HALF YEAR 2024 FREQUENTLY ASKED INVESTOR QUESTIONS

How was the Group's financial performance in the first half 2024?

- The Group delivered a robust financial performance in the first half of 2024, in line with expectations.
- Statutory profit after tax of £2.4 billion in the first half of 2024, with net income down 9 per cent on the prior year due to lower net interest income and increased operating costs, partly offset by the benefit of a lower impairment charge.
- Net interest income was £6.3 billion with a net interest margin of 294 basis points, down 2 basis point in the quarter and consistent with expectations given the headwinds from mortgage and deposit pricing, partly offset by the reinvestment of the structural hedge.
- Other income was £2.7 billion in the half, 8 per cent higher year on year, driven by continued recovery in customer and market activity and the benefits of strategic initiatives.
- Operating costs were £4.7 million, up 7 per cent year on year, with cost efficiencies helping to mitigate higher planned strategic investment, elevated severance charges and continued inflationary pressures, alongside c.£0.1 billion in the first quarter relating to the sector-wide change in the charging approach for the Bank of England Levy. Excluding this, operating costs were up 4 per cent.
- The annual levy of c.£0.1 billion was charged through operating costs in the first quarter and will have a broadly neutral impact on profit in 2024, with an offsetting benefit recognised in net interest income over the course of the year.
- Strong asset quality with impairment charge of £101 million and asset quality ratio of 5 basis points, benefitting from an MES credit given improvements to the economic outlook, notably in HPI. Before forecast adjustments, the asset quality ratio was 19 basis points.
- Loans and advances to customers increased by £2.7 billion to £452.4 billion in the half, with growth across Retail, including mortgages and unsecured loans.
- Customer deposits of £474.7 billion increased by £3.3 billion in the half, with growth in Retail deposits of £4.9 billion partly offset by a reduction in Commercial Banking of £1.6 billion.
- Strong capital generation of 87 basis points in the half, after regulatory headwinds of 7 basis points, is in line with expectations.
- The Group's CET1 capital ratio at 30 June 2024 was 14.1 per cent after 48 basis points for ordinary dividend accrual.
- Tangible net assets per share as at 30 July 2024 were 49.6 pence, down from 50.8 pence at 31 December 2023 due to capital distributions in respect of 2023, alongside the impact of increased longer-term rates on the cash flow hedge reserve and pension surplus
- The return on tangible equity for the first half was 13.5 per cent.
- Interim ordinary dividend of 1.06 pence per share, up 15 per cent on the prior year and equivalent to £662 million.

For more on our HY results, please see our [Q2 2024 Interim Management Statement]

How do you expect the Group to perform going forward?

Based on our current macroeconomic assumptions, for 2024 the Group continues to expect:

- Banking net interest margin of greater than 290 basis points
- Operating costs of c.£9.4 billion including the c.£0.1 billion Bank of England Levy
- Asset quality ratio of less than 20 basis points
- Return on tangible equity of c.13 per cent
- Capital generation of c.175 basis points
- Risk-weighted assets at between £220 billion and £225 billion
- To pay down to a CET1 ratio of c.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 c.13.0 per cent

How are you progressing against your strategy?

- We continue to deliver on our strategic transformation, as demonstrated in the fourth of our investor seminars last month.
- We committed to c.£3 billion of incremental investment in the three years to 2024. We are on track to achieve our 2024 outcomes, including c.£0.7 billion of additional income and c.£1.2 billion of gross cost savings from strategic initiatives and remain confident in achieving our 2026 strategic and financial outcomes.
- UK's largest digital bank with 22 million digitally active users, of which 19.4 million actively use the Group's mobile apps, up 4 per cent in year. Mobile messaging service interactions increased 70 per cent versus prior year.
- We have also increased the roll out of 'Lloyds Bank 360', now reaching c.500,000 customers and we launched both Ready-Made Pensions and Invest Wise, a bespoke investment product for those aged between 18 and 25. Through investment in digital capability and product development, we have seen c.30 per cent growth in mobile active customers within Small and Medium Businesses.
- In Insurance, Pensions & Investments, we continue to grow our home insurance presence with new policies up over 90 per cent in the first quarter of 2024 versus prior year. Market share is up 5.5 percentage points to 16.2 per cent. Digitisation improvements continue to transform customer experience.
- We are investing in maximising the potential of people, technology and data, the key enablers of our strategy. We have increased the number of legacy technology applications decommissioned by 20 per cent, taking our total decommissioned applications to c.500.

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 over £38 billion of sustainable financing[1] from January 2022 to June 2024, on track to meet our sustainable finance targets.
    - £5.9 billion sustainable financing to commercial banking customers (January – June 2024) against new target of £30 billion in 2024 – 2026 (announced in February 2024). £21.7 billion provided since 2022.

  - £9.1 billion EPC A/B mortgage lending[2]; our solar panel and electric heat pump propositions, together with Effective Home and Octopus Energy, respectively, help our customers improve the energy efficiency of their homes.
  - £7.6 billion financing for EVs and PHEVs; supported by the acquisition of Tusker announced in February 2023 we now finance 1 in 8 ULEVs in the UK.
  - Through Scottish Widows, we have made £23.9 billion of discretionary investment in climate-aware strategies from January 2020 to June 2024.
- 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. Examples of action include:
  - 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 up to year end 2023 have performed 36 assessments representing £2.9 billion of drawn lending, including our full portfolio of large-scale oil and gas producing clients.
  - Developed 10 Net Zero Banking Alliance sector emission reduction targets covering 83 per cent of our bank lending in scope of PCAF[3].
- 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 assessed against our Emerald Standard by year end 2023; 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.
- Expanded our sustainability strategy to a broader systems-focused approach, including nature, and published the second iteration of the Group climate transition plan as part of our 2023 Sustainability Report.
- Climate performance measures included in both the short (Group Performance Share) and long term (LTIP) variable pay structures (5 per cent and 15 per cent of weight of measures, respectively) to drive progress and focus.

[1] In line with the Group's Sustainable Financing Framework available here: Downloads - Lloyds Banking Group plc.

[2] EPC A/B mortgage lending up to 30 March 2024.

[3] 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).

Why have you decided to sell your bulk annuities business?

- Rothesay, the UK's largest pensions insurance specialist, acquired the c.£6 billion Scottish Widows in-force bulk annuity portfolio from the Group in March 2024. The business that will be transferred covers the pension benefits of c.42,000 people.
- Our aim is to be a customer-focused, digitally leading, integrated financial services provider. This disposal allows us to grow our core businesses, focusing on Scottish Widows workplace and individual pensions, retirement and direct-to-consumer insurance and investments.
- The overall financial impact of this sale on Lloyds Banking Group is not material.

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 22 million digitally active customers, up 21 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 low for the first half of 2024?

- The impairment charge was £101 million in the half (half-year to 30 June 2023: £662 million), resulting in an asset quality ratio of 5 basis points.
- This charge is after a £324 million multiple economic scenarios (MES) credit (three months to 30 June 2023: £5 million release), primarily from an improve economic outlook, notably in HPI and partly due to a change in methodology.
- This reflects a pre-updated MES charge of £425 million; compared to the prior year, the pre-MES charge is lower, in part benefiting from the release of judgmental adjustments for inflation and interest rate risks, given portfolio performance and lower charges in UK mortgages. Commercial Banking has benefited from a one-off release from loss rates used in the model, while observing a low charge on new and existing Stage 3 clients.

Do you have an update on the FCA motor finance review?

- The Group took a £450m provision in the fourth quarter of 2023. There have been no further charges relating to the potential impact of the FCA motor finance review in the first quarter of 2024.
- The FCA has indicated it will update on the review in September.

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.

How is the share buyback progressing?

- The share buyback scheme commenced in February 2024 with £0.9 billion shares bought back and cancelled as at 30 June 2024.

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. The information, statements and opinions contained in this document do not constitute a public offer under any applicable law or an offer to sell any securities or financial instruments or any advice or recommendation with respect to such securities or financial instruments.