LLOYDS BANKING GROUP PLC – 2021 FULL YEAR RESULTS AND STRATEGIC UPDATE – PRESENTATION TRANSCRIPT
(amended in places to improve readability only)

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LBG:
Charlie Nunn, Group Chief Executive
William Chalmers, Chief Financial Officer
Douglas Radcliffe, Group Investor Relations Director (moderator for Q&A)

Charlie Nunn
Good morning, everybody. It is great to be here, to see so many people in the room today and I would also like to welcome everyone joining us on the webcast and the phone lines this morning.

Since I joined the Group, I have spent a lot of time getting to know the business and our people. It is great to have the opportunity to speak directly to you, our investors and analysts.

I have been with Lloyds for over 6 months now, and I have to say that I am even more excited about the opportunities for the Group today than I was when I joined.

I have seen for myself that Lloyds Banking Group is an organisation with significant competitive strengths, a fantastic franchise including the UK's leading digital bank, and great people. But there are also some real opportunities for the Group to grow, whilst maintaining cost and capital discipline. We have a powerful Group purpose, Helping Britain Prosper. This underpins our new strategy and is integral to everything we do.

As you will hear, I believe that building on these strong foundations and raising our ambition on our purpose, growth and efficiency will enable the Group to deliver higher, more sustainable returns to investors whilst meeting the needs of our broader stakeholders.

I am pleased to be able to share the details of our new strategy with you today. But before I do that, I know you will want to hear about our performance in 2021, so I am going to hand over to William now to run through the strategic and financial progress the Group has made over the last year.

William Chalmers
Thank you, Charlie. Good morning everyone and once again thank you for joining and to those of you in the room, it is great to be with you in person today.

Let me turn first to an overview of the financials on slide 5. Lloyds Banking Group delivered a solid financial performance in 2021 alongside continued business momentum.

Net income of £15.8 billion is up 9 per cent on 2020, supported by a net interest margin of 254 basis points, up 2 basis points on the year.

We remain committed to efficiency. Our cost:income ratio for 2021 is 56.7 per cent and operating costs of £7.6 billion are in line with guidance. The small year on year increase in operating costs was driven by the accelerated rebuild of variable pay, off stronger than expected performance which I mentioned this at the half year.

Asset quality remains strong and, combined with the improved macroeconomic outlook for the UK, supports a net impairment credit of £1.2 billion.

Driven by this solid underlying financial performance, statutory profit after tax of £5.9 billion and the return on tangible equity of 13.8 per cent are both significantly ahead of the prior year.

In this context, we have seen continued balance sheet growth and strong capital build of 210 basis points in the year. The Group's exceptional capital position has enabled the Board to announce a share buyback of £2 billion, alongside the ordinary dividend of 2 pence per share for the year. Our total distribution for 2021 is equivalent to £3.4 billion, or around 10 per cent of the Group's market value.

I will now turn to look at how we have helped Britain Recover during 2021, on slide 6. As you know, our purpose as an organisation is to Help Britain Prosper. Within this in 2021, our focus was on Helping Britain Recover, and specifically addressing areas where we can make the most difference.

We have supported over 93,000 start-ups and small businesses in 2021, exceeding our original target of 75,000. We have lent over £16 billion to over 80,000 first-time buyers and provided over £3 billion of new funding to social housing. And importantly, we are also making progress against our diversity targets, although we clearly need to go further to meet our ambitions in this area.

Now, moving to other aspects of our strategic progress in 2021 on slide 7. We outlined Strategic Review 2021 a year ago for a period of transition. I am pleased with the progress that we made during the year. Our execution has provided a strong foundation for our new strategy.

Touching briefly on some of these achievements. We have maintained our record all-channel net promoter score at 69, seen £16 billion net growth in open book mortgage balances and delivered over £7 billion of net new open book assets under administration in Insurance and Wealth.

Alongside, we saw increasing customer usage of our digital channels, including growing the number of SME products originated digitally by around 60 per cent and onboarding three times more clients to the new cash management platform versus 2020. We also established some important proof points in technology R&D.

Finally, like many businesses, we are rolling out new hybrid ways of working. We have managed to reduce office space by around 9 per cent in 2021, ahead of our target of 8 per cent.

I will now look at the Group's financial performance in more detail, starting with the solid net interest income performance. NII of £11.2 billion is up 4 per cent year on year, benefitting from a 2 per cent increase in average interest-earning assets and a stronger net interest margin.

AIEAs of £445 billion are up £10 billion in the year, with strong mortgage growth more than offsetting modest reductions elsewhere in the portfolio.

The margin of 254 basis points was resilient, with the Q4 margin of 257 basis points up 2 basis points on Q3. Within Q4, the impact of competitive mortgage pricing was more than offset by rate rises and lower funding costs.

We remain positively exposed to rate rises. Currently we would expect a 25 basis point parallel shift in the yield curve, and associated base rate rise, to benefit interest income by around £200 million in year 1. This number is illustrative and based on the same assumptions, including the 50 per cent pass on, as we used in Q3. We provide further disclosure on this in the appendix.

Looking forward, we expect low single digit percentage growth in AIEAs in 2022. This will be supported by growth in the mortgage book and recovering unsecured balances. We now also expect the margin for 2022 to be above 260 basis points.

Given the importance of mortgages to the Group, let me look at this book in more detail on slide 9. As mentioned, we saw continued strong mortgage growth in 2021. Balances were up £13.7 billion in the year, including open book mortgage growth of £16 billion. Q4 saw modest open book growth of £0.7 billion, based on a somewhat slowing market and our own participation choices. Meanwhile the back book of around £64 billion is down 16 per cent on 2020, seeing stronger attrition in Q4, given customer remortgaging in the context of rising rates. Clearly that pattern could continue.

It is worth touching briefly on mortgage margins. As you know, the market has become increasingly competitive in recent quarters, with new business pricing moving below the level of maturities in the fourth quarter.

This results in pressure on mortgage margins. Completion margins across Q4 were around 115 basis points, below front book maturities of about 150 basis points.

Looking forward, we expect the Group margin over time to continue to be impacted by maturities of higher-yielding business repricing at then prevailing levels. This will of course apply to the proportion of the whole book turning over in any given period, including refinancing existing customers. To give you a sense of scale on this, in 2021 this number was around £90 billion.

With that said, we continue to see mortgages as attractive from a returns and an economic value perspective.

Now turning to our other asset books, on slide 10. UK consumer finance balances are down £0.8 billion on 2020. However, despite an Omicron-induced pause in December, we are seeing improving spending levels and are starting to see some growth in credit cards. Balances in the card book were up £0.5 billion in the second half of 2021.

A large part of the net consumer finance decline is due to the £0.7 billion reduction in Motor Finance balances, mainly in the first half. This, in turn, is significantly the result of supply chain constraints seen across the motor industry, which are now showing signs of easing. Commercial Banking balances are down £2.8 billion in the year. This includes a £1.2 billion reduction in Government-backed lending schemes and a £1.6 billion reduction in the other underlying businesses. That is driven by elevated levels of client liquidity which are likely to persist in 2022.

Now, looking at the other side of the balance sheet on slide 11. We continued to see significant deposit growth in 2021. Deposits increased by £25.6 billion in the year, albeit reducing £2.8 billion in Q4. The deposit margin of 15 basis points in 2021, 17 basis points in Q4, reflects a low overall funding cost.

We continue to see inflows to our trusted brands. Retail deposit balances were up almost £28 billion in the year and £3.8 billion in the fourth quarter. This has given lower levels of customer spending and of course higher levels of saving.

Commercial deposits are down £3 billion in the year, following a reduction of £7 billion in the fourth quarter. The Q4 pattern reflected our business optimisation activities.

In aggregate, Group deposits are now around £65 billion higher than at the end of 2019. This gives the Group opportunities to further serve customers, as well as increase our pool of hedgeable balances. This is outlined on slide 12.
In the context of our significant deposit growth, we have increased the structural hedge capacity by £30 billion during 2021, that is to £240 billion. Hedge capacity has now increased by £55 billion since the end of 2019, based on our continued review of deposits' hedge eligibility and deposit growth of £65 billion over the same period.

In response to the positive movements in the yield curve in 2021, we have reinvested the nominal balance up to the approved capacity of £240 billion.

Meanwhile, the weighted average duration of the hedge remains around 3.5 years, which is slightly below a neutral position of 4 years.

Based on this, we have seen gross income of £2.2 billion from hedgeable balances over the year.

Looking forward, we have around £30 billion of maturities in 2022, which gives us flexibility to invest. Together with rates moves, based on our planning assumptions, 2022 hedge income will be ahead of 2021 and then again we expect a further modest increase in 2023 and 2024.

Now moving to other income on slide 13. Other income is showing early signs of recovery. We delivered £5.1 billion in 2021, up 12 per cent on the prior year. As said, the year benefitted from improving performance, particularly in Retail, Insurance & Wealth and our Equities business, while Commercial Banking has been broadly stable.

Other income of £1.3 billion in the fourth quarter includes a benefit of around £80 million from insurance assumption and methodology changes.

If you strip out this less predictable item, the underlying run rate for Q4 was around £1.2 billion, in line with my comments over recent quarters.

Looking forward, we expect the underlying run rate in other income to build gradually, dependent upon customer activity levels, and including our new and continued investments. You will hear more about our strategic ambitions in other income from Charlie in the next section of our presentation.

Finally, and as discussed at Q3, look out for the IFRS 17 impact in 2023.

Moving on, the Group has maintained its focus on cost efficiency during 2021. Let me talk more about this on slide 14. Operating costs of circa £7.6 billion for 2021 are in line with our guidance. As mentioned previously, the 1 per cent increase in operating costs includes rebuilding variable pay, which in turn was driven by our stronger-than-expected financial performance.

Remediation of £1.3 billion is significantly higher than 2020. Importantly, this includes a charge of £790 million for HBOS Reading, with £600 million recognised in the fourth quarter.

The Q4 charge reflects the estimated future operational cost and redress for HBOS Reading. In respect of this, please note that uncertainties remain around the timing, flow and indeed the ultimate cost of decisions from the ongoing independent panel re-review.

Continuing our recent moves towards increased transparency and holistic cost management, from Q1 we will report all restructuring costs except M&A-related costs within our operating cost line.

In line with this, from Q1 we will also move certain fraud costs out of impairment, into operating costs, better reflecting the nature of these transaction-driven expenses.

Using 2021 as an illustration, the combined impact of these reallocations would have increased above the line costs by around £685 million to £8.3 billion. I stress that this is simply a reallocation and will clearly have no impact on the bottom line.

After this move, our 2021 pro forma cost:income ratio would be 61 per cent. As you know, that number includes an unusually significant remediation charge. If we exclude that, the cost:income ratio is around 53 per cent, which remains sector-leading in the UK.

Importantly, looking forward, the Group will maintain its long-standing cost discipline and rigorous approach to managing BAU costs. Despite inflationary pressures, 2022 will see stable BAU costs.

An uplift in total costs is planned, driven by the temporary increase from investment in our new strategy, that is together with the new business lines of Embark and Citra. As a result, we expect 2022 operating costs to be around £8.8 billion, compared to £8.3 billion in 2021 on our revised basis. I will address this again later on in my comments.

Looking now at impairment on slide 15. Asset quality remains strong and new to arrears remain very low, with underlying charges below pre-pandemic levels. The net impairment credit of £1.2 billion for the year, including a £467 million net credit in the fourth quarter, reflects the improved macroeconomic outlook for the UK.

Our base case economic assumptions now incorporate the favourable 2021 outcomes. For 2022 we forecast GDP growth of 3.7 per cent, an unemployment rate of 4.3 per cent and flat house prices.

In this context, our expected credit loss provision stands at £4.5 billion, which remains around £0.3 billion higher than at the end of 2019, before the pandemic.

Within our ECL, we have retained around £800 million of Covid-related additional management judgements. That includes the £400 million central adjustment which we booked in Q4 2020. This compares to £1.2 billion Covid management judgements that we held as of Q3.

Looking forward, in 2022, we expect the asset quality ratio to be around 20 basis points.

Now looking below the line on slide 16. Restructuring costs of £956 million include £570 million in the fourth quarter. This includes a £400 million write-off as the Group invests in new technology and systems infrastructure.

Excluding the write-off, restructuring costs are broadly in line with 2020 levels. Previously guided higher technology R&D costs were offset by lower severance and property transformation costs.

As mentioned, most restructuring costs will be reported above the line from Q1. This is equivalent to £504 million in 2021. From that point on, only M&A, integration-related costs and exceptional write-offs will remain within restructuring. And of course we do not currently anticipate any further write-offs on this line. The volatility line benefits from positive insurance and banking volatility. It also includes the usual charges of around £200 million for fair value unwind and £70 million for the amortisation of purchased intangibles.
After these items, statutory profit before tax of £6.9 billion in 2021 is significantly ahead of the prior year. Likewise, statutory profit after tax of £5.9 billion, which also benefits from the £1 billion tax credit in Q2.

Return on tangible equity was 13.8 per cent for 2021, or 11.4 per cent excluding the tax credit. This is ahead of guidance, although also clearly benefitting from the net impairment credit during the year. Based on our forecasts, I expect our 2022 return on tangible equity to be circa 10 per cent.

Now turning to the next slide and looking at risk weighted asset developments during the year. Risk weighted assets decreased from £203 billion to £196 billion in 2021, that is in line with our guidance. We saw limited credit migration across the Group in the year, supported by continued increases in house prices.

The £7 billion reduction was significantly driven by our continued economic optimisation of the Commercial Banking portfolio, more than offsetting the impact of increased lending. This was particularly the case in Q4, and alongside some model adjustments reflecting improved credit quality, led to the £4.7 billion reduction during the quarter.

Further opportunities remain in optimisation, although I expect the pace to slow slightly this year.

I have talked before about the regulatory RWA inflation on the 1^{st} of January 2022. The net impact of that was around £16 billion, meaning the pro forma RWA position on the 1^{st} of January was £212 billion. I should note, there is still some uncertainty around this number given ongoing model refinements.

In line with our guidance at Q3, we expect 2022 closing RWAs to be around £210 billion. Anticipated balance sheet growth is expected to be more than offset by optimisation activity through the rest of this year.

Solid financial performance and effective RWA management have allowed strong capital build and shareholder distributions. So let me turn to this on slide 18. The Group's strong capital position has enabled the Board to recommend a final ordinary dividend of 1.33 pence per share, resulting in a total ordinary dividend for 2021 of 2 pence per share. Alongside this, we have announced a share buyback programme of up to £2 billion.

This significant increase in shareholder distributions totals £3.4 billion and has been supported by the Group's exceptionally strong capital position at year end 2021. Capital build in the year was significant. The pro forma CET1 ratio of 16.3 per cent, after dividends and buybacks, includes 210 basis points of capital build, with 51 basis points in the fourth quarter.

The CET1 position is after taking account of the in-year fixed and variable contributions to the pension schemes and around 30 basis points for the acquisition of Embark.

The pro forma position also includes a £300 million dividend from the insurance business, which is the first payment to the Group since 2019. As mentioned, there are capital adjustments from the 1^{st} of January. These include the RWA inflation which I mentioned a moment ago, but also the reversal of the intangible software benefit and the unwind of IFRS 9 transitionals. The total impact of all of these elements together is around 230 basis points.

Even after this regulatory inflation, the Group's pro forma CET1 level of 14 per cent as of the 1^{st} of January remains ahead of our ongoing target of circa 12.5 per cent plus the management buffer of circa 1 per cent. It is also well ahead of our regulatory capital requirement of circa 11 per cent.

Looking forward, I expect 2022 capital build to be lower than 2021, after our increased levels of investment, although it will still be resilient based on our expectations of performance, as outlined.
And with that, I will conclude my remarks on the strategic and financial performance for 2021. Thank you very much indeed for listening. I will now hand back to Charlie, who will outline our new strategy.

Charlie Nunn
Thank you William; and thank you all for listening to our 2021 full year results presentation. It is great to be able to now share with you our new strategy which will define the priorities for the Group going forward. This strategy is grounded in a three year operating plan, with clear strategic and financial outcomes that we will outline for both the next three and five years.

I hope that by the end, you will be as excited as I am about the Group's future and how we intend to build on the strong foundations we have today to deliver higher and more sustainable value to all of our stakeholders.

Let me start by highlighting the key points of our new strategy on slide 20. Our strategy and transformation plan will set the Group on a higher growth trajectory with more diversified revenues. The strategic initiatives that I'll outline later, are expected to generate additional revenues of £700 million by 2024, increasing to a full run rate of £1.5 billion by 2026, split evenly between interest and non-interest income.

This is a significant shift in the Group towards growth. Having said that, we will retain our strong focus on cost discipline, committing to keeping costs flat in 2024 compared to 2022 despite the inflationary headwinds. We are targeting an improvement to our operational leverage, setting us on a path towards a cost:income ratio of less than 50 per cent by 2026.

I am confident that through our strategy, we will create higher, more sustainable returns and capital generation. Return on tangible equity is expected to exceed 10 per cent by 2024 and be higher than 12 per cent by 2026, as the full benefits of our investments are realised.

As you've seen today, we remain committed to returning excess capital to shareholders and plan to pay down to our target capital ratio by 2024 at the latest. As a result of our higher profitability, there will be significant improvement in annual capital generation to 175-200bps by 2026.

Turning to slide 21. Our new strategy is designed to build upon our strong foundations and develop an even stronger competitive position in the UK going forward. As you can see on this slide, we are the largest bank and sole integrated provider of banking, insurance and wealth services in the UK. Half of the UK adults and about one million businesses turn to our trusted brands for meeting their financial needs, both directly and through our intermediaries. Our customers' one billion monthly transactions give us an unparalleled insight into their financial needs and behaviour, helping us provide them with relevant solutions.

We have 26 million customers and 18.3 million active digital users, making us the largest digital bank in the UK, with a digital user base greater than all the neo-banks combined, and also 50 per cent more than the next incumbent. Our dedicated colleagues with their breadth of experience and expertise are also a key strength.

To add to these, over the last decade, the Group has created an exceptionally strong balance sheet with disciplined risk management. We intend to build on these strengths to realise our opportunities.

Turning to slide 22. Given the changes in the external environment, I think there are now a number of opportunities the Group needs to focus on, to strengthen its competitive position going forward.

We need to grow our business and diversify to reduce our dependence on interest income. This is all the more important in a low, albeit rising, rate environment with margin pressures likely to persist for the industry. To achieve this, we have a unique opportunity to deepen relationships with our existing customers – both with consumers and businesses of all sizes. We can do this by making it easier for them to access our great products and by making our channels simpler and more personalised to use.

In parallel, there are new opportunities for us to work with our intermediaries and third-party platforms by leveraging our market-leading digital capability, scale product offering and specialist brands.

There is an opportunity to be faster than we have been historically, in modernising our technology estate, more effectively using our data and creating end-to-end efficiency.

Covid has further accelerated customers' digital adoption, engagement and transactions. Whilst we have a digital leadership position amongst incumbents today in the consumer space, for future competitiveness, it is essential to achieve a step change in the speed at which we create new propositions, deliver change and reduce our cost to serve across the whole Group.

Finally, we need to ensure that there is a strong alignment between our purpose and value creation so that we can profitably deliver for all of our stakeholders. This also represents a significant growth opportunity for the Group. I believe in the next decade, it is only by doing right by our customers, colleagues and communities that we can deliver higher, more sustainable returns to our shareholders.

Let me talk a bit more about our purpose and strategy on the next slide. Helping Britain Prosper guides our business model and strategic participation choices. Going forward we will increase the alignment between our Purpose, our strategy for growth, and the commercial outcomes we deliver in order to be a truly purpose-driven organisation.

Our strategy will build on our current participation choices, which we believe are the right ones to pursue growth and further strengthen our foundations. We have a clear strategic vision to be a UK customer-focused digital leader and integrated financial services provider, capitalising on new opportunities, at scale.

Slide 24 outlines the key pillars of our strategy and execution. We will create higher, more sustainable value for all our stakeholders through three pillars:

- Driving revenue growth and diversification across our main businesses through increasing depth of relationships and breadth of products;
- Focusing on strengthening the Group's cost and capital efficiency further, building on our strong foundations;
- And executing by building a powerful enabling platform combining people, technology and data to support our bold business ambitions.

In that context, we have constructed a portfolio which ensures an appropriate mix of priorities to grow revenues and increase efficiency. And these will deliver value, across both the short-term and the longer-term.

Turning to slide 25. We want to drive positive impact for our customers, for our colleagues and for the communities we serve. Given our scale and leading position, we are better placed than any other financial services business in the UK to make this a reality.

I believe that our focus should be on building an inclusive society and supporting the transition to a more sustainable and low carbon economy. This is where we can make the biggest difference and create new avenues for growth.

To build a more inclusive society, we will focus on improving access to quality housing, supporting financial inclusion, enabling access to cash and improving the financial resilience of our customers.

We also see an opportunity to help more customers in the UK have access to simple and helpful investment and protection solutions. Through our commercial bank we will support regional development by helping businesses in target sectors across the UK. We will also lead by example by reiterating our ambitious targets to create a more inclusive and diverse workforce.

To support the transition to a low carbon economy, we are reinforcing our prior commitments, targeting net-zero for the activities we finance by 2050 or sooner. This will also enable us to access fast growing areas linked to sustainability such as green infrastructure finance, green mortgages, electric vehicle financing and others. In addition, our own operations are set to be net zero by 2030.

Turning to slide 26. As I mentioned, our strategy will deliver in excess of 10 per cent return on tangible equity by 2024, and more than 12 per cent by 2026 with a step change in capital generation driven by increased profitability. This is supported by incremental investment of £3 billion pounds over the next three years, and a total of £4 billion pounds over five years.

Increased profitability will be driven by revenue uplift from strategic initiatives of £0.7 billion pounds by 2024 and more than double that by 2026, to £1.5 billion pounds. In parallel, we are committing to keeping costs flat in 2024 relative to 2022, and driving towards a cost:income ratio of less than 50 per cent by 2026.

We recognise the importance of distribution for our shareholders and will pay down to our target capital ratio by 2024 at the latest.

Let me provide some details on how we plan to deliver these benefits through our strategy, starting on slide 28 with growing and diversifying our revenues. William will then provide more details of the underpinning financials in the next section.

Growth is a core focus of our strategy with about two-thirds of our incremental strategic investment aligned to growing and diversifying revenue. We have carefully prioritised opportunities across each of our businesses to ensure we generate value in the near-term, as well as creating new revenue streams which deliver over the longer-term.

In the Consumer segment, we aim to bring more of our products and services to our existing customers, as well as to innovate and broaden our product offerings and make it easier for customers to access them through our intermediary partners.

In addition, we will create a new mass affluent proposition to grow in this attractive and underserved market segment across banking, protection and simple wealth.

In our SME business, we aim to digitise our offering and grow and diversify our revenues in products and sectors where we have a lower market share today. And we will target disciplined growth of our Corporate and Institutional businesses.

Let me take these opportunities in turn starting with consumer on the next slide. As you can see on the left hand side here, we start from a very strong position as the UK’s largest consumer franchise with a full set of products, iconic financial services brands and record levels of service across our channels.

We are the market leader in mortgages, current accounts, savings and credit cards, and a top 3 home insurance and workplace pensions provider.

With 26 app logons on average per customer per month and a digital NPS of +69, our customers engage with us nearly once a day on average. In addition, we have the largest branch network across the UK working closely with local communities and customers.

Having said that, we currently fulfil fewer needs and earn less revenue per customer compared to our potential. UK consumers hold over 7 financial products on average, but our customers hold only 2.4 of them currently with us. We see a significant growth opportunity to enable our existing customers to choose more of our products by providing them with an even simpler and more personalised experience. For every 5 per cent increase in the average needs we meet of our existing customers, we can generate additional revenue of £200 million pounds per annum.

Given our strong specialist brands, unique to our Group, the second growth area in the consumer space is for us to increase our market share in products bought through intermediaries such as brokers, IFAs, on-line platforms, and car dealerships.

Intermediaries constitute a significant proportion of the market for certain key products and we generate about 40 per cent of the consumer income through this channel.

Although we have a leading position in mortgages, we have a significant headroom for growth by getting closer to our natural share in products such as motor finance, home insurance, protection, individual pensions and investments. We will look to emulate our success in workplace pensions where we have grown market share from 10 per cent to 19 per cent over the last few years.

I'll take these two opportunities in turn, starting with slide 30 on our priorities to deepen our existing relationships.
We serve consumers directly through our three strong and trusted relationship brands – Lloyds, Halifax and Bank of Scotland. Increasing the depth of these relationships through our breadth of products requires more personalised engagement.

It also requires offering a simple, convenient way for customers to fulfil and service more of their needs in one place, consistent with their desire for a more unified experience. Therefore, we will enhance our data and analytics capability, and further cement our digital leadership to deliver personalised engagement, offers, pricing and credit risk decisions. This will result in more customers being digitally active, driving higher depth of relationship and revenues. Payments will be a key anchor to drive greater engagement and we aim to grow our market share in credit card spend, which is currently below our share of credit card balances.

Home buying is a great example of a key life event which creates a variety of linked and recurring needs for our customers. We aim to provide them with a unified experience to fulfil these needs by building a more integrated "home ecosystem" with mortgages, green retrofit solutions, and associated insurance and protection products.

In addition, to broaden our product suite further, we will innovate to meet emerging customer needs such as launching new financing solutions for electric vehicles and charging points.

We will continue to help our customers through all channels and be a leader in providing support and education to build their financial resilience and opportunities.

Turning now to our intermediary partner priorities on slide 31. Growing market share via intermediary partners needs scale and expertise to deliver high-quality products and services with frictionless processes that are increasingly "embedded" in third-party platforms.

We already have the first part in place with a broad product suite delivered via a stable of strong specialist brands. The opportunity is to capitalise on this by digitising product processes, specifically in insurance and investments. As an example, our intermediary proposition will build upon our Embark acquisition and contribute towards our target of generating more than £55 billion of new open book net flows in investments and retirements by 2024.

We will maintain our value maximising approach in mortgages and look to grow market share in car leasing. Specifically we will finance over 200,000 electric vehicles through our Black Horse and Lex businesses. We will also drive growth by innovating to develop new propositions in embedded finance and flexible motor financing solutions, and scaling our Citra private rental housing business.

Moving to our mass affluent opportunity on slide 32. The mass affluent market in the UK is growing at close to 10 per cent per annum and there is a clear gap in the market for a digital-first, integrated offering combining a full set of banking, insurance and investment products.

We already have the largest mass-affluent customer base in the UK. However, they are meeting a number of their banking and investment needs elsewhere. This presents a material opportunity which Lloyds is uniquely placed to capture.

In order to ensure the right choices for customers, a provider must also be able to support them in the accumulation and de-accumulation stage of their lives by joining-up services across banking, housing, pensions and investments.

Tech-led competitors only offer solutions for a small set of customer needs, whilst banks operate a higher-touch model geared towards more affluent and wealthy customers, similar to our Schroders Personal Wealth and Cazenove's offerings.

We intend to focus on this gap in the market, which is the broader pool of mass affluent customers with income or wealth above £75,000, with a scale digital wealth offering and integrated banking solution.

On the next slide, I'll provide an overview of our priorities in this space. For our new mass affluent offering, we will combine a more tailored banking proposition with investments, protection and advice, leveraging the Embark platform. Whilst we will offer a premium service model across channels, we will be digital-first, consistent with customer preferences.

I believe value in this space is skewed heavily towards banking products such as savings, housing, lending and payments. This plays to our current strengths and will allow us to quickly set-up the initial proposition, which we will further refine over time.

We will bring to bear our personalisation capabilities developed in the consumer segment to meet customers' banking needs through tailored products such as higher-value mortgages and lending solutions. In addition, customers would be able to meet their daily transaction and payments needs through a convenient and easy-to-use digital interface.

And for their investment needs, customers will be able to access digital-guided advice for simple wealth solutions and an option to access human support, if needed.

I will now move on to our SME business on slide 34. As you can see on the left hand side here, we have a well-established and significant SME franchise of roughly 1 million micro businesses and 70,000 small and medium sized businesses across the UK. We have a 20 per cent primary relationship share with SMEs and a top three share across purpose aligned sectors such as agriculture, health care and real-estate.

We can build on these to grow our market share in other trading sectors and meet more of our customers' non term-lending and transactional needs. Our strong set of relevant transaction banking products and more than 1,000 relationship and product specialists across the UK, provide a firm foundation for growth.

We need to digitise to improve client experience and enable them to conveniently and quickly self-serve and meet their day-to-day needs. This is also essential given changing client expectations, increasing digital engagement and competition.

In conjunction, we need to selectively build out key products like asset finance, invoice discounting, trade, merchant acquiring and e-commerce solutions. These are important relationship anchors and we currently punch below our weight. For example, in merchant acquiring, where volumes are growing around 20 per cent year-on-year led by online transactions, we only have a 5 per cent market share today.

Let me talk through our priorities in SME on the next slide. We plan to digitise front-to-back to allow our clients to engage, transact and fulfil needs through a digitally integrated front-end across all of our products. We will provide a personalised experience by using data and analytics, both for self-serve and for insights to relationship managers to better support our clients. We aim to grow our digital product origination and fulfilment to more than 50 per cent of total volumes, with automated lending decisions for smaller loans improving time-to-cash. For new customers, we will provide a quick and intuitive onboarding experience.

Whilst we will be digital-first, our customers will continue to be supported by our sector and product specialists for their more complex needs. Alongside digitisation, we will expand our SME proposition through merchant services, trade, cashflow lending, and broader, value added services like supporting SMEs on their transition to net-zero. We are targeting more than 15 per cent income growth from transaction banking and working capital solutions, and we are also aiming for a 20 per cent annual growth in new merchant servicing clients.

Moving to slide 36 to talk about the opportunities in our large Corporate and Institutional business. We have built a targeted franchise supporting Corporate and Institutional clients, with a strong UK-focus, including two-thirds of the FTSE-350 firms as our clients today. In recent years, we have improved returns and can build on this in key sectors aligned to our purpose and areas of core expertise in cash, debt and risk management products.

Peer benchmarks indicate that we have substantial headroom to grow our ancillary income. Whilst balance sheet provision is a key relationship-anchor in this space, our clients have a broad range of needs which we can be fulfilled through our markets and transaction banking products.

Moreover, we will continue to build on the synergies with the rest of the Group by providing banking, FX and Rates capability, to our Consumer and SME franchises, and making the most of Lex and Scottish Widows by seeking to grow the £500 million of annual revenue that our clients currently generate using the Group's motor, insurance and pension propositions.

Finally, as a leading green finance provider in the UK, we are well placed to support our clients through ESG advisory, and sustainable financing, to support their transition, and the UK's broader net-zero goals.

Turning to slide 37. Whilst there is no doubt that the large Corporate and Institutional market is a competitive space, we are well placed to selectively and profitably grow the business within our current risk appetite.

We are NOT looking to expand into regions where we do not have sufficient scale, capability or a clear UK link. Also, we will NOT participate outside of our core capabilities. This ensures that our ambition is bold but grounded.

As we grow in key sectors, we will increase our balance sheet velocity through a scaled originate-to-distribute model, building ancillary income in a capital efficient manner with modest RWA growth. Through this focus, and strengthening our product capabilities, we aim to grow other operating income by more than 20 per cent by 2024.

We will continue to invest in our transaction banking capabilities and build on the momentum in onboarding clients to our new payments and cash management platform, which continues to drive growth and value. We will also be launching a new supply chain proposition this year.

In debt and risk management products, we will enhance our DCM capability including developing our US Dollar franchise, and investing in FX and Rates capabilities.

And finally, we will continue to drive our purpose outcomes by supporting regional development and supporting more clients with their transition plans. As a result, sustainable finance will represent 20 per cent of our corporate lending book by the end of 2024, more than double the proportion today.

This concludes our four areas of growth.

Now, moving on to slide 38. As we invest to grow and diversify revenues, it will be essential to maintain our disciplined cost and capital management approach – a key strength of Lloyds. I can see there remain significant technology-enabled efficiency opportunities in the Group. These are important to create capacity for investment and growth, to increase the pace at which we can change and improve our services, and to further strengthen our resilience. Let me briefly touch upon the strategic imperatives of these and William can add details on the financial implications later.

One of the key imperatives is to reduce our total cost of technology run and change. We are targeting a 15 per cent reduction by 2024 through modernising our technology estate, leveraging public and private cloud and adopting a more agile operating model whilst increasing the throughput of change.

We also need to reduce the cost-to-serve our customers through our further end-to-end digitisation of processes, which will drive greater efficiency in distribution, operations and servicing. Our aim is to increase customers served per distribution FTE by more than 10 per cent by 2024.

Finally, we need to reduce our central functions and property overheads. The former will be addressed through automation and process simplification and the latter will benefit from the move to hybrid working and transformed workspaces. We aim to reduce office footprint by more than an additional 30 per cent by 2024.

Moving to capital efficiency on the next slide. Higher capital efficiency largely flows from the strategic choices we've made to drive growth. Our focus to increase the proportion of non-interest, fee businesses will deliver revenues in a capital-lite manner. Building and scaling an originate-to-distribute model in the commercial bank and leveraging our synergies with Scottish Widows will increase balance sheet velocity and generate higher fee income.

We will continue to maintain rigid discipline in managing our portfolio and the recycling of RWAs into higher returning and growing businesses.

On slide 40, let me touch upon execution, which will be key to achieve our strategic ambition. Delivering this strategy will require the Group to build on the capabilities and new ways-of-working it has developed over the last few years and accelerate the pace at which it uses digital technologies and data to support our customers.

Having built the largest UK Retail digital bank gives us confidence to replicate that success end-to-end, and on a larger scale across the Group. Our prior investments in technology and data provide a strong foundation for delivering on our new strategy.

As I mentioned earlier, our colleagues are a key strength. Their expertise and skills will be instrumental to our success and I have been really impressed by the management team and the people we have at the Group since I joined. It is our people who offer the most distinctive customer experience, drive us to innovate, take thoughtful risk and enable change at greater pace.

Going forward, we will need to invest in our people and how the organisation works to deliver this strategy. This will include further developing our ways of working and culture to enable greater empowerment for the teams serving customers and innovating our products, with clear accountability to drive growth and maintain our disciplined risk and efficiency approach.

We will also increase collaboration and organisational "joining-up" to serve customers to deliver a more integrated experience across our businesses.

Turning to slide 41. I hope this presentation provides you with a good sense for how we will build on our strong foundations to capitalise on the opportunities for significant value creation. We look forward to updating the market on our progress over the coming quarters as we start to execute against these priorities.

Let me summarise by reiterating that our new strategy represents a significant shift for the Group towards growth, whilst maintaining our cost and capital discipline.

With this, I'll hand over to William to provide more details on the financials underpinning the strategy. Thank you very much.

William Chalmers
Thank you, Charlie.

Now that you have heard about our strategic priorities and business outcomes, I will spend the next 15 minutes highlighting our target financial shape over the coming years.

Our strategic priorities allow us to link clear financial outcomes to our strategy. These allow us to:

- Grow our revenue base and deliver greater diversification, reducing NII dependency
- These allow us to reinforce our cost discipline, evidenced by absolute cost targets, and further improve capital efficiency
- And these allow us to deliver higher, more sustainable, returns and in turn, higher, more sustainable, capital generation.

These financial outcomes are enabled by a temporary increase in investment, managed by strict return hurdles and delivery requirements, all overseen by strong governance. Together, these lead to the execution outcomes and financial performance that we are highlighting today.

Moving now to economics on slide 44. I would first like to highlight the important economic assumptions that sit behind our plan. We have built a plan based on prudent assumptions and the impacts of our own actions. We assume a continued macro recovery in the UK, although we are not building our plan on a significant or rapid increases in interest rates, or for that matter a recovery in mortgage pricing.

We expect GDP growth to remain strong in 2022 at 3.7 per cent, before normalising thereafter at lower levels. The unemployment rate is forecast to remain stable at just over 4 per cent.

We expect inflation to peak at 6.5 per cent in Q2 of this year before moving lower thereafter as supply pressures ease and higher rates start to take effect.

Alongside this, our plan includes two further rate increases in 2022 to one per cent, flat rates in 2023 and two additional increases over the rest of the plan. We believe our estimates in this respect are below current market implied levels. Any further increase in interest rates will clearly contribute positively to NII, competitive conditions allowing. So for example, the current market curve would generate around £400 million additional interest income from the hedge alone in 2024, that is beyond what we have embedded in the plan.

Turning now to income on slide 45. As Charlie discussed, we see several growth opportunities for the Group that support our ambition for higher and more diversified revenues. We expect the combination of growth in our existing business and the benefits of our strategic opportunities to build significant revenues and outweigh potential income headwinds. I will now briefly discuss each element of our business assumptions in turn.

As mentioned earlier in the full-year financials, the Group is exposed to the current mortgage margin headwinds. We have prudently assumed these pressures continue throughout the plan period and impact our NIM. Clearly that could turn out differently.

In addition, and as highlighted at Q3, we expect a reduction in OOI in 2023 due to the accounting impact of IFRS 17, with this income stream recovering thereafter.

Finally, both equity investments and operating lease depreciation should also revert to more normal levels versus 2021.

On the other side, within our existing franchise, we are positively exposed to rising interest rates. As part of this, we expect hedge income to increase in 2022, and then modestly increase again in 2023 and in 2024.

Before the incremental investment plan, we also expect our core business areas will deliver further revenue growth, independent of rate rises. In particular, we anticipate an increased contribution from unsecured, in line with the ongoing economic recovery.

In Insurance, income will benefit from continued progress across key product areas as well as an improving rate environment. Alongside, we expect growth in our existing Wealth franchise built on Schroders Personal Wealth and the introduction of Embark.

In Commercial, our markets businesses should also build from the activity levels experienced in 2021.

And beyond business as usual, our new growth initiatives will gradually deliver additional revenues for the Group. We expect additional revenues of around £0.7 billion in 2024, rising to £1.5 billion in 2026 as the investments mature. These opportunities will provide both earnings growth and diversification, best illustrated by the expected 50:50 NII:OOI split from the new initiative revenues when they are fully realised by 2026.

Let me now turn to costs on slide 46. Our approach to costs is simple: stable BAU costs alongside a temporary, investment-led, increase to deliver our increased RoTE. After 2024, this investment-led cost increase tapers off. This is all underpinned by nearly £1 billion of gross cost savings from BAU and new initiatives by 2024.

The cost approach can best be summarised in four parts. Let me cover each of these in turn.

Part 1 is to move previously reported below the line costs to above the line. This new basis of reporting will improve transparency and allow us to manage the cost base more holistically.

Accordingly, the majority of previously reported below the line restructuring spend will now be moved above the line, while fraud charges, that were previously reported in impairments, will now be recognised in costs.

Our reported 2021 operating costs plus these two items will now be recognised as our BAU cost base going forward. This amounts to £8.3 billion in 2021.

Part 2 of our cost approach is our commitment to net stable BAU costs versus 2021 on this new basis throughout the plan. Within this, we will see headwinds from items including inflation and the rebuild of variable pay. However, we will offset these headwinds with £600 million of BAU savings over the next three years. Our savings plan includes initiatives such as:

- In technology such as decommissioning, optimisation and a reduction in third-party spend;
- In increasing our use of robotics and automation;
- And in further optimising our office footprint.

Turning to slide 47. Part 3 of our cost approach ensures new savings cancel out any new opex from our growth initiatives. Higher operating expenses related to growth includes opex from our new strategic initiatives, as well as the expansion of recently announced businesses such as Embark and Citra Living.

These costs will be offset by gross savings of £350 million by 2024, these will arise out of our incremental investment spend. They include some of the technology and data initiatives that Charlie highlighted earlier on, as well as actions taken to lower our cost to serve as we further digitise the business.

Together, they allow new growth initiatives to be net opex neutral and because they leverage our core platforms they will also be delivered at a low marginal cost:income ratios.

This leaves us with part 4 of our cost approach. Our near-term operating costs therefore increase from the incremental investment over the plan, which equates to £3 billion over three years and £4 billion over five years. This then comes down as we exit this temporary investment boost, new opex is stable, and the ongoing cost savings increase.

At this point we will converge towards ongoing BAU investment, including core and regulatory spend, as well as the continuation of prior discretionary investment requirements.

Turning now to slide 48 to summarise on costs. We are continuing to demonstrate strict cost discipline through a period of increased investment.

On our revised definition, £8.3 billion in 2021, we expect to deliver stable BAU costs throughout the plan as our strengthened BAU cost actions offset expected headwinds.

New opex costs because of new strategic initiatives, as well as growth of Embark and Citra, will be offset by new savings over the plan. This then leaves a cost increase from 2021 of £500 million to £8.8 billion, which is very substantially driven by capex and depreciation associated with the temporary boost to investment. Based on our investment schedule and expected capitalisation rate, this allows us to keep operating costs at £8.8 billion by 2024.
Beyond this three-year period, we anticipate a reduction in operating costs as we continue to deliver cost savings across BAU and across our new initiatives, and as the P&L impact of the incremental investment spend phases out. As a result, by 2026 we are targeting a cost:income ratio of less than 50 per cent, based on a combination of our revenue and cost initiatives.

Moving now to returns on slide 49. We expect to deliver RoTE of greater than 10 per cent by 2024. Compared to 2021, we expect to deliver higher total income over the three-year period, including the additional £0.7 billion of revenues from our new growth initiatives. How much higher will in part depend on how our core business assumptions play out, in particular on interest rates and mortgage spreads.

I have talked already about flat BAU costs, so moving on. While forecasting remediation charges always comes with inherent uncertainty, we expect significantly lower charges going forward versus 2021. Having said that, we also expect higher impairment charges compared to the net release that we saw last year, with other impacts being broadly neutral.

Together, this produces a return in excess of 10 per cent by 2024. Looking beyond 2024, we expect to deliver RoTE of greater than 12 per cent by 2026. This is delivered as investment spend reduces and the full benefits of our growth investments are realised, with new businesses and capabilities gaining momentum.

Our returns are predicated on disciplined RWA management. Our existing 2022 guidance of around £210 billion is maintained. We thereafter see modest growth to a target range of between £220 to £225 billion by 2024.

Let me now cover capital on slide 50. On average, we are targeting a robust circa 150 basis points of capital generation per annum over the three-year plan period. This is after our elevated investment spend, but before the variable element of pension contributions. Thereafter, capital generation is expected to increase to 175 to 200 basis points by 2026, that is in line with the end of the temporary investment boost and the higher returns from our initiatives.

These numbers are significant by historical standards, particularly when considering RWA growth and a commitment to higher levels of investment.

We are confident that this path towards higher profitability and strong capital generation positions us well to deliver attractive shareholder distributions.

A brief word on pensions in this picture. Currently we have an arrangement for the next two years to contribute 30 per cent of in-year shareholder payments to our pension schemes. As these contributions are made the schemes' funding position will obviously improve. This gives us scope to discuss the appropriate schedule of payments in about a year's time from now.

Importantly, we are pleased today to announce a total ordinary dividend for 2021 of 2 pence per share, and a buyback of £2 billion. This takes total capital return for the year to £3.4 billion, representing around 10 per cent of market capitalisation. The capital return clearly demonstrates our commitment to shareholder distributions.

Looking ahead, we will also maintain our progressive and sustainable dividend policy.

Beyond the dividend, we will also maintain our commitment to surplus capital distribution and expect to pay-down to our target CET1 ratio by 2024. The combination of our ordinary dividend and our excess capital distributions should offer an attractive capital return potential for our shareholders.

So will now summarise our full financial guidance on slide 51. We split our guidance into 2022, 2024 and 2026.

Starting with 2022. We expect to deliver a Net Interest Margin above 260 basis points.

On costs, we expect restated operating costs of £8.8 billion in 2022 due to the higher investment spend.

Having recorded a net credit in 2021, we expect impairments to remain below historical levels but return to a charge in 2022, with an AQR of around 20 basis points.

These factors together support RoTE of circa 10 per cent, with RWAs of £210 billion at end-2022, in line with our prior guidance.

For 2024, we expect stable BAU costs and once again operating costs of £8.8 billion, flat on 2022. In line with a period of normalising impairment, we expect the net AQR to be below 30 basis points. We expect our RoTE to be greater than 10 per cent by 2024, with RWAs of £220 billion to £225 billion. And we are targeting around 150 basis points of capital generation per annum on average across 2022 to 2024.

Moving to 2026. We are targeting a less than 50 per cent cost:income ratio by 2026. This helps us deliver a greater than 12 per cent RoTE, permitting capital generation of 175 to 200 basis points.

Throughout, our policy of a progressive and sustainable ordinary dividend and distributing capital in excess of our target CET1 ratio, will remain unchanged.

Putting it all together, we believe our plan delivers robust financial returns over the medium term while delivering a step-change in profitability beyond this. And throughout, this will all be underpinned by attractive capital return potential.

Thank you again for listening, I will leave it there and hand over to Charlie to close.

Charlie Nunn
Just to close briefly before we turn to Q&A. We hope that we have shared a compelling vision for the future of the Group today.

Our purpose-driven strategy is to be a UK customer-focused digital leader and integrated financial services provider, capitalising on new opportunities, at scale.

This is driven by a transformation plan to:

- Drive higher and more diversified revenues
- To strengthen our cost and capital efficiency
- And to maximise the potential of our key enablers: our people, technology and data

These will allow us to capitalise on our opportunities, delivering clear revenue and cost objectives, which in turn will drive an increase to our return on tangible equity of more than 2 percentage points, allowing a sustained return of greater than 12 per cent by 2026.

Whilst we have taken a longer term view on achieving a step change in growth and returns, at the same time, we have shared clear 3-year outcomes. These help signpost for shareholders our commitment and priority to deliver attractive returns over the period to 2024, as well as 2026.

Our new strategy will support higher, more sustainable, capital generation and increase shareholder distribution capacity. Even more importantly, our strategy will help us to Help Britain Prosper.

Thanks for listening today. That concludes our presentation. I will now hand over to Douglas who will host the Q&A.

Douglas Radcliffe
Thank you Charlie. We have set aside about an hour for Q&A and in line with normal practice, please could anyone asking questions actually state their name and their company. Let's start with Alvaro.

Question – Alvaro Serrano, Morgan Stanley
Good morning. Alvaro Serrano from Morgan Stanley. I have two questions. Some of the guidance is obviously open-ended, around the margin this year, and the over 10 per cent RoTE. Could you maybe share some thoughts and some of the assumptions behind that? Obviously, William, you have mentioned the rate sensitivity, but maybe some of the assumptions around the mortgage book? I just want to gauge that over 10 per cent - is it 10.1 or is it 11 per cent - what is a sense of what you are trying to steer us to?
And the second question is on other income. I take your points on the run rate you have given for Q4, but even taking out the one-offs, the contribution of central items and LDC is still pretty high. In the context of the plan, could you help us maybe give a bit of colour into what is the normalised level of that division that you call out, versus the offsets we are going to see in growth and insurance? I just want to get a feeling as well for what kind of other income is sensible in the outer years. Thank you.

William Chalmers
Thank you for that Alvaro. Perhaps taking each of those questions in turn. On the guidance as to greater than 10 per cent, we feel very confident in greater than 10 per cent. How much, I think depends on how key assumptions play out. We have deliberately constructed a plan which is based upon conservative macro and market assumptions, in order to ensure it is our plan that makes a difference. From the revenue side, two in particular stand out: rates and mortgage margins, as you identified. I think in both we are conservative, so to focus on one in particular. If we superimpose the market implied swap curve right now based upon our planning assumptions, then that would lead to a revenue increase for structural hedge income alone, leave aside any BBR affect or bank base rate effect, but structural hedge revenue increase alone would be £400 million. That equates to around 75ish basis points difference in RoE. And as I said, that is before you consider any bank base rate pass on that may follow the development of that swap curve.

Mortgage margin assumptions, we simply roll forward where the mortgage market is today or where we expect it to be into our plan over the future periods. Specifically, what I mean by that, is that we have had a look at the completion rates in Q4, which as I mentioned is 115 basis points. We've also had a look at what we have seen during the course of November, December and January, and therefore will inform the completion rate we expect to be talking to you about in April. We expect that to be somewhere between 75-100 basis points, and that is the assumption that we then roll forward in our plan. So effectively, our forward-looking mortgage margin, as we get into 2023-2024, is based on that circa 75-100 basis points applications margin, that we think we will be telling you about, in completions margin, come Q1.

Beyond that, our revenues we feel very good about, from the BAU. We feel very comfortable with £0.7 billion pounds incremental revenues from the strategic initiatives, and as you know, our costs are clear and we have got an exceptional track record in terms of delivering on costs.

So overall, we are very confident in greater than 10 per cent, and it is worth actually just bearing in mind as a final comment that this is while absorbing considerable investment costs. Investment costs are leading to a P&L charge of circa £500 million. Again, that is roughly 1 per cent RoTE, and a cash charge during the year, given the accounting policies, of more like £1 billion if you average out £3 billion over the course of three years. So, bear in mind that these metrics we are giving you are after having absorbed that investment amount.

I think overall, again just to finish at the punchline, we feel very comfortable indeed about in excess of 10 per cent.

Charlie Nunn
William, can I add one thing on top of that. I won't do this for all the questions. We obviously had a lot of conversations around how do we think about the uncertainty in the market and the external or exogenous factors versus what we can control. Hopefully,

what you see in this is the things we can't control, competitive pricing on mortgages and rates, we will take a conservative and prudent view. We know you will be able to adjust those assumptions over time, and we will be able to talk about those assumptions. So we have taken a prudent view on the things we can't control. On the things we can control and that we are committing to, around growing our businesses, committing to revenue growth and managing costs and investments, we think we have been pretty ambitious and that is what we really focused on - the controllables and the ambition we have laid out for those things. Obviously, we will have a chance to talk about this over the coming quarters as to how the external environment develops but that has been the core philosophy around this strategic plan.

William Chambers
Alvaro, you asked about other income as well so I will address that before moving on. As I said, in Q4 we saw an achievement in other income of just over £1.3 billion. Within that there was about £80 billion of insurance basis review assumptions, so the run rate coming out of Q4 is effectively a little over £1.2 billion. So you talked there about LDC and the contributions of our equity-led businesses. They were back to normal in Q4, so I think it is fair to say, the run rate therefore is a notch above £1.2 billion after you have taken out the insurance business review assumptions of circa 80 million.

How do we look at that going forward? A couple of points. One is, you will remember from our previous conversations that I talked in the past, about business activity lost in other income of circa £300-400 million over the lockdown period. We think that we have recovered about half, to two thirds of that; somewhere in that zone. Therefore as we go into 2022, we would expect recovering GDP and activity levels to contribute to giving us the other one third to half or thereabouts. So that will build into other income over the course of 2022.

On top of that, you have also got Citra and Embark, and if you add those two together you are looking at an additional contribution to revenues of about £100 million, of those two added together. I think it is fair to say that our previous investments, not for the moment the strategic investments, but I think our investments in things like cash management and payments, the home protection app that we have developed, for example, will gradually help us in our other income contribution. But that will be gradual, over time that will build in, but it will take us time. So hopefully that gives you a sense as to the building blocks for other income as we go into 2022, and the growth that we expect.

Question – Omar Keenan, Credit Suisse
Good morning. Thank you very much for the presentation and all the hard work that has gone into it. I have got a follow-up question on Alvaro's question actually, on the RoTE assumption and the interplay with rate sensitivity. I hear that you have baked in very conservative assumptions. Some of your peers have put in, deposit pass-through assumptions based on what they expect to play out in the market. Barclays yesterday said that even for the next 250 basis points they are expecting a deposit pass-throughs below 50 per cent. So, I hear what you have said about mortgage margins, I hear what you said about the rate assumptions. Can you please talk about what you have got in on deposit pass-through?

And maybe I will just ask my second question as well. So on the incremental revenue from OOI, when I look at that and the marginal cost income, the ROI on that looks really great which implies it is low hanging fruit. So I guess the question is what were the impediments to realising these gains in the past and what do you think has changed now to allow the delivery of that? Thank you.

William Chalmers
On the effective net interest income and the contribution to RoTE, the assumptions we are building in to that sensitivity that you see in the analyst presentation, is essentially the same as Q3. So we are assuming a 50 per cent pass-on assumption there on the liability side, which again, just for consistency is done in exactly the same basis as Q3. How does that relate to reality and what we are seeing so far? I think it is fair to say that at the moment we have seen less of a pass-on than those numbers would suggest. I think that at very low interest rates, that is likely to be the case today and probably will continue to be the case for a little while going forward. Of course, the extent of that pass-on is obviously determined by competitive conditions, as well as the funding position of the bank and so forth. These factors will develop and will evolve into our overall pass-on assumptions, but as said, the sensitivity that was shown is based on 50 per cent. To date, that has proven to be an overestimate of what would be passed on, just as perhaps some of our peers have been indicating. I expect that will continue for the time being but we just have to see how competitive conditions develop.

Charlie Nunn
Great, then in terms of the OOI progression and why we think we can go after that now. One bit of context, obviously, as William laid out, there is a lower marginal increase in costs partly because we are building off platforms, but we are also committing to other efficiency savings to offset some of those costs which makes the aggregate numbers look really good. But I think there is really three reasons, and again coming in with a fresh perspective to the Group has being great, that make a difference. The first is external, so if you look at the level to which our customers now are interacting with us digitally in the external environment and

we look at what their expectations are going forward, we have even greater opportunities, given the strength of our digital capabilities to meet needs, to put great products and services in front of customers and to respond to that. Similarly, we see the focus at the other end of our business, on transition to net zero as a really important growth opportunity, we are already one of the leaders in infrastructure finance, we're the leading transport and electric vehicle financer in the UK, as examples. And obviously, we are the most meaningful housing financing organisation. We see that as really significant growth that we can get off the back of some of the things going on externally. That is the first thing.

Second thing is the Group continues to invest and build its capabilities and probably the most obvious example is the Embark acquisition. The progression of our investments around Insurance and Wealth mean we can now really continue to innovate those services and bring them to our 26 million existing customers. That is a unique opportunity, no one else operates in this market with that breadth of customers and the breadth of services that we have. I talked briefly, I won't go deep on it now unless you want to, but I talked briefly about customers in the de-accumulation stage of their lives, which is actually where the most of the mass affluent opportunity is. If you can't join up around housing, pensions and then investments, and really help customers at that stage in their lives, you can't go after that opportunity. And actually no one else has that opportunity in the way we do. So that is the second thing, building off our capabilities. The third is the simple one, which is, I think this is the first time in a while that the Group's made a focus around joining up for our customers with a more explicit growth ambition. So we can reorganise and organise ourselves to really go after those as we look forward, and that is what we are committing to.

Douglas Radcliffe
Guy, why don't you take the next question?

Question – Guy Stebbings, Exane BNP
Morning, Guy Stebbings from BNP Paribas Exane. Thanks for the colour this morning. Just building on some of the prior questions, to start with on rate sensitivity. Thanks for the colour on the 400 million for the structural hedge if we took prevailing swap rates. I guess, doing the same for base rate, even assuming quite a cautious deposit beta on the back of that incremental additional base rate, looks like it should be well north of 500 million by 2024, based on prevailing market expectations. And then as you've said, the deposit beta to date has been better than what is in the plans. So it looks like well north of a billion to net interest income just from taking the rate curve. That is north of 2 per cent, so effectively we are looking at a greater than 12 per cent RoTE in 2024 if we took the forward curve. Is that maths fair, or am I getting something wrong? Would you give you some back on costs because you would use that to invest more, or under that rate scenario there is more inflation in the economy? That is the first question.

The second question is more kind of a big picture on costs. If you look at Lloyds over the last 3,4,5 years I would argue it compares quite favourably in terms of investment spend versus its closest peers. Yet today, you are pointing to more incremental investment than some of your peers. So I am just trying to work out, is that because it is not fed through to efficiencies or the bottom line as you might have hoped, or your view of the world 3-4 years forward is just different in terms of what you need to do to invest to compete - who you are competing with isn't necessarily the same traditional players as today? Thanks.

William Chalmers
Thanks Guy for the questions. On the full effect of base rate changes, which might follow the curve that is in effect today, the guidance that we have given or rather the comments that I made around the sensitivity of our plan to the current market swaps curve of £400 million, that is simply for the structural hedge component of that mix. Were base rates to take on a more aggressively upward stance versus what we have in the economic assumptions we have shown you today, I won't put a precise number on that. Safe to say if you look at our £200 million sensitivity for a 25 basis point change in year one, some 40-45 per cent of that is from effectively the base rate pass-on assumption. That will then hopefully give you a building block to use as you project that forward and what the effect of accelerated base rate changes might be.

In terms of what would we choose if that were to come through in that way, what would we choose to do with that. I think the vast majority of it would simply drop to the bottom line. As said, it would go to improve the RoTE in the way that you said. It is obviously our business to remain competitive in the markets that we operate in, and mortgage markets are a good example of that. So how much we would choose to pass on to depositors in the context of that 50 per cent deposit beta assumption or otherwise, again, very much a function of the balance sheet and our funding position, which as you know is highly liquid right now with a loan to deposit ratio of 94 per cent. But also again how we stay relevant on the asset side, in terms of markets that we want to participate in, such as mortgages. And that is part of the reason why we have taken a conservative view on look forward mortgage margin assumptions. Overall, however, those are pricing decisions about how we stay relevant in the markets that we want to stay relevant in. As said, we have a very liquid balance sheet right now, so I think that 50 per cent is probably erring on the conservative side. How asset prices develop we will have to see, but again, we have embedded as a base case a conservative assumption on the asset side in our modelling. And then we just have to see how things develop beyond that. What we will not do is invest any more in terms of the operating expense of the business or the investments of the business beyond what we have set out today. It is not a question of us achieving higher revenues and then going back to revisit this investment plan that we are laying out for you today. That is what we are going to spend and that is it.

Charlie Nunn

Great and let me just comment if that is okay just on the broad cost view and I will just build on that point. That was partly why we wanted to be very clear and ambitious around costs and revenues and actually give you three year views around real numbers, because we want to be committed to those. I have built in my career a few plans based on rising base rates and I don't think that is a good place to be. We can agree the assumptions and see how the market evolves, you need to hold us accountable, and we are committed to delivering what was laid out. On the broader cost point, I think it is a really helpful question. First thing you have seen and William talked about this, we do have still the leading cost income ratio today and with a commitment to offset inflation and have flat costs we think we will still have that on our BAU costs. So this is about the investment and why we think that is good for shareholders and then for creating a more sustainable and diversified position in the medium to longer term. That is the way we certainly think about that additional £3 billion of investment over 4 years and £4 billion over 5 years. Again, building on your question about rates and how the NIM evolves, a 200 basis point increase in RoTE based on that £3 billion investment with more diversified income, with greater and deeper relationships across our core customer franchises in the UK, we see that as a very positive and accretive investment for our shareholders and we think that it actually creates real sustainability into the future. I know no one will have models that go out that far, but we are convinced that is a good investment. The way we are thinking about it is very much as that investment is for that broader, higher and more sustainable return that we are talking about, and we will continue to be the cost leader around the franchise that you know today.

Question – Aman Rakkar, Barclays

Thank you, it's Aman Rakkar from Barclays. Two questions if I may, first the double ladder on capital. I think for a couple of quarters now you have indicated that there could be a reduction in some of your capital requirements, which may have been interpreted as maybe bringing the CET1 ratio down, from 13.5 per cent. It would be interesting to know what your thoughts were there and does it have anything to do with the reintroduction of the 2 per cent countercyclical buffer? And I guess related to that, on a pro-forma 14 per cent CET1 ratio, you've got a billion of surplus currently, capital generation of 150 basis points, half of that is probably going to be consumed by an ordinary dividend. A decent chunk of that remaining half is probably consumed by the pension for the next two years. The scope for surplus distributions looking forward, is not obvious to me, so any colour that you can give us there? Is there any chance of announcing anything to the quantum of what you have announced today in future years?

The second was just on costs. One thing I am struggling with a little bit is the idea that investment spend should fall away in 2024. I mean your increased investment here is, perhaps rightly, so a recognition of the change that is taking place in terms of digitisation, sources of disruption, some of the emerging business models. Isn't this just the cost of doing business in UK Retail Banking going forward? How credible is it really that investment costs should step away? Even if the strategic investment is done, do we not see a step up elsewhere? Thank you.

William Chalmers

Thanks for the question. First of all in terms of capital ratio, as said, our capital ratio is 12.5 per cent plus management buffer of 1 per cent just as a start point, and that gives us cover for the regulatory requirements, the needs for the business and any buffer that we might need for uncertainty. That's certainly been the historical foundation. As I mentioned last year, we have seen a period including 1st January of this year, where RWA intensity has increased in the business. At the same time, we haven't really seen a change to the economic risk that we perceive in the business, at least. So all other things being equal, you would have thought that might make one think about the capital ratio. Having said that, we also have some tailwinds alongside of that, so we'd expect Pillar 2A to change going forward as we reduce the pension deficit through contributions. But it is the case today, that there are a number of uncertainties around the regulatory capital questions. We have the reintroduction of the countercyclical buffer, as you mentioned in your question, we also have the consultation phase around the OSII charge that is going on right now. Then we are also in an environment of great uncertainty. I mean, witness the event of this morning, obviously in Europe, but also the trails of the pandemic, which we hope doesn't come back but we don't know for sure. So you add all of that together, I think where we are now with our capital target of 12.5 plus 1 per cent feels about right for the time being and we will just see how things fare over the course of medium term and beyond that. But for now, I think we are fine.

In terms of your surplus capital distributions looking forward, actually we feel pretty good about that. We feel good about it for a couple of different reasons. One is the strength of the capital position right now. As you said in your question, that is circa £1 billion in excess of our target capital ratio. We have committed to going down to our target capital ratio over the course of the plan and we will obviously see how those factors that I just mentioned play out in contemplation of how we plot that going forward.

The second reason we feel good about it is because, as built into our plan, you can see there is some very conservative backbone assumptions for BAU. We talked earlier on about rates, we also talked about mortgage margins. We feel very confident about the other BAU components of our business and indeed the 0.7 billion of strategic initiative revenues. So all of that makes us feel that we are likely to see capital generation, we have outlined it today at averaging 150 basis points over the course of the plan, but it is predicated upon what feel like very conservative assumptions and therefore we will see how we fare. So that's the second reason why we feel good about capital distribution within the business.

And the third, you mentioned the pensions plan. When we look at the pensions plan we obviously have the commitment to give one third of in-year shareholder distributions to pensions and that is appropriate given the actuarial deficit we set out in 2019, but two points. One is that while a part of that 150 basis points will indeed be consumed by the pension plan, it is only a part and therefore there is still a gap between the amount of capital that goes out to the ordinary dividend, the amount that goes back to the pension plan and there is a spare amount within that, and we will look at what to do with that, and obviously distributions in the form of buybacks or special dividends will be high up on our agenda.

Final point on pensions, which I think is worth bearing in mind because it puts this issue into context. We have an actuarial pension deficit as of 2019 of £7.3 billion. The latest mark-to-market of that pension deficit, as of December 2020 which you will see in our public documents is £6 billion, off the back of contributions. Over 2021, we made a further circa £1 billion, just a shade under £1 billion, contribution to that pension fund, getting it down to £5 billion. This year, by virtue of 30 per cent of in-year variable pension contributions plus the £800 million of fixed contributions that you know we have, we are going to be making an additional contribution of about £2 billion to the pension fund, combining fixed and variable components, takes that 5 down to 3. If you mark-to-market the actuarial pension deficit for the current prevailing interest rates you will knock off about another £300 million from that number. If you then bear in mind that that number also includes £1.7 billion of contested charges because of the RPI/CPI debate that is going through the House of Lords right now, which we are not a party to, but if it is one we will be a beneficiary of, then you can see that number will come down again. I am not prophesying how that court case goes, but it is a material item. So if you take the actuarial pension deficit and actually knock off what has been contributed and what will be contributed this year, combine that with the fact that we are going to be entering a negotiation with the trustees at the end of this year about suitable contributions thereafter, I think it helps to keep the issue in proportion.

Charlie Nunn
So let me just talk about costs briefly if that is okay. I think it is three parts that will help unpack why we could believe that investments will come down and costs will come down. The first is, I talked about it quickly, a part of the investment we are doing is about modernising our technology and changing our ways of working. So one of the very important outcomes from that is that the cost to deliver change and improvement is actually going to go down. Therefore for the same level of investment that we have today, we should be able to continue to compete at a higher pace and a faster pace than we do today, and that is one of the clear objectives we have laid out for this investment. We laid out some targets and operational targets around that in the investment, and that is really important because it means we can get more for the same amount of money invested in the business.

The second thing is this was incremental to our current high level of investment. We think we are already investing above our competitors in the UK market and so we are talking after 2024 coming back down to the level of investment, which is already leading in the market, and we are going to improve the bang for the buck from that investment.

And the third thing, which we didn't make an explicit absolute cost target, but let me give you a feeling for what it is. In our plans, we are building efficiency in 2022,23,24 that we know will benefit us significantly on run rate costs, BAU costs in 2025,26. And there are other efficiencies that come in the later part of our plan. I know your models probably won't go out that far, but as a management team we have to be thinking about efficiencies, especially when you think about end-to-end digitisation, how our customers are using our channels and then building more productivity and efficiency through the middle and back office of the bank. Some of those things take 2 or 3 years to get to a full year run rate so the benefit is in 2025,26. So because of all three of those factors actually we do plan that the investment would decline. We will still have the highest investment in the UK, we will be getting more bank for buck from that investment, higher level of change at a higher pace and we see other efficiencies in those outer years, which is how we get comfortable with the 50 per cent cost:income ratio in those outer years. And that is a core part of giving us that extra 200 basis points of RoTE or the extra capital generation that we are committed to.

Aman Rakkar
Thank you.

Question – Rohith Chandra-Rajan, Bank of America
Thanks, good morning Rohith Chandra-Rajan, Bank of America. I wonder if I could start by just coming back to net interest income please and particularly starting with mortgages. So thank you for the 75-100 basis points margin that you anticipate. I guess application spreads currently are 60 basis points or so and that takes a while to flow through to

completion spreads. So I guess the start point would be, how quickly do you think you could get into the 75-100 basis points range in terms of new business being written? And that 75-100 basis points you are applying that to the £244 billion front book, that is what that rolls over to over time. What are your expectations around the 14 per cent or so of the book that is still on standard variable rate that obviously earns a much higher margin? So that was around the mortgage piece.

You have given us very clear guidance on risk-weighted assets. I wondered if you could comment about your expectations for the nominal balance sheet, particularly average interest earning assets for 2022 and through the course of the plan, particularly noting that you want to stay competitive in the mortgage market and grow unsecured lending.

And then the final question was just the doubling, or more than doubling, of the new initiative for revenues between 2024 and 2026. Is that broad-based as your new initiatives gather pace, or are there particular things that come online in that sort of last two year period that drive that significant uplift in the revenues? Thank you.

William Chalmers
Thanks for the questions Rohith. As you say, application spreads have been a bit all over the place for the last few weeks. There are a couple of things that I think are going on there. One is that the swaps market, as you know, has been moving up and that is obviously what causes me to give the comments earlier on around the NII sensitivity. That has not been accompanied by pricing moving up within the market so far, and I think that is largely because many of the mortgage providers have put in place swaps ahead of the time in which they write the business. So effectively, they are able to weather the storm, maintain the spread, despite a moving up swaps market because they have this built-in protection from effectively mortgage pipeline hedging that they have done. I think having said that, what we are seeing right now, and you will see it I think from all providers really, is there is some pricing up going on in the market as those hedges run off. People are now having to hedge into more highly priced swap markets. Off the back of that, they are adjusting front end mortgage book pricing. Now we have to see where all of that settles down, because as I said, there has been a fair amount of volatility over the course of the last few weeks. But having said that, we feel that in the context of what we have seen both in the latter part of last year and the beginning of this year, plus also putting it in a form of a kind of RFB historical context if you like, the 75-100 basis points feels like an appropriate assumption and again a pretty conservative one for what we might see in 2-3 years time. Of course we are hopeful that things will end up better than that, we will just have to see whether or not that is the case, but there is certainly some history which would suggest it might be.

As to the second part of your question, SVR. SVR as I mentioned, we have seen attrition over the course of Q4 of 16 per cent. What is going on there is that effectively, people who are moving onto SVR, in the context of a rising rate environments, are choosing to take out a fixed rate mortgage looking forward, because they obviously feel exposed to potential higher payments. So as a result, what you have got is a lower flow onto the SVR book. The runoff is about the same, it is not far different, but the new entrants onto the SVR book are lower because those new entrants are choosing to take fixed rate products as the rates come out, and therefore the decision is a more important one from a financial point of view. Of course that is entirely understandable, it is a sensible thing for many customers to do, and we will do everything we can to support them in making that right decision. As to how that goes forward, I think if we see a rising rate curve, it is quite likely that that type of behaviour is going to continue. Then that will lead to an attrition assumption that is probably not far different from 16 per cent that we saw in Q4. Albeit I do think it will ebb and flow just as we saw over the course of the last year. What have we built into our plan, it is basically that. So we build into our plan an attrition assumption that is substantially similar to what we have seen during the course of Q4.

On RWA's, as you've seen, we have given you RWA guidance at the end of this year of £210 billion, we have given you guidance for the end of 2024 period of £220bn to £225bn. You asked for AIEAs for 2022. The way that we see AIEAs in 2022 is very much in line with the strategic comments that Charlie and I made in the presentation earlier on. So we expect continued mortgage growth for example. It will not be as fast as it was in 2021 for all the reasons that you know about, including stamp duty holiday, including base interest rate changes, maybe one or two other factors. But nonetheless, we do expect continued mortgage growth. We also expect unsecured growth and we have seen that coming back in the course of Q4 as I have mentioned in my comments, we have seen about £0.5 billion being added onto the credit card book during that time. So far all the signs that you have seen in January/February have been very supportive of that return of the unsecured book. And it goes hand in hand with some of the reduced constraints off the back of the ebbing of the coronavirus crisis, at least for now. Alongside of that, we expect the commercial picture to be more or less a wash, and what I mean within that is that we have got high levels of liquidity within SME banking. At the same time, we have some emerging demand, and in line with some of the strategic initiatives, within our overall larger corporate offering. So net of those two will be more or less a wash within the Commercial Bank. But overall, when you add the two components together, that leads us to expect low single digit AIEAs for 2022. Now when you combine that with the margin developments that we are seeing above 260, then we would expect net interest income growth in a pretty solid fashion over the course of the year and that's simply the natural arithmetic that arises from those inputs.

You asked about plan look forward assets versus RWA. In short, you could probably use the same characterisation for assets over the course of the plan Rohith. So if you described asset growth in the plan as low single digit, you would be about right. RWAs however, partly because of the initiatives that Charlie talked about in the strategic components of our presentation, is likely to be about half that.

Charlie Nunn

Can I just come back on the question about revenues in the outer years which is I think where you were saying and how does that build and why is it building later. As I said up front, we looked at a portfolio of things that deliver today, this year, in the next 2-3 years and then beyond that. And that is because we are talking about organically growing with our customers and increasing the fundamental breadth and depth of our relationships in many of these businesses and we know that some of those things take time. I think about it in three ways. So these things build over time as you know and I will give you a couple of examples. We have some investment that were made in the last few years, where we have seen significant growth and we talked about two actually. The workplace pensions growth we have seen, we will continue to see that building throughout the next three years and that will roll over into 2024/25/26. And actually the cash management and payments capabilities that we have invested in, in our large corporate franchise, again, we were successful last year onboarding a large number of clients and we see that building right from this year all the way through the plan.

The second type of investment is investments where we know we can get to market relatively quickly and probably the best example of that is some of the intermediated products we have in our retail business. So in mortgages, which we just talked about, but specifically when we think about the growth that we have talked about in auto-leasing and through car dealership and through the embedded finance businesses we have talked about. And there, we know that if we make some investments, we can see medium term growth quite quickly by working with our intermediated partners.

Then the third thing is we are committing to some things that we know will take longer to deliver, but actually have very, very strong, sustainable, diversified revenues and probably the mass affluent opportunity are the best example. Let me just be a bit clear on that, so as we need to build some of our new journeys to enable simple investments to be made available to those customers, we then need to engage our customers around that new proposition and those journeys as an example. Then over time, customers will engage on that and will start to build their broader relationship with us, whether it is banking or investments. We know that some of those things will take 18-36 months to deploy and then customers will then build actually over the following 1,2,3 years. Some of those revenues are more back-ended in the plan. The combination of those three types of investments, if that makes sense, is the plan does build in the outer years. The reason we were really keen to share with you 2026 targets is it starts to give you a feeling for the real value of the investments. Both from a diversification, deepening perspective with our customers, and then in terms of the scale that we think that will go to over the longer term. Thank you

Question – Chris Cant, Autonomous

Good morning it's Chris Cant from Autonomous, thank you for taking my question. One on the dividing line between strategic and BAU and then a couple on headwinds please. So the strategic distinction you are drawing, and you are talking about the £0.7 billion of additional income, what is included within that and what is not? So is Citra and Embark within that - you talked about £100 million of additional other income from that into 2022, is that part of that or not? And when you are talking about balance sheet growth, you talked about wanting to develop your SME franchise and things like this. Is that part of that £0.7 billion or not, where are you drawing the distinction, just to help us understand what is included and what is not? The reason I ask that is I am trying to understand the fuzzy bar you give us on Slide 49 for existing franchise income growth. So there is obviously rising rates and we can discuss that to death. So I am going to leave that to one side. In terms of the headwinds within that, from what you have said in terms of mortgage pricing, should we be thinking about something like a £2 billion mortgage NII headwind by the time we get to 2024, I think that is what some of the number you have given us today would imply, that kind of ballpark. When I think about operating lease depreciation I am guessing that is about £200-300 million. I know you have had quite chunky gains this year on used cars, so that has got to go up. About £400 million from IFRS 17. So there is some pretty big headwinds in there and we can all pencil in what we want for rates, but I am just trying to understand whether I should be offsetting Citra in there, is there anything else I should be offsetting in there as a big positive? Thanks.

William Chalmers

Thanks for the question Chris. On strategic initiatives Citra and Embark are not part of those strategic initiatives so they are outside of the £0.7 billion. On SME growth, Charlie may want to comment further, but in essence with SME growth we have defined some fairly clearly delineated strategic initiatives that we see in particular around digitisation of the business and the incremental revenues that we expect those to achieve above and beyond BAU, Chris. I can't really give you a precise breakdown of exactly what those are, simply because we are not disclosing it today. But they are pretty clearly delineated within the benefits, as we call them, that we expect to get from the SME piece, above and beyond the ongoing growth in the SME business that we would expect to see as a matter of the ordinary course.

In terms of the headwinds, I won't provide too specific numbers for obvious reasons, but the mortgage NII headwind of £2 billion, that is a little above what we expect and so there is a mortgage headwind in there for all the reasons we discussed. Front book maturity business was around the 150 mark in Q4, we were writing new business at 115 in Q4. That gives you a sense of the turnover. We then put in place that assumption as I said of 75-100 for new business going forward, and you know roughly speaking the yield on our overall mortgage book today. But as I said, it is below the £2 billion that you mentioned, but it is above £1 billion, maybe I will put it like that.

Operating lease depreciation, as you say we have seen a period of very benign performance in car prices and that is a function of two things really. One is the supplier component parts for new cars, which has been, as you know, limited, and therefore people have moved into the used car market. And the second is a preference for private transport, in the context of what has been going on. Therefore, you have seen used car prices reflect increased demand, essentially. As we look forward, that operating lease depreciation line will start to return to normality, as we expect to see the dropping off of some of the temporary demand factors and indeed, potentially the increase in supply. How much is that? When we look forward, we had a 2021 charge for operating lease depreciation as you know of about £460m. I would expect 2022 to be a little bit of a reversion to normal, but perhaps not quite back yet to levels we saw in 2020. The reason why I don't think it would necessarily go all the way, in 2020 as you know it was about an £880m charge. In 2020 it was reflecting a period of normality to a degree at least. I don't think we are there yet, I think you will continue to see used car prices that are buoyant, you'll continue to see, to an extent as at least, some aspects of that playing through into our Lex business, which in turn, because of its more limited profile in the current market, reduces the operating lease depreciation charge going forward. So I think you see a mark-up from that £460m, I don't think you see a full return to £880m as we saw in 2020, at least not for 2022.

IFRS17 I would essentially agree with your numbers Chris, and we made disclosures as of Q3 which said we expected circa £400 million of IFRS17 accounting hit in 2023. If you look at it for 2021 and say what would the IFRS17 hit have been in 2021? It is a shade below that actually, but it is not more than a shade below that, so you are not too far off. It is just worth me reiterating on IFRS17, that it makes no difference to the cash profile of the business and I know you would expect me to say that. But the reason why it is important, is because ultimately it is the cash that leads to the insurance dividend that contributes to the capital that we are then able to pay out to shareholders.

Chris Cant
Thanks

Douglas Radcliffe
Thank you. Just before I actually take any more questions from the room, there are a couple of questions that have come in online. So firstly from Robin Down, HSBC, and he is rather giving away his age with this question. For 26 years I have listened to Lloyds CEOs stand up and say they have low product penetration of the customer base and they want to cross-sell more. It is why Widows was brought in 1998, so what is different this time? Do you think consumers' willingness to buy from a bank has improved or is it the use of digital channels that you think will lead to greater success? Can you help convince a sceptic that this time is different?

Charlie Nunn
Great question, thank you Robin, from my old organisation as well, I love it. Partly, I think I discussed it earlier when I said why we are convinced this time is different in terms of how we can grow the business. And I think the starting point is where you started Robin, which is around consumer preferences, and when we look at consumers we still are seeing a great level of digital engagement and a real willingness to engage with us as we look forward. And we do see that there is going to continue to be a set of consumers in the UK that really value an integrated and joined up financial service and offering. There is definitely another group of consumers that are looking to shop around and go through intermediaries and buy products. And the great news for Lloyds banking group is we are the leader in both markets. We are the leading relationship-led bank in our retail franchise. And we also have the leading product through the distribution partners in the big banking products, and we have just laid out an aspiration to extend and increase our relevance, especially around investments and insurance. So yes, I think there is a change in consumer behaviour.

The second thing is, as I said, the maturity and the capabilities we have developed in the last three and four years and specifically how consumers have changed their preferences in the last 18 months through COVID, really give us the ability to make it simple and easy for our customers to access our products and fulfil their needs. So we think there is an additional benefit in that context.

I think the third thing just to say is, and this is something that is the benefit of coming new to this - I can't talk about the last 26 years in the same way - but certainly when I look at the momentum that we have inherited around some of the initiatives the team has been focused on in the last 18 months, we are making really significant progress on some of those cross-sells, whether it is about home insurance and protection between our Scottish Widows business and our Retail businesses that actually William you kicked off when you were interim CEO last year, and you really focused the team on. Or equally, if I look at the other end of the business, I have had a chance to meet a number of our CEOs of our corporate clients, large corporate clients, and all of them have said something which was very interesting to me as I came in. They say we are the only organisation able to help them across the full breadth of the things and issues they have. So some of our biggest corporate clients are looking to us helping them with their defined benefits schemes, for our bulks business through Scottish Widows. They have a pension with us through Scottish Widows. We help them with their car leasing. We help them in the building sector, finance their customers' purchasing of their houses. and of course we are helping them with their green financing infrastructure as a leader in the UK, and we are providing all of our debt and cash and liquidity management services. Nobody else is able to provide that joined up service. What I am hearing from our customers is that is a really distinctive position to be which is why, on the Corporate and Institutional side, we think there is this very targeted opportunity for us to do that even more going forward.

Again without spending too much time, if you think about the challenges they are facing in the next few years - transition to electric transport, transition to net zero needing to look for more green financing and green alternatives, originating long-term assets that can be shared, dealing with defined benefits schemes, defined contribution schemes. These issues are going to be bigger for them going forward than they have been in the last ten years, and we are well placed to serve those needs.

William Chalmers
Charlie, can I add one or two points on that. You are seeing from Charlie's presentation that essentially we have built the competitive initiative, the strategic initiatives that we are embarking on, predicated upon our advantages. Those advantages are, again, as manifested in Charlie's presentation, built around our business model, around our scale and around our information access. All of those three I think are indisputable compared to the advantages that we have. But what does that mean in practice? I will take one example and again Charlie talked a bit about this in his presentation. The information access we have to the 26 million customers that we serve allows us to create data. The creation of that data, as long as we deal with it properly, allows us to create identification of and offers to customers. It allows us to identify risk based pricing to those same customers and it allows us to improve the journey that those customers have if they interact with us in multiple areas. And so I think in answer in Robin's question, the competitive advantages that we have are clear. We are now investing in, and able to take advantage of, those competitive advantages in a distinct way. You will see an awful lot of our investment, an awful lot of our time is going to be spent deploying our money, our people into exploiting what we see as our competitive advantage, and data is a very good example.

Douglas Radcliffe
Thank you, there is another online question from Joe Dickerson at Jefferies. Do you plan to prioritise buybacks over dividends when it comes to capital return going forward?

William Chalmers
Thank you Joe for the question. First of all I think it is worth reiterating that our capital return policy will include the commitment to a progressive and sustainable dividend, which therefore incorporates a pretty healthy yield to shareholders going forward. We will also take a look at the best way to repatriate excess capital above and beyond what we give back in the course of the ordinary dividend. So far this year, as you have seen, we have got a £2 billion buy back going on. Given the share price trading below book, that appears to be an appropriate thing to do. It is also the preference of a number of our large institutional investors, and therefore we have gone down that path. We do recognise the importance of dividends, but as I said based on valuation concerns, based upon investor preferences as a whole, we also recognise the importance of buybacks. And so in short, in answer to Joe's question, I think it is very likely that our ongoing capital returns story is a combination of ordinary dividend and some form of buyback depending upon how the stock trades and we will see how that goes.

Question – Raul Sinha, JP Morgan
Hi, good morning, it is Raul Sinha, JP Morgan. I guess the first one is just on your targets. The challenge with this plan is that the costs are very tangible and upfront, and the upside is very long-dated. Also, you are giving us a combined portfolio outcome which goes into 2026. So I was hoping for a little bit more granularity, William, you mentioned Embark and Citra, outside of the strategic growth initiatives. But could you perhaps help us quantify, out of the £1.5 billion ambition, what are the three largest areas, just to get a sense of a little bit more granularity behind what is really driving the upside?

And then the second question if I can give you that right now is, I think like everybody else I am struggling to understand the 10 per cent return on tangible equity target versus where rates are currently. I wanted to check within that, are you taking a conservative assumption again around the recovery in unsecured balances? Where do you assume unsecured balances will top out over the next couple of years relative to pre-pandemic levels? And also if you could address within your NII, non-NII mix, there has been obviously a regulatory driven shift with overdraft income going into NII. How has that impacted the potential margin from a recovery perspective, if you bake in all of the unsecured growth? Thanks.

Charlie Nunn

Thank you for the question Raul. So we haven't set out the £1.5 billion partly because it is a longer-term view. Obviously our plans have a clear view of the split. I talked about five growth areas and all five of them are really important for that growth. As I said in one of the other questions, some of those five growth areas start building in years one, two and three, and others are more three, four and five. But when you get to years four and five, those five growth areas I talked about are the ones driving that additional £1.5 billion of revenue and they are distinct and incremental to the BAU growth. I know we haven't given that complete breakdown, but one of the things we will continue to do is share, some of what I will call, the leading indicators as we go through the next quarters which we are committed to delivering to show how we are building that underlying franchise growth. So you will get a real feel for that as we go forward. We are really comfortable with that level of growth and the initiatives that really drive it

William Chalmers

On RoTE, Raul, our approach to unsecured has been to assume that we see some recovery in unsecured over the course of this year, in line with the 3.7 per cent GDP growth that we expect to see and a bit of a change in customer behaviour, as well actually Raul, as people look to take vacations and all that sort of thing that they haven't done before. Having said that it is pretty modest, our expectations over the course of this year, and we see only a gradual ramp up in unsecured during the course of 2022, 2023 and 2024. It is really only by 2024 that you start to get back to levels that we saw before the pandemic. Now that is an approximation of how things go but it is therefore built upon what we think is a relatively, forgive the word again, but prudent approach to the build-up of unsecured balances and simply a reflection of the uncertainties that we see. I do think that if we see economic confidence returning, and if we see in particular travel returning which as you know is some 30-40 per cent of our overall unsecured balances, then we would see potentially a faster ramp up, not just in the unsecured balance but also in some of the revenues coming from it, therefore.

You asked about some areas of conservatism within the RoTE, we talked a lot about interest rates, we talked a bit about mortgage margins, we talked about unsecured balances. The other area is potentially the AQR. Now we have given guidance to the AQR of circa 20 basis points this year. Based upon the performance today, as I mentioned in my comments earlier on, we are seeing very benign underlying. If we project that forward over the course of this year and beyond, we are going to come well inside of that circa 20 basis points. Now again let's see how things fare over the course of this year, there are still plenty of uncertainties out there. But based upon today's mark to market and rolling that forward we are ahead of that 20 basis points. There is then a question as to what happens to the overlays that we still have within the portfolio, which as you know, total around £800 million of Covid related overlays of which about £400 million is essentially insurance against vaccine-resistant virus mutations coming out. The other £400 million is against worse default experience but for various forms of principally Government support being in place. I think we have to see how the year rolls forward and every quarter we will be looking at whether or not those overlays are still valid based upon the then-prevailing conditions. But that AQR function, we are aware of the fact that we are outperforming it today. We will see how the rest of the year fares.

Overdraft, moving to NII, I think I understood the point correctly but we have seen overdraft be compressed off the back of various initiatives. So obviously the lower levels of customer activity, but also a bit of a change in product preferences as well and I suspect in some corners, not terribly much our customer base, but in some corners of the market, I am sure that buy now pay later is having an effect upon overdraft balances too. That is not so much our customer demographic, but nonetheless I am sure there is an effect at the margin. So I think overall, for overdrafts, we do expect some come back in line with economic activities. We are not building our plan upon it.

Question – Ed Firth, KBW

Thank you very much indeed for finally putting restructuring back into the numbers, so we have proper earnings - thank you very much for that. And thank you also for the pension disclosure which is super helpful. I have two questions for Charlie really. The first one is about culture. I don't know how transparent you can be but for what your observation is, what you have found since your arrival at Lloyds, because you are talking about the products per customer and trying to sell more. But if there is one thing that has characterised Lloyds in the last ten years, it has been a very aggressive approach to its customers. We have seen that with things like PPI, where your exposure was much bigger than everybody else's. Your predecessor told us it was solved, but then we had HBOS, which this time last year was 60 customers and we didn't have to worry about it, and it is now a 600 million one-off hit below the line. So firstly the question, is what has been your experience since you have arrived and how might it compare and contrast with perhaps what you have seen at other places you have worked? So that would be my first question, if that is okay.

The other question is, I guess again a question more for the sector rather than just for you, but you talked a lot about digital and how everybody is going digital and how well placed you are there. And I do get that. But, if I look at your digital competitors you talk about your cost efficiency, they are running off anywhere between operating costs of between £10 and £30 a customer, per year. Now it is difficult to get your numbers, but your numbers look like between £150 and £200 a year. That is not going to change based on your plans you have given us today, it is not going to change

materially over the next 2-3 years. So I am just asking how confident are you that that is sustainable, that you can be running with such a materially different cost base versus the new entrants who now have certainly contacts with 30-40 per cent of the customer franchise? Thanks very much.

Charlie Nunn
Great, so two, great questions, difficult questions. So if you don't mind I won't refer to my previous experiences on culture but I will tell you what I have seen and how I am thinking about it. I think the starting point is a couple of things. First of all what I have found is a culture that cares about customers, is purpose-driven, is very disciplined around risk and costs and I will come back to the risk point in a second. And actually it has always been my personal view, that those are the attributes you need of a systemically important financial services group. You have to be customer-driven in this industry, in the context of the UK, we have to care about how we serve and then support broader society. But you really do need cost and risk discipline, and I think certainly those attributes have been certainly true to Lloyds Banking Group for a long period of time. They come across in spades as you come in as an outsider, which is what I have obviously just done in the last six months.

You talked about HBOS and PPI and obviously those have been very material, and had a material impact on shareholder returns over the last decade. But of course, they come from a period and from parts of the Group which really are in the history. When I think about conduct and the focus on customer outcomes, this organisation really has been very focused on that with lots of capability and discipline within their teams and invested in a lot of ways of serving customers with a real focus on customer outcomes. So I have been very impressed by what I have seen there. When I look forward, what do I see we need? We need to be able to move at a faster pace. We need a culture that really embraces change and our ability to be able to drive change and support customers. We need to be able to join ourselves up more across the organisation to deliver in a joined up way for our customers. I don't think that will ever put us in a difficult position going forward with respect to customer outcomes, because the difference between the 2020s versus the 2000s, is the point that you were making earlier William, that we have a different level of opportunity to use data and digital to engage our customers and to make customers at the heart of choosing who they are going to for their financial needs. So I think culture is a great starting point in this organisation, a real strength, but we definitely if we are going to deliver on this set of strategic initiatives and this execution path, it's something we have already started very pro-actively discussing and we are starting to shape as we go forward.

On digital, this is the core question of our time and I think it is a really helpful question to look at. Of course the starting point is today, if customers are going to do something meaningful with you, really bring their relationship, really trust you with their money, and then build a profitable financial services relationship which means today largely having a strong balance sheet which you can then build fee income and investments. If you think about the full service, customers want to have, either as a backup or an ability to serve them as they go through their relationship, people that can really provide advice, to be available to them so that they can solve problems. And then for a large part of UK financial services, your stable funding comes from people that still want to have a full multi-channel experience. That has been evolving and will continue to evolve and that's what our plan says. But if you want to create the proper revenue per customer to build a sustainable shareholder return, you can't do it with a digital-only proposition. And I won't comment on specific digital organisations but you will know them all. If you look at their revenue per model and their revenue growth and their sustainability around their economic model today, they don't have a clear path to those things because people won't trust them today at the level they need to.
So I think the first starting point is this is as much or more about building trust and confidence to capture a big enough share of wallet on a revenue per customer, as it is cost to serve. Now obviously, the cost to serve, I have seen those numbers and have had them quoted to me multiple times. I think that's one way of looking at it, but we need to look at the sustainable returns of those relationships and the ability to then really grow those over time from a net profitability per customer. And today we think actually, our stance having multiple channels and all channels with trusted brands with full service, is actually the only proven way of creating sustainable returns. Obviously, some of the investments we are making, and again, this is where the time horizon of investments, I know it is slightly uncomfortable for this discussion if you have a three year view. As we modernise our technology and we create the kind of data and modern technology application infrastructure that underpins these relationships. As customer behaviour changes over the next 3,5,10 years we are going to be well-placed to optimise against that. That is my thought on cost efficiency. Don't know William if you have anything else?

William Chalmers
There is just one point I would like to follow up on actually which is in relation to HBOS Reading. When we were taking charges for HBOS Reading last year, we always said there would be ongoing charge for HBOS Reading. There was nothing that we said different to that. What is different today, in accordance with accounting standards, based upon the judgements made in the HBOS Reading case, we have brought forward a future charge in relation to HBOS Reading as to process and as to redress. So just be very clear there is nothing inconsistent about what we said on HBOS Reading last year versus this year. And I just want to make sure that is acknowledged.

Douglas Radcliffe

Just relating to Ed's question there was another question online from Fahed Kunwar at Redburn. He said on investment itself, how much is defensive versus offensive? I ask this question because we see businesses, Fintech and big US banks looking at the UK as an opportunity and investing heavily. Is this investment just to keep Lloyds competitive so it doesn't lose share and profits, or should we look at this investment as a way of gaining market share in fee income and profit growth over and above pandemic recovery?

Charlie Nunn

So the answer as always is it's both. But what we hope we have done today, and what we are committed to, is that the investments have a clear non-defensive return on investment. We are very comfortable when you look at the portfolio investments, there is either efficiency or revenue growth and in many cases both, that are associated on a go forward basis, that give us a return that we think is quite compelling, and a number of the questions today have said that if you look through these investments you can see how compelling they are.

Now the reality is if we weren't to continue to innovate, improve and invest in our business then there is a downside risk either to cost inflation exceeding the pace in which our revenues grow, or alternatively losing share. We haven't built the investment case on that. The investment case is very clearly on what we need to do to progress on our revenues and efficiency. William, I don't know if you want to build on that.

William Chalmers

Well I think you captured most of it Charlie. Safe to say that at some level it is quite hard to distinguish between what is defensive and what is offensive. They all go to support the future of the business. And as we discussed through this presentation, now it feels like a particularly important time to be making the right investments for a sustainable future in the business. Added to that, you do as you look forward, see a set of investments both in 2024 but particularly in 2026 that have very attractive ROIs. It is attractive in 2024, you can work out the mathematics. But it becomes particularly so as we move forward to 2026 for two reasons. One is the attraction of the investments start to be gained, producing a better revenue outcome. Two is we have the fall away from investment requirements and therefore the reduced capex and depreciation charge associated with it. That combination produces a very powerful ROI for the business, particularly when we are operating at scale as we do.

Question – Robert Noble, Deutsche Bank

Morning it's Rob Noble from Deutsche Bank. Two questions please. One was on the cost of risk that you mentioned William. The £180 million that you moved from fraud charges from impairment to costs, for want of a better phrase, is that a normal level of fraud? And should we not be thinking by 2024, if you have moved fraud out, your unsecured balances are going to be far lower than they ever were in the past, even by 2026 presumably. Should your through-the-cycle cost of risk not be lower than it was in the past?

Secondly, just on the strategy Charlie, I just wanted to ask about the road not travelled. What did you look at in terms of growth that you threw out, and why did you throw it out, what were the hurdles that they didn't meet? Maybe thinking about specialist buy-to-let lending for example, buy-now-pay-later or anything else you looked would be interesting to know what didn't make the bar? Thanks.

William Chalmers

Thanks for the question Rob. On fraud essentially what has changed with fraud is that it used to be the case that much of the fraud that happened in the business was linked to the lending side of the business. What has happened with the unfortunate growth of push payment fraud is that it has moved to the liability side of the business. So it becomes very transactional from a customer basis and therefore, in line with our statutory accounting, we have chosen to move it up and put it into the cost base. Is that a normal level of fraud? As you say, it is an unfortunate way of phrasing it in a sense, but I suspect that will be more or less the characteristics of fraud as we move forward. I don't expect it to necessarily grow much. I would like to see it shrink but that obviously will depend upon the success of some of our initiatives to tackle the fraudsters in line with hopefully with other participants in the payments industry.

When we look forward to 2024, given the fact that we have removed that fraud from the impairment line, and given frankly other relatively benign factors that are going on today, and to a degree at least are factored into our macroeconomic forecasts of one and half percent growth next year and the year beyond. I would expect our through-the-cycle charge to be inside of the guidance that we are giving of below 30 basis points. So it is deliberately set at below 30 basis points today. If you look at our historical charges, they have been around 35 basis points. Today we are moving to below 30 basis points over-the-cycle. Based upon that fraud impact amongst other factors going on in the macro, then I would expect to be inside of that 30 basis points.

Charlie Nunn
Great and then on the second question, which is obviously such a fundamental question when you think about strategy. One bit of context which is obvious, but let me just repeat it, which is Lloyds Banking Group comes out of two decades not just one decade of restructuring, two decades where we have been optimising ROE and then the last decade where we, post-financial crisis, have been restructuring and made pretty bold decisions and clear decisions around participation choices if that makes sense. And focusing back on a core, UK-centred, retail and commercial bank, at the core of what we do. So I think that is the first important starting point when you think about what choices we have made. And our perspective was we had this well managed, de-risked and focused business that had an opportunity to grow.

Now having said that it is slightly different and I will characterise it if it’s okay between our retail businesses, the affluent wealth businesses and then the corporate institutional businesses. There are lots of choices we were going through, so I will give you examples. On the retail side it would be more about risk appetite and you talked about BNPL. But actually, when you look at our unsecured lending business and then our mortgage businesses, there are segments of the market we don’t participate in. It surprised me coming in actually, we just don’t participate in the sub-prime or new prime segments. We are a prime plus, relationship-led institution around unsecured lending and we have continued to say that we want to operate in that way. In what is talked about as BNPL externally, we are, in our embedded finance world, looking at how we provide lending and payments going forward in a simpler way, more embedded through third party platforms model. We think it will look different from a BNPL book as you need to be able to look at a customer’s whole borrowing exposure across all of their relationships and then really help them build their borrowing in that context. So yes we decided to not participate in BNPL as it is today but we do actually like some of the ways that we can serve customers in a more simplistic way. So that is on the retail side, risk appetite choices.

On the affluent piece, actually the core decision was not moving up into high net-worth/ultra net-worth/private banking space and probably that is clear. We obviously have some customers in that context today. Our view is what is really distinctive about Lloyds Banking Group is the 2 million customers that we know have money to invest, a kind of £75,000 plus and the fact there is a gap in the UK for serving those customers in a joined up way. So with more around wealth and where we wanted to really build a distinctive franchise. Then on the Corporate and Institutional space, actually there was a whole set of choices around which sectors we would versus wouldn’t prioritise; which products, I don’t know if cash, debt, risk management works for you - but it is a very focused franchise. We start from a place where in sterling and in the UK, we are actually a leader in many of those segments today, and in gilts. We know you can’t be successful without having scale and really strong capabilities today. We looked at, do we need to have any capabilities in other parts of the world to serve those corporates, those UK-linked corporates, and we excluded some of the choices in that. So with the combination of geography, products and then sectors that we were going to focus on, around the things we said we can’t compete, provide sustainable returns and really build the franchise we need to be.

Douglas Radcliffe
Excellent. Given the time we have probably got time for one more question. I can see a hand at the back there.

Question – Andrew Coombs, Citi
Thank you it is Andrew Coombs from Citi, if I could have one follow on for William and one for Charlie. For William just coming back to the deposit-beta point and just to be specific on the 2022 NIM outlook. You talked about using a 50 per cent deposit beta going forward for future rate hikes, you said your experience had not been 50 per cent and has been lower thus far. So for your 2022 NIM guidance, are you putting in what you in reality have seen for the first couple of hikes and then assuming 50 per cent for the next two into your assumptions? So if you could just clarify that, please.

The bigger picture question for Charlie is there seems to be an awful lot of initiatives here to essentially come to the same output. And what I mean by that is, if we go back in time and think of the RoTE that you were doing pre-Covid or Lloyds is doing pre-Covid and the targets were out there. The old organic capital generation target are 170 to 200 basis points and you are now talking about 175-200, but all the way out into 2026. I guess my question is, there are a lot of good initiatives here, so what’s gone wrong to offset those and more importantly, is this as good as it is ever going to get?

William Chalmers
Great, thanks for the question Andrew. On your question around the 50 per cent pass on assumption. What we have assumed for the business plan for 2022 is not too far off that Andrew. What in fact we will do will be driven by a number of factors. Obviously customer requirements the first and foremost amongst them. But also considerations around the market and the competitive conditions, and also considerations around liquidity of the balance sheet, which as I mentioned before is extremely high. So how that plays out we will see. So far, as per my comments earlier on, we have seen a lesser pass on across the sector actually not just ourselves, but a lesser pass on versus that 50 per cent assumption. I suspect as long as rates are low, that may continue to be the case, but for our planning purposes we put it in an assumption that’s not bang on 50 per cent, but is not far off.

Charlie Nunn

Thanks for the question again. So a couple of thoughts. The first is just looking forward, hopefully one of the things you have seen today and we have admitted to, is actually the diversification and the sustainability of the revenues and the business we are talking about, as we look forward, is materially different. That is both because of the nature of the businesses we are talking about growing, and how we will be deepening relationships with customers. But it is also how we are seeing margin evolving through the next few years. So if you look at IFRS17 coming through, and reducing from an income perspective, not from a shareholder return perspective, the income story and then the margin on mortgages, we have at the end of this period, we think, a significantly more sustainable franchise than you may have seen in prior targets. I am not going to comment about prior targets.

The second thing is obviously the world in the context has changed significantly from those prior targets and when we look at this, we think this provides a very good shareholder return and sustainable position going forward.

I think the third is if you look at returns in financial services over the last decade and you look at what we are now talking about, and where we are aspiring to get Lloyds Banking Group to, we are still seeing, we can talk about NIM progression in the first few years, but a 200 basis point lift within an organisation that is already covering its cost of equity and is planning to get closer to, bluntly, Nordic-style banks, than UK and the rest of European banks. We think that is clear blue water. It will make us a leader in terms of financial returns in the financial services UK market, and it's actually a pretty bold aspiration. Now, the whole discussion today I think was a really good discussion around how does margin and rates and competitive pricing play out relative to that greater than 10 per cent, return on tangible equity, or 12 per cent. What we are laying out as a management team is a commitment to grow 200 basis points of return on tangible equity above already covering our cost of equity. That is not what is being delivered by financial services in the UK as you will understand, nor has it been driven by most other European banks in the last decade. So we do see this as a materially different trajectory from the past, and we feel it is ambitious. And you will take a call on whether it has also got alpha on the macro play on rates.

Douglas Radcliffe

Excellent thank you Charlie. I think that is a good conclusion, so that will conclude the Q&A. I am conscious that there are a couple of people in the room that haven't been able to ask their questions and I am also conscious that there are a number of people online that haven't been able to ask their questions. So if those individuals could get into contact directly with the Investor Relations Team, and we will respond to those appropriately.

Otherwise if I could just briefly hand back to Charlie to provide a brief closing response.

Charlie Nunn

Thank you Douglas and thank you for facilitating the question and answer session. Thank you to everyone who has joined today, it is great actually to be back in person especially for my first proper face to face one and especially with everything that is going on externally today. We really appreciate you joining both physically and virtually. So thank you for coming.

We also hope you have a good sense of our ambition and share our excitement about the Group's future and how our new strategy will deliver higher and more sustainable returns. We are really looking forward to updating you in future quarters and engaging offline and on that hope you have a great rest of your day.

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 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. 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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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