BANK OF AMERICA FINANCIALS CEO CONFERENCE WITH CHARLIE NUNN – TRANSCRIPT
(amended in places to improve readability only)

Tuesday 19 September 2023 – 10.15am BST

Charlie Nunn, Group Chief Executive, Lloyds Banking Group
Rohith Chandra-Rajan, Director, Banks Equity Research, BofA (moderator)

Rohith Chandra-Rajan
Thank you very much for joining us this morning for the session with Lloyds. As in previous sessions, we will have some time for audience questions so please don't feel shy in raising your hand when the time comes, but in the short term I'm very pleased to welcome back Charlie Nunn, Lloyds CEO. Thank you for joining us this morning, Charlie.

Charlie Nunn
Thanks for having me.

Rohith Chandra-Rajan
We were sitting here this time last year, and probably, my first question last year was that the operating environment's changed a lot since you set the strategy in February last year - it's changed a lot again since then. So, I was wondering what has surprised you in terms of customer behaviour? And has it changed at all the way that you prioritize the strategy in terms of reacting to the changes in the UK macro, in particular?

Charlie Nunn
Well thanks, Rohith. And again, thank you for joining. You're a glutton for punishment if you've got through two UK banks in the last hour and a half, but thanks for joining. But that is exactly the right starting point from my perspective. Obviously, when we launched the strategy in February 2022, so just 18 months ago, I think at that stage, we were predicting in our base case that rates might peak at about 2.25 per cent. And obviously, we've been through a massive set of changes both geopolitically and economically since then; our baseline now is that we'll peak at 5.5 per cent. Let's see what happens in the next period of time, but it's a really different external context.

I think two points that matter in that context, though, with respect to us. The first is that we have definitely been revisiting the strategy and testing it in this environment. And I think the commitments we made around growth, about £1.5 billion of incremental growth by 2026 of which 50 per cent would be Other Operating Income, the pivot towards building on the businesses that have a position of strength, but trying to grow greater market share and build more strength in the businesses where we didn't have that same position in the UK, and then really focusing on operating and capital efficiency. The elements of the strategy are almost more important in this environment.

And what we're doing is saying that if we can double down on that, we can actually deliver better outcomes for our shareholders in the 2024 and 2026 timeline which we laid out. Because your ability to be really embedded with your customers, having businesses that are the leading franchises in the market you operate in, and being able to then deliver the operating leverage on the benefits of the higher rates is really showing through. So actually, the overall strategy we've recommitted to and really believe is the right strategy for this environment. I think what's surprised us is two things in that context, and we are adapting quickly to it.

One is positive – the resilience of our customers in this environment, I think has exceeded our expectations. Now, a lot of our customers have got a really challenging time in this environment, whether they're small businesses or individuals or families. But, when you look at the customers that borrow from us and that form our core business case around Lloyds Banking Group, they're very resilient, and they're adapting, making difficult decisions to adapt or they're continuing to operate very soundly. So I think the resilience of the UK customer base in this context of a very uncertain time has been surprising.

And then the second thing has been how competition has evolved as interest rates have gone up materially for the first time in what, 15 years? And you'll remember we guided in February '22 that we thought mortgage margins, for example, would be about 75-100 basis points for the life of our strategy. And as we've looked at in the last two results sessions, we're now guiding to more like 50 basis points, as the new 75 to 100 basis points. And that's important because we always thought we were the first to come out and say we thought asset margins would tighten.

But obviously, as we look at how rising rates are creating competitive pricing across assets and liabilities, I think we've seen some different behaviours to the ones we expected. Now despite that, we've raised our guidance for 2024. And we raised our guidance as well for the 2026 outcome. So we see a real opportunity to deliver good capital returns for shareholders in the medium term.

I'm sure you want to talk about total return to shareholders in the short term, which is going to be one of the areas we know we're not delivering today. But let me pass back to you.

Rohith Chandra-Rajan
We'll definitely be coming to that, but before we get there, just back on rates, you mentioned that you were expecting 2.2 per cent and if we're getting to 5.5 per cent, and thinking about Lloyds historically pre-dating your tenure, when rates were 50 basis points and UK banks were losing money on deposits - Lloyds was making an underlying ROTE of 14 per cent. Surely, it can do significantly better than that when you've got profitability on both sides of the balance sheet, would you agree with that? And how much better can it be?

Charlie Nunn
So we haven't updated our 2026 guidance in the last couple of quarters, we'll do that at the end of the year. But as our current guidance says, by 2026, we'll be greater than 15 per cent ROTE. I think, even more importantly, from my perspective, we're committing to greater than 200 basis points of capital, which you have seen in the last couple of years as William and I have been working with our Board, we expect we will continue to work with the Board to make that capital available for shareholders. So we've been distributing 13 per cent through dividends and share buybacks for the last couple of years. And so that position we have in 2026 is a really strong and accretive set of cash flows.

And that capital and the capital generation will be even cleaner, because we'll have got through our pension deficit. As you know, we had a £7 billion pension deficit leaving 2019. So I think that's a very strong story. The other element that I need to be focused on in my role obviously is the quality of the earnings. And what we're trying to build in 2026 is more resilience around the top line, whilst we still have operating leverage on cost and capital. And there's three parts to that resilience of our top line story.

The first is the structural hedge, which I know will always be a conversation in these meetings. As you know, we have around £250-255 billion of structural hedge. All in at the moment, its returning about 1.2 per cent. As we can reinvest that going forward, and we’re reinvesting at the moment at 4 to 4.5 per cent, that gives - with a weighted average life of 3.5ish years - real stability to the earnings that are generated by that structural hedge. So by 2026, that will be a real positive and a real tailwind for a number of years.

Second thing is our revenue growth to strategic commitments; £1.5 billion of extra revenue, of which half we want to be Other Operating Income to give more diversification and strength around our revenue lines. And at the half year, we reported good progress on that. We're comfortable with those commitments, and we're committed to delivering that. And you'll have seen that Other Operating Income has started to move in line with the investments. So that's great and then the third thing is obviously, rates will probably be coming down at that stage. And what you need to manage ‘through cycle NIM’, if I can use that phrase, is a well-structured balance sheet. And that means a good Loan-to-Deposit ratio, which is what we have, c96 per cent, and then a good mix of well-originated assets across retail and commercial and across secured and unsecured.

And as you know, we're the only balance sheet in the UK that has that. So that positions us well to compete and to maintain through cycle margin. It's the natural hedge between liabilities and assets as rates fluctuate. And that's how we think about managing through cycle NIM and why we're confident about that capital generation as we look into the next two and three years.

Rohith Chandra-Rajan
That's a very nice segue into the next question, which is that I think a key investor concern for UK banks and increasingly for European banks, is that we're getting late in this rate cycle. So the pushback is, doesn't that mean your revenues are falling from here? It doesn't sound like that's a concern that you'd share, given what you've just said, but I'd be interested to hear your thoughts on that.

Charlie Nunn
Well, I think you teed it up well. When you look at Lloyds Banking Group, we have a balance sheet, and we have a set of businesses and franchises which should be able to compete when rates are low and when rates are high. And as you said in 2018-2019, Lloyds' NIM was almost 300 basis points when rates were down at 0.1 per cent. And today, we've guided to greater than 310 basis points for this year. And the core to that is what I said, it's about having the right mix between assets and liabilities, around having stable liabilities, which is what you've seen with Lloyds Banking Group in the first half.

We've seen a 1 per cent reduction in our deposits, but other high street banks have seen 2 per cent reduction. That's a good sign to us that the resilience and the strategy is working on liabilities. And then you need the right mix of assets, specifically as I said, commercial and retail, but the right mix between secured and unsecured. And then you need to diversify into non-NIM based businesses, <u>and</u> in the strategy we laid out four growth areas. And as I said, the Other Operating Income very simply is what I think I will be making sure we can deliver against and trying to show increasingly as we go forward that we're growing those businesses.

We have growth opportunities across our Corporate and Institutional businesses, our SME franchise, our Insurance businesses, and our Retail businesses for driving Other Operating Income. And actually, you saw a pretty balanced growth across all of those in the first six months of this year.

Rohith Chandra-Rajan
Thank you. We will get on to those. But perhaps, just to dig a little bit further on the margin that's preoccupying everybody currently, and I think the main thing that's preoccupying people is deposits, given how quickly things started to move in the first half of this year. Deposits, pricing, volumes, migration look like the biggest headwinds to the margin. What are your expectations for those different features, so pricing, volume and mix?

Charlie Nunn
So the overall margin, there's three parts. And deposits is definitely one. The three parts that we talk about, and as you know, we've had this discussion last year - we've been guiding to this now for actually the whole of the strategic cycle, which is why we were always predicting NIM to come down in 2023. In fact, we were guiding that at the end of the year very clearly.

So the three things are the mortgage margins, and as we reprice, wider margin mortgage business, especially through COVID, which was in the 150 to 200 basis points, that's repricing at 50 basis points in the current environment. So that's a headwind in this environment. The good news is we think the majority of that repricing starts to tail off at the back end of next year, which is where you see some real potential for longer term stability around asset pricing. The second thing before I get to deposits is obviously the structural hedge. And I said earlier, we're reinvesting the £250 billion pounds worth of our structural hedge at a significantly higher rate as it rolls off. Today, the blended return, as we last reported was about 1.2 per cent. And we guided that upside for this year was about £800 million pounds worth of revenue, a similar level next year. And in fact, in the current environment, even as we look at the absolute size of the structural hedge potentially changing a bit as we guided recently, we think there's upside on next year, because of the margins being wider. So that's the structural hedge.

And then the third thing is deposits. We've had a long, a strong point of view around this actually the whole way through this cycle. When you get to about 3 per cent absolute base rates, so that was about last November for us, customers would start to choose where to put their money. And that's what we've seen happening and there's two dynamics on that.

The first is, some customers will decide that they have spare liquidity, and they'll move current account or instant access savings into time deposits. And then the second thing is, the competitive nature around pricing will mean that there'll be a greater pass through on savings rates for instant access and time deposits - I heard Katie talking about this earlier. I think the core thing from us is that, so far, this is progressing in line with our expectations. Our guidance for greater than 310 basis points of NIM this year includes those sets of assumptions and how our customers are making those choices.

And actually, when you look at Lloyds Banking Group, we’ve been more stable as you’d expect, given who we are, our brands, and our franchise, our customers. We’ve been more stable than the other high street banks in the first half of the year. So that is an important part of it, but, it’s all three things that give us that through cycle ability to manage NIM.

Rohith Chandra-Rajan
And where do you see mix and pricing going from here?

Charlie Nunn
So obviously, we can’t know pricing completely. But what we’ve seen and what we’ve predicted in those underlying assumptions, we haven’t given complete specificity around the churn levels and the competitive pricing for pass on and savings. It’d be very hard to predict. And secondly, that would be a level of guidance that would probably be unhelpful. But what we expect is that people will continue to move their money in line with what we’ve seen in the first half of the year, and increasingly into savings accounts, and that there will continue to be, whilst the base rate is increasing, more pass through and more competition from our competitors.

So we see more of the same and actually since the data that we released in the first half, what we've seen is a consistent trend around both the change in our customers' behaviour – around where they want to hold their deposits and the competitive nature of the pass through. Now, I think we all need to be humble. In this context, the UK hasn't seen a rate cycle like this for a long time. And the last time, we had high rates in customers choosing where they put their money was obviously pre the financial crisis. So our commitment has always been, we in the true Lloyds way will try and be forward thinking, we'll try and be prudent around our guidance. But if something changes, I'll come and tell you. But nothing's changed relative to our expectations at this stage.

Rohith Chandra-Rajan
Thank you. So then thinking about the other revenue drivers, at least for the short term, you seem to have become a little bit more cautious in terms of the extent of credit demand and a bit more optimistic about some momentum in Other Operating Income. I wonder if you could just expand on that.

Charlie Nunn
Thank you, I should have said one of the consequences of the different environment from the original strategy is we have been a bit more cautious about growing AIEA's in this current environment. And our belief is that's the right thing for the Group and for you as the shareholders. We originally predicted single low single digit growth in AIEA's through the length of the strategy. Actually this year, what you can see is we've guided more flat to down. And so let me just say on the asset side before I go to OOI. Again, there's a mixed story in that. There are some core strategic businesses, which we committed to growing, which are continuing to grow.

Our car financing business, including the acquisition we did earlier in the year of Tusker, is delivering ahead of our plan, ahead of the synergies that we had built within the acquisition, and that's growing well. We're seeing growth in our consumer finance businesses, cars and loans, which is great. And then we've targeted very specific segments within SME and CIB. And we're growing those businesses well. So trading businesses and then some of the DCM and financing, sometimes off-balance sheet in our corporate business, we're gaining share - so that's great.

The two areas that we're seeing a smaller or a decline in our assets is part of the mortgage business. We're still rolling off the back-book mortgage business. And because of the margin compression, we don't think now is the right time to be really competing to win market share in mortgages. We've always said we'd manage the Lloyds Banking Group mortgage business for value, given that we're the number one player. We're such an important part of setting prices around mortgages. And then the second part is government loans for SMEs have been reducing. And actually, SMEs have been deleveraging in this current economic context, so they're not investing for the future at this stage at the same level as they were.

And those that are resilient and have cash are actually looking to pay down their debt. So even the asset side, flat to slightly down is what we've guided to, but actually we're still seeing growth in the strategic areas and the areas which we think are higher returning through cycle. And then in Other Operating Income, we laid out four growth strategies or four growth priorities in February. And what we're seeing is growth in all of them. So I'll just give a couple of examples. On the Corporate and Institutional business we said, we have a very targeted strategy, targeting UK-centred institutions and corporates around cash, FX, DCM financing. We're growing those well, that’s performing well in this context. We're capturing market share, which you can see in various reports. So that's great. I talked about car financing and Tusker. On our Insurance business, we have a top two workplace pensions business. That's great. It's a low capital fee-based business, and as we scale it, it will generate more capital. We're growing that business well and that's generating returns through our Insurance business. And then on our Retail businesses, you can see growth in that area as well.

One of the strengths that we have is, as I said about 24 to 25 per cent share of Consumer Finance. But we started with only about 15 per cent share of spending. And we have about 22 per cent share of current accounts. So we saw a growth opportunity to be more relevant for our customers on how they make payments and spending. And that again drives Other Operating Income. So we're seeing growth and we're capturing share in those areas. So growth across the business linked to the strategy, I need to continue to deliver that with the team quarter on quarter, so that it becomes really relevant to the Group, and it starts to become valued in the share price.

Rohith Chandra-Rajan
Thank you. So that's what's already underway, that's the short term. You've got a series of investor seminars coming up, looking at the different businesses. I was wondering if you might be able to give us a taste of what to expect from those, particularly in terms of the types of things you've been talking about. So revenue diversification - what's going to drive revenue growth from here? What can we expect from those seminars in the coming months?

Charlie Nunn
A couple of things. The first thing is you'll get to meet some of the rest of my team, and the new team. The team's changed quite a lot. I've brought in a lot of different talent that's delivered both in the UK and in some other markets, and they're bringing a very innovative perspective. And I was keen for this community to meet some of the rest of the senior leadership team and for you to see how they're thinking about the growth. So that's obviously important from my perspective. And in terms of the specific areas,

we're going to have a deep dive around the whole Consumer area, a deep dive around Insurance Protection and Pensions, and then a deep dive around Commercial over the next few quarters.

And what I've asked the team to do is to talk about exactly what we were just saying, how are we driving growth? Where are we seeing progress? What should you expect? What are the kind of early indicators of the growth that we're going to report for you? And how they're thinking about the value that they're creating for the shareholders. In Retail, that's going to be things like, as I said, us building out our transport offerings, and getting the value out of the acquisition we did with Tusker, building out the home ecosystem and how we support customers around mortgages and how we want to compete going forward around that business and consumer finance.

And then critically, around how we continue to build out the mass affluent opportunity which is ahead of all of our plans, but you'll see that in the data, and then how we continue to drive what we call relationship deepening in Retail. And again, there's some good early indicators. For example, we've now got 21 million customers digitally actively engaged. We're 18 months ahead of where we thought we'd be. And digital engagement is a precursor for getting trust and an ability to manage those relationships more efficiently and to be able to deepen our relationships with them.

And on the Investments, Pensions, and Insurance business, we bought Embark last year. We are looking at that as a platform by which we can bring simple investment solutions to our broader retail customer base. We launched in Q1 what we call a new ready-made investments journey. We can talk about how that's scaling and how that's having impact for our customers. The workplace pensions and annuity businesses, and how those are scaling, and how we're driving growth around our protections and cross-sell into our retail base. And in Commercial, it's the things I was talking about. We are really seeing progress on supporting international and UK institutions and corporates around the things that we're the best at in the UK.

So cash, FX, rates, and then financing, especially DCM, and doing it in the context of the sectors and the assets, those are some of the most important for growth in the future, so the green economy, housing and real estate, the sponsors business, and we're really successfully growing those businesses, as well as pivoting our SME business to a more digital SME business going forward.

Rohith Chandra-Rajan
Thank you. There's been a lot of media, government regulatory focus on customer treatment recently and also pricing, is that changing the way that you run the business?

Charlie Nunn
I think the simple answer is no. And I say that because we've had lots of proactive engagement with the regulators and the government already on some of the things that have now come and been introduced. So Consumer Duty is obviously the big one from a conduct perspective. As you know, Lloyds Banking Group has been a leader around conduct since the wake-up call of PPI and so we are very proactive as an institution around how we think about conduct, and we engaged early and strongly with our regulators in that context. So broadly, what I'm seeing is, we are implementing what we expected around some of the conduct regulation.

And for that matter, the capital regulation that's come under Basel 3.1 and how they're starting to think about IFRS 9. It's very much in line with our expectations. The reality, of course, is regulation and how these regulations get implemented, get tested around specific issues. So we've had a number of issues. Recently the Mortgage Charter, the review that the FCA is doing around savings, and obviously the de-banking discussion which must have been important in your discussion just now with Katie. All of those are things we're actively engaged on. But what we're seeing is good, detailed discussion in line with our expectations around the current regulation.

Rohith Chandra-Rajan
Thank you. So then moving on to costs, particularly in the context of persistently high inflation, you've reaffirmed your absolute cost targets for this year and next. I'm just curious to understand how you're able to achieve that, given the headwind from inflation? So what combination of additional efficiency improvements, hedging, or investment decisions you've had to make to deliver that cost - and what compromises you may or may not have had to make?

Charlie Nunn
The great news about coming into this role is Lloyds Banking Group is an organization that knows how to manage costs. And hopefully, you feel that as well. It's a nice place to be in this role having an organization that operates that way. In February '22, when we announced the strategy, we had built within the strategy to achieve the absolute cost targets in 2024 of £9.2 billion. But to achieve that, we had built in £1 billion worth of gross cost efficiencies. William and I felt it was really important to give you an absolute cost target, so that you can have some confidence in the first few years of the strategy.

Underpinning that was a gross cost efficiency saving of about £1 billion. And in the last few quarters, we have increased that to £1.2 billion. And that is because we saw additional inflationary pressure that we didn't predict back in February ‘22 before this rate cycle and before Russia invaded Ukraine. So we're doing what you'd expect, we're looking at our cost base and we're trying to find additional areas we can build efficiency to mitigate some of that inflationary pressure. And that's going well. We're committed to delivering those efficiencies.

The good news is as you get further into running an organization, you know where investments and efficiencies can really deliver, so we knew that those efficiencies could come through driving some of the changes in the business model – digitising, creating more digital engagement, creating more efficiency around customer services and sales, eliminating STP and back office costs, looking at the cost of implementing change, and making that more efficient. So those are the kinds of levers. And again hopefully, some of you will get a chance if you want to meet our new COO. We have the CIO from ING who has joined us and he's bringing another level of experience around driving efficiency and agile delivery and change, which is going to be an important part of that journey.

Rohith Chandra-Rajan
Thank you. Credit quality is taking a while as well to get here. It's been something the investment community has been worried about, probably for most of the last two years. And for a lot of those two years, it's been the increase in mortgage rates. So we've got a tripling in mortgage rates, significant step up in repayments when people refinance. So you're in a unique position, as the leading mortgage lender in the UK, to help us understand how your customers are coping with that. What, if anything, additional has had to be put in place to deal with that? How far through that are we?

So particularly, how that is progressing in terms of mortgage affordability and asset quality? And then looking across the loan book, are there any areas of stress that you're currently seeing?

Charlie Nunn
So obviously a really important question. The overall message is that from a financial performance perspective, the resilience is very strong. And we think we're well provisioned relative to our loan book. We have £5.4 billion pounds worth of ECL on the balance sheet. Our base case, which is the core scenario that we are actually tracking below at the moment, is about £700 million less than that. So we think we're well-provisioned. And actually, we're currently tracking in line with or better in the portfolios than the models had predicted for this year.

Well, let me come back to a bit more detail. Because obviously, that's a very macro view across our £450 billion worth of lending. On the mortgage book, you're right. This is not easy for those customers that are facing a higher interest rate. For some customers it's a doubling or tripling of their monthly payments. So it's been a real area of focus, and you'll have seen that we announced we did reach out to over 200,000 mortgage customers over the last six months. And we're continuing to be proactive about the mortgage customers. Having said that, there's very, very significant resilience. And then there is a specific part of the mortgage book where we've seen an uptick in arrears, which is the 2006-2008 pre-financial crisis portfolio.

And we gave some disclosure at the half year, Rohith, specifically around that to give you all confidence around firstly, how the majority of the portfolio is performing, because that's a small part of the overall portfolio. And then based on our understanding of that portfolio that we're being proactive in providing outreach to those customers. Now just why are the mortgage portfolio customers being so resilient? I think it's for bluntly two simple reasons. One is because of the nature of origination over the last 15 years. Our average mortgage household has an income of £75,000, so they are significantly better off than the average customer in the UK.

Obviously the LTVs are also low. But in terms of income and affordability, the households start with a good income. Secondly, we have stressed them at the point of originating that mortgage in the last 10 years at somewhere between 7 and 8.5 per cent on their interest rates. So for people to have been able to get a mortgage - the pre 2007-2008 mortgages are slightly different - but for the majority of our book for people to get a mortgage, they were already being stressed at higher rates than we see today. So its really difficult for our customers, we're very much providing outreach and trying to support them, but that's why we see the resilience we do.

And in terms of the rest of the portfolio, our consumer lending businesses are incredibly resilient; you’ll have seen the metrics and stats, and in fact, even though our credit card assets are increasing, customers are still paying down and revolving less. So there's real resilience around that portfolio. That's largely because we're a prime lender. And at this stage, the top six deciles of households on the retail business have actually still got higher savings than they had pre-COVID, so the really difficult stresses and challenges in UK societies are in the bottom two or three deciles. And of course, they don't borrow from us.

So consumer finance is very resilient, and then our SME and commercial businesses are very resilient. There's four points where we're seeing stress but it's not exposing us to material concerns. It's in the sectors around transport, agriculture, hospitality, and commercial real estate. And of course, our exposures there are either very limited or they're very secured or both. So we're not worried about it from an ECL perspective, but those sectors have been through a really difficult 12 or 18 months, actually. That goes back through COVID, maybe longer - 24, 36 months. And we are seeing pockets of stress, but it's not a concern for our financials.

Rohith Chandra-Rajan
OK, thank you. And then back to capital return where it feels like we touched on quite a long time ago. So 175 basis points or more near-term capital generation, rising to over 200 basis points medium term. That's a £3.5 to £4.5 billion (round numbers) capital generation per year. And you're also running with surplus capital at the moment above the target level, which I think you've previously said you plan to come back down to target level by the end of next year. So how should we think about capital distributions from Lloyds? You've talked about the generation, how should we think about distribution and also potential other calls on that capital.

Charlie Nunn
So two things. The first thing is, I sat here two years ago as a new CEO and said, I'm committed to capital distributions. Hopefully, you're starting to feel that I've got some fact base behind me now. We've done two years where we've done significant distributions both through a dividend and a material buyback, c12 to 15 per cent return. And our boards have been supportive of that. And my expectation is that would be what we continue to do in this environment. We will be recommending to our boards that the capital we're not consuming would be available for the buyback.

And as you said, thank you for being clear about it in the question, we continue to reconfirm that we intend to pay down to our 13.5 per cent CET1 ratio by the end of 2024. That's really important, because obviously, that's something that's visible to our regulator. You'll have seen the ACS and the stress test results positioned Lloyds Banking Group in a relatively very strong way. And that gives confidence that we'll be able to do that. And that'll be part of the deliberations we make. But I think this is really important. Our share price, we haven't talked about yet, but the share price isn't really reflecting either the cash flows and/or the returns of this business.

And I think there's good reasons for that. And when you look at the quality and the quantum of the capital distributions we're going to have available, this is going to be a strongly performing business and has the potential to provide strong cash flows to shareholders. The second part is those cash flows should be more stable given some of the revenue and projection outcomes I gave - things like the structural hedge and our building OOI - but also there'll be less calls on it.

So when I took on this role we had a £7 billion-ish pension deficit. And as you know, I've been putting some of the capital into filling that hole. We're just closing the triennial discussion with our pension, so William will talk at the Q3 results about where we'll be, but I think we're going to be in a very, very different place. And we're not going to see a material drag on our capital from having to put money into the pension going forward. So that means that 175 basis points this year and next year and then greater than 200 basis points from 2026 is available to the Board for distribution to shareholders. So it's a cleaner and more stable form of capital generation than you've seen in the past as well.

Rohith Chandra-Rajan
Thank you. That's very clear. We do have time for a question or two from the audience, if you would like to raise your hands, the lights are very bright. So sorry, you will need to wave, if there are questions from the audience.

Audience
Could you talk a little bit about your aspirations in UK Wealth and how far through the journey we are there?

Charlie Nunn
Yes, thank you. So we participate in Wealth in a number of ways. But overall, the reason, we thought it was an important area of growth is that although we have 15 per cent to 30 per cent share in most businesses we operate – 20ish per cent on average, in Wealth, in the broader Wealth, we have nearer 2 per cent. And when we look at the demographic shifts and the needs of UK consumers, and then the regulatory confidence that banking should be part of, they want financial services groups like Lloyds to innovate, to bring Wealth to more of the mass market. We saw it as a really good opportunity for growth.

Now we participate in a few ways, like through our Scottish Widows business. As I said, we are the second biggest workplace pension fund administrator. That's a fast-growing business; it's capital light; we're already a leader. And we'll continue to grow that. We provide annuities and protection, which is part of Wealth for most individuals both through IFAs and an IFA platform. But also through our bank, and we have today, something called Halifax Share Dealing and we have a Lloyds Bank platform. But we have a share dealing for self-directed wealth, and they have about 5 per cent market share. But as we know, self-directed wealth is small in the UK.

And then we have Schroders Personal Wealth which we launched as a JV. What we set out in our strategy is that we want to bring those together, innovate around how we provide advice and then link it to our mass affluent customer base. We have the biggest mass affluent customer base in the UK. And that's part of the growth and the investment we've laid out. And we launched, for example I said earlier, the ready-made investments journey on the back of the Embark acquisition. And that started to get traction with customers. What I expect you should see is the businesses that we're operating at scale - protection, annuities, and workplace pensions will continue to be good growth engines and provide cash flows in the next few years.

The new business, which is growing mass affluent wealth in a new way will take time to build to become material for the revenue line. As you know, it takes time for customers to build Assets Under Administration and then the margins on those businesses are lower. But that was always what we had in our plan. So they become more material as you look at 2026., and for what it's worth, beyond. They become really material beyond. So I do think the wealth business is important, it's a growth area for us. We have some great starting points. It's OOI mainly, so it’s diversified. And we have this unique franchise that no one else has. We have an insurance company, wealth platforms, and the biggest retail franchise.

But we need to deliver the forward looking growth for you to believe, I think. Thank you.

Rohith Chandra-Rajan
Thank you very much for that; I think we are pretty much out of time. Charlie, I would like to thank you very much for your time this morning.

Charlie Nunn
Thanks for having me.

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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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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