STRATEGY UPDATE: DIGITISE AND DIVERSIFY OUR BCB BUSINESS
(amended in places to improve readability only)

Thursday 27 June 2024 – 2.00pm

LBG:
Charlie Nunn, Group Chief Executive
Elyn Corfield, CEO, Business & Commercial Banking
Douglas Radcliffe, Group Investor Relations Director (moderator)

Charlie Nunn, Group Chief Executive

SLIDE 1 – WELCOME AND INTRODUCTION
Good afternoon everyone, and welcome to the final of our four investor seminars focusing on our strategic growth priorities. Starting back in October, we've undertaken three deep dives on our strategic progress and opportunities across consumer, CIB and mass affluent and IP&I. Today we're excited to focus on our business and commercial banking franchise, BCB, a highly profitable business and an area where we've placed renewed focus in recent years. It is also core to our purpose of helping Britain prosper. I'm today joined by Elyn Corfield, CEO of BCB. As in previous sessions, I'll provide a few introductory remarks before handing over. As always, following the presentation, we'll have plenty of time for your questions. Let me start on slide two.

SLIDE 2 – GROWING OUR SCALED AND PROFITABLE BCB BUSINESS
The key messages that I'd like you to take away from today's session are as follows. Firstly, BCB is an integral to both the UK economy and our Group performance. Secondly, our franchise is a differentiated proposition that spans a broad range of products and drives long and strong sustainable standing relationships with our customers. Thirdly, our BCB strategy is focused on diversifying, digitising and transforming the business to competitively position ourselves in an evolving environment.

We are also increasingly leveraging the benefits of the broader Group to meet more of our customer needs. Elyn will expand on these topics in detail. And finally, BCB is a significant contributor to the additional strategic revenues targeted by 2026, representing £0.3 billion or nearly 20 per cent of the total. Beyond the strategic initiatives, there is also material upside from the core franchise growth and further improving operating leverage. These will be additive to a business that already delivers highly accretive returns. On slide three, I'll provide an overview of the structure of the business.

SLIDE 3 – DIGITISE AND DIVERSIFY OUR BCB BUSINESS
Our BCB business sits within our externally reported commercial banking division. BCB accounts for roughly half of commercial banking income and is focused on businesses with less than £100 million in turnover. As you will recall from our seminar in November, our CIB business captures those clients above that threshold.

Our BCB customers have a diverse range of needs, which we support across three segments, business banking, SME and mid-corporates. As you'll hear from Elyn in a moment, one of BCB's strengths is its breadth of offering, spanning core products such as business current accounts, term lending and working capital, but also including merchant services, trade finance and markets solutions. There is a clear opportunity to leverage this broad proposition to diversify the business across both products and sectors, whilst digitising and transforming to meet customer demand and to future-proof our offering. Successfully executed, BCB will build upon its strong foundations to become a truly differentiated, digitally led relationship bank.

To close, I'll touch upon the financial impact of this strategy on slide four.

SLIDE 4 – STRONG FINANCIAL UPSIDE
We are committed to our target of generating £1.5 billion of additional revenues from strategic initiatives by 2026. BCB is expected to contribute £0.3 billion of this total, or around 20 per cent for circa 15 per cent of the associated investment spend. This represents a strong return on investment.

As you heard in February, we're making good progress towards delivering circa £0.7 billion of additional revenues by the end of 2024, with BCB on course to contribute around £0.2 billion of this.

In addition to the strategic revenues, we see a significant further revenue opportunity from growth in the core franchise. This will predominantly be driven by retention of our sizable deposit base, as well as our market share across various products. BCB will also be important in improving the operating leverage of the Group, with increased digitisation, reducing unit costs and enabling us to build scale in an efficient way. With that, I'll hand over to Elyn to provide more detail on these drivers and outcomes. Elyn, over to you.

Elyn Corfield

SLIDE 6 – SCALE BUSINESS, WITH OPPORTUNITIES FOR GROWTH

Thank you, Charlie, and good afternoon everybody. Our BCB business is well established and sizable. We hold relationships with more than 1 million businesses across the UK, and benefit from strong market shares in the key products that cement our relationship with these customers. This gives us scaled franchise, with over £30 billion of lending and nearly £80 billion of deposits. Complementing our scale, the business is also highly profitable and makes a material contribution to the Group's financial performance. In 2023, BCB represented around 15 per cent of Group net income, with a return on tangible equity of over 20 per cent, significantly above Group targets, and which we expect to continue to improve over time.

I will today outline the opportunities we see, before covering our three focus areas – diversifying, digitising and transforming, and unlocking broader Group opportunities. Let me begin with the market backdrop on slide seven.

SLIDE 7 – IMPORTANT SECTOR, KEY CONTRIBUTOR TO THE UK ECONOMY

The businesses served by our BCB franchise make a meaningful contribution to the health and performance of the UK economy. SMEs provide around 60 per cent of UK jobs and contribute to more than 50 per cent of private sector turnover. Consequently, our BCB business plays a critical role in delivering the Group's purpose of Helping Britain Prosper. BCB has performed resiliently in recent years. It's continued to be highly accretive to Group value. This is despite the challenges faced in the market, including the impact of the pandemic, supply chain pressures, labour shortages and rising inflation, which have reduced appetite for borrowing.

At the same time, we've seen new entrants access the market with competitive digital offerings, repayments of government-backed lending linked to the pandemic have contributed to the reduction in the market size for loans and deposits, albeit both remain meaningfully above pre-pandemic levels. This dynamic will ease over time, with the vast majority of government-backed lending across the sector expected to be repaid over the next few years. The business is well positioned to capitalise on an improving outlook, including business confidence, which is materially above the long run average. This provides us with optimism with regards to our growth plans to 2026. On slide eight, I'll provide an overview of our broad BCB franchise.

SLIDE 8 – BCB IS A BROAD AND DEEP BUSINESS

As you heard from Charlie, our BCB franchise business comprises multiple segments. At the smaller end, with business banking, we hold relationships for more than 1 million businesses. This segment links closely to our leading consumer franchise. Given these relationships are primarily deposit led and digital first, this is a highly profitable business area. SME and mid-corporates present larger customers that tend to have more sophisticated financial needs, including solutions provided by our CIB business, such as FX and rates. As a result, these relationships are often supportive of OOI growth.

Across the business, we have a well-diversified portfolio, both geographically and by sector. It is highly resilient lending book, particularly in Real Estate, which has an average LTV of 45 per cent. The breadth of our business provides a strong foundation for building deeper relationships with customers, helping to meet more of their financial needs. But what makes our business truly differentiated in a competitive market? Let me elaborate on this on slide nine.

SLIDE 9– STRONG FRANCHISE, WITH UNIQUE COMPETITIVE ADVANTAGES

We have a strong BCB franchise, with unique competitive advantages. Firstly, we are a trusted provider and a leader on brand and service quality. Secondly, we have strong lasting relationships, supported by over 1,000 highly rated sector, product and relationship specialists in all parts of the UK. And thirdly, our integrated full service proposition sets us apart. The breadth and depth of our product offering enables us to support customers through their lifecycle, from startup to growth and maturity. Furthermore, our lending portfolio is diversified and high quality, with around 90 per cent of SME lending secured. Our prudent risk appetite ensures that the growth we deliver is value accretive and delivers sustainable returns for shareholders through the cycle.

Finally, with our wider Group capabilities, such as in pensions and vehicle leasing, we are uniquely positioned to meet more of our customers' needs than other providers. We are also leveraging the capabilities of our leading digital consumer bank as we digitise our business. The consumer franchise also supports flow into BCB, with around 70 per cent of our business banking customers holding a relationship with another area of the Group. This competitive advantage positions us well in market today and provides foundations for unlocking future growth. On slide 10, I'll provide a high level overview of our strategic priorities.

SLIDE 10 – STRATEGIC PRIORITIES TO DRIVE VALUE
We are building a digitally-led relationship bank. We have three strategic priorities. Firstly, we're diversifying the business in targeted products and sectors, enabling us to grow market share, increase product holdings, and build other income.

Secondly, we're digitising our core business from front to back, to improve customer journeys and increase personalisation. This will enable us to deepen and grow customer relationships, as well as deliver efficiencies. We are also leveraging data and technology to improve returns across the business.

And thirdly, similar to what you've heard in previous seminars, we are focused on maximising the benefits of being part of the broader Group, delivering shared revenue opportunities. Let me share more about our diversification aims on slide 11.

SLIDE 11 – CLEAR UPSIDE FROM BUILDING A MORE DIVERSIFIED BUSINESS
Our strong share of customer relationships and deposits is a great foundation from which we can meet more customer needs. In underweight areas such as working capital and Merchant Services, we have headroom for growth in lending. This is particularly amongst corporates, with turnover greater than £25 million where our market share is lower. As we deepen customer relationships, the income that we generate grows meaningfully. For example, a customer who has 5 products with us generates 7 times more revenue, relative to those who holds just one product. About half of our customers in BCB, particularly in business banking, hold only one product. We see that as a clear opportunity.

We are also focused on increasing representation in sectors such as manufacturing, that have a broader range of needs beyond secured lending and tend to have higher product holdings and greater working capital and transaction needs. Given a market share differential of up to 3 percentage points, we have headroom for growth, and growing in these sectors will support capital-lite income diversification, driving higher returns. It's important to note that we'll maintain our disciplined approach to lending, focused on sustainable value creation and align to our prudent risk appetite.

How are we addressing these opportunities? On slide 12, I'll provide examples of our progress and our plans.

SLIDE 12 – DEEPENING AND EXPANDING ACROSS PRODUCT AND SECTOR
Our aim is to build deeper relationships. It's closely tied to some of the digitisation initiatives that I'll expand on shortly. These new simpler journeys will increase engagement and conversion, helping us to grow average product holding. Additionally, we're investing in data and technology to enhance our credit and pricing capabilities. 60 per cent of our lending decisions in business banking are now automated, supporting a greater than 2 times increase in gross new lending year-on-year, and we're also addressing new market opportunities. We tailored sustainability solutions, helping our customers transition to net-zero.

As an example, we've been providing core banking services to a Scottish energy business since they were founded in 2017. They recently won a large new contract, and our team worked with them to support their working capital needs and enable them to deliver sustainability-linked projects. We are also leveraging our expertise to expand our franchise and drive growth in valuable sectors.

We are upskilling our colleagues in these areas and have created a new specialist team that provides structured financing solutions for growing businesses. This closes a propositional gap and enables us to compete effectively in financing markets, often occupied by alternative lenders. It's early days, but we're building good momentum here. On slide 13, I'll discuss our progress in merchant services.

SLIDE 13 – DEEPENING AND EXPANDING ACROSS PRODUCT AND SECTOR
Merchant services is a large growing market. Whilst it is a highly competitive space, we believe we're well positioned to compete through our integrated merchant business. From our existing market share of circa of 6per cent today, there are meaningful upside potential.

We have made good progress in the first two years of the plan, delivering more than 20 per cent growth in our new clients per annum, whilst maintaining a real clear focus on value creation. We have created a segmented strategy to reflect the needs of our customers. Developing new capabilities with our joint venture partner, Fiserv. We are working to provide targeted simple solutions to our smallest customers with enhanced digital servicing.

For our larger merchants, we have transformed our proposition now offering a single business management ecosystem with faster payment processing and omnichannel functionality. This signature proposition will be complemented by a range of value-added services such as dynamic currency conversion and merchant cash advances. We are also providing new solutions for merchants through our embedded finance proposition for consumers, as Jas discussed in October. Combined, these developments will increase the competitiveness of our offering and provide scope for growth, increasing access to valuable other income streams. I'll now move to our second strategic priority, digitising and transforming on slide 14

SLIDE 14 – ONGOING JOURNEY TO DIGITISE AND TRANSFORM OUR BUSINESS

We are seeing a material increase in digital engagement heightened by the pandemic, meaning that businesses now expect slick, mobile-first solutions. This has been accelerated by new digital entrants. Today, around 85 per cent of our customers are digitally active with mobile-active customers up 30 per cent since the beginning of the strategic plan period. Our customers are engaging with us more, and we expect this to increase further as we expand our digital offering. This in turn should further increase product conversion, and with a lower cost to serve support strong value creation.

So, how are we responding to these developments? We see opportunities to further improve our digital proposition, particularly around three key themes that we'll cover in the coming slides. Firstly, scaling and improving our digital origination and servicing journeys. Secondly, increasing personalisation across our channels, and thirdly, leveraging data and technology across propositions and capability. Let me begin with digital origination and servicing on slide 15.

SLIDE 15 – SCALING DIGITAL ORIGINATION AND SERVICING

We are focused on digitising our core proposition from front to back. We'll achieve this by expanding our ability to originate and service digitally and deliver a truly integrated customer offering. In 2023, we launched our new mobile first on-boarding journey for business current accounts, and we have progressively rolled this out across customer segments. Off the back of this, the time taken to open an account has dramatically reduced by up to 15 times. This compares well to best-in-class, and in some recent cases we've opened an account by as little as three minutes.

We are growing the number of products that can be originated digitally, including mobile instant access deposits in the last month. By digitising, we are also creating opportunities to integrate multiple propositions. For example, as part of our digital BCA journey, customers can also take merchant service product at the same time. This is delivering positive results and a 15 per cent increase in associated conversion rate. We have further to go, but we're targeting more than 50 per cent of our products to be digitally originated and fulfilled by the end of 2024 with further upside in the years thereafter. We have also now digitised around 45 per cent of our servicing journeys, improving experience and lowering the cost to serve. For example, when we digitise the process for changing a business address, it reduced related complaints by about 70 per cent and the unit cost by around 60 per cent. That's a transformational change. We fully expect that as we continue to digitise similar servicing journeys, it will drive further efficiencies. Let me now talk about how we are personalising customer engagement on slide 16.

SLIDE 16 – PERSONALISING TO IMPROVE EXPERIENCE AND CONVERSION

Digitising our offering provides us with opportunities to personalise in a way in which we interact with our customers across multiple channels, adapting to their preferences and behaviours. We have also made good progress since 2021, moving from generic to more targeted content. For example, we have delivered a three times increase in unique customer content supported by a 30 times increase in the number of customer segments through which we can tailor our messaging. Increased personalisation is tangibly improving customer engagement with our digital content, driving product conversion, and ultimately revenue growth with a 45 per cent year-on-year increase from personalised digital marketing.

Let me share a recent example. After a sole trader in construction opened a business current account through our new journey, we sent him a targeted and personalised message to make him aware of the different working capital facilities he could apply for online. He was able to review his options, apply digitally, and receive an approval for an overdraft within just 10 minutes. This is a fantastic customer experience. There is lots more that we can do, and we'll further see further upside in the medium term. For example, as we continue to invest in our newly launched personalisation engine, including through experiments with GenAI, and deliver new insight tools such as helping customers better understand their finances.

Turning now to slide 17, where I'll talk to our focus on value creation and transformation

SLIDE 17 – TRANSFORMING TO DRIVE VALUE

As a high-returning business, BCB has a strong track record of transformation. For example, in recent years, we pivoted our lending decisions to take a more disciplined approach with value and volume trade-offs, which has materially improved margins. We have also migrated a significant portion of our interest-bearing deposits to manage rate products, which has helped to drive a more than 50 per cent increase in structural hedge-eligible balances. We also review our relationship operator model on a regular basis, and over the past few years, we have moved over 30,000 customers between our segments to better serve their lifecycle needs and deliver a more efficient model. Building on these foundations, we're investing in our pricing and our forecasting capabilities. For example in lending, our strategic pricing tool leverages technology and data to offer more tailored pricing for customers, including around 8 million different lending price points compared to only 11,000 previously. We are rolling out strategic pricing tools further in 2024 across deposits and smaller lending segments such as our invoice financing, meaning the vast majority of our products will be covered by the end of the year. On slide 18, I'll discuss our last strategic priority, unlocking Group opportunities.

SLIDE 18 – UNLOCKING BROADER GROUP OPPORTUNITIES

As I touched on earlier, the synergies available from being part of a broader Group are substantial and a unique differentiator versus other providers. We believe BCB benefits from a lower customer acquisition cost given broader LBG relationships, whilst our digital ambitions benefit from the consumer division's proven digital expertise and architecture. We also provide low-cost, hedge-eligible balances for the Group, and facilitate pathways into our CIB franchise for our growing mid-corporate customers.

Beyond these strong existing links, there is more that we can do to leverage the broader Group, such as providing referrals to our growing salary-sacrifice vehicle business, Tusker, and ready-made pensions for the self-employed where industry data suggests that only 1 in 5 have a pension. We are also strengthening links with LDC, the Group's private equity business, that recently completed its first investment in a BCB business just last month following a referral. Through these opportunities, we'll build deeper customer relationships and contribute to wider Group opportunities.

To close, I will highlight how our strategic initiatives contribute to our financial performance on slide 19.

SLIDE 19 – CONFIDENT IN DELIVERY OF FINANCIAL BENEFITS

Our growth priorities are supported by around 15 per cent of the Group's strategic investment, which in turn is expected to generate 20 per cent or around £0.3 billion of the £1.5 billion total strategic revenue benefits to 2026. This growth is driven by our ambitious strategy to diversify, digitise, and transform our BCB business, and I'm pleased with the progress that we're making.

There is also significant upside from growth in our core business as we retain our low-cost deposits and grow share across targeted products and sectors which will also contribute to realising broader Group revenue opportunities. Additionally, as we have outlined today, we expect our extensive digitalisation and servicing program to deliver further operating leverage improvements over the plan period.

With this in mind, we are confident in the outlook for BCB and excited about where we're heading. We have a differentiated business that has unique advantages compared to our competitors. Our strategy builds on these strengths, and will position us well for the long term, ensuring that we'll continue to deliver highly accretive returns to the Group.

I'll pass back to Charlie to close.

Charlie Nunn

SLIDE 21 – GROWING OUR SCALED AND PROFITABLE BUSINESS

Thank you, Elyn. In summary, our BCB business is core to our Group strategy and the purpose of Helping Britain Prosper. Hopefully this session's demonstrated both the strength of the existing franchise and the progress we're making on executing our strategy. The business has performed resiliently against evolving market dynamics and is today delivering returns that are highly accretive to the Group. Looking ahead, we're confident in the prospects for a business that will contribute meaningfully to our 2026 financial targets with further improvements in financial performance.

Thank you for listening. I'll now hand over to Douglas who'll facilitate the Q&A session.

Douglas Radcliffe

Thank you Charlie, and thank you Elyn. We have allocated around 30 minutes for today's Q&A session. If you're joining us by phone, please press star one if you would like to ask a question. For those joining via the webcast, please follow the prompt to register a written question. As always, please try to limit yourself to two questions.

Okay, so let's begin. Our first question today is from Aman Rakkar at Barclays.

Aman Rakkar - Barclays

Hi, Charlie. Hi, Elyn. Hi, Douglas. I had two questions please around the deposit base. Note the comments that you shifted to a managed rate pricing model, increasingly so. So, I guess two related questions off this. Are you able to help us break down the composition of the deposit base in this business between particularly non-interest bearing, but also what you would consider to be managed rate versus something that's maybe more directly tracking base rate? I think it's an important input to our understanding about the rate sensitivity of this business. And relatedly, any colour on how high pass-throughs got in this business through the rate hiking cycle that we've seen would be really good.

And then the second is around trying to quantify some of this lending opportunity that's clear in your business: are you able to put any numbers on the pounds billion opportunity or percentage growth rates that we might be able to expect in the coming years from this business? If you're not willing to quantify it in that way, maybe another way to ask is, is there a target loan-to-deposit ratio for this business? I noticed it's currently hovering around 43 per cent. Have you got a kind of target LDR for this business medium term? Thank you very much.

Douglas Radcliffe
Excellent. Thanks, Aman. Elyn, I think probably if you could probably address both questions. Though, Charlie, I suspect you might have something to add.

Elyn Corfield
Yeah, so first of all, to talk about the deposits base, the makeup of that, the NIBCA content and the cycle were the questions that you posed. Deposits for the BCB business is a core anchor product. It's something that we build with our long-lasting relationships with our clients and our trusted brand. As we look at this segment, though, it is a liability-heavy segment. As you referenced, our loan-to-deposit ratio currently is 43 per cent. We have in recent periods seen pressures on our deposit base with regards to inflationary pressure on businesses, a rising higher rate environment, as well as then the pay down of some of the government-backed lending. We have though throughout this period gained market share. We're now at a 21 per cent market share. This has grown by about 2 per cent since 2018, so it puts us in a good place with regards to our market share.

When we look at the non-interest-bearing balances and the proportion of those within the Group, across the commercial bank, the percentage of NIBCA is about 25 per cent of the book. It's slightly higher than that when you look at BCB, and we have seen continued market pressure, and that this is something that's been seen across the market as we've seen deposits continuing to reduce. That has slowed though in more recent times, so we've seen stabilisation, and we do expect that stabilisation to continue as we go into 2025.

With regards to our pass-through through the cycle, as we go through the cycle and rates continue to move, we do obviously see this as a higher margin business in that environment and the strength of that supports our profitability, but it was about a 30 to 40 per cent pass through rate as we went up the curve and we're expecting the same as we go down the curve. And why I say that as an average because it depended across the product, so if that be a term, a notice, instant access, it would be different depending on the product. But we constantly review the environment, which is a highly competitive market. We look for good quality deposits and we will reflect wherever the market is and wherever we believe our pricing needs to be, so a constant review point.

And then the lending opportunity that you talked about. So with regards to our lending, at the moment we have got a 16 per cent market share as we shared within the presentation loan to deposit ratio of about 43 per cent. Again, just some context on the market with regards to lending. There was a huge amount of government backed lending put into the market, £75 billion. So we did see a sharp increase in lending across the market, 29 per cent increase. Now that's come down and it's probably around reduced by about 16 per cent, but we'll see the impact of the BBLs pay down for the next couple of years. So we are seeing some underlying growth, but that's been offset at the moment. With BBLs, we've got about 4 billion of BBLs left on our portfolio continuing to pay down.

Again, the things that are playing into that are the higher rate environment, environment uncertainty, as well as the cost of living pressures that we see. The long run average for the market is about a 1 per cent growth. We do expect the portfolio to grow in line with GDP as we move out. I would say, I said it within the presentation, we're making deliberate choices on where we'll grow based on value and where we see value that's secretive to our portfolio.

So we're not chasing market share, we're not chasing volume. We're very disciplined in what we do. And you can see that as you look at the margin over time and the book over time where we've made some deliberate choices to step away from some sectors and step into others. And that's where I talked about our diversification of our portfolio, both in our products but also across our sectors where we can see more engagement with customers.

So that's probably where I'd go on both the lending and the deposits market and the opportunity that we see. Thank you.

Douglas Radcliffe
Excellent. Charlie, is there anything that you want to layer on top.

Charlie Nunn
Just maybe one point, Aman, thanks for the question. The deposit piece, I think you see that in the context of our broader NIM guidance for 2024 of greater than 290 basis points. We think deposit stability is important, but we are, as Elyn said, still projecting some churn in the deposit base. But just on loan to deposit and the strategic positioning this point Elyn made around value in this business specifically through cycle value is actually the most important driver and chasing market share can get you into trouble, especially because CRE, commercial real estate lending, is such a big part of the market and it's very easy to build below return hurdle CRE exposures. So we do have obviously, as a management team, very clear targets for the strategic sectors and how we want to grow those. And we have clear ambition with respect to the returns, so it's accretive, but I think an overall target for this sector, which will always be a lower loan to deposit ratio, actually isn't the right way to look at it. And all of that is obviously incorporated in our £300 million of revenue growth of strategic initiatives revenue, both the split of that between OOI and the increased lending that we can see.

Douglas Radcliffe
Thank you. The next question is from Alvaro Serrano at Morgan Stanley.

Alvaro Serrano – Morgan Stanley
Hi, good afternoon and thanks for the session. I had a question around loan growth and you've just touched on the answer to the previous question, but if I understood there is still £4 billion of government guaranteed loans in this business and if we think about how loan growth is going to evolve going forward, I think you said two years will affect it, but maybe if you can give us a sense of how demand is shaping up, if we look through whether it's come guaranteed or your own loans and if this is going to weigh on the business for the next couple of years, would you expect to replace those loans with Lloyds normal loans and is that a source of other inflation and increased capital allocation to this business? Thank you.

Elyn Corfield
Yeah, thank you for the question. So yeah, going back to loan growth and the lending market, yeah, we have got 4 billion of BBLs left on our portfolio. We believe that will be significantly paid down by 2026. But as I touched on the pandemic period really created the growth and the spike we peaked, grew by 29 per cent, came down. Now currently it's reduced by about 16 per cent. We do think as we look forward, the long run average 1 per cent we will grow in line with GDP. I think the positivity that we're seeing in the underlying business is that business confidence is improving. So we are at an eight-year-high when you look at business confidence, which is fantastic and it does suggest in the data that underlying business is growing, but BBLs are offsetting that on an ongoing basis and that will happen for a period of time until we see the bulk of those BBLs paid down.

What we're doing though is part of our strategy, I alluded to it, is part of our diversification and our digitisation strategy. So how do we through digital engage better with our customers, our straight through processing, our automation and using our data in a better way? How do we make that easier for businesses to do business with us? And then how are we diversifying our portfolio? So back on page in the document where I talked about on one side we've got products where we can diversify and then sectors where we can diversify. If you take other lending products including asset finance, invoice finance, merchant services, where can we grow some of that lending within other products as we diversify and then look across other sectors, manufacturing being one. With sectors that we've been lighter in and we can see we've got room to grow the three basis, three percentage points differential that we called out on that page.

So we have our strategic initiatives will help us and they'll be there for when the cycle starts to turn, because the cycle will turn, and lending will demand will be less muted because of the reasons I stated whether inflation, rising rates or pay down of BBLs, we'll be there ready to then take the benefit of the cycle changing and our capabilities will have changed. But it goes back to the point that both Charlie and I have made, we'll make a deliberate choice and that will be based on the value that we see from the accretive lending that we can see in the market.

Douglas Radcliffe
Thank you. We've now got a question that's being received direct online. 'Clearly there is a lot of interest in this segment at the moment, various challenger banks are targeting this area and one of your major peers did a strategy event only last week. Why do you think you can be successful in this market when it is clearly so competitive?' Elyn?

Elyn Corfield
Thank you. BCB does operate in a competitive market. It's going to be competitive. I touched on before, we've got a 20 per cent ROTE, so that's going to drive competition. People can see good returns, they can build good relationships with businesses. But I touched on this in the presentation, I think we've got a few differential unique competitive advantages here. The first one being our leading trusted brand. It's so strong in the market. Secondly, our strong relationship offering that we have, the breadth and scale that has of a thousand colleagues that are there across the country and they've got expertise in products, sector or

relationship specialists. And we have an NPS across those relationship specialists of 90 points that shows the strong service that we can provide.

Next, I touched on the full service proposition that we offer. So we've got broad product offerings and they're integrated. Touched on that when I went through our BCA journey where we've embedded merchant service into that journey and also lending. So as you onboard with us now, you don't just take one product, but you can be offered a multiple set of products as you go through that journey. And we're delivering our digitisation from front to back as well. So it benefits new customers onboarding with us as well as existing customers within our base. And our base is about 80 per cent active with regards to digital. Our prudent risk appetite as well, we've got high quality business and lending through the cycle. And then the last point I touched on, which I think is really key to our unique competitive advantage is the benefits we have of being part of the breadth of the Group. So the strengths and the consumer side of the business that gives us flow. 70 per cent of Business Banking customers have got another relationship across the bank.

We've also got the great skills and capability that are there that we've used to build the best digital bank in the UK. We can use those skills here as we digitise this business. We've also then got pensions, I touched on, vehicle leasing, salary sacrifice, the CIB franchise and then also our consumer offering with regards to embedded finance as we have merchants here on this side of the business that we can then introduce, we've got 26 million consumers on the other side of the business. So we've got some unique offerings.

And I think the one thing that neobanks as they step into this space have raised expectations with regards to digitisation and slick journeys. That is our ambitious strategy. That's where we're going. The digitisation that I've shown you, the proof points that we're delivering is there today. Our capabilities here are improving and we'll be level or ahead of some of that competition in the future. And we're showing that through some of the journeys that we've already put live. And as a reminder, we've got the full breadth of businesses. So from 0 to a £100 million turnover. When neo-challenges are more at the lower end transactional needs for a business, so the lower end of business needs. So our breadth and scale are absolutely fundamental there. Thank you.

Douglas Radcliffe
Excellent. Charlie, is there anything you want to add to that or is this pretty full coverage there, I think?

Charlie Nunn
No, I think it is and I do think as Elyn was pointing out, the threat from the fintechs or the neobanks versus the existing high street banks is really different. We all have different scopes of broader businesses, but when you look at what Elyn's team is able to bring to a UK BCB client, it really is distinctive. And our opportunity, as with many of the other areas we've talked about is how do we join up the Group and make it really simple for our customers to get access to the expertise and products that we have. So that's a nice starting point because we already have the clients within Lloyds Banking Group to make that happen.

Douglas Radcliffe
Excellent, thank you. So the next question is online, which I know you'll have a view on this as well, Charlie. So from Gary Greenwood at Shore Capital, 'Why do you think business confidence is so high at present? And is the 1 per cent per annum long-term lending growth expectation, nominal or real?'

Charlie Nunn
On business confidence, let me say something, Elyn will obviously have a strong view, you spend so much time with our clients on this. We have to say, although business confidence is high at the moment, actually business investment, excluding the BBLs and CBLs which have been there for the last few years is actually still quite low. And one of the big opportunities, I think, for the UK economy and for next government is to reinvigorate the investment on the back of the business confidence we have. So when you look at business confidence, I think it's partly because businesses have been through such a challenging last three or four years. Obviously Covid, cost of living and inflation in their supply chains, delivery problems in supply chains, skill shortages, and then lack of consumer demand.

Although that's recovered a bit this year. When you look at those challenges, it's been a really difficult 2020 through 2023 and back end of 2024. And alongside that, the cost of borrowing with rates has got more challenging. So those things combined, it differs by sector. We've seen some sectors have been more challenged than others within our Business and Commercial Banking client base. Those have been significant challenges. As we look forward, energy pressures are receding, although there may be another spike coming at the end of the year, people can start to see a rate cycle that's going to be more positive. Business confidence and consumer spending has recovered in some areas, in some sectors. And the sentiment therefore has really recovered. What we haven't yet seen is businesses start to take new financing or loans to invest for the medium to long-term. And that's I think the really important opportunity. On lending growth, look, Alvaro just touched on this question as well. It's very hard to predict exactly when lending growth will continue to grow. The way we think about it is there's two headwinds at the moment really for the sector overall. And then there's one thing that we can really control. As we discussed BBLs, CBLs are in runoff over the next couple of years we expect. And so that will be a reduction in lending balances or assets. The other dynamic we've seen, at the moment, is either businesses not wanting to renew borrowing because of the higher rates or actually the healthy businesses having cash paying down lending to avoid the cost of interest. So you've seen these two drags on lending at the industry level that you can see through the Bank of England data. My expectation is that that'll continue through this year and obviously BBLs we would expect to go through next year as well.

The opportunity that we are doing alongside that, which I know will be hard for you to see, but I'll come back to why I don't think you need to worry about it, is we are then particularly picking specific sectors and businesses where we are growing our market share. And at the moment that growth that we can talk about that we can see isn't big enough to offset the top line reduction in BBLs, CBLs and then the reduction in the industry.

But actually the important point is it's improving our returns. And so when we talk to you about a business today that's generating greater than 20 per cent ROTE, the reason we're very comfortable with the trajectory is as we reposition the lending, it's going to provide stronger returns and obviously we're growing the core franchise and deposits as well. It's the 1per cent lending growth, nominal or real in our assumptions. It's a real growth. But again, that's based on our broader economic forecasts. What I think we'll see, as I said, is a more difficult environment around lending this year. And then if we see more confidence translating as rates start to come down as more investment or more investment demand, we'll start to see lending growing in the sector again. But I think that'll happen through 2025. Elyn, I've talked about your clients. I don't know if you agree with what I said.

Elyn Corfield
Yeah, and when I go out to talk to clients, definitely, I'm starting to see a renewed optimism. I think the point just goes back to where will we play? I think where we see the value, and that definitely is with our diversification across our product set, but also in certain sectors where we can see that we're underleveraged and we can see value, but the continuing to deleverage debt will happen for a little while longer. It's the underlying where we're seeing optimism.

Douglas Radcliffe
Good. We have another question on the line from Ed Firth at KBW.

Edward Firth - KBW
My question was how confident you are, or how do you look at risk appetite and how confident are you that you've got it dialled at the right level? Because an observation may be that Charlie's just talked about how difficult it's been for customers over the last two or three years, but if I look at your impairments, you've made virtually no losses at all. So a lot of people are talking about the importance of getting the UK growing again and getting growth, but we can't do that unless the sector, particularly somebody as big as you is lending. And if you're focusing on maximising returns, I guess that's the sort of question I'm struggling with in my mind is do you not feel as perhaps more possibility to take on more risk and get more growth? And if that was an 18 per cent return rather than 20 per cent return, might that not be better for shareholders?

Charlie Nunn
Can I have a first go from a Group perspective? Ed, it's such a great question. So there's a few parts we need to look at. First of all, if you look over the last 30 or 40 years at this segment, and I know that's a long period of time, it's always been a very high returning segment when the interest rate cycle has had been a bit higher and it's always been lower return as a segment, when the interest rate comes down. And that's purely because of the loan to deposit ratio. But you do have to think about it through cycle and build relationships and lending portfolios that work through the cycle.

So the first thing on returns is we look at it and think of it through the cycle in that way. And the good news is, obviously at the moment, although we have suppressed demand, and I think it's largely demand from our businesses, I'll talk about the timing of your risk appetite question in a second, we know that'll come back and it'll come back when businesses are ready and confident to start investing. And part of the trajectory we have set out today where we're confident in our greater than 20 per cent is obviously built on us growing other operating income, transactional activity, as well as a continuing to be a core relationship bank for deposits. On lending, we are comfortable with our risk appetite, but I'm also comfortable that when demand comes back for businesses to borrow more, we'll be able to lend into the segments and sectors we really want to do, even without adjusting our risk appetite. So there's plenty of capacity to do that.

I know we're not sharing today by subsegment where we have been successful, but there are some segments within this, where even in the last 18 months, we've grown our lending greater than 10 per cent. And we've done that because we've had a very clear view around the types of businesses and the types of lending that we think we need to be supporting and which we have the appetite to support. I think the really hard sector segment in this, which will be always be hard, for you as an analyst looking at what is reported is commercial real estate (CRE). Because through cycle returns on that business aren't always that high, there's a whole series of players over the last few years and longer term, 10 or 15 years that pulse in and pulse out of that sector and take market share. And when you look at that as a share of the lending of this whole segment, it's significant depending on how people define it, 50-ish per cent of all the lending in this segment is going through commercial real estate.

And that's the one where we have obviously a huge amount of experience, a very clear view around where there is through cycle returns for our shareholders and for our clients as well where we can do the right level of lending and we take a more selective participation as we go forward. And you'll see we are underpenetrated as a percentage of that sector. And of course it's a big sector. So as you look at it for the industry in total, I think that's the one that's most difficult when you look at it top down. But no, we have the risk appetite. We are intending to really support growth in jobs, productivity, and the investment areas that we are very committed to. And I think the opportunity here is in front of us. It's over the next 18 - 36 months as business confidence translates into businesses actually wanting to borrow to invest. And we're not quite there in the cycle yet.

Elyn Corfield
And then we expect demand to increase at that point. We need to use more of our risk appetite. It isn't a moving the risk appetite point, it's using that risk appetite. We do have a high quality portfolio. It's diversified, 90 per cent of it is secured. And we're continuing improve our capabilities. So our straight through processing, our lending journeys and our better use of the data that we have will set us up for success in the future. But yet it has performed very resiliently throughout the period and remains benign. And as quoted you've seen that through our impairment results. About 30 per cent is CRE, which is low compared to the market, which is Charlie's point. Again, that's a very well secured portfolio.

Douglas Radcliffe
Excellent, thank you. We have another question online from Raul Sinha at JP Morgan. Thanks very much for the presentation. Two follow up questions. One, looking at the latest independent SME banking service quality survey results, Lloyds is doing much better than most large UK banks, but lagging the pure digital neobanks. Do you think you can close the gap to the neobanks in terms of service quality or is this less relevant to your customer target segments? And secondly, of the £0.3 billion additional revenue targeted by 2026, how much has already been achieved so far and how does this split between NII and non NII?

Douglas Radcliffe
Elyn, probably makes sense for you to address that first, particularly on the service quality side.

Elyn Corfield
On service quality, we've got fantastic foundations in our business. I touched on them before with regards to our strong relationship offering and the breadth of RMs across the country, 90 points on NPS. Fantastic. What we're building now is to have the same digital capability. We've seen the feedback we've had from the journeys we've built so far is absolutely fantastic. Conversion is great, engagement is brilliant. So what we are building is the digital bank to go together with our core foundations of having a great relationship bank. And it is absolutely as important that we have slick digital journeys as it is our great relationship offering. Of the £0.3 billion that's targeted by 2026. By the end of this year, we'll have achieved a £0.2 billion of that target.

And then from an OOI perspective, so when we look at OOI, so across the commercial bank, OOI is about today looking at about 30 per cent of our income. It's slightly higher in CIB because the mix of business, slightly lower in BCB. As we move forward, if you look at the strategic initiatives that I've given today, take it from today and move forward. So things like merchant services as a prime example, how we're going to completely transform that business. That's OOI accretive. So that's going to increase our OOI over the period. So we're going from a foundation of about 30 per cent today and then we'll move ahead and increase that as we move forward, which is fantastic and will give us a higher split as we move forward. And the confidence I have in our deliveries because we're quite away through our journey already, the proof points that I gave today and what we're seeing from customers as we're building some of this new capability gives me confidence that that's where we'll be in the future based on the great foundations that we have today within our core franchise, and the 20 per cent ROTE.

Charlie Nunn
Just to add because, Raul, I know we haven't given you the specific number on the £0.3 billion split between OOI and net interest income, but as you'll remember on the total number for the Group of £1.5 billion by 2026, we're saying about 50 per cent OOI. So we're not going to split it if that's okay, but this is a strong contributor to the OOI business. And you can see the sectors and products we're choosing are OOI heavy relative to their starting point. But thank you.

Douglas Radcliffe
Excellent. We've virtually reached time, but there are two more questions. So we'll deal with both of those that have come online. The first one from Priya Rathod at Jefferies. I think some of this has been dealt with, so it might be a short response. What do you think needs to happen to accelerate lending demand by corporates or for corporates to have more investment confidence, i.e. would a rate cut or change in government policy be a trigger? Do you want to deal with that first, Charlie?

Charlie Nunn
Look, I think you teed it up pretty well in the question. It does differ by sector so some of the most challenged sectors have been things like transport, hospitality and agriculture, and they have more fundamental cashflow challenges around some of the businesses broadly, not necessarily our clients, but the sectors themselves. Businesses are looking for two or three things, a bit of stability and confidence around what the priority is going to be in the economy. And I think a government can have a good impact on that. They obviously are looking, especially if they are consumer facing businesses, for confidence in the economy more broadly and especially from consumer spending. One of the things that we haven't talked about today, but there's now been three quarters of real wage growth in the UK. And so that is a sign of confidence too.

And then the cost of borrowing will make a difference. So as we start to see the interest rate cycle change, and obviously depending on the length of borrowing, the competitiveness around the cost of borrowing reduce, and or be more palatable, we should see with that an increased level of investment. And then there's some very sector specific things I think which, as we look forward, the government and the economic environment could really accelerate growth in specific higher growth sectors. So we are optimistic actually about the next 18 - 24 months. Although you know our overall Group economic guidance is still for what I would call slow but resilient growth, I think there is a case for optimism that this segment, the SMEs and mid-corporates could really lead any future growth for the UK economy.

Douglas Radcliffe
Excellent, thank you. The last two questions are from Andrew Coombs at Citi. First of all, in the areas you highlight as being underweight, including asset finance, how easy is it to capture market share with a centralised credit decision process? To what extent do you need more specialist teams which possess more flexibility on underwriting standards in order to address customer needs and capture market share in these segments? And the second question related to how much of the business in these segments is written directly, whether that be either digital or branch versus sourced via intermediaries, how has your intermediary relationships developed? Elyn, it probably makes sense for you to address first.

Elyn Corfield
Thank you. So I touched on this as I talked through our diversification and things like asset finance, we are underway and we see that as being an opportunity across our product diversification. We need to make it easier to digitise processes for our RM engagement, both on how we engage and then go through that journey from a lending perspective. We have got specialist credit teams that support those RMs across the country, but how do we make that slicker process with regards to our digitisation is very much at the forefront of our mind. We will target market share growth within that segment, I said that we're underweight at the moment, 9 per cent underweight. So we will continue to drive the right value share. Like I touched on earlier, value will be at the forefront rather than driving for volume and market share for the sake of it.

And then how much will be written? Your second point with regards to intermediaries. We have an opportunity with regards to our intermediary channels. At the moment, all our lending is predominantly booked direct. We have a great intermediaries market with regards to lending. It's about £38 billion in the market. We have a single digit percentage of that market. We think we've got opportunities and we've built some capabilities to grow in that space with regards to how we engage some of the tools and capabilities we need, and the opportunities we have in building those relationships. It's a competitive market, but it's one that we think we've got opportunity in.

Douglas Radcliffe
Excellent. That concludes all the questions. Thank you very much. I will just hand over to Charlie for some final comments.

Charlie Nunn
Thanks, Douglas. And thank you once again for joining today's presentation. As you know, and I have to say for us, I love these sessions because we get to talk about the real businesses and the real dynamic of the business that we are leading. So thank you for joining the session but also for the brilliant questions. I hope the sessions have been informative for you and given you a chance to understand the next level of detail behind our strategic plans and our progress. And we'll look forward to speaking to you next month when William and I will be sharing our Half Year results. So thanks very much again and goodbye for now.

END

FORWARD-LOOKING STATEMENTS

This document contains certain forward-looking statements within the meaning of Section 21E of the US Securities Exchange Act of 1934, as amended, and section 27A of the US Securities Act of 1933, as amended, with respect to the business, strategy, plans and/or results of Lloyds Banking Group plc together with its subsidiaries (the Group) and its current goals and expectations. Statements that are not historical or current facts, including statements about the Group's or its directors' and/or management's beliefs and expectations, are forward-looking statements. 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