STRATEGY UPDATE: DEEPEN & INNOVATE IN CONSUMER TRANSCRIPT
(amended in places to improve readability only)

Thursday 5 October 2023 – 3.00pm BST

LBG:
Charlie Nunn, Group Chief Executive
Jayne Opperman, CEO, Consumer Relationships
Jas Singh, CEO, Consumer Lending
Douglas Radcliffe, Group Investor Relations Director (moderator)

CHARLIE NUNN, GROUP CHIEF EXECUTIVE
Good afternoon, everyone, and welcome to the first of our four investor seminars on our strategic growth priorities.

Over the next nine months, you will hear from the management teams that are delivering our business ambitions, which contribute to our revenue growth and cost savings targets across 2024 and 2026.

We are successfully executing against our four strategic priorities, so I am excited to be able to share our strong progress to date and vision for the future with you. I am delighted today to be joined by Jayne and Jas who will kick off these seminars with a deep dive on our consumer business.

Following their updates, I will briefly wrap up and we will then have plenty of time for your questions. Before handing over, I will briefly introduce today's session. Let me start on slide three.

SLIDE 3 – EXECUTING ON OUR PRIORITIES; CLEAR PLANS FOR FUTURE DELIVERY
There are four key messages that I would like you to take away from today's session. Firstly, we have the leading consumer franchise in the UK across channels, products, and engagement levels.

This provides a strong foundation for growth. Secondly, our consumer business has a vital role to play in helping Britain prosper. This is more important than ever in the current environment, and we are playing our part with targeted and proactive support for our customers. We are also executing on our broader societal goals, such as supporting the transition to net-zero.

Thirdly, whilst our near-term outlook is partially impacted by highly competitive markets in our core product areas, we have a long-term strategy and are investing for growth. Our strategy in consumer is focused on building upon our strong foundations to meet more of our customer's needs, driving stronger engagement through digital and broadening our product and platform capabilities to deliver solutions that our customers value.

And finally, we are progressing well against these strategic priorities and are on course to meet our targeted outcomes. This, in turn, supports our revenue and cost targets at the group level. We will cover these throughout today's session but let me now turn to an overview of our strategy on slide four.

SLIDE 4 – CLEAR STRATEGY FOR THE GROUP DELIVERING HIGHER, MORE SUSTAINABLE VALUE
Our strategic ambitions are facilitated by a clear commitment to investment. In line with what we said in February of last year, we are investing an incremental circa £3 billion pounds of strategic investment by 2024, increasing to circa £4 billion pounds by 2026.

We invested around £1.4 billion over the first 18 months of the plan. Our strategy is growth focused with around two thirds of this investment weighted towards four priority areas. These priorities will deliver circa £0.7 billion pounds of additional revenues by 2024, growing to circa £1.5 billion pounds by 2026. As we build a more diversified and sustainable revenue base.

At the same time, we are retaining our cost discipline. We are targeting circa £1.2 billion pounds of gross cost savings by 2024. This was increased from an original £1 billion pounds, and we have realized around 50% of the savings for the higher target as of the half year.

Successfully executed, our strategy will deliver a return on tangible equity of greater than 15% in 2026, supporting over 200 basis points of capital generation. Turning now to slide five where I will provide a brief overview of our strong positioning in consumer.

SLIDE 5 – CONSUMER BUSINESS IN CONTEXT
Our consumer business has significant scale and reach with leading positions across all channels and products. Our business is built on strong relationships supported by a portfolio of trusted iconic brands that cover the breadth of our participation choices.

It is also the largest contributor to the Group's financial accounting for more than 60% of income and PBT as well as 80% of our loans. Moving now to slide six.

SLIDE 6 – DEEPEN AND INNOVATE IN CONSUMER
Our consumer business aligns to our externally reported retail division. From an operating perspective, this is divided between consumer relationships and consumer lending, which are run by Jayne and Jas, respectively.

Consumer also operates closely with our insurance business, allowing us to meet all of our customers' financial needs in one place. Our new mass affluent offering is a further strand of our consumer proposition. However, given its importance, you will hear more about our ambitions here as well as in insurance, in a standalone session in March.

Our strategic growth priorities in consumer are supported by around 30% of our investment spend in 2024. In return, they make a material contribution to the Group's additional revenues and gross cost savings. With that in mind, I will now close my introduction by providing more detail on the financial outlook on slide seven.

SLIDE 7 – CONFIDENT IN FINANCIAL OUTLOOK
Based on our progress and our plans, we are confident in the financial outlook for the consumer business. As you know, we are managing competitive dynamics in core markets. However, despite near-term margin headwinds and slower than expected growth in AIEAs, we believe our strategy in consumer positions us well over the long term and will support sustainable value creation.

The consumer business will deliver approximately 30% of our circa £1.5 billion pounds of additional revenues in 2026 or around £0.5 billion pounds. This equates to circa £0.2 billion pounds in 2024.

Revenue growth is driven by a number of the areas we'll cover today and is grounded by clear targeted strategic outcomes. I am pleased to say that we're making good progress against these, and in some cases have already surpassed them. You will hear more about these during today's presentation.

Consumer also provides the largest business contribution to the 2024 gross cost savings target representing about 40% of this amount or £0.5 billion pounds. As you will hear from Jayne, this represents further improvements in digital journeys, which help to reduce cost to serve alongside ongoing rationalization activities.

And finally, every proposition that you will hear about today is in line with the Group's strong risk appetite, providing confidence in sustainable returns generation. And so with that, I'd now like to hand over to Jayne and Jas to talk through our exciting plans in more detail. Jayne.

Jayne Opperman
Great. Thanks Charlie. And good afternoon, everyone.

SLIDE 9 – CONSUMER RELATIONSHIPS OVERVIEW
We have a leading consumer franchise. Our strengths include our significant scale and reach highly engaged customers and a comprehensive product offering across leading trusted brands.

We have strong relationships with half the adults in the UK and we can meet more of their needs by delivering an integrated, simpler, and more personalized experience. And this is a significant growth opportunity for us.

Over the next few slides, I will tell you how we are deepening customer relationships through three key levers, our targeted approach to deposits, our focus on growth in more valuable segments through customer value propositions, and our leading mobile experience, which will help us build deeper engagement and meet more customer needs, all of which drive our growth in the depth of relationship.

On slide 10, I will start with deposits.

SLIDE 10 – STRONG DEPOSIT FRANCHISE SUPPORTING BROADER RELATIONSHIPS

We have a strong and broad deposit franchise with over £300 billion pounds of customer deposits across our retail division. We have leading market shares across multiple products.

In PCAs, we have a 24% share of both balances and customers. This is a significant advantage, as current accounts still serve as the core anchor product that allows for deeper and ultimately more valuable relationships over time. Our deposit relationships also provide us with unique insights on the behaviours and preferences of our customers, and as you will hear shortly, we are focused on using these insights to develop more targeted offerings that deliver greater value for both our customers and the Group.

Our deposits are also a key enabler to structural hedge growth, helping to promote a stable, predictable earnings profile for the Group. On slide 11, I will look at how we compete on deposits particularly relevant in current environment.

SLIDE 11 – CLEAR DEPOSIT STRATEGY DELIVERING IN CHANING ENVIRONMENT

Our approach to deposit management balances multiple objectives, including value and liquidity. Price is clearly an important competitive dynamic, particularly right now as we see customers shift towards savings products to access better rates.

However, price is not our only competitive lever. Our broad range means that we attract deposits from across the whole market. In our Club Lloyds proposition, we offer preferential rates and a range of lifestyle benefits that are attractive to customers and help us build deeper relationships.

With multiple brands and scale across channels, we can be much more targeted in our offering. Through our ongoing investment in data, we can more accurately forecast market dynamics and get new propositions to market much more quickly.

Through these differentiators, we have retained customer relationships in a highly competitive market. Like others, we have seen movement out of PCAs, but in the first half of this year we recaptured a substantial proportion of balances within our own savings propositions, and as a result, we saw lower deposit attrition than our peers.

We have launched new innovative products and proactively contacted our savings customers to tell them about our better rates, and through this we gained balances in key areas, including around £10 billion pounds in one of our limited withdrawal products, and doubled the size of our fixed rate book so far in 2023.

The combination of very targeted customer prompts and new propositions demonstrate our clear focus on delivering great customer outcomes. Linked to this, the new consumer duty aims to uphold high standards across the industry for customers and is an important piece of regulation. As a truly customer-focused organization, we have always been committed to making decisions that deliver fair value for our customers. And having conducted a full review of our customer communications and the level of support that we provide, including for our vulnerable customers, we believe we are well positioned.

Just to finish on deposits, despite the possibility of fewer base rate increases going forward, we do still expect the ongoing shift in the mix of deposits to continue. That said, based on targeted actions and our holistic approach, we are confident that we can retain and strengthen our customer relationships.

I will now look more broadly on slide 12 at how we are revitalizing our customer offerings to deliver deeper relationships through key life stages.

SLIDE 12 – TARGETING OUR OFFERING TO GROW IN VALUABLE SEGMENTS

We have built deep relationships with our customers but recognize the potential to meet more of their needs, particularly in some higher value segments where our market share is lower. So, a key strategic priority for us is customer value propositions. These capture our full range of products and services with tailored customer-led experiences using our extensive data and insights.

We are delivering more personalized experiences, increasing engagement, and offering rewarding products and services. These are all tailored to the key needs and life stages of our customers, from first-time buyers to financial planning in later life. This way, we deliver value by attracting and retaining relationships across each of the higher value segments that we have identified.

We will also meet more customer needs by extending our offering beyond traditional financial services through three key ecosystems. These are essentially a shopfront across homes, travel and transport, and they provide the platform to access non-financial needs, such as flight bookings, delivered through third party brands where we retain the relationship with our customers.

Jas will cover the progress that we have made in homes, which is our most advanced ecosystem at this stage. Importantly, as we develop these ecosystems and extend beyond financial services, we will grow our other income category for the Group.

And whilst we expect to realize more value from customer value propositions in future years, I am really pleased with the early progress that we've made in targeting these higher value segments. Since 2021, deposit balances are up by more than 10% for learners and 5% for independent earners.

Now, to bring customer value propositions to life, I would like to talk about our families and household segment on slide 13.

SLIDE 13 – CASE STUDY: FAMILIES AND HOUSEHOLDS

This segment has a really diverse set of needs. Financial responsibilities are often shared with a partner and range from day-to-day considerations like budgeting, to preparing the financial futures of children, supporting elderly parents, and planning for later life.

And as a result, this population has around 30% more financial needs than the average UK customer, and around 70% of those are met by other providers today. There is a clear growth opportunity for us here and we are really well-positioned to meet these needs given the strength of our franchise. We know that customers in these valuable segments expect simplicity from a bank.

They want recognition for loyalty. They want help to navigate day-to-day financial choices. So, we are enhancing our offerings to directly address these expectations.

To help make things simpler for them, we are rolling out new tools such as bill splitting and new payment journeys for families so that they can transfer money more easily. We are also developing new functionality to enable families and households to set financial goals such as saving for a holiday or renovating their home, as well as help with tracking their progress towards these goals.

Our new children's current account, Smart Start, has had over 100,000 new accounts opened, and we are going to expand the age range over time, capturing more potential customers. At the same time, we will introduce new digital tools to support children's financial education, and to reward customers for deepening their relationship with us we are developing new propositions that include preferential rates, cashback offers, discounts, and a broad range of lifestyle benefits.

More recently, we added Disney+ as a benefit to our Club Lloyds account, demonstrating our role as the home of leading third-party brands that our customers love. Our partnership with Octopus Energy has also increased access to non-financial solutions, such as retrofitting, which is increasingly important to UK households.

Mortgage balances within this segment have increased by around 4% since 2021, demonstrating some really good progress to date, and we see much more potential here.

A key enabler to delivering all of this is the shift to mobile first distribution, which I will cover over the next few slides, starting with slide 14.

SLIDE 14 – MOBILE LEADER, WITH OPPORTUNITY TO TRANSFORM ENGAGEMENT

We are already a leading provider across our digital channels with the largest digital bank in the UK. Our digital user base of 21 million active users has grown at a significant pace, up by around 15% since the launch of our strategy.

This is beyond the 10% growth target to 2024, and our digital reach is significantly ahead of the nearest incumbent. 18 million of these customers use our mobile app. Only the social media apps have a greater level of engagement than this.

That said, our leadership position is not defined solely by scale. Our mobile app and user experience are highly rated, and we are recognized as having the leading digital sales capability for banks across Europe.

To date, 15 million customers have registered for personalized marketing so that we can be much more targeted in our communications. We can strengthen our engagement and increase relevance, all while improving our efficiency.

These strengths are driving value for the Group today in the form of revenue growth and improvements in cost to serve. For example, we have recorded a 60% increase in mobile app product earnings this year, and looking ahead, we are building on these strengths with a shift to mobile first distribution.

And now to be clear, it is not mobile only. Mobile first means meeting more of our customer's needs via the mobile, whilst having more flexible physical points of presence that I will cover more shortly.

In 2022, we rolled out a record number of mobile app releases, streamlining journeys, but with much more customization and personalization to give customers greater control of their finances. This significantly increases our level of engagement with customers, and we have plans to do more of this to deliver a truly personalized experience. And we have got a short video to try and bring this to life for you.

Video Voiceover
Personalization. Through personalization, we will better understand and deliver against customer needs at any moment in time with a seamless multichannel ecosystem of personalized experiences.

We will be more relevant, helpful, and timely in the way we show up for customers, allowing us to build deeper, more trusted relationships. We will listen to what our customers are telling us through their words and actions, and we'll ask questions to further understand them, their needs and goals.

Using all of this customer insight, we'll determine the next best engagement to have with customers, considering what's most relevant to them, as well as how, when and where best to have that engagement. We will transform the app, making the space for personalized experiences to reach our customers with dynamic and contextualized navigation spaces, interactive tools, personalized insights and conversation prompts.

We will create a seamless connected channel experience. Regardless of the channel the customer uses, they will have a fully connected, personalized experience.

By truly understanding our customers, we are putting them at the heart of everything we do and helping Britain prosper.

Jayne Opperman: SLIDE 15 – ENHANCED MOBILE APP TO LAUNCH IN 2024
I hope that gave you a flavour of how we will continue to maximize the value that we generate through our mobile app. These future changes will transform engagement and deliver further value for the Group, and we will launch the next generation of our mobile app in early 2024.

On slide 16, I will cover how we're thinking about physical distribution as we shift to mobile first.

SLIDE 16 – ADAPTING OUR PHYSICAL FOOTPRINT
Much like our digital offering, our physical presence has significant scale and reach, with over 1100 branches across our brands. We continue to see benefits of our physical presence, with clear links to value and relationship building.

However, customer behaviour continues to evolve, and when we look at the last 12 months, 30% of our active customer base are digital only. And interestingly, over a three-month period, that increases to 50%.

As a result, we continue to manage a balance between our physical and digital footprint, ensuring that customers can bank with us how and when they choose. Since the launch of our strategy, we have achieved a 6% increase in customers served per distribution FTE, and we are well-positioned to hit our greater than 10% target by 2024.

Looking ahead, we are planning for much more efficient and flexible points of presence in the communities that we serve, keeping customer engagement and satisfaction front of mind.

We are trialling several formats, such as kiosks, co-sharing, and our community banker program, deployed in locations that our customers frequent, and we have all the data to know where these locations are and how they might shift over time. We are introducing these different formats as we continue rationalizing our existing network, ensuring that we remain active across communities in a format that is much more reflective of customer demand.
These alternate formats represent a meaningful cost opportunity for us, with a cost to serve differential of more than 80% of a full-service branch. I will now close on slide 17 with a look at our depth of relationship target.

SLIDE 17 – DEEPENING CONSUMER RELATIONSHIPS
The actions that we are taking to maintain our strong deposit relationships, meet more of our customers' needs across the lifecycle, particularly in high value segments, and transform engagement through a mobile first distribution model are key enablers to unlocking future growth.

When we launched our strategy in February 2022, we said that on average we meet 2.4 of our customers' financial needs out of the roughly seven needs for the average UK customer, split across multiple providers. We are targeting an increase of greater than 5% by the end of 2024, and this is on track.

We are deepening relationships across the breadth of our consumer business, benefiting from more personalized offerings and the innovative developments across our lending products that you will hear about shortly from Jas. Increasing depth of relationship will drive higher revenues for the Group that contribute to the £0.5 billion pounds of additional revenues that our customer growth priorities expect to generate by 2026. Thank you. I will now hand to Jas. Thanks, Jas.

Jas Singh
Thank you, Jayne, and good afternoon, everyone.

SLIDE 19 – CONSUMER LENDING OVERVIEW
I will now speak about the progress we are making in our consumer lending business. Consumer lending has significant scale, with over £360 billion pounds of loans across our mortgages, credit cards, personal loans, motor finance and leasing businesses. We have unrivalled market shares, and we are the leading provider across these products.

I am also incredibly proud of the impact our green lending propositions are making in helping consumers transition to a more sustainable lifestyle. Despite our scale, we continue to see material opportunities for growth across our business.

In the coming slides, I am going to focus on four themes that demonstrate our strategic progress and our continued ambitions. These themes span mortgages, affordability in loans and cards, embedded finance, and our transport business. As part of these updates, I will demonstrate a clear sense of how we are building on our strong foundations to evolve and grow with our customers.

So, on slide 20, let me start by talking about our mortgage strategy.

SLIDE 20 – RESILIENT MORTGAGE BUSINESS, WITH LONG-TERM STRATEGY
Our mortgage business includes over £300 billion pounds of lending that spans the UK residential and buy-to-let market. We have five priority growth areas across mortgages, which we believe will differentiate our offering.

Firstly, we have a broad proposition that provides consistent support for a range of customers, including first time buyers, home movers, and customers looking to remortgage. We see an opportunity in targeting high value segments, including enhancing our proposition for customers with larger mortgage sizes.

We are also targeting deeper relationships in our direct channels, allowing us to integrate complimentary products such as protection into our customer journey. Additionally, retaining more of our customers has always been a focus area. To do so, we are now creating an even more compelling offering through our homes ecosystem. I will expand on both of these topics in a few minutes.

We currently serve more than 10,000 brokers across the UK market. I am incredibly proud of the feedback we get from brokers about the quality of our service. Our market-leading Net Promoter Score demonstrates the work we do in ensuring that we service the brokers' needs both now and in the future. However, we are clear that there is more work to be done in enhancing and supporting broker journeys in the context of a more technologically enabled world.

Finally, we are making good progress in enhancing our sustainability offering and helping our customers make their homes more energy efficient.

As you know, the UK has Europe's oldest housing stock. Over 15% of the UK's carbon emissions and 35% of the UK's total energy use comes from our housing choices. We are committed to providing comprehensive support for customers with a range of propositions that include helping them understand their energy efficiency options, assisting them with financing as needed, and over time, helping connect them with specialists who can retrofit their homes.

Now, of course, that is the long-term strategy, but I am incredibly mindful of the challenges and uncertainty in the current market. So, while the focus of today is on our broader strategic actions, let me take a few moments to discuss how we are responding in the current environment.

The steep increase in interest rates has resulted in higher monthly payments for customers applying for new mortgages and for existing customers on variable rates. In that context, it is very important to us that we provide proactive support to all our customers as they absorb the increased cost of their mortgage into their family finances.

Despite this challenging backdrop, in line with what William said at the half year, we are seeing broadly stable areas across our book. This is helped by our prudent approach to lending and a portfolio that is well-positioned for higher rates with strong income profiles and a low average LTV.

Now, of course, higher rates are creating a more price sensitive market. In this environment, it is imperative that we both focus on the retention of existing customers, while at the same time managing value and volume.

Whilst that may mean margins remain challenging in the near-term, the delta between the margin on maturing mortgages compared to new business should reduce by the end of 2024, largely dissipating by the end of 2025.

Despite the near-term challenges, mortgages remain an attractive product for the Group, both from a return and an economic value perspective, as well as helping us to play a pivotal role in society that completely aligns with our purpose.

On slide 21, let me now bring to life the progress we are making in deepening relationships with customers through our direct channels.

SLIDE 21 – MOBILE-FIRST MORTGAGE ONBOARDING JOURNEY

We are seeing more of our customers wanting to explore mortgages digitally. As a result, we have transformed our onboarding process, enabling customers to navigate the mortgage journey more easily through a seamless digital experience, while supporting them to speak to one of our mortgage advisors at any point in the process.

The onboarding experience also allows us to integrate complimentary Group products such as mortgage linked protection into the customer journey. Although the transformation of the mortgage journey is in its early stages, we can see clear benefits. We are seeing a marked increase in the number of our mortgage customers who are taking up our protection proposition, as well as a material increase in our share of the relationship mortgage market. Our plans are to continually improve this experience and to make it easier for our customers to get mortgages from the Group.

Now, let me turn to how we are building a deeper and richer home ecosystem on slide 22.

SLIDE 22 – RICHER PROPOSITION THROUGH OUT HOMES ECOSYSTEM

Jayne touched on the home ecosystem, and this is one of the examples of how we are broadening our proposition. At its core, the ecosystem is a tool that allows customers to see the value of their home and manage their mortgage with a seamless, frictionless experience on the app.

In addition, we are creating a one-stop shop for all the ways customers can improve their home ownership experience, including linking with relevant third-party partnerships. Since we have launched this proposition, we have already seen great examples of customer engagement, with more than 200,000 customers using it each month.

We can also see incremental value in improved retention of these customers. In a more competitive environment, giving customers reasons to stay with us becomes even more important, and we have already retained close to £1 billion pounds of mortgage balances that would have otherwise been lost.

We would expect this contribution to grow over time as we further develop the offering and extend it to more customers. We see an opportunity to grow the active user base by around 10% through 2024.

On slide 23, I will now turn to the second of our growth priorities and our efforts to transform affordability.

SLIDE 23 – TRANSFORMING AFFORDABILITY TO DEEPEN RELATIONSHIPS

More than ever, customers want more confidence that they are eligible for a product before they start an application. Often, they achieve this by going to external providers that give them their credit score and an indication of what products they might qualify for.

To address this clear customer need, we have built a market-leading offering called Your Credit Score. This proposition was designed and built-in conjunction with TransUnion, and is a great example of how we can work with an external provider to create transformational experiences within our own app.

The tool, which you can register for through our app, not only shows customers their credit score, but at the same time helps them improve their score and offer suggestions on products that might suit their needs. We have continued to deepen the proposition over time, and the take-up so far has been phenomenal with 8 million registered customers since our launch. In addition, we have seen around two and a half million customers share their income and expenditure details to allow for a more personalized outcome.

Even more impressively, 60% of registered customers are using Your Credit Score every three months. This re-engagement level is significantly higher than the industry average. This has already increased our conversion rate with a 10-percentage point increase in the number of customers that complete a product application having started it. But more importantly, it has also created better customer outcomes and supported over 400,000 customers in improving their credit worthiness.

Pre-approval is a natural progression of Your Credit Score. The capability allows us to create certainty for customers so that they can have a frictionless experience when they apply for a product or attempt to buy something with credit.

Our ambition with this functionality goes beyond Your Credit Score, and we are integrating this capability not just within our own app, but also into third-party propositions.

On slide 24, I will now talk about how these changes are creating value in our loans and cards businesses.

SLIDE 24 – GROWING DEMAND ACROSS LOANS AND CARDS

The eligibility tools I just outlined are creating an enhanced pipeline for our lending products. For example, around 10% of customer demand for loans is generated through Your Credit Score, whilst over 80% of customers through third-party channels are now pre-approved.

And we have an ambition to grow this for the next year. This improved demand, combined with the work we have done on our credit cards and loans processes, is helping us take a greater share. For example, we have extended our loans proposition to third-party channels and opened them to customers who do not have an existing relationship with the Group.

This has grown our non-franchise loans from a point of no participation to 19% share of flow without changing our risk appetite. In addition, we have built a range of affluent propositions and more personalized products within our credit card business. The growth across both loans and cards is also in line with our strategy to grow these products in a low-risk way, focusing on pockets where there is unmet customer demand.

Let me now turn to the third of our growth areas, embedded finance on slide 25.

SLIDE 25 – SIGNIFICANT OPPORTUNITY IN EMBEDDED FINANCE

We see embedded finance as a significant opportunity to develop and shape what could be the future of consumer credit. Now, embedded finance means many different things to different people, but for us it is helping customers with a payment or lending proposition in a non-financial journey of their preference.

This market is growing rapidly and has the potential to be a major revenue pool. Having considered this carefully, we have decided that now is the right time for us to enter the market. We can see value for our customers as well as a path to creating a sensible and low-risk product that does not compromise on our risk appetite.

There are a range of potential embedded finance solutions across the market. Where we are at our most advanced is in e-commerce, which we see as one of the largest potential revenue pools. I will expand on this offering on slide 26.

SLIDE 26 – BUILDING OUR EMBEDDED FINANCE E-COMMERCE PROPOSITION

We have recently agreed on a partnership with New Day to launch an e-commerce instalment lending product in 2024. This partnership is built on innovative technology that allows customers to sign up once and then access point of sale financing across an extensive merchant network.

What is also unique about this partnership is the dual lending solution, which will mean that a very large proportion of a merchant's customer base will be eligible to pay instalments through this solution.

Whilst I should be clear that LBG will only be lending to prime customers, our partner, New Day, will lend to those beyond our appetite. We see this partnership as a considered and sensible way to enter the instalment lending market. It leverages our scale and gives us important capability in a fast-growing market, while crucially maintaining our prudent risk appetite.

Finally, I am going to talk about the work we are doing in our motor franchise on slide 27.

SLIDE 27 – LEADING, PROFITABLE AND GROWING MOTOR FRANCHISE

We are the UK's largest motor financing and leasing provider with vast scale. Our offering gives us very broad coverage and a large share of the entire motor finance landscape. We finance or lease more than 1 million vehicles, and we fit around 200,000 tires each year.

We have Black Horse, that is largely focused on vehicle financing for new and used cars. Lex leases cars to businesses and consumers, and then there is the newest addition to our franchise, Tusker, which provides salary sacrifice schemes for ultra-low emission vehicles.

Salary sacrifice is a fast-growing segment that provides a tax-efficient route for employees who want to drive a new electric vehicle. We are seeing a significant increase in the demand for low emission vehicles, and we have a clear target for £8 billion of financing and leasing of these vehicles by 2024.

Despite the recent volatility in the EV second-hand market, financing and leasing electric vehicles remains a commercially attractive opportunity. As you would expect from our business, the residual values built into our contracts are prudent, creating a material buffer to current forecast. Consequently, we see the motor finance business, including ultra-low emission vehicles, as a highly attractive market that aligns with our sustainability ambitions.

I touched upon Tusker briefly, let me talk about it in a bit more detail on slide 28 to finish up.

SLIDE 28 – TUSKER IS WELL POSITIONED FOR GROWTH

Tusker, like the rest of the motor franchise, has significant scale with a fleet size of over 30,000 vehicles. It has 1,600 business customers that employ 1.6 million people, and it is the largest player in a fast-growing market.

These customers include large employers in the UK such as Siemens and Scottish Power, and a range of smaller employers, including local councils. Importantly, in the context of the net-zero ambitions I just outlined, Tusker also has an auto book that is 90% ultra-low emission vehicles.

We also believe that the business has a clear strategic advantage. It is the preferred partner for nine of the 10 biggest employee benefits providers and offers best-in-class technology, as well as a comprehensive all-inclusive proposition.

Tusker meets customer needs for simplicity and is, I believe, a standout business in the market. From day one, Tusker has benefited from our scale in terms of the cost of vehicles and cost of funding. And of course, we can now utilize Tusker to support our commercial clients in their transition to net-zero.

As such, we view Tusker as a highly complementary acquisition that will be immediately accretive to shareholder value and has clear growth potential.

I have now talked to you through our strategic progress and continued aspirations in the consumer lending business. Hopefully, you agree that we are building on strong foundations while making significant strides in deepening customer relationships and expanding our proposition. These opportunities will enlarge our addressable revenue pool, with scope to unlock diversified income streams that support our Group ambitions.

Thank you for listening. I will now hand you back to Charlie to conclude our presentation.

Charlie Nunn

Thank you, Jayne and Jas, for your updates. As you can see, we have a lot going on, and we have made a strong start, increasing our confidence in future delivery. So, to conclude, our ambitions and consumer are built on strong foundations. As the leading franchise in the UK, we are well-positioned to deliver long-term sustainable growth that will generate significant value for the Group, enabled by strategic investment.

This is being delivered by meeting more of the needs of our customers and developing new propositions that our customers value. At the same time, we are building strong customer engagement through unique and highly personalized experiences, leveraging our strengths as a digital leader.

These strategic actions will enable us to realize our ambition of delivering a best-in-class and future-ready consumer franchise, while supporting our revenue, cost, and capital generation targets for shareholders.

Thanks for listening. I will now hand over to Douglas, who will facilitate the Q&A.

Douglas Radcliffe
Thank you, Charlie, and thank you to Jayne and Jas for your updates. For those that do not know me, I am Douglas Radcliffe, Group Investor Relations Director for Lloyds Banking Group. We now have about 45 minutes allocated for questions.

Firstly, a couple of questions that came into Jayne. Firstly, do you believe your physical presence still provides a competitive advantage in the market, and secondly, do you think your mobile-first offering allows you to compete effectively with Neobanks that are seen as the leader in this space?

Jayne Opperman
Super, thank you for the question. We do believe that having a physical presence alongside a best-in-class mobile app provides us with a competitive advantage.

We see a lot of our most complex needs still coming through our physical channels, and over time, they are becoming more advisory in nature as the simple servicing moves out through digital.

In terms of competing with Neobanks, if you look at the breadth of our mobile offering, I would say we have a much fuller offering of financial products and services than many of the Neobanks. We have 21 million digitally active customers and a really strong NPS and feedback from customers.

If you look at things like our cost to serve of our digital customers, we compare very well with the Neobanks. So yes, I think we are competing very effectively.

Douglas Radcliffe
Thank you, Jayne. Jas, one of the things that you referenced within your presentation was the embedded finance and instalment pay market. Why is now the right time to enter that market?

Jas Singh
Thanks, Douglas.

So, we can clearly see this part of really good consumer demand that's unmet today. We can see more and more consumer behaviour is to be part of a broader digital buying journey, and they want payment or lending to be more seamlessly embedded in it. You can also see there is about 2 million of LBGs customers who use some format of embedded finance in their day-to-day lives.

Now, of course, not all of those 2 million customers would fall within our credit appetite, but between 30 to 40% of those customers have unmet needs today that we haven't met. But also, as I said in my presentation, we think, done in the right way, embedded finance has the potential to be the future of consumer finance.

Hence, on balance, we have taken the choice to participate in this market now and build our participation up in a gradual fashion.

Douglas Radcliffe
Thank you very much indeed. There is another question here which has come to yourself, Charlie. It is relating to the acquisition of Tusker that Jas talked about earlier, but more interestingly relating to M&A more widely. Your acquisition of Tusker seems to have complimented your strategy. Do you have any further plans for M&A in areas where you may struggle to achieve scale organically?

Charlie Nunn
Thanks for the question. Now as we always said at the start of the strategy that we set out in February 2022, Plan A is an organic growth strategy for this period of time through 2024 and 2026. But we would look opportunistically at capability or infill acquisitions where they made sense.

We did the Embark acquisition in 2022, and the Tusker acquisition. And they are two great examples. It was great to hear Jas talking through Tusker because we feel really good about the synergies we've delivered, and actually, we'll talk about this in one of our next or upcoming seminars. But, Embark, we've done a number of things with it, but recently we launched something called our Ready-Made Investments journey, where we've started to bring investments journeys to a lot of Jayne's customers, which is another really good example of synergy.

So yes, we will continue to look opportunistically at those kinds of acquisitions, but the core of this strategy for this phase is getting that organic growth, building our operating leverage around capital and costs, and delivering the outcomes we have laid out for shareholders.

Douglas Radcliffe
Excellent. Thank you, Charlie.

Andrew Coombs at Citi has asked- Can you provide further detail on your on-sale versus off-sale deposit book? What are the respective proportions? How does pricing compare?

Jayne Opperman
Great, thank you. Some of the challenges that the industry had been working through, particularly in respect of consumer duty, has been that kind of fair value across on-sale and off-sale deposit books. We have got a very clean set of deposit products where there is not the differential pricing between our on-sale and off-sale deposit book.

This is a conscious choice by us to make sure that we are offering the best value for customers. I might just expand on the answer, given what we have seen in the deposit market.

Overall, we have been pretty pleased with our deposit performance. William and Charlie would have commented at the first half that, whilst balances were broadly flat, we did see PCA slightly down, but savings up. And at the half-year, we spoke about recapturing two-thirds of the PCA outflows into our own savings propositions.

We were really quick to market with some innovative products. So, we know that whilst price is important, it is not the only thing that our customers tell us about. They are very interested in making sure their money is with trusted brands, and they have the access to the funds and liquidity that is of interest to them.

So, we have a full range of products. We have fixed-term products, we have instant access, and then we have got a hybrid limited withdrawal product, which has been really popular, and we've grown £10 billion of balances there. We have doubled the balances in our fixed term book this year.

So while it's been a very competitive market, I think we are faring better than most of our peers. We had a two-percentage point lower deposit outflow in each one versus the High Street banks. Hopefully, that's helpful.

Douglas
Excellent. Thank you, Jayne.

The next question relates to both Jayne and Jas; How important is insurance within the cross-sale propositions that you are talking to?

Jas Singh
It is definitely an integral component of our overall proposition that you go to customers with. As you might have heard when I was talking about my update and what we are doing with mortgages, we are seeing a clear difference in being able to talk to more of our customers about mortgage protection and home insurance.

Even within our home ecosystem, I talked about the entire home ownership experience. Part of that also comes from providing them home insurance. So, we are definitely seeing an important part to the lending proposition is to have relevant and targeted insurance products being offered alongside the lending product itself. Jayne, anything to add on that?

Jayne Opperman
I think a lot of the work that our teams have been doing, putting the mortgage journeys into our digital channels and on our mobile app, we know that we have seen around a 4% increase in insurance products because we've combined the journeys, because we've made it really easy for customers to discover them.

Both existing customers and new customers can use the Home hub to look across our full range of mortgage and home products, including our protection products.

Douglas Radcliffe
Thank you. Jayne and Jas, both of your presentations have highlighted some very positive developments in the business. What do you see as the key execution risks in your respective areas? Jas, perhaps you could start again.

Jas Singh
Thanks, Douglas. So, I am pleased that you recognize the positive developments and the progress we have made over the last few months in executing on our strategy. I mean, in some sense, the things that we can control are, how do we make sure we are delivering good customer outcomes?

How do we make sure the propositions we are launching are done in a fashion which is true to what the intent is. And I feel really, really good about that.

I feel really good that we can manage good customer outcomes, we can manage good propositions. I also feel good about the fact that we have started to build relevant and targeted third-party partnerships that help us deepen and enrich our overall proposition.

And that is, again, a great place to be in. The things that obviously remain outside our control is what is happening from a macroeconomic perspective, what's happening in society overall. But again, if you think about the changes that have happened in the last few months from a funding rate perspective and the impact that has had to not just mortgage customers but all customers who've got relationships with the bank. I feel really good of how nimbly we've reacted and been there from a proactive perspective to talk to our customers and offer them help and support, but we can't completely control the changes outside us.

Jayne Opperman
And I think I would add, pace is super important. Customer expectations are rising all the time, and our competitive landscape is also very different. So we are getting much better, I would say, at driving the pace of change.

The key execution risks for us come from not prioritizing correctly or not thinking about the roadmap and sequencing the changes across the entire bank.

Part of our holistic customer value propositions is bringing all of the different products and services across Lloyds Banking Group to our customers. Having an incremental minimum viable product approach, just as the tech companies do, is an important part of the way that we protect our ability to execute and get some great outcomes into the market for customers.

Douglas Radcliffe
Thank you, Jayne. We have had another couple of other questions come through. This one is from KBW. How does the inflationary environment change the cost benefit dynamics of the investment program set out at the beginning of the strategic update? For example, have you had to spend more to achieve the same efficiencies, or have certain product sets, e.g., deposits, become more profitable and therefore more attractive to investing?

So perhaps it is something, perhaps, Jayne, you could address first, and then either Charlie or Jas, you may want to add some extra content to that as well.

Jayne Opperman
Yeah, great question. Thank you very much. Our ability to manage through the cycle, given both sides of the balance sheet, is obviously one of our advantages in terms of our investment program and how inflation has changed that. We have had to look at ways to be more efficient in terms of delivering the change, but managing our cost is something that we're very good at.

We balance the benefits that we have through our investments. A number of them are cost benefits, a number of revenue benefits, and we've had to optimize the mix in the current environment. But on balance, I think we are managing that well.

Charlie Nunn
Maybe I will just add a couple of thoughts, just the more macro view applying that Jayne just laid out, which I obviously agree with.

Just in terms of dealing with costs, as you know, we raised, I mentioned it in my intro, we raised our gross cost savings ambition from £1 billion to £1.2 billion, and that was because of this higher inflationary environment. That enabled us to stay true and committed to our cost targets that we have laid out for 2024.

And we thought that was important, but also as Jayne said, to continue to drive the level of change based on greater efficiency. So, I think that is really important.

The second thing is obviously what is driving the inflation and the higher rate cycle. I know I have said this a few times, but we did, at the end of 2022 and again this year, just look back at the strategy and say, "Does this still work for 2024 and 2026?" And our conclusion was actually the actions we're taking are even more important in this higher rates and higher inflationary cycle.

For the reasons Jayne said, for us to be differentiated from other High Street banks and other Neobanks in the UK, really being more customer-centred, rebuilding on our digital capabilities, getting the other operating income growth, these are the things that will be differentiating. We looked at all elements of the strategy, and we concluded the right thing to do was to double down.

Douglas Radcliffe
Excellent. Thank you, Charlie.

Redburn had submitted two questions. Firstly, how does the pricing work in the instalment lending partnership with New Day, given they are providing the balance sheet? Now, you may want to clarify on that particular element there. Is it a price per transaction and what kind of share of this do you take?

And secondly, on embedded finance, how do you sell this to merchants and how do you price? Is this on a subscription basis? Do you provide the merchant balance sheet for this as well?

I think, Jas, both of those are questions for you, which I think is probably a bit of clarity on how the relationship works.

Jas Singh
Sure, thank you, Fahed. So, there's a couple of bits in your question. How does the pricing work from a consumer perspective? So, I should be very clear. The way we will design the journey, the way we designed the proposition is customers who meet within our credit appetite would sit on LBG's balance sheet. They would be offered pricing that is in line with how we think about pricing today for similar type revolving products.

Customers who sit outside of LBG's credit appetite, who would fit into New Day's risk appetite, would sit on their balance sheet. And for those customers, New Day would choose to price independently and how they think about pricing in line with their credit appetite and their risk profile. So, there are two different things. So, our pricing would work for our customers.

I think the other part of your question was, "How would it work with merchants?" So, it is very early days, right? But again, we have started to have some really good discussions with merchants about engaging with this proposition. Generally, what I think in this market, pricing works from a merchant perspective works in a few different ways. The merchant gets a fair bit of value in being able to complete on a transaction that they might be worried that might not go through.

So let me give you an example of someone who might be a hypothetical merchant, and this is truly hypothetical, who might be looking to sell refrigerators on the website, their benefit might be in the fact that they might complete on a transaction that might not have happened. So, there's value to the merchant in that particular case.

And what we might find on a case-by-case basis is actually there is return to us from the merchant, from us being able to offer lending propositions.

In other cases, we might want to just partner with the merchant because the benefit to us comes from having the lending value. We might want to partner the merchant in a different fashion. It will evolve as we go along. But there is a clear customer need and a customer proposition, and there is a clear merchant need and a merchant proposition. But our lending on our balance sheet will be within our appetite.

Thanks, Fahed. Thanks, Douglas.

Douglas Radcliffe
Excellent, thank you. We now have a couple of questions from Robin Down at HSBC.

The first question. "Lots of time has been spent looking at the Consumer Duty and savings. What impact do you think it could have on SVR mortgages when the Consumer Duty is extended to existing products next year?

Can a 350 basis points spread on SVR mortgages represent fair value when new tracker mortgages are being priced around a hundred basis points? Does SVR have a future?" Jas, if you answer that one first.

Jas Singh
Of course, absolutely. Thank you. And again, a few different things in there. So, Consumer Duty already applies today to how we think about standard variable rate mortgages. It applies to our entire mortgage book. Again, I feel good about the fact that we have always focused on making sure we think deeply about customer outcomes.

Even before we start thinking about consumer duty, we have been incredibly proactive over the last multiple months, reaching out to customers to tell them about the fact that their interest rates are changing, to make sure that they understand what their new interest rates are, and to make sure they are clear about their options going forward.

We see a clear reaction as interest rates have moved up over the last few months. We've seen more and more customers say, actually, I don't want to be on standard variable rate, and I want to refix to a different rate." Having said that, the vast majority of people who are on standard variable rates understand their options.

And actually, in a proportion of cases, they prefer to be on a variable rate. It could be because their average mortgage is smaller, their mortgage size is smaller, or it could be that they have got a few years to go to pay on their mortgage.

So, there's a clear choice in there. From where I sit right now, I do not think there is a scenario where standard variable rate disappears because of Consumer Duty.

Our role and the onus on us will be to make sure we continue to provide clarity to customers about the product they are on, the rate they are on, and the options they have got to make sure they're getting good value from their mortgage.

Thank you.

Douglas Radcliffe
Thank you, Jas. And the second question is actually for yourself as well. So the second question was relating to Tusker and whether it's appropriate to continue to look to fund electric vehicles given the uncertainty with regard to residual values.

Jas Singh
Yeah, thank you. So, I guess there's two parts of uncertainty with electric vehicles. One is here and now residual value. And the second is what happens to consumer demand or take up of electric vehicles.

And of course, there has been lots of conversations the last few weeks with the government changing their dates and deadlines about when we should move to fully electric vehicles. Let me do the second bit first, right? What has not changed is the expectation of the mix of electric vehicles that car manufacturers need to offer between now and 2030. What also has not changed is the clear consumer benefit that comes from salary sacrifice schemes, which largely resides in the benefit in kind benefit from people paying for electric vehicles pre-tax salary. So that has not changed, right?

What has changed over the last few weeks, is we have seen a drop in electric vehicle prices. As I said before, as you would expect from us, we have fair bit of prudence in how we think about residual value in electric vehicles. We have a fair bit of prudence to make sure that there's sufficient buffer that if electric vehicles do reduce in value that does not have an impact on the LBG balance sheet.
And over the last few weeks, prices in electric vehicles have broadly plateaued. The one thing that we have talked about in the past, and we continue to talk about this to government and to regulators, is it might be helpful at some point to think about support from the government on the second-hand electric vehicle market that I think will provide more stability to help mould customers to be able to transition to electric vehicles.

Douglas Radcliffe
Thank you. Let's take now the questions that came from Ali at Morgan Stanley. The first of which is for Jayne, and the second one is for Jas. The first question was on current accounts, you mentioned the 24% market share in PCAs. How is that translating into lower deposit costs? Have you benchmarked your total deposit yields versus peers and where or how much visibility or confidence do you have on the stability of the PCAs versus migration into term?

And whilst you are considering the answer to that, Jas just so you're aware on the other one. There seems to be a lot of very strong competition in mortgages. How do you balance defending your market share versus pricing discipline and do you think recovery in personal lending or the new launches will be able to offset lower contribution for mortgages and still grow the business?

Perhaps Jayne, if you respond to your question, please.

Jayne Opperman
Thank you for the question, Ali. So, look, our scale is definitely an advantage when you look at the cost of deposits. In terms of the stability into the future, I think that it has been an extremely dynamic market. We might expect with fewer base rate changes to come that that volatility reduces somewhat with fewer nudges for customers to move.

We have seen some offset with some inflation related wage settlements coming throughout the period. And including most recently in September, we saw that further. I think when we look to the future, we are confident that we can, through our savings products, capture any future churn. I think we will certainly see a lower level of PCAs across the industry and we are ready with a range of products to try and capture any of those movements as much as we can. And we have been successful up until now.

Douglas Radcliffe
Thank you. And Jas, perhaps the second question, which was more about market share versus pricing.

Jas Singh
Thanks, Douglas. It is obviously very high on our minds, so we spend a lot of time thinking about what's going on externally in the market and how do we make sure we stay true to our role, which is to be custodians of long-term return, but also making sure we're helping customers with providing a high value proposition.

Jayne and I sit on a weekly pricing committee every week. We actively look at trade-offs and choices and participation on how we think about making interventions on where we need to think about pricing differently. At its core, and I said this before, mortgages provide a strong return from an economic value perspective for the Group and we make sure we stay true to that, true to that discipline, and I've done this for a few years. I am pretty comfortable. I know we think about the short term and the long term in this particular space.

I think the other part of your question was, would new lending offset a contribution from mortgages? You should think about them as slightly different because in some sense the relative size of those markets are very different. Unsecured lending is a much, much smaller market compared to mortgages, which is a much larger market. They have different returns profiles, they have different net interest margin contributions and they also have very different customer needs.

I think something Charlie touched on earlier on when we had the discussion with the board last year and we talked about our strategy, we continue to think about our strategy at a holistic portfolio level. We continue to think about our strategy as making sure we are meeting the needs of as many customers as we can and that remains top priority for us.

Charlie Nunn
Douglas, can I just stitch those questions together because it is a really good question and obviously William and I had a whole set of questions around that at the half year. I am sure William will do at the next quarter, but we gave guidance for 2023 that our overall NIM, net interest margin would be greater than 310 basis points. And that included our assessment of how deposit churn evolves, how the pass on in savings evolves competitively, and then the dynamics that Jas was just talking through.

And obviously we expect some of those trends to continue, but we've been seeing that Lloyds Banking Group has been competing very effectively or better than other high street banks and that's what we expect. The customer behaviour should continue to evolve, but we will continue to outperform in that context.

And obviously as we get to the year-end, we will give guidance I'm sure into 2024. But I think the important thing is all of these trends we are still seeing are consistent with that guidance that William gave at the half year.

Douglas Radcliffe
Thank you. The next few questions are from Aman at Barclays. Firstly, for Jayne, can you elaborate on your comments regarding expecting additional deposit mix shift from here despite less deposit prompts, how much is that likely to be?

In particular, can you give anything to help provide confidence on how low current account balances can realistically go? In particular, why pre-financial Group crisis level balances might not be the right reference point?

And secondly, this may be a question that Charlie, you want to input into as well and clearly Jayne and Jas, but secondly, on strategic revenues, how much of that is NII versus OOI and how exactly will we be able to discern between the impact of rising rates, hedge tailwind versus strategic revenues? What KPIs prove these are strategic revenues instead of rates?

Jayne Opperman
Great, thank you. Look, I think the customer behaviour that we have seen up until now has obviously been in favour of higher rate savings products depending on what we see from the base rate. We do expect certainly in the second half a move towards fixed, maybe some in our instant access, but we are still seeing the shift in mix.

One of the things that we have not spoken about I guess is the structural hedge and the role that that plays in balancing the Group position. I do not know if you want to add anything to that.

Charlie Nunn
Well again, we have said on the structural hedge at the half year, the guidance we had at the half year we still feel confident in, and we'll continue to give updates around that. But the guidance we gave is that we see the structural hedge being slightly smaller than we entered the year at, but still not materially changed. And obviously as we look at the returns, we are reinvesting the structural hedge at a higher level than we had anticipated going forward.

So, we feel good about the structural hedge. That builds in the second half of this year. It will continue to build next year, and we gave guidance this year, it'd be about 800 million pounds worth of additional revenue and then it continues to be a really important part of our stability of our earnings as we get into 2026. So, confidence in the structural hedge. Should I do the second question?

Douglas Radcliffe
That probably makes sense.

Charlie Nunn
And if you want to add Jas, but it is a really important question more holistically. And if it is all right, I'll go back to where we do have guidance. So just on strategic initiative revenues. And Aman, thanks for the question. As you will recall, our 2026 target for the Group of revenue growth linked to strategic initiatives is £1.5 billion pounds and 50% of that's other operating income. So, we didn't give a split for the £700 million in 2024.

We obviously have a view of that internally, but we are externally guided towards 50% in 2026. You will see as we continue to disclose, as you saw at the half year, the Other Operating Income will be linked to specific businesses where we are capturing market share and where we are growing transactional fee-based businesses and I think that'll be really easy for our investors to see and that'll be important.

On the NIM, we recognize that obviously some of the shifts in base rates and then NIM will be a really significant up and down if you like on the strategic initiatives. What we will continue to do is show you the underlying drivers of NIM. So if it's numbers of valuable customers, new asset balances or deposit balances that we've grown as a result of our strategic initiatives, we'll definitely give you that view as we go through the next few years.

You have seen some of the metrics we committed to, but that is why we also gave you overall aggregate Group outcomes. So, the overall Group ROTE and the Group capital include the impact of the gross and net changes. So, we will make sure you have exactly that split in mind between gross versus net and then our overall contributions and we'll make sure we continue to give you enough transparency around the net growth in customers balances, AUAs, and then OOI that you can get confidence in what we're doing.

Douglas Radcliffe
Thank you, Charlie. The next questions come from Rohith at Bank of America. Two of these relate to yourself, Jayne and one to Jas. So, the first question was, Jayne, you have already exceeded the digitally active customer target. From here, is the focus enabling those customers to do more with you or is there a continued focus on moving more customers to digital? And the second

element, which was relating to meeting customer needs, are there particular areas of success or products that have proved particularly harder?

And Jas, the third question which related to yourself was what do customers typically use the home ecosystem for? How does it increase retention? What percentage of mortgage customers use it?

Jayne Opperman
Thank you Rohith for the question. Look, in terms of whether we are focused on driving and activating more customers to digital or doing more with those that are already digital, I think you will not be surprised to hear me say that it is both. I mean a lot of the customer behaviour changes are driven by us creating more intuitive experiences on the mobile and quite often we have a rising tide of customers just more broadly adopting digital in their lives.

So, we will continue I think to encourage and see customers elect to use more digital tools, including our mobile app. I suspect that the refresh that we have got planned for next year, which will make it even easier for customers to adopt the mobile, we will see a further push.

But of course, once they are in the environment, having highly tailored and personalized experiences and offers does help us deepen the relationships and that is proving extremely effective.

I said earlier that we have had 15 million of our customers sign up to personalized marketing and as a result this year we have seen a 60% increase in sales on the mobile app.

So, this is a really strong channel for us. In terms of the second part of the question, are there parts or products that have proved harder? I would say one thing we are working hard on is our ability to help customers invest and our ready-made investments product that we've launched, and you'll get to hear more about how the progress of that has gone in our March seminar. This is our attempt to just make it super easy for customers to invest in products digitally.

It is obviously no advice in there, it is all self-directed by the customer and the onus has been on us to make that as simple as possible and I think we are building new muscles as we do that. Thank you.

Douglas Radcliffe
Thank you.

Jas Singh
Thanks Douglas. Thanks. So let me describe a little bit of what experience you get when you get to the home ecosystem. The first thing you see is you see what your home's worth. And the reason I start from there actually is societally, we all want to find out what our house is worth every single day of the week. And we realized somewhere in the back of the bank, we know exactly because we do valuations for all houses every month, we know what someone's home is worth.

So, we try and bring that, we brought that to the front. So, you go to the home ecosystem, you see what your home's worth. And then of course then we talk about your loan to value. We talk about your size of the mortgage and then we show people what their monthly payments are like. But one of the things that we get the most amount of engagement on or very high levels of engagement on is people coming to the end of their fixed rates and when they come to explore their options.

We have provided a very simple, straightforward journey for them to refix their rates at a time of their choice. And hence in my presentation, I talked about we have seen an incremental billion pounds of balances retained that we would have otherwise lost. And that is predominantly because these people go to the home hub and they experience a simple friction-free journey, to refix their rates. There are other things on the home hub. I think I said before, you could see options for home insurance. We will try and expand it in the future to do more things, including how might we think about providing consumers with their EPC rating of their home, how might we think about providing retrofit options and probably start to deepen and enrich the home hub in that space.
I think the other part to your question was what percentage of the mortgage base uses it? So roughly, roughly we have got about 2.2 million customers who have got mortgages with us. I said we have got 200,000 customers who use it very frequently every month. So that is why we have got lots of opportunity to get more of our customers to engage with us on the home hub.

Douglas Radcliffe
Thank you, Jas. The next two questions also come to yourself. Raul Sinha from JP Morgan has asked two questions. Firstly, could you elaborate on your comments around the mortgage margin pressures starting to ease in 2024 and disappearing by the end of 2025. How big is the headwind in 2024 and should we assume that it is a linear profile of improvement?

And secondly, could you discuss the profitability of the cards business? How does the product profitability look like in an environment of higher rates and lower revolving balances along with the focus on rewards?

Jas Singh
Okay, thank you. Thanks Douglas, and thanks Raul. So, let us do mortgage margins first. So, I think the last time William would have talked about this at the H1 results, we talked about our mortgage margins of new business we are writing were around the 50-basis points mark. I think we also talked about this in the past.

If you think about the peak of margins where mortgages that were written way back in the post COVID and that is around the 150 to 200 basis points mark. As those mortgages mature, you can start to see the impact of the drag unwind. In the here and the now, we think margins will probably be below the 75 basis points mark, but we expect that to start to shape differently over the medium term. That is the drag that we see in terms of the impact on mortgage margins on LBG.

I think the other part of the question was profitability in credit cards. Yes, you are right. Higher funding costs means that the people who are transacting and paying off with us have lower returns in isolation. One of the things I guess you get with credit cards is there are other options to think about value and trade off in customers.

If we start to see risks and concerns about impairment, we have the option to think about risk-based pricing because the way credit cards are set up is that they are open-ended products in that sense. But of course, we have other options to think about the cost of cashback and the value of cashback and how we can change that on an ongoing basis.

It is something we monitor on a very, very active basis. But also, and I will go back right to the top right, we also do continue to think about these products and propositions through the cycle business.

So, we need to continue to think about them not as transactors in isolation, what value do we get right now? We need to make sure as they are part of a deeper, richer relationship with the customer, we provide a value proposition to a customer for the long term. Thank you.

Douglas Radcliffe
Thank you. And the final question is for Jayne and Charlie. I believe that part of your strategy is about migrating your accounts to a new technology platform. Are you able to comment on progress and any milestones that you want to achieve, please?

Jayne Opperman
Very good. I will start. We have a number of new cloud-based technology platforms that we are adopting. We all know that big migration programs are not things that we go into lightly. So, our approach is very much to minimize the amount of migration that we need to.

So, we will build out new products which are highly digital in nature and deliberately we do not want to bring across any of the legacy features. So, our approach here is to build out on the new so that we run off on the old and we minimize the amount of migration, which does come with execution risk. We have learned a lot about that over the years gone by.
So, our whole approach is actually to minimize migration and to move gradually our legacy estate to a more modern cloud-based architecture. And like others, it is a long road, but we're making really good progress.

Charlie Nunn
The only thing I would build, Douglas, is it's one of the things I've been really pleased by the teams working in the last 24 months. A lot of the new experiences that Jayne and Jas talked about today have been launched on new tech stacks using new modern technologies sitting on cloud environments or still leveraging the strength of our existing product engines and core systems.

So that modernization that Jayne talked about is really what is delivering these experiences. But what is great about them is they enable you to operate at a really agile, fast-paced level of change going forward. So, we can be nimble around responding to customers and really winning in these product and proposition areas. So great question.

As you all know, it is a question I love, but it is one of the areas we've really been executing probably ahead of my expectations.

Douglas Radcliffe
Thank you, Charlie. So that now concludes all the questions that we have received directly. So, I'll now pass back briefly to Charlie for some closing words.

Charlie Nunn
Great, thanks Douglas. And again, thanks Jayne and Jas for leading us through this today. We really hope you found this helpful. I really valued you listening in and taking the time to listen to Jayne and Jas in more detail. As you know, this is one of our four growth priorities and we really look forward to sharing the next one, which is more detail on our corporate and institutional franchise in the second event at the end of November.

Before then, of course, we have got William who will be hosting our Q3 results call late this month. So just thank you again from us for joining and we really look forward to the next conversation.

END

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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