the carbon emissions we finance by more than 50 per cent and to halve the carbon footprint of our Scottish Widows investments, on path to net zero by 2050 or sooner.
 - Exited direct lending to UK thermal coal power by end of 2023. As announced in 2022, we are committed not to directly finance new greenfield oil/gas developments approved after 2021.
 - Developed our Credible Transition Plan assessment methodology and performed 36 assessments representing £2.9 billion of drawn lending, including our full portfolio of large-scale oil and gas producing clients.
 - Developed 3 new sector emission reduction targets for Road Passenger Transport, Agriculture and Commercial & Residential Real Estate to complement our existing 7 sector targets; our Net Zero Banking Alliance sector targets now cover 83 per cent of our bank lending in scope of PCAF².
- Working with our suppliers to reduce the emissions from our supply chain by 50 per cent by 2030, on path to net zero by 2050 or sooner.
 - 152 key suppliers now assessed against our Emerald Standard representing c.80 per cent of supply chain emissions and spend.
- In our own operations target net zero carbon operations by 2030
 - Increased our commitment to reduce operational Scope 1 and 2 carbon emissions from 75 per cent to at least 90 per cent by 2030.
 - Launched new operational pledges to be Zero Waste and Water Neutral by 2030 and our first nature pledge to halt and reverse nature loss across our green spaces.

¹ EPC A/B mortgage lending up to 30 September 2023.

² Bank lending in scope of financed emissions calculation in accordance with the Global GHG Accounting and Reporting Standard for the Financial Industry from the Partnership for Carbon Accounting Financials (PCAF).

- Expanded our sustainability strategy to a broader systems-focused approach, including nature, and published the second iteration of the Group climate transition plan.
- Climate performance measures included in both the short (Group Performance Share) and long term (LTIP) variable pay structures (5 per cent and 15per cent of weight of measures, respectively) to drive progress and focus.

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.
- Following a fixed contribution of £800 million in the first half of 2023, a residual aggregate deficit of £250 million was agreed with the Trustee which the Group paid in December 2023. There will be no further contributions, fixed or variable, for this triennial period (to 31 December 2025).

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 fintech 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 are the UK's largest digital bank, and now have over 21 million digitally active customers, 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.
- 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 fintech during the year to broaden our product capabilities, for example a partnership to enable digital invoice financing and factoring for our SME bank clients.

Why is your impairment charge lower this quarter?

- We had a significant one-off write-back in the fourth quarter alongside a multiple economic scenario release due to economic outlook improvements across the year leading to an underlying impairment charge of £308 million and asset quality ratio of 7 basis points. Excluding this, our asset quality ratio is at 29 basis points, in line with guidance.

Why have you taken a provision in light of the FCA motor finance review?

- As disclosed in previous periods, we continue to receive a number of court claims and complaints in respect of motor finance commissions.
- On 10 January 2024, the FOS issued its Final Decision on a complaint relating to the Group, as well as decisions relating to other industry participants. On 11 January 2024, the FCA announced a section 166 review of historical motor finance commission arrangements and sales and plans to communicate a decision on next steps in the third quarter of 2024.

- The FCA has indicated that such steps could include establishing an industry-wide consumer redress scheme and/or applying to the Financial Markets Test Case Scheme, to help resolve any contested legal issues of general importance.
- In response to both the FOS decisions and the FCA announcement the Group has recognised a charge of £450 million.
- This includes estimates for operational and legal costs, including litigation costs, together with estimates for potential awards, based on various scenarios using a range of assumptions, including for example, commission models, commission rates, applicable time periods (between 2007 and 2021), response rates and uphold rates.
- While the FCA review is progressing there is significant uncertainty as to the extent of misconduct and customer loss, if any, the nature and extent of any remediation action, if required, and its timing. The ultimate financial impact could therefore materially differ from the amount provided, both higher or lower.

How does your final ordinary dividend of 1.84 pence per share relate to your progressive dividend policy?

- With our Full Year 2023 results the Board announced a final ordinary dividend of 1.84 pence per share, resulting in a total ordinary dividend for 2023 of 2.76 pence per share, up 15 per cent on prior year and in line with the Group's progressive and sustainable ordinary dividend policy.
- The Board will maintain its progressive and sustainable ordinary dividend policy going forward whilst retaining the flexibility to consider excess capital distributions at the Full Year 2024.

When will your shares be quoted ex-dividend, and when will the final ordinary dividend be paid?

- Our UK shares will be quoted ex-dividend on 11 April 2024 and the interim ordinary dividend paid on 21 May 2024.
- Important dates for our UK dividend can be found in our financial calendar.

Given your excess capital position, why a wasn't a special dividend paid?

- With our Full Year 2023 results the Board announced a final ordinary dividend of 1.84 pence per share, resulting in a total ordinary dividend for 2023 of 2.76 pence per share, which reflected an increase of around 15 per cent on prior year and was in line with our progressive and sustainable ordinary dividend policy.
- Given the Group's strong capital position, the Board also announced its intention to implement an ordinary share buyback programme of up to £2.0 billion.
- Given the total ordinary dividend of 2.76 pence per share and the intended ordinary share buyback, the total capital return in respect of 2023 was equivalent to £3.8 billion, c.14 per cent of the Group's market capitalisation value.
- The Board remains committed to future capital distributions and the Group has stated that it expects to pay down to its capital target of c.13.5 per cent by the end of 2024, with revised guidance of an ongoing target of c.13 per cent by the end of 2026.
- As usual, the Board will continue to give due consideration at each year end to the return of any surplus capital.

Why are you buying back shares?

- Alongside the Group's 2023 results, the Board announced an ordinary share buyback programme of up to £2.0 billion.
- In the event of future share buybacks, you would generally expect the Group's share count to reduce. Share buybacks can be an effective use of excess capital. 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.

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 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, targets, 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; acts of hostility or terrorism and responses to those acts, or other such events; geopolitical unpredictability; the war between Russia and Ukraine; the conflicts in the Middle East; the tensions between China and Taiwan; political instability including as a result of any UK general election; market related risks, trends and developments; changes in client and consumer behaviour and demand; exposure to counterparty risk; 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 and other disasters; risks concerning borrower and counterparty credit quality; risks affecting insurance business and defined benefit pension schemes; 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 including risks as a result of the failure of third party suppliers; 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) and decarbonisation, 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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