

MORGAN STANLEY EUROPEAN FINANCIALS CONFERENCE WITH CHARLIE NUNN – PRESENTATION TRANSCRIPT

(amended in places to improve readability only)

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Charlie Nunn, Group Chief Executive, Lloyds Banking Group
Alvaro Serrano, Managing Director, Morgan Stanley, (Moderator)

Alvaro Serrano

Thanks, everyone, for joining this second session of the conference. I'm delighted to welcome one more year Charlie Nunn, CEO of Lloyds Banking Group. We were discussing it's your fifth or sixth year?

Charlie Nunn

My fifth year. And there's events happening just before it every year. So, it's fun to be here again.

Alvaro Serrano

Yes, it's a feature, not a bug, of the conference. Let's start with the usual polling question. As you know, Lloyds is going to present a new phase of its strategy in July. What RoTE can it achieve in the medium term, do you think:

1. 15% or above;
2. 15% to 16%;
3. 16% to 18%;
4. 18% to 20%;
5. or above 20% RoTE?

16% to 18%. I think that you can do more than that, according to our estimates. No pressure, anyway.

Charlie Nunn

This is a new high. So, instead of asking me for guidance, you're now just giving us the guidance, which is great.

Alvaro Serrano

Just idea sharing. Let's start there. This is the last year of your strategy plan you laid out when you arrived. Let's start maybe with your reflections on what you've achieved so far and what you think the main challenges and priorities going forward are.

Charlie Nunn

So, look, I'll look back relatively quickly, but we kind of laid out three big priorities: grow, focus, and change.

The first thing is about getting the bank and the group, more broadly, back to growth. Feeling good about that. We have seen £2 billion of revenue growth through the end of '25, net of all the NIM changes. So, we obviously saw significant reflation of liabilities, but we saw headwinds around mortgages that more than offset that. So, that's real alpha. That's real outperformance.

That's underpinned by really two things. Market share gains in our biggest businesses; so, increasing personal current accounts market share, business current accounts market share. Maintaining or even growing mortgages through that period, which is the first time, obviously, in 15 years, which has been great. But also then a whole set of other businesses. So, growing share in our pensions business, in all of our bancassurance products and bringing those to our retail customers. Growing our corporate and institutional business.

And as a result of that, we grew other operating income by 9% or more each year. And so, we feel really good about that. It gives us some momentum as we look to the future.

Focus was really about efficiency, operating leverage, and capital returns. So, £1.9 billion gross cost saves through the back end of '25. We originally committed to £1 billion by the end of '24; we exceeded that.

£24 billion of RWA optimisation. That's obviously been an important story for many banks and organisations. But we think that discipline around being able to rotate our capital and our risk into more differentiation and growth in syndicate risk that's not good for our shareholders is a really important capability.

And then, change, which is less directly compelling in terms of the investor story but is fundamental to our future and our fitness to be able to compete. And a few things there. We increased the size of our digital bank by 50%. I think we've got about now 23 million digitally active retail customers, logging on 7 billion times a year. We're the biggest digital servicer in the UK. Hired 9 thousand new engineering and tech colleagues to bring the capabilities inside the organisation. And then – I'm sure we'll talk about this later – we're right at the forefront of applying agentic AI and then using digital to transform the organisation.

So, look, from our perspective, it's been good in terms of the last few years. We've been able to grow our dividend at a 15% progressive and sustainable basis, and we've significantly increased our capital. And as you know, we're confident in our guidance for 2026, which is to deliver more than 200 basis points of capital generation, greater than 16% RoTE, and a cost-income ratio of 50%. And then that we think tees us up really well for the future.

Alvaro Serrano

Great.

Charlie Nunn

That's the sales pitch done.

Alvaro Serrano

We have to talk about the current environment. In the UK, sentiment has been pretty subdued. And despite that, it does look like investment has been getting better; I would argue, globally as well. And you've seen good growth both in corporate and mortgage lending last year.

How would you describe the environment in the UK? And obviously, more with the current state of events in the Middle East, how would you describe the operating environment at the moment?

Charlie Nunn

So, look, it is complex at the moment. And we were smiling just before this. Obviously, we announced our strategy on the day Russia invaded Ukraine, and we've been adjusting our economic scenarios and then building Lloyds Banking Group so that it's resilient to these kinds of changes. And hopefully, that's what you've seen, given the level of volatility we have had over the last few years.

I suppose a few key messages that are true. The first is, the last few years and as we entered this year, we have characterised it as a very resilient economy, but with a slower growth ambition or slower growth outcome. That was certainly our forecast that we had three weeks ago and as we did the year-end results.

And when we look at what's happening at the moment, obviously, there's a number of scenarios that we think could end up happening, but it does seem likely that there's going to be ongoing conflict for a period of time in the Straits of Hormuz that will create more inflationary pressure and will potentially slow things down a bit in countries like the UK and Europe and globally.

But it doesn't concern us in terms of the basics that the UK economy has. And that's because when you look at households and businesses – and obviously, to some extent, the government, based on the latest headroom they've given themselves – households and businesses have got the strongest financial resilience they've had since before the financial crisis. They've got the highest savings levels, the lowest levels of indebtedness for households, and businesses also have got strong cash flows – not all sectors, not all businesses, obviously – but on a relative basis, strong cash flows and strong capacity to borrow.

The weakness, as you say, is sentiment, it has been lower on the consumer side. That's very different, actually, by age group. It's really quite positive in younger people, and it's very negative relative to history in those older than 55. I've got one more year until I get there and become really depressed. So, consumer sentiment has been relatively low. Business sentiment has actually been relatively positive. The issue on the businesses is they haven't been really investing for productivity and growth, and that's one of the areas we've been trying to get behind.

So, look, as you step back and look at the uncertainty we're seeing in the world and the potential scenarios, you'll all have your view of them. The core thing for us is, actually, households and businesses remain very strong financially. There's clearly going to be some pressures as we go through this year, but we don't see that as taking them off track. There'll always

be individual customers and businesses that we need to support, and as you know, that's what we do. That's where we're best, we come out at our best.

But in terms of the overall economic progress and then the conditions for Lloyds Banking Group, we don't see it materially slowing us down because it's actually still a very good environment for us to be investing into continuing to deliver the strategy and the growth that we just talked about. And even if economic growth slows down and we have to support customers in certain areas, I don't think it stops our progress over the next few years.

Alvaro Serrano

Obviously, in your case, the repricing of the structural hedge gives you pretty decent visibility on the NII, but it's also true we're seeing pretty stiff competition on mortgages and it's also very competitive on the deposit side. How much of the hedge gains do you see competed away? And how do you see both sides of the balance sheet?

Charlie Nunn

So, going back to the strategy, we're still executing this year, which we're very focused on landing in 2026. There were two kind of things directly relevant to this that we knew – or three things. One was we inherited a very big legacy mortgage book with higher margins. And I think, Alvaro, you've noted this, and I just mentioned it just now. We've seen about £3 billion worth of revenue headwinds from our mortgage margin compression over the last four years.

We do think that will continue to be a smaller headwind going forward, but we have massively traded out of that position, and it gives us a very good starting point when we look into the future. So, the mortgage headwind has continued to be competitive, that market, but we don't see it being anything like the headwind we've had previously.

Now, during that period, the second area was obviously the structural hedge. We did see about £3 billion of growth in the structural hedge in the last four years. So, that's been netted off by the mortgage headwinds.

The good news is because of the differentiated deposit franchise we have and the way we've been managing that with a longer weighted-average life, this is going to be very supportive for Lloyds Banking Group this year. We've guided to £1.5 billion of net revenue increase this year from the structural hedge; over £1 billion next year. And based on our view of the markets, which as you know tends to be conservative, we think it'll be supportive through the back end of this decade.

And that's great because we don't see the headwinds from both mortgages or deposits being at the same level. And therefore, we do think the structural hedge will give us upside on our NIM, going forward. And that's in a very competitive market that we've seen in the last few years and that we are expecting as we look forward as well.

And then the final part is obviously the growth on OOI. The reason we've been really focused on it and one of the key tenets of our last strategy was to diversify more into businesses that can grow other operating income. When you're building an organisation like Lloyds Banking Group, which is the scale player in its home market with the most differentiated and broad set of products and services, you know there's going to be points in the cycle where net interest income are challenged. So, you need to build the best leverage on both sides of the balance sheet, between assets and liabilities, and then have a source of growth for our investors that can just power through the interest rate cycle. And that is what the collection of businesses we've characterised as other operating income are focused on. And so, that 9% CAGR around those businesses that we've delivered, we are really excited by. It's broad-based. It's diversified across different segments and parts of our business and that will continue to provide diversification as we go forward.

Alvaro Serrano

We have to talk about AI. It came up last year. Obviously, dominating a lot of the debate the last few weeks and the last couple of months as well as in the share prices. You held a digital AI event not that long ago. How do you see AI playing into the business? I know there's a lot of things you're doing to leverage data. Client engagement is also getting better. What would you say to investors that believe AI is a disruptive force?

Charlie Nunn

Look, obviously, it's a hugely important question. I'd just start and say, when we think about AI, we often characterise it as digital and AI, and the reason I say that is we, for example, have had 800 AI models live before generative AI came around, and it's a big part of our operating model.

And obviously, when you think about digital and digital technologies, digital and AI have been a disruptive force in this industry since I started transforming this industry in the trading floors in the early 1990s, which is where I started, digitising

trading floors and exchanges. So, disruption of our industry with technology is what we do, that's the basis of it. And actually, one of the things we shared in that digital and AI seminar is that 60% of the gross cost savings of that £1.9 billion and 70% of our revenue growth from strategic initiatives, the £2 billion, were delivered by digital and AI.

So, that's what we've been doing, and that's what we'll continue to do, and we think it's a hugely important part of both driving improved operating efficiency, but also differentiation for growth.

In terms of generative AI and agentic AI, we have taken a pretty narrow definition so that we can communicate with our shareholders, with our customers around what we are doing. And we are and we will be a leader in the deployment of those technologies as well.

We talked, for example, last year about having deployed 50 scaled use cases across tens of thousands of colleagues and customer experiences that delivered in-year benefits of £50 million; the same number for this year is £100 million. Look, if you scaled those and multiply them by five years, you'd get into the billions. But we're just going to stay focused on defining those technologies narrowly so people can understand them.

And yes, I'm personally, and then we are organisationally, extremely excited about them. Look, I've spent 30 years trying to do certain things for customers and to differentiate experiences, and the technologies didn't enable us to do that fully. And these technologies are enabling us to do things we haven't been able to do for the last 30 years.

And so, we see the benefits in two ways, very simply. The first and probably most important is around differentiating what we do and enabling new growth. So, for example, we're launching three customer-facing experiences this year. One is around taking investment advice to the mass market, using agents to provide personalised, targeted, conversational support to customers to take more risk in their portfolios. That's done in a very safe way, in a regulatory sandbox with the FCA. But it's going to be, for the first time in my career, you could really talk about bringing advice to the people that most needed it, bluntly (i.e., not people that look like us, that have the experience to do that themselves or have a good conversation with an IFA).

We've got another experience launching, which is around being able to have a conversation with your money and get advice on how to make better decisions around your spending, savings, use our loyalty and rewards better, protect yourself from fraud. And that's going to start to really give a different level of experience around our everyday banking, which is so core to our differentiation, our personal current accounts and our positions in the UK. And so, we just see huge opportunity to take that to our mortgage business, our homes business, our transport business, into the personal current accounts, and as you said, helping businesses, provide offers to our retail customers, and then start to transform how we support entrepreneurs and businesses.

The second area is obviously around efficiency. Let's call it that. What we tend to talk about is "better, faster, cheaper," which is how do we really support our colleagues and transform how we operate as an organisation. And the technology, again, continues on the journey we've been on around using digital and technology to make ourselves more efficient, better at making risk decisions, and better at deploying and using our capital. And I just think that runway is going to continue with this technology, and that's certainly what we're teed up to do.

Alvaro Serrano

You've already touched with AI and previously on the other income line, very strong momentum there. You've grown 9% CAGR over the last three years, and it looks like 2026 could be potentially even stronger, or at least the strong momentum seems to be continuing. With initiatives that you've talked about and advice rules which also you've referenced, you can do more there. How should we think about the revenue mix of Lloyds in the longer term?

Charlie Nunn

So, we haven't given a guidance between net interest income and other operating income, partly because I think you don't want to constrain net interest income. And as you know, we've had very strong trajectory around that as we've been rebuilding the structural hedge and then maintaining the confidence our customers have in us around the really big businesses, personal current accounts, and mortgages. Savings is more complex, and you may want to go there in a second; it's always a different trade between how much volume you want versus how much margin you want to make on savings, which is different.

So, we do expect strong progression in net interest income. Independently from that, we're also expecting to continue to grow our other operating income. As you've seen, and I think you should expect, other operating income will continue to grow faster than net interest income, but both lines should show strong progression.

We were very aware at the year-end results that we didn't have guidance beyond 2026 for our investors, and we're doing our new strategy update at the half-year results in July, and we'll give you guidance at that stage. But we did say three things in the year-end, which hopefully give you some confidence for how we're thinking about the next strategy. The first is that we expect that we'll continue to grow the top line, and that's driven by both NII, as well as other operating income. The second is we should continue to see improving operating leverage, and you can take that as code for cost-income ratios and then capital efficiency and generation. And then the third is we'll continue to strengthen our ability to originate and then distribute capital from a capital generation perspective. And that's because of the confidence we have around the momentum we've built through the last few years and our confidence in the 2026 targets.

So, I won't give you guidance on the split of NII and OOI, but you should see both lines continue to grow, and you should see OOI continue to grow faster.

Alvaro Serrano

I'll give you an opportunity to drink water.

Charlie Nunn

Thank you.

Alvaro Serrano

You touched on operational efficiency when you discussed AI. The guidance this year is to have cost-income below 50%. Can you help us through sort of how banks think about the cost space and how you can leverage these tools years from now? For example, what percentage of your workforce is in central services? Maybe we can think about it that way. Some banks in Europe are now at 35% cost-income ratio in '30. How do you think about cost-income ratios? How low can they go longer term?

Charlie Nunn

So, it's obviously a really important question at the moment. I think a couple of starting points, and then I'll talk about us a bit more specifically.

Obviously, the mix of businesses makes a massive difference. And I've run businesses which operate at a 25% cost-income ratio in Asia, very sustainably, largely typically because of the revenue side of the business model and also the scale and the structure of the market – so, how much infrastructure you need to serve the market – and how competitive it is. And then there are some – I've run businesses which operate at a 70% to 80% cost-income ratio – typically, wealth businesses and often in Europe and North America – that generate incredibly strong capital returns and a very, very attractive investment opportunity.

So, I think the starting point is the mix of businesses, which is obviously an obvious point, but some of the southern Europeans are clearly playing to their strengths, either in Latin America or in big, scaled wealth businesses which have a 20% cost-income ratio.

The second thing is you want an organisation that has cost discipline and cost recycling, I like to think about it, inherent in their DNA. And certainly, Lloyds Banking Group has that. I was very fortunate to inherit an organisation that really understands cost discipline.

Within each of the businesses, the mindset I have is whatever business you have and whatever you've inherited, there's an opportunity to recycle costs that aren't adding value to our customers or shareholders into areas that are. Now, that's completely different by business and even product. So, how you think about that in the SME business versus the mortgage business versus the current account business is very, very different. And it differs by market, for that matter, but let's stay with Lloyds.

So, that's the second most important part. And so, when we have made commitments around gross cost saves, that's been our commitment. We've been looking at areas where we saw parts of our cost base we could either just reduce the absolute costs or build efficiencies. And where we were looking to reinvest it, we're reinvesting it in areas that give differentiation or growth.

Then, two more things that really do impact cost-income is, obviously, when you look at this, how transformational you're being on change and how much you're investing for the future. You asked about people costs, and it's one of the things that William and I really decided we wanted to do for our investors. We put all of our costs into our cost-income ratio. And so, for example, restructuring and redundancy is obviously quite a material number; certainly, in European markets and some Asian markets. So, if you're looking to really reposition and restructure your organisation, accounting for those is a material part of what we've been doing. And that's been part of what's in our numbers, as you know, Alvaro, and we've been continuing to both hire new talent and restructure the existing talent.

And then how much you're really aspiring to grow a business and invest in growth. Again, it's actually very easy to reduce costs by giving up market share, not acquiring customers, or booking growth as a negative revenue, which you can then delay. And a lot of banks play that game; we don't play that game. And so, cost-income ratio gets impacted by that.

If you're looking to build growth and growth for sustainable long-term returns, which is definitely our view – we want to be the best at sustainable capital generation through cycle – you also need to be investing in that growth. And as you know, in the last cycle, William and I came to you and said we wanted to invest £4 billion above our run-rate investment level to transform the organisation and get it back to growth. And that's what we've done. And that's always a big part of the cost-income ratios you need to look at.

Now, how far can they go? It depends on the mix of business, your ambition for growth, and then how much of a leader you are around scale and the use of technology. We certainly think it has an opportunity to go lower in our markets and businesses and across the world for the leading franchises.

And as I said, the only guidance we've given yet beyond 2026 – obviously, our 50% cost-income ratio we think will be really important to deliver this year. But beyond 2026, the only guidance we have given is you should expect to see it decrease as we go forward. And we'll come back and talk more about it in July.

Alvaro Serrano

Okay. I'm going to ask the last question – I've got a few, but I'm going to ask the last question and then open it up to the audience.

But last question for me on capital. You're going to have a lot of capital this year. You're already above the target. You've guided to over 200 basis points of capital generation. Basel IV (3.1), you're going to reduce, you guide to a reduction in RWAs between £6 billion and £8 billion. What are you going to do with all that capital? We've obviously seen some M&A in the sector. How are you thinking about deploying all that capital generation?

Charlie Nunn

So, I mean, the first thing is, this is what we wanted to be in a position to have, and we've been guiding to it for a while now. We've delivered very strong capital generation and distributions for the last four years. So, I do feel like now – at the start of this journey five years ago, I said our intent is to develop lots of capital and then distribute it where we don't have a better use for it, and I feel confident that we have done that.

And this is exactly the problem statement we wanted to have, which is have a very strong capital generation, a set of businesses that will generate, through cycles, strong capital, and then have this problem.

As you know, just in terms of how we think about it, the starting point – and I know it's an obvious statement – is what is going to maximize shareholder return and what do our shareholders and our bigger shareholders and retail shareholders most want. And that's our starting point.

What you've seen as a result of that is if we can see opportunities to invest in the business – growing the balance sheet or investing in our core business, which obviously then impacts cost-income ratio because of investment – we have now evidence that that's a very strong return for our shareholders. We didn't talk about it, but last year we did achieve £22 billion of asset growth, £13 billion of liability growth. We know that's going to provide a really strong return in terms of the capital deployed. And then the investment in the businesses that's driving the alpha we have talked about – the £2 billion of revenue growth above the net interest changes and then the 9% CAGR in other operating income – that's the starting point.

The second thing, as we've said, we always – and our board is very committed to this – want to make sure we have a real focus on return of capital to our shareholders. As you know, we've done that through two means. We've had a progressive

and sustainable dividend, with a 15% CAGR for the last four years. When you look at where we're at on that, we don't target a payout ratio. We don't think we need to. We still operate, though, at a very low payout ratio relative to some players. So, we think the words "progressive and sustainable" really do apply, and they remain, going forward. And that's great.

And then, obviously, if we have spare capital, we've been using the buybacks. Obviously, we've had an impact through the latest conflict geopolitically in our share price, but we're still trading significantly above where we started; I started at 41p. But we've had really good debates with our investors around, at this price point, is the buyback still one of the best ways for us to distribute any capital over and above a sustainable and progressive dividend? The majority of our investors really like it, and we certainly believe there's significant value in the stock as a management team. So, that remains a really important tool for our board to consider at the end of the year.

And in terms of M&A, as you know, we have done kind of what we've called three infill, three or four small infill acquisitions, the latest being – it's not quite completed yet – this acquisition of this digital wallet provider called Curve. We have a pretty high bar on what acquisitions need to deliver. They start by needing to be strategic and actually providing either increased capability or very significant repositioning of the businesses that that acquisition is going to support. And of course, they need to meet a pretty high bar on shareholder returns, given everything I've just said about the alternative uses of capital. And we'll certainly look at M&A that accelerates our strategy, gives us a more differentiated position and meets a high bar. But that's what we've been doing for the last few years. And you have seen, Alvaro, because we've had a number of discussions, there are a significant number of acquisitions we could have done in the market that we decided not to do for those two reasons.

Alvaro Serrano

I'm going to take questions from the audience. Been quiet in the previous session. Hopefully – there's one there, over there, in the back.

Unidentified Audience Member

Thank you. Two questions on my side. First, with all the volatility we have seen on rates, on potential finally for no rate cut from the Bank of England, what does it mean for your NII, going forward?

Can you share your view about Revolut finally having a banking license in the UK and what does it mean for the competitive environment?

Charlie Nunn

Brilliant. So, just first thing, when we entered this year, we were predicting two rate cuts this year: one in April and one in August or September, I can't remember exactly. Look, we haven't guided to our updated guidance, but it's very clear it's most likely that that's going to slow down.

In terms of the impact on us, I think there's an immediate impact, which is not having a rate cut gives you a little bit of upside because we typically have a delay on passing through the rate cut to our customers. It's a small impact, but it's a small positive impact. And of course, the strengthening of the yield curve, more broadly, will give us upside on our structural hedge. It'll be marginal, but it'll be upside this year, and it would build depending on how the yield curve changes over time. So, that's good.

On the other side of it, we'll have to see how rates impact economic activity and the overall growth in the market, and we kind of don't know that yet. So, we'll have to see how that plays out.

This is exactly, though, why we spend a lot of time as a management team thinking about: how is our balance sheet, our structural hedge, and then our trust from our customers on the businesses they do business with us, how's that positioned so that we can continue to progress whatever happens. And at this stage, obviously, I think most people will think the changes will be marginal (i.e., there may be a delay in rate cuts). Or even those that believe that rates will go up, they might go up only a small amount. And obviously, that won't, therefore, massively impact our customers negatively or the economy massively negatively.

So, at this stage, it all feels incredibly manageable within the context of our current strategy. But that's the way I think about it. There's upsides for us given the nature of our business. There may be some downsides based on the scale and growth of the market. At this stage, we remain very confident in our 2026 guidance and our trajectory looking forward. So, that's important.

The second question was I think about Revolut, fintechs, and banking licenses. Obviously, I won't talk about any specific individual firm in detail. Although just one thing to say around banking licenses, by itself, it doesn't give you any additional capabilities. There's nothing that they can do today that they couldn't really do previously if they wanted to. As you know, on the asset side, which is one of the weaknesses in their businesses, you don't need a full banking license to be an asset business. And so, we'll see what they do with that banking license.

I think the more important part is, look, fintechs have been around now for a significant period of time. And when I look at Lloyds Banking Group, we have by far the biggest digitally engaged customer base. When I look at the scale of what we do, some of the fintechs, at least two within the UK, claim to have about half the customer base that we have – we have 28 million customers – but they have somewhere between 1/30th and 1/50th of our deposits and 1/50th and 1/200th of our lending. So, there's a long way for them to go to build the trust and confidence in their customers. And actually, in the businesses we care about, where we think there's sustainable returns, especially through cycle for our investors, like personal current accounts, we've grown our market share in the last four years from 21.5% to 24.5%.

So, yes, it's a very competitive market. You have to be brilliant at digital services, but then you have to compete in a way that builds trust and actually creates value. And that's what we've been doing, and that's what we're going to continue to do, going forward.

I mention always in these meetings – and it comes across like a light comment – growing our digitally engaged customer base from about 17 million, 16.5 million to 23 million and increasing from about 4 billion to 7 billion logons a year is a massively important strategic achievement, and it's really important when you look forward as to how you're going to continue to meet the needs of customers.

And of course, we're just playing different games, right? We serve the whole of society with a very broad range of products. We're able to do things that most of those fintechs haven't got any capabilities to do and no ambition to do. They do some other things that we don't do brilliantly compared to them. But in terms of what we're trying to do, which is be a meaningful, trusted financial services provider that can join up for customers across a broad set of needs, that then delivers a very strong platform for growth and for our investors, we're playing a very different game.

So, we need to stay very relevant, aware of what they're doing. I look at what they're doing. Obviously, I mystery-shop the market a lot. But the data shows that we're competing well. And I'm really excited about the combination of generative AI, agentic AI, and digital assets and how we can bring those to our customers and drive additional differentiation and growth, going forward.

Alvaro Serrano

Okay. Next question? I've got a question on UK politics. Obviously, the situation remains fluid. How do you think sort of any potential changes can impact the reform agenda that's been laid out? Obviously, there's a lot of things under review: the ring fencing, leverage ratios, advice, et cetera. And the messaging from today's government has been relatively supportive of financial services. Do you see any risks around potential change in the political landscape?

Charlie Nunn

I mean, we're talking about the last five years, and I think the first reflection is since I've been in this seat we've had four prime ministers and six chancellors. And so, look, I think it's really helpful that the current government has provided a point of stability and is very clear that financial services is important for enabling economic growth for the country and that financial services reform is part of that.

But actually, we've navigated that uncertainty in the past, and we'll navigate the uncertainty in the future. I think that's the first important point from a kind of shareholder and then thinking about Lloyds Banking Group's position. And we invest a huge amount of time to be relevant to and have relationships with whichever political party is in power. So, I think that's the first point.

Second thing is a number of the reforms that this government has taken on were actually started by the last government. And the realisation or the reality, I think, is anyone in government who looks at the UK and the potential for the future recognises that a growth in productivity, which have been huge challenges, and then the role that financial services can play is critical if they're going to create a bigger pie, which they're then, depending on their political choices, going to split between the population of the UK and the businesses and individuals and households. So, I think that is true. Any government that we get is going to realise that financial services is really important.

And when you look then at the regulatory context and what we hear from the PRA and the FCA and then other regulatory bodies, I think what we have seen and what we will continue to see is the most positive environment we have seen since the financial crisis. So, they've all now indicated they've met – once Basel 3.1 comes in, in January 2027, they've put in place the reform agenda that they wanted to complete post the financial crisis, and they are now looking at their secondary objective, which is competitiveness and growth, both for the industry and how that supports the economy.

And I think that reform is going to continue, whatever happens. Actually, the Treasury and the FCA and FOS yesterday announced the next plank of the conduct reform agenda, which was announced at the Mansion House a year ago, November '25, maybe – '24, sorry, just over a year ago. That's now going into primary legislation. That's another example of the reform agenda that will be taken forward. And I think you'll see there's quite broad support across the House for that, and it's a really good indication that I think the political agenda is going to continue to be relatively focused and stable in enabling financial services to support the real economy.

As I say – Alvaro, you've been doing this a long time – I've never seen such a positive environment in the UK since the financial crisis, and I see the political parties have been supportive of that agenda as we go through.

One more thought, which may be on the more negative side, we get a lot of questions from investors around what if the bank levy were to be increased or what if reserve remuneration were to be changed in the way it has in Europe. Look, I won't do it in the public setting. I do have more specific discussions, but we obviously are highly aware of those potential changes. That will be a matter of choice for the government or the Bank of England, but neither of them are that material. When you look at how it impacts our profits, our capital generation, and then our trajectory, they just aren't material.

So, I wouldn't recommend those things because it will slow down the ability of the financial services sector to support customers and businesses, but it won't take us off course if there were a government that came in and decided that was the right thing to do.

Alvaro Serrano

Questions from the audience?

I can ask one more, if not, of a theme that's definitely come up in the last few weeks, and this is about more than private credit, which I know is not something that is relevant for Lloyds, but the whole, the broader asset quality picture has been started to be discussed. When you, when the management team think about sort of potential disruption risk around AI and potential risk further down the line and what you've seen in private credit, how do you think about the asset quality risks in what is a very benign market at the moment? What do your discussions look like internally?

Charlie Nunn

So, look, let me give you the lens on the UK, which is different, I think, from North America around private credit and private markets. But if you just look at it since the financial crisis, basically 100% of the growth in lending in the UK since the financial crisis – about £450 billion, I think it is; I had that in my head for a treasury select committee – has been delivered by private markets. The banking sector has basically been flat since the financial crisis in terms of its extension. So, it has become very important in the UK market for corporates, for institutions. And as you know, there is some interplay between some banks and those markets.

We are very active and a very material partner around providing support to sponsors, especially private equity. But we do it in a very simple and focused way, where we always have some call-back on the ultimate investors. So, for those in the middle of this, we are very focused and very limited in terms of how we do NAV lending on the private equity side. And we don't really participate in the asset-backed lending for private credit.

And the reason for that, by the way, is when we have looked at it and how the market matures, most of the banks that do support it don't do due diligence on the underlying loans, and we don't feel comfortable with that. That's kind of been our positioning.

So, actually, the sponsors business is a really important counterparty for us, and we really have supported some of the big players in how those markets have enabled the UK to continue to grow and prosper around big infrastructure, large corporates. But it's how you participate in the market that's really important.

Now, in terms of credit quality and what we're seeing around them, again, I think different countries have different standards around how they originate. Typically, we tend to see there's certain players – and I won't give you the names of

them, but you'll have your views of private credit firms – that do have very strong origination standards, and we aren't particularly concerned around what we're seeing around the lending they've been doing. And there's others that tend to have less experience and less diligence around their lending, and we are highly aware of who they are and who the counterparties are.

There's nothing we see at this stage in specific sectors or in specific parts of the economy in the UK that worries us particularly. Obviously, top of mind for everyone will be MFS, which was the one that in the UK obviously has just come up. But again, we had no credit exposure to them. And actually, that was a name that was well understood that we wouldn't have credit exposure to them. So, I don't think that is yet an indication of a broader read-across.

And of course, I'm going to be UK-centric for a second because I'm sitting here as the CEO of Lloyds Banking Group, although I've tracked carefully and I recognise the concern around software companies and the potential impact of AI and then how that's embedded in private credit and those private credit companies with leverage, those just aren't names we're exposed to in Lloyds Banking Group. That's much more of a North American issue than it is a UK issue.

So, it's definitely one to watch. We've taken some very deliberate decisions that, for what it's worth, has slowed down our commercial – our corporate and institutional – banking balance sheet growth. You'll see our balance sheet growth has been slower than some of our competitors, and that's a deliberate choice, because we especially didn't want to go straight into the asset-backed lending businesses. But I don't see it yet in the UK as an indication of any broader concern. In Jamie's language, the "cockroaches", I don't think are going to start swarming out of the bathroom any time soon. But we're very vigilant about it, and it is obviously hugely important in the context of the development since that financial crisis that I just talked about.

Alvaro Serrano

Thank you. Opportunity for a last question? Or we can...

Charlie Nunn

It's too early in the morning, I think, Alvaro.

Alvaro Serrano

Yes, we've got a lot of people who are very quiet. Okay. With that, I think we've covered all the main topics. So, thanks very much for coming one more year, Charlie.

Charlie Nunn

Thank you for having me. Thanks, everyone.

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, 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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