LLOYDS BANKING GROUP PLC– 2023 FY RESULTS – PRESENTATION TRANSCRIPT
(amended in places to improve readability only)

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LBG:
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Charlie Nunn
Morning everyone, and thanks very much for joining us at our 2023 full year results presentation. In line with prior results, I will begin with a short overview of the Group's financial and strategic performance. William will then provide the usual detail on our financials. Following a brief summary, we will then take your questions.

Let me begin on slide three.

SLIDE 3 – CONFIDENCE IN DELIVERING HIGHER, MORE SUSTAINABLE RETURNS
I am really pleased with the progress we have made on implementing our customer focused strategy whilst at the same time delivering strong outcomes for our shareholders. Now, there are lots of moving parts in Q4 that William will talk through shortly, but underlying that, the business has performed strongly.

With that in mind, I would like to highlight the following three things. Firstly, we have now completed the second year of our strategic transformation and are generating real business momentum. We remain on track to meet our strategic targeted outcomes.

Secondly, we have met or exceeded the guidance that we laid out during the year whilst taking proactive action to address a number of headwinds. Our financial performance has enabled increased capital returns of £3.8 billion in the year. And finally, we are confident of delivering higher, more sustainable returns for shareholders. Importantly, we are reiterating both our returns and capital generation for 2024 and 2026.

Turning now to slide four where I will highlight how we have delivered for all stakeholders in 2023.

SLIDE 4 – PURPOSE-DRIVEN STRATEGY DELIVERS FOR BROADER STAKEHOLDERS
We have provided proactive and targeted support during a period of ongoing uncertainty for our customers. For example, we have contacted more than 15 million customers in 2023 to increase awareness regarding savings options and enhanced propositions. Off the back of this, more customers trusted us with their savings, with balances actually growing in the year.

We have also used our data insights to contact around 7.5 million customers offering support where required. Alongside this, our purpose-driven strategy is focused on building a more inclusive society. To this end, we have provided further support to first time buyers and the social housing sector. Those are both part of a multi-year commitment that combined totals nearly £100 billion of support since 2018.

Finally, supporting the transition to a low carbon economy and creating a more sustainable future remains of great importance. Linked to this, we are increasing our commercial banking sustainable financing target to £45 billion by 2026. Combined, these actions are representative of the strength of our purpose, Helping Britain Prosper, which enables us to successfully deliver for all stakeholders and deliver profitable growth for the business.

On slide five, let me now address how we delivered for our shareholders with a brief overview of some of the key financial and non-financial metrics.

SLIDE 5 – ROBUST FINANCIAL PERFORMANCE
William will take you through the detail later, but we have delivered a robust financial performance in line with both our expectations and the guidance we provided. This is despite some difficult unexpected headwinds combined with an uncertain external environment.

Net income growth of 3 per cent was supported by growth in both net interest income and other operating income. Combined with disciplined operating costs and strong asset quality, the Group delivered a return on tangible equity of 15.8 per cent for the year. This translated into strong capital generation of 173 basis points. Even after the impacts of regulatory headwinds and a provision relating to the FCA review of motor finance commission arrangements.

Excluding these exceptional items, our underlying capital generation was significantly stronger in excess of 200 basis points. This enabled total capital return of £3.8 billion equivalent to around 14 per cent of the Group's market capitalisation. This includes a 15 per cent increase in the ordinary dividend as well as a share buyback of up to £2 billion.

To pause briefly on the FCA motor finance review, as you will have seen, we have taken a charge of £450 million. However, the extent of misconduct and customer loss, if any, remains unclear. We therefore welcome the independent intervention from the regulator to help ensure clarity for the industry and our customers on these issues.

Finally, with regards to non-financial performance, we continue to see strong business momentum including a further increase in our leading levels of digital engagement with 21.5 million users now digitally active, comfortably surpassing our 2024 targets.

To build on this, I will provide more detail on our strategic progress starting with slide six.

SLIDE 6 – SIGNIFICANT STRATEGIC PROGRESS, ON TRACK FOR 2024 AND 2026

We have now completed the second year out of our five-year transformation with just one year to go to deliver the interim 2024 actions. Our progress has been made possible by an ongoing commitment to investment. We have now delivered more than £2 billion of incremental strategic investment with £1.3 billion invested in 2023.

We are delivering continued momentum across our strategic initiatives. We remain on track to deliver the majority of our 2024 strategic objectives. With 20 per cent currently tracking ahead of plan. Whilst we have a small proportion that are currently behind schedule, in part due to changes in the external environment, that is to be expected in a strategic transformation as significant as ours.

Encouragingly, our strategic delivery is translating into positive financial benefits. We have now realised around £0.5 billion of additional strategic revenues and £0.7 billion of gross cost savings. These provide us with the confidence that we will deliver the targeted financial benefits in both 2024 and 2026. This includes a return on tangible equity of greater than 15 per cent and capital generation of more than 200 basis points in 2026.

On slide seven, I will provide a few examples of strategic delivery in 2023.

SLIDE 7 – SIGNIFICANT STRATEGIC PROGRESS, ON TRACK FOR 2024 AND 2026

Our consumer business is the largest contributor to our additional revenues from strategic initiatives. As you heard in our first investor seminar in October, this is an area where we are making great progress. In addition to the growing levels of digital engagement I highlighted previously, we have grown in areas that we see as attractive, including sustainable mortgages and financing and leasing for electric and hybrid electric vehicles. The latter has been supported by the highly complementary and successful acquisition of Tusker, which is delivering benefits well ahead of our expectations.

We also have several exciting consumer proposition developments in the pipeline for 2024. This includes our innovative embedded finance e-commerce proposition, where we are currently putting in place agreements with key merchants. Our mass affluent business is growing both customer numbers and banking balances. We are also improving our investment offering for this customer group through a new service called Ready-Made Investments. You will hear more about our progress and plans in this space in our next strategy seminar, which takes place in March.

Now, turning to our progress on the commercial initiatives on slide eight.

SLIDE 8 – DRIVING REVENUE GROWTH AND DIVERSIFICATION: COMMERCIAL

Our commercial priorities are split across our SME and CIB businesses. In SME, we remain focused on digitising our offering and growing in underrepresented areas. For example, we were the first to launch a combined business current account and merchant services proposition in a new mobile-first origination journey for clients. This has driven a reduction in account opening times of up to 15 times, as well as supporting more than 20 per cent growth in new merchant services clients for the second year in a row.

In CIB, we are investing for growth across our cash-debt-risk management offering and in 2023, exceeded our strategic target of £15 billion of sustainable financing. We are increasing our focus on our award-winning transaction banking business, and across our uniquely positioned markets franchise delivering more than 20 per cent growth in other operating income relative to 2021 in line with our strategic target. This is supporting capital-lite revenue diversification for the Group.

I will now briefly cover our enablers on slide nine.

SLIDE 9 – INVESTING IN ENABLERS TO IMPROVE PACE AND EFFICIENCY

Our enablers are focused on ensuring that our growth priorities are delivered alongside a business that is more cost-efficient and less capital intensive with modern capabilities that are fit for the future. With regard to cost efficiency, we have continued to transform our physical footprint, further improving the efficiency within our distribution network and delivering ongoing reductions in our office spaces.

At the same time, we are progressively modernising our technology estate and improving our ways of working to increase the pace and efficiency of change. These activities position us well to deliver the 2024 gross cost savings target of circa £1.2 billion. We have also taken proactive action to improve capital efficiency, for example, through the optimisation initiatives and the elimination of our pension deficit.

I will now close on slide 10.

SLIDE 10 – ON TRACK TO DELIVER IN 2024 AND 2026; CONFIDENCE IN DELIVERING HIGHER, MORE SUSTAINABLE RETURNS

So, as you can see, we continue to make strong strategic and financial progress as we head towards the end of the first phase of our five-year transformation. We are reinforcing the strength of our franchise by growing and deepening relationships with customers right across the Group. Our progress to date increases our confidence in delivering our strategic initiatives as well as realising the associated financial benefits. In turn, this will produce higher, more sustainable returns and capital generation for shareholders. Thanks for listening. I will now hand over to William for the financials.

William Chalmers

Thank you, Charlie. Good morning everyone, and thanks again for joining.

Let me now provide an overview of the financials, starting on slide 12.

SLIDE 12 – ROBUST FINANCIAL PERFORMANCE, IN LINE WITH GUIDANCE

The Group delivered a robust financial performance in 2023, meeting our guidance and demonstrating a resilient franchise. Statutory profit after tax was £5.5 billion with a return on tangible equity of 15.8 per cent. Net income of £17.9 billion was up 3 per cent supported by a higher net interest margin of 311 basis points, in line with guidance and 10 per cent growth in other income. This was partially offset by a higher operating lease depreciation charge, reflecting growth and lower used car prices.

We continue to manage costs tightly. Operating costs were £9.1 billion in line with guidance and up 5 per cent year-on-year. This was driven by higher planned strategic investment, including elevated severance charges, new business costs, and ongoing inflationary pressures. Asset quality is strong. The impairment charge of £308 million includes a significant write back as well as the impact of an improved economic outlook. Excluding these, the asset quality ratio would have been 29 basis points, still line with our guidance.

Tangible net assets per share, 50.8 pence were up 4.3 pence in 2023, including 3.6 pence in the fourth quarter. This performance resulted in strong capital generation of 173 basis points. Again, in line with guidance and after significant regulatory headwinds. Strong capital generation enabled an increased total capital return of £3.8 billion. This includes a 2.76 pence per share total dividend, up 15 per cent year-on-year, and a share buyback program of up to £2 billion.

Let me now turn to slide 13, to look at the development of our customer franchise.

SLIDE 13 – RESILIENCE IN CUSTOMER FRANCHISE

Our customer franchise is resilient. Total lending balances stood at £450 billion, down 1 per cent on the prior year, including £2 billion in the fourth quarter. Notably, the year-on-year movement includes securitisations of over £5 billion of legacy mortgages and unsecured loans. Excluding these, lending balances were stable on the year.

Focusing on the fourth quarter, mortgages were down slightly, but with growth in the open book. There was modest growth in consumer finance, excluding the £2.7 billion securitisation. Commercial banking was down £2.9 billion in the quarter. This included £0.5 billion of repayments of government backed lending within the small and medium business enterprise. On the liability side, total deposits were down 1 per cent in 2023 as a whole. However, up more than £1 billion in Q4.

Deposit churn appears to be slowing. In the fourth quarter, retail current accounts were down £1.9 billion compared to £3.2 billion in Q3. This was more than offset by savings inflows of almost 4 billion. Again, with slowing churn evident in the mix.

In the commercial franchise, deposits were down £0.9 billion in Q4, predominantly within small and medium businesses. And in insurance, pensions and investments, we saw 8 per cent growth in assets under administration in the fourth quarter.

Moving on to slide 14 and net interest income.

SLIDE 14 – STRONG NET INTEREST INCOME, IN LINE WITH GUIDANCE

NII of £13.8 billion was up 5 per cent on the prior year. Q4 was down 4 per cent quarter-on-quarter. Average interest only assets at £453 billion were up slightly compared to 2022, with the fourth quarter broadly stable.

Full year margin was up 17 basis points on 2022, at 311 basis points, in line with our guidance for greater than 310 basis points. This benefited significantly from the annualised impact of base rate changes as well as continued structural hedge reinvestment. Together, these outweighed pressures from mortgage pricing and deposit mix change.

The Q4 margin of 298 basis points was down 10 basis points compared to Q3, a touch more than we expected. This reflects lower PCA balances through most of the quarter, a higher than expected reduction in non-interest bearing deposits in the commercial bank, and mortgage pressures driven by swaps volatility.

Non-banking net interest income was £311 million, including a further £80 million in Q4. This is up significantly compared to the prior year. It is likely to continue to grow, albeit at a slower pace in 2024.

Looking forward, we now expect average interest earning assets to be above £450 billion in 2024. This implies a modest reduction year-on-year driven by growth in the core business being offset by reductions in the SVR mortgage book and repayments of government support scheme loans in Commercial.

Alongside, we now expect the net interest margin to be greater than 290 basis points this year. Within this, we will see further pressure from mortgage book refinancing, an ongoing deposit churn, albeit both of these headwinds are expected to ease throughout 2024.

In the other direction, the structural hedge provides a continued tailwind. Our assumption of three bank base rate reductions in 2024 starting in June is obviously an important input to this guidance.

Let me now turn to slide 15 to look at the mortgage book.

SLIDE 15 – MORTGAGE OPEN BOOK RESILIENCE

The open mortgage book fell by £1.1 billion in 2023, growing in the second half, including modestly in the fourth quarter. Strong customer retention in fixed rate products was offset by the roll off from the SVR book. Our market share demonstrated resilience in what was a slow market environment.

The Group margin continues to be impacted by the difference between new and maturing mortgage spreads. While pricing remained competitive in the fourth quarter, the market has slightly strengthened. Completion margins were around 60 basis points, slightly higher than we saw in Q3.

Looking forward as we move through the year, margins on maturing mortgages will reduce gradually. This means the mortgage pricing headwind is abating through 2024 and into 2025.

The expectation is for modest growth in the open mortgage book across the year. This is supported by strong customer retention in a slightly improving net lending market.

Let me now turn to our other asset books on slide 16.

SLIDE 16 – SOLID PERFORMANCE IN OTHER LENDING PORTFOLIOS
Excluding the impact of securitisations, we saw a solid performance in our other lending portfolios. Combined balances for UK cards, unsecured loans and motor were up £2.7 billion in 2023. Again, excluding the securitisation activity.

In Q4, credit cards were flat. Within this, interest bearing balances were up slightly based on growth in low-risk customer segments. Motor balances and unsecured lending likewise were both up slightly.

Commercial banking lending was down £5.1 billion in 2023. In the fourth quarter, balances across small and medium businesses were down £1.2 billion, including repayments of government backed lending. CIB lending meanwhile fell by £1.7 billion, reflecting a disciplined approach to lending in the context of growing income streams.

Let us move to the other side of the balance sheet on slide 17.

SLIDE 17 – ROBUST DEPOSIT FRANCHISE PERFORMANCE
Deposit performance was robust over the year. Total customer balances of £471 billion were down £4 billion or 1 per cent in 2023, but up £1 billion in Q4.

Retail deposits ended the year at £308 billion. Over the year, we recaptured a significant proportion of the current account outflows within our own savings proposition. Indeed, our retail savings accounts were up £12 billion in 2023, including £4 billion in the fourth quarter. This performance was driven by enhanced propositions and proactive customer communications.

As I said, we are now seeing deposit churn in the Retail business slow down. The switch into fixed term savings accounts from instant access in Q4, for example, was materially less than we saw in Q3. Commercial deposits are down £1 billion in both 2023 and Q4. This was driven by customers reducing balances primarily in the SMB business, partially offset by targeted growth in the CIB franchise. Going forward, based on the current rate outlook, we expect deposit mix shift to continue to slow gradually in 2024.

Let me now turn to the structural hedge on slide 18.

SLIDE 18 – STRUCTURAL HEDGE A SIGNIFICANT TAILWIND
The structural hedge notional ended the year at £247 billion. This includes a £4 billion reduction in Q4, in line with our expectations for a modest notional reduction in the second half. The weighted average duration of the hedge remains around three and a half years.

As you know, we manage the structural hedge prudently. Given the slowing deposit churn we expect in 2024, we are planning for a further modest reduction in the notional balance this year, stabilising in the second half. We have around £40 billion of maturities during the year, which gives us significant flexibility in our hedge management.

In 2023, hedge income was £3.4 billion, £0.8 billion higher than the prior year. Looking forward, we expect this to be around £0.7 billion higher this year, given the continued benefit from rolling the hedge into higher swap rates. Indeed, the refinancing of the hedge remains a powerful driver of income growth for the foreseeable future.

Moving to other income on slide 19.

SLIDE 19 – BUILDING CONFIDENCE IN OTHER INCOME
Other income of £5.1 billion was 10 per cent higher than 2022, driven by growth across the business. Retail saw an improved current account and credit card performance in the context of recovering activity as well as a growing motor contribution.

Commercial saw growth in markets and bond financing based on increased market shares. Meanwhile, IP&I other income was up 26 per cent year-on-year. This included the benefit from strong new business levels, income releases from a higher contractual service margin, and improved general insurance performance. Looking forward, we expect gradual progress in other income driven by higher levels of activity and the realisation of our strategic initiatives.

Turning to operating lease depreciation. £956 million is a significantly higher charge year-on-year. The increase is driven by two factors. Firstly, volumes are continuing to grow in the motor leasing business driven by organic growth and the acquisition of Tusker.

Secondly, after a period of outperformance, used car prices have fallen including a particular decline in the fourth quarter. This has resulted in a normalisation of the depreciation expense as well as an additional non-run rate charge of around £100 million taken in Q4 to restock our forward-looking provision given used car price falls.

Looking forward, you should therefore expect the quarterly charge to be roughly the Q4 run rate level, plus organic growth, but excluding the £100 million provision restock.

Moving on, let me talk about our continued focus on efficiency on slide 20.

SLIDE 20 – DISCIPLINED OPERATING COSTS, IN LINE WITH GUIDANCE

Operating costs of £9.1 billion are again in line with guidance. This was up 5 per cent on the prior year, driven by planned investment, the costs associated with new business, and inflation.

Q4 was impacted by investment timing, including additional severance and, as usual, the bank levy. We will continue to manage the cost base tightly. We now expect 2024 operating costs to be £9.3 billion, slightly higher than our original expectation. This in turn is due partly to higher inflation than expected, but mainly due to higher severance payments that will improve efficiency over time.

The £9.3 billion is net of achieving our £1.2 billion of cost saves as we continue to successfully absorb material inflationary pressure. It is worth noting here that our operating cost guidance does not include the potential for a net neutral charge of around £100 million. This is driven by a sector-wide change to the way in which the Bank of England charges for supervisory costs. If enacted, this will result in an equivalent offsetting gain in net interest income.

Remediation costs in the year increased to £675 million. This is principally due to the £450 million provision for the potential impact of the FCA review into historical motor finance commissions. This provision reflects estimates for operational and legal costs. It also reflects an assessment of potential redress based upon a range of scenarios.

To be clear, there remains significant uncertainty, and the financial impact could differ materially from the amount that we have provided. We welcome the independent FCA intervention to help ensure that we get to the right outcome.

Looking now at asset quality on slide 21.

SLIDE 21 – STRONG ASSET QUALITY, IN LINE WITH GUIDANCE

Asset quality remains strong across the Group. The impairment charge of £308 million reflects the resilience of our prime customer base and our prudent approach to risk. Alongside, we experienced a significant write-back in Q4. Furthermore, the charge includes an MES release of £257 million from forecast adjustments to reflect a slightly improved economic outlook. Excluding the write-back and the updated economic forecasts, the asset quality ratio was 29 basis points which is still in line with our guidance.

The Q4 impairment charge was a net credit of £541 million. Again, excluding the write-back and MES release, the charge was stable quarter on quarter. The stock of ECL on the balance sheet now stands at £4.3 billion. This remains above pre-pandemic levels reflecting uncertainties in the economic outlook. Given the ongoing resilience of the portfolio, we expect the asset quality ratio to be less than 30 basis points in 2024.

Let me now turn to slide 22 to look at our economic assumptions in more detail.

SLIDE 22 – UPDATED MACROECONOMIC OUTLOOK
We have made modestly positive revisions in our updated economic outlook. We believe GDP growth will be subdued this year. However, we now expect inflation to fall more sharply. This will allow three base rate cuts in 2024 from the current 5.25 per cent level starting in June. Our HPI outlook has improved since our last estimates. We now expect only a slight fall of around 2 per cent this year, helped by a lower rate environment. Meanwhile, unemployment is expected to remain low peaking at 5.2 per cent in Q4 2024. As usual, we present the full set of economics and associated ECL provisions in our appendix.

Moving on, let me turn to slide 23 to look at our credit performance.

SLIDE 23 – STABLE CREDIT PERFORMANCE ACROSS PORTFOLIOS
The performance across our portfolios continues to be resilient. In particular, new to arrears in UK mortgages were stable throughout 2023 after increasing slightly at the start of the year. As mentioned before, this trend was largely driven by new to arrears in the 2006 to 2008 legacy book.

Meanwhile, arrears and defaults in the unsecured book continue to be very stable, remaining similar to or below pre-pandemic levels. Alongside, early warning indicators in retail remain reassuring. Credit quality in the commercial book also remains resilient. Likewise, early warning indicators are healthy.

Our commercial portfolio is high quality. Around 90 per cent of SME lending is secured and more than 80 per cent of CIB exposure is to investment-grade clients. Also within the commercial business, our net CRE exposure continues to reduce. It is now around 10 billion with an average interest cover ratio of 3.3 times and an average indexed LTV of 46 per cent. Meanwhile, the portfolio is well diversified across sectors with only 14 per cent of exposures relating to offices.

Moving on, I will turn to slide 24 to look at the below the line items and TNAV.

SLIDE 24 – UNDERLYING AND STATUTORY PROFIT CONVERGE, TNAV BUILDING
Consistent with our objectives, there continues to be convergence between underlying and statutory profit. Restructuring costs were £154 million in 2023. This includes integration costs for Embark and Tusker, but it also reflects a significant one-off cost to ensure business continuity following the administration of a key supplier.

Volatility and other of £152 million includes the usual items for fair value unwind and amortisation of intangibles. It also includes modest positive volatility, mostly driven by lower rates in the fourth quarter. Statutory profit after tax of £5.5 billion resulted in a return on tangible equity of 15.8 per cent for 2023.

Tangible net assets per share at 50.8 pence were up 4.3 pence in the year, including 3.6 pence in Q4. The increase was driven by profit accumulation, the lower share count and the reduction in the cash flow hedge reserve as the yield curve fell. Based on our current economic expectations, we expect further TNAV growth in 2024 and beyond, driven by much the same factors.

Turning now to capital generation on slide 25.

SLIDE 25 – STRONG CAPITAL GENERATION, IN LINE WITH GUIDANCE
The Group remains highly capital generative. RWAs were up £8.2 billion during 2023. This includes a £5 billion increase relating to CRD IV, of which £2 billion was taken in Q4. Regulatory pressures were offset by NPV positive balance sheet management including securitisations. Beyond that, lending and operational impact increased RWAs.

The implementation of CRD IV is ongoing. We expect a further RWA increase of about £5 billion phased between 2024 and 2026, subject of course to further PRA review. And in this context, we continue to expect RWAs to be within guidance of 220 to 225 billion at the end of this year. Lending growth continues, alongside active balance sheet management to offset regulatory pressures.

Capital generation in year was 223 basis points before 50 basis points of regulatory headwinds. Net of that, capital generation was still strong at 173 basis points, in line with guidance and driven by robust profitability. The impact of the higher remediation charge in Q4 in this context was more than offset by the one-off write-back in the same period.

The Group's strong capital position and capital generation enables the Board to announce a final ordinary dividend of 1.84 pence per share, making a total of 2.76 pence. The dividend is up 15 per cent on 2022, and alongside a buyback programme of £2 billion means the Group will distribute a total of up to £3.8 billion. This, as you know, is around 14 per cent of our current market cap. As shown today, the Board is committed to a progressive and sustainable dividend and additional excess capital distributions.

It is worth noting that in Q4 we also made a £250 million further pension contribution. This closes off the remainder of the deficit and means there will be no further deficit contributions in the current triennial period to December 2025.

Our year-end pro forma CET1 ratio of 13.7 per cent remains strong. As you know, the Board continually reviews the appropriate capital target for the Group. Based upon regulatory, economic and business considerations including our risk profile, we have now determined that 13 per cent CET1 is the right target. As before, our target continues to include a management buffer of 1 per cent.

To be clear, this change in target is a positive development, indicating the strength of our Group. In order to manage risks and distributions in an orderly way, we expect to pay down to circa 13 per cent by the end of 2026.

This year we expect capital generation of around 175 basis points, as previously guided. Looking further forward, we continue to expect capital generation to be greater than 200 basis points by 2026.

So let me bring this together on slide 26.

SLIDE 26 – CONSISTENT GUIDANCE; CONFIDENCE IN DELIVERING HIGHER, MORE SUSTAINABLE RETURNS

We are, as Charlie said, progressing well towards our ambition of generating higher, more sustainable returns for shareholders. For 2024, we now expect the margin to be greater than 290 basis points, operating costs to be around £9.3 billion, and the asset quality ratio to be less than 30 basis points. We also continue to expect the return on tangible equity to be circa 13 per cent, RWAs to be between 220 and 225 billion, capital generation to be around 175 basis points and to pay down to a 13.5 per cent CET1 ratio.

In the medium term, we remain confident in delivering our vision of higher, more sustainable returns by 2026. We are retaining our medium term targets, specifically cost income ratio to be below 50 per cent, return on tangible equity to be greater than 15 per cent and capital generation to be greater than 200 basis points. In addition, and as mentioned, we now expect to pay down to a circa 13 per cent CET1 ratio by the end of 2026. In sum, we look forward to continuing to deliver for our shareholders.

That concludes my comments. Thank you very much for listening this morning. I will now hand back to Charlie to finish up.

Charlie Nunn

SLIDE 28 – CONFIDENCE IN DELIVERING HIGHER, MORE SUSTAINABLE RETURNS

Many thanks, William. So to summarise, the Group delivered a strong performance in 2023 in line with expectations that we have laid out. Aligned to our purpose of Helping Britain Prosper, we have continued to proactively support customers and meet our broader societal objectives whilst successfully executing against our strategic plans. In addition, despite the external headwinds and uncertainty we faced in 2023, we have taken actions to deliver robust financials and increased capital returns. We remain on track to meet our 2024 and 2026 strategic targets, which will support the delivery of higher, more sustainable returns and capital generation. Thank you very much for listening, that concludes our presentation and I will hand over to Douglas who'll lead the Q&A. Douglas.

Douglas Radcliffe

Thank you, Charlie. So moving to questions. As usual, if you could please raise your hand if you would like to ask a question. Please could everyone also use the microphone that will be provided and if possible, please restrict yourself to two questions.

Okay, so let us begin. Let us start with Alvaro.

Question 1: Alvaro Serrano, MORGAN STANLEY
Hi, Alvaro Serrano from Morgan Stanley. Got a question on motor finance and one on margins. On motor finance, I realise that there is still a lot of uncertainty as you have pointed out, William, but can you help us reconcile why you think £450 million is enough? I realise some estimates out there point to £1.5, £2 billion, and so what is the difference in view there? And also, how does that fit in with the Board approving the £2 billion share buyback and basically the lower capital ratio that the bank needs to run with? How can you square that?

And then the second question on NIM, how do you see the year progressing? You have previously talked about a trough in margins at Q1, Q2, is that still the case? And you have pointed out you expect the mix shift in deposits to continue, there is central bank data that points to more stability, so why are you still expecting that mix to change? Thanks.

William Chalmers
Thanks for the question of Alvaro, I will take them in turn. First of all, on the motor point, as you know in this context as acknowledged by the FCA, the extent of misconduct and customer loss, if any, remains unclear. We believe that we have complied with all the relevant regulations in the relevant dates, so that is the backdrop. In the meantime, we have had one financial ombudsman judgment and we have had a series of county court cases, most of which have actually decided in our favour.

When we look at the review, therefore, we welcome it in order to get some clarity on the situation. You asked about the £450 million provision. In that context, there are two components to the £450 million provision, one is operational and legal expenses and the other is redress. Both of those two are encompassed within the £450 million. The redress is built upon a variety of scenarios, various scenarios which in turn are built upon various inputs to those scenarios. So for example, time periods, how far back does this go? 2007 being one example, but other time periods could be taken into consideration. Likewise, what are the commission models that are taken into account? Likewise, what is the relevant benchmark for compensation should redress arise? Should it be a zero commission structure or should it be a reasonable commission structure? Likewise, what type of redress measure might the FCA want us to consider? Is it proactive or is it reactive? Response rates and uphold rates. These are all variables that feed into the various scenarios that we have constructed, off the back of which we have positioned our £450 million provision.

There are, as you can see from my comments, quite a few uncertainties and we will obviously update on those as the situation develops, but I would note that when you consider it against other numbers that might be out there, there are a number of quite important dependencies. So for example, whether it is a zero commission number that is taken as a benchmark for any potential redress or whether it is a reasonable rate of commission makes a big difference to the ultimate provision that might be necessary for redress, cutting it by more than 50 per cent, for example. So there are some important dependencies in the numbers that are out there.

Secondly, you asked about how that all squares with the Board approving the £2 billion buyback and indeed the capital ratio reduction to 13 per cent by 2026. I would say both are an expression of the Board's confidence in the business. We will talk more about it I am sure, but when we have looked at both, and in particular when we have looked at capital ratios, we have looked at the regulatory outlook, we have looked at the business risk reduction that has been embarked on over the last several years, and indeed we have looked at retaining our buffer for uncertain economics, and all of that adds up to 13 per cent CET1 target ambition that we have. So both of those two, the £2 billion and the target reduction to 13 per cent, are expressions of confidence in the business.

Moving on, you asked about the margin. The margin, as you know, we have committed to greater than 290 in the course of 2024. When we look at the performance in 2023, we delivered on guidance greater than 310, delivered at 311, but the relevant number is the quarter four closing rate of around 298. So when we look at the trajectory going into 2024, we expect what will very likely be a gentle decline in the first half of 2024, and I would underline the word gentle, nothing like what we saw in Q4. And then we expect that to gently increase in the second half of 2024, certainly by the end of the year, certainly by Q4. So what you are seeing therefore is a closing margin of 298 in Q4 of 2023, an expectation for 2024 that we will see a gentle decline in the first half, a gentle incline in the second half, as I say, certainly realised by Q4 if not before.

What is going on kind of underneath the hood there, a couple of points to make. One is we do expect to see, as your question alluded to, Alvaro, some continued deposit churn over the course of the year. Two, is we do expect the mortgage refinancing headwind to still be there over the course of this year. But in both cases, in deposits and in mortgages, we expect each of those headwinds to gradually abate over the course of the year and we can talk more about the reasons for that, but they are, at least in the mortgage case, very mechanical and in the deposit case rely upon the kind of rates trajectory, the rates outlook that we have described to you. And then finally offset against that is the structural hedge, which cumulatively gathers pace during the course of the year and all of that nets out to greater than 290 for the 2024 margin outlook. Thank you.

Douglas Radcliffe
Let us take the next question from Joe.

Question 2: Joe Dickerson, JEFFERIES
Hi, thank you, Joe Dickerson from Jefferies. Two things from me. First on the severance costs that you have, could you try to quantify those or express them in materiality terms? And then is this just a present part of your cost base or at some point will this abate and become a tailwind on the cost base? That is question number one.

And then number two, just on the cash flow hedge reserve, I think off the top of my head looking this morning, it is about £3.8 billion, how do we think about the sensitivity around that and how that comes back? Because obviously the 15 per cent return on tangible number by 2026 is very different if the TNAV is much higher, and I am not sure that the street estimates have that quite right. Thanks.

William Chalmers
Yeah, thanks Joe. Just to give you a couple of numbers on each of those. Severance costs, first of all, we always have an allowance for severance costs within our overall cost budgets. We had it in 2023, we again have it in 2024. What is different is that in the final quarter of 2023, we actually took a bit more severance than we normally would do, and likewise when we head into 2024, the same is going to be true. Now in 2023, we were able to offset that against various other mitigants within our overall cost profile. In 2024, it is tougher to do so again and that is the reason why we have moved from the £9.2 billion that we described to you before as the 2024 cost guidance to £9.3 billion that we are describing to you today. So I would not put a precise number on severance, but that is the principle driver between £9.2 through to £9.3, it is increased severance above and beyond our regular severance budgets.

It is worth saying before leaving the severance topic that as you can imagine, we subject that to pretty severe business case tests and so any severance that we deploy, we expect to get benefits out of it. Now, you do not typically realise those full benefits in year, you would expect to see them in the years thereafter, but as you know, a big part of our story is around operating leverage within the business. As the headwinds abate as strategic initiatives come in, we hope to deliver a flatter cost base going forward and that in line with lower investment levels leads us to predict the returns that we are predicting for 2026 and have, as I say, full confidence in them. So the severance has business cases, the business cases are aligned to the profile of operating leverage that we expect to deliver over the course of 2025 and in particular in 2026.

The cash flow hedge reserve you mentioned, you are right, cash flow hedge reserve is around £3.8 billion right now. The pace of it or the movement I should say in cash flow hedge reserve is, as you know, very interest rate dependent. There are two things that go on there, one is the valuation of the existing stock of derivatives against which the structural hedge is positioned, and then second is as the derivatives mature, I mentioned £40 billion in structural hedge maturities this year so you get a repricing on a mark-to-market basis of new derivatives that come in. Those two compress the cash flow hedge reserve and indeed lead to TNAV growth.

We saw a bit of that through the course of 2023, we saw a good part of it in the course of Q4 of 2023. We do expect to see more of it in the course of 2024, I think we have given a PV01 of around £12 million or thereabouts, one basis point move leading to about £12 million cash flow hedge reserve adjustment. That in turn leads to expected TNAV growth over the course of the year. We ended up 2023 probably a touch higher than we expected to end up on TNAV per share, that will carry through into TNAV per share build for cash flow hedge reserve reasons, but also for the other reasons I mentioned in my comments over the course of 2024.

Charlie Nunn
Joe, just one thing on the severance, because obviously William covered it well, we should expect an ongoing baseline severance as you say, why an increase this year? Which is kind of your question. I think it is because as we have got into the strategy, we have seen additional opportunities for efficiency and to provide reinvestment into areas that are going to drive the growth. So, it is really a demonstration of our confidence around what we are doing

and you should expect the baseline level, but this is really a demonstration that this year we think we can do a bit more.

Douglas Radcliffe
Let us move to the front row now, Rohith.

Question 3: Rohith Chandra-Rajan, BANK OF AMERICA
Thanks very much. I had a couple please. The first, actually just sort of following on from the cash flow hedge question, but just CET1, the move to 13 per cent, if you could give us a little bit more in terms of your thinking behind that and then how also that factors into the TNAV for 2026? Presumably that takes about a billion off so you have got cash flow hedge build, and then you have got a billion less from a lower CET1 ratio, and then how in turn that feeds into your greater than 15 per cent RoTE. My read of your guidance is you have not changed the more than 200 basis points capital generation so it is not a comment on earnings, it is just a change to the denominator. That was the first question.

And then the second question was just on average interest earning assets, so £453 billion in Q4, £450 billion for 2024 on average, what was the jump off point for 2023 and what are the headwinds in 2024, please?

William Chalmers
Yeah, thanks Rohith. There is sort of three questions there in a way actually. CET1 reductions, first of all, it is worth me just starting off with the point that the CET1 target ratio from 13.5 to 13 per cent is a very positive sign for the business. It is a positive sign, we believe, for all stakeholders, clearly for shareholders, but also for customers. It allows us to price products, for example, more efficiently.

Why have we gone there? As you know, the Board, when it looks at the target CET1 ratio looks at what capital is required to operate the business, to grow the business and to absorb stresses that the business might encounter. When we have looked at the business, we have looked at three things. One is business risk reduction. As you will be aware, over the course of the last 10 years or so, but particularly in the last five years, this business has materially reduced the risks that it is exposed to. You can see that evidenced in the CRE exposure, for example, I made a comment in my earlier script. You can see that evidenced in the runoff of the legacy mortgage portfolios, for example. You can see it evidenced in terms of some of the metrics around the business, whether it is LTVs, interest cover ratios, secured backing for the SME portfolio and so forth. And you can also see it manifested in regulatory assessments, e.g. the ACS performance from about a year ago. So a significant reduction in business risk, as evidenced by the statistics that we would give you, but also testified to by things like the ACS test.

Secondly, the regulatory uncertainties we believe have diminished. As we look forward, we can see more or less the outlines of CRD IV, we talked about that in the context of our earlier comments. We can see more or less the outlines of Basel 3.1. We can also see our Pillar 2A coming down, as you have seen, this is a public number. And so therefore, the regulatory uncertainties we think are starting to reduce and certainly our visibility on the regulatory outcomes is greater than it was a year ago or so. And then finally, of course, macro remains uncertain. We all know about that, but that is why we have kept the 1% buffer in our overall CET1 target, even when we move to the 13 per cent outlook. So as a result, as we adopt the 13% target, as said, we see it as a very positive sign for all stakeholders, an expression of confidence in the overall business position backed up by the evidence of what we think is going on in the regulatory space.

When you look at 2026, as you say, we do expect the cash flow hedge reserve to further reduce, as it were, to build the TNAV in the business. And that is one of the factors driving TNAV, but driving TNAV are other factors including profit add-ons, for example, including pension build for example. And driving TNAV per share is also the net of the buyback, which as you have seen today is a 2 billion addition. And as long as we are buying shares below book, that is going to contribute to a constructive TNAV per share outlook.

So all of that is positive, but as you say, the key point Rohith, is that our greater than 15 per cent RoTE outlook is not dependent upon the 13 per cent CET1 target shift. Had we stuck with 13.5 per cent CET1 as a target, our guidance for you in terms of greater than 200 basis points, in terms of greater than 15 per cent RoTE outlook in 2026, would have been exactly the same. All this does is add to the extent that we were able to achieve RoTE in excess of 15 per cent. But the greater than 15 per cent would have stood whether we adopted the 13 per cent or not. The final point that you mentioned, Rohith, is in relation to AIEAs. And just to be clear there, our guidance on AIEAs is greater than 450 billion. That is, as I said in my comments, a touch-down on 2023. There are a couple of things going on there. One is organic business growth. So we do expect the organic business to grow in terms of our core franchise. So on the retail side, on the commercial side, we expect balances to grow. There are two mitigants to that. One is around the repayment of bounce back loans in respect of the commercial business, most obviously in the BCB or SME franchise. And then two is, as you have seen over the course of 2023, the back book within mortgages will continue to pay off. The SVR book is likely to come down. But to be clear, the ongoing look-forward business, whether it is the open mortgage book or whether it is corporate institutional balances for example, those will grow.

And I will make a final comment, which is our guidance is, as I say, greater than £450 billion AIEAs. It is greater than, both because that is the way that we saw it as of December 31st, but as testified to, by slightly stronger markets that we have seen open up during the course of January and so far in February. So it is quite deliberately greater than £450 billion.

Douglas Radcliffe
Great. Thank you. Next question please.

Question 4: Perlie Mong, KBW
Hello, it's Perlie from KBW. The first one is just going back to motor. I know obviously there is lots of uncertainty within that. But can I just clarify whether you think that the Land Rover portfolio, the captive book is part of the review? And secondly, again, I know the £450 million will have all sorts of assumptions in it, but broadly speaking, how is it split between the redress and the operational cost? Because obviously the data going back to 2007, there is a lot of records that may not be around. So just what are you thinking about the split between the two?

And then I guess secondly, going back to deposits, do you have a sense as to what is driving the slowdown in the churn in deposits in Q4? Is it slowing because it is typically a higher spend season, so Christmas and everything? Or is it because there was a lack of a rate rise effectively and so just less prompts? And in a falling rate environment, would you see that slow more or less? Because if rates were to come down, maybe people would want to lock in rates sooner rather than later. Is that a possibility? And I guess since we are talking about assumptions on the NIM, just noticing that you are factoring in three rate cuts and one of your peers is factoring in five. So if that were to happen, just how would that greater than 290 evolve?

William Chalmers
Sure. Thank you, Perlie, for the question. The first one on motor, a couple of points that you raised there. One is Land Rover exposure, the second is the split between redress and operational costs. You are right, Land Rover has been a significant part of our portfolio for a while. I shall not comment on any numerical aspect of that. But it is probably fair to say that Land Rover, both because it is new cars and because you might imagine therefore there is less scope for discretionary movements within any pricing, perhaps has lower redress consequences, if that is the direction that the FCA review goes in, than other aspects. But I would be just careful about how much you read into that for the £450 million provision because as I mentioned earlier on, we have taken a variety of scenarios in the context of our £450 million. Second, you asked about redress versus operational costs. We are not specifying exactly how that £450 million is split. The only comment I will make, Perlie, is that there is a decent chunk of each within that overall £450 million.

Charlie Nunn
Great. Yeah, let's have a go at deposit churn and you can talk about the impact on NIM of rate rises. So first of all, as you say, this is obviously a hugely important part of the development through Q4 and into this year. What you saw, as you recall, is a lower change in our retail customer deposits, which is obviously the most important deposit base for the bank. So we saw a slowdown in Q4. And as you saw across the year, actually relative to other High Street banks, we performed materially better on that churn. And we were winning in the savings market, which is exactly what we wanted to try and do with our broader propositions around our mass affluent base. So it was on a relative basis, a good performance.

We think what we saw in Q4 is what we would expect. There were two dynamics going on. First of all, we have obviously seen the shifts out of PCAs at the higher height part of the yield curve or where time deposits were priced up above 6% in the middle of last summer, which is where the biggest gap was. We have seen a significant amount of moves and so you would expect that to slow down as you get further into the rate cycle, number one. Number two, obviously the gap between time deposits and then instant access deposits has narrowed. And so people can actually get the value from liquidity, which we know they value, without having to lock up their deposits for 12 months or 24 months. And so we think those are the dynamics that we saw happening through Q4.

And obviously, as William said, we do expect that still as the rate cycle continues to mature. So you will still see people making choices to put money into savings accounts. But the choice now between putting it into instant access versus time deposits we think will continue to narrow because of the yield curve and what you can price at 12 and 24 months out. Which is where most people were choosing to put their deposits. So we think this is a good development. I think importantly for us, we want to make sure given the nature of our customer base and how we can engage customers on a relative basis, we are performing strongly in this context.

Where does this end up? I have talked about this a lot with you in the last couple of years. When you look at the longer term yield curve still being above 300 basis points, we always said as you get further into the cycle, people would have rebalanced their portfolios into the liquidity deposits that they want in PCAs and instant access. But as you see time deposits come down in the returns, people will be more comfortable with not growing that further. So we think there will be stabilisation through the backend of this year. But it will depend on where the rates go, obviously. William, do you just want to talk about if there is sensitivity beyond three base rates?

William Chalmers
Sure. Yeah, I will. Perhaps actually, Perlie, just to add a couple of numbers to the analysis as well on deposits that you might find helpful. One is, as you have seen, PCA reductions have gone down from a £3.2 billion level at Q3 to a £1.9 billion level in Q4. Now to be clear, a lot of that was backend loaded in the quarter, but nonetheless that is quite a significant reduction in PCA outflows. Secondly, what we describe as the non-maturity churn within our overall savings book, i.e, savings moving from instant access to fixed term for the first time, if you like, has gone down from around £10 billion to around £7 billion between quarter three to quarter four. So quite a material reduction. That appears to be continuing during the course of January and February of this year.

And then thirdly, we retain the vast majority of fixed term deposits that mature. The vast majority. Of those, we reckon about 60 per cent, 60 per cent, are going back onto fixed term versus the rest which are basically staying within instant access. So you have got that effect as well going on in the overall mix. I think together those three factors that we witnessed in Q4 and we are continuing to witness in Q1 of this year support the thesis at least that deposit churn does appear to be slowing. Now again, it is early days and we have to see how things transpire, driven by all the points that Charlie mentioned. But the data certainly supports the supposition.

Bank base rate cuts and what impact that might have. As you know, our guidance is greater than 290 for this year. That is predicated upon three bank base rate cuts. So we start out now at 5.25 per cent, we end the year at 4.5 per cent. We are also starting those in June. And both the quantum and the timing of those bank based rate cuts makes a difference. But to answer your question, we have given some guidance in the disclosures around the impact of a 25 basis points parallel shift reduction. Just like we did on the way up, we are giving the same guidance on the way down.

Now that is both base rate inspired, but also it assumes a parallel shift in all associated curves of 25 basis points. And that gives you about a £150 million hit to income off the back of that 25 basis points reduction. But it is worth making a couple of points. One is in that lower rate environment, just as Charlie's comments were indicating, you would expect deposit churn to slow even further. Why bother churning in the context of lower rates? Likewise, you might expect offsetting steps, if you like, in the context of other prices including in particular our asset markets. You certainly saw that on the way up. It is hard for me to believe that you do not also see it on the way down. And therefore compensating effects or adjustments, if you like, in other asset markets.

And possibly, who knows, you might see stronger levels of activity in that type of market too. Overall, what that means is that while the £150 million number is a crude estimate, if you like, of the effect of a 25 basis points parallel shift, the net number is likely to be lower than that because it is offset by the two or three factors that I just mentioned. As to the ultimate outcome. I suspect rate reductions above and beyond what we have given in our forecasts. They are negative from an income point of view for sure, but as said, they are less negative than that £150 million sensitivity might point out. And the extent of that I think will depend upon not just the quantum, but also the timing. If these are late in the year, they do not make much difference in 2024. If they are earlier in the year, they clearly make more.

Douglas Radcliffe
So the next question is from Alistair.

Question 5: Alistair Ryan, BANK OF AMERICA
Yeah, thank you. Two then please. One, so you are Britain's largest mortgage bank and nobody is really asking about what seems to be a very significant improvement in the outlook for the mortgage market. I wonder if that is because you are not charging enough for mortgages. 60 basis points, it does not seem like very much, right? So the value added for mortgage growth feels pretty low. So is there any reason to hope that, as the largest lender, you can influence that to a level that is more competitive so that we are more interested frankly? And then secondly, insurance. You do not seem to make any money in insurance anymore or you certainly did not this year. In theory you should, right? You sound like you have fairly grown the business and you have got all this CSM now. Can that be a driver of earnings because it was not in 2023? Thank you.

Charlie Nunn
So yes, you are right. We are the leading mortgage bank and as William said, and you know the data, the start of the year has been a good start. I always say to the teams, "one month does not make a quarter, let alone a year." But it has been good to see the confidence coming back into the market and the margins have stabilised, as you say, just north of 60 basis points. I think the first point is both 50 basis points, which we wrote business at last year and 60 basis points is very accretive business. And it is important to recognise that. You are shaking your head, but I can assure you when you look at the numbers, it is accretive.

The other point, which just goes back to the last discussion, which I think is really important, I said to you before on the way up in rate cycles, we have lived through them a long way, what you want is both sides of the balance sheet. You want a balance sheet which is 100 per cent loans-deposit ratio. You want a good mix of secured and unsecured assets. And you want stable deposit bases, which are really grounded in strong relationships in the retail business. And what you have seen on the way up is we are differentiated in the stability of our deposit base and still competing effectively on assets. And on the way down, which is what you are alluding to, we have got the best leverage and the best mix of assets to compete on the way down. And so we do think there will be upside on the way down. You need both sides of the balance sheet to be able to really win relative to our competitors in that context.

And of course, underpinning all of this is still the structural hedge. Which as you know, has significant upside for us in each of the following three years and actually beyond. But obviously relative to our guidance. And we do still think that the longer term yield curve is going to give us confidence in investing the structural hedge as it rolls off. That underpins both sides of the balance sheet. Now how you assign the transfer price capital and cost of funding to both sides of the balance sheet, I do not know. But I can assure you that even if you take a very competitive market priced through the third party way of pricing mortgages, 50 to 60 basis points is good. And as you say, there is positive momentum in that market.

In Insurance. Let me just deal with that one. What we have laid out is a strategy for growth around capital-lite parts of the insurance business, where we know we have leading franchises. And also the broader investments businesses. So the workplace pensions, home insurance and protection. They are businesses where we make money going forward. We are also growing market share and we are winning in those markets. And what we committed to in the strategy, and we will talk again more about this in the next few years, but again now what we are starting to see is the benefits of having 26 million customers through the broader relationships of the bank being brought together with those very distinctive capabilities in our Insurance business. We talked about our growth in annuities market share. You have seen the data, not the full data, but the underlying growth in our home insurance business. And you have seen the growth in our workplace pensions business.

What is great about those businesses is they are all capital-lite and more predictable. And yes, the CSM does become a significant tailwind as we build that business going forward. So we are both excited about what we are starting to see as the growth, which we committed to, and the proof points that we are starting to see through our ability to bring those to our 26 million customers and differentiate our distribution. But you are right, what we need to do is prove that to you in terms of underlying returns over the next few years. There were strong dividends this year, which obviously is ultimately how you get, as a shareholder, the returns from that business. They were strong actually for all of the period of time I have been here and this year we had the dividend in the last quarter of the year.

William Chalmers
Just to give you one or two numbers on that as well, to back up Charlie's points. We saw insurance income of £1.2 billion this year. That is up 26 per cent on last year. Number one. Number two, to Charlie's point, we have seen the dividend be frankly extremely helpful from a capital generation point of view for the Group. We had £250 million insurance dividend this year. We had £400 million last year. And as Chira over there knows, who runs the insurance

business, I will always take that, as Group CFO. So we have seen really strong performance in terms of profit growth for insurance. We have also seen very strong capital contributions to the Group from it. And then as Charlie said, we have got a strategic commitment to it in the context of the transformation that we launched in 2022, which should grow that further.

Douglas Radcliffe
Okay. Can we just take the next question from Raul?

Question 6: Raul Sinha, JPMORGAN
Thank you. It is Raul Sinha from JP Morgan. Obviously lots of detailed questions already on NII. Perhaps if I can invite you to comment on total income in terms of consensus and what people are expecting for Lloyds. So when I think about margin. I think consensus going for 296, you have made it very clear, gentle decline in the first half, gentle upwards, second half, that is greater than 290. Sounds like that might be a bit high. Then you have got the average interest earning assets number. I think consensus is up at 455. You have not commented specifically on OOI and I think you have given us some help on operating lease depreciation.

So I was just wondering whether you or not, you think the £17.7 billion in consensus is broadly correct? Maybe NII is too high. Other income offsets or perhaps there might be some optimism there. And then I guess the second one, just broader on the agenda of Consumer Duty. One, how long do you think it takes to get to the other end in terms of clarity that you need for not just the motor finance issue? Which I guess is going to be a live issue and I guess you are waiting like everybody else till the end of this year. But also, there is a broader suite of changes that are coming in for the industry. How long do you think this process takes and when do you think you will have enough clarity to maybe, one, give us some clarity on overall provisioning, but two, perhaps make some changes to how you might compete in businesses where there might be opportunities for you against competitors?

William Chalmers
Thanks, Raul. I guess on your first question, I should start out by saying I am not going to comment overtly on consensus. What I will do is give you the building blocks, if you like, to allow you to build the income profile for the business. As you say, we have got guidance for greater than 290 basis points. We feel very comfortable in that guidance. It is driven by the three or four factors that I mentioned earlier on. That is to say, deposit churn continuing but slowing. Number one. The mortgage refinancing headwind continuing through the year, albeit abating through the year. Number two. That being somewhat augmented by a touch more retail asset margin pressure, which you will have seen from our slides we saw in 2023. Probably a little bit more of that in 2024. But then all of that offset by the principle tailwind of the structural hedge, which builds momentum.

And that is what gives us comfort in really two things. One is the margin guidance of greater than 290. The second is the shape that we discussed earlier on, which is to say a gentle decline during the first half, gentle incline in the second half, certainly confirmed by the time we get to quarter four. That is our expectation. Things could change. Things could change like activity, things could change like bank base rate expectations and the like. But at the moment that is based upon our GDP outlook and it is based upon our rate expectations, which look pretty much like the market as far as I can tell today.

The AIEA expectation, as said earlier on, is deliberately greater than £450 billion. And that is partly because of the uncertainties, it is partly obviously the call that we make based upon how we see the business. I should add, and I did not say this in my earlier comments, that we had a bit of an overhang from open mortgage book refinancings in quarter four. They did not refinance in quarter four, we expect that to happen in quarter one. So if you see some slight nuance to my comments around AIEAs in respect of the open mortgage book in quarter one, that is why. We are expecting a reasonable flow of refinancings in the open mortgage book, which will probably attenuate the growth that you might see in that book in quarter one. So I say that just for context and ahead, I guess, of reporting to you at the end of the quarter.

The OOI, as you say, we have not commented on. I guess I would make a couple of comments there. One is, as you know, OOI was up 10 per cent in 2023. I think that was probably a little bit ahead of where the market had expected us to be. We do expect OOI to continue to grow during the course of 2024. Now whether it will be ahead of or in line with or below market expectations, I shall not comment, but we are confident in a reasonable pace, if you like, of OOI growth. Whether it will be 10 per cent or not, let us see. That may be a little bit south of that, but it should be reasonably healthy growth.

And it should be in turn achieved across all of our business areas. That is to say Retail, Commercial, IP&I and also central as well, which includes primarily our equity businesses. As you know, Lloyds Development Capital is an illustration of that. So I would expect that to grow over the course of the year. Again, I shall not comment on it versus the market. But overall it leads us to feel comfortable with the overall income profile when set against the cost guidance that we have given you and the below 30 basis points impairment guidance, and that below is worth underlining, to get to our 13 per cent ROTE target as a whole. So perhaps I will pause there, Charlie, and hand over to you.

Charlie Nunn
In Consumer Duty. So it is obviously a really important question. A couple of thoughts in reaction to it. The first is obviously we implemented the first phase of this last July. We worked very closely with the FCA on that. We had strong feedback that the capabilities we bring and the experience that Lloyds Banking Group has had around thinking about good customer outcomes and then dealing with remediations and supporting vulnerable customers, means that we were right at the front of the pack around how we were thinking about Consumer Duty. And then we have got another implementation this summer for the next phase of implementation. So it is early days and I said when I joined Lloyds Banking Group, it was one of the areas I really saw the depth of competence, capability and proactive thinking in the bank. It is a really important capability for me as the CEO of this Group to think we have product, channel and then broader operational teams that really do think about customer outcomes and then put in place effective controls across all of our people and our 26 million customers.

Your question around the go forward and when this becomes clear and what the opportunities are. I think the pragmatic answer is it is going to take a couple of years to bed in. Both for the industry and us as the biggest participant to really demonstrate how we are now measuring outcomes from customers and taking actions. And for the regulator to determine how they think about that in the context of the business. You know me well enough by now, I sat down with my team, some of whom are here, on day one and said, "What are the opportunities to serve customers better?" And there are opportunities. Because if you think simply in the last 15 years what has happened in the UK is we have put lots of constraints on how you interact with customers at the point at which you sell a product to them. And wealth is probably the best example.

But if you can then move to certainty around looking at how people use our services and products, most of our customers are with us for 10, 20, 30, 40 years. And you can get confidence around how they use them. You can actually make it easier for them to upfront get access to them if they are still well-designed products. I know that is conceptual, but it is really important. I think there will be opportunities for the industry, but that will not emerge for a few years, I think.

One other thought which I think is important in this context. I have let William take all of the detailed questions on motor finance. But having a strong relationship with your regulator is really important. Actually, I think the way you have seen the FCA intervene, we have said we welcomed their intervention. It is different, right? It is different from prior examples. They have stepped in quickly. They understand what the implications could be for customers and for the industry. You know actually the biggest participant in this industry is the car manufacturing industry, not actually the banks. We are not the biggest financiers. We are the biggest individual financier, but it is a much broader industry. And the FCA is very proactively leaning into Consumer Duty to make sure they get the balance right. And I think that is important. And it is different from, if you go back 15 years ago, what I saw at the start of this journey between the conduct regulator and the banks.

Douglas Radcliffe
Thank you. The next question from Jonathan.

Question 7: Jonathan Pierce, DEUTSCHE NUMIS
Hello, good morning. It is Jonathan Pierce from Deutsche Numis. Can I ask you two questions? Sorry, I am back on motor. The market has obviously moved to take circa 3 billion out of the market cap, in no small part, I think, because of this. The analysts naturally are going to think about worst case scenarios and many figures out there, but £2, £3 billion, higher than that in some cases. I do not expect you to give us your worst case scenario that is feeding into that £450, but it would be helpful to get a little bit more colour on how you are thinking about the worst case scenarios relative to the market.

I mean, naturally we are going to assume that of the £42 billion of originations in Black Horse since 2007 to 2020, all of it was discretionary commission, arrangement linked. Which probably is not the case. But it'd be helpful if you could give us some colour on that. And I think also if you could just confirm, and this is a matter of fact, as much as anything else, that the trust documents from Cardiff in the late 2010s suggests that two-thirds of the business was written in an APR below 7 per cent. Is that representative of the business that was written more broadly? It is a good sample size. It is £4 billion of loans in those securitisations. So that would be the first question.

The second question, it is more simple, really, about the trajectory to this 15 per cent RoTE in 2026. The market will go away this morning and worry a bit about near term NIM, operating lease depreciation, those sorts of things, but you are still targeting a RoTE above consensus a couple of years out on probably a TNAV that is at least as high as consensus, probably higher than consensus. Is the bottom line here on the deposit margin? One of the most striking numbers this morning I found actually, was slide 17, where the deposit margin in the second half was 122 basis points, which against the backdrop of a base rate of 5 per cent plus, is very low and is clearly a function of the structural hedge cost. If we stand back from deposit betas and mix and hedge, unwinds, and all that sort of good stuff, is the simple message here that in a rate environment when base rate is, I do not know, 3 per cent, 3.5 per cent, a few years forward, you should be making quite a lot more than 122 basis points on your deposit book and that is how we get to 15 per cent RoTE?

William Chalmers
Thanks, Jon. On the motor question, first of all, we would not comment on models that are out there right now. The £450 million provision, as you know, is both operational and legal expenses on the one hand, and a variety of redress scenarios on the other hand, which in turn, build into the £450 million. Within that, I mentioned some of the variables that are put into those scenarios. Again, time periods, commission models, zero versus reasonable commission, proactive versus reactive, redress campaigns, response and uphold rates, these types of things. Within that, I think there are some variables that are particularly sensitive, and I would highlight the zero rate versus reasonable rate, as an example. I said that could lead to a circa greater than 50% reduction in any redress provision that might be necessary here. Likewise, the behavioural versus contractual life is an important one. Likewise, is this a proactive redress campaign if that is what it gets to, or is it a reactive one? That is another big one.

And these things make a very big difference to the overall provision that might be necessary. And when we observe the outside market and the assessments that it makes, without commenting on them, we note the absence of that type of sensitivity, if you like, in those numbers.

You asked a question about the proportion of financings that are linked to discretionary commission models. The reason why we are not giving further detailed information at this point is because we see the big judgements that will make a massive difference to whatever the redress might come out of this, are basically in the hands of the regulator. With the issues that I just mentioned as examples. There is also an awful lot of intricacy in the detail that we might give you. So if we start to give you a piece of detail around, let us say discretionary proportions, there is a whole load more detail behind that, about when they were applied, about the extent to which there was flexibility in the model, about the type of discretionary model, and all of these types of things. And so I think at the moment at least, recognizing that the big judgements that will make a material difference to the provision are in the hands of the regulator, and then any detail that we will give you will only kind of nuance around the edges in comparison with that. That is the reason why we are sort of sticking with where we are at.

There is, as you say, some publicly available information. And you mentioned the trust documents there in the context of Black Horse. I shall not comment on that, safe to say that there is quite a lot, I think as you have been doing, if you kind of scratch beneath the surface, there is quite a lot of public information out there that enables you to get to views on these things. But bear in mind that, again, the key judgment is not so much that. The key judgment is where does the regulator go, in respect to some of these big calls that we highlighted.

On the 15 per cent, first of all, I can not resist, but it is worth just underlining, we expect greater than 15 per cent. I mentioned earlier on that that is not contingent upon 13.5 moving to 13. We would still be saying greater than 15 per cent, even if we have stuck with 13.5 as a CET1 target. So with that in mind, I guess a couple of building blocks.

One is, we do expect the business as usual, which in my parlance, I suppose, includes the structural hedge, to significantly ramp up in the period between now to 2026. The primary reasons for that, are that the headwinds as I would say go into abeyance. The mortgage one is very mechanical. As long as you do not think that completion margins are going to completely collapse. The fact that our maturity margins are coming down over this time period

means that the mortgage refinancing headwind is kind of moving out of the picture, that is a pretty mechanical outcome.
The deposit one is a bit more of a judgment call, based upon where rates will go, based upon how many people move from instant access into fixed term, and so forth. But as Charlie said, the incentives for that type of move, seem to be kind of disappearing during this timeframe.

And then the third big driver, the big tailwind, of course, the structural hedge, again, is a relatively mechanical input, predicated upon a certain interest rate assumption, base rates, forward curves, and the like. And as long as you believe that base rates and forward curves are more or less as we have depicted them, and it is more or less, it does not need to be precise. Then again, you have got a very mechanical build-in, in terms of the structural hedge profile over time, within the business as usual earnings profile.

And I will make one more comment there, which is that at the moment within the structural hedge, we have, because of the legacy of when it was built up in a low rate environment, quite a lot of low-yielding hedges. Those come through at various different points in time. They come through a little bit less in 2025, a little bit more in 2026. So you get more of the low-yielding hedges out in 2026 than you did in 2025, which leads, in turn, to a bit of a ramp-up in structural hedge earnings in that time period.

So that is the business as usual picture. It is then supported by the strategic initiatives where we expect to gather pace. We talked a bit about Insurance, and the interaction between Insurance and Retail is one example. As you know, there are many more across the Retail, Commercial, and Insurance spaces, that we expect to build to the £1.5 billion incremental revenues over the 2026 time period. Alongside of that, I hope people will acknowledge, we try to keep a very tight grip on costs. Now, as you have seen today, we have upped our cost guidance from £9.2 to £9.3, but that is in the interests of securing some severance benefits.

Those, in turn, and other cost savings metrics, allow us to plan for a flatter cost outcome in the 2025 to 2026 period. I would not be more precise than that, because we will come back to you at the end of the year, on it. But that, together with an ebbing of the overall investment program - we are going to continue to invest heavily in the business, we should do and we will do - but nonetheless, the type of boost that we have had in the last few years, that will at least plateau out and potentially at least come down a little. So that gives us a relatively flatter cost picture, resting upon a macro environment of the type that we portrayed in our forecasts, that is what gives us confidence in the context of the greater than 15 per cent RoTE expectation for 2026. And specifically on your question, Jonathan, therefore a big part of it, as you say, is a normalisation of the deposit margin off the back of the structural hedge maturing. So in short, the answer to your question is yes.

Charlie Nunn
Can I just jump in? Because it is a really important strategic question. The answer is yes. And we have worked and you do analysis across banking markets across the whole world, one of the consequences of a decade or more of very low interest rates, and when we started this journey together, William and I with you, we had a few things that we have inherited. We had over £250 billion of a structural hedge, which was returning 1 per cent. We had a £7.3 billion pension deficit. We had a very large legacy mortgage portfolio at margins that you all looked at and said we knew we could not maintain. We had not been able to invest in some of the modern technology that we knew we needed to do to compete. And if you think through what is happening here, if you have a well-positioned customer-centred balance sheet, which is leveraged on both sides of the balance sheet, with good diversity across secured and unsecured, which we do have, with a loan deposit ratio of 96, 97 per cent through cycle and as base rates go up, you will get a rise in the base return on that balance sheet. That is what has happened in every banking market in the UK over history.

So your simple thesis, I think is the right one. Now, there is a lot you need to have to be able to do that successfully, and I think Lloyds Banking Group does have those things, and the tenet that we have always said is by 2026 we will have got out of most of those problems. We have already dealt with the pension deficit, which I thought was a horrible drag on us. You have heard the other things we have talked about, that we are doing. And then on top of that, we are layering on £1.5 billion of additional revenue growth. So we look at the targets and we think we are very glad with the strategy we laid out, and it enables us to compete whether rates go up or down, but as the base rate environment increases, it really strengthens our business model.

Douglas Radcliffe
Okay, I will just take a couple more questions. Chris?

Question 8: Chris Cant, AUTONOMOUS
Good morning, thanks, it's Chris Cant, from Autonomous. If I could just come back to your CET1 target, please, and the 13 per cent. So I know in your fixed income deck, you show a 10.3 per cent MDA, but you do have the ringfenced buffer, as well. So just in terms of how credit markets are going to price your debt, are you happy to run with a headroom to MDA at the very lower end of what we observe across European banks? I appreciate that there is a counter-cyclical component to your MDA, which is not the case for some peers, but you are going to screen pretty badly on those charts that some of my credit colleagues run. So how do you think that is going to impact the pricing of your debt, please?

And then on a sort of related capital point, you have said now £5 billion of further RWA inflation from regulatory change across 2024 to 2026. I am just curious if you can give us a little bit of a pointer as to where you expect RWAs to be by 2025, say. So you have had that £220 to £225 kicking around for a little while. I get the impression that some of the reg inflation is maybe going to come a bit later, than you expected. I do not know, but obviously we have got Basel 3.1 in 2025. Just curious as to how your thinking is developing around 2025 RWAs, please. Thank you.

William Chalmers
Yeah. Thanks, Chris. The CET1 point, first of all, as I said in my comments, we think this reduction from 13.5 to 13 per cent is good news actually for all stakeholders. And I think, Chris, the reason why is because you have to look behind the reasons as to why we are doing this. We are doing this because we have significantly reduced risk in the business. As I mentioned earlier on, you can look at various different portfolios that we have, to testify to that, but perhaps most objectively you can look at the ACS results to testify to that. So I would hope that debt holders very much welcome the risk reduction measures that we have been taking in the portfolio, particularly in the last five years as I mentioned, but also as you witnessed in 2023, securitisations as an example of that. There are many others.

That is point number one. Point number two is that you will be aware, because of CRD IV, we are seeing an increase in RWA density over this time. That RWA density means that actually, a reduction from 13.5 to 13 per cent is not as much of an equity reduction as you might at first think. Because we are expecting CRD IV to continue to give us £5 billion of RWAs over the course of the period between now to mid-2026, that CRD IV add-on continues. So I think, Chris, debt holders will look at not so much the equity tier one ratio, but what is the total quantum of equity that we are holding in the business. And what they will see is that against a reduced risk profile, for the reasons that I mentioned, we are holding an equity base that is not terribly different over this time period. I would expect therefore the type of spreads that we trade on within debt markets, which are typically better than anybody else, at least in the local markets, will stay that way.

The RWAs point you mentioned, it is a very fair question. We have given guidance of £220 to £225 and that is over the course of 2024. We have stuck with that guidance despite some material headwinds within the context of regulatory measures. In particular, again, CRD IV. We thought a lot about that, Chris. We thought about, should we be sticking with it, in the context of the CRD IV headwinds, and we determined that we would do, because we had opportunities, in part, to offset those regulatory headwinds with NPV positive securitisations and other forms of optimisation. And as you know from our numbers, we developed those over the course of 2023 and expect to continue that in 2024. That then enables us to stick with the guidance, which I hope from a shareholder point of view, is good news. We remain very committed to controlling RWA growth.

When we look towards 2026, there are a couple of things going on. One is the organic growth in the business. Charlie mentioned some of the lending ambitions, for example, in that context, and that will clearly add on RWAs. Two is CRD IV. We have hopefully given guidance around that, of the incremental £5 billion, subject to PRA confirmation, but that is where we expect it to land, there or thereabouts. Three is the expectation for Basel 3.1, which at the moment, as you know from our perspective, at least, we do not expect it to make any difference in the near term. That might be give or take a few hundred million, but it is not necessarily much more than that. So Basel 3.1 we see as net neutral over this time period. And then finally, as I said earlier on, we remain committed to optimisation, which is a good thing to do, because it is NPV positive and therefore you ought to do it anyway, no matter what the regulatory situation is. But nonetheless, it also gives us a tool, if you like, or a lever, to assess any RWA increases that might be beyond our initial expectations with optimisation in mind.

So Chris, I am not answering your question directly, I am not giving 2026 RWA expectations, but you can see that effectively we expect regulatory measures to be either neutral or neutralized by our RWA optimisation, but then at the same time, perhaps some lending growth beyond what we see in 2024. So an increased pattern of RWAs in the period thereafter. But we will update you on what that means, over the course of the next period.

Charlie Nunn
And then of course, we front end loaded, actually, the CRD IV impact in 2023.

Douglas Radcliffe
Okay. Aman.

Question 9: Aman Rakkar, BARCLAYS
Morning. It’s Aman, from Barclays. I have got two questions, one on deposit pricing and the second on strategic revenues. Deposit pricing, I am interested in how confident you are in being able to react to base rate cuts in a timely fashion. I do note that the FCA seemingly externally took a keen interest in pass-throughs, particularly towards the end of the cycle. I think you also passed through ultimately less than some of your peers, which is obviously a reflection of your franchise strength, but also arguably gives you a little bit less room to cut on that part of the book on the way down. So, interested for your thoughts on your reaction function, without giving away your commercial secrets. Relatedly, could I ask about term deposit pricing? So I think about a year ago, you were originating term deposits comfortably below the relevant swap. Materially below. So should we be thinking about this kind of repricing headwind on term deposits, so you are retaining the stock but at narrow spreads, is that a material consideration that we should be thinking about, this year? So that is one question, believe it or not.

The second, I have to take the chance while Charlie's here, around strategic revenue. Interested for your observation about your progress there. It is remarkable that you are a third of the way through your one and a half billion target. I would say it does not feel like you are a third of the way through, because we can not see it in terms of the net impact on revenue. So could you give us a view on what you think is going better or worse than your expectations, and any colour on that residual billion? How much of it is OOI versus NII from here? Thank you.

Charlie Nunn
So, obviously good questions. Thank you for that. Just on deposit pricing, your two points. Just in terms of, can we respond in a timely way? The answer is yes, and obviously that is something that we worked on, last year. Again, the issue on deposit pricing, for mortgage pricing obviously it is just a new price for front book customers. You can do that very quickly. Deposit pricing, we normally have to inform 15 to 20 million customers and give the appropriate level of warning and set that up so we have the ability to do that quickly but actually we need to give appropriate warning. The one thing I would say is, I think the regulators will be less concerned about timely passing of rate cuts, than they were around increases. So we are in a good place, operationally. Let us see how the competitive dynamic plays out around that, which I think is important.

And then on time deposits, yes, I even said at this stage last year, I am never worried about when there is a high yield curve around time deposits, because you can price at a good place for margin. The interesting time, which is the one that is going to come in this year, is when, if the yield curve is now lower than your instant access or base rates, and you have got existing time deposits that are coming off, what happens to the competitive pricing to retain those? And I have seen at other stages in the UK and in other markets, people that want to retain those deposits, start pricing TDs either at the cost of funding or even negatively. That obviously has not happened yet. That is in front of us. As you know, if our deposits are in time deposits, that does not benefit the structural hedge. So there is no issue around that, from a structural hedge perspective. And I think what we are seeing so far is as we have seen the yield curve come down and our time deposit rates come down, we are still competing and winning. So we will give you more updates as we go into this, but it is definitely one to watch. I am not worried about it, from our fundamental economics. And our starting point is strong.

Strategic revenues. So, if I can disagree with you a little bit, I think you have seen the benefits of some of the things we are doing. Other operating income is up 10 per cent year-on-year. We saw growth last year. I think we said last year it was about seven to 8 per cent underlying growth. The numbers were a bit noisy last year because of some of the one-offs, especially in the insurance business. So that is the easiest way for you to see some of the growth. And I will talk about where we are doing well and where there is some challenges, relative to what we set out historically. As you will recall, today, we have said we have delivered £0.5 billion of revenue growth net new from the investments, and £0.7 billion of cost efficiencies. That is relative to the £0.7 billion in 2024 and £1.5 billion of revenue growth in

2026. So that is a good place, and it is actually ahead of where I thought we would be when I talked to you in February 2022. Starting from new and building these businesses, it is always slightly backend-loaded. We are actually ahead of the game on the revenues, which is good.

Where do I see the progress? It is across the pitch. And then there is two areas probably that have been more challenging, which is largely linked to the external environment. So in our corporate and institutional business, you have seen the growth in OOI. You can also, though, go and look at the market shares. Go and look at UK DCM, look at our share of FX, look at the awards and our growth in transaction banking. There were five big university mandates last year. We won all five. That has never happened in our history. So there is great evidence in that business. In business and commercial banking, that is been one of the areas that has been most negatively impacted by the market environment. When we started this strategy, we thought we would have underlying growth in SMEs on both sides of the balance sheet. What we have actually seen is both sides de-leveraging, cash flows reducing, and lending levels reducing. Underpinning that, we pulled out some key growth areas and we are seeing progress. So for example, our merchant acquiring business, which, again, is a nice fee-based business and is really linked to some of our broader relationships into the large corporate side.

We have seen good year-on-year growth. That needs to get to scale to deliver the underlying profitability that we want. And we focused on trading businesses. Because this business historically had been largely a secured lending business, which is great. So it is not an "or" strategy, but it is an "and." And we are building out this digital transactional banking working capital proposition and we are growing customers in that space. It is tiny, relative to the net changes in that balance sheet. So it is hard for you to see. So that is an area which is more difficult because of the trading environment.

Insurance protection and investments, we talked about, the annuity business market share is up, after the difficulty around pricing in home insurance. We saw a really strong year. Our ability to start bringing protection product to our mortgage customers, we will give you more evidence of that, later in the year, but we are seeing good upticks in that. And our workplace pensions business is the number two business in the UK and we have strong ambitions. We want to be number one. So we are seeing the growth in that business.

On the relationship bank, I would not go through everything. Mass affluent, we gave you some of the stats, we are seeing growth in mass affluent, growth in mass affluent balances. We have launched a new investment service. That is small, and that is slightly slower than we thought it would be, partly because interest rates have been so strong on savings. But we now are live with a ready-made investments product. And I mentioned earlier that one of the things we are really interested is we start to bring that back to UK banking, investments as part of UK banking. More than 50 per cent of the customers that have engaged with that service are below 35 and they are doing monthly contributions. So that is going to take some time to scale, but that is really important, for lots of reasons.

And then finally, in our consumer lending business, you have seen the growth in the transport business. We have over-delivered on our Tusker franchise. We are seeing underlying growth in the consumer finance business, and we have announced this embedded finance business. It is going to take some time for that to become material, from an economics perspective. But strategically, it is really important. The other area that is been more challenging than we originally laid out, is mortgages. And we have had the discussion around, I remember we were the first institution to say we thought mortgage margins would go down to about 75 to 100 basis points. And we said that in February 2022 and there was kind of deep intake in the room, around that. Obviously, both the scale of the mortgage market and the margins have been significantly tighter than we thought, originally. The resilience of the business model has more than offset that, because we increased our margins guidance for 2026 by 300 basis points at the start of 2023. But that is a more challenging market. Now, the good news is, we have not been standing still, and we will continue to give you updates, I can see the CEO of the business over there, around where we have been investing to engage customers, be better at remortgaging, and then compete in parts of the mortgage market. And there is some really good stories within that. But obviously as you have seen, our growth in mortgages has been behind where we wanted to be.

So yeah, we have real confidence around the £1.5 billion by 2026, the £700 million by the end of this year. For me, the more important thing is to look at the underlying growth in market shares, and then the resilience and stability of these franchises, recognising, as you know, that the majority of Lloyds Banking Group's businesses have been losing market share for the previous decade. So you can already look at the data and see that it has stabilised and we have turned the corner, and these strategic areas are growing well.

Douglas Radcliffe
Excellent. We are nearly 15 minutes over, so I think that that feels like a great place to stop. I am conscious that there are a couple of other questions which we will deal with, either after this formal conference, or indeed directly. But otherwise, let me just hand back briefly to Charlie, just for final words.

Charlie Nunn
Thanks, Douglas. Well, look, just very briefly, thank you so much for coming today and thank you very much for your attention. 15 minutes over, this is the end of a very long season for you. I am guessing you started with the American banks in January and we are near the end of the Europeans and the UK. So, really appreciate the time. One kind of sales pitch, if that is all right. We have our mass affluent and IP&I seminar on the 20th of March. It will be part of Chira's insurance business. Not the whole thing, the investments piece. But that is going to be another example where we can unpick the covers of what we are doing and where we are making progress. So if you are interested in that, please join us for that. And again, thank you very, very much for joining today.

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FORWARD-LOOKING STATEMENTS

This document contains certain forward-looking statements within the meaning of Section 21E of the US Securities Exchange Act of 1934, as amended, and section 27A of the US Securities Act of 1933, as amended, with respect to the business, strategy, plans and/or results of Lloyds Banking Group plc together with its subsidiaries (the Group) and its current goals and expectations. Statements that are not historical or current facts, including statements about the Group's or its directors' and/or management's beliefs and expectations, are forward-looking statements. Words such as, without limitation, 'believes', 'achieves', 'anticipates', 'estimates', 'expects', 'targets', 'should', 'intends', 'aims', 'projects', 'plans', 'potential', 'will', 'would', 'could', 'considered', 'likely', 'may', 'seek', 'estimate', 'probability', 'goal', 'objective', 'deliver', 'endeavour', 'prospects', 'optimistic' and similar expressions or variations on these expressions are intended to identify forward-looking statements. These statements concern or may affect future matters, including but not limited to: projections or expectations of the Group's future financial position, including profit attributable to shareholders, provisions, economic profit, dividends, capital structure, portfolios, net interest margin, capital ratios, liquidity, risk-weighted assets (RWAs), expenditures or any other financial items or ratios; litigation, regulatory and governmental investigations; the Group's future financial performance; the level and extent of future impairments and write-downs; the Group's ESG targets and/or commitments; statements of plans, objectives or goals of the Group or its management and other statements that are not historical fact and statements of assumptions underlying such statements. By their nature, forward-looking statements involve risk and uncertainty because they relate to events and depend upon circumstances that will or may occur in the future. Factors that could cause actual business, strategy, targets, plans and/or results (including but not limited to the payment of dividends) to differ materially from forward-looking statements include, but are not limited to: general economic and business conditions in the UK and internationally; acts of hostility or terrorism and responses to those acts, or other such events; geopolitical unpredictability; the war between Russia and Ukraine; the conflicts in the Middle East; the tensions between China and Taiwan; political instability including as a result of any UK general election; market related risks, trends and developments; changes in client and consumer behaviour and demand; exposure to counterparty risk; the ability to access sufficient sources of capital, liquidity and funding when required; changes to the Group's credit ratings; fluctuations in interest rates, inflation, exchange rates, stock markets and currencies; volatility in credit markets; volatility in the price of the Group's securities; tightening of monetary policy in jurisdictions in which the Group operates; natural pandemic and other disasters; risks concerning borrower and counterparty credit quality; risks affecting insurance business and defined benefit pension schemes; changes in laws, regulations, practices and accounting standards or taxation; changes to regulatory capital or liquidity requirements and similar contingencies; the policies and actions of governmental or regulatory authorities or courts together with any resulting impact on the future structure of the Group; risks associated with the Group's compliance with a wide range of laws and regulations; assessment related to resolution planning requirements; risks related to regulatory actions which may be taken in the event of a bank or Group failure; exposure to legal, regulatory or competition proceedings, investigations or complaints; failure to comply with anti-money laundering, counter terrorist financing, anti-bribery and sanctions regulations; failure to prevent or detect any illegal or improper activities; operational risks including risks as a result of the failure of third party suppliers; conduct risk; technological changes and risks to the security of IT and operational infrastructure, systems, data and information resulting from increased threat of cyber and other attacks; technological failure; inadequate or failed internal or external processes or systems; risks relating to ESG matters, such as climate change (and achieving climate change ambitions) and decarbonisation, including the Group's ability along with the government and other stakeholders to measure, manage and mitigate the impacts of climate change effectively, and human rights issues; the impact of competitive conditions; failure to attract, retain and develop high calibre talent; the ability to achieve strategic objectives; the ability to derive cost savings and other benefits including, but without limitation, as a result of any acquisitions, disposals and other strategic transactions; inability to capture accurately the expected value from acquisitions; assumptions and estimates that form the basis of the Group's financial statements; and potential changes in dividend policy. A number of these influences and factors are beyond the Group's control. Please refer to the latest Annual Report on Form 20-F filed by Lloyds Banking Group plc with the US Securities and Exchange Commission (the SEC), which is available on the SEC's website at www.sec.gov, for a discussion of certain factors and risks. Lloyds Banking Group plc may also make or disclose written and/or oral forward-looking statements in other written materials and in oral statements made by the directors, officers or employees of Lloyds Banking Group plc to third parties, including financial analysts. Except as required by any applicable law or regulation, the forward-looking statements contained in this document are made as of today's date, and the Group expressly disclaims any obligation or undertaking to release publicly any updates or revisions to any forward-looking statements contained in this document whether as a result of new information, future events or otherwise. 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