LLOYDS BANKING GROUP PLC– 2024 FY RESULTS – PRESENTATION TRANSCRIPT
(amended in places to improve readability only)

Thursday 20 February 2025 – 9.30am

LBG:
Charlie Nunn, Group Chief Executive
William Chalmers, Chief Financial Officer
Douglas Radcliffe, Group Investor Relations Director (moderator)

Charlie Nunn:
Morning, everyone. Thank you for joining our 2024 full year results presentation at our brilliant new London headquarters. We will officially open the building to colleagues over the coming weeks, so we are very pleased to welcome you as our first guests. Let's hope everything goes all right.

As we've now reached the end of our first phase of our five-year strategic transformation, our presentation will be slightly longer today. I'll start with a brief overview before handing over to William who'll run through the 2024 financials in detail. After this, I'm excited to share more detail on our strategic progress over the first three-year phase, as well as our plans for the remaining two years, as we continue to transform the business at pace. We'll then have the usual time allocated for your questions.

Let me begin on slide three.

SLIDE 3 - SIGNIFICANT STRATEGIC PROGRESS, BUILDING MOMENTUM
I'd like to start by highlighting three key messages. Firstly, our purpose-led strategy is continuing to deliver strong outcomes for all stakeholders. We've made excellent progress in the first phase driving broad-based momentum and positioning us well to accelerate our transformation in the second phase. Secondly, our financial performance in 2024 was robust, in line with guidance. Our highly capital-generative business model enabled strong shareholder distributions, including a 15 per cent increase in the ordinary dividend and a share buyback of £1.7 billion. This is despite an additional £700 million provision relating to motor finance commissions taken in the fourth quarter. Finally, we're providing new guidance for 2025 and reaffirming our targets for 26. We remain confident of delivering higher, more sustainable returns.

On slide four, I'll briefly cover how our purpose is driving value for all our stakeholders.

SLIDE 4 - DELIVERING ON OUR PURPOSE TO DRIVE BENEFITS FOR ALL STAKEHOLDERS
We have long-standing purpose of helping Britain prosper and a proven track record over many years of delivering outcomes that benefit all our stakeholders. Our actions provide clear benefits for our customers and communities across the UK, whilst driving business value and supporting the real economy in areas where we're well-placed to lead the change. At the same time, these actions unlock new, attractive growth opportunities for the group. For example, as the UK's largest mortgage lender, we're deeply involved in the housing sector. We've now lent nearly £100 billion to first-time buyers since 2018, including £15 billion in 2024. Alongside, we've continued to build our customers' financial resilience and savings. In the last few years, we've provided nearly £20 billion of funding to the social housing sector, £90 billion of infrastructure financing and almost £50 billion of sustainable financing.

As you heard from me at the half year, we welcome the emphasis placed on sustainable economic growth by the government. This, combined with signs of an improving macro backdrop and resilient fundamentals for consumers and businesses, positions the UK for faster growth. We believe we're well-placed to support this.

Turning now to the strategic progress on slide five.

SLIDE 5 - SUCCESSFULLY CREATING A PLATFORM FOR GROWTH AND HIGHER RETURNS
I'll elaborate on this in more detail in the second part of my presentation, but I wanted to briefly highlight the strong progress we've made in the first phase of our strategic transformation across 2022 to 24. Significantly, we've returned the franchise to growth. This has been delivered through multiple levers, including leveraging our digital leadership position and increasing focus on higher value areas such as mass affluent. At the same time, we've reinforced our efficiency position with an increased focus on end-to-end digitisation and the simplification of our technology estate.

Our success, in both areas, is a result of the transformation of the group's capabilities across people, technology and data. We've made great strides in this area, significantly increasing the hiring of key engineering talent and adopting new technologies to drive innovation, creating the platform for the next phase.

Our execution in the first three years has already delivered clear financial benefits, including circa £2 billion of net income growth, a turnaround in our other income lines, and significant improvements in returns and capital distributions. On the latter, our capital distributions over the past three years exceed £11 billion. As I'll discuss later, we see further financial upside looking ahead to 2026.

I'll now close this section with a brief look at our 2024 financials on slide six.

SLIDE 6 - ROBUST FINANCIAL PERFORMANCE IN 2024
Building upon our continued strategic progress, our financial performance in 2024 was robust with positive business momentum in both the fourth quarter and over the course of the full year. Our 2024 financials also demonstrate delivery against the medium-term guidance we laid out for the first phase of our strategic plan. We've delivered £0.8 billion of additional revenues from strategic initiatives ahead of our £0.7 billion target and £1.2 billion of gross cost savings, more than offsetting the impact of pay and inflation during the period.

Our 2024 return on tangible equity and capital generation were impacted by the additional provision relating to motor finance commissions. However, both were ahead of the circa 13% and circa 175 basis points, excluding this.

I'll provide more details on our financial performance on a three-year view as well as the outlook to 2026 in the second part of my presentation. For now, I'll hand over to William to cover 2024 in more detail.

William Chalmers:
Thanks, Charlie. Good morning, everybody. Thank you again for joining. As usual, I'll provide an overview of the group's financial performance, starting on slide eight.

SLIDE 8 - ROBUST FINANCIAL PERFORMANCE
Lloyds Banking Group delivered a robust financial performance in Q4 and, indeed, in 2024 as a whole. Statutory profit after tax for the year was £4.5 billion or £5 billion, excluding the Q4 motor provision. This equates to a return on tangible equity of 12.3%, or 14% ex motor. Supported by franchise growth, net income for the full year was £17.1 billion. This includes a net interest margin of 2.95%, in line with guidance, alongside 9% growth in other operating income.

In Q4, net income was £4.4 billion, up 1% versus Q3. This was driven by 1% growth in net interest income in turn supported by a rising quarterly net interest margin, consistent with the improvement that started in Q3. Full year operating costs of £9.4 billion were up 3% year-on-year, again, in line with our guidance. Asset quality remains strong. The impairment charged for the year of £433 million, equates to an asset quality ratio of 10 basis points or 19 basis points pre-releases from changes to our economic assumptions. Meanwhile, TNAV per share increased to 52.4 pence up 1.6 pence in the year. Our performance delivered capital generation of 148 basis points in the year or 177 basis points excluding the Q4 motor provision.

I'll now turn to slide nine to talk through our balance sheet growth.

SLIDE 9 - GROWTH IN LENDING AND DEPOSITS
Lending and deposits continue to exhibit robust growth in 2024. Group lending balances of £459 billion were up £9 billion, or 2% in the year, and over £2 billion in Q4. Within this, we delivered another strong quarter of mortgage growth up 2.2 billion or 3.2 billion, excluding legacy book securitisation. Staying within retail lending, in Q4 credit card balances were flat, slightly reduced spend offset by lower repayment rates. Unsecured lending balances were up slightly, whilst motor finance in black horse was down driven by lower dealer stocking.

Commercial lending balances were down slightly, by £1 billion, in 2024, although up, when excluding government backed lending repayments. In Q4, a reduction of £0.3 billion was led by lower balances in BCB outweighing growth in our CIB franchise.

Turning to the liability franchise, deposits grew by 2% or £11 billion during the year. The year finished with Q4 growth in deposits of £7 billion. Within this, we saw an increase of 1% quarter-on-quarter in retail, with savings accounts up

£4 billion and current accounts up £0.7 billion. Deposit churn continues to ease as we had anticipated. In PCA, there was some benefit in the quarter from calendar effects and the impact of the October budget, but the underlying stability in balances is an encouraging performance. Q4 commercial deposits were up 1.9 billion quarter-on-quarter. This was mainly driven by CIB, reflecting growth in targeted sectors as well as some positive FX impacts. Alongside these developments, insurance, pensions and investments saw £5.3 billion of net new money in 2024, £1.8 billion in Q4.

Turning now to interest income on slide 10.

SLIDE 10 - RESILIENT NET INTEREST INCOME PERFORMANCE

The group delivered net interest income of £12.8 billion in 2024. This included growth of 1% in Q4 over the prior quarter, continuing the upturn that started in Q3. Average interest earning assets for the year were £451 billion, in line with our guidance. Q4 AIEAs were £455 billion, up £4 billion off the back of the lending growth that we saw in the second half of the year.

The full year net interest margin was 295 basis points. Q4 margin was 297 basis points, up two basis points on Q3 and continuing to increase at a gradual pace as we had anticipated. The 2024 non-banking NI charge was £469 million, with a Q4 charge of £122 million, probably a little lower than we had expected.

Going forward, we'll focus on net interest income in our guidance. This is to simplify our approach and to focus on what matters; i.e income. In 2025, we expect net interest income to grow to around £13.5 billion, up about £700 million from last year. This guidance is built on expected further robust lending and deposit growth and a significant increase in the contribution from the structural hedge. These tailwinds will be partly offset by some further churn-in deposits and the impact of rate reductions, alongside the continuation of the mortgage refinancing headwind. These pressures remain meaningful, but they will gradually ease through the year. As said, we'll no longer be providing guidance around our net interest margin. However, to support the transition, our 2025 net interest income expectations are consistent with a banking NIM of around 305 basis points.

Let me now move to our mortgage book on slide 11.

SLIDE 11 - GROWTH IN MORTGAGES

Mortgage performance in 2024 was strong. The mortgage book grew by £6.1 billion in the year, or £8 billion, including legacy book securitisations. This growth as a result of a recovering market and our strategic initiatives helping to support a 20% share of new lending over the year around one percentage point ahead of our share of stock. Our expectation is for further growth in the mortgage book this year, supported by continued recovery in the market and robust new business share. Completion margins in the fourth quarter remain resilient, around 75 basis points, stable on Q3. This remains below margins on our maturing mortgages. However, the difference will continue to narrow this year before then playing itself out in 2026.

Let me now turn to our other asset books on slide 12.

SLIDE 12 - SOLID PERFORMANCE IN CONSUMER AND COMMERCIAL LENDING

We saw a solid performance in our consumer and commercial lending portfolios in 2024. Combined balances for cards, unsecured loans and motor were up £2.8 billion in the year, or 8%. Within this, unsecured loans were up £2.2 billion on the back of organic growth as well as lower repayment volumes following a securitisation in 2023. Cards were up £0.6 billion or 4%. Motor balances were flat as we focused on attractive growth opportunities in leasing business and in particular, Tusker.

Turning to commercial banking. Lending was down £1 billion in the year. Targeted growth in CIB, including key strategic areas such as infrastructure and project finance, was more than offset by net repayments in BCB, including the £1.6 billion of government-backed lending.

Let's take a look at deposits on slide 13.

SLIDE 13 - GROWING CUSTOMER DEPOSIT FRANCHISE

Our deposit franchise did well in 2024. Total deposits were up by over £11 billion or 2% to £483 billion. In retail, we continue to see the benefits of our attractive and differentiated propositions. Total retail balances were up £11 billion in the year.

Current account balances ended at £101 billion, reflecting a slightly better performance than expected, with increasing wages, giro credits, and slow spend. In particular, it was pleasing to see our market share of balances increasing over the period.

Savings were up £13.4 billion in the year, supported by continued significant inflows in particular to our limited withdrawal products. Given the rate environment, we saw further deposit churn in 2024, but as anticipated, it has eased over the year. Commercial deposits were broadly stable in the year. BCB balances increased by £1.3 billion due to targeted growth initiatives in mid-corporates, offset by an expected outflow in CIB concentrated in the third quarter. The performance of our deposit franchise supports the structural hedge, so let me now turn to that.

SLIDE 14 - STRENGTHENING TAILWIND FROM THE STRUCTURAL HEDGE

The structural hedge is a significant and strengthening tailwind to income. The hedge notional currently stands at £242 billion. While down £5 billion in 2024, the notional was stable in the second half of the year, off the back of our strong deposit performance. Last year, hedge income was £4.2 billion, £0.8 billion higher than 2023. The average yield on the hedge was 1.7%, increasing to over 1.9% in the fourth quarter. As you know, the reinvestment rate, as the hedge rolls over, continues to be significantly higher than the current yield. The weighted average life of the hedge, meanwhile, remains stable at around three and a half years. Looking forward, based on our notional and swap rate expectations, we're guiding for hedge income this year to be £1.2 billion higher than in 2024. Thereafter, we expect 2026 hedge income to be a further £1.5 billion higher than in 2025.

Moving to other income on slide 15.

SLIDE 15 - MOMENTUM IN OTHER INCOME

2024 was another year of encouraging and broad-based growth in other income. We expect this pattern to continue. Other income of £5.6 billion was 9% higher than the prior year. Despite Q4 being a seasonally weaker quarter, it was flat versus Q3 and indeed 11% up year-on-year. Growth year-on-year was evidenced across the divisions driven by higher customer activity and by our strategic investment. Retail was up 10% year-on-year, supported by our strengthening contribution from our motor leasing business and a resilient performance across our other banking income lines. Commercial was up 8% versus 2023 driven by a positive performance in our markets business across the year. Growth was supported by share gains, as well as by higher client activity. Insurance, pensions, and investments OOI was up 7% year-on-year. It's included healthy growth within general insurance as well as workplace pensions and individual annuities.

We also saw growth in other income associated with the group's equity investment businesses in the year. This was driven by Lloyd's Living previously Citra and LDC. Looking forward, as we continue to invest in our strategic initiatives across the business, we expect strong growth in other income to continue.

Turning to operating lease appreciation. The 2024 charge of £1.3 billion included £331 million in Q4. Car price developments followed our expectations as we set out at H1. Looking forward, we expect this charge to grow in line with fleet growth and higher value vehicles supporting progress in other income.

Let me move to costs on slide 16.

SLIDE 16 - CONTINUED DISCIPLINE ON COSTS

Operating costs were £9.4 billion in 2024, again, in line with our guidance. This represents 3% growth year-on-year or 2%, excluding a sector-wide BOE charge introduced in the first quarter. Cost discipline remains an imperative for the group. Last year, we continued to invest while offsetting inflationary pressure with further cost savings. We've now hit our target of £1.2 billion of gross cost saves versus 2021. Most recently, Q4 operating costs were £2.5 billion, stable on Q3, excluding the annual payment of the bank levy. Looking ahead to this year, we expect operating costs of circa £9.7 billion. This is in the context of continued investment alongside inflationary pressures, partly offset by ongoing efficiency benefits. It also includes the impact of higher national insurance contributions, which are equivalent to about £100 million per annum.

Our continued BAU cost control enables us to make ongoing investment into the business to support our growth ambitions within our planned cost budgets. This means that our investment and severance spend to 2026 will be slightly higher than previously planned, driving further income growth, cost savings, and reinforcing operating leverage. All of this is consistent with our 2026 ambitions, including the below 50% cost to income ratio. The remediation charge is £899 million for the full year and £775 million in the quarter.

£700 million of the charge relates to the incremental motor finance provision. Stepping back for the typical full year run rate, we still see £200 to £300 million as an appropriate guide.

I'll elaborate on motor finance on the next slide.

SLIDE 17 - MOTOR FINANCE COMMISSIONS UPDATE
In Q4, we took an additional £700 million provision for the potential remediation costs relating to motor commission arrangements. This provision is following the recent court of appeal judgment, which changes the previously understood law around the disclosure and consent to motor commissions. It also goes beyond the scope of the original FCA review. In this context, we welcome the expedited Supreme Court hearing at the beginning of April.

I'll take a moment to explain the framework around the provision. The provision is built upon a number of key inputs including the potential outcomes from the Supreme Court appeal, any subsequent FCA intervention, and depending on that, the potential remedy per case, the customer claim rate, the potential rate of interest applied, and so forth. These inputs give rise to a range of scenarios against which we assess probabilities to determine the probability weighted provision. Clearly, there's significant uncertainty around each of these inputs, but combined with the previous provision of £450 million, the total amount of £1.15 billion represents our best estimate. The final financial impact could, of course, differ meaningfully both higher or lower from the amount that we have provided.

Let me now turn to asset quality on slide 18.

SLIDE 18 - STRONG ASSET QUALITY
Asset quality remains very strong. It reflects our prime customer base and a prudent approach to risk. 2024 impairment charge was £433 million, equivalent to an asset quality ratio of 10 basis points. This incorporates a low underlying charge, as well as some one-offs, such as the release of inflationary judgments. It also benefits from improvements in our economic assumptions or MES throughout the year.

On a pre-MES basis, the impairment charges are still low, £827 million, an AQR of 19 basis points. The Q4 impairment charge is £160 million or 14 basis points, including a £70 million MES credit. Pre-MES, the charge is 20 basis points. Our stock of ECLs on the balance sheet is now £3.7 billion, about £450 million in excess of our base case and like-for-like higher than pre-pandemic levels. Looking forward, we expect the asset quality ratio to be circa 25 basis points for 2025 based upon our stated economic assumptions.

Let me move to slide 19 and briefly look at our portfolio.

SLIDE 19 - LOW RISK PORTFOLIO, RESILIENT THROUGH THE CYCLE
Our portfolio is low risk and highly resilient. New to arrears and UK mortgages improved throughout 2024. Over two thirds of our book are now on pay rates in excess of 3%, with the portfolio, of course, having been stress tested to much higher rates. Our mortgage book average LTV stands at 43.7%. Arrears and defaults across other portfolios remain low and, in most cases, falling. Importantly across retail and commercial, early warning indicators continue to be reassuring. In retail, for example, minimum payers in cards remain low and stable. Commercial, we're seeing stable SME working capital utilisation trends.

Our asset quality performance has been underpinned by extensive de-risking in recent years, both in retail and in commercial portfolios. A lower ECL and our improved results in recent external stress tests testify to this progress.
Moving on, I'll turn to slide 20. Let's take a look at the updated macroeconomic outlook.

SLIDE 20 - UPDATED MACROECONOMIC OUTLOOK
The macroeconomic outlook continues to be stable. In the fourth quarter, we've made only minor revisions to our forecasts in Q3. We now forecast 1% growth in GDP for 2025. We expect three 25 basis point cuts in the UK bank rate this year. We then expect a further two cuts in 2026. Our unemployment forecast remains largely unchanged averaging 4.7%, both in 2025 and in 2026. We expect modest house price growth of around 2% this year, supported by a lower rate environment. As usual, we present the full set of economic and associated ECL provisions in the appendix.

Moving on, let's turn to slide 21 to look at the below the line items, TNAV and ROTE.

SLIDE 21 - ROBUST RETURN ON TANGIBLE EQUITY
Return on tangible equity for 2024 was 12.3%. Excluding the motor provision, the full year ROTE was 14%. Within this, restructuring costs were low at £40 million in the year and £19 million in Q4. The volatility in other items charge was £332 million in the year and £150 million in the final three months. The fourth quarter charge, in particular, was significantly driven by negative insurance volatility from rates movements that we saw.

Tangible net assets per share at 52.4 pence, were up 1.6 pence in 2024. The increase over the year was driven by profits and a reduced share count from our buyback program, this was offset by shareholder distributions. In Q4, growth in TNAV per share dampened by the motor provision was more than offset by the impact of higher rates on the cash flow hedge reserve and the pension surplus. Looking ahead, we expect TNAV per share to materially grow as the business builds alongside support from the unwind of the cash flow hedge reserve and the reduced share count from the buyback. In 2025, including the impact of a growing TNAV, we expect a return on tangible equity circa 13.5%.

Let me now turn to capital generation on slide 22.

SLIDE 22 - STRONG CAPITAL GENERATION
The group delivered capital generation in a year of 148 basis points, or 177 basis points excluding the motor provision. This strong underlying capital build is in line with our expectations and, before motor, consistent with our target of circa 175 basis points for the full year. Within this risk-weighted assets were £224.6 billion, in line with the guidance that we set out in 2022. The £5.5 billion increase in the year includes lending growth, as well as £3.3 billion relating to our adjustments for CRD IV secured risk ratings.

We previously guided that CRD IV was going to result in about £5 billion of incremental RWA growth from 2024-26. We now expect the ultimate impact may be modestly greater than this, depending upon our discussions with the PRA. Suffice to say we'll continue to focus on RWA efficiency and optimisation to offset these regulatory pressures.

While on the topic of regulatory change, you'll know that Basel 3.1 has now been delayed to the start of 2027. We expect this to lead to a moderate reduction in RWAs when it is eventually implemented.

At the end of 2024, our closing CET1 ratio after our dividend and buyback distributions is 13.5%. This meets our guidance to pay down to this level by the end of the year.

Looking forward, we expect 2025 capital generation to be circa 175 basis points and to move to our target CET1 ratio of 13% by the end of 2026.

I'll now move to slide 23 to discuss distributions.

SLIDE 23 - STRONG DISTRIBUTIONS, WITH INCREASED FINAL DIVIDEND
We remain highly committed to returning capital to shareholders. Our consistent capital generation underpins strong distributions. For 2024, the robust financial performance and capital position enables the Board to announce a final ordinary dividend of 2.11p per share, for a total of 3.17p. This is up 15% on the prior year.

In addition to the final dividend, today, we're announcing a buyback of £1.7 billion. This is a good result after taking into account the additional motor provision. Together, this means that the Group will distribute a total of up to £3.6 billion in respect to 2024, around 9% of our market cap. Dividend is now around 60% higher than it was in 2021.

Our consecutive buyback programs, meanwhile, have so far reduced share count by more than 15% over the same period. Going forward, prospects for continued healthy growth in our distributions are good.

Let me now wrap up the financial section of the presentation on slide 24.

SLIDE 24 - CONFIDENCE IN DELIVERING HIGHER, MORE SUSTAINABLE RETURNS
In sum, 2024 represented another robust financial performance, reflecting income growth in the second half of the year, as well as continued cross-discipline and reassuring asset quality. Together, this offers strong capital generation and healthy distributions. We are building firm foundations.

For 2025, we now expect net interest income to be circa £13.5 billion, operating costs to be circa £9.7 billion, the asset quality ratio to be circa 25 basis points, the return on tangible equity to be circa 13.5%, and capital generation to be circa 175 basis points. We also reconfirm our 2026 targets, which you've seen before and are laid out here on the slide. We are confident of delivering higher, more sustainable returns.

That concludes my comments for this morning. Thank you for listening. I'll now hand back to Charlie to provide an update on our strategic progress.

Charlie Nunn
Many thanks, William. So it's now been three years since we presented our strategic plan covering the period to 2026, with 2024 representing a major checkpoint along this journey. I'm very encouraged with the progress we've made to date, and I'm highly confident of delivering long-term differentiation across our businesses, cementing our position as a leading national champion.

In this section, I want to share with you the following key messages. Firstly, our purpose-driven strategy is delivering and driving long-term competitive advantage across the business. Secondly, there've been a number of key strategic deliveries in the first phase, which are creating broad-based momentum. And thirdly, we are excellently positioned to accelerate our transformation in the second phase and deliver an enhanced financial profile to 2026.

Let me start on slide 26 with an overview of our strategy.

SLIDE 26 - PURPOSE-DRIVEN STRATEGY DELIVERING
We have a clear strategy anchored around our purpose of helping Britain prosper. Our strategic priorities of grow, focus and change build upon and reinforce our competitive advantages that come from our deep scale customer relationships, our proven track record and efficiency, and our commitment to being a leader when it comes to digital and technology.

Our strategic execution is enhancing our customer proposition, whilst at the same time delivering a compelling investment case for our shareholders. This is characterised by growing revenues and significant operating leverage, supporting strong returns and increased distribution capacity.

Building on this, on slide 27.

SLIDE 27 - STRATEGY DESIGNED TO DRIVE LONG-TERM COMPETITIVE ADVANTAGE
I'll provide a brief reminder of the opportunities we identified when we start our transformation in 2022. Our strategy is built upon strong foundations. As a leading integrated financial services provider in the UK, the Group's scale, distinctive customer propositions, broad product offering and trusted brands provide a platform from which we can unlock our full potential.

To achieve this, a number of strategic opportunities were identified in 2022. This included returning the group to growth, de-risking in a number of areas, further improving our cost and capital efficiency, and transforming our digital AI and talent to further differentiate our services for customers and position us for the future.

There are a few specific targeted outcomes that we did not deliver in the first phase, but overall, we've made excellent progress in this regard, and I'll provide examples of this over the coming slides. Looking ahead, with the majority of de-risking activities now complete, we see the opportunity to accelerate the scale of our transformation over the next two years as we become unencumbered by some of these challenges. This will support the delivery of a truly differentiated franchise for both our customers and shareholders by 2026, and a stronger competitive position for us to progress into the future.

Starting on slide 28.

SLIDE 28 - SUCCESSFULLY DELIVERED 2022-2024 STRATEGIC OUTCOMES
I'll highlight the progress we've made across our three strategic pillars. When we laid out the strategy in February '22, we provided you with a selection of targeted outcomes that would help you track the progress we were making to 2024. Encouragingly, we've successfully delivered 80% of these.

In a few areas, we're slightly behind our original expectations, such as mass affluent investment flows, as higher interest rates drove a shift to savings instead. However, this has been more than offset by meaningfully surpassing our targets in other areas. A full scorecard of our progress has been provided in the appendix.

As a result, we've delivered £0.8 billion of additional revenues from strategic initiatives ahead of target, and realised £1.2 billion of gross cost savings, having increased this from £1 billion. We've delivered this at the same time as undertaking significant de-risking activity, such as addressing a £7 billion pension deficit, more than halving our legacy mortgage portfolio, removing circa 650 legacy technology applications, and achieving £18 billion of RWA optimisation over the three years. The ability to deliver these outcomes whilst also growing the core franchise demonstrates a shift in organisational agility.

Looking at our strategic priorities in order on slide 29.

SLIDE 29 - BUILDING MOMENTUM ACROSS THE BUSINESS

I'll highlight the strong revenue momentum our growth has delivered in the first three years. The first phase of our strategy represented a clear shift in focus towards growth. Aligned to this, we've built momentum across the business, and in turn delivered net income growth of nearly £2 billion since 2021. We've seen meaningful headwinds during this period, including margin pressures for the runoff of our SVR mortgage book and a prolonged of weaker front book margins. Operating lease depreciation has also normalised from historically low levels, whilst the runoff of government-backed lending has acted as a drag on our commercial banking business. In aggregate, this headwind has more than offset a £2 billion increase in structural hedge income in the period.

However, this has been outweighed by approximately £3 billion of net income growth from the core franchise. This includes the £0.8 billion pounds of additional revenues from strategic initiatives, combined with more than £2 billion of BAU income growth. Whilst the latter does capture the benefit of higher rates, it also reflects strong growth not linked to our strategic investment, such as in IP&I and CIB, where we've benefited from increased focus. Our revenue growth also includes a significant contribution from other income, with an 11% CAGR over the period across our three main reporting divisions. This is in line with our focus on growing more diversified revenue streams, and reducing long-term NII reliance.

Let me now explain on slide 30 how we've delivered this strong growth.

SLIDE 30 - MULTIPLE LEVERS DRIVING REVENUE GROWTH

As you've heard in our half-yearly updates and through our investor seminars, we have multiple levers to drive revenue growth. Firstly, we've delivered growth through the core franchise, supported by our renewed growth focus and strengthened capabilities. For example, our gross mortgage lending share in 2024 was the highest for over a decade. We delivered strong growth in segments of strength, such as first time buyers, whilst investments in intermediary journeys and our home hub ecosystem are driving improved acquisition and retention outcomes.

Secondly, we're deepening relationships across the Group, leveraging our broad offering to meet more needs for our customers and clients. Our market-leading digital experiences, trusted relationship teams and advanced data insights are key to this.

Thirdly, we're driving growth in high value areas, such as mass affluent. Previously, we did not have a dedicated proposition for this important customer group, but in the past three years, we've grown our customer base to over three million and increased banking balances by around £25 billion.

And finally, we're driving greater cross-group collaboration, increasing the penetration of protection, home insurance and investments across our retail customer base, and driving greater links between our workplace business and CIB clients. This is an area where we see more opportunity looking forward, increasing access to the Group's unique breadth of businesses.

Turning now to our second strategic pillar, focus, which covers both cost and capital efficiency. I'll start with costs on slide 31.

SLIDE 31 - STRONG FOCUS ON EFFICIENCY, REINFORCING COST ADVANTAGE

Our commitment to cost efficiency is equally important as our growth focus, with both contributing to improving operating leverage. Our £1.2 billion of gross cost savings have more than offset elevated pay inflation in the period.

These savings were broad based, but with meaningful contributions from our technology decommissioning efforts, the consolidation of our office footprint, and improving efficiency within our branch network as we shift to mobile first, these savings have mitigated headwinds and created capacity to drive growth in the business. This investment capacity will help unlock the additional revenues from strategic initiatives that we've targeted for 2026, with many of these having a lower marginal cost income ratio than the group today. As well as enabling further gross cost savings, we continue to target a cost income ratio of less than 50% by 2026. As you'd expect from us, costs will remain a key area of focus over the next two years and beyond.

Turning now to capital efficiency, our second priority within the focus pillar on slide 32.

SLIDE 32 - CLEAR APPROACH TO CAPITAL MANAGEMENT

Our strategic participation choices are supportive of driving improved capital efficiency, growing in fee-generating, capital-light areas. However, we've also proactively delivered significant RWA optimisation since 2021, supported by growing originate to distribute capabilities within our CIB business, and increasing adoption of SRT transactions. This optimisation activity has more than offset regulatory inflation in the period, ensuring that RWA growth has more closely aligned to business growth, with our end 2024 position within the £220-225 billion guidance we provided three years ago. Ongoing optimisation actions combined with the portfolio de-risking we've undertaken increase the predictability of capital generation going forward.

On slide 33, I'll move to our third pillar, change.

SLIDE 33 - EXTENDING DIGITAL LEADERSHIP ACROSS THE GROUP

Critical to our growth priorities is the way we leverage our strengths in technology and data to drive improved customer and business outcomes. Having established the largest UK retail digital bank, with over 20 million app users and over six billion logons, our focus has been twofold. Firstly, to replicate this success across the Group, delivering best in class digital experiences that drive superior levels of engagement in areas such as IP&I and BCB.

It's early days in both areas, but our progress is encouraging. For example, our Scottish Widows app was rolled out to workplace customers during 2024 and has already recorded eight million logons as customer interaction increases off the back of personalised experiences and innovative gamification. This level of engagement is significant in an area that customers have historically neglected, and we see scope for further improvements over time as we extend this to more of our IP&I customer base, and eventually the open market.

Secondly, we're focused on driving greater value from our engagement, shifting our digital businesses from a servicing channel to one of acquisition, too. To enable this shift, we've delivered a number of innovative propositions over the last three years. I'll cover some of these on slide 34.

SLIDE 34 - INVESTMENT IN ENABLERS SUPPORTING INCREASED INNOVATION

We have meaningfully increased the pace of innovation since 2021, building and scaling unique mobile-first propositions across our core customer ecosystems. By leveraging new technologies and harnessing the power of the significant data asset, we've been able to meet clear customer needs, drive greater engagement, and ultimately deliver business value.

For example, our mobile-first Home Hub ecosystem, available to both relationship and intermediary customers, is a one-stop shop helping customers to improve their home ownership experience, from understanding the value of their homes to sourcing retrofit solutions. This has driven increased direct customer engagement in a highly intermediated market, and is ultimately improving our retention experience and building deeper relationships.

Similarly, we have meaningfully scaled and expanded Your Credit Score, improving creditworthiness and driving increased conversion rates and lending volumes for the business. Having initially focused on eligibility linked to personal loans, customers are now able to consider the full suite of retail products, from car finance to mortgages.

This level of innovation would not have been possible three years ago, and is testament to the organisational and cultural change that has taken place. This has been supported by our targeted investments in technology and talent in key areas, including the hiring of more than 4,000 technology and data specialists.

Having covered our progress to date, I'll now shift to focus on the second phase, and cover our exciting plans for 2025 and 2026, starting on slide 35.

SLIDE 35 - SECOND PHASE OF STRATEGY WILL ACCELERATE OUR TRANSFORMATION
Our strategy is a five-year one, and therefore many of the items that I've discussed in the first phase will continue to be relevant as we move through to 2025 and 2026.

Before commenting on our strategic priorities, let me take a moment to reflect on the external environment we see over the next few years. We believe this provides a supportive backdrop for our strategy during this period, and for broader investment in the UK. As William said, our current forecast for the UK is for a resilient but slow growth economy. However, we see both the opportunity for economic growth to accelerate, and for Lloyds Banking Group to grow faster than the economy.

This is for a few key reasons. Firstly, households and businesses' financial health has strengthened again in 2024. The government is committed to growth and regulatory reform, and sees financial services as an important part of enabling it. Although there's significant geopolitical uncertainty, we see the UK as well-placed to navigate it relative to other economies, and expect base rates to continue to come down through 2026. And finally, our strategy is focused on higher growth economic areas, such as housing, infrastructure, transition finance, pensions, and mass affluent customers.

In that context, during the next two years, we will build on the strong foundations and business momentum we've developed in the first phase, to drive growth across the Group, with a focus on high value areas. Our commitment to cost and capital efficiency will be reinforced by further savings, delivering strong operating leverage, whilst we will extend optimisation capabilities further to mitigate headwinds and facilitate growth, and we'll begin the next phase of our technology transformation, increasing the adoption of new technologies, including extending gen AI use cases across the Group, driving benefits in both the near and longer term.

Over the coming slides, I'll talk through our priorities for each of the main business units, where we're building upon our existing strengths to drive long-term competitive advantage. Let me start with our consumer relationships business within retail on slide 36.

SLIDE 36 - DEEPENING CONSUMER RELATIONSHIPS
Our consumer business has significant scale and reach. We have relationships with over half of the UK adult population, with leading positions across both products and channels. Our strategic focus within consumer relationships is to deliver market-leading, mobile-first, and highly personalised experiences. This, complemented by targeted human interactions, will drive more meaningful engagement with our customers, allowing us to meet more of their broader lifetime needs and further increase depth of relationship.

In line with our focus on growing in high-value areas, we are further enhancing our mass affluent offering. Our new PCA proposition will be a key lever for increasing customer acquisition and building deeper relationships with a customer group that has more needs than that of the mass market. We're also exploring the use of gen AI as a channel, providing personalised financial goal planning and money management journeys for customers as we continue to identify ways to close the advice gap.

Turning now to consumer lending on slide 37.

SLIDE 37 - CREATING DIFFERENTIATED RETAIL LENDING PROPOSITIONS
We are a leading provider across all the main retail lending product lines in which we participate, with number one shares in mortgages, credit cards, loans, and transport. Our focus is to maintain these leadership positions through ongoing improvements to customer journeys across all channels, whilst delivering innovative new solutions to drive deeper customer engagement and value.

In mortgages, we're focused on maintaining strong gross lending flows, increasing participation in high-value areas, and meeting more needs across the home's ecosystem.

In unsecured, we will build upon the strong progress in the first phase, where we grew share in key areas, such as credit card spend and loans, the latter by around three percentage points. Over the next two years, we plan to drive further value from Your Credit Score and scale our differentiated embedded finance offering, FlexPay, having launched this at the end of 2024.

And in transport, we'll maintain our strong share through targeted participation in higher-growth areas, including our fast-growing salary sacrifice business, Tusker.

I will now cover IP&I on slide 38.

SLIDE 38 - TRANSFORMING ENGAGEMENT TO DRIVE IP&I GROWTH

IP&I enables us to deliver a truly differentiated experience. With 10 million customers, of which only roughly two million have a banking relationship with the Group, there is significant opportunity for driving deeper relationships through an integrated bank assurance model.

As I mentioned earlier, we're driving increased engagement with this customer base and plan to scale the Scottish Widows app from 400,000 customers today to more than 1.5 million by the end of 2026. This time, we're embedding IP&I products and experiences into the retail banking app, including investment solutions. This is an important lever for increasing penetration of our banking customers.

Finally, in workplace pensions, we'll continue to build profitable scale supported by increased connectivity with the rest of the Group, particularly our CIB clients. Our repositioning of the IP&I business will ensure that it continues to be a sustainable source of earnings and dividends for the Group.

Turning now to commercial banking, and firstly, our BCB business on slide 39.

SLIDE 39 - DIGITISING AND DIVERSIFYING IN BCB

BCB is a highly profitable business, and we're well established in this area, with trusted, long-standing relationships with businesses that make a significant contribution to the UK economy. We're building the best digitally-led relationship bank, bringing together the expertise and knowledge of our team of our dedicated relationship managers with compelling mobile-first experiences.

Building upon our deposit franchise, we see opportunities to diversify across both products and sectors. We're targeting growth in sectors such as manufacturing, that have a broader range of needs beyond lending, and therefore tend to have higher product holdings. We've got headroom here in product areas that support capital light returns and creative growth.

Our focus on digitisation is front-to-back. Having made strong progress on digital origination in the first phase, we're now focused on digitising key servicing journeys, improving experience, and driving efficiencies for the Group. More broadly, we believe the capabilities we've built thus far position us well to capitalise on an improving outlook for businesses, and we're already seeing green shoots across priority lending areas to evidence this.

I'll now move to CIB on slide 40.

SLIDE 40 - DELIVERING DIVERSIFICATION THROUGH GROWTH IN CIB

CIB is an exciting growth area, and one where we've made great strides in the first phase. The business is built upon leading positions in core areas, such as UK infrastructure and project finance and Sterling DCM. Underpinning this is a simple business model, with disciplined participation across cash, debt and risk management. We've made great progress on becoming a broader solutions provider, meeting more transaction banking and markets needs.

The latter has been an important source of revenue diversification, and will continue to be so, as we seek to grow CIB OOI by circa 45% over the five-year period. Over the next two years, we will solidify our position, as well as growing selectively in Europe and the US, supporting UK-linked clients.

A continued focus on capital efficiency ensures disciplined growth. We've improved our income per average RWA by more than 150 basis points over the last three years, and are targeting a further meaningful increase by 2026.
Turning now to slide 41, where I'll briefly cover the technology step change we are driving.

SLIDE 41 - PROGRESSING TOWARDS A TECHNOLOGY STEP CHANGE

Our technology strategy over the next two years will have two distinct elements. Ongoing modernisation and rationalisation of our estate will continue to deliver savings and improve efficiency, providing the capacity for investment in new technologies. With regard to the latter, we're well positioned as an AI leader, with 800 AI models live today, supporting our colleagues and customers, whilst we continue to key hires at all levels.

Having established the necessary capabilities, we've already launched a significant number of gen AI use cases across the group, including rolling out a knowledge management tool to more than 10,000 of our frontline colleagues to help them better support customers. We see opportunities to scale and extend these use cases over the next few years, improving speed to market, lowering cost to serve, and delivering more personalised experiences. While some of these use cases will extend beyond the current plan period, these investments are critical to driving structural advantage that will support long-term financial benefits and reinforce the Group's technology leadership position into the future.

Let me turn now to the financials in 2026, starting with slide 42.

SLIDE 42 - DELIVERING AN ENHANCED FINANCIAL PERFORMANCE

The acceleration in our strategic transformation over the next two years will further enhance our franchise and financial performance. Building upon the improvements in financial performance in the first phase, we see further upside over the final two years. This is supported by growing revenue momentum and a continued commitment to cost savings, along with reduced headwinds relative to those in the first phase. This will support increasing levels of capital generation with a reducing number of claims.

To bring this to life, let me elaborate on our revenue outlook on slide 43.

SLIDE 43 - SIGNIFICANT REVENUE UPSIDE IN SECOND PHASE

We're entering this next phase with a netting composition of circa £17 billion in 2024, having increased this by almost £2 billion over the preceding three years. Headwinds to our revenue growth will persist over the next two years to some degree, namely the ongoing but easing mortgage headwind and the timing and impact of base rate cuts. However, as we see it today, we expect the headwinds to be smaller than they were in the years to 2024.

As we've guided for some time, we continue to expect year-on-year progression in our structural hedge earnings across both 2025 and '26. We are today quantifying this impact with a combined uplift of around £2.7 billion. Importantly, we expect the hedge tailwind to be materially larger than the headwinds in the second phase. Added to this, we expect to see further growth across our strategic initiatives and BAU activities. On strategic initiatives, based on our performance in the first three years, we are upgrading our guidance to greater than £1.5 billion of additional revenues. Taking these factors together, we are confident in the outlook for net income growth.

Let me now close with the full suite of 2026 guidance on slide 44.

SLIDE 44 - HIGHER, MORE SUSTAINABLE RETURNS AND CAPITAL GENERATION

The Group is on a clear path to delivering an enhanced financial performance in 2026. As I've just mentioned, we see strong revenue upside in the second phase, including further OOI growth. Alongside, we'll retain our clear focus on cost and capital efficiency, delivering additional savings and RWA optimisation. This will support a cost/income ratio of below 50%, and we remain committed to managing to a 13% CET one ratio by 2026.

The significant operating leverage we're generating in the second phase will support higher, more sustainable returns and capital generation. For 2026, this represents a return on tangible equity of greater than 15% and greater than 200 basis points of capital generation.

I hope you found this to be a useful update on our progress to date and future plans. To summarise, I'm very pleased with the strong progress so far, and I'm excited about the opportunities to accelerate our transformation as we deliver a highly compelling investment case for shareholders.

Thank you for listening. I'll now hand over to Douglas, who will manage the Q&A. Douglas.

Douglas Radcliffe:

Thank you, Charlie. So, moving to questions, as usual, if you could please raise your hands when you want a question, though clearly a number of you are very keen. Please, could everyone use the microphones that are going to be allocated by the ladies on the side, and if possible, please restrict yourself to two questions. So, why don't we start with Andrew.

Question 1: Andrew Coombs, CITI
Thank you very much for the presentation. I have a number of questions, but I will try and limit myself to two. Let's do one numbers question and one broader strategic question.

On the numbers question, firstly, a big thank you for the guidance around the structural hedge. I would love a bit more substance on the building blocks behind it. So if you could possibly give us your thoughts on the trajectory of the nominal, how much you expect to mature in '25 and '26, and then if there is anything you can say on what you've assumed both on maturing yields and reinvestment yields as well, that would be incredibly helpful.

And then, the second question on the strategic initiatives. You're obviously very proud of what you've achieved. You're a £100 million ahead of where you're expected to be at this stage. You've increased it to greater than £1.5 billion cumulative. I think previously when you gave this guidance at the end of 2021, you had that 50/50 NII / OOI split, but it was always expected that a lot of the OOI-based benefits would come through in the latter couple of years because of some of the initiatives that were more focused on OOI were coming through then. So perhaps you can just elaborate, of the greater than £0.7 billion that's now expected to come through over the next two years, how much of that is NII versus how much of that is non NII, and which initiatives are you particularly thinking are going to drive that.

William Chalmers:
Thanks Andrew for the question. I'm glad you're pleased to see the additional disclosure around the structural hedge. The structural hedge, as I said in my comments earlier on, is a significant and accelerating tailwind to the income profile of the group. What are we seeing within that? Over the course of 2024, we held the notional as you know, at £242 billion. That represented a reduction in balances of about £5 billion in the first half, but then because of the deposit performance of the business, an ability to keep the notional stable during the second half.

You asked about yields and how we get to 2025 and 2026. The yield in 2024 Q4 was 1.9%, and you can tell from that that it's significantly below the refinancing yield of the business. So what do we look at when we go forward on the yields point? First of all, we've obviously got a big jump in terms of maturing yield versus refinancing yield. There's two points to make there that are sometimes missed. One is what are we refinancing at? You've got rates of about 4% versus the 1.9% yield that we're earning right now. That's one. The second factor is that the yields on the existing derivatives that are maturing are somewhat uneven in their profile, and so you're going to get growth of the type that we suggested there both off the back of rates as they are today, but also of the back of the yield that is in the maturing derivatives.

Third point, growth in the notional. We are not really expecting any material growth in the notional for 2025. We're expecting very modest growth in the notional for 2026. Now based upon the deposit performance that we've seen to date, including the £11.3 billion up that we saw in 2024, I'd be quite surprised if we don't beat that actually. But for purposes of our forecasts, the notional expansion in 2025 is really very limited and the notional expansion in 2026 is also limited, albeit not quite as much as 2025. Further question, how much of that have we got locked in? How do we feel about it today? Essentially, although we are somewhat active at the margins in terms of managing the structural hedge to make sure that we don't invest in flat yield curve environments. Nonetheless, the hedge by and large is more like a caterpillar than anything else.

And so the lock-in that we have more or less reflects that pattern off the back of a three-and-half-year weighted average life hedge. What does that mean? In very literal terms, what it means is that we've got about 90% of our hedge expectation this year locked in. We've got about 75% of the 2026 hedge expectation locked in. So when we talk about the £4.2 billion in ‘24 expanding by £1.2 billion in ‘25, we're pretty certain that's going to happen because it's already on the books. When we talk about it then expanding a further £1.5 billion in 2026, getting to a total £6.9 billion, we're pretty sure that's going to happen because most of it, three quarters of it, is on the books. So hopefully that gives you an idea that we are not relying upon any heroic assumptions at all in respect of the hedge progress from here, it's really pretty much mechanical as I've described it before.

Charlie Nunn:
Great. And then on NII. Yes, we haven't been 100% transparent on 2024 on the split of the £800 million or in fact the original £700 million. We never gave a split, but we did give the split of 50/50 as you said, on the £1.5 billion, and we think that's still good. I think the more strategic answer because what we defined as strategic initiatives versus BAU growth was always a very specific answer.

If you look at that chart that William looked through, which shows you OOI progression over the last three years, it's grown a billion pounds in revenue with a CAGR consistently growing quarter on quarter with the seasonality of Q4 always being weaker, and it's been pretty consistent across the four divisions that are running that. So Retail, IP&I, BCB, and then of course our equity investments group at the center that has two businesses in there that support it.

So the real shareholder value story is around the billion of growth, the 11% CAGR if you exclude equity investments, but 9% CAGR on that business. And our expectation is a chunk of that's coming from strategic initiatives. For example, the growth in the transport business, the growth in credit card payments, the growth in working capital in BCB, and then some of it's been more linked to us bringing in new talent, new focus, and then a new operating model around existing businesses. And I think William or I highlighted IP&I and CIB as examples where we had existing initiatives, but we brought in new talent. We didn't tag that as strategic initiatives, but it's obviously a really important part of getting the economics and the trajectory around OII growing.

So we're very comfortable with the longer-term outlook and I think from our perspective, this is a really strategic part of our commitment in this strategic phase. We know OII expanded through this period, but really getting those OOI businesses growing faster linked to strategic competitive advantage and seeing that trajectory and the momentum we think is a really important part of what we're going to deliver in the next two years and what we've already delivered in the last three. Thank you.

Douglas Radcliffe:
Excellent. Ben, why don't you take the next question?

Question 2: Ben Toms, RBC
Thank you for my questions. It's Ben Toms from RBC. The first one's on your tangible value per share growth. You talked about in the presentation that you expect material growth in that balance and it'll be one of the underpins of analysts ROTE expectations. Can you just give us an idea of how fast you expect the cash flow hedge reserves to unwind? I think when we look at consensus, it has growth of 6% in tangible value per share growth for next year. Is that what you envisage when you say material?

And then secondly on motor finance, I think you probably said all you're going to say in terms of the assumptions, but I'm just interested in terms of timing. We have the court case at the beginning of April. Everything we've seen so far means that expedited means expedited. Do you think we could get an outcome by the time we get to your half-year results? Thank you.

William Chalmers:
Thanks for those questions, Ben. Both important questions. In respect of TNAV, as you know, we ended up the year at 52.4 pence per share. That was in part driven by rates developments actually, and was probably a little shy of what we might've expected if you had asked us this time last year. But nonetheless, based upon the rates expectations that we have, based upon the progress of the business expectations that we have, we do expect, as your comment alluded to, and as I said in my script, TNAV per share to grow materially over the course of this year. Your question is what does materially mean? I'm not going to comment directly on consensus. Safe to say that I think it looks more like double digits than I see in consensus right now. Why is that? I think a couple of points.

One is we see the rates evolution that if you like unwinds the cash flow hedge reserve number one, but you've also got the maturity of derivatives on the cash flow hedge reserve as well as that. And so you've got those two factors if you like, aiding the reduction in the cash flow hedge reserve over the course of the year. Combined with that and maybe as important, the business build and the business build will obviously build in RWAs and therefore TNAV associated with that in the context of capital to the TNAV per share.

You've then got the pension bill. I wouldn't rely upon that too much, but it should be a factor in building TNAV per share over the course of the year. And then finally, of course the buyback. The buyback is a significant tailwind over the course of the year. Clearly depends upon our share price. So in our respect at least, the less the tailwind the better. Of course you'd expect me to say that, but nonetheless, you're going to get some driving benefit if you like from that component. So again, when I look at TNAV, the growth is expected to be material. I'm not going to put a number on it, but I would expect it to be closer to double digits than I see sometimes commented.

Charlie Nunn:
Great. And then on the second question, as we've discussed, well, first of all, thank you for your carefully asked question. We'll see how much time we spend on this topic, but obviously we welcomed the Supreme Court having an accelerated timeline. As you know, they're going to hear the court case in the first week of April. We don't exactly know when they would come out. An accelerated timeline for them would be three months, and so it might be at the start of the summer, it might be in time for the results. A more normal timeline would be longer than that. So we're not sure exactly when we'll hear from the Supreme Court. Of course, the next step once we've got that clarity is then to see how the FCA then intervenes and William talked about the uncertainties, but that's a really important part of this and obviously our role where we are doing it appropriately is supporting the appellants around that Supreme Court case

Douglas Radcliffe:
Guy.

Question 3: Guy Stebbings, EXANE BNP
Morning, thank you very much for the update today. The first question was around costs and thanks for the 2025 guide around a hundred million higher than consensus, but if we look to 2026, consensus has you falling short of the cost income guidance. So I'm just wondering whether we shouldn't be rolling forward that sort of uplift from 2025 and perhaps be thinking about a sort of flattish opex versus that £9.7 billion guide, or is it just simply the fact that you're much more positive on the top line when thinking about cost income?

And then the second question was on deposits. A really strong quarter for deposit flows, particularly retail savings. You note the noise around the budget, but even so looks like some encouraging underlying trends. And can you just give a bit more flavour of the colour that you've seen, perhaps what you saw post the budget later in the period, things around deposit mix and then how you're thinking about that into 2025 given some of your comments around the structural hedge notional, which certainly sounds encouraging. Thank you.

William Chalmers:
Guy, you started off asking about costs, but then you ended up on that same question talking about cost income. So I'm going to pick up where you left off as it were. When we look at cost income, it is of course a function of both sides of the equation. So what do we expect to see in income over the course of the year? We've been pretty explicit in terms of the net interest income expectations, 13.5 billion, up about 700 million.

That is composed of a number of headwinds and tailwinds. I shan't get into this right now, but I'm sure we will over the course of the Q&A. That is likely to be supplemented by decent OOI growth. We were up nine per cent OOI year-on-year. Quarter four was actually up 11 per cent year-on-year. I would expect that OOI growth to continue in a similar vein to what we've seen in ‘24, in ‘25. Indeed, I would expect that OOI growth to continue over the course of ‘26, again, in a similar sort of way. The same time within the income line, you've seen op lease depreciation normalising over the last year or two. That has now more or less normalised. So as a result that which has been a headwind in the past is no longer really a headwind going into the income equation going forward.

Having said all of that, what are the sources of this growth? We talked about BAU and we've talked about strategic initiatives, and Charlie in his comments mentioned that strategic initiatives are now expected to exceed £1.5 billion. So you've got a combination of customer activity, but that is then broadened and deepened by the strategic initiative investments that we are making, which in turn builds that income picture that I just described.

Now moving on to the cost side of that equation, we've put forward a number of £9.7 billion for 2025. If you strip out the NIC contributions, that's up about 2%. It's obviously up more than we would like, but frankly it's a lot lower than inflation at the same time. So just to give some colour in terms of what is going into that and then project it forward into 2026, there's a number of things.

First of all, the cost savings, the £1.2 billion of cost savings that we've achieved to date. Those roll forward and indeed they grow going forward. So that's obviously a very helpful tailwind for want of a better word to the cost equation. Against that, you've got inflation, you know what the inflation picture is like. We're seeing it for sure. And then we've got opex in the context of both BAU and in the context of strategic initiatives. As we build a business, as we see more volumes, inevitably opex comes through our P&L as a result. And then finally we've got investment and we've got ongoing investment as I commented in my remarks earlier on.

But a component part of that investment is severance costs. Severance costs for 2025 are going to be up some 25% to 30% in 2025 versus 2024. So the overall investment that we are making continues. Severance is an important component of that.

What does that do? It gives us confidence in two things. One, it gives us confidence in revenue growth, going back to my earlier comments, but it also gives us confidence in stability of costs going forward and therefore the operating leverage coming out of that. And it's that combination that when we get to 2026 allows us to have confidence in the continued revenue growth, not least boosted by the net interest income developments above and beyond what we've seen in 2025, continuation of OOI, but also gives us confidence in flattening, not necessarily flat, but flattening costs. And it's that combination that gives us, as said, confidence in the sub 50% cost income ratio.

Douglas Radcliffe:
Second question on deposits.

William Chalmers:
Yes, deposits, Guy. A couple of comments to make there. As you say, £11.3 billion deposit growth during the course of 24, which is a great achievement. Q4, not least within that up £7 billion over the course of the quarter. Looking forward, we expect a couple of things to happen within the deposits picture. First of all, we think there's going to be a decent rate of growth within the deposits market. That's clearly going to be applicable to everybody in the market and it's a bit of a tailwind I suppose for the market as a whole. It's not all good because some of that is coming from slightly subdued spending patterns in the economy. So a lot of it is good off the back of things like wage settlements, things like giro credits and the like, all of which will be sustained going forward.

But some of it as said, is coming from prudent spending habits within the economy too, and that's helping and it's helping build a pretty strong deposit market. We saw it in ‘24, we expect it to continue in ‘25. Now at the same time, if you look at shares within high street banks, we have been outperforming the high street banks and that's a function of the product characteristics that I just mentioned a second ago. Limited withdrawal in particular has been successful in that respect and that's helped us perform in ‘24 and we do expect that performance to continue over the course of ‘25. So we do expect some growth.

Now final point that I will make here is that actually per my comments on structural hedge a second ago, we are not relying upon that for structural hedge notional growth. We've got really very modest, very low single digit billions growth within structural hedge notional in ‘25. When we look forward in ‘26, I mean, to put a rough number on it, we are mid-single digits growth within ‘26 expectations around structural hedge notional. So really again, pretty modest growth. So we are expecting to see a decent clip in deposits, both as a function of markets and as a function of our successful share, but we are not relying upon that for purposes of our structural hedge expectations.

Douglas Radcliffe:
Thank you. Let's go to Perlie.

Question 4: Perlie Mong, BANK OF AMERICA
Yeah, thank you, it's Perlie Mong from Bank of America. I will not disappoint in your expectation that we might spend a little bit more time on motor finance. So can you talk a little bit more about the methodology for the provisions? Because obviously when we spoke at Q3, you said that there are many variables after the Court of Appeals ruling, so scenario analysis is quite difficult, so thank you for giving us an update anyway. So can I just ask, in your scenario analysis, what of the basket of drivers, which ones were the more material ones and appreciate you may not want to comment on it, but how wide was the range of outcomes?

So the £700 million or the £1.15 billion in total, is that as it were a central scenario or is it an average of some very wide-ranging outcomes in the scenarios? So that's number one. And I guess the second question is still staying in the theme of regulations. I'm not sure how you feel about all the talk about making regulation work with growth given the whole motor situation. But I guess what can regulators do to make your lives easier? Is it about mortgage affordability testing around that or is it reducing the reporting burden that FCA talked about? And I guess there's some chatter about maybe removing cash ISAs a product and to encourage investments, which one of that would be helpful and what else can the regulators do?

William Chalmers:
Thanks, Perlie. We didn't expect to escape without a motor question, so fair enough. First of all, what triggers the provision within motor? As you know, the provisioning standards require you to take a provision when you have probable impact and you can make a reasonable estimate around that impact. When we look at the situation right now, there are lots of uncertainties. What we've done is effectively bucket those uncertainties up into three areas. One is the legal uncertainties, so what will the Supreme Court decide? What is the extent of duty owed? What are the obligations around disclosure and so forth?

Second bucket, what will the FCA response to that be? If indeed it is determined that there needs to be a redress regime, what will that look like? So will there be a zero or reasonable commission standard for example? Will it be proactive or reactive? Will there be a time bar? What will the interest rate applied be? What will the interpretation of the contract length of time be? Will it be behavioural or will it be contractual? Those types of things would feed into any structured approach to redress that the FCA would adopt depending upon what the Supreme Court decides. There's then a third question about what the customer response will be, a third bucket if you like about what the customer response will be, how many customers will respond, what the uphold rate will be and so forth. So you can see, Perlie, that there are quite a number of uncertainties that apply to any one of those three buckets that I've just described.

What we've done is to look at those and develop a series of scenarios and then based upon legal advice, we have attached probability weightings to each of those scenarios and come up with our £700 million additional provision, £1.15 billion in total. I'm not going to answer your question directly in terms of what is the range of those scenarios in terms of the impact, I'm not sure you'd expect me to necessarily, but it is safe to say that we have some scenarios that are above that. If the Supreme Court determined that there's a fiduciary duty and so forth, you're going to get outcomes that are slightly above that, combined with an FCA redress regime that if you like dials all of what I've just said to the more negative outcomes. But equally, there are scenarios that are significantly below that. And again, they depend upon A) Supreme Court determinations of what duties are, but also dialling those dials as it were to more benign scenarios, more benign outcomes.

So there is a range around that £1.15 billion, but we feel very comfortable about it being the best estimate as to where we are today. And then we await and frankly in many respects look forward to resolution of some of these uncertainties starting with the Supreme Court in the early part of April. And I think there was a question earlier on about how quickly that would come to pass and we'd learn about it. It's hard to say, but it's not impossible we'll get news before the half-year results. And certainly from our perspective at least again, we feel very comfortable with where we are. We'd like to get this uncertainty behind us so that we can focus on value-creation for our customers.

Charlie Nunn:
Great. And then on regulation, I think about it in three ways. We certainly do think there are things this government can do to enable the UK to grow faster, and then because of our purpose and who we are, we will grow faster with it. The first thing is in the broader regulatory context, I think the Chancellor's just revealed there's 130 regulators in the UK across industries and sectors, and she's distributed that list to the Cabinet. And when we look at where we are aligned, housing infrastructure, project finance, transition to net-zero, social housing as a specific subset beyond broader homeownership, pensions, anything they do around their supply-side reforms, the broader regulatory agenda, unblocking planning and then driving investment in growth, we will be able to really support, drive and then get additional growth. So that's the first area. Within financial service, I think there's two ways of looking at it and we've had good discussions, but the starting point is the Mansion house speech that I think the Chancellor made last November was really quite a bold agenda and we really welcomed the agenda that she laid out.

But we think about it in two ways. There are specific areas of the economy that we are a leader in typically, and that we think the combination of looking at both conduct and prudential regulation could accelerate. So how do you build 1.5 million new homes? How do you think about home equity as an asset that could be leveraged for broader policy and social issues? That's a huge area that requires unlock. How do you think about scale up and SME financing and taking appropriate risk? How do we enable pensioners in the UK to take more risk and pivot away maybe from cash into more investments and align that with a growth agenda here and abroad? All of those areas we think need very specific regulatory support with that competitiveness and growth agenda. So that's specific areas. And then the third area, which we'll come back and motor will be a good example, is we do still think that a healthy economy needs a healthy financial system.

And we think the way the regulation is working here today in the UK isn't as competitive as it should be. Probably the single biggest area is around providing a more predictable forward-looking conduct agenda. We know for our investors and all of you, the kind of thing we're going through on motor finance is unsettling. To have had 30 years of regulation and oversight, to be unwound by a court of appeal view, which has then created this uncertainty makes the UK financial system and Lloyds less investable and increases our cost of equity and makes us less able to deploy capital to support the real economy.

And there's similar themes actually around potential regulation. If you look at how the competitiveness and growth objective that the government has given the potential regulator, we think there's a real opportunity given our capital resilience and our position to optimise that secondary objective as well. So we are working closely where the government's asking for help and we've given them specific ideas on all of those areas. What's great sitting in my role, I think I said it just now, I've never had the privilege to lead an organisation where if we deliver on our purpose, we will deliver growth and we'll deliver for our shareholders. And it's just a great place where all of the things that society and this government's looking to change, we are right at the heart of.

Douglas Radcliffe:
Thank you, Charlie. Jonathan?

Question 5: Jonathan Pierce, JEFFERIES
Good morning both. Jonathan Pierce from Jefferies. Can I ask two questions again please? The first one, I'm just going to come out with this direct question on 2026 income, if I triangulate everything you've just told us, costs, cost income, TNAV, ROTE, other income growth, the hedge tailwind, it feels like £20 billion is the number. Consensus is down at £19.1 billion. Is that the way we should be thinking about this? I know you don't probably want to talk specifically about 26 income, but I mean, everything seems to be suggesting that £20 billion is the right number. So if you could help us on that, that would be good.

Second question. Thinking into 2027, the structural hedge tailwinds if you bolt them onto the 2024 number, would get you to a yield in 26 of about 2.8%, even if there's no notional growth. And it sounds like there's going to be a bit. So that would be suggestive again that there's actually quite a powerful tailwind still to come in 2027 and maybe 2028. So if you could maybe just help us a little bit as to how this develops beyond 2026 and whether there's further upside therefore to the return on tangible equity number as we move into ‘27 and ‘28. Thanks.

William Chalmers:
Let me kick off on both Charlie and then perhaps you can just add on both as we go through. First of all, in respect to ‘26, Jonathan, you are right, we won't comment precisely on numbers, but just to give you some sense of what's going on there and indeed fill in some of the points on Charlie's chart earlier on ‘24 through ‘26 that he presented, you'll have seen on that chart we basically have three blocks, headwinds, hedge and strategic initiatives and BAU income growth. Within the headwinds is the familiar headwinds that we've seen to date, which is to say the mortgage book number one. We've got mortgages coming off the book at a maturity rate of about 1.09% in quarter four. That's going back on at about 75 basis points as a completion rate per my comments in my script earlier on. That is a mortgage refinancing headwind that plays itself out through the course of 2025, but is not really dealt with until we are in to, lets say, mid-26 roughly speaking. The second headwind there is again familiar territory of deposit churn augmented somewhat by bank base rate reductions which as you know have a lag in terms of our ability to pass that on to customers.

So those are the two big blocks within the headwinds. They're somewhat supplemented by bounce-back repayments, government-back lending repayments, but minor frankly. Those are the two big headwinds that I pointed out just a second ago. The hedge we've given you the information about clearly, and I'll come back to that and answer your second question, but that's £2.7 billion over the course of 24 through 26, i.e. £2.7 billion incremental income 24 through 26. And then finally the strategic initiatives and BAU income growth, we've pointed you to greater than £1.5 billion now for strategic initiatives income growth, which hopefully gives you some idea of what we would expect to achieve in addition to the £0.8 billion that we've already achieved for that bucket if you like. And then underneath that you've got primarily volume-based expansion in BAU. Asset growth in the main, so mortgages, unsecured deposit volumes, as well on the liability side, but in the main asset growth and that's contributing to that BAU growth.

So where does that take us? Again, I won't put a number on it, but we feel pretty comfortable that we should see a reasonable clip in terms of earnings this year off the back of the points that I'd described earlier on. But then we do feel that that most probably accelerates during the course of 2026.

The interest income factor is a big part of that. OOI keeps on with its pace in the way that we've seen in 24, 25, 26 more or less evenly in terms of the growth expectation. So I won't put a number on it, Jonathan, but we feel pretty comfortable with respect to the income growth that we expect to see over that period.

Second point on structural hedge and Charlie will want to comment on both. In respect to structural hedge, we've given numbers today which I hope are useful in respect of the build of the structural hedge through to 26. I won't comment directly upon your yield point, but I'll make two points. One is our expectation for notional growth, a little bit this year, a little bit more than that over the course of 2026, but overall the notional will probably not exceed £250 billion even over that course of time. It will be marginally below £250 billion. That means that the yield and you'll be able to work this out, is still south of where three-year, four-year, five-year rates are today. And so is there more kind of room for growth if you like in 27? Yes. Logically, if rates today at the swap market on a term basis are indeed correct, there should be more scope for hedge earnings growth in the period beyond 2026.

Charlie Nunn:
So look, I'd only add two things. We always said we were going to manage this institution for medium-term shareholder returns. We've got a different structural hedge in that context and that's why you see upside beyond 2026 on the structural hedge. On the core business though I hope what you are seeing and hearing today is the momentum we've built through the first three years that we take into 2025 and 2026 will continue. And the intent is we're building competitive advantage and where we think we can do it at attractive returns for our shareholders, we're capturing market share and then we're changing the speed and the agility of the organisation to compete. So without us talking about the strategy beyond 26, that momentum is being built for the long term. And the second part to that, which I know you all know, when you run an organisation like this in a slower growth economy, you expose yourselves to parts of the economy that grow faster than the economy.

So you think about transition finance housing, which had a much higher growth than the economy, the mass affluent customer segments, pensions and the pension consolidation plays that we've got, I've gone through a whole set of these. Project finance and infrastructure in the context of this government. Those are all going to be growing significantly faster than the economy and that's a deliberate choice when you run an institution like this that is so well positioned for us to be able to participate and choose where we really make a difference in the economy. So we're building a franchise that will continue to grow and to grow ahead of GDP and ahead of our competitors and that's the plan.

Douglas Radcliffe:
Excellent. Thank you. Let's go to Ben.

Question 6: Ben Caven-Roberts, GOLDMAN SACHS
Thank you very much, Ben Caven-Roberts from Goldman Sachs. So first question just on lending. I know you've already given some helpful colour around your expectations for growth into 2025, but just wondering if there's anything else you would add in terms of the underlying mix and then also just for your impairment guide of the roughly 25 basis points, if there's anything beneath the surface there in terms of which segments maybe are doing relatively better or less well. And then secondly, just a bit more of a holistic question on the path ahead for digitalisation in terms of how much you feel like you've already done a lot of the low-hanging fruit and then maybe how much there is still to go and make progress there and how potentially the continued improvements in the challenger banks are influencing your strategy at all or if there is any read across in a longer term perspective in that regard. Thank you.

William Chalmers:
Thanks Ben for your question. In respect of lending, first of all, we saw lending growth of about 2% last year, which equates to about nine and a half billion thereabouts, which we think was pretty respectable. It was of course led by mortgages. If you exclude securitisations, mortgages were up £8 billion. If you include them about £6 billion. So pretty strong growth there. But then supplemented by growth in other areas of activity.

What would I say about 2025? Our expectation is that mortgages continue to grow at a reasonably healthy rate over the course of this year. We've seen some support to that thesis, if you like, in the first quarter of 2025 so far, albeit maybe some of that is front loaded pending stamp duty changes at the budget and the like, but nonetheless, reasonably healthy mortgage growth through the remainder of this year.

The distinction I think then with 2025 is probably twofold. One is I would expect to see slightly broader based growth in respect of some of the other areas. So personal loans, cards and so forth. Personal loans actually grew pretty strongly, but some of that is catch up because of a securitisation in the balance sheet or rather off the balance sheet. So a bit more of an even spread in the other retail books over the course of 2025. And then the second point that I would make is when you look at commercial, we've so far been held back a bit in BCB by government repayments outweighing new business in BCB and that's been a combination, A, of government repayments, but also B, relatively slow demand that we've seen from our BCB clients. I think over the course of 2025, the government repayments will start to ebb away and we don't expect, frankly, particularly strong growth from our BCB clients, but perhaps a bit more than we have seen in 2024. Let's see. So I think that's probably a second characteristic of asset growth during 2025. Overall, it won't be hugely different from 2024, but overall maybe a little bit of an improvement perhaps might be the best way to put it.

In respect of AQR, Ben, a couple of comments. One is the charge in ‘24 was, as you know, very low, 10 basis points over the course of the year, £433 million. It's not going to be 10 basis points in 25, it's going to be more like circa 25 basis points that we've guided you to over the course of 25. Now why is that? I think two points to make. One is we're not expecting almost by definition MES benefits over the course of 25. We set out our economics, we obviously expect that to transpire and therefore we don't forecast MES benefits over the course of 25.

The second reason is that if you look at the underlying over the course of the year, excluding the MES benefits, we were at 19 basis points over the course of the year, but that benefited a little bit at the margin from things like removal of inflationary judgments. We saw inflation, but we didn't see any asset quality impact and so we didn't feel that the judgment made sense anymore. Likewise, we had an asset sale in the course of ‘24 in respect of the unsecured book. We're not planning for one of that size again in ‘25. And so there were one or two benefits from those types of issues in 25, which meant that the true underlying asset quality ratio in 25 when you strip those points out, looks more like 22, 23, 24 basis points in that zone and that's why we're circa 25 as we see it off the back of relatively stable economic forecasts for 2025. That's where it's coming from. It's coming from analysis of the underlying, Ben.

Charlie Nunn:
Great, and then on digitisation. Ben, thanks for the question. One of my favourite questions. Look, I think the first thing is just to recognise where Lloyds Banking Group starts from. I'll go with Retail. I could go anywhere we want, but the Retail business, we've increased the number of app users by 40% and the number of logons to 7 billion transactions per year. So that's increased 50% in this last cycle. And you saw a whole set of the screenshots I shared around the user experiences and how we're engaging customers.

We're by far the biggest digital service in the UK. And when you look at the power of that flow of customers, we are seeing it as a fantastic way of engaging customers, getting them to think differently about their relationship with us and to significantly increase our reach and our cost to serve. So what we're demonstrating so far is our ability to drive growth and then reduce the cost to serve and the cost to acquire is significant as we build out our digital capabilities.

I mentioned in the presentation we've taken that leadership position in retail. We've taken it to BCB, to our SME business and that's got a bit of way to go. And we've taken it to IP&I and that's really exciting when you think about pensions, investments and the leadership position that we're building there. Have we got a way to go? I'll always tell you we are just scratching the surface. We're just starting.

When I think what we've done to date, it's a lot and relative to this market, it's a significantly leading position. But in every area of differentiation, engagement and efficiency, I think there's more ways to go. I'm particularly excited about how generative AI can start to differentiate our services and deliver new services.

So again, I mentioned earlier we're working in an FCA regulatory sandbox across our IP&I and retail businesses to say how do we break down the advice guidance barrier? How do we get democratised advice and guidance using really personalised digital experiences? And that could radically change. No one does that today, so it'd be us creating the market for the future. I think there's lots of opportunities for us like that.

You asked about the challenger banks. Our view has always been they have brought in a different expectation around digital experiences. Some of them actually just differentiate through pricing. As you know, it's not about the digital experience and that's a different question because there's a question for our shareholders around how we manage that. But no, we do see them as relevant. They do set the standard in some areas, but we've been able to either replicate or exceed them.

And when you look at Lloyds Banking Group, none of them can come close to the kind of ecosystems and breadth of engagement that we can provide. So we very much think this is down to us improving our capabilities, talent, tech, data, and then really leading the market and that's what we plan to do.

Douglas Radcliffe:
Excellent, thank you. There's been a couple of questions that have come in online. **Sheel Shah at JP Morgan** asks, "With strategic initiatives to drive greater than one and a half billion of additional revenues, what areas have surprised more positively compared to expectations to drive the upgrade and should we think about higher absolute costs associated with that?" That was the first part. The second part was, "Can you elaborate on the regulatory board discussions that went into the £1.7 billion share buyback given the motor finance uncertainty and what gives you confidence in getting down to the 13% CET1 ratio by 2026?"

Charlie Nunn:
By the way, we are always going to be honest and humble around this. I did share that we didn't meet our targets in some areas, so I'm going to talk more about the positive areas. But we also in the appendix and we'll continue to be honest around the areas that didn't work very well or fully in line with our expectations. So which are a couple of the areas that probably exceeded our expectations? I'll give you a couple.

The first one is in our CIB franchise. And probably I could pick at a number of areas, but we've realised that our very focused strategy on cash debt risk management with a really clear participation strategy and the fact that we're a national champion means we don't compete with most financial institutions globally and we go with a really clearly distinctive proposition to those providers.

And so we're seeing that a lot of asset managers, pension funds, private credit companies, private equity companies and other big international banks recognise that we are the best at what we do and they've brought significantly more business to us. And of course as we've started to use our balance sheet more efficiently, we're a great counterparty through our optimisation activities.

So that's an example that wasn't in the strategic initiatives, that as we just got the new management team with the right expertise, with the right focus and we started to really operate as a joined up team, we saw really significant value on the table and that was exciting.

Another one that was in the BAU growth, if I just talk about that, was around our lending business and then the link to the full ecosystem and the digital engagement we built out. We didn't put specific strategic initiative investment behind that business, but we grew our market share by 3%. And if you think about how that ties into our ability to compete through third party aggregators, leverage the power of those 7 billion logons through our mobile app and then tie it into services like your credit score, we've managed to join up the capabilities and really give a differentiated service and win market share in a very accretive business. I could go on, but there's two specific examples.

Should they increase the costs? As William has been clear, there's some of the businesses overall that have some higher opex linked to the growth. I don't think those two examples are great examples of that. They won't need significantly more capacity, but some of these areas where we grow will need more opex. What we're very focused on, and William talked about this, is making sure that the cost-income ratio, if you like on a marginal basis is better than the one we've got in the group. So that you can see that operating leverage coming through. And that's certainly what we've been seeing in the first three years and what we're planning to do over the next two

William Chalmers:
Second question, thanks for the question. Our regulatory discussions on this topic as on all topics were very constructive. The nature of the conversation was to take a look at the risk item in isolation, i.e., what is it that might become of motor? And to take into account in that consideration the provision that we have taken against it, i.e., the incremental £700 million. Alongside of that, there was a discussion around the likely performance of the business going forward and indeed the performance of the business under a potential stress event should the macroeconomy take a dive, which we don't expect, but nonetheless what might it look like?

That combination, if you like, led the discussion to end with approval I suppose is the best way to put it for the £1.7 billion buyback alongside going to 13.5% CET1 ratio. Now looking forward, it's worth bearing in mind in that construct. This business is a highly cash-generated business. It earns close on 4 billion pounds per year.

That is a substantial cushion for anything that might get thrown in its way. We don't expect it to be clear. £700 million, the £1.15 billion is our best estimate based upon the variety of scenarios, but the business has an awful lot of cushion built into it off the back of the cash generation that it secures if you like every year going forward.

So within that, we had confidence and our regulator had confidence to allow us to go to 13.5% and to allow us to undertake a £1.7 billion buyback. It's that confidence combined with that cash generation that gives me every confidence that we're going to get to 13% in 2026.

Douglas Radcliffe:
Aman.

Question 8: Aman Rakkar, BARCLAYS
Morning, guys. Thanks for the presentation. Two questions, one on mortgages, one on capital please. I just wanted to check, you did talk about 75 basis points completion spread in Q4. It looks like spreads have probably come off a bit since then, given the higher swap rates. So is there any way you could kind of tell us what you're assuming for the front book spread this year? If not a number, is it in line or below that level? And relatedly, you've been taking market share in mortgages for a while now, which is clearly a departure from what we're used to seeing much of the last 10 years. And just interested, is this just a new kind of domain for market share in mortgages? Are you now just back into the mode of driving market share from here? To what extent is it price dependent?

The second question is a follow-on on distribution, so I think your guidance for 2026, greater than 200 basis points of CET1 capital generation, and running your target CET1 ratio down to target of 13%, it does imply a massive step-up in the surplus capital in '26. I think very crudely I can get to £6 billion of excess capital in 2026. The street is modelling dividends of around £2 billion. Without being too smart, it implies potentially really quite out-sized surplus distributions in 2026, motor finance notwithstanding. I mean is it realistic to think about a buyback of £4 billion in full year 2026 results whenever that may be? Thank you.

Charlie Nunn:
So yes, just on mortgages. As you said, our performance last year we were really pleased with. And yes, it was a higher market share than we've seen for a while. We always said when we started this strategy, if you drew the line for the group and how market shares had changed for the last decade, if you drew those forward through till the end of this decade, the group wouldn't be able to generate the capital for shareholders and it wasn't. So it was important to be able to stabilise some of the big businesses and then grow in high value areas.

And last year was important because we did that at healthy margins based on real interventions, and I can see our head of that business or the CEO of that division up there, on really specific interventions around how we were competing, how we were positioning ourselves with intermediaries, our own customer base and getting them to remortgage with us, affordability changes. It was a really nice set of changes that led to that.

As you said, margins were about 75 basis points. You should expect that to flow through into Q1. The first few weeks and for the first month of the year has been tighter. To your point, it's always seemed to be the way in the last few years, when the swap curve is going up, margins tighten. I don't think we're going to guide to specific margins for the whole year unless you're going to, William, but you should expect it to tighten at this stage if the conditions stay the same. But let's see where it's going.

I think importantly, and I really wanted to come back on your point about market share. Look, we always said we will not chase market share in mortgages. As the biggest provider you have the potential not to do the right thing for our shareholders and actually given our position, trading to a specific market share in any month, week, quarter can create quite a negative impact on the overall market pricing.

So you should expect us to trade smartly. We know we need to manage and grow that portfolio over time. We're proving that we can do it, but we are not going to chase a certain market share in any specific moment. I don't think that's right for the shareholders, actually for the franchise or for our customers in that context. So let's see how the year goes. We'll give you the update at Q1.

As you said, the volumes in the market have been high in Q1 as people are looking to try and exchange houses before the stamp duty comes in. Margins have been a bit tighter. We think the outlook for the whole year is probably more stable than that, but the first few months has been quite busy.

William Chalmers:
Thanks, Charlie. Aman, just to give you a number on the mortgage book yield right now, which might help you with some of the analysis that you're doing. We're looking at a mortgage book yield right now of somewhere between 90 to a hundred basis points for the book as a whole. I mentioned it in Q4. We were seeing maturity yields, i.e. stuff that's rolling off of about 1.09%, which is the right number. That's now leaving a book behind of about 90 to 100 basis points as I've said versus the 75 that Charlie mentioned just now. That gives you an idea as to the mortgage refinancing headwind.

The 2026 guidance, you're right to point out that our capital guidance does take a step-up in 2026 and as you know we've guided to an excess of 200 basis points without being more specific about that. Exactly what does greater than 200 mean? That's off the back of uncertainties that are out there for sure. Macro uncertainties, regulatory, which I'll come back to in just a second. But nonetheless, all of those points notwithstanding, we are very comfortable with our greater than 200 basis points guidance that we have given you for 2026. And that is off the back of everything that we know and particularly that which is in our control.

Couple of points. First of all, I don't think you're missing anything in respect to the P&L, the capital build and so forth. We pointed all of that out and you've got it collectively. The market, I think has got its arms around that. There are some uncertainties that are still out there. I won't mention the macro because everybody knows about that and has a point of view on it.

I highlighted earlier on that CRD IV still requires a bit of ironing out in the conversations. We are looking at modestly greater than £5 billion potentially. It depends upon how the PRA conversations land. So there's an uncertainty there. Now that was until very recently offset by the introduction of Basil 3.1, which has now been delayed. Now, what you've got is Basil 3.1 happening on 1 January 2027. There isn't now the overlap that there was, albeit it's not terribly different in its overall timetable.

So those uncertainties are perhaps worth mentioning. I don't want to confirm the number that you put out a second ago, but I do want to say that we do expect a meaningful step-up in capital generation in respect of 2026. And then it'll be up to the board to figure out hopefully with Charlie's and my input as members of the board to determine what do we do with that capital. Thanks, Aman.

Douglas Radcliffe:
Thank you. I'll come to Chris in a second, there's another question online which comes from **Ed Firth at KBW**. "You very helpfully highlight the tailwind from the maturing hedge across full year '25 and full year '26. Does this mean that we are looking at a pro-forma NIM of greater than 3.5%? And what are your deposit pass-through assumptions?"

William Chalmers:
Thank you for the question, Ed. I feel somehow like that's an attempt to circumvent our efforts to move to NII guidance over the course of the next year. So I'm not going to answer it, Ed, in a direct way at least. Safe to say that 3.05% NIM is consistent with the £13.5 billion net interest income guidance that we've given for 2025. My expectation is that that margin is going to gradually move up over the course of the year.

So we hit 297 in quarter four. My expectation is that that will build pretty much quarter on quarter as we go forward and that'll be a function of, if you like, gathering strength of the tailwinds. Ed, and his question talked about the structural hedge together with a gradual waning of some of the headwinds. And we've talked a lot about mortgage refinancing including in the prior question. We also expect that the headwind in respect of deposit churn to slow. We saw deposit churn in '24. We expect to see deposit churn in '25. But we expect that deposit churn to be some 20% less or so in 2025 versus 2024. So it gradually ebbs away consistent with a falling interest rate environment.

Ed's question then implicitly asks, "Well, what's the pattern in respect to '26?" You can tell from our comments around the structural hedge and my comments just now about the waning of headwinds, that we would expect net interest income to continue to grow quite materially in respect of 2026. I'm not going to put a margin figure around it. What we will do this time next year is give you an NII expectation as to what that means. But that in a very broad sense would be consistent with a gathering pace of margin. But Ed, I'm not going to comment on your number.

Douglas Radcliffe:
Okay. And the deposit pass through assumptions?

William Chalmers:
Sorry, deposit pass through assumptions. So far we've seen about 50%. So of the bank base rate changes that we have seen late last year, beginning of this year, basically 50% is the short answer.

Douglas Radcliffe:
Excellent. Chris, I think you had a question at the back there.

Question 10: Chris Cant, AUTONOMOUS
Morning, it's Chris Cant from Autonomous. Thank you for the presentation and taking the questions. I wanted to come back on the structural hedge if I might, William. In terms of the numbers, I think Andrew tried this at the very beginning of the Q&A, you've got £240 billion of hedge at a three and a half year life. You've said it's fairly mechanical or caterpillar shaped if we want to describe it. So should we be thinking about £69 billion of maturities in that year which would be 2/7th of that number implied by that? And then you've said it would remain south of £250 billion through 2026. So maybe we're talking about mid single digit billions of volume growth in the hedge over this period of time.

So all in is something in the high £70s of billions of notional where you've got a yield pickup coming through. To get to the £2.7 that you're talking about, the £2.7 billion tailwinds would appear to imply a churn yield on the back book of maybe 50 basis points in terms of the derivatives that are rolling off in 2025 and 2026. I just want to see whether I'm putting the pieces together correctly. I know you tend to think about things in terms of the year-over-year gross income. I think from where most of us in this room are sitting, we try to think about it as a NIM build off of 4Q. So it's important to understand the churn yields. So anything you could say on that would be appreciated please.

And then in terms of the cost of risk development, just curious to understand what your view on through the cycle cost of risk for the balance sheet you now have is... Obviously we've had very benign asset quality trends for some time, but as we think out to your 2026 and potentially longer term expectations for the business, what do you think through the cycle cost of risk is for the balance sheet?

William Chalmers:
Thanks, Chris. I'll comment on both of those. Charlie might want to pick up on the second in addition to what I say. First of all on the structural hedge, Chris, I won't comment precisely on your numbers. Save maybe just to kind of fill in a few pieces here and there. We've got £242 billion notional right now. As I said, stable in the second half of the year, off the back of strong deposit performance.

We do expect strong deposit performance over the course of the next two years, but some of that is going to be fixed. Some of it's going to be limited withdrawal. Some of it's going to be instant access. Some of it's going to be, I would say consolidation more or less in the PCA world rather than necessarily significant expansion. Overall, our expectation is that only a modest amount of that will feed into structural hedge. And I said earlier on that during the next couple of years we are, as you commented back to me, expected to be just south of £250 billion.

I'll stick with that. It is just south of £250 billion though. So just to be clear, we're not talking about a big gap there. I think the point that I would highlight on the second part of your question is, yes, if you think about a three and a half year weighted average life, you've got basically a seven-year total life. You're not going to be far wrong if you just do that on a caterpillar basis. You won't be far wrong, you won't be precisely right, but you won't be far wrong.

Then at the same time you talked about yield on hedges that are put on. It's worth just saying that there is a bit of lumpiness in terms of the yield on hedges that drop out and that's the point that I was trying to make earlier on about why it's not necessarily totally predictable in terms of the income streams. Hopefully in turn, why the £1.2 billion for 2025 and £1.5 billion for 2026 incremental growth is helpful in that context.

But think about both the yields that come on and the yields that drop out when you think about the hedge earnings. There's a little bit, because we want to make sure that the hedge is not unduly exposed to any given concentration risk in any given time period, there is a little bit of what I've termed in the past as pre-hedging, which tries to iron out those concentration risks over time periods, but that's part of the picture.

But the first two points are the more important parts. So, Chris, hopefully that gives you a rough idea. Again, if you think about it as a seven-year total life, three-and-half-year average life and pull it forward on that basis, bearing in mind current rates and bearing in mind the current yield, you're not going to be a million miles off where we're headed towards.

Second question, cost of risk. It's an interesting one because as said earlier on, we saw a very low cost of risk in 2024, but that was off the back of significant MES benefits. The run rate, cost of risk that we saw in 2024 came in a bit over the course of the quarters. But by the time we got to Q3 and Q4, it was remarkably consistent actually. As I said before, 22 to 24 basis points after having taken out all of the movements that might be considered vaguely one off in their nature.

Where are we in terms of that? Two points that I've made, one is we're seeing very favourable developments across the book. I only partly answered Ben's question earlier on as to how we see the different components of the book developing. But in short, both across retail and in commercial we are seeing very steady developments. So very low NTAs for example across the retail book. Likewise, very low flows to default.

Our business support unit and watch list developments in the commercial book - very benign. You're always going to get one or two that break that rule, but basically as a rule it's very, very benign.

Now, we are, as I said, guiding to 25 basis points for 2025. I think there is a question that is emerging as to given the risk standards of the last few years, and I really mean since the financial crisis, that have been implemented across the group, is our cost of risk systematically lower than the circa 30 basis points that we pointed to in the past? There's an argument about that. There is, I think, a fair debate to be had about it. We certainly feel very secure in the context of the experience that we're seeing combined with the asset quality of the book, whether it's things like loan to deposit ratios in mortgages or the quality of our customer base, e.g. greater than £80,000 average household income for a mortgage customer or greater than £45,000 for a personal unsecured loan customer.

We feel very, very comfortable about the underlying asset quality. And I think, Chris, over time we'll see, but we certainly feel comfortable with where we are right now, including the cost of risk of 25 basis points for this year.

Charlie Nunn:
I don't think I should really add much to that because that's the key message. I just suppose the other thing which hopefully you've had a feeling for today and over the last few years is we've done significant de-risking on top of just seeing the performance and the ongoing origination. So more than halved the legacy portfolio, in the mortgages business, that's very significant as you know and specifically under stress scenarios. That's very significant.

We had a CRE portfolio, some of which was below water from an ROE perspective, and then where we looked at SRTs, there's more efficient capital holders of that risk and that's been material as part of our optimisation. And then I won't go into them, but there's been some high profile single names in our CIB business that we've clarified over the last couple of years. So that's been a very deliberate strategy to make sure that we were using our capital as efficiently as we could and creating the capacity for growth.

And so I think that does give us that opportunity going forward to continue to grow. And I agree William, we will continue to look at how we guide around this, but we feel good about the resilience and the quality of the book that we have.

Douglas Radcliffe:
Thank you, Charlie. I think we are out of time, but we'll just take the one final question from just the room itself and then we'll call it a day. There were a couple of questions online, but essentially most of those have already been addressed via other questions, so we'll have this as the last question.

Question 11: Amit Goel, MEDIOBANCA
Okay, thank you. It's Amit Goel here from Mediobanca. So one, a follow-up actually to Jonathan's question on the revenues. Again just working out backwards, I think you said costs kind of flattening. So I mean, look, if I take £9.8, £9.9 billion, if I apply 48% or 49% cost income on that, I end up actually closer to £20.5 billion of revenues, which would imply actually no headwinds. I just want to check what I'm maybe missing there.

And then secondly, on the Motor remediation and the charge taken, when I compare to the other organisations that have taken charges so far and I compare to market share, this number does seem to be a little bit higher. So I just wanted to check whether that you think could be relative conservatism within your modelling assumptions or whether maybe some of that market share data isn't quite the right thing to be using when assessing relative cost.

William Chalmers:
Thanks very much for the question. I'm going to only comment at a relatively high level on your first question simply because otherwise it will drag me into confirming numbers that go beyond where I'd like to go for today. But safe to say we do expect the cost picture to flatten out over the course of 2025 through 2026, not necessarily completely flattened, but get to a flatter, let's say, outcome.

Why is that importantly? What is going on? I mentioned earlier on that we've got a continuation of our £1.2 billion cost savings that we've achieved to date, i.e. 2024. That is then offset by inflation, by opex associated with expanding volumes, but also by investment. Overall, very tight BAU cost discipline has allowed us, as I said in my comments earlier on to maintain the investment in the business going forward within our existing cost ambitions.

And part of that investment is things like replacing systems, things like reducing data centers, things like automation, things like cloud migration. All of these things gives us confidence in the ability to control costs in the period thereafter. And then I also commented within our investment is a layer of severance that we have previously not necessarily planned for in quite the same way, which in turn gives us confidence in the overall cost profile of the business. So I would make that comment, I suppose in response to your question.

On the motor point, the key point on the motor issue is that there are a range of uncertainties. So I talked about the legal uncertainties, I talked about the FCA uncertainties and I talked about the customer response uncertainties. And within that, within each of those three buckets, there are a variety, a number of uncertainties. Now, therefore market share is kind of interesting to look at, but it is far from being the determinative feature, if you like, of what a provision should look like.

When we look at it, and clearly we've taken a lot of legal advice on this topic. We think the £700 million provision that we've taken is the right estimate for our business, but it of course implies that we have been suitably prudent in respect of what we think various outcomes might look like, whether they're legal outcomes, FCA outcomes, or customer outcomes. And so that's what we've based our £700 million, £1.15 billion total provision on, and then said, "We feel very, very comfortable with it."

Douglas Radcliffe:
Excellent, thank you. So we'll call it there for questions. And, Charlie, do you just want to wrap up briefly.

Charlie Nunn:
Well, first of all, thank you very, very much for sitting through what was a slightly longer presentation than normal. We really appreciate the questions, really appreciate the time. We know we keep giving you uncertainties, but what our hope today was, is that we can really give you some clarity around the scope and scale of the risks associated with motor finance. Sure, there's going to be more questions, but really appreciate it and we look forward to the Q1 results, which will be William without me. So thanks very much for joining us today.

William Chalmers:
Thank you.

END

FORWARD-LOOKING STATEMENTS

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