

JP MORGAN UK LEADERS CONFERENCE WITH WILLIAM CHALMERS – PRESENTATION TRANSCRIPT
(amended in places to improve readability only)

Tuesday 18 November 2025 – 8.45am

William Chalmers, Chief Financial Officer, Lloyds Banking Group
Sheel Shah, UK & European Banks Analyst, JP Morgan (Moderator)

Sheel Shah:

Great, we can get started. So, I'm happy to open the UK Leaders Conference. We've got William Chalmers here, CFO of Lloyds Banking Group. Great to have you here as always.

William Chalmers:

Thank you for inviting me, Sheel. I used to work in this building. In fact, sometimes in this very room several years ago. So, great to be back.

Sheel Shah:

Not much has changed. Now, the stock trades at 8.1x PE, 1.3x price to book, for a ROTE of 18% in 2027 on our numbers. Unfortunately, the valuation doesn't really reflect the earnings. We have political overlay, fiscal risk that's priced into the stock. It'll be good to get a sense of what you're seeing on the ground. We've got the budget coming up next week. What are we seeing in terms of individuals and corporates? And how are they acting?

William Chalmers:

Sure. Yeah. I mean, I think despite the political confusion, the underlying reality is actually pretty strong. And in a way that's a little frustrating for all of us, but it's the way it is right now. So, we just hope the underlying reality gets to show through before too long. What do I mean by that? Macroeconomy, first of all. If you look at the macro, it's pretty unspectacular for sure. But nonetheless, it is supportive to the business. And so, what do we mean by that? In turn, we've seen GDP growth, which will be modest, but nonetheless positive this year. About 1.3%, likewise, around 1% over the course of next year. We see unemployment peaking at around 5%, not far from current levels. We see interest rates 4%, maybe coming down a touch during the course of 2026. And then similarly, constructive HPI, constructive CPI. And so, that combined backdrop is actually a pretty constructive backdrop for banks to operate in.

That is to say it allows us to grow income, both net interest income and other operating income. It allows us to see really quite resilient asset quality performance. And it allows us as a business to generate decent ROTEs and indeed decent capital return. So, all of that is pretty good. And then if you look at that against the lending backdrop, you can see we've had circa 4% lending increase on the balance sheet year to date. That's pretty strong, about £18 billion. £6.1 billion of that was in the context of Q3, so it's keeping pace, if you like, through the course of the year. And overall, therefore, pretty good performance.

Asset quality ratios, as you know, Sheel, really very benign. We've seen 18 basis points year to date. Our expectation is around 20 basis points for the year as a whole. We have been somewhat supported by the likes of calibrations in our AQR ratios. Run rate is more like 20 to 25 basis points. But overall, that's a pretty benign and indeed stable performance. And then finally, Sheel, when we look at the behavioural indicators, the so-called early warning indicators as we look at them. Whether it's new to arrears, which are stable, even falling in many of our portfolios. Whether it's things like early repayments within cards or alternatively other similar consumer behaviours, or for that matter, things like RCF utilisation on the SME front, the behavioural indicators again indicate really very benign outlook from an asset quality point of view.

So, a decent and constructive macro, decent and constructive lending growth off the back of that, decent and constructive AQR performance. And again, it lends itself to strong ROEs and it lends itself to strong capital generation within business. And ultimately, obviously, capital distributions alongside of that.

Sheel Shah:

No. That's very clear. And I won't draw you on any potential bank tax or where that lands, but we've had two mansion house speeches. We've had some actions by the government, the regulators to look at the competitiveness of the sector and work on that. Where do you think we will land on that?

We have the Bank of England's capital review coming up. We've had some news at ring fencing. There's various areas here, redress framework as well. Where do you think we're heading with this?

William Chalmers:

Sure. Yeah. Start point there is that the government and indeed regulators have been very and increasingly clear on the importance of a healthy bank sector to sponsor UK economic growth. So, that's the kind of underpin, if you like, or the backdrop against which we're operating. In that context, Sheel, we've seen multiple positive statements from regulators, from the government itself. We've seen reviews, we're seeing reviews, we're seeing consultations and the like. Things like the Leeds reform come to mind, things like the mansion house speeches come to mind. Things like the FPC capital review, likewise, come to mind. What matters to us is essentially three areas, conduct, prudential, and fiscal regime. When we look at each of those, what we're looking for within conduct, and indeed I think this is recognised by the government and regulators, is the importance of a predictable, stable conduct regime. And so, we've seen statements to that affect, we've seen recognition of a point by indeed government regulators.

We are, I think, seeing a meaningful appetite for change. So, you see statements, for example, coming out of the FCA to that effect. And I think we're also seeing the building blocks being put in place for change. So, if you look in the conduct area at FOS reform, for example, there is a consultation going on right now, which is about limiting look back obligations. It's about limiting read across obligations, really important steps in terms of bringing the FOS back to what it originally was, which is a complaint resolution authority, limited if you like to the context of that complaint.

I think off the back of those reforms, we'll see what ultimately gets implemented. But the direction of travel I think is very clear. And if you then pair that with the implementation or utilisation of existing regulation, consumer duty being the best example of that, then you have a conduct regime, which as I say is the beginnings of something that is much more stable, predictable, and conducive to the appropriate regulatory regime that we want to see as banks.

The prudential regime, similarly a positive direction of travel in respect to the prudential regime. I think that is backed up by the PRA and indeed its secondary growth objective, which is informing the direction of travel here. Where do we see evidence of that? I think the FPC review is one piece of evidence. We're looking at the FPC and I'm sure that it's looking at various different aspects of the capital structure, whether it is buffers, whether it is Pillar 2A, it seems to us very unlikely that nothing comes out of that FPC review. What it is, let's see. We obviously don't know. But nonetheless, it seems very unlikely that nothing comes out of it.

Likewise, the ring fencing review. It's a long time since ring fencing was at its inception. And since that time there has been an awful lot of funding, of liquidity, of capital, of recovery and resolution change. Again, it seems to us almost inconceivable that a ring fencing review concludes that there should be no change to the ring fencing regime. And so, again, we don't know what the precise answer is going to be, but the direction of travel is positive. And again, it seems almost inconceivable that nothing comes out of this type of reform.

And then finally, fiscal. In the context of obviously this morning's headlines, I suppose it's difficult not to smile a little bit. But really, what we're looking at or what we're looking for, I should say, is just a stable, predictable, and indeed competitive bank tax regime. And indeed that is what should enable us to play our role in sponsoring growth through the UK economy.

In terms of looking at those three, which is the most important, I think, to be clear, all three have a role to play. And as I say, I think the direction of travel in respect of all three is positive. It's constructive. And so, that's a good thing to see. It's a measurably different space to where we were a couple of years ago.

Sheel Shah:

No. That's very clear and the backdrop is definitely more supportive today. Now, focusing a bit more on the business, you're four years into the five-year strategic plan. You've got a strategy, or shall I say a target refresh up in September. What do you think are the areas that you'll be concentrating on without pre-empting any of this?

William Chalmers:

Sure. Yeah. Thanks for the question. A really important topic, and it will be obviously increasingly important as we go into '26. The first thing I should say, Sheel, is that, as you know, '26 is a really important year of delivery for us within the bank. It's a really important year of both strategic and financial delivery. And we are very focused on doing just that. And indeed, we have a very high level of confidence that we'll be able to deliver in line with all of the guidance and commitments that we have made to the market. Before talking about the post '26 strategy, we should be clear that we're delivering on '26. I think then when we get there, Sheel, we'll talk about it around the middle part of next year. That is to say the next chapter of the strategy. And I think it will be composed of a continuation of existing initiatives, whether those are business unit focused or whether they're enabler focused. So, for example, the extension of the wealth initiative that we're currently embarked upon. The continuation and the completion of the data transformation that we're undertaking right now. That type of stuff is underway. The next stage of the strategy is going to see us complete that.

It will, of course, be accompanied by a series of extensions, if you like, or new propositions. Again, whether those are customer facing propositions or new capabilities, and we'll talk more about that at the HY. But my point is that it'll be a combination of completion of what we've got on the table right now, plus obviously an extension of the franchise, the capabilities that we have as an institution.

I think within that, the much talked about digital and AI will clearly play a role. We gave a seminar a couple of weeks ago, which for those that haven't seen it, I thoroughly recommend you take a bit of time with. Charlie and Ron van Kemenard, I think gave a decent articulation, if you like, of what we're trying to do in the transformation and in particular the digital and AI space. It highlighted things like the address of legacy that we are embarked upon. It highlighted the delivery of the customer outcomes, which we're doing in a way that is better for the customer and much more efficient from a bank point of view. It highlighted some of the advances that we have made to date in terms of things like mobile onboarding in BCB, 15 times faster than it used to be. In terms of product delivery, in that case, in the context of the Lloyds premier proposition, 60% more efficiently and indeed faster than it used to be.

These types of things, alongside enabler change, so 50% of the applications are now on cloud. We've had a 40% reduction in data centres since the inception of this strategy. These types of things were talked about last week in the seminar, but they show signs of material progress in the context of the transformation agenda that we're pursuing. And the next strategy is going to take that a step further. So, I think those are the points.

Financially, I realise I've talked here a lot about strategy and data transformation, Sheel. The point financially that I would make is that obviously we'll articulate, we'll put that forward next year. What you should expect from us is to continue upon the progress, or continue to deliver upon the progress that we deliver in '26. So specifically, what do I mean by that? I mean a continuation of operating leverage, number one; a continuation of sustainable and strong ROTEs, number two, and a continuation of strong, sustainable capital generation, number three. So you should expect that to develop from 2026 onwards.

Sheel Shah:

And the cost outlook looks to be flattening in 2026. You've got a less than 50% cost income ratio for next year, but with the operating leverage that we're expecting to see out of Lloyds in the next few years, do you think a mid-40s cost-to-income ratio for this bank is possible?

William Chalmers:

It's a good question. I'll get to the answer, but I'll do it in a slightly round-about way as you would expect. The first point that I would make is that the focus on costs at Lloyds, as I think everybody knows, is an absolute business imperative. I mean, it has been that way since Pitman was in charge, which by the way is one of the events that I saw in this room several years ago, and it was inherited by Antonio and it was then inherited by Charlie, and it hasn't gone away. And the adherence to rigorous cost discipline remains an absolute prerequisite and absolute imperative within the business.

That's in turn what allows us to deliver on, articulate and deliver on absolute cost targets within any given year. As many of you in this room will know, we have committed to circa £9.7 billion this year. We'll have a little bit of add-on of SPW, now renamed Lloyds Wealth costs on top of that, not much, but that circa £9.7 billion target will be hit. Now that's about 3% cost inflation versus last year, but actually if you strip out severance, it's more like 2%.

When we go into 2026, we're expecting, as you said, Sheel, to see flatter cost growth over the course of '26, and indeed that should be sub inflation. So that's the expectation that enables us to deliver a sub-50% cost income ratio in '26, alongside obviously income growth aspirations and expectations that we have within the business.

When we look at it it's driven by three main strategies, if you like, or three main drivers. One is investment-led. One is increasingly efficient change function - change saves as we call them. And one is the implementation of just business as usual, cost strategies. Investment-led, things like branch and property rationalisation. We'll be sitting at the end of 2025, we'll be sitting on a headquarters estate, which is 45% less in its footprint than it was at the end of 2021. Likewise, the investment saves, technology-driven saves, whether they're decommissioning, for example, whether they're reduction of data centres, I said earlier on a 40% reduction in data centres over the course of the strategic period, whether it's cloud migration, whether it's decommissioning of existing legacy systems and so forth. These are technology-led investments, if you like, that lead to better cost outcomes.

And then finally, still in this bracket of investment-led cost outcomes, automation. Automation is a big part of the transformation of the business from which we realise tangible cost synergies, but it requires investment often enough to get there. Change saves for a moment, the second of the three planks, we have invested heavily in the change process at Lloyds, and the manifestations of that are we've set up something called Lloyds Technology Centre in India, a much cheaper and often more productive way of implementing change. We're probably late to the party in terms of that type of operation, but now we're there and we're developing fast in that context. Likewise, we've replaced much of what was previously a non-permanent workforce with a permanent workforce, which in turn is more productive and more efficient in terms of achieving the goals. So that's the kind of change program, and we've realised about £300 million in terms of change saves off the back of those types of initiatives.

And then finally BAU. I mean, BAU is the kind of bread and butter of the business. Organisational design, matrix management, divisional productivity initiatives, these types of things which are run rate type, cost benefits. Procurement is another example. If you add all of that together, Sheel, we've seen about £1.5 billion in terms of gross cost saves since 2025, since 2021 rather, as of H1 2025. So meaningful progress if you like in terms of gross cost saves, and there's a lot more to come as we look forward. When we look forward, I think the much talked about AI opportunities will play a role in those cost saves going forward, for sure. I think it's important to put those in perspective. That is to say we're at the foundational point now of implementing many of those AI-driven potentials, if you like, possibilities. I think realistically it takes a little bit of time to scale that up, and that's what we'll be doing over the next couple of years.

Final point here, Sheel, is that, as said, this all delivers operating leverage and meaningful operating leverage in the course of 2026, which gets us to our sub-50% cost income ratio. As we look forward, these types of cost initiatives off the back of the three planks that I mentioned, supplemented obviously by the potential of AI, which we can talk more about, that effectively allows us to manage the cost base much more efficiently, much more reliably, much more as said effectively. That is in the context of us continuing to invest in the business, us continuing to see, if you like, OpEx costs off the back of the new propositions that we introduced to customers, and us continuing to see good upward pressure in costs off the back of enhanced volumes from expanding the franchise.

So I think the right way to look at this overall cost piece is that, as I said, efficiency is absolutely at the heart of Lloyds Banking Group, but at the same time, we want to do so because we want to fuel the growth of the franchise and keep the cost balanced in that context. So Sheel, that's the way we look at it.

Sheel Shah:

That's helpful. And if I look at the denominator of this equation, the income side, NII for the UK banks and Lloyds is expected to be an outstanding performer for the next three, four years, probably up until 2030. Within that, you've got the structural hedge that is growing in terms of the tailwind, particularly next year. You've got balance sheet growth running at 4%, which is a return to market share gains, which we haven't seen for a long time for Lloyds. How are you thinking about some of the other moving parts outside of the structural hedge going forward?

William Chalmers:

Sure. Yeah, it's a good question. The question is very net interest income focused, so maybe I'll spend some time there. The progress and net interest income has been, I would say solid this year. As you know, we're expecting £13.6 billion, we upgraded it slightly as of Q3. And then we're expecting material net interest income growth over the course of 2026, and indeed beyond. Fundamentally, that rests upon two engines. One is net interest margin improvement, and then the second is volume growth, per your question. Net interest margin 3.06% as of Q3, we expect that to step up in Q4. We then expect it to materially step up again in the course of 2026. What's behind that? Three main points, as you know, structural hedge number one. For those that are less familiar with the concept, structural hedge is basically the means by which we invest the deposits and equity of the business, in the term rates market.

The structural hedge will yield about £5.4 billion this year. It's up about £1.2 billion over what it was last year. It will then grow by a further £1.5 billion next year. So in total delivering about £6.9 billion, at which point that £244 billion of deposits in equity is still going to be yielding below 3%. Now that's interesting because actually term rates that are similar to the weighted average life of that structural hedge are significantly above 3%, and that suggests that we should see meaningful growth, expect to see meaningful growth in structural hedge earnings, not just in '26, but actually in '27 and '28 and beyond as the structural hedge refinances into that term rate market. That's the structural hedge driver.

I haven't talked so much about deposit growth, which in turn could contribute to structural hedge volumes over the course of the look-forward period. We're not setting great store by massive volume growth in the context of deposits, but it would be realistic, I think, to expect some. And to the extent that we do, then that's obviously a positive from a structural hedge earnings point of view.

Still on the topic of margin, the two main headwinds, if you like, that we see as abating over the course of the next couple of years are also important contributors to strengthening of the margin. So the main tailwind there is structural hedge, but at the moment at least that is being impacted by two headwinds, one relating to deposits and one relating to mortgage refinancing. The deposits point is driven by deposits churn, meaning migration from things like instant access, things like PCA into fixed term rates. And then there is a further element of pricing lags, which in turn are caused by bank base rate reductions, which take a little bit of time to catch up in terms of our customer pricing. As base rates come down, there is less incentive to turn over deposits to put them into fixed rates, and likewise, by definition, there are fewer bank base rate reductions, and therefore that headwind stemming from deposits abates over the course of 2026 and beyond as bank base rates come down and normalise.

The second headwind that we've seen is the mortgage refinancing headwind, which is to say at the moment we are putting new mortgages on the balance sheet at about 70 basis points completion margins. The maturing mortgages that come off the balance sheet are at 90 basis points, and therefore a headwind there of about 20 basis points as that mortgage book turns over. And of course, as the mortgage book normalises that headwind too starts to go into abeyance, and as a result we see that second headwind effectively abating over the course of '26 and indeed beyond, which in turn means structural hedge really takes over. Tailwind of the structural hedge really takes over as the headwind of deposit churn and bank base rate changes allied to mortgage refinancings start to come off. And indeed on a net interest income basis, on the margin basis at least, Sheel, that represents a very material driver of margin enhancement for the bank.

Briefly on volumes. Lending up 4%, as I said earlier on, £18 billion year-to-date, which is a strong performance, we'll see continued growth in the course of Q4. Likewise, volumes in deposits up 3% year-to-date at £14 billion across Retail and Commercial. Again, a strong volume driver for net interest income composition. On a look-forward basis, I would've thought the balance sheet should grow at nominal GDP, number one, plus reflecting our strategic and market share ambitions, maybe a touch above that, which in turn to your point, Sheel, represents the market share gains we've been seeing recently and intend to capitalise upon going forward. Overall, that's a pretty good picture for net interest income growth.

Sheel Shah:

Yeah. Agreed. And other income for Lloyds is an area where it's been growing 8% to 10% annually for the last few years. This is against the backdrop of consumer confidence, business confidence being relatively low. So it's surprised against my expectations for you.

And it's quite diverse. You're looking to build a whole ecosystem for the customer in terms of the Retail, the Transport business, the Commercial side as well. Can you talk through some of the initiatives you're looking at within this business that's been driving that growth?

William Chalmers:

Sure. Yeah, yeah, absolutely. Sheel, I might just start by taking a step back, which is to say, "Why is this important to us?" It's important to us because Lloyds has historically been quite an interest rate-dependent bank, interest income-dependent bank, which in turn means that when interest rates are low, then the earnings profile, margins particularly, are somewhat subdued as a reflection of that. What we set out to do in 2022 is actually to diversify away from that. After 10 years of low interest rates, and as a result, somewhat subdued margins, we wanted to move away from the dependency on interest income and diversify the earning stream of the bank. Alongside of that, with a 28 million customer franchise, there's just a tremendous opportunity to make ourselves much more relevant to customers going forward. And indeed, that was also behind the other operating income diversification strategy of the bank. So that's the thinking, if you like, that lies behind much of the work that we've been doing in OOI.

Second point, we put forward significant investment into developing OOI propositions, and that'll come into the context of what I'm about to say. That is delivering so far, 9% growth in other operating income so far year-to-date this year. Likewise, if you compare Q3 of this year to Q3 of last year, similarly, 9% growth. That is a very similar pattern to what we saw over the course of '24, and indeed '23 before that. So this is not a flash in the pan. This is sustained other operating income growth that we're seeing off the back of the investments that we've made. As I said, investment-led, we expect to deliver growth of in excess of £1.5 billion incremental revenues off the back of our strategic investments. 50% of those are going to be OOI oriented.

Where are we seeing it particularly? Retail. Retail is up 13% year-to-date in OOI, driven by transport and PCA. Insurance, pensions, and investments is up 5% year-to-date, driven by workplace, number one, and general insurance proposition, number two, which by the way, is up 15% year-to-date post claims. Likewise, in our equity investments area, growth in Lloyds Development Capital, growth in Lloyds Living, our rental proposition.

We've seen some slower areas, to be clear, so for example, Commercial Banking has been a little bit sluggish for us this year off the back of a strong comparative in '24, number one, but also off the back of what for us has been relatively slow loan markets. But in a sense, that just demonstrates the strength of the proposition, because what it shows is that when one of the engines is a little bit sluggish, the other engines are more than capable of taking up slack and delivering in turn that 9% growth.

Couple of further points if I could, Sheel. What does this look like on a look-forward basis? We would expect that type of growth rate to be replicated during the course of the following year, and indeed during the course of Q4 for the remainder of this year. It should also be supplemented by the acquisition of Lloyds Wealth, which for those of you that have been watching, you have seen that we did just a few weeks ago. So you should see a little bit of enhancement off the back of the Lloyds Wealth acquisition, Q4 this year, and indeed going into 2026.

Specifically, one or two examples that I thought might be interesting to highlight in this context, we're developing something that we have given the term, ecosystems. So if you look at homes, for example, we have a concept called the Homes Hub. What these ecosystems are about, are about increasing customer familiarity to the proposition that we offer, increasing customer acquisition to the proposition that we offer, and off the back of that, developing a much more holistic customer relationship.

So Homes Hub, an example that I just mentioned. I might also mention the Mobility Hub in the context of transport. Specifically, what is it doing? In the context of Homes Hub, you're developing direct mortgage relationships, number one. Which by the way, are a much more efficient way of distributing mortgages than through the IFA network for us. But you're also doing, in the context of helping customers think about their general insurance needs, and likewise their protection needs. And off the back of that, early on in this strategy, we were at probably mid-single-digit penetration rates in terms of protection coming alongside a mortgage product. As we sit together today, that's more like 20%. So it's effectively quadrupled over the course of the last two or three years, and we think there's much further to go. Likewise, general insurance in the context of the mortgage offer similarly increases in penetration rates.

The transportation hub, or the the Mobility Hub within the transportation area is also an interesting example. We've got 23 million mobile app users. The Mobility Hub effectively opens up all of the transportation-related capabilities to those 23 million mobile app users. Specifically, what do I mean by that? It's the day-to-day stuff for sure, which is mundane, but we've all got to do it, which is things like parking fees, for example, or alternatively, for those that are unfortunate enough to incur them, paying your fines. You can do all that stuff through the Mobility Hub. But actually, more interestingly from the proposition point of view, it also opens up the customer relationship with general insurance. It also opens up the customer relationship with refinancing of automobiles. And so as a result, the Mobility Hub is a means, as said, of accessing, of enhancing understanding, of building the customer relationship in what is termed an ecosystem.

Final point here is that I've talked there about a couple of hubs, for want of a better word. It's much more than that. So if you look at the synergies across the divisions that we're trying to create right now, Tusker, which is a salary sacrifice car scheme that we bought a couple of years ago, one of Tusker's biggest distributors now is our CIB division. Likewise, workplace, same thing. Likewise, you will see a lot of integration looking forward between our wealth management and savings proposition. So across the business, we are trying to take what was previously a relatively silent proposition at Lloyds Banking Group into a much more integrated proposition at Lloyds Banking Group, and so far at least, enjoying some success in that spirit.

Sheel Shah:

Yep. You mentioned Tusker. Embark is another acquisition that you've undertaken. Curve more recently.

William Chalmers:

We haven't done that.

Sheel Shah:

Yeah, that's right. Recently announced, at least. Where do you think the group is underrepresented that could maybe be supplemented by inorganic growth? And maybe to attach onto that, Charlie spoke about the potential for international expansion. What sort of regions or product areas could you be looking at there?

William Chalmers:

Yeah, sure. The start point for me there is to say, as you are aware, Sheel, when we look at the markets that we operate in, we either have a very strong market position already. For those that are familiar with Lloyds, you'll know that we have, let's say, 20% to 25% market share in all of the key Retail markets, all of the major Retail markets. Or alternatively, those areas where we don't have such strong market share, we have pretty strong capabilities to grow it looking forward. Workplace might be an example of that. Likewise, the wealth proposition, in particular post the acquisition of Schroder's Personal Wealth, now Lloyds Wealth, as a further example of that. So we're pretty well-served. We're either well-served because of the market presence that we have, or we're well-served because of the capabilities that we have to grow that market presence. And I think that's the start point, which in turn dictates the outcome that our strategy is predominantly an organic strategy. That's how we get there.

Having said that, as you highlighted, Sheel, we've done one or two acquisitions. They've all been pretty modest in size, but they've either delivered us with capabilities that we didn't previously have, or enhanced capabilities, or alternatively, they've built scale. And so those are the two areas in which we would consider acquisitions. And when we do see them, we will subject them to some pretty rigorous tests, if you like. Which, my previous background, prior to Lloyds, was essentially in M&A, and therefore, much of my views on M&A are conditioned by that, if anything, at the harsher end of the spectrum.

So the tests that we'll subject M&A to are threefold. One is, does it deliver an outcome faster than our organic alternative? Two is, does it deliver an outcome that is within acceptable risk parameters, at least as good as our organic alternative? And three is, and most importantly, does it deliver an outcome that is value-added versus our organic alternative? And those are the three things that we will look for in the context of any given M&A. Not to say we won't do it, but to say that those three together represent a relatively high bar to which M&A is going to be subject.

Now, you asked about international in that context, Sheel. I think Charlie's comments around international were in the context of that AI digital seminar from a couple of weeks ago, where effectively he was saying, "Look, if we can build capabilities within digital and AI, why would we limit them to Lloyds Banking Group?"

Those are capabilities that could be relevant to a number of our peer group, potentially in Europe and possibly beyond. It's that type of forward-thinking. I don't think it's a commitment that is much more than that. It is important to say in this context that we are, and will remain, a UK-focused retail financial services group. No doubt about it. In that context, if we are able to deliver technology capabilities that have relevance to others, for sure we'll look at it, but it isn't our primary purpose. As you can tell from my comments, our primary purpose is to do more of what we're doing today right here.

The next stage of the strategy as we look forward really isn't going to change any of that, and anything that we do around the edges - for those that are not aware, we have a small Dutch mortgage business, for example, it delivers returns in excess of 20% ROE and 50% of the mortgage book is guaranteed by the government. The rest of it, in fact, the entire thing, has very low LTVs. So it's great returns on a low-risk business. It's been business that we've had for years, and we've just kept it on the balance sheet and we've allowed it to invest to take advantage of its competitive advantage, to exploit its competitive advantage. That doesn't change our overall profile. In this strategy, and in the next chapter of the strategy post-2026, we are going to remain a UK-focused financial services organisation, and I hope a highly successful one.

Sheel Shah:

Great. And if I focus in on wealth for a second in that you've got Lloyds Wealth, you've acquired the Schroders JV. The FCA has clearly opened up the advice gap. You've got a strong Retail franchise with the opportunity to cross-sell into that. When I'm thinking about growth going forward, is this going to be a more of a restricted advisor approach or would you consider an IFA approach similar to maybe St. James's Place that you previously owned many years ago?

William Chalmers:

Yeah. That seems like a long time ago, Sheel. A couple of thoughts maybe. First of all, I think it's important to say how pleased we are with the Schroders Personal Wealth, Lloyds Wealth acquisition. For us, that is a fantastic acquisition. Come back to it in just a second, but it gives us essentially 60,000 clients. It gives us £17 billion AUM. It gives us in excess of 300 advisors. That's the beginnings of a fantastic franchise. We want to build it, we want to scale it, but it has the seeds of a fantastic franchise. It allows us to take on and indeed build upon and accelerate what is for us a really important area of strategic focus, i.e. the wealth proposition. I mentioned earlier on the need to, the desire to, the strategic ambition to exploit the franchise that we have, to build on the franchise that we have. Wealth is a key part of it.

Specifically, I think it allows us to develop, and forgive the cliches, a seamless customer journey. Off the back of that, an integrated set of propositions alongside that should allow us to improve conversion of customers. These are really important facets to retain customers as they move from potentially savings products, cash savings products into wealth and investment products. We should be able to retain much more of that flow of the type of changes that I've just been highlighting.

I think alongside of that, pretty obviously you would expect to bring the benefits of the Group's scale and efficiencies to that wealth proposition to enable it to have a better cost base and indeed to ensure that customer pricing is at the sharp end of customer pricing as indeed it should be to ensure customer value.

How does it fit in terms of the wealth proposition? What we're trying to do is build a three-pronged approach. That three-pronged approach, first of all is direct to consumer, execution-only stuff. We're well underway with that, really attractive customer demographic, utilising that in a big way. We are actually re-platforming it right now in much the same way as we re-platformed the GI business, and it led to very successful outcomes and we're hopeful that we'll do exactly the same here, but this is a good business that is currently operating very effectively today. So that's plank one.

Plank two is the building of the digitally assisted capability, and of course there's various models of that operating around the world as we speak. We've got one, it's incipient, but it's being built upon. And then finally, the Schroders Personal Wealth acquisition, the Lloyds Wealth acquisition as it's now called, allows us to complement that with a fully owned, 100% owned face-to-face proposition as one of those three contiguous planks.

When we look at the opportunity here, Sheel, I think the important thing is to realise that it's multifaceted and the two most important opportunities that stand out. One is a 3 million mass affluent customer base that

we have that we can effectively point this at in, as I said before, a hopefully much more successful way off the back of those proposition enhancements that I highlighted. That's one big opportunity for sure.

But the second opportunity, which sometimes goes unnoticed, let's say, is the workplace proposition. We have about £120 billion or thereabouts in terms of workplace pension assets. Every year, somewhere between £5-£10 billion of those workplace pension assets effectively leak out of the system and they leak out of the system because the pensions come up from maturity. The customer then transfers those assets to a St. James's Place, to a Hargreaves Lansdown, whatever it is, and to date at least, our ability to counter that has been somewhat limited. With the wealth proposition that we're building off the back of the Lloyds Wealth acquisition, we have the ability to put in place a much more effective way of stopping that leak and retaining the customer relationship and indeed the associated value within the group, and that's exactly what we're going to be doing. So there's a second big opportunity there and as said, it sometimes goes unnoticed, but it's a material one and an important one.

Where does it take us to? Where it takes us to is an expectation of other operating income of around £200 million from this acquisition over the course of next year, that's about £175 million more than you would've previously seen. By the way, don't miss the costs. It's about £120 million of added costs in order to access that £200 million of OOI. So bear that in mind, and that's introduced because of the accounting changes over the previous structure.

And then the final point for geeks like me at least, which is interesting, is that this was all done at a zero capital cost. Because it was done in exchange for our stake in Cazenove, it was all done at a zero capital cost from the group's perspective, which of course is helpful in terms of capital generation and ultimately capital distribution. You asked about IFAs, Sheel, which I shan't look past, but the start point is what is most important from a customer point of view, what does it take to deliver a strong customer proposition? For that reason, we'll never say no in terms of considering these types of things, but I think it's safe to say that at the moment we are very focused on the integration and indeed the growth of Lloyds Wealth.

Sheel Shah:

Great. I'll open it up for any questions here.

Audience Question – Gigi Sparling:

Hi, it's Gigi Sparling from JP Morgan. Charlie has hinted a little bit about potentially a change in capital distribution next year with potentially not going to annual share buybacks. Could you comment on moving away from annual share buybacks? Can you comment on that please?

William Chalmers:

Sure. Yeah, I'm very happy to. Start point of course must be that the commitment to excess capital distribution is an absolute imperative from the board's perspective. I hope we've demonstrated that amply over the last several years actually. But it is an absolute commitment from the board's perspective. I think we're fortunate in a sense that the business is very capital generative, so it provides a good backdrop for fulfilling that commitment.

And so specifically, what do I mean by that? 145 basis points expected to be generated this year. If you put aside the £800 million motor provision, it's 175 basis points, and looking forward, a material step up into '26 of an excess of 200 basis points capital generation, so a really quite strongly capital generative business, both today and also on a look forward basis. We've lent testimony to that by increasing the dividends successively over recent years, 15% increase in the HY. That's a pretty good indicator as to where we're going to go at the full year. I say all of this because it is, as I say, it's the backbone of and lends testimony to that board commitment around distribution of excess capital.

You mentioned buybacks there. Couple of points maybe to make. One is we've seen some very strong and consistent buybacks within the group. If you look at buybacks over the course of the last four years, 2025 included, we have now brought back in excess of 18% of the stock of the banking group. That's pretty significant. And indeed, the commitment to do more is absolutely there.

When we looked at the CET1 ratio, and this informs the way in which we look at buybacks, we've committed to a 13% target CET1 ratio to be delivered in 2026. 2025 will be a staging post on that journey. During that

time, as we move towards that 13% CET1 ratio, we have thought it appropriate just to do one buyback a year, and it is to an extent at least linked to the gradual achievement of that 13% CET1 ratio. But the reality is that the board looks at the regularity of buybacks at the end of every year, and indeed it will do so again at the end of 2025 for sure. When it does so, I'm sure it'll look at it in the context of, well, if we were to move from let's say one to two, it would allow us to operate closer to our target CET1 ratios. It'll allow us to distribute capital faster to our shareholders.

At the same time, it does come at a bit of a cost. That is to say it reduces operating flexibility for the business either to deal with exigencies, let's say, or alternatively seizing opportunities. I think those need to be taken into account, but I think there is clear recognition and an understanding, if you like, of the benefits of the buyback policy as a whole, but also the regularity of that buyback policy being potentially a step up from where we are today. Hopefully that answers the question around the buyback. We'll look at it at the end of the year. We recognise that there are some gains to be had from thinking about the, forgive the term, cadence of that buyback.

One more point maybe to make is around the dividend policy. I mentioned that it had been stepped up by 15% as of the HY, pretty good indicator of where we'll go as of the full year. What do we think about that looking forward? As you know, we're very committed to a sustainable and progressive dividend policy. When we look at the dividend payout ratio, as if you like a function of that dividend policy, it is, as you'll have seen, at pretty low levels. That is in the context of a group which expects its earnings and indeed capital generation to materially step up in 2026. That in turn means that there is plenty of room to ensure material and healthy and meaningful dividend growth in the years going forward. We've talked a lot about buybacks or I've talked a lot about buybacks in responding to your question. I just don't want to miss the point that dividend is also an important part of our capital distribution strategy and a materially growing one, with the capacity to do so, not just in '25, but also importantly in the years ahead.

Sheel Shah:

Great. Any other questions? We've got time for a quick one. No, otherwise, thank you for your time, William.

William Chalmers:

It's my pleasure.

Sheel Shah:

The outlook for growth of the group looks strong and let's hope the valuations can reflect that going forward.

William Chalmers:

Hope so. Thanks very much indeed.

FORWARD-LOOKING STATEMENTS

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