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

Monday 24 February 2025 – 4.30pm

LBG:
William Chalmers, Chief Financial Officer

William Chalmers:
Thank you, operator, and welcome to everybody this afternoon, and thank you very much indeed for taking the time to join us. Hopefully many of you listened in to our results broadcast on Thursday of last week, and the messages were relatively clear there. So, rather than repeat those, we might go straight into Q&A actually, and allow you to take the conversation wherever is most relevant. So, with that operator, happy to hand over to the audience.

Question 1: Sheel Shah, JP MORGAN
Hi, thank you for taking my questions William. Firstly, on the operating lease depreciation, I know that there are, or that there were some charges in 2024 around electric vehicles. What's your expectation around that going forward? And then secondly, just from the structural hedge for 2027, I know you haven't given guidance for '27, but just to get an understanding of what we could expect, I know that you previously stopped hedging, or paused your hedging during the 2020 period, so I'm wondering how much of that feeds through into 2027. Any insight there will be helpful. Thank you.

William Chalmers:
Thanks very much for the two questions there, Sheel. First of all, in respect of the operating lease depreciation charge, as you know, there was a charge of £1.3 billion for that in the course of 2024. In Q4, we took a charge of £331 million. That was off the back of similar number £315 million in Q3, but a higher than expected charge in respect of Q2. So, when we look forward, Sheel, I'll say two things really. One is when we look forward, you should expect that charge to be growing off the back of two main inputs. One is fleet growth, and the other is higher value vehicles that we're putting through the leasing business, and together that would result in a higher operating lease depreciation charge for 2025 than we saw for 2024, but not by that much.

Now, overall I would expect the other operating income line, which of course operating lease depreciation is supporting to continue to grow in the transportation space, and in respect of how much it grows a little bit more than the op lease depreciation line, but it's of that same order. So, that gives you an idea hopefully for op lease depreciation in respect of '25 going forward. Again, growth driven by those two factors off the back of the '24 performance. But don't forget the '24 performance, as I say, had that Q2 increase about £100 million in respect of electric vehicle charges that we don't expect to repeat. But nonetheless, you'll see fleet growth in higher value vehicles which, if you strip out that £100 million Q2 charge, is the gross rate, therefore in a run rate based a little bit higher. And when I say that you would expect the other operating income growth in transportation to be similar, is to that underlying level, rather than that headline level, because the headline level includes the £100 million charge that we saw in Q2.

Secondly, Sheel, in relation to the structural hedge, we haven't said a great deal about 2027 expectations, but we've given you the numbers there clearly in respect of '24, '25, and '26 as we look forward. That gets you to a '26 income number of about £6.9 billion, which is the number that we gave you last Thursday. And we told you a little about the notional during the course of '25, and '26, not specific numbers, but a very modest increase in '25, and then an increase that was still modest but a little bit higher in respect to '26 from the notional. That gives you a yield, we talked a bit about that within the Thursday call, but that yield is still below, let's say the 3.5% run rate that is our terminal interest rate assumption that prevails in the periods after 2026.

So, you can see there's a little bit more to go in terms of income growth I guess within the hedge if our interest rate assumptions are right. I won't say much more than that in terms of the blocks as it were for ring fencing in the hedge other than to say you've got a weighted average life of 3.5 years, a full life of 7 years, you can unwrap that roughly speaking on a proportionate basis year after year you won't be a million miles off.

Question 2: Aman Rakkar, BARCLAYS
Hi William, two questions, please. One on your net interest income guide for '25 please c.£13.5 billion. So, you talked about that being commensurate with a 305 basis point NIM which I guess we can all take a view on the moving parts on, but you can quite straightforwardly back out an average interest earning asset number that's kind of implied in

that guide, and it implies next to no growth I think on the kind of Q4 exit, the December exit average interest earning assets. So, I look at the Q4 average interest earning assets. You've got a £3 billion tailwind for AIEAs just by virtue of the averaging drag that you've had in the quarter. So, it feels like you're exiting the year at £458 billion.

At face value your guide for £13.5 billion assumed next to no average interest earning asset growth over and above that level. So, is there any chance you can verify that back of the envelope math and just tell me if there's another piece that I should be thinking about. I guess I've made an assumption on non-banking funding costs there. Relatedly, how should we think about average interest earning assets from here? Because actually you're talking reasonably confident about growth prospects, particularly in your retail business on both sides of your balance sheet. And then in a commercial, fingers crossed, let's see what happens this year. But I don't know, I feel like there's an upside skew to average interest earning assets over and above what you're talking to, and that would be pretty helpful if you could help with that.

William Chalmers:
Sure, thanks for the question, Aman. I'll answer it perhaps in two ways, and one is, as you know, we've moved to the £13.5 billion guidance net interest income as a whole. So, first of all, just to answer it from that perspective. When you look at that number, we expect it to be composed of a couple of tailwinds, and two or three headwinds and specifically, what I mean by that is on the tailwind side we've got the structural hedge number one plus we've got the volumes on the deposit, and on the asset side number two, and those are the principle tailwinds to achieving that £13.5 billion. And then on the headwinds, collectively, we've got the mortgage refinancing headwind, I mentioned some numbers last Thursday, in terms of what we're seeing there. We've alongside of that, got the deposit churn number one, and the bank base rate lag, which for us is about 70 days on average, number two, across our accounts.

And that, in turn, is then added to non-banking net interest income, which may be partly the way to unlock your question. So, when we look at that, we've got the component parts can also be used to address your question, NIM, AIEA, and non-banking net interest income. We stayed away from that, in terms of the guidance this time around, and looking forward, we certainly plan to continue to stay away from it on the basis it will give you NII numbers. But to address your questions directly, Aman, we've got NIM, we said that c.305 basis points. That is driven by the discussion that we've had in the past around mortgages, and deposits on the one hand versus structural hedge on the other side. We've got AIEAs, we had a Q4 run rate in AIEAs of about £455 billion. We haven't put a specific number on that in respect to 2025, but as per my comments on Thursday, we do expect our AIEAs to grow over the course of the year.

You put a number down there, which I think we would see, maybe I'll say if that's all we did, we'd be a little bit disappointed, but it's not necessarily hugely out of line. And then we've got non-banking net interest income, and that third point, Aman, may be the missing piece in your analysis. So, NIM, we've given c.305 basis points, AIEAs, we do expect growth off the back of the Q4 number. Maybe your number is a little bit conservative versus what we see but is not a million miles away. And then we've got non-banking net interest income, which to be clear is now increasing because of volume growth as opposed to rates growth simply because the rates curve is dipping down the other way, at least very largely, that's true. That volume growth in NBNII is what is necessary to ensure that we get OOI growth on an ongoing basis.

Aman Rakkar:
Okay thanks very much for that colour. So, it seems like non-banking funding costs then again, are kind of taking a step-up versus the Q4 exit, is that the right way to think about it then? Because I thought we were kind of annualising at roughly the go forward rate at this level, but it sounds like maybe we should think about that going up again.

William Chalmers:
Non-banking net interest income charge last year it was about £469 million in total. When we look at this year, we're probably looking at about another, I'd say £100 million on top of that, something like that, about a 20% growth. And that as said, Aman, is very much volume-driven growth. That's not 100% true. There are some rates-driven components still going through in terms of some of the longer-term finance issues like transport, but by, and large, it's becoming much more volume-led than it is rate-led right now.

Aman Rakkar:
Yep, thank you so much. Really appreciate that.

Question 3: Jonathan Pierce, JEFFERIES
Hi William. I have one question on the motor provision, and the tax deductibility of it. It looks like you have assumed full tax relief on it based on the reconciliation, not really having any major adjustment for conduct charges. I think that's because it's coming out of Black Horse rather than the bank. And then I think you have surrendered any sort of excess tax relief to other members of the group. So, there's been no deferred tax asset created either. How confident are you that is what is going to happen, as we actually get into the practical aspects of this? I mean I know this is how the corporate tax rules are written, but yeah, just looking for a comment on how confident you are of that. And if there were to be further sizeable charges that some of us in the market think there might be, depending on the Supreme Court ruling, would you expect to be getting tax relief on those? And be able to use group loss relief to spread it around the Group in the same way you have in 2024? Thanks, William.

William Chalmers:
Well maybe a couple of points to make in response to that, Jonathan. First of all, just to clear up the situation in respect of motor-related charges. Overall, the tax relief that we're assuming on the motor-related charges, it's about 20%. That's not full tax relief, as you know, we pay tax at a rate of 27% i.e. corporate plus bank levy, which in total is a 27% expected or rather effective tax rate. So, we're looking at about 20%.

Why is that? It's because of where the issues arise. And so to the extent they arise in non-banking entities, in this case, Black Horse as you point out, Jonathan, our expectation there and in fact it's pretty clear, is that there is tax deductibility in respect of address and in respect of administrative costs. And that is where the bulk of the provision lies to the extent that it is in the bank. Then the bank only allows tax relief in respect of administrative costs. And in that respect, Jonathan, the tax situation for this is pretty clear. So, we've gone with that in terms of the expectations and we feel confident that that is where it will land.

In respect to the DTA, and forgive me if I misunderstand the question, in which case tell me, but the DTA right now is £4.9 billion. We do typically recover that against bank profits in any given year. But it is only in respect of 25% of the bank profits after all other deductions have been taken. So the amount therefore that you can actually recover against DTA in any given year, is actually much more modest than you might think because of those qualifications. It is helpful, it certainly helps in respect of shielding part of the profitability from tax, but it's more modest than one might think, as I say, because of those limitations.

Jonathan Pierce:
Sorry, I probably wasn't clear. I guess my question was that because Black Horse's own profit before tax is nowhere near £700 million, that would've driven Black Horse presumably last year into a loss post-provision, which all else equal, would build a DTA within Black Horse. So in effect, you wouldn't be getting the capital benefit of the tax relief because it would go into a DTA and be deducted from capital. But my understanding is that you would've shared that tax relief around other areas of the Group. I suppose the question is simply, does the tax relief benefit your capital position from day one? Or do we have to wait for that tax relief to benefit the capital position as the DTA unwinds?

William Chalmers:
Yeah. In respect to the capital relief, it's very clearly there. In respect to the precise timetable with which it lands, Jonathan, I'd need to get back to you as to this year versus last. But as said, the treatment of it and the capital relief that stems from it is very clear.

Question 4: Rob Noble, DEUTSCHE BANK
William, thanks for taking the questions. If I could just get some more detail on non-interest income. If we go through your annual report and look at it by in a different way rather than by division, or if I do it by product. Your net fee and commission income is down last year. And then all of the growth from non-interest income through operating lease income and the insurance business. This going forward, is the non-interest income growth going to broaden out to the other lines that we could see through that lens? Or does it all get driven by the electric car fleet business and the insurance business as well?

William Chalmers:
Thanks, Rob. In respect to the sources of other operating income growth in '24, essentially as you know, it's 9% year-on-year. When we look at it on a business unit by business unit basis, we're seeing about 10% growth within Retail. About 8% within Commercial, about 7% within IP&I, and a large chunk within Central, but Central has a number of things going on in it.

Within the overall Retail picture, you've got a couple of things going on there. You've got transportation, which is certainly helpful, and indeed is a significant factor of that overall Retail growth. But alongside of that, you've got a bit of growth within Retail and you've got resilient growth within the context of PCA. Which is to say within PCA, you got a couple of things going on. You've got incentive charges for attraction of new accounts, and you've got underlying fees. The first one of those is inherently a negative, it's a cost. The second one of those is a benefit, is a positive. So, that's what's going on within Retail.

Within Commercial, you've got about £140 million or so benefit over the course of the year. Principally, what's going on there is capital markets and financial markets. Capital markets obviously being transactional activity, financial markets being flow activity. And then IP&I, you got a combination of general insurance, share dealing, Embark, individual annuities. They're all having an effect upon the overall growth within IP&I other income during the year. Within that, there's also a split between the active businesses, e.g. GI, e.g. share dealing, versus roll off the contractual service margin as well. So, there's I suppose, layers within the IP&I business.

And then finally within Central, although you do see some noise in central primarily off MTN financing, you've got Lloyds Living, which formerly was called Citra and you've got BGF making the contribution during the course of that year. So Rob, hopefully that answers your question, and gives you the insight that you're looking for.

Rob Noble:
If I could just follow up with, if I wanted to pull out and just look at the car business, and it's dynamics, is it just the operating lease income that I can see in the annual report, less the operating lease depreciation gets me to the profit of the business? Or is there some other way that I should be thinking about it?

William Chalmers:
First of all, in terms of the car business, as you know, there's two businesses, well, three businesses actually there. One is the financing business, which is Black Horse, which comes in through net interest income. And to the extent that we incur charges and so forth, it's through operating costs, number one, and impairment number two.

And then the two businesses as you know in the leasing area, one of which being Lex, the other being Tusker. And within that business you've got two or three top line impacts. One is what is the funding cost of that business, which is non-banking net interest income, which is a negative. And then two is the income of that business, which is other operating income. And then third, you've got op lease depreciation, as we discussed in the first question. So, there are those three lines within the income side of the leasing businesses. And then of course, there's actually operating costs below that, which come out below the income lines. So, that's the shape of the leasing business profitability, Rob.

Rob Noble:
So the operating lease income is about £1.7 billion, the operating lease depreciation is £1.4 billion. But if I net out the non-banking charge, I mean is that all against the lease business because that would push the whole of that P&L negative, if I wanted to split this all out separately?

William Chalmers:
No, it's not, Rob. We're financing a lot of stuff through non-banking net interest income. We've talked about it in various conversations, but if I take them kind of item by item, it's the commercial business, for example. There is a transactional set of activities in the commercial business that require often short-term funding costs. That will go through non-banking net interest income. There are insurance related costs, both the capitalisation of the insurance company, but also benefits in share dealing, for example, which go the other way, i.e. net interest income. That offsets non-banking net interest income.

There's also LDC for example, in the central items. Those equity businesses are financed through non-banking net interest income. And then finally, there's transport as you highlight. In terms of split of that, Rob, it's probably about 40% transport. It's probably about 20% insurance, about 20% CIB, about 20% equities businesses. That's roughly speaking the breakdown.

Rob Noble:
Okay, that's great. Thank you very much.

William Chalmers:
Thanks, Rob.

Question 5: Chris Cant, AUTONOMOUS
Good afternoon, thanks for taking my question. I just have one, please. I wanted to talk about motor finance again. And I appreciate you've set out the various permutations you're considering within your weighted average cost. But I'm sure you've had a look at a whole bunch of sell side reports coming out with fairly chunky numbers in terms of the risk that this could pose in a worst case scenario. And I just wanted to invite you to comment on whether you thought the sorts of worst case numbers, myself and other analysts on the call see for Lloyds, which I'm guessing are sort of clustered in the mid-single digit billion territory, as a kind of realistic worst case.

Are they within the kind of normal distribution you're looking at across your various scenarios? Or are we all missing something fundamental in terms of how many historic cases there are? How extensive your involvement in the market was? We're all working with very limited data. You have far more insight into your history in the market. Are we missing something important when we come up with that of level of worst case? Is it within your set of scenarios, or are we all way off? Thank you.

William Chalmers:
Thanks, Chris. I suppose one way to answer your question is just to go back to the framework, the foundations of the provision that we've taken. And without going through the provisioning standards with which you're very familiar, the layers of uncertainty that we've looked at in the context of constructing the scenarios. So first of all, the law as we discuss, what is the Supreme Court going to decide? What are disclosure obligations? What's the extent of the duty? That's tier one.

Tier two, the FCA response, and there's really a lot in there. There's a lot in the FCA response - type of address scheme, zero versus reasonable commissions, proactive versus reactive, time bars, rates. These things make a big difference and there's a lot of them.

And then third, the customer response. Again, another layer of uncertainty. Off the back of that, as you know, we've developed scenarios, we assigned probabilities to those scenarios. And they range from low end of the numbers, which are at least likely to be administrative expenses whatever it is. Through to the higher end, which obviously turn all of those various different dials negative as I said the other day. I'm not going to comment exactly on your numbers per se, but when you say a normal distribution, normal distributions have bell curves in the middle of them. Mid-single digits is not necessarily in the middle of that bell curve. It might be considered, we've looked at scenarios from low to high here, your worst case for us it would be in one of the tails.

Chris Cant:
Yeah, sorry to be clear, and I appreciate it's not going to be exactly a normal distribution. I'm just trying to get a sense of your number is a weighted average across many, many scenarios and kind of flipping switches and all of those different assumptions. I guess when we sit here as UK banks analysts with the history of PPI, we all jump to the worst case, right? So we're all going to assume the Supreme Court agrees with the court of appeal, the FCA instigates a redress exercise. It's proactive because PPI was proactive in part. There's a 50% claims rate because that's what it was in PPI. And so we're going to flip all those switches and go to a worst case number. And from the conversations I've had with market participants, I think there's some clustering in the case of Lloyds that it's something in mid-single digits might be like a worst case outcome.

The question is then is if in the tail of your distribution, it sounds like from your answer it would be within the tail of your scenarios and that we're not way off-piste in getting to that acknowledging it's a worst case. I don't think anyone's modelling it as a base case, but I guess we're all doing something a bit like yourself in putting some probability weighting on that worst case materialising. It's just trying to think about the downside scenario and whether we're all missing something. But from what you said, it sounds like mid-single digit would be within the tails of your distribution as a potential worst case outcome if everything went against you.

William Chalmers:
Yeah, I think I've probably said as much as I can say really, Chris, which again at a risk of repetition is to say our provision encompasses a range of scenarios as said that the bell curve is clearly where the majority of scenarios are encountered, and then there are tails around either side, very low or somewhat higher.

Chris Cant:
Got it, thank you, that's helpful.

William Chalmers:
Thanks Chris.

Question 6: Gary Greenwood, SHORE CAPITAL
Hi William, thanks for taking my question. I just had one, which was hypothetical around return on tangible equity. And obviously you're guiding to over 15% in 2026, obviously there's a range of where that could ultimately land. But I was just wondering whether there's a glass ceiling for return on tangible equity where you would feel uncomfortable I guess running the business above that and balancing effectively the benefits to shareholders with those going back to customers. So if you were to get the say 16%, 17%, 18% return on tangible, is there a point at which you say, we really need to reinvest more in price here to sort of stop that getting too high and maybe attracting the wrong regulatory or political attention at some point. So just interested to understand how you sort of think about that from a business perspective. Thank you.

William Chalmers:
Thanks Gary. Maybe a couple of points to make on that. One is there is no glass ceiling as such. We don't really look at the business in that way, but a couple of points that are worth making that point notwithstanding is clearly to us the business begins and ends with the franchise, and that is customers. And therefore delivering value to customers is an imperative. When we then go beyond that, what does that mean? I mean there are day-to-day pricing decisions clearly, there are also questions about what growth ambitions we have within the business. Beyond that or maybe as part of that there are questions about how much investment we want to put in the business. And when we're earning a very high yield as a company, we'll look carefully about how much growth we want to develop within the growth business, all clearly within acceptable risk parameters.

But as importantly, we'll think very carefully about how much we want to invest as well to try to maintain the strength of the franchise going forward and deliver value to customers whether that is value in the context of propositions or price or distribution or whatever it might be. And so Gary, I think it's less about a glass ceiling, it's more about us looking carefully at the business and determining how we maintain the value of the franchise, either customer value, put it another way looking forward, and that has price growth investment implications attached to it, which naturally encourages to lean in a certain direction and not simply to run the business for a very high day one ROTE that isn't the objective.

Gary Greenwood:
Is it something that you discuss or the regulator or the Government discusses with you as well in terms of, do they look at it in terms of that sort of metric profitability or returns or do they just look at other factors?

William Chalmers:
It's a good question, Gary. I mean the two terms that are used by the regulator in the context of debate with us but also broadly within the sector are fair value analysis and consumer duty. And they are terms that to some extent at least they've become more all-embracing over the course of the last couple of years at a sector level. But actually I would say the way that we run the business is as said to build the franchise, that's what comes at the beginning and the end of every day. And if we don't do that, then we'll pay for it as a business. Now, it is and has always been our position that in doing so, fair value and consumer duty is inherently part of what we do on a day-to-day basis.

So Gary, I wouldn't say that our actions are necessarily circumscribed by the regulator. They're in fact suggested, dictated, mandated by the building of the franchise that we want to do and want to undertake on a lasting basis. As part of that, naturally you have to deliver fair value to your customers, as part of that you also take care of them in the context of consumer duty and disclosure around it and so forth. And so it's that way around Gary that we're answering the question. And of course we have regulatory debate all the time. But I wouldn't take away the impression that regulators are saying, you can do this, you can't do that. I don't think it's true for us. I'd be surprised if it's true for too many businesses.

Gary Greenwood:
That's great, thanks very much.

Question 7: Rob Noble, DEUTSCHE BANK
The dividends for the next couple of years, should we expect the same level of growth as the last year so 15% or shall I think about it as a payout ratio basis? I think you say progressive ordinary dividends, but obviously if I want to get down to 13.0% core tier 1 ratio, and I put through less than 15% dividends, then the buyback number steps up quite considerably. So I just wonder what the mix of capital return should look like within our models.

William Chalmers:
Yeah, thanks Rob. I suppose a couple of points to make, I mean start with the confirmation of the basis we operate, which is to say that we'll return all excess capital. And that means for this year going to 13.5% and it means for ‘26 going to 13% CET1 ratio. So that's the commitment. Within that we have a progressive and sustainable dividend policy. And then alongside of that we have an annual determination every year as to how to address any excess capital above and beyond that. And so far, at least because of I suppose the value equation and the preferences of our investors, that has consistently been the buyback.

When we look at the dividend policy going forward, a couple of observations and one is that we won't move from that progressive and sustainable commitment. And as you know, last couple of years or so, that's been 15% year-on-year. I think the year before that it was 20% year-on-year. And as we arrive at today, leaving aside any one-offs within the overall P&L you might encounter, that is a relatively modest payout ratio. And therefore that gives us pretty good scope to continue to grow the dividend in the years going forward. I won't put a precise number on it, but we have talked in the past about continued healthy growth expectations within the dividend. And if you look at what you might expect our payout ratios to be, again ignoring one-off charges that may happen in any given year, or e.g. the £700 million in the context of last year, then you can see that the payout ratio suggests that we've got further to go. And that's where we'll seek to take the business over time. I think we then have to make a determination at what point do we think the payout ratio is appropriate and then slow the dividend growth down off the back of that. But we're not seeing that at the moment.

Rob Noble:
Is there any cap or limitation to the potential size of the buyback to get you down to 13.0%? Did you see any ceiling, whether it be volume related or I don't know, payout related or anything like that?

William Chalmers:
In terms of factors that would stop us from going to 13%, Rob, when you say that?

Rob Noble:
Yeah, if you have no extraordinary one-offs going forward, and I just grow the dividend at 15%, 20% whatever it was in the last few years. Then to square the equation, it looks like you need like a £4 billion buyback. Is that actually possible, is the question?

William Chalmers:
In theory it is perfectly doable and in fact when we look at the business, as long as we are getting the money that we need in order to invest in the franchise in the way that I mentioned earlier on in response to Gary's question, then capital above and beyond that is for the shareholders. That is the principle on which the business is operated. So as said, we want to grow the dividend in a progressive and sustainable way, we see plenty of room to do that within the existing payout ratio. We think the buyback offers significant value to investors, even though the share price has rallied a bit, we still believe that the buyback offers significant value to shareholders. Those observations combined with a commitment mean that we will run the business in that way.

But as said, over the longer term, we will want to make sure that we are investing appropriately in the business to make sure it's successful tomorrow as it is today. That's more of a forward-looking comment if you like, because you know the parameters that we're operating to in ‘25 and you mostly know them in respect to ‘26.

Rob Noble:
Right, thanks very much.

Question 8: Alvaro Serrano, MORGAN STANLEY
Hi William, apologies I joined five minutes late, so I'm not sure if you may have answered this already. When we think about this year, the NII progression on a quarterly basis, is there anything to flag in terms of concentrated lag effects or concentrated mortgage materials that we should take into account? Or should we just assume, similar to last year,

there will be gradual increase? I'm thinking this year and next year, this growth in the structural hedge or growth in NII should be more or less linear or anything to point out?

William Chalmers:
I think the overall progress, broadly speaking, will be linear overall, but the one point that I'd make is to look out for, particularly in Q1 is day count. So you saw a different day count in Q3 versus Q4, actually, but also, Q1 I think is a couple of days shorter versus Q4. And although it sounds trivial in the context of a 90-day quarter, a couple of days, 2% or 3%, it's not nothing. And therefore, that's the one point that I would highlight.

Beyond that, in terms of lumpiness in the hedge, mortgage refinancing volumes and the like, and then finally, deposits, no particular lumpiness in the hedge that I would point out. It will ebb and flow a little bit, but that's around the margins. In terms of mortgage refinancing, there are, as I mentioned, actually on Thursday, I think, there are a few bumps here or there, but overall, nothing that I would significantly point out. One point I'd make is look out for bank-based rate reductions because they obviously have a lag effect, and therefore, they will cause a bump in the overall pattern. But as I say, I would have day count at the top of that list. And then there are other bits and pieces, but mostly noise and finally, bank base rates.

Alvaro Serrano:
Great. Thanks.

William Chalmers:
Thanks, Alvarro.

Question 9: Aman Rakkar, BARCLAYS CAPITAL
Hi, everyone. Thanks very much for letting me ask a follow-up. Just two modelling questions, please. You've been really helpful in the bridge to the £13.5 billion interest income next year. And I guess again, we can take a view on the various moving parts. And yeah, it was on mortgages, really. It's a significant drag on the business going forward, but it's a time-limited one. And I think anything in terms of helping, you talked about the 90 to 100 basis points roll-off. What is the pounds, £100 million number that you're anticipating as a loss this year? Because that 90 to 100 basis points roll-off spread, I suspect that's going to evolve as we get through the year, right? So I'm not sure what that's going to end the year as. I don't know if there's a shape to that. And again, I don't know if that widens again into next year. So if you could lift the lid on that, that'd be really helpful.

And then the second one was a question I've not asked you for a long time, but I'll ask you again, just around deposit mix actually. We've got a decent stab at what your current accounts are, but I was just interested in what your term deposit mix is, please? It's an important input into our modelling going forward, and I guess now we're past the worst of it, and hopefully it's a tailwind from here. That would be really helpful if you could tell us what you've got to, please? Thank you so much.

William Chalmers:
Thanks for those questions, Aman. In terms of the first question on mortgage refinancing, as said, when we looked at the Q4 numbers, the maturity margin on mortgages rolling off then was 109 basis points. So it gives you an idea as to where we were then, versus 75 basis points coming on roughly. It does go down a little bit during the course of 2025. Right now, we have a book that I mentioned on Thursday is yielding between 90 to 100 basis points. That comes down a little bit through the course of 2025. Again, per Alvaro's question, there are bumps and a certain amount of lumpiness within that overall transition, but it's not until well into, let's say end of the first half of '26 that it's really playing itself out. And therefore, I don't think these bumps are going to make a big difference to the overall picture of margin, net interest income that you see.

I mentioned day count in response to Alvaro's question earlier on. By the way, that day count point that I was making is less a margin point, it's more a net interest income point clearly, which I know you know, but just for the sake of completeness at least, that's a net interest income point as opposed to a margin point. So the short of the answer is that right now, it's operating between 90 to 100 basis points. It comes down over the course of the year, a few bumps, but by the end of the year, there is still a gap between where we expect mortgages to be refinancing and where the yield is of the existing book.

Then in terms of the overall deposit book, you have I think a pretty good idea, as you say. You know we've got just over £100 billion, £101 billion I think it is, of PCAs. We've got about 20-25% let's say of commercial banking, which is non-interest bearing. So it gives you a sense as to the non-interest bearing component of the overall deposit book. And then the rest of it is effectively the savings book and within the savings book, instant access has been shrinking over the course of the last year, albeit it did actually turn up in Q4. Limited withdrawal has been growing quite significantly over the course of the year, and now represents the material part of the overall savings book. And then fix-to-fix book has been growing over the course of '24, but actually, went the other direction, a very modest decline in the course of Q4. And that's what I meant when I said that churn was really slowing, well, not really slowing. Churn was starting to slow in the course of Q3, and again, in the course of Q4.

I'm not putting numbers on it much more than that, Aman, but just to give you some idea of the composition, or rather the addition of the fix-book and limited withdrawal book is probably now around 40% of the savings, something like that.

Aman Rakkar:
Thank you so much.

William Chalmers:
Thanks, Aman thanks for your questions.

Question 10: Rob Noble, DEUTSCHE BANK
Hi, thanks again. Just given there aren't many questions, just a bit of an unusual one. You've got about £10 billion of gross capitalised software on the balance sheet. What's the weighted average life of your capitalised software for amortisation purposes? And is it realistic or should we expect going forwards, AI, technological advancement, etc, to start to shrink the kind of life that you have of existing software?

William Chalmers:
Yeah, thanks for the question, Rob. Just to check numbers, which I think you probably have, but when I look at intangibles on the balance sheet, it's about £4.5 billion, £4.6 billion of intangible assets on the balance sheet. The way that's been progressing is it was pretty flat in '24. We expect it to be pretty flat in '25, but there is an overall point is that intangibles are clearly an important part of our capitalisation process and the more we invest in technology-based assets, obviously, that will be a part of that factor. It's not to say that necessarily grows much, but it doesn't necessarily shrink much either. It's pretty flat over the course of the forecast period.

And again, as your question implies, Rob, it is a function of the type of investments that we're doing as a group. So investment over time comes down a little bit, but because the component of that, which is intangibles, is significant, it may be that the intangible component doesn't move quite as fast as that.

Rob Noble:
The weighted life that you have on your software?

William Chalmers:
The average useable life, it'll vary a lot between the different assets. But I think this is not to be taken with a serious degree of accuracy, Rob. So with that caveat, I would've thought average usable life is probably somewhere between 3-5 years would be my guess, probably at the lower end of that. But again, I would need to come back to you if you wanted a more precise answer, Rob.

Rob Noble:
It's just the interesting potential topic that we haven't really thought about.

William Chalmers:
It varies, the reason for the caveats, if you like, Rob, it varies a lot depending upon what it is you are looking at. So the average life in that context is going to hide quite a range. Again, if you use the lower end of that range that I've given you, 3-5 years, let's call it 3-4 years, if you want to be more precise, you're probably not far off.

Rob Noble:
Thank you.

William Chalmers:
Thanks, Rob.

Thanks very much indeed, operator. Well, look, just to say once again, thank you very much for taking the time to join the call. Hopefully you can see that the underlying business is performing pretty well actually, and there is a lot of confidence in our 2025 and 2026 aspirations. Of course, we might get macro events that hit us unexpectedly. Those are really for others to determine rather than us, but you know the macro on which our forecasts and our projections and our confidence is built. And of course, we may end up getting a motor charge that is higher or lower than what we put out there today. I know that's been the subject of a lot of discussion, but again, you can see it's our best estimate based upon the scenarios that we have constructed. So with that, we remain confident in, again, '25 and '26 outlook. And again, very much appreciate your interest. Thank you.

END

FORWARD-LOOKING STATEMENTS

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A number of these influences and factors are beyond the Group's control. Please refer to the latest Annual Report on Form 20-F filed by Lloyds Banking Group plc with the US Securities and Exchange Commission (the SEC), which is available on the SEC's website at www.sec.gov, for a discussion of certain factors and risks. Lloyds Banking Group plc may also make or disclose written and/or oral forward-looking statements in other written materials and in oral statements made by the directors, officers or employees of Lloyds Banking Group plc to third parties, including financial analysts. Except as required by any applicable law or regulation, the forward-looking statements contained in this document are made as of today's date, and the Group expressly disclaims any obligation or undertaking to release publicly any updates or revisions to any forward-looking statements contained in this document whether as a result of new information, future events or otherwise. 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