

## **BARCLAYS GLOBAL FINANCIALS SERVICES CONFERENCE WITH WILLIAM CHALMERS – PRESENTATION TRANSCRIPT** (amended in places to improve readability only)

**Monday 8 September 2025 – 2.00pm**

**William Chalmers**, Chief Financial Officer, Lloyds Banking Group

**Aman Rakkar**, Director, Banks Equity Research, Barclays (Moderator)

**Aman Rakkar:**

Just first, we want to say thank you, everyone, for attending. Welcome to the European Track of the Barclays Global Financial Services Conference, delighted to have you here.

Obviously, delighted to start today with Lloyds Banking Group. William Chalmers, Group CFO, doesn't really need an introduction, so, I'm not going to waste any time there, so, without further ado, we'll kind of kick off.

First of all, thank you very much for your time, William. Appreciate you making your way over here. I thought we'd start big-picture; so, UK macro, deregulation. The UK growth backdrop has been sluggish. There are challenges around managing a widening fiscal deficit. But then you've also got a Government that has announced a kind of intention to deregulate and make the operating environment better for financial services. You saw the Mansion House speech in July, the Leeds Reforms package aimed at reducing the kind of regulatory burden on financial services firms. Given your unique vantage point in the UK, I was interested in your assessment of the operating environment.

**William Chalmers:**

Well, Aman, first of all, thank you very much for inviting us here. It's great to be here. I can't help but think the absence of an introduction is somehow related to my age and being a bit long in the tooth. But nonetheless, I'm younger than I look.

Two or three points that maybe are worth making as a kick off, Aman, to your question. First of all, in reference to the macro, the UK macro is pretty uninspiring, let's face it. But having said that, it is not unsupportive. So, when we look at the macro indicators on a look-forward basis, we've got GDP growth of about 1% this year and next. We've got HPI growth of about 2.5% plus – 2.6%, I think it is. We've got unemployment that remains pretty low, peaking at 5%, a touch below that, right now. And then we've got base rates right now at 4%, and our terminal rate is about 3.5%.

So, that is an environment where, to be sure, we'd like to see more growth. But having said that, that is an environment which is pretty stable, and it is conducive to revenue growth, number one, and asset quality stability, number two, both of which are pretty good ingredients for the performance of the business.

As you say, Aman, the Government's got an important growth agenda ahead of it. And when it looks to what it's trying to achieve in that respect, it looks to certain sectors, of which we're a part. That is to say, financial services is one of them. Likewise, it has housing, it has transition, it has transport, and we'd like to lean into all of those sectors. We think we can play a key role in terms of helping the Government achieve its growth objectives.

The Leeds Reforms are part and parcel of that. That is to say, a set of reforms or proposed reforms put out by the Government earlier on this year, we think overall could be really helpful. We look upon them favorably, both because of the substance that is within them, but also because of the tone and the direction that it sets.

So, you look at the conduct agenda, for example, and there is a clear determination there to make the FOS realign much more predictably; the FOS being the Financial Ombudsman Scheme, which is a source of, if you like, customer complaints. So, to make that a more predictable body, going forward, to realign that agenda, and at the same time to put a backstop on how far back you can go with complaints in respect of conduct.

Those two ingredients are absolutely key to making the agenda much more predictable, much more stable, going forward.

Likewise, in the prudential side, the Chancellor charged the authorities with an FPC, Financial Policy Committee, review of the capital structure within the UK. Alongside of that, we're having a ring-fencing review. These are overall pretty positive developments, and we see them constructively.

So, when you add it together, overall, I think, more can be done, for sure. This, in and of itself, is not sufficient to necessarily produce the growth that the government would like to see. But having said that, it is progress. So, it is progress in the context of what is a pretty stable operating environment.

**Aman Rakkar:**

Cool. Before I switch to the next, I just wanted to alert you to the handsets that you've got on your desks. So, we're going to be asking some questions at points during this. We'd love to get your participation. Also, there will be time at the end of the session if you want to ask any questions directly to William, just to let you know.

So, let's talk about specific issues that affect Lloyds, motor finance. The UK Supreme Court ruled last month. You came out and released a statement saying that, any uncertainties notwithstanding, the existing provision at £1.15 billion you thought kind of substantially covered the issue. Additional provisions wouldn't be material from here, was your best guess.

I guess I'm interested in, first of all, what gives you the confidence to make that statement in the first place? And how do you think about that in the context of the FCA redress scheme? The FCA indicated a kind of £9 billion to £18 billion system-level charge, please.

**William Chalmers:**

Thank you, Aman. It's an important question, clearly. The first thing I guess I should say is that we welcomed the approach of the Supreme Court. We welcomed it in the sense that it brought an expedited judgment, number one. And we welcomed it in terms of the substance of that judgment, number two.

Now, what the Supreme Court did with this judgment is to eliminate some significant risks from the potential outcomes here. So, it took a fiduciary duty question off the table. It took a disinterested duty question off the table. These duties are not owed to customers in the context of the motor dealer relationship with their customer. And that, of course, is a good thing because, as you know, our provision is probability-weighted, and the elimination of certain outlying outcomes allows us to narrow the expectation around what that provision might need to be.

Now, to be clear, the FCA consultation process is still to come on the table. We expect early October as the timetable for that. And of course, there are component parts of the FCA consultation process that could drive that provision up or could drive that provision down, for sure. But when we look at our probability-weighted analysis, we can't really see those outcomes leading to a conclusion which is material in the context of the Group. Of course, that sets off a discussion about what is material in the context of the Group, and I recognize that. But nonetheless, it is a significantly narrower range of outcomes than we had previously seen or expected or built into our probability-weighted analysis.

So, overall, I think that is a good outcome. Meaning, in turn, that our provision of £1.15 billion stays where it is.

Now, the FCA range, £9 billion to £18 billion, it's not really for us to comment on. I thought this was a consultation. It would seem more appropriate for ranges to come at the back end of a consultation rather than at the beginning, but there we are.

But when we do our analysis, there are other data points in the FCA statement that we found basically reassuring. The £950 per customer, for example, is a pretty reassuring number when we look at it.

So, that's the way in which we see the range, with the one additional point that the simple analysis here is not always the right analysis, Aman. So, what do I mean by that? To simply apply a 15% market share to that FCA range doesn't, in our view at least, get you to necessarily the right outcome. One is where does the range come from, that's up to the FCA to comment on really, not me. But two, is our 15% market share really only was 15% post about 2015. So, there's kind of an evolution there, number one. And then, number two, every book has its kind of idiosyncrasies and particular characteristics. Our book is no exception to that.

And off the back of that, Aman, the provision stays where it is at £1.15 billion, again on a probability-weighted basis, and we'll update as appropriate.

**Aman Rakkar:**

Thank you very much for that. So, let's move to the ARS questions, please. Could we start with the first question?

Sorry, I can't actually see it on this screen here. I'm going to read it out. "What would cause you to become more positive on Lloyds' shares: (1) better NII; (2) stronger fees; (3) better cost control; (4) better asset quality; (5) capital return; (6) clarity around motor finance redress?" Please take part with your handsets. Can you show the results on this screen? Because I can't see it on here.

Okay, cool, so, in terms of responses, we've got a third "better NII," a third "fees," and a third – actually, 20% – "greater capital return."

Okay. Can we move to the second question, please? "What are you most concerned about at Lloyds: (1) weaker earnings; (2) weaker capital; (3) lower distributions; (4) regulatory legal risk; (5) political risk; (6) M&A risk?"

**William Chalmers:**

What's the one that comes out there, Aman?

**Aman Rakkar:**

So, two-thirds of respondents have said "political risk."

**William Chalmers:**

"Political risk"?

**Aman Rakkar:**

"Political risk."

**William Chalmers:**

Okay. Well, that goes back to our first question, I guess, doesn't it?

**Aman Rakkar:**

I mean, there's obviously been relentless focus on bank taxes this week. It's difficult for the industry to comment, I guess.

**William Chalmers:**

It is. I mean, I think the reality of it is that the Government's fiscal position is a little bit constrained, as we all know. I think actually more is being made out of it than it might otherwise be, simply because it's not entirely clear whether the Government has control of the narrative, if you like, control of the agenda.

Actually, we don't think it necessarily changes much for that narrative to be regained by the Government. It would be somewhat surprising if the Government relies solely upon tax measures in the context of trying to solve that fiscal situation. And if it doesn't, and if there's just a little bit of light in terms of spending policies, in turn, I suspect that it could get hold of the narrative relatively quickly again, and that puts us all into a better place.

I think then that narrative has been exacerbated by volatility at the long end of the curve (i.e., the 30-year gilt, for example). But let's be clear: (a), the Government doesn't really rely upon that 30-year gilt price very much, number one; and (b), neither do we. So, this is more about what's going on in respect of an index which doesn't actually necessarily make a huge deal of difference to the overall performance of our business and, I suspect, the Government, too.

So, the uncertainty is what it is, Aman. I just think that there are sometimes headlines attached to it which betray the underlying reality of the situation. And certainly, when we look at our business, we're not seeing the difference.

**Aman Rakkar:**

Okay. Let's talk about revenue. Your guidance and targets imply strong step-up of revenues from here and into '26. Can you talk to the major drivers of revenue growth from here?

**William Chalmers:**

For sure, and it came up a little bit on your first question.

**Aman Rakkar:**

Yes, exactly.

**William Chalmers:**

When we look at the overall revenue expectations of the business, we do expect a strong step-up in terms of revenues on a look-forward basis. We expect it to be driven by both NII, number one, and other operating income – or fee income, if you like – number two.

Where do we see the NII strength from? Two factors, really. One is, of course, volume growth, and volume growth on both the asset and the liability side will lead to improvements – growth, that is – in net interest income, as a function of BAU, for sure, but also as a function of the benefits, if you like, of our strategic investment program, which Charlie and I launched in 2022.

The second important point, though, on NII are the kind of mechanics in terms of the balance sheet earnings which lead to NII growth. And in particular, the three familiar kind of tectonic plates, if you like, remain very much at play this year and indeed next and indeed beyond that.

So, the recharging, if you like, of the structural hedge as the structural hedge refinances into current rates. It's currently earning 2.2% on £244 billion of deposits. As I think everybody in this room will know, the rate that we're refinancing at is closer to 4%.

Likewise, the mortgage headwind, which in turn is a reflection of the fact that we managed to write some pretty attractive mortgages in the past, has constituted a drag on growth, but that will ebb, that will flow away, and we expect it to be pretty much eliminated by '26.

And then, finally, deposits. Deposits have been the subject of migration since the rate cycle started. Likewise, bank base rate changes act as a drag upon deposit revenues. But most of the bank base rate changes and most of the migration is expected to play itself out by the time we get to the back end of '26.

And so, that combination of, if you like, balance sheet earnings leading to NII growth are effectively unwinds within the balance sheet and, therefore, as we see it, highly predictable. And so, the NII growth we feel very comfortable with on a look-forward basis, not just, by the way, in '25 and '26, but indeed beyond that.

The second point, OOI. OOI is an important part of the growth story. We can talk about why strategically it's important in terms of reducing reliance upon net interest income, but we've seen some decent OOI growth in the course of this year. So far, it's up about 9% year on year as of H1, and we'd expect that to continue to grow in future periods. Again, BAU, business as usual, driving it, for sure. But at the same time also, some of the benefits of the strategic investments that we've been making.

So, Aman, in the context of your question, revenue growth is very much a feature of the story. And indeed, going a little further than that, two aspects. One is it goes well beyond '26. And two is it should lead to very positive operating jaws within the business, which, in turn, help us deliver the operating leverage that we want to deliver and expect to deliver to meet our financial ambitions.

**Aman Rakkar:**

So, one of the revenue drivers you talk to, the structural hedge, you're pointing to increasing confidence in the outlook for the structural hedge. That was a feature of the results call at Q2. A two-part question. How long do you expect the structural hedge to be a tailwind for, is the first question? And is there a risk that the benefit gets eroded over time? I think people think about competition, particularly in a highly consolidated UK banking center. Is that a potential outcome?

**William Chalmers:**

Well, maybe just take each of those parts of the question there, Aman. I think, first of all, "yes, absolutely," is the short answer. We have strong – a very high level of confidence in the structural hedge growth as for '25, as for '26, and indeed, as for the years beyond that.

There's a lot of talk about structural hedge, clearly. It's worth just taking a moment to step back and say, what is it? Because it is relatively simple. I mean, effectively, what we're doing is locking in our deposits to essentially fixed-coupon assets with a weighted-average life of about three and a half years. It's really as simple as that.

And why are we doing it? It's because it's around earnings stability. We want to be able to predict the earnings of this business and, indeed, the capital repatriation off the back of those earnings for several years to come. And that's one of the things that the structural hedge allows us to do. It's an important component of why we do the structural hedge.

What it also means, though, is that it takes time for a rate adjustment, a rate rise, to play itself through the balance sheet earnings of the business. So, at the moment, as I said, we have £244 billion of deposits on the balance sheet, earning 2.2%, markedly below where market rates are. And as we refinance those into market rates of more like 3.7%, 3.8%, 3.9%, depending on where the market is at any given moment, that produces a significant uplift in earnings that we've talked about.

In 2024, we earned £4.2 billion on the structural hedge. In 2025, that will increase by about £1.2 billion. In 2026, it will increase by a further £1.5 billion. And you can probably do the maths in your head, but that means that in '26, we're earning £6.9 billion on £244 billion of deposits, assuming that deposits remain flat. We hope they don't. We hope they grow, per my earlier comments.

But what it also means is that that sum produces a yield on the structural hedge which is still below 3% (i.e., still markedly below where market rates are). So, if you believe market rates, it should mean that we have a further hedge tailwind into '27, '28, and beyond. Now, we haven't given full disclosure on that, but you can obviously figure it out in terms of the overall quantum that we're looking for.

Why are we so confident in this? Essentially, about 85%-plus of the '26 hedge earnings are now locked in. And with every day that passes, if you like, more of that is getting locked in. And that's a function of two things really. First and foremost, just the simple rollover of the hedge. Because of the weighted-average life of three and a half years, we're effectively refinancing, let's say, one-seventh of it every given year. And then we'll also manage it to ensure that we don't have undue concentrations in the context of the hedge profile.

So, that allows us to say pretty much done for this year, 85%-plus locked in for '26, and progressively locked in, in the years thereafter, albeit it gets less so because of that refinancing roll that I just mentioned.

Aman, you mentioned competitive pressure, which is a really important part of the equation. Competitive pressure? For sure. Competitive markets? For sure. I mean, in a way at least, we welcome that. There is a sense in which we want to prove ourselves out in the market, and indeed that's what we hope to do.

But it is important not to get too carried away with the extent to which it will actually impact on or dissipate the benefits of the hedge and other factors within the P&L and balance sheet in the business. Why do I say that? Three or four factors really.

One is all of the major banks now have profitability targets out there. So, everybody is, if you like, operating to expected profitability parameters, which indeed should make a difference to rational pricing in what remains a relatively concentrated market.

Two, some of the, if you like – not new entrants, but some of the people who are more price-setters in the market don't necessarily have structural hedges of any size at all. That is to say, one of the biggest players in the mortgage market has a structural hedge, we think, of about £65 billion, £75 billion, somewhere in that zone. That is considerably smaller than us. And what it means is that when bank base rates come down, there is going to be more pressure on that revenue picture. And in turn, that's less ammunition to play with in the context of introducing competition into the market.

So, not everybody has a structural hedge, and certainly not everybody has a structural hedge of the size and composition that we do and the other major incumbents do. Therefore, one less competitive pressure, in one sense, to worry about as bank base rates adjust.

Third, different durations. Everybody's got a hedge of different durations. We've probably got one of the longer hedges. It's important not to make too much out of this issue, but it does mean that revenues are entering the P&L at different speeds, at different times. And therefore, the competitive implications of that are a bit more complex than one might at first think.

And then, finally, look at the whole picture. That is to say, we've seen the effects of competitive markets already on the asset side, for example. The mortgage margin is about 70 basis points. It's not bad. We can write a mortgage at about cost of capital off the back of that. But that's an example of a relatively competitive situation in the market already.

And so, to an extent at least, these forces are coming to bear on the market. It's not a question of waiting for them. So, when we look at the overall structural hedge contribution, we expect it to grow. And in short, Aman, we wouldn't expect it all to be eked out through competitive pressures.

**Aman Rakkar:**

That's great. I just want to ask the floor if anyone wants to ask any questions. If you do, feel free to put your hand up. We've got microphones that can be run around the room.

If not, then what we'll do is, if we can switch to the second set of ARS questions, please, we'll do those now. Okay. Number three. "How do you expect Lloyds' RoTE to develop over the next couple of years – so, '27 relative to '25, say: (1) significantly higher; (2) modestly higher; (3) in line; (4) modestly lower; (5) significantly lower?"

**William Chalmers:**

I have to say, Aman, I find this a relatively easy one to answer, but I don't want to lead the audience.

**Aman Rakkar:**

It depends whether people follow your guidance, basically. So, you'll be pleased to know almost 70% of the people said – well, actually, "modestly higher." So, I mean, I think the answer is "significantly higher."

**William Chalmers:**

For sure. I mean, of course, there are always definitions, I suppose, Aman, that one can quibble about. But if it isn't meaningfully higher, I'd be very surprised and very disappointed.

**Aman Rakkar:**

I think you guys should read our research.

So, if we can go to Question 4? "So, how do you see the potential risk to Lloyds' capital and dividends: (1) upside risk on better earnings; (2) upside risk on lower capital requirements; (3) downside risks on lower earnings; (4) downside risks on higher capital requirements; (5) downside risk on acquisitions?"

Okay. There's 60% of the people who said "upside risk on better earnings." I don't know if that's an opportunity to talk about distributions. I mean, we can go back to the kind of business drivers in a minute. But I mean, it's part of the upside case that I think I can observe in Lloyds from here from an investment point of view. The combination of strong organic capital generation. You've indicated falling capital requirements. It looks like you are on course to generate pretty significant amounts of surplus capital in the coming years. Face value points to potential for pretty significant distributions, which I think are potentially significantly ahead of consensus estimates.

I'm just interested in how you see the potential uses of excess capital from here, and particularly in the context of motor finance.

**William Chalmers:**

It's a fair question. I mean, first of all, maybe just to deal with that tail-end point first, the motor finance. Again, we're very happy with the probability-weighted provision that we put in place, £1.15 billion. Absent a sea change in what we see going forward, that's unlikely to change, at least unlikely to change in a material context. So, that issue, I think, can be dealt with relatively easily.

When we look at the capital generation, going forward, Aman, as you say, we're seeing – we're expecting 175 basis points, circa 175 basis points in respect to '25. We then grow to in excess of 200 basis points in respect to '26. And that won't be a flash in a pan. That should be a sustainable pattern, going forward.

Where is that earnings generation coming from and why do we feel comfortable about it? It is principally coming from the points that I mentioned earlier on. That is to say, it is coming from the earnings strength of the business, driven by the two or three revenue drivers, combined with decent cost performance, decent cost discipline. That is what gives us the comfort.

That is also combined, in terms of the levers under our control, with strong and continued capital optimization. And what do I mean by that? What it means is that as we add business onto the balance sheet, that in turn is done in a capital-efficient way. So, the two levers that are under our control are strengthen the P&L contribution, but also done in a capital-efficient way. And capital optimization has been a big part of our story.

It comes in the context of what we think is a more stable regulatory regime, per the discussion that we had in respect to the first question, Aman. So, again, the regulatory picture from a prudential point of view, the regulatory picture from a conduct point of view, we see that as much more stable and reliable and predictable, going forward. And so, that capital, if you like, gets brought to the bottom line. It becomes distributable, as opposed to being blocked by regulatory actions in between.

When we look at the overall picture, the capital generation is also augmented for the next two years, at least, by us bringing the CET1 down to 13%, which is our Group target. We'll get to a kind of halfway house in that respect as of the end of '25, and then we'll get to 13% by the end of '26. But that's the picture, which then supplements the kind of organic earnings generation for at least the next couple of years.

Added to that, when we look forward – to answer your question, Aman, what do we do with that money? – I guess three or four points that I would make. First of all, we want to make sure that we invest properly in the business, and that investment is both an operational investment (i.e., enhancing the capabilities of the business) as well as building the asset base of the business and the TNAV build that we expect to go with that.

But of course, our 175 and our greater-than-200 basis points is after those have been financed. So, this is really free cash flow that we're talking about. What do we do with that? First of all, a progressive and sustainable dividend is a really important part of our story. We've upped the dividend by 15% in '23 and '24 and so far this year. You'll be aware that our payout ratio remains really quite low and lower than we would expect it to be on a kind of equilibrium basis. And therefore, there's a lot of healthy space, if you like, for continued decent growth in the dividend.

Alongside of that, the buyback is really important: £1.7 billion over the course of this year. That was partly driven by the motor provision that we took. But in the context of the valuation as we see it, we think there is a lot of value to go after, number one, and our investors value and like the buyback, number two. And so, with that combination, we remain very committed to the buyback.

A final point, much-talked-about M&A. As you know, it's probably been a lesser feature of our overall dialogue. Having said that, we're not closed-minded. I mean, if stuff comes along, that delivers a strategic objective in a way that is faster, that is an acceptable risk, and most importantly, offers greater value than its organic alternative, we'll take a look at it, for sure. But having said that, ideas that kind of meet that threshold, that tick all three of those boxes, we would expect to be pretty few and far between, Aman.

**Audience Member:**

Can you just talk about the press story today about Curve or maybe just generally fintechs? I mean, £120 million is not material, but it's £120 million that I don't get. So, maybe, just like, I doubt that's going to be ROE-accretive. So, maybe it's something you were missing? Or maybe you could just talk about that.

**William Chalmers:**

Absolutely, maybe I shouldn't be surprised that question came up, in some respects. First of all, I shouldn't really comment on situations that are just speculated on in the press. So, I'm not going to comment on the direct issue.

But I would say that one of the things that we want to do in the context of M&A is to enhance our capabilities. What does that mean? You've seen us do it in one or two other places. So, we bought Embark a couple of years ago or so. Embark is essentially a platform for helping us deliver our investment strategy to our customer base.

Two, a second example of that is in respect of the Tusker business in autos, where we effectively bought a salary sacrifice scheme that has been enormously successful in terms of building not just the extent but also the profitability of our overall transportation business.

So, where we see a capability out there that, again, matches or, rather, ticks the speed, risk, value boxes, then we are interested in going after it.

Because of our scale, we are able to acquire a capability and plug it in to c.28 million customers and, off the back of that, get really strong leverage and strong financial performance off the back of it. But again, it has to tick each of those three boxes. And only when it does that and only when we've satisfied ourselves, if you like, that all three are clearly ticked, will we go forward with anything.

But that's the type of thing that – rather, it's the type of way in which we assess these opportunities. And again, we won't shy away from it, but we will ask it to meet some pretty high hurdles.

**Aman Rakkar:**

Thanks. So, I wanted to actually return to kind of key business drivers. Mortgages is obviously an important business line for you. It also feels like quite an important moment for the business. Because I think you're on course to end or exit a multiyear headwind, this kind of asset churn that's weighed on the margin for a number of years, which has also coincided with Lloyds ceding quite a lot of market share over the last 10 years. Interested, what do you think this means, this kind of ending of this mortgage headwind? And is it right to think about Lloyds potentially regaining market share from here?

**William Chalmers:**

It's a good question. Maybe I'll just kick off briefly with the share point. I'll come back to it again subsequently. But on the share point, it's just important to bear in mind that the adjustment, if you like, between share was really a function of kind of 2010 to, let's say, 2022, when Charlie and I re-instigated the strategy.

So, the share in the last quarter, the last half, has been just over 19%. That's pretty much the share that we'd expect to aim for. The giving-up of share, the ceding of share, was really a function of the kind of era before that, if you like; say 2010 to 2022, for the sake of argument. But I'll come back to that in a second.

First of all, the headwind. The headwind, in many respects at least, is a sign of volume strength at attractive prices in previous periods. That is to say, we went out there, particularly during the early parts of the COVID era when we saw margins really being quite wide, we saw other providers struggling to meet demand in the market, and we thought, what a great opportunity. So, although the headwind has constituted a drag on growth, for sure, it is not a drag on growth that has been unwelcome. Because as I said, it's a sign of strength in the franchise. And those are good earnings that are valuable.

So, that's the genesis of the headwind. And as I say, it needs to be put in that context. But of course, to your point, Aman, it has constituted a drag on growth in this period since then. And it is a drag that basically works its way through during the course of 2026. The second half of 2026, we expect the front book and the back book margins to be basically the same.

What does that mean? It means that the book right now is yielding about 90 basis points. We're writing business at about 70 basis points. It's that that gets ironed out over the course of the next 12 months or so.



I mentioned share performance earlier on; so, just a shade over 19% in the course of the last quarter or two. That is roughly in line with where we'd expect things to be. We might nudge it up a bit. It might at any given period go down a bit off the back of the value/volume trade-offs.

But a word or two on kind of how we manage that overall performance in the context of a competitive market. First of all, segments. We're very focused on building into certain attractive risk-reward segments. First-time buyers historically has been an example of that. It's not the only one, but it's an example.

The second is direct. We have been trying to make sure that we sell – for want of a better word – far more mortgages direct to our customers, as opposed to going through the intermediary channel. A couple of – well, one statistic and one example of that. Our Lloyds mass affluent account, which has been one of our recent launches, provides a discount on a Lloyds-branded mortgage, an example of how we incentivize direct sales.

What's the evidence that it's succeeding? We've got, of our mortgage sales, about 24% coming direct. The market average for that same channel, if you like, is more like 14%. So, we think we're making a meaningful difference in the context of our direct sales, and the reason we're doing it of course is because it is a more profitable way to deliver a mortgage product.

And then the third point on mortgage strategy, again managing the kind of volume/value trade-off, is around ancillary focus. So, what I mean by that is that we have focused on, we have tried to deliver a complete customer relationship in the context of a mortgage sale. The best evidence of that is the protection product, where we are now – again, forgive the term – selling protection products (i.e., long-term life insurance) in the context of about 20% of our mortgage sales. That is at times four what it was just a couple of years ago. So, a meaningful ramp-up, if you like, in the combined customer relationship approach that we have in the context of a mortgage sale.

And these three things – whether it is direct focus, whether it's ancillary focus, whether it's segment focus – are what help us manage the risk-reward relationship in a relatively competitive market and deliver share that we would aspire to as a Group.

**Aman Rakkar:**

Great, okay, if we could do the final two ARS questions, please?

Okay. I think we've addressed this. "How would you view significant acquisitions for the Group: (1) very positive, given potentially high return on investment; (2) marginally positive; (3) marginally negative; (4) very negative; (5) prefer the capital to be returned to shareholders?"

**William Chalmers:**

This is almost like a straw poll on the strength of the answer that I gave to the question just a second ago.

**Aman Rakkar:**

Exactly, we should have done it in the other round.

Okay. 50% of people would like the capital back; 26% of the people, "marginally positive."

I think we can go to Question 6, please. Interesting. "How concerned is the room by the risk of UK bank taxes: (1) highly concerned, given earnings risk; (2) modestly concerned; (3) not concerned at all?"

Okay, that is actually quite a broad spread. So, half the room are moderately concerned, a quarter of the room very concerned, and a quarter are not concerned at all. So, I don't really know what to do with that.

We've probably got enough time for anyone to ask a question, if you want. This will be the last time I kind of offer it up to the room, but please feel free to. Yes, we've got a question there.

**Audience Member:**

So, we saw the IPPR report come out a week or two ago, and it seems like there are probably some issues with their proposal.

But do you have any concerns that we might see some sort of tiering or something similar to what we saw with ECB with remuneration of reserves? Because that could have a bigger impact – it fills a bigger hole for the Government.

**William Chalmers:**

Sure. It's a fair question. I mean, first of all, in the context of taxes as a whole and the speculation around that, as I said earlier on, the Government's fiscal position is more tricky now than it was, let's say, 12 months ago. And so, naturally enough, you see some speculation off the back of that.

To be clear, we have not been privy to or had to respond to anything more direct than that. That is to say, there's nothing in our dialogues that would suggest that bank taxes are on their way, in any sense. So, the speculation is just that, if you like: speculation.

It is also to be put in the context, I think, of the Government sponsorship of financial services as a growth sector. I mean, if you look at the Leeds Reforms, something that I referred to a second ago, the promotion of the UK as a financial services sector is a very big part of that. That is not totally consistent, if you like, with increasing the overall tax burden on the sector, particularly not in the context of the sector already being one of the more heavily taxed financial centers in the world. So, one needs to just kind of think about the consistency of some of these messages: the speculation, with the determination of the Government. But let's see.

The reserves remuneration point is interesting, as you say. We've seen evidence of it in Switzerland. We've seen evidence of it in the EU. And so, there's kind of examples out there.

But having said that, a couple of points. One is there's been a pretty clear steer from the Chancellor and, indeed, the Governor of the Bank of England that reserve remuneration is not part of their plans. Indeed, I would say it more strongly than that, particularly in the context of the monetary authority (i.e., the Bank of England). They pretty clearly pushed back on reserve remuneration as a potential tool, if you like, to manage the banking sector with and kind of kicked it over to the politicians.

Our expectation would be that if there is reserve remuneration put into place, then there would be, obviously, if you like, bank asset allocation effects off the back of that, which would do a couple of things. I mean, one is it would lead to a little bit of disruption in terms of the transmission mechanism of monetary policy, possibly the pricing of various forms of liquid assets. While it might not be possible to get that out of the system as a whole, nonetheless, that reallocation would be disruptive. And right now it's hard to see how the Government, particularly the Bank of England, would necessarily want to see more disruption in the monetary markets than it's already got. So, let's see.

The second point is, in the context of declining base rates, the actual fiscal gain from that type of initiative is only going to decrease. And that, in turn, makes you wonder about the wisdom of the policy and, therefore, whether or not it would be adopted by the politicians. I think that's probably where we have to stop, in the sense that we don't know where the politicians go, clearly, and it's always open to speculation. But the wisdom of the policy in the context of, if you like, money markets, the wisdom of the policy in terms of remedying the fiscal position is certainly open to question. So, we'll see.

**Aman Rakkar:**

Okay. Excellent. I think we're just about out of time. So, I thank everyone in the room. Thank you, William, for your time. We really appreciate it. We'll bring the session to a close. Thank you.

## 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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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](http://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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