GOLDMAN SACHS EUROPEAN FINANCIALS CONFERENCE WITH WILLIAM CHALMERS – PRESENTATION TRANSCRIPT (amended in places to improve readability only)

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William Chalmers, Chief Financial Officer, Lloyds Banking Group
Ben Caven-Roberts, UK & European Banks Research, Goldman Sachs (Moderator)

Ben Caven-Roberts
It's a great pleasure to have you here with us, William Chalmers, Chief Financial Officer of Lloyds Banking Group, a role you've held now since 2019, prior to which William held various roles in financial services, including Co-Head of the Global Financial Institutions Group at Morgan Stanley. So thank you very much for being here.

William Chalmers
Thank you for inviting me, Ben, to this magnificent setting here in Zurich.

Ben Caven-Roberts
Very good, well let's start. What's top of mind for the UK, thinking about macro? How do you see that situation currently evolving? How much change are you observing in client behaviour sentiment as clients are looking ahead? Is any of that really moving at the moment?

William Chalmers
You know, UK macro is obviously much talked about, Ben, but I think at a relatively high level, despite the news flow, it's a picture of stability really. And what I mean by that is that as you know, at Q1, we took a couple of revisions for our macro outlook.

Off the back of the Middle East crisis, we thought that inflation would stick around for longer, be a bit higher than we'd originally anticipated. And off the back of that we took rate cuts out of our forecasts and so now we expect none during the course of '26. That tempers GDP growth a little bit. We took it down to about 0.5% positive during the year. And then unemployment we took up to a peak of about 5.6% and that all tempers again HPI growth during the year, about 70 basis points or thereabouts. Those changes are adverse versus where we started out the year, but to be clear, they're also positive and it is also stable. And so that's the backdrop I think that really counts. When we sit here today with respect to Q2, our view is really very similar. It's very similar outlook in Q2 today to what it was that we saw at the end of Q1.

So you asked about client behaviours in that context, Ben, overall, I'd say client behaviours are pretty constructive. You saw our lending book grew at about £5.1 billion over the course of Q1. In fact, if you strip out central hedges, it was about £6.3 billion over the course of Q1. And that was spread over retail about £3.5 billion and commercial about £2.8 billion. So growth in all areas of the lending book despite as said a slightly subdued but still positive macro backdrop.

I think when we look at the performance so far during Q2, that retail and commercial growth we expect to continue over the course of the quarter. It is for sure, you know, likely to be a little bit slower off the back of rates changes, off the back of uncertainties, but overall it's consistent with our forecasts and as said, positive growth.

I think when we look at the other side of the equation, are we seeing any asset quality impact from what we have seen so far, the answer is very clearly no, we've seen nothing. We have in addition to that very stable early warning indicators, again across retail and commercial, which is good to see.

We're vigilant for sure, Ben. But as I said at the beginning, you know, overall, it's a picture of muted growth clearly, but it's also a picture of relative stability.

Ben Caven-Roberts
OK, good to hear. If we flip next to NII, one of the biggest contributors to revenue, let's drill in particular into the margin component of that. So you have the hedge, which is still a positive. The path of bank base rates, which at the moment still looking like it'll be a negative year on year in 2026. And then you have mortgages continuing to reprice a bit more tightly sequentially. How are you seeing all of that fitting together and effectively how it pans into a multi-year outlook?

William Chalmers
The overall picture in respect of net interest income, the bottom line is pretty constructive, pretty positive Ben. Within that you asked about net interest margin in particular. Overall net interest income we expect to be greater than £14.9 billion during the course of 2026. In that context, we took a modest upgrade at the Q1 stage and that was just to recognise the changes that we'd seen in rates but alongside of that to say, well, those same rates are going to have a little bit of a dampening impact, if you like, upon volume. So, it's a net of those two.

You saw in that context that we had a good Q1. Net interest income, £3.6 billion or thereabouts. That's up 8% year on year. It's up 1% QoQ. In fact, if you strip away day count, it's actually up 3% QoQ. So a pretty robust performance. And to your point, Ben, that was a function of net interest margin in significant part, net interest margin at 3.17%, 317 basis points, that's up 7 basis points over the quarter. So it's a pretty significant and meaningful move within the net interest margin, but it's also a function of lending volumes, which I mentioned just a second ago.

What's going on with the net interest margin? I mean, first of all, it's worth saying we expect that net interest margin pattern, i.e. quarterly sequential increases to continue through the course of '26. And what is driving that? It's a combination of a strong structural hedge tailwind against a slightly weakening mortgage refinancing headwind. And I'll come back to each of those.

Structural hedge, first of all, structural hedge is going to contribute in excess of £7 billion this year. That's up over £1.5 billion versus what it was last year. When we look forward into 2027, it'll be up and over £8 billion over the course of '27. Now what's going on there, it's effectively the refinancing. There's a modest notional, i.e. quantum increase, but it's basically about the refinancing story. And you've got a yield of about 2.7% in the course of Q1. And you've got that refinancing into markets which are now as you know, 4.2, 4.3% depends on the day of the week, but a significant uptick in terms of what it is refinancing into.

The mortgage completion margins are around 70 basis points. So dealing with the mortgage refinancing headwind, that 70 basis points stacks up against a book that is rolling off at around the 100 basis point mark. So it's about a 30 basis point headwind in that context. We'll be done with that by the end of around the first quarter of 2027. But that is contributing to an overall headwind. But the net of that is, as I said, very positive constructive margin developments. It's noticeable actually in the last couple of weeks or last couple of months or so, we've had slightly stronger margin developments within the mortgage product, slightly stronger completion margins than we've previously expected.

While, that's good Ben, it's probably a little early to call a trend, so you know let's see how that develops. But overall I think it's a reasonably positive development. Now having said that, we've got other factors at play. So we've got stronger than expected PCA volumes which of course is good. At the same time we've got some competition in other markets. So competition in asset markets, competition in liability markets. I think the net of those kind of other things that are going on in the margin is pretty much awash. You know, one thing more or less discounts the other. Overall though, I think it's a positive rate environment for the progress within the net interest margin and very much consistent with the guidance we've given, Ben.

Ben Caven-Roberts
OK, very clear. Well, let's dig into the lending component, which you alluded to. Pretty strong start to the year across business lines. How are you looking at lending volumes going through the rest of the year? Any difference by asset class as well?

William Chalmers
It's, you know, overall as I said, it's a pretty constructive picture, Ben. So if we pull that apart a bit, a strong start to the year, lending volumes up about £5.1 billion, stripping out central hedges, £6.3 billion, that's about 1.2%. So it's a good start to the year.

What's also noticeable is it is across all sectors. So you see £3.5 billion of growth within the retail sector, and within that growth, across pretty much all the asset classes. £1.6 billion of that was in mortgages in what was a strong repayments quarter, but also growth in the other unsecured asset classes, transport and so forth. So pretty well spread.

CB likewise, £2.8 billion within Commercial Banking. And again, that is pretty well spread between what we call the BCB business, which is our SME franchise, as well as CIB. Within that, we're seeing continued progress within CIB in terms of the infrastructure lending, which has been the pattern actually second half of last year and going into the first half of this.

The growth within retail, as we go into Q2, it'll be a touch slower and it'll be a touch slower partly because we saw March front end loading off the back of expectations that rates would rise. I think that was a sector phenomenon. So you saw a strong March and therefore a slightly more attenuated April. That's just going to be a business flow pattern, not unlike actually what we saw last year.

And then we will have an idiosyncrasy in terms of our mortgage lending, which is to say that we did a legacy mortgage securitisation just recently actually, very successful deal, NPV positive and all the other things that we look for. But obviously that has an effect upon the balances that you will see at the end of Q2, that securitisation. So that's an idiosyncratic factor.

Business and commercial banking, I would say decent growth, particularly in terms of the sanction growth that we've got out there. At the same time you're seeing I think some clients at the edges as a function of the uncertainties, perhaps a little bit slower to utilise some of those sanctions. So I think that's just a characteristic of the environment that we're in.

Looking forward, I think we'd expect to see continued growth across the businesses. With those comments kind of borne in mind, Ben, it's a, as said, it's a stable macro. And I think that is then supplemented by the decent share that we have across our product ranges.

That decent share is enhanced by the strategic initiatives. As you know, we've launched those really across the business. They're starting to show some benefits in the context of cards, for example, the launch of Ultra, the launch of Advantage in the context of personal loans, Your Credit Score leads to a good flow of personal lending business.

So you know, overall the impact of rates will have a slightly muting effect upon growth, but some of that should be offset, if you like by our strong shares in turn supplemented by the benefits of strategic investments coming off the strategy. So I think Ben, if you wrap all of that up, what does it mean? It means last year we had £22 billion growth in lending. That's great. I don't think this will necessarily be a £22 billion year, but we would expect to see decent progress through the course of '26.

Ben Caven-Roberts
Ok, very clear. So we've touched on lending. Let's move to the other side of the balance sheet. Think about deposits, Q2 often has some ISA seasonal impacts. How are you seeing that playing out? And as well we've had a lot of rate volatility year to date, does that have any impact on how customers are thinking about managing deposits in a higher for longer rate backdrop, and any impact on mix there?

William Chalmers
Thanks Ben. The business is performing well and very consistent with our plans. That's the bottom line. I think when you look at Q1, as you know, we saw a slight reduction in Q1 deposits, about £0.6 billion. That was in the context of retail down about £3.1 billion and commercial up about £2.3 billion. So that was the pattern in Q1.

Within retail, the balances that really mattered showed growth and indeed stabilisation, which is great to see. So PCA's for example up £0.6 billion, instant access up during the course of the quarter, and the areas that were a bit softer were the balances within fixed term and within what we call restricted variable, which is limited access.

And that was in the context of what was a very competitive ISA season, often straying into kind of negative margin territory. And we chose to step back from some of that activity. Now strategically what we really wanted to focus on during Q1 and indeed going into Q2 was and is strong retention combined with ensuring that we deliver value to our relationship and most valuable customers.

That is what it is all about and that includes people like Lloyds Premier, Lloyds Club, these types of balances and indeed I think we basically achieved those goals. So, if I think about our '25 ISA season, we landed with a roughly 90% retention of those balances, which is what we set out to do. Same time as my comments earlier on alluded to, we grew our relationship balances and what we stepped back from was the more rate sensitive mobile money that you saw during some parts of the ISA season, as I said, often straying into negative margin territory.

The recent conditions, last few weeks or so, have allowed us to step up a little bit in the context of the deposits market. And so what does that mean? I think probably what it means is that we'll see more or less a plateauing during the course of Q2. That's my expectation.

You asked about customer behaviours Ben and what is going on there more generally. You know, I think outside of the ISA season, there's been not much change. We've seen a bit of a rally in rates as we all know and I know it's much talked about, but it's pretty limited compared to what we saw in 2023. I mean we are, as you can tell from our PCA numbers, our instant access numbers, we are not seeing customer migration.

It's more a question of, you know, where the ISA balances in any given ISA season may land depending upon who wants to be out there taking the ISA volume and who's prepared to, if you like, suck up some of that margin negativity from time to time. So I think that's what's going on.

It is, at the same time, to be clear, a competitive deposit market. You know, I wouldn't want to suggest otherwise. And that's a function of all of us seeing the benefits of structural hedges and the thickening of liability margins that go on with that. It's a function of the central bank withdrawing TFSME, the support program towards the end of this year. It's a function of new entrants in the UK market. So it's a competitive deposit market for sure. When we look at our overall strategy, it is really about delivering value for our customers in a way that makes sense for us.

Ben Caven-Roberts
OK, brilliant. Well, I think we've covered that net interest income and the components pretty well. Let's move to thinking about other income. One of the key components of your recent growth strategy, up 11% YoY in Q1. You've had the benefit of consolidating Lloyds Wealth, but also some recent strength in transport and equity investments. What are the key focus areas for you in sustaining that business momentum and then continuing to diversify the top line looking ahead?

William Chalmers
It's an important question, Ben. I might just step back actually and just put it in strategic context because I think that's where it comes from and that's the most important point. When Charlie and I came in after a decade of basically low to zero interest rates, one of the determinations that we made was that we needed to diversify the Group.

And we needed to diversify the Group for two reasons. One is to, if you like, move away from dependency upon volatile and sometimes very low interest rates. And two is to make sure that we realise the value of a very significant UK franchise, both of those two things.

What that's led to is that OOI has now been up over 30% over the last 3 years, which is great progress. And we expect to see continued further strong growth during the course of 2026. You saw that during Q1, that was the first step. We saw strength in Q1 consistent with what I've just said. It was up, as you know, 11% YoY, up about 1% QoQ.

Where was that coming from? Combination of at least three out of the four main engines that we have. And so specifically what I mean by that, growth within transport, growth a little bit within mortgages, within retail, growth within GI, growth within pensions, growth within Lloyds Wealth within the insurance pensions and investments business.

And then finally growth within LDC and Lloyds Living within our Lloyds Bank Group investments business, which is basically the equity businesses. So you know, over the course, or rather, within OOI, some pretty good performance from those areas. It's a combination of both BAU activity as well as the benefits of some of the strategic investments that I mentioned earlier on. OOI has been a key beneficiary of those.

So things like investing in our own channel in GI, for example, things like investing in Lloyds Wealth, for example, things like investing in transport within retail, for example, all of those are areas of strategic investment which then come through in terms of the OOI performance.

Where we were slower was CB, commercial banking, and CIB in particular. And I think that was off the back of a couple of things, really both related. One is volatile sterling markets. We are quite exposed to sterling markets naturally and the second was partly because of that limited new issuance in those same markets and overall that led to a pretty muted CIB performance within commercial banking, and we obviously need to address that.

Looking forward. Putting all of that in the round, we expect continued strong growth within OOI over the course of 2026, consistent with the guidance, the non numerical guidance in OOI that we have given and again Q1 is a testimony to that.

What does that mean? That means basically similar to 2025 plus Lloyds Wealth. So you know overall I think it's a good performance. Looking forward, we do expect to continue to invest in OOI propositions to continue to invest in areas of what we term GDP plus growth opportunities for the business, and it'll be a key plan for the next strategy.

Ben Caven-Roberts
OK, brilliant. Well, let's follow up on 2 of the points there. So the commercial angle and the capacity of the business to grow above GDP, as you say. So some of the areas within commercial that I know you've spoken about have been infrastructure and project finance, some of the capabilities you can build up more broadly in commercial. Can we touch a bit on those? And then also how some of the announced changes to the ring-fencing regime and the new growth allowance that's been proposed might fit in?

William Chalmers
Maybe just a step back, those that are familiar with our business will know this, but those that aren't, maybe less so. Commercial is basically two businesses. That is to say, it's BCB, which is Business and Commercial Banking, which is our SME franchise, and it is CIB, forgive all the acronyms, which is our corporate and institutional franchise. They are both areas of significant investment and opportunity for the Bank and they are both areas that have been invested in heavily during the course of the strategic cycle.

BCB, first of all, the strategy there is about digitising the platform, but also retaining our relationship manager franchise up and down the country and across all the sectors. We've seen some decent progress in that respect. So mobile onboarding to take one example, is now 15 times faster than what it was, digital FX, significant progress. 45% of our key services within BCB are now entirely digitised with all of the customer benefits and efficiency gains that come off the back of that. So that's BCB.

CIB, corporate institutional business, that is following a 'cash debt risk' strategy. It is a very deliberately set strategy around those parameters, that perimeter, if you like, 'cash debt risk'. It's important to us that we stay focused.

What does that mean? It means that we've been strategically investing in areas that are consistent with that, DCM for example, FX for example, cash management for example, all areas that have received attention. And again, we've seen some decent progress in that. So OOI is up 35% versus what it was in 2021. Likewise, FX share of wallet up also about 35%. We've been making for those that watch us carefully some significant progress in the realm of digital assets in that same space, all of which is good to see. But at the same time within the CIB business, I think it is too narrow. I made some comments earlier on about it being, you know, somewhat subject to the fortunes of Sterling FICC markets. That's a function of the 'cash debt risk' CIB focus that we have right now. And I think over time there's an opportunity just to build that out, not to change the focus, not to change the perimeter 'cash debt risk', but just to build a little bit around the edges for the capabilities there to make sure that the resilience in the growth opportunity is fully realised.

You asked about growth, Ben, and what does GDP plus mean in this area. What it really means is things like infrastructure, it means things like transition, it means things like enhancing our institutional capabilities in respect of currencies, markets and the like, all of these things come very naturally. I mean, if you look at the bank and its overall purpose at a high level, but overall setup and franchise, all of these things kind of naturally follow from there. There are areas where we should be able to win and indeed have been making investments in and intend to continue to do so.

Ring-fencing. Ring-fencing is interesting. You know, as you know, we've taken a view which I think is the correct one, that the banking sector and the UK sector and the UK banks have moved on a lot since the inception of ring-fencing. And therefore, we welcomed the Treasury, and kind of PRA sponsored I suppose, review of ring-fencing as it stands, and there have been some changes proposed recently, all of which we would welcome.

They are steps to be clear, they're not necessarily the end of the project as such, but nonetheless they're welcome steps. One example of that is the growth allowance. The growth allowance is essentially saying, look, you can have a certain number of your risk weighted assets that previously would have had to have been outside of the ring-fence now put within your ring-fence.

That is effectively a concession. It's talked about as around 10% of your eligible ring-fencing risk weighted assets can now be enhanced by previously non risk weighted eligible assets. From our perspective, that's welcome. Why is it welcome? Because it should allow us to reduce client frictions in terms of moving between ring-fence and non ring-fenced entities and off the back of that enhance our ability to better serve and grow the client proposition.

More materially, or more quantitatively, it should also lower our funding costs. You know, that is to say we can put assets into the area of the lowest cost funding from the bank 's perspective, and of course that'll be beneficial. And you know, ultimately the intention from the government 's perspective is for it to be beneficial to the growth of UK financial services and service propositions to clients. From our perspective, we should be able to neatly fit into that.

You know, having said all of that, it'll reduce client friction, it'll reduce our funding costs. That's great. I'd like to see the final form of the growth allowance and the ring-fencing reforms before, if you like, becoming too, if you like, convinced of the merits of it and the strength of it. But it is a positive development and one that we'd seek to benefit from.

Ben Caven-Roberts
Understood. Let's flip to costs. You're targeting below £9.9 billion in 2026. That's pretty limited cost growth YoY. What are the biggest sources of inflation that you're absorbing within that? And then how are you balancing that against investment?

William Chalmers
Good question. You know, I have to start off at this point of course, which is that cost management is an absolute imperative for Lloyds Banking Group. For those who know us well, it's been a hallmark of the Group for some time and it continues to be so.

When we look at our 2025 operating cost commitment, it is less than £9.9 billion. That is about a 1% increase YoY and that includes a couple of acquisitions, i.e. Lloyds Wealth and Curve, so actually the underlying is even tighter, tighter cost management than that 1% would imply.

Where's that coming from? It's coming from the benefits of strategic investments. It's coming from tight BAU cost management and it's a little bit coming from the plateauing of investment flows as this strategic cycle comes to its finishing line I suppose. Those investments, those strategic investments that I mentioned so far at least have delivered about £1.9 billion of gross cost saves. By the time we get to the end of 2026, they should have delivered in excess of £2 billion of gross cost saves. So that's a material help.

The focus though in addition to an absolute cost number as you know Ben is a complete focus on, a complete commitment to, a cost income ratio that is below 50%. That has been a key point of our guidance for some time, and it continues to be so. That sub 50% cost income ratio is coming from a combination of income growth, we've talked a bit about that, but also obviously cost containment and in that respect, at least Q1, as I hope you saw, was basically on track. So £2.47 billion of costs in Q1, 3% down YoY. There's some timing in that but nonetheless, overall, pretty tight cost performance consistent with guidance.

What are the sources of inflation? What are the sources of saves? Ben, to your point, you know, each of these two folds into a kind of BAU point and, I guess, a strategic point. And so inflation, first of all, where are we getting inflation from on a BAU basis? We're getting it from things like pay settlements, clearly, we're getting it from places like suppliers, we're also getting it from benign sources. So volume growth, I mentioned the lending growth earlier on that naturally incurs OpEx. And that's an example of a kind of benign BAU cost pressure.

The cost pressure is also coming from strategic choices. And what do I mean by that? I mean, investments in things like IT, investments in things like Lloyds Technology Centre out in India, investments in Lloyds Wealth, investments in Curve, which we have just completed – digital wallet capability. These are very deliberate strategic choices. They lead to cost pressure, but it's good cost pressure because it's what we want to do. It's how we want to develop the business.

The saves, Ben, again, similarly break down into BAU and into strategic choices. And I think they're kind of interesting. So BAU, third party saves, you know, the regular management that we apply to our third party suppliers, that's principally a contractual type initiative.

Alongside of that, organisational design. You know, we constantly think about how to set the organisation up in an efficient way. Divisional initiatives, these types of things, they're very BAU. Every year we think about them.

And then strategically, there's two or three areas. And again, I think they're kind of interesting. Technology first of all. So, migration to cloud, data centre migration, likewise decommissioning of the business, these things ultimately all give us structural benefits. Digitisation and automation, including obviously the much heralded AI as part of that second strand.

Third strand, property. As you know, HQ and branches are things that we've been looking closely at over the course of the last several years and continue to do so.

And then finally, change saves. Making that change process that we have, which consumes an awful lot of our investment capital, that much more efficient. We've been relatively successful.

Now looking forward, Ben, as we go into the remainder of '26 and indeed beyond that, our focus really is going to be upon operating leverage and upon continuing to improve cost income ratios. That's going to be the focus probably slightly more than trying to repeat the 1% trick of 2026. It's going to be about continual improvement in cost income ratios and indeed operating leverage.

Overall, the strategy is, the intention is, to say let's be really tight on BAU cost management, operational cost management, so that we can then afford the investments that we want to make as a business. And we'll talk a lot about that during the course of July.

Ben Caven-Roberts
OK, brilliant. Well, I'll ask one more question before we open up to audience Q&A. So let's think about motor. You have a £1.95 billion provision that's scenario weighted, you left that unchanged after the FCA's finalisation of its redress scheme earlier in the year. Since then though, there have been a few legal challenges to the FCA scheme. How are you thinking about that playing out?

William Chalmers
I didn't think I'll get away through this session without a motor question coming up at least, so thank you, Ben. The provision as you know is unchanged at £1.95 billion. That very much remains our best estimate of operational costs, of legal costs, of redress costs. And it is as I think everybody in this room knows, a scenario based provision.

The first step in all of that scenario based provision is obviously what the FCA put forward, and what the FCA put forward just recently had a bunch of puts and takes versus what it put forward in October. And so what I mean by that. de minimis constraints for example, remediation caps for example, those are positives versus where we were in October. And at the same time, we had APR flaws which are negatives versus where we were in October. And you put all of those through and it's more or less awash. I.e. either puts and takes iron each other out.

There are some other uncertainties beyond that. So take up rates, let's see what happens. We've got a relatively toppy take up rate, i.e. we expect quite a lot of take up that may or may not actually come through. I think we probably provision to the upper end of that.

At the same time operational costs, we're trying to, not surprisingly, exert downward pressure on non operational costs within the context of the exercise. But those uncertainties are out there. We don't quite know how they're going to play out.

And then Ben, as your question highlighted, we've got some risks outside of the scheme in the context of challenges to the scheme, in the context of potential litigation. And the first point is to say because our provision is scenario based, not surprisingly, we constructed scenarios around precisely that i.e. challenge and litigation that could come out the back end of that.

So those are in our £1.95 billion provision, although to be clear, they are relatively low probability weighted in the context of our £1.95 billion provision, but they're there. I think in this context, it's interesting to note that the challenge to the scheme has come from both sides. And the reason why that's interesting to note is because the FCA has pretty wide discretion in the context of the scheme that they are allowed to introduce and impose, if you like, upon the industry. And so the fact that challenges come from both sides is just kind of interesting in trying to figure out where this might go, let's see.

The second point in relation to litigation is, as you know, it's our view at least that the scheme is not perfectly aligned to some of the Supreme Court decisions. And indeed, as an example of that, the definition of unfairness that the scheme adopted, we think went outside of the Supreme Court determinations. And that is interesting in the context of litigation because it suggests that litigation is not all about risk. That is to say, litigation may actually also go the other way.

And so, you know, stepping back from all of that, what does it mean? I think what it means is that overall, of course, there's a little bit of uncertainty, but £1.95 billion very much remains our best estimate. Litigation, it's possible, it might drag things out a little bit, but it does not change our view of what the right provision is, and that remains £1.95 billion.

Ben Caven-Roberts
OK, very clear. Well, we've got 2 minutes left in case there's anyone in the audience who has a question. If anyone is brave enough, perhaps not. Well, I'll very happily keep going. So let's close with asset quality. Q1, your impairment charge 25 basis

points, bang in line with the full year guidance. That did though, as you mentioned, include a scenario change for a more challenging economic outlook. So how are you thinking about the trajectory from here? What gives you confidence in maintaining that 25 basis point trajectory?

William Chalmers
Good question. AQR guidance remains 25 basis points, I should say circa 25 basis points, I think is the precise way we put it. The Q1 impairment charge, as you say, was bang on that, that is to say 25 basis points, £295 million and therefore very confirmatory of our full year guidance.

Now within that 25 basis points, we had two components. One is the observed charge, which is actually what's going on in the book, if you like, and that was 16 basis points. That was low partly because of calibrations within models, which happens every quarter. Sometimes it goes for us, sometimes it goes against us. This time it went for us.

Alongside of that a very low charge, in fact a release within commercial banking, we really saw no material defaults. And so if you strip all of that away, the underlying observed impairment charge is probably more somewhere between 20-25 basis point mark. It's in that zone.

Now in addition to that, we had an MES charge, multiple economic scenario charge, which takes account of our forward forecasting. And that in turn was 9 basis points, just over £100 million, which was a combination of the unemployment and HPI changes that I mentioned earlier on, offset against us taking out a PMA charge for the US tariffs from last year, which have now worked their way through the models and indeed performance and so forth with no noticeable effect. So we took that out.

So Q1 very much according to plan. Q2 so far, we haven't finished our forecast for Q2, but everything that we can see is more or less in line with the stance that we took at Q1. Of course, there are uncertainties, but at the moment, that's where it stands. And so no, no material change. And then when you say what's going on within the book, you would say basically the same.

So retail, very robust across asset classes, not just in terms of performance, but also in terms of early warning indicators. So things like new to arrears, things like cards, repayments, things like overdraft utilisation, stable. Commercial banking, you know, we are pretty vigilant in commercial banking. When you look at sectors like housebuilders, clearly under a bit of pressure right now. We're keeping an eye on the situation, but again, no material defaults that we're seeing within commercial banking. And again, early warning indicators, revolving credit facilities for example, liquidity levels for example, again stable.

So you know our expectation is that the observed performance in the course of Q2 and indeed the remainder of this year is showing promising signs in line with our guidance. By definition, well, actually I guess I just mentioned it, the MES outlook not awfully different to Q1. And then behind that, Ben, you know what is all of that based upon? It's a prime portfolio in terms of the mortgage business, in terms of the retail business, in terms of the commercial business, it is stress tested at rates that are well in excess of where we are with the market right now.

And then if things do go wrong, there is plenty of collateral. We've got a 45.5%, 45.4% LTV within the mortgage portfolio. We've got something like 90% of our SME business secured. We've got something like 80, greater than 80% I think it is of our CIB exposures investment grade. So there's plenty of recall should things go wrong, Ben, but we don't anticipate it. And you know, absent a material change within the macro, we are very confident in our AQR guidance.

Ben Caven-Roberts
OK, perfect. Well, I think unfortunately we are out of time, but thank you very much, William, for joining us. That was brilliant.

William Chalmers
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; risks related to new and emerging technologies, including artificial intelligence; 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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