**LLOYDS BANKING GROUP PLC – 2021 Q1 IMS– SELLSIDE ROUNDTABLE TRANSCRIPT**
(amended in places to improve readability only)

**Wednesday 5 May – 4.00pm**

**LBG HOSTS:**
William Chalmers, Interim Group Chief Executive & Group Chief Financial Officer
Carla Antunes Da Silva, Group Strategy, Corporate Development & Investor Relations Director
Sergio Afonso, Interim Group Balance Sheet Management Director
Jon Burgess, Interim Deputy Chief Financial Officer & Group Financial Controller
Chris Edis, Finance Director, Commercial
Andrew Edwards, Chief Operating and Risk Science Officer
James Hillman, Finance Director, Insurance & Wealth
Douglas Radcliffe, Group Investor Relations Director
Israel Santos, Finance Director, Retail

**William Chalmers**
Thanks everyone for joining this afternoon's call. We have myself, plus Douglas from the IR team, as well as a series of colleagues from the finance team. We will be happy to take any questions. I probably won't kick off with an intro on our results, simply because you got the run through last week and hopefully it was all pretty clear. So with that, I'm happy to take questions as they arise.

**Question 1: Omar Keenan, Credit Suisse**
**Good afternoon. Thank you very much for making the time. I just had a quick question on capital and pay-out plans. The capital position is good at 16.7 per cent, I think around 15.3 per cent after IFRS9 and the software deduction. The pension deficit is a bit of an odd one to think about. I was just interested in your thoughts around when you think about Lloyds' capital position today, do you see it as a good capital position or an excess capital position? Are you still happy with the RWA guidance of around £215 billion? And do you have any updated thoughts around the Bank of England timing around communications on dividends and pay out frameworks, for instance? Thank you.**

**William Chalmers**
Thanks Omar. There's a couple of different questions there. I'll take them in order. First of all, on the capital position, yes, we do see it as a strong capital position. You'll be aware as to where we ended up in terms of the quarter, which, again, both in relative standards and in historical standards, looks pretty strong at 16.7 per cent. You can take off the software deduction from that if indeed that's what the PRA chooses to do, but it's still 16.2 per cent after that. And then you can take off the transitionals of a further 90 basis points, but it's still 15.3 per cent after that. So it does look very strong, and obviously that will be a consideration in terms of the overall capital distribution that we look at, to a degree at the interim, but more importantly at the end of the year.

I'm not sure that pensions makes us look at the capital position any differently, frankly, versus where we were before the triennial. The contributions will be as they are. We outlined them at the full year. We're obviously aware of the contributions as we roll forward. But versus the position that we saw before the triennial, as said, I'm not sure it necessarily makes a big difference to the way in which we view either the capital position or the distributions from that.

In terms of RWAs, as we look forward, we've given guidance for 2021, which as you know, is broadly stable on 2020. For the year as a whole, there are a few tailwinds and headwinds within that. The principal tailwind is commercial banking optimisation which we'll continue our work on over the course of the year, and that will provide further RWA relief. The principal headwinds won't surprise you - consistent with our economic forecasts, we expect to see some degree of credit migration. We anticipate some balance sheet growth mixed in with that, and then one or two other bits and pieces including FX markets driven stuff, which won't amount to a whole deal, but are included in our headwinds. Now, all of that for 2021 is obviously an activity-dependent picture. So if we see a faster reopening up of the economy, then we would expect some further balance sheet growth. Equally, if we see less of a macro performance, let's say a relative macro deterioration versus what we forecast, then credit migration may play a bigger part. So, there is an activity dependent picture on RWAs for the remainder of this year.

You asked about RWAs for next year. As we look into next year, there's a series of headwinds, principally regulatory related. CRR2 obviously has a bearing on that, as does the CRD IV mortgage model, as well as CRD IV other aspects, including expected loss in one or two areas. And then we get the potential introduction of PRA mortgage floors. So there's a number of regulatory headwinds which we'll talk more about as the picture clarifies during the course of the year. Off the back of that again, we would expect to see some further optimisation within the commercial bank, somewhat offsetting that. But overall, it is a net headwind picture for 2022. We mentioned at the full year that we were comfortable with consensus. And I would say that that's broadly okay, but I would also say that there is quite a lot of uncertainty around the picture for 2022 as these regulatory issues in principle, as well as one or two of the macro dynamics, sort themselves out. We will give greater clarity on that exact picture as we progress through the year, and are able to give it.

The other point I'd make, Omar, which is important to bear in mind for 2022 RWAs, is that many of these regulatory headwinds are introduced as of January 2022. So when you think about our overall RWA picture and indeed the capital that frees up off the back of that, just bear in mind that a number of those regulatory headwinds in particular get introduced effectively as of the 1st January 2022. And as I say, we'll come back to clarify on the uncertainties as we go through the year.

On the BOE timing, we don't have any greater clarity on that than the market does generally. We do expect the PRA to come back and give us guidance on the position vis-a-vis capital distributions before the half year, and therefore, we should be able to comment on it as of the half year. Beyond that Omar, I'm not sure there's a whole lot more that we can say.

**Question 2: Rohith Chandra-Rajan, Bank of America**

**Thank you very much. Good afternoon. I had three, please, if that's okay. Hopefully all relatively straightforward. The first one was just to clarify, and sorry to come back on the hedge, but to clarify the hedge. The £58 billion that you'll be investing over the remainder of the year, to bring the duration of the hedge up from three and a half to five years, it looks like you'd need to be putting that on at around seven years. Is that the right maths in terms of thinking about both the rollover and the increased capacity for the remainder of the year?**

**William Chalmers**

I'm not going to comment on our hedge investment strategy in such precise terms, I'm afraid, Rohith. What we've done is given you a sense of the reduction in the structural hedge headwind for the remainder of this year, which as you know, has come down by about £100 million from £400 million to £300 million over the course of this year. That is off the back of a better yield curve. We think that rates have moved by about 20 basis points or so, to around 30 to 50 basis points, in the period since we gave our full year results. And the benefit of that, in turn, will play out, as you point out, both in terms of the filling up of the capacity and also in terms of the reinvestment over the course of the year.

We have typically invested, as I mentioned last week in our results, at around the five-year type timeframe. A lot of our activity in Q1 in particular has simply been about moving back to a neutral position. When the curve was very flat, we didn't see the point, frankly, of investing over term. As the curve has steepened up, we have seen the point of investing over term and so we have tended to invest, as I say, a little further out, typically around a sort of three-to-five-year type range.

As for the remainder of the year, we've given you a sense as to where we think the headwind will fall to. We've given you a sense of the volumes that we expect to invest. I'll leave you to do the maths from there without being too precise about the terms at which we will invest. Safe to say that, as you know, I would expect that the weighted average life of the hedge probably moves gradually back over the next year or so to something closer to around four years.

**Rohith Chandra-Rajan**

**Okay. Thank you. And then the second one was on mortgages. I think you mentioned a 15 basis point difference between completion and application spreads, which looks quite a lot better actually than the moves that we've seen in the market as a whole. So I was wondering if that reflects any change in either growth appetite or the mix of lending that you're doing on the mortgage side?**

**William Chalmers**

I'm not sure that it does. A lot of the price moves, or the price investment, has happened at the higher margin areas of the market, the higher LTV areas of the market, Rohith. So that may be part of the answer to your question, but in essence, as I said the other day, we've seen Q1 completions around the 190 basis points-type mark. That's versus a roll off of around 150 basis points. So a 40 basis points benefit.

On new business, it's probably pricing at around the 170-175 basis points type mark right now, so it's still quite a considerable benefit over what we're rolling off. And therefore if you do those maths, you've seen some effect of compression in margins over the course, but it's been not the full extent of the move in yield curve, number one, and I suspect it probably has a little bit more to play out during the course of this year, number two. Israel Santos, our Retail DFD, is on the line. Israel, I don't know whether you have anything else to add to that comment?

**Israel Santos**
No I don't. And to Rohith's immediate question, any changing risk? No. the only thing to be mindful of is obviously that we will now begin to participate in the 95 per cent LTV market. Given we've recently re-entered that, to bear that in mind as you think about Q2.

**Rohith Chandra-Rajan**
**And is that primarily through the government scheme?**

**Israel Santos**
Yes.

**Rohith Chandra-Rajan**
**At 95 per cent. Okay. Thank you. And then just one final one, the other UK banks have flagged a gain on the Business Growth Fund. I didn't see that you had mentioned that. I was wondering if that was a feature of your numbers and if so, where it was in the P&L?**

**William Chalmers**
Yeah. That's a fair question, Rohith. We got a little bit of a benefit out of the Business Growth Fund. It will appear in the other income line. It's not huge from our perspective, and we've taken a close look at it and just taken a relatively cautious view as to what we take in Q1. We'll look at it again in Q2, Rohith, and if it stays where it is, we may have a little further benefit to play through in Q2. But, as I said, there's a modest benefit from that in Q1, which we somewhat haircut, and we'll take a look at feeding through the rest of the benefit if it persists into Q2.

**Rohith Chandra-Rajan**
**Okay. So the other banks, they're round about a £100 million gain in Q1. It sounds like your number was much less than that in terms of what you recognised? And a bit more to come through in Q2?**

**William Chalmers**
Yeah. It's considerably less than that, Rohith.

**Rohith Chandra-Rajan**
**Okay. Thanks very much.**

**William Chalmers**
Thanks.

**Question 3: Robin Down, HSBC**
**Good afternoon guys. Just a really quick one from me. Could you tell us what your gross mortgage lending share was in the first quarter? I think we've got used to the idea of it running kind of 16 per cent, 17 per cent, but I think to produce the net volumes that you've done, I'm guessing you must have been closer to stock share of maybe around 20 per cent?**

**William Chalmers**
Yes, I have in my mind, Robin around 19 per cent to 20 per cent, maybe a fraction over 20 percent, but Israel may want to correct me?

**Israel Santos**
No, you're absolutely right, it's around that 20 per cent.

**Robin Down**
**Okay. So around 20 per cent. And on the redemption side, again it sounds like you're probably doing something roughly close to your stock share there, at around 20 per cent?**

**William Chalmers**
Yeah. Well, a fraction under I think, but again, Israel may want to correct my number.

**Israel Santos:**
No, you're absolutely right. It's a fraction under.

**Robin Down**
**Yeah. So is there any particular reason why you've suddenly picked up this market share? Do you think that it is something that's perhaps a more permanent change, or was that driven by capacity constraints elsewhere?**

**William Chalmers**
It's a good question, Robin. It's been developing, as you know, since Q3, and I think there are a couple of different inputs into that. I think in the early stages of the comeback from the Coronavirus pandemic in the middle of last year, going into Q3, we saw some significant constraints in capacity in the market. Frankly, we experienced them too, but we were early to: a) recognise them and b) shift resource in that area. And so our processing capacity became available to us probably faster than it might have done to others in the marketplace.

That dynamic, I think, led to a degree to pricing outcomes in the market which were both independent of supply side, i.e., demand-led factors, but also in part dictated by supply constraints. So off the back of that, we saw an attractive market, which was obviously there for everybody, but we were also able to access it, because we had built up the supply side again perhaps a little faster than others.

I think that's point one. I think point two is we've seen the benefit of both cyclical and structural factors in the market, which as, you know, have buoyed demand. A lot of the thinking in the past around how much appetite we have for the mortgage market has been dictated by what we see as value. That value, and indeed, the volumes, were very much there in Q3, Q4, and also right now, Q1, and I don't think there's anything much more complex than that, Robin, i.e. a bit of a supply side characteristic in the early days, which has now more or less been evened out, but secondly, a consistent and persistent demand side characteristic, which has led both to volumes and pricing, delivering what we think is favourable and attractive terms from an economic value.

**Robin Down**
**If I could just paraphrase. So, if pricing stays at very attractive levels up here, you would expect to be doing a gross lending share that is perhaps above where you have been in previous years, around that kind of 20 per cent mark, give or take? I know that's crystal ball gazing, but is that your kind of expectation?**

**William Chalmers**
A couple of points on that, Robin, that I'll make. One is that pricing does remain attractive today. We do have in our base case, margin compression, particularly during the second half of this year. And we also have in our base case, a little bit of abatement of demand off the back of things like the stamp duty holiday coming to an end. Those two are likely to be connected, meaning that the market is less constructive from a price and volume point of view in the second half than perhaps it has been in the first half. That's our base case, we'll obviously see how it plays out.

In terms of our overall approach to that market, we obviously don't want to increase risk. We're very mindful of both our economic forecasts and our risk appetite as per the previous question. But we are interested to make sure that we best serve our customers, particularly where there are attractive economic terms available. So what does that amount to? It amounts to continued growth in Q2 as we're seeing now, when conditions are favourable for that. And then I think it amounts to growth, but frankly, a slowdown in that growth, during the course of H2. And as you say, we obviously pay attention to the macro, to the risk and to the value available, overlaid, of course, on top of the kind of customer service proposition that we hope to deliver.

**Robin Down**
**Right. That's brilliant. Thanks William.**

**William Chalmers**
Thanks Robin.

**Question 4: Alvaro Serrano, Morgan Stanley**
**Good afternoon, William. Just a couple of questions on other income. I think on NII we've got a good view of the moving parts, and I'm just curious about your thoughts and a bit of more colour on the recovery in other income. I know you've called out the £300-400 million COVID impact, but beyond that, I just want to get some colour on how the recovery could look like. Because pre-COVID, obviously there was a lot of focus on growing the Insurance business. There was a strong pipeline of product launches. And I realise in 2018 and 2019, there was the auto-enrolment one-off, but I just want to get a sense of how much of a reference the £5.5-6 billion of other income in 2018 and 2019 is.  And obviously, in the other businesses ex-Insurance, there was fee pressure for a while. So can you give us an update and a bit of colour on the growth initiatives in Insurance?**

**And second, hopefully a quicker question, what do you think could be the outcomes of the review of the ring fencing? That, from memory, was potentially a growth constraint for Lloyds. I don't know how you feel about it coming out of the review? Thank you.**

**William Chalmers**
Yeah, thanks Alvaro. On OOI, I think I would distinguish between cyclical versus structural factors. As you know, on OOI, we've been seeing a recurring lockdown run rate of about £1.1 billion which is consistent with what we saw in Q1, there, or thereabouts. Then, as you pointed out Alvaro, we think that we lost £300 to 400 million during the course of last year in the context of three quarters of lockdown across the businesses - in Interchange and Retail, for example, in Commercial transaction banking, Insurance new business, even a little bit in the equities business.

I think therefore, on the cyclical side of other income, we would expect that £1.1 billion to remain pretty solid and then to gradually be built upon by the £300 to 400 million coming back over the course of the year, and so that leads itself to the summation of those two on a quarterly basis. Obviously, I don't mean the £300 to £400 million in total, I mean the £300 to £400 million staggered over the course of the quarters.

If you do the maths on that, you're going to get back to £1.2 billion or thereabouts of other income per quarter, which is the kind of cyclical recovery that I was referring to. The question, then, is what type of structural recovery do we get beyond that? And I think, if it is not abusing the term, that it is in part led by the macro-economic recovery that we would expect to see. As we see an expansion of activity above and beyond the re-baselining, then we'll see some benefits come through in terms of, let's say, greater Interchange in retail or, alternatively, greater transaction banking flow, cash management, payments, and so forth in Commercial. That will give us a lift off the cyclically adjusted £1.2 billion that I mentioned, to the extent that the macro economy continues its recovery.

Beyond that, it's going to be a function of, as you say, the propositions that we're able to offer customers; both protecting ourselves against margin compression and other forms of attack, and hopefully also launching products and services that customers want and value. And I would look towards the secular trends that we have behind us in the Insurance and Wealth business in that respect. The often-talked-about Schroders Personal Wealth, for example, but also things like the mobile home application that we have just launched, and the protection initiative that we're launching. That will gradually build into Insurance earnings. Likewise in Commercial, we would aim to expand or leverage on some of the capabilities that we built recently. Again, cash management and payments is an example of that, as well as in Retail, things like value added products.

Those, Alvaro, are going to be gradual build-ins to that other income picture. So I wouldn't necessarily see those as transforming the picture. Certainly not on an overnight basis, but I would see them as gradually improving the other income earning stream over time, going into, predominantly, the very late part of 2021, and into 2022 thereafter. Again, in a relatively gradual way, and a relatively gradual build-up of other income. When you talk about £5.5-6 billion for 2019, that feels like quite a long way off to be clear, Alvaro. I think we've got to consolidate our cyclical recovery back to levels that I just mentioned, and then we've got to build from there in conjunction with the product initiatives that I've just highlighted. And we'll see how that trajectory fills out during the course of 2022.

**Alvaro Serrano**
**Thanks for that. And on the ring-fencing review, any thoughts?**

**William Chalmers**
On the ring-fencing review, on the one hand you've got Keith Skeoch saying that the ring-fencing review is open to all ideas, ranging from enhancing it to scrapping it, and everything in between. On the other hand, you have the practical constraints around it, and whether or not there is political appetite to undertake any fundamental change so early in the ring-fencing history.

My own view on this, and it's obviously up to Keith and the team to figure out where they go from here, is that we may see some change at the margin in terms of making the ring-fencing regime work in a, potentially at least, more practical way, but I would be surprised if we see anything all that fundamental in terms of change, but, again, it's clearly not in my hands and it may be that it exceeds my expectations, but those are my expectations for now.

**Alvaro Serrano**
**And do you think that will be a limitation for your balance sheet growth for Lloyds?**

**William Chalmers**
No, not really. I think when we look at the ring-fencing regime, we obviously have a systemically important capital add-on for the ring-fenced bank. That translates from the ring-fenced bank into the Group picture to the extent that we exceed certain balance sheet thresholds, then it is conceivable that systemically important capital charge gets increased at the margin for that increased balance sheet size to reflect the fact that we're systemically that much more important. I think overall, if we see value in expanding and building the business, then we would do that. The capital add-on is unlikely to change our mind, because it is likely to be sufficiently modest, and also likely to be outweighed by the business benefits of expanding the business.

**Alvaro Serrano**
**Thanks, William.**

**William Chalmers**
Thank you, Alvaro.

**Question 5: Chris Cant, Autonomous**
**Can I ask on income again, please? So you talked about 170 bps completion spreads in Q1. Where are your applications spread at the moment, please? Just looking at the products on your websites, spreads would appear to be some way inside of that now?**

**And then on other income and minor points of clarification, you talked about the contribution of the Business Growth Fund. I know you haven't quantified it. I think your release also pointed to an out-sized LDC contribution in the first quarter as well. Could you give us a sense of how lumpy that contribution was? I'm just cognizant of the fact that we're all looking at this £1.1 billion level, but if there's a bit of Growth Fund in there and a little bit of gilts in there as well, I think, and then a little bit of outsized LDC, maybe the £1.1 billion is not quite the right figure for us to be analysing from?**

**And then finally, on the hedge, could I just understand the £300 million drag that you're guiding for this year? So if I think about the contribution last year versus where you are in Q1, and I appreciate there's rounding, are you trying to tell us with the £300 million that there is no hedge drag versus the Q1 NIM run rate? I'm just conscious that there's this year over year versus quarter-to-quarter progression issue with the £300 million. I think the £300m you're telling us is the reduction in gross income for full year 2021 versus full year 2020. But if that's the case, given that you were at £0.5 billion rounded for the first quarter, has that pressure now already been fully reflected in your NIM? Is that the gist of it? Or am I missing something? Thank you.**

**William Chalmers**
Sure. Thanks, Chris. Just dealing with each of those three questions. By application spreads, let me ask you a question. Do you include remortgage within applications spreads above and beyond new business, is that what you're getting at?

**Chris Cant**
**Yeah. So your completion spreads for Q1 were presumably reflecting business you were writing primarily in November through January and completing in calendar Q1. So when we think about the go-to spreads for the mortgage business, when I look on your website, they're quite a long way below 170 basis points. And I appreciate that remortgage can be a bit better than that because you price remortgages higher than new production, but yeah, just want to get a sense of where you see that heading, given current pipeline?**

**William Chalmers**
Yeah, it's a little inside of the 175 basis points. Essentially the new business applications that we're writing now are around 175 basis points, Chris. If you include remortgaging, it's a little bit inside of that. As I said, the expectations for the remainder of the year is that it will probably see a bit more margin compression as we go forward. But I don't know whether that answers your question or not. So unless you want to phrase it another way, that's probably the best guidance I can give you.

On OOI - BGF, LDC, gilts. BGF, as I said, was a small amount in Q1. We'll look at it again to see if the valuations that led to that gain is sustained. And if so, then we'll take the remainder of that in Q2. LDC, nothing really outsized in Q1. There was a strong LDC benefit in Q4. LDC outperformed in Q4 as we saw some year-end realisations but nothing that I would call out of the ordinary in Q1 in that respect. And finally, gilts in Q1 OOI was pretty immaterial, Chris, so I think the £1.1 billion is the right number. As you know, the actual OOI number was £1,135 million. But I think £1.1 billion is an appropriate number to look at for a run rate OOI in that quarter.

And then finally, on the hedge, when we look at the margin for 2021, we have, as you said, taken much of the structural hedge drag out during the course of Q1. And then the development of the margin for the remainder of 2021, as I mentioned the other day, is around some headwinds that we see from greater mortgage volumes which will bring the margin down, albeit add to net interest income. There's also some headwinds from commercial banking in terms of RCF and trade finance balances, and then somewhat surprisingly, a bit of a headwind from increase in unsecured balances, assuming that we see them, simply because our risk metrics around unsecured are relatively intolerant of risk. And therefore, we are generally writing unsecured at lower margins versus what we might've done pre-pandemic. So those are two or three of the headwinds on the margin that we'll see for the second half of this year. And as you say, the structural hedge issue has largely been dealt with by virtue of much of the work that has been done in Q1.

**Chris Cant**
**Okay. Thank you**.

**William Chalmers**
Thanks, Chris.

**Question 6: Aman Rakkar, Barclays**
**Hi, William, hi Israel. I wanted to ask on consumer credit if possible. I was interested if you could help us understand the potential impacts of the persistent debtor regulation that was flagged by the FCA at the beginning of last year. If it wasn't for the pandemic, we might have expected to see a step down in credit card balances from Q2 onwards, but obviously, that was kind of overshadowed by the impact of the pandemic. And I was interested if you could help us quantify or scope what impact that might have had? What proportion of your credit cards you would have considered to be persistent debtors? Can you help us understand to what extent we may or may not be able to get back to 2019 level in credit cards?**

**A related question to that, given the uncertain outlook for consumer credit, how are you thinking about the normalised impairment charges of Lloyds going forward? Should we be thinking about a lower charge through the cycle if we've got structurally lower consumer credit balances, or are we very much expecting actually that we're going to get back and looking at the last decade is actually a good read?**

**The final one, just a point of clarification, just around the tax change that you guys are flagging and the impact on DTA in Q3. I think another bank was talking about that potentially reversing out in 2022. I wondered if that was relevant for you guys? Thank you.**

**William Chalmers**
Sure. Thanks Aman. Dealing with each of those, and I'll ask Israel just to add on anything on the first one in particular. Consumer credit, persistent debtor. I think the persistent debtor issue is obviously one that everybody in the industry is mindful of. The card portfolio that we have, as you know, Aman, is relatively speaking, positioned at the prime end of the market. That is helpful from a persistent debt point of view. I don't think we've quantified the exact extent of the persistent debt issue on balances, and I think we'd probably hesitate to do so.

But I think when you look at what's behind your question, which is how do we see credit card balances and their pattern over the course of this year and beyond, and do they get back to 2019 levels? A couple of points I would make. I think more important than the persistent data point is going to be how the macro fares, and indeed, the extent to which we have a GDP rebound at the more optimistic end or alternatively the more pessimistic end. That's driver number one. And then the second driver, which I think is going to be frankly important, is the fact that we have a lot of deposits on balance sheet right now, the fact that repayment therefore is likely to be a characteristic even where people do use their credit card to spend money, either on holidays or on consumer durables, you'll see a heavier repayment profile than I think we have traditionally seen.

And so the extent to which credit card transactions actually stay on the balance sheet in the near term, Aman, I think is going to be a big determinant of how quickly we get back to 2019 levels. You may see some drag from that factor in the course of 2021. I think it would be realistic to expect that. It may be, therefore, that the expansion in credit card balances comes a little bit after what we might have originally expected, a little bit later going into 2022 and potentially beyond, because of that repayment factor. And I think that's going to be an important ingredient in terms of how credit card balances fare from here. Before going on to address your second and third questions, Israel would you add anything to what I've just said?

**Israel Santos**
Sure. So in terms of the persistent debt part of that question, we haven't quoted it before, but the population impacted isn't a significant part of the book. Obviously in terms of response to that population, a large part of the response has been about getting those customers out of persistent debt. So either increasing minimum pay or asking them to catch up in terms of one-off payments so that they're not classified as persistent debt customers. In terms of impact, it's quite immaterial relative to the points that we've already mentioned in terms of decreasing spend that we've seen through COVID or the increased use of excess deposits. So persistent debt isn't a material drag, or hasn't been a material drag, in terms of the balance reduction that we've seen through the COVID period.

**William Chalmers**
In terms of the normalised impairment charge, I think the question there is both the near-term question and the longer-term question. That is to say, for the near-term, there's no doubt that what we have seen in Q1, as you know, has influenced our expectation for the impairment charge for the remainder of 2021, hence our comments around less than 25 basis points, as you saw. As we go forward into 2022, we have to see how much of that normalisation takes place, what the macro economic recovery is. And indeed, we'll be keeping an eye on some of the management judgments that we have in the ECL right now, and whether those make sense still to have, whether or not they need to be used because the macro suggests they should be, or alternatively, if not, whether or not they should be released. And that will influence our near-term impairment charge.

Your question was around the normalised level. I think at the moment, we're not calling a different normalised level to our traditional charge of 30 to 35 basis points. We just have to see how things play out from here, but at the moment, we're not calling a difference in normalised impairment charge going forward. As I said, for the immediate future, maybe a little bit beyond that, it may be that if we have a benign period of macroeconomic conditions, then for that period, at least, we fare relatively well compared to our normalised expectations.

And then finally, on tax charge, the DTAs, we made the comment that we expect a benefit to the DTA, which will probably come through in the third quarter of this year in line with the expected change from the statutory perspective. We'll see the majority of that benefit come through in terms of the regular charge. We'll see a little bit of a negative in the OICR, reflecting the cashflow hedge reserve. That nets out around £850 million positive for the group as a whole. It may be that I'm missing the point of your question on 2022, but I don't think that we expect much beyond those dynamics to play themselves out, Aman, but if there's if there's a further point to your question do let me know and we can try to answer it.

**Aman Rakkar**
**Yeah. It was just around the changes around the tax surcharge, the banking surcharge – the suggestion that it might have somewhat of an offsetting effect –**

**William Chalmers**
Right. Okay. That's a fair point and a good one. The banking surcharge, as you know, has been called out as requiring review, and the expectation is that if the corporate rate goes up, then the banking surcharge goes down, so that there is a less of a net hit from a bank's perspective. While I think those two will compensate for each other, i.e. the banking surcharge coming down will offset the corporate tax rate going up, I'm not sure it's going to be one for one. It may be that there's a little bit of a net negative there, even if it's a relatively small one. The banking surcharge comes down, but perhaps not quite as much as you might expect the corporate tax rate to come up, we have to see how that plays out. We certainly hope for complete offset, but we're being a little cautious.

The second point. When we look at the effect of that, the DTA is not something that is deductible against the surcharge. And so even if the surcharge comes down, it does not affect the DTA value to any significant degree. Frankly, I'm not sure it affected it at all. The key point being that the surcharge is not something against which you can offset the DTA.

**Aman Rakkar**
**Okay. Thanks William.**

**William Chalmers**
Thank you, Aman.

**Question 7: Jonathan Pierce, Numis**
**Hello there. Three hopefully quite quick questions, please. The first one, when do you expect to start upstreaming some dividends aside again from the insurance company? Second question, the 12 per cent preference shares - is there any reason why you wouldn't reg call the holdouts on that on the 31st of December this year? It's quite a chunky interest**

**expense attached to that. And then the third question, I was hoping you could give us a little bit more of a split on where the RWA regulatory add-ons are coming. I mean, are we sort of talking £2-3 billion best estimate of expected loss, £3-5 billion on mortgages, a couple of billion on SA-CCR? To get a slightly better feel of where that is coming, given it is quite big, would be helpful. Thanks.**

**William Chalmers**
Sure. Thanks for those questions, Jonathan. The insurance company dividend. When we looked at the year ahead of us at the beginning of this year, we took a relatively cautious view as to the insurance company solvency position over the course of this year, simply because our view of interest rates was, as the market suggested, pretty flat. That led to a stable and frankly strong, but not excess capital position, particularly in the insurance company. As we have seen interest rates come up over the first part of this year, so the solvency position of the insurance company has benefited from that.

I think that over the course of this year, we'll have to see how that progresses and whether or not it leads to a sustained excess capital position within the insurance company. If it does, then in conjunction with the insurance company Board, we'll obviously take a look at that at the end of this year. But in short, Jonathan, we're not banking on insurance company dividends at the end of this year. As I say, the outturn so far this year has been a little bit better than expectations. So of course we'll keep that under review. But we started out with a relatively modest expectation with then the insurance capital position building over the course of this year and next from organic business progression, to deliver dividends over the course of those following periods.

**Jonathan Pierce**
**Sorry to interrupt. Are you able to tell us where the Solvency II was at March? Because it was about 150 per cent at year-end. Is it appreciably higher than that now?**

**William Chalmers**
It is higher than that. We don't publish it as of quarters Jonathan so, sorry to be a bit pedantic, but we'll probably just stick to our disclosures at year end. And I think we may do it at the half year. As you say, it was 150 per cent. It's certainly gone up. And we just have to see how that lasts over the course of this year and whether it improves any further or not. That said, our base case expectation was flat rates, and therefore organic capital build this year and next, I'm not really expecting much of a dividend this year off the back of those base case assumptions.

Preference share. I will be cautious in commenting because I don't want to interfere with treasury and management of the capital stack, but your points around the preference share are understood. The strategy and liability management of treasury has historically been very effective. And indeed, that's one of the reasons why the funding costs and capital costs have come down over the course of the last two quarters. And we've received some benefits from that, but I won't call out too much more than that in terms of our strategy for those particular instruments.

And in terms of RWAs I will wait to give you further clarity until we have certainty around some of the factors. Because as I mentioned earlier on, the challenge with RWAs for 2022 right now, is that there are a number of uncertainties and points that are up in the air, but by order of size-weighted, I think the CRR2, by which I mean CRR and CVA add-ons, is potentially quite a material add-on in terms of regulatory, as is the CRD-IV mortgage model. The CRD-IV other factors, including things like expected loss, is lesser, as are the PRA mortgage floors. It's in that order of quantum. I know I'm not putting numbers on it, Jonathan, but it's in that relative order. The reason I'm hesitating to put numbers on it is simply because there are, as I say, quite a lot of puts and takes under discussion right now. And I'd much rather come back with a clear picture when we've got something that is appropriate to convey to you, with more certainty around it.

**Jonathan Pierce**
**Okay. That's very helpful. Thanks very much.**

**William Chalmers**
Thanks, Jonathan.

**Question 8: Andrew Coombs, Citi**
**Afternoon. Two questions from me. Firstly, just on the commercial loan book, it was fairly static in the first quarter. Some of your peers have actually seen declines as some of the government-backed lending have been repaid and the revolving credit facilities have been repaid. So you can just comment on the outlook for commercial lending, and also your experience of the new Pay as You Grow scheme - how many of your clients were extending, and how many of them were repaying, attached to that? That's the first question.**

**Second question on costs. Obviously, you reiterated your guidance on the £7.5 billion in 2021. You've said that includes £100-150 million of COVID-related costs and headwinds. Some of your peers are now guiding to higher costs for the full year. So in your guidance, are you confident that you have taken into account everything related to COVID and the disruption that that's caused? Thank you.**

**William Chalmers**
Yeah, thanks very much for the question, Andrew. In terms of the commercial loan book, it was relatively stable over the course of the quarter. This was true in SME, pretty much true in CIC, just fractionally down but nothing really material. What are we seeing there? We're seeing sustained client demands from one perspective. We're seeing obviously the benefits of stable government lending within that from the other perspective. It is also, as I've mentioned before, subject to ongoing management from a returns perspective, to make sure that the relationships that we have are those that we can deliver most value to our clients in. So that's an ongoing feature of the business.

As we go through this year, there's two offsetting factors really. One is the association impact of government lending, which is effectively having a substitution effect from continued private sector lending, and I expect that to continue over the course of this year. The other is probably slightly stronger macroeconomic-led demand than we had expected, and we're seeing that a little bit as we speak. We have to see how that plays out, frankly, because it's pretty early days. But we are seeing greater levels of activity which are, to an extent, stemming from the macro recovery that we're seeing. And indeed, may give us a little bit more benefit than perhaps we had previously expected, which in turn, may offset the pay back of things like bounce back loans as they come to their initial payment periods in June of this year.

Pay As You Grow. I think that for a lot of customers, Pay As You Grow is going to make sense. It is, from an economic point of view, likely to be quite attractive to many customers. And therefore, I wouldn't put a number on it as such, but I would expect a pretty material take-up of Pay As You Grow from the bounce back loans when they start to become payable on 4th June 2021 onwards.

Costs. As you pointed out, we did reiterate our guidance for circa £7.5 billion. We have within that, guidance of around £100-150 million of increased variable renumeration pressure, plus coronavirus costs. Those costs are frankly there, and our cost target is challenging, but as you know, we have a pretty good record of dealing with costs. And to an extent at least, we have a pretty good view as to how those costs unfold over the course of the year. In the case of coronavirus costs, particularly so.

It's a combination of things like customers in financial difficulty, costs allied to things like hygiene, branch cleaning and so forth. So I think we've got a pretty good sense as to those. As I said, it's not to underestimate the challenges of continuing to meet our cost targets, They're there, but we did reiterate our guidance and we remain committed to delivering.

**Andrew Coombs**
**Thank you.**

**William Chalmers**
Thanks Andrew.

**Question 9: Gary Greenwood, Shore Capital**
**Oh, hi. Thanks for taking my question. Just a bigger picture question really on the revenue growth outlook. So if I look back at 2019, your net income was just over £17 billion. You dropped down to £14.4 billion last year, mainly driven by the impacts of the pandemic and lower interest rates. Consensus coming into the results had net income increasing to about £14.8 billion by 2023. So it doesn't seem to be factoring in much in the way of a recovery for the business, which seems very, very cautious to me. So I was just wondering how you feel about that consensus and whether you feel that it is possible with a fair tailwind to get back towards the sort of levels of income you were generating in 2019?**

**And then linked to that on costs. So as you mentioned in the previous question, a good track record on costs, and historically, you've been driving costs down, and I think that's still a target for you going forward, but if you did see that sort of recovery in net income, do you think you could still achieve a reduction in costs or would costs start to grow again in that sort of scenario? Thanks.**

**William Chalmers**
Yeah. Thank you, Gary. Two questions there, as you say, one on revenue, one on costs. Revenue growth is an interesting one. We've given you a sense as to where we think volumes are going this year. We said low single digit percentage growth in AIEAs is expected in 2021, and that's a recovery, clearly, over the course of the year, driven by the macroeconomic recovery, somewhat

of a return to normalisation, strength in mortgages that we commented earlier on, a little bit of a recovery – modest - but nonetheless, a little bit of recovery in unsecured balances, potentially in H2, subject to the uncertainties that I mentioned earlier. That gives us a pattern of AIEA growth this year. We won't give guidance now on AIEA growth beyond this year, but obviously it's going to be dependent upon the macroeconomic performance in 2022 and beyond. And you've seen our economic assumptions for 2022, we're now right around the 5 per cent GDP mark. So quite decent growth that we expect in GDP in 2022.

When you look at our margin, we said in excess of 245bps in 2021, which is a margin that is, as I mentioned earlier on, subject to some benefits from a reduced structural hedge drag, subject to some headwinds, which I highlighted earlier on. We expect it to be pretty solid in Q2. It'll move from there over the course of the year, taking account of one or two of the headwinds that I just mentioned,. But we feel pretty constructive as to the margin, hence our guidance of in excess of 245bps. And again, it's very activity dependent as you know. To the extent we see more activity, obviously it makes us feel more confident around some aspects of that margin. And note the improved guidance there. You put all of that together, Gary, from an interest income point of view, and that gives a relatively constructive picture for 2021. And again, we're not giving guidance beyond that, but you get the dynamics thereafter.

The other income line, I've described in terms of the run rate £1.1 billion, plus the build, the reversion to the £300-400 million that I mentioned, for the three-quarters of lockdown. Plus some of the more structural factors that we have behind that. And again, it gives you a little bit of a sense of direction, Gary, about what we see. So I won't comment on exactly consensus and what it is in 2023 and how we see it versus that. But hopefully what I said gives you a sense of direction as to where we see income gradually building over the course of this year and beyond.

Costs. If we see a sustained growth environment, we will want to ensure that we invest properly into that environment, number one, and we will also want to ensure that we recognise employee contributions, number two. And so all that is built upon our traditional cost discipline, which is, as you know, a combination of matrix approach allowing us to have sensible organisational design, and allowing us to address third party and issues appropriately.

But on top of that cost discipline, as said, we would look to invest into a growth environment in an appropriate way. And we would look to recognise employee contributions to delivery. So I won't be too prescriptive about costs beyond what we've said for this year. But I do think it's appropriate to call out that we wouldn't want to sit there and minimise costs at the expense of revenues if we felt that there were appropriate opportunities to invest and build into for the benefit of the franchise and the benefit of the business.

**Gary Greenwood**
That's great. Thanks for answering my question.

**William Chalmers**
Thank you. I would just like to thank everybody for their time this afternoon, and hopefully it's been a useful session and we'll look forward to continuing the dialogue.

**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 relating to its future financial condition and performance. Statements that are not historical facts, including statements about the Group's or its directors' and/or management's beliefs and expectations, are forward looking statements. Words such as 'believes', 'anticipates', 'estimates', 'expects', 'intends', 'aims', 'potential', 'will', 'would', 'could', 'considered', 'likely', 'estimate' and variations of these words and similar future or conditional expressions are intended to identify forward looking statements but are not the exclusive means of identifying such statements. Examples of such forward looking statements include, but are not limited to: projections or expectations of the Group's future financial position including profit attributable to shareholders, provisions, economic profit, dividends, capital structure, portfolios, net interest margin, capital ratios, liquidity, risk-weighted assets (RWAs), expenditures or any other financial items or ratios; litigation, regulatory and governmental investigations; the Group's future financial performance; the level and extent of future impairments and write-downs; statements of plans, objectives or goals of the Group or its management including in respect of statements about the future business and economic environments in the UK and elsewhere including, but not limited to, future trends in interest rates, foreign exchange rates, credit and equity market levels and demographic developments; statements about competition, regulation, disposals and consolidation or technological developments in the financial services industry; and statements of assumptions underlying such statements. By their nature, forward looking statements involve risk and uncertainty because they relate to events and depend upon circumstances that will or may occur in the future. Factors that could cause actual business, strategy, plans and/or results (including but not limited to the payment of dividends) to differ materially from forward looking statements made by the Group or on its behalf include, but are not limited to: general economic and business conditions in the UK and internationally; market related trends and developments; fluctuations in interest rates, inflation, exchange rates, stock markets and currencies; any impact of the transition from IBORs to alternative reference rates; the ability to access sufficient sources of capital, liquidity and funding when required; changes to the Group's credit ratings; the ability to derive cost savings and other benefits including, but without limitation as a result of any acquisitions, disposals and other strategic transactions; the ability to achieve strategic objectives; changing customer behaviour including consumer spending, saving and borrowing habits; changes to borrower or counterparty credit quality; concentration of financial exposure; management and monitoring of conduct risk; instability in the global financial markets, including Eurozone instability, instability as a result of uncertainty surrounding the exit by the UK from the European Union (EU) and as a result of such exit and the potential for other countries to exit the EU or the Eurozone and the impact of any sovereign credit rating downgrade or other sovereign financial issues; political instability including as a result of any UK general election; 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; natural, pandemic (including but not limited to the coronavirus disease (COVID-19) outbreak) and other disasters, adverse weather and similar contingencies outside the Group's control; inadequate or failed internal or external processes or systems; acts of war, other acts of hostility, terrorist acts and responses to those acts, geopolitical, pandemic or other such events; risks relating to climate change; changes in laws, regulations, practices and accounting standards or taxation, including as a result of the exit by the UK from the EU, or a further possible referendum on Scottish independence; changes to regulatory capital or liquidity requirements and similar contingencies outside the Group's control; the policies, decisions and actions of governmental or regulatory authorities or courts in the UK, the EU, the US or elsewhere including the implementation and interpretation of key legislation and regulation together with any resulting impact on the future structure of the Group; the ability to attract and retain senior management and other employees and meet its diversity objectives; actions or omissions by the Group's directors, management or employees including industrial action; changes to the Group's post-retirement defined benefit scheme obligations; the extent of any future impairment charges or write-downs caused by, but not limited to, depressed asset valuations, market disruptions and illiquid markets; the value and effectiveness of any credit protection purchased by the Group; the inability to hedge certain risks economically; the adequacy of loss reserves; the actions of competitors, including non-bank financial services, lending companies and digital innovators and disruptive technologies; and exposure to regulatory or competition scrutiny, legal, regulatory or competition proceedings, investigations or complaints. Please refer to the latest Annual Report on Form 20-F filed by Lloyds Banking Group plc with the US Securities and Exchange Commission for a discussion of certain factors and risks together with examples of forward looking statements. Lloyds Banking Group may also make or disclose written and/or oral forward looking statements in reports filed with or furnished to the US Securities and Exchange Commission, Lloyds Banking Group annual reviews, half-year announcements, proxy statements, offering circulars, prospectuses, press releases and other written materials and in oral statements made by the directors, officers or employees of Lloyds Banking Group 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 to reflect any change in the Group's expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based. The information, statements and opinions contained in this document do not constitute a public offer under any applicable law or an offer to sell any securities or financial instruments or any advice or recommendation with respect to such securities or financial instruments.