LLOYDS BANKING GROUP PLC– 2025 Q1 INTERIM MANAGEMENT STATEMENT – PRESENTATION TRANSCRIPT
(amended in places to improve readability only)

Thursday 1 May 2025 – 9.30am

LBG:
William Chalmers, Chief Financial Officer

William Chalmers
Good morning everybody and thank you for joining our Q1 results call. As usual, I'll run through the Group's financial performance before we then open the line for Q&A. Let me start with an overview of our key messages on slide two.

SLIDE 2 - CONFIDENT IN OUR OUTLOOK
In Q1, we continued to deliver on our purpose-driven strategy. As you heard at our Full Year results presentation, strategic execution underpins our ambition to meet more customer needs and secure higher, more sustainable returns for our shareholders.

In the first quarter, the Group demonstrated sustained strength in its financial performance. This included further growth in income, following the upward trajectory established in the second half of last year. We have also maintained our cost discipline, and asset quality remains strong.

In the context of evolving global economic risks, our differentiated business model is resilient. Tariffs will have a very limited direct impact on our business, but we will of course continue to monitor the broader UK economic implications. In this context, our focused strategy, our strong customer base and franchise, and our sustained financial performance, all give us confidence in the outlook for our business, and underpin our guidance for 2025 and 2026.

Let's turn to a financial overview on slide 3.

SLIDE 3 – SUSTAINED STRENGTH IN FINANCIAL PERFORMANCE
As said, Lloyds Banking Group demonstrated sustained strength in its financial performance in the first quarter of this year. Statutory profit after tax was £1.1 billion, with a return on tangible equity of 12.6%.

In Q1, net income of £4.4 billion was up 4% compared with the first quarter of the prior year. This was driven by continued growth in both net interest income and other operating income, partly offset by a higher operating lease depreciation charge. The net interest margin was 3.03%, 6 basis points higher than the prior quarter.

Operating costs were £2.6 billion, up 6% year-on-year. This includes a planned increase in front-loaded severance costs, without which, it would be 3% year-on-year.

Asset quality remains resilient. The first quarter impairment charge of £309 million equates to an asset quality ratio of 27 basis points. This includes a net £35 million Multiple Economic Scenarios impact.

TNAV per share is now 54.4 pence, up 2 pence from the end of 2024.

This performance resulted in capital generation of 27 basis points, which was a strong underlying performance impacted by the front-loaded severance costs and a temporary, 14 basis points, increase in RWAs primarily linked to hedging activity. The Group's CET1 ratio stands at 13.5%.

Let me now turn to slide 4 to look at developments in the balance sheet.

SLIDE 4 – STRONG GROWTH IN LENDING AND DEPOSITS
Underpinned by our leading customer franchise, both lending and deposits demonstrated strong growth in Q1.

Group lending balances of £466.2 billion were up £7.1 billion or 2% in the first quarter. Within this we delivered another strong quarter of mortgage growth, up £4.8 billion. Lower rates supported customer demand, and the prospective stamp duty change accelerated completions. This probably implies a slower pace in mortgages in Q2. More broadly in Retail, we saw good growth across all of our propositions, including credit cards, loans, motor and European retail.

Commercial lending balances meanwhile increased by £0.3 billion in the first three months. Growth in our CIB and BCB franchise more than offset £0.5 billion of government-backed lending repayments in BCB.

Turning to the liability franchise, again, we saw strong performance in Q1. Deposits grew by £5.0 billion or 1% in three months. Within this, we saw an increase of £2.7 billion quarter-on-quarter in Retail deposits, after seasonal impacts from tax payments. Savings accounts were up £1.5 billion and current accounts were up £1.2 billion. Within PCAs, churn continues to be offset by wage growth alongside subdued consumer spending.

Commercial deposits were up £2.3 billion in Q1. This included some short-term inflows in CIB ahead of the tax year end.

Alongside these developments, Insurance, Pensions and Investments saw £0.8 billion of net new money in the first quarter, bringing Assets under Administration to £183 billion.

Turning now to our income performance on slide 5

SLIDE 5 – CONTINUED NII GROWTH

The Group saw continued income momentum in the first three months. Both NII and OOI showed good progress.

Net interest income of £3.3 billion was 1% higher than the prior quarter, despite a lower day count, and 3% higher than Q1 last year.

This was in part driven by average-interest-earning assets of £455.5 billion, up £0.4 billion in the quarter. The increase in AIEAs was lower than customer lending growth, largely due to mortgage completions being weighted towards the end of the quarter, and lower lending to banks in Commercial.

Performance was also driven by the Q1 net interest margin of 303 basis points, up 6 basis points quarter-on-quarter. The margin benefitted from the sustained structural hedge tailwind and probably a basis point or so of one-off impacts, for example from early redemption charges in mortgages.

As you know, the structural hedge tailwind is strong. It generated £1.2 billion of interest income in the first quarter, up 30% year-on-year. Underpinning this, the hedge notional remains stable at £242 billion, reflecting the continued strength of our deposit base.

The Q1 non-banking NII charge was £112 million, mainly driven by in-quarter activity flows and refinancing volumes.

In 2025 we continue to expect total net interest income of around £13.5 billion. This includes £1.2 billion year-on-year growth in structural hedge income, offsetting mortgage refinancing and deposit churn impacts. Note that whilst we expect continued momentum in NII through the year, the quarterly contribution from key components, such as the hedge, mortgages and deposits will not be constant across every period.

Now turning to other income progress on slide 6.

SLIDE 6 – BROAD BASED MOMENTUM IN OOI

OOI of £1.5 billion is up 8% year-on-year, reflecting broad based momentum across the franchise. In particular, growth versus prior year was driven by strong contributions from the motor business and General Insurance. Versus the fourth quarter, CIB also showed strength.

Driving this growth as you would expect, we are seeing continued quarterly momentum in our strategic transformation. You can see some of these terrific developments on the slide. In the past few months we have launched several propositions, including Blackhorse FlexPay within our Consumer business, an embedded finance offering; alongside, an intermediary income protection proposition within Insurance. In Business and

Commercial Banking, we are scaling Lloyds Bank Connected, our market leading digital services platform for BCB clients. Meanwhile, in Equity Investments, Lloyds Living is making continued progress.

Operating lease depreciation saw a charge of £355 million. This is higher than the prior quarter, primarily driven by continued fleet growth, higher value vehicles and lower gains on disposal. We continue to work on ways to tightly manage operating lease depreciation going forward, and as usual we will revisit the fleet valuation at Q2.

Let me now move to costs on slide 7.

SLIDE 7 – COSTS TRACKING AS PLANNED

Cost discipline, as always, remains a key focus for the Group. Q1 operating costs were £2.6 billion, up 6% on the prior year and consistent with our planning assumptions. This was driven by front-loaded severance, representing a charge of £200 million, some £80 million higher than Q1 last year. We have deliberately taken this charge early in the year in order to accelerate cost efficiencies.

Excluding the increase in severance, operating costs were up 3% year on year. Within this, ongoing investment and business growth, alongside the effects of inflation, continue to impact the cost base, partly mitigated by growing efficiency savings.

We remain on track to deliver our £9.7 billion operating cost guidance for 2025, including the circa £100 million impact of employers' NIC changes which took effect from April. Pleasingly, there was no net remediation charge for the quarter. At the same time, £200 to £300 million remains our expectation for the full year.

Putting all this together, the cost-to-income ratio for Q1 was 58.1%, influenced by severance costs alongside the annual BoE charge as mentioned. Looking forward, we expect the ratio to decline through the course of this year.

Let me now turn to asset quality, on slide 8.

SLIDE 8 – RESILIENT ASSET QUALITY

Asset quality is resilient, reflecting prudent lending and healthy customer behaviours. New to arrears remain low and stable across our portfolios, indeed, with continued improvement seen in some areas such as mortgages.

Early warning indicators are stable and benign. For example, minimum repayment levels in Cards remain low, as are working capital utilisation levels in Commercial. In this context, the Q1 impairment charge was £309 million, equivalent to an asset quality ratio of 27 basis points.

On a pre-MES basis, the asset quality ratio was 24 basis points, a stable underlying charge reflecting our resilient customer base and our prudent approach to risk. The £35 million net MES charge rests upon a base case of modestly lower growth for the UK versus our Q4 outlook. GDP expectations are for 0.8% growth in 2025, HPI of 1.7%, with unemployment peaking at 4.8%.

Our Q1 base case assumptions incorporate a level of increased tariffs. As we closed Q1, it became apparent that the scale of these, and therefore the potential impact could be more extensive than assumed. Therefore, based on scenario analysis, we have added an additional £100 million central adjustment to accommodate this risk. We will monitor developments and update at Q2.

The balance sheet is well-positioned to cope with these economic uncertainties. Only very modest and highly rated parts of our commercial business are directly exposed to the US, and the quality of our UK business protects against any second order local impacts.

As of Q1, our stock of ECLs on the balance sheet is £3.7 billion. This is about £450 million in excess of our base case.

In sum, whilst we remain vigilant, the Group is performing well. We continue to expect the asset quality ratio for 2025 to be circa 25 basis points.

Let me move onto slide 9 and address RoTE and TNAV.

SLIDE 9 – ROBUST ROTE ALONGSIDE TNAV GROWTH
Statutory profit after tax of £1.1 billion resulted in a robust return on tangible equity of 12.6% for the first quarter. We continue to expect a return on tangible equity of circa 13.5% for the full year.

The volatility charge was £11 million. This was driven by the usual fair value unwind and amortisation, partly offset by positive market volatility impacts.

Tangible net assets per share were 54.4 pence, up 2 pence in Q1. The increase was driven by profit accumulation, alongside the unwind of the cash flow hedge reserve.

Looking ahead, we continue to expect material TNAV per share growth from profits and the cash flow hedge reserve unwind, supported by share count reduction from the buyback. Moving on, I'll turn to capital generation, on slide 10.

SLIDE 10 – STRONG UNDERLYING CAPITAL GENERATION
Underlying capital generation in Q1 was strong. Within this, risk weighted assets increased by £5.5 billion to £230.1 billion. This reflects the impact of strong lending growth in the quarter, but also a temporary RWA increase of circa £2.5 billion, primarily related to hedging activity. This temporary increase is expected to reverse by the end of the third quarter. As you know, we continue to focus on RWA efficiency and optimisation to help offset the impact of regulatory pressures and other growth, and we expect this to increase through the year.

Capital generation was 27 basis points in the quarter. This is driven by a strong underlying banking build, impacted by front-loaded severance and as said, is also after the temporary RWA increase, alone worth 14 basis points.

Looking ahead, we continue to expect circa 175 basis points of capital generation for the full year. After 23 basis points of dividend accrual, our closing CET1 ratio for the quarter is 13.5%. We continue to expect to pay down to a CET1 ratio of 13.0% by the end of 2026, with 2025 being a staging post towards that target.

I will now move onto slide 11 to wrap up the presentation.

SLIDE 11 – CONFIDENT IN OUR OUTLOOK
In the first quarter, the Group delivered sustained strength in financial performance. Q1 again saw income growth, alongside continued cost discipline and resilient asset quality. This, in turn led to strong underlying capital generation. Looking forward we are well-positioned for the future. We remain confident in our 2025 and 2026 guidance, as you have seen before and as laid out on this slide.

Our strategic execution and differentiated business model underpins our commitment to generate higher, more sustainable returns for our shareholders.

That concludes my comments this morning. Thank you for listening. We'll now open the lines for your questions.

QUESTION AND ANSWER SESSION

Question 1 – Guy Stebbings, Exane BNP
Morning William. Thanks for taking the questions. Well, it's just one broad question really on your net interest income. It's clearly been a good start to the year with NIM up six basis points in the quarter. Good deposit trends, presumably only increasing your conviction on the hedge notional outlook and interest expense on the non-banking, of course maybe a bit better than expected. So I appreciate it's only one quarter into the year and I don't think people would expect you to change guidance at this stage. But as you reflect on that 2025 NII guidance of £13.5 billion, are you becoming more confident or more upside versus downside risk from here?

And then linked to that, two supplementaries. Can I just check if you're seeing any downward pressure on new mortgage completion application spreads this quarter versus prior quarters? And is that interest expense non-banking book flattered in any way in Q1? Thank you.

William Chalmers:
Thanks very much for those questions, Guy. Three questions there, I'll take them each step by step. The net interest income and our guidance of £13.5 billion for the year and what we've achieved in the first quarter of this year. I think we're pleased overall with the performance in net interest income over the course of the first quarter, up 1% on a quarter-by-quarter basis at £3,294 million, up 3% on a year-on-year basis versus quarter one of 2024.

So it's a decent start and it's supported by the usual three elements. That is to say decent performance in net interest margin, an uptick in AIEAs, and actually an improvement versus the fourth quarter in non-banking net interest income.

When we look at that going forward, therefore, Guy, off the back of that good start, we feel pretty good about the expectations and indeed our guidance for £13.5 billion, but it is of course early in the year. Just to comment on each of those. Net interest margin up 6 basis points over the course of the first quarter, 297 basis points to 303 basis points. I mentioned in my comments just there that there was perhaps a basis point or so of basically ERC, early redemption charges in connection with the good, very healthy mortgage performance that we saw in the first quarter.

But we do expect that net interest margin to continue to tick up through the course of the year. It'll ebb and flow a little bit in terms of the precise quantum in any given quarter, but we expect it to tick up and the first quarter was a good start.
AIEAs are up just about £0.4 billion in the course of the first quarter and as I mentioned, our lending was broad-based but on the other hand a good chunk of it, £4.8 billion in mortgages was back-end loaded. So, you should expect to see that AIEA count tick up in the course of quarter two and thereafter beyond.

And then finally, non-banking net interest income. That is a number which is, as said, has come down slightly in the course of Q1 versus Q4. It is essentially funding and activity-led and it will ebb and flow a little bit depending upon what gets refinanced in any given quarter depending upon levels of, for example, CB activity. And indeed in the course of the first quarter at least reflecting the fact that we had a strong quarter in LDC exits in quarter four.

So, all of those things added together to answer your first question, Guy, we feel good about the £13.5 billion and NII guidance for the year. It is early in the year. There are clearly some risks out there. The two that come to mind are there's a lot of discussion right now about precisely where interest rates will land and what type of bank base rate cuts we might see.

Number one, I'm coming onto your second question in respect of mortgage spreads, which might be a second uncertainty number two. But as I said, we feel pretty good about the guidance we've got out there right now.

Secondly, mortgage spreads. We saw completion spreads, of just a shade over 70 basis points in quarter one. That's a very small amount down from what we saw in quarter four, but not really a noticeable difference. In that context, as you know, we were able to secure really a very credible mortgage performance up £4.8 billion in the quarter, somewhere between 19 to 20% market share. But it is safe to say that a bit of that was probably front-end loaded off the back of the anticipation of stamp duty changes. Probably prompted also by interest rate reductions in the course of the quarter and so I wouldn't expect that growth to carry on looking forward. But that's probably relevant to your mortgage spread point, which is to say as we look forward, we are seeing a little bit more competition in the context of mortgage spreads in the market for quarter two and potentially at least beyond.

It's not transformational, Guy. It's not going to hugely change the picture, but at the margin, forgive the pun, it is probably slightly more competitive than what we saw in quarter one.

Now, bear in mind that swaps are pretty volatile right now and therefore, trying to figure out what the equilibrium landing point is for those mortgage spreads is a little tough. And so while we're seeing a slightly more competitive market, let's just see how that plays out. And I think the second point there is don't forget that we and other banks are all managing the market, or managing the margin I should say, in a holistic way. Therefore, if you do see mortgage spread pressure, you're probably going to see some alleviation of that or some offset from that in respect of other balance sheet, particularly potentially on the liability side.

Your third question, which I think I've probably largely answered actually, Guy, in terms of NBNII. As I said, slightly down in quarter one, about £112 million. We're not guiding to the NBNII component as you know, we're just guiding to net interest income right now. But, safe to say, the comments that I made at the full year about NBNII expecting to be up over the course of this year versus last, we continue to expect that to be the case. So, worth bearing in mind. It won't be up as much as it was 2024 versus 2023, but it will be up versus the sum total of 2024. So, hopefully that's helpful, Guy, for your three questions.

Question 2 – **Aman Rakkar, Barclays**
Hi, William. Thanks for the presentation and taking the questions. I had one on operating lease depreciation, please. I just wanted to get a sense of how much visibility you've got on operating lease depreciation. It feels like there's quite a few moving parts, some uncertainty around car value in light of tariffs and obviously came in a touch ahead of where the street was in Q1. I don't want to overdo it, but just interested in how much conviction we can have in modelling that line item from here.

And then the second question was around the ECL. Obviously stable underlying performance, you've taken £100 million overlay or a post balance sheet adjustment. I'm just interested in the thinking and the model that you've put in place to arrive at that number and what the direct impact on your business may or may not be. I guess, I'm specifically thinking about your corporate business, how you thought about how exposed that is to tariffs, please. Thank you so much.

William Chalmers:
Thanks for those questions, Aman. I'll take them in turn. Operating lease depreciation, as you say, £355 million for quarter one, that's up about £24 million versus quarter four. A couple of points maybe I'll make on that. First is just to provide a bit of context. The operating lease depreciation charge, as you know is a necessary part of the transportation leasing business. In turn, we see that business is strategically critical not just to the UK but of course, core to Lloyds Banking Group.

And it is to be clear, a very profitable and indeed growing business within our overall Lloyds Banking Group set up. We have, as you know, a series of different levers to address the market.

Most importantly, those that are growing fastest amongst those levers are very profitable, very attractive propositions. And in that context I'll mention Tusker, which as you probably are aware is a salary sacrifice scheme provider that we bought a couple of years ago now where other operating income net of op lease depreciation is up 77% year-on-year and a really attractive ROTE. So, it's a relatively small part of our overall setup, it's certainly a lot smaller than Lex, but that's where we're growing and that's where we're investing because it's attractive from a profitability point of view as well as, most importantly, serving an important customer need.

So, I just thought it was useful to start off with that context. Now, in relation to your question, Aman, Q1 charge up £24 million quarter on quarter, £355 million. What's driving that growth is three things. Fleet size, number one, higher value vehicles, number two, and then what is a weak quarter for gains and losses on disposal, number three.

Now, as you say, we don't guide to a full year number in respect of op lease depreciation, but it is, I think, safe to say that as you look forward across the quarters coming forward, quarter two, quarter three, quarter four, and indeed beyond, it is not going to grow at the same pace as it did from quarter four into quarter one in every quarter.

Now, what do we mean by that? First of all, the trends that are behind op lease depreciation are in place, and they should be welcomed. And what I mean by that is that this is part of a growing business that should, therefore, expect some operating lease depreciation growth, and should be welcome as the business grows, and it is other operating income generative, and indeed, profitable.

That's the most important point. But then behind that, a couple of supplementary points. One is that we'll, of course, need to consider used car price behaviour at every half and that is going to vary. That's part and parcel of the business.

But at the same time, on that point, we are working on mitigants. Number one, lease extension, number two, re-marketing, number three, auction partnerships, and all of those together will, over time, dampen growth and the volatility and indeed further enhance the profitability of the transportation business.

So, just stepping back, it is from our point of view, Aman, a profitable business that is becoming more profitable indeed, over time. And over time, likewise, will become more predictable. It is safe to say that for 2025, transportation, other operating income, will significantly outstrip op lease depreciation growth and indeed that business will produce an attractive return on capital. So, we don't give guidance on this topic, Aman, we're not going to change that, but hopefully some of these comments, both the context and the particularities give you some sense of direction as we look forward.

Second question, Aman, ECL. An important area of course. You asked about our thinking in respect of the tariff charge that we have taken, the central adjustment as we've described it. First point to make might be to say, look, the right way to look at our multiple economic scenarios is the £35 million net MES charge that we've taken. What is going on within that charge is that we've got number one HPI, which turned out to be better than we had expected, and number two, some wages growth. And all of those give us favourability in the context of our economic outlook.

And then offsetting against that, we have looked at the tariff situation and taken an incremental £100 million above and beyond what is in our base case assumptions. Essentially, Aman, the right way to think about that is that we are trying to get ahead of the situation. We're trying to get ahead of the situation, and so to describe that, when we looked at the closing of the books at the end of March, beginning of April, it was apparent that there was quite a bit more uncertainty than we had initially expected in respect of the tariff situation, which ultimately culminated in so-called liberation day.

What we looked at, as a result, is a couple of different scenarios. A benign scenario and a less benign scenario. Looked at what that might imply for the usual indicators, GDP, unemployment, HPI, all of those, and then take a view and weight those scenarios in a way that we thought was sensible.

We then validated those, back-checked them, against what would it mean in terms of re-weighting upside versus downside, how does it look against our various sensitivities that you've seen before? This type of thing just to try to validate the £100 million.

But in sum, it is about getting ahead of the situation and about anticipating how this might turn out if it isn't quite as friendly, as we would all hope to be the case. To be very clear, this is not addressing any impacts that we're seeing today within our book. As we see the situation today, it's clearly a volatile one for sure. It is also driving sentiment a little bit on the consumer side, certainly on the business side. But so far, at least, very limited impact on activity. Corporates, we see as being in a bit of a wait and see mode, number one. Retail, as you might imagine, basically unaffected. So, overall, right now, we are not seeing any impact on activity. We're not seeing any impact from tariffs on the observed ECL charge, which as you know remains, as I commented in my script earlier on, remains at 24 basis points, no impact there. This is about getting ahead of what might develop and making sure that we are suitably provisioned.

Now, ultimately, Lloyds Banking Group by its very purpose of helping Britain prosper is a UK-focused business. And so the direct exposure of the business to let's say the US, or for that matter US exporters is really very modest. To give you some idea on that, Aman, our exposure to US exporters is around 1% of our loans and advances. Only 1% of our loans and advances, really very modest, and that is typically to large investment-grade companies who we would expect to see this as a bit of an earnings issue, but certainly not more than that. Beyond that, it's all about the second order impacts on the UK and most of those absent £100 million are captured in our revised forecasts that we put forward as a base case and indeed the MES around that. So, I hope that's helpful, Aman.

Question 3 – Ben Toms, RBC
Morning, William. Thank you for taking my questions. The first one's on deposits which continue to grow in Q1. Do you think that this strong growth in deposits can continue for the rest of the year and how do you think about the outlook that deposit liabilities and how it ties into fees into your structural hedge notional assumptions over the next couple of years?

And then secondly, on other income the growth was 8% year-over-year, which kind of matches the two-year CAGR growth rate. Should we think about other income growing at the same pace as seen in the next couple of years as it has done in the last couple of years? Thank you.

William Chalmers:
Thanks for those questions, Ben. First of all, on deposits. We are obviously pleased with the deposit performance in Q1. We really think it's a pretty good performance by the business. Up £5 billion or 1% versus Q4. Roughly, £2.7 billion of that was in Retail, £2.3 billion of that was in Commercial. Just a comment on each of those. Retail, first of all, showed really good growth in terms of savings, £1.9 billion in turn in terms of total Retail Savings contribution and then also PCA's up. PCA's up £1.2 billion in the quarter, which is again, a really pleasing performance. That's coming off the back of higher wage settlements, bank giro credits from the government, probably also subdued spending to be fair. But overall, that pattern of strong performance in savings up £1.9 billion, strong performance in PCA up £1.2 billion, they're both contributing to the £2.7 billion of retail growth is pretty healthy and we're pretty pleased with it.

Commercial Banking up £2.3 billion, but I think there is probably an element of temporary tax year-end related flows within that Commercial Banking £2.3 billion, so worth bearing in mind.

When we look at the deposit performance as we expect over the course of the remainder of this year then, take account of those factors. We certainly expect the deposit performance to continue to be good. We continue to expect deposit performance to go in the right direction for the remainder of this year.

Retail looks like it's a set of pretty solid trends that we've seen there. Commercial as said, has that slight timing impact overall there, in the particular £2.3 billion that we've seen there. But on the other hand we do expect some gathering pace to take place in the course of BCB, for example, as we go through the course of this year. So, stepping back overall within deposits, Ben, we see good picture in Q1 and continued positive trends the remainder of this year. It may ebb and flow a little bit within the Commercial area, let's see.

What does that mean for the structural hedge? Structural hedge balances as you know, £242 billion. We had some discussion actually at Q1 about whether or not we should increase that balance off the back of the strength of the deposit performance that we've seen and we decided for now just to hold back and see how things develop over Q2, Q3, Q4. The expectation is that we will indeed increase the structural hedge balance over the course of this year, but not by a huge amount. We don't have particularly ambitious or aggressive deposit expectations feeding into structural hedge income expectations as, I think, we discussed at the full year. But we do expect it to tick up modestly, couple of billion, something like that over the course of the year. Maybe a bit more towards the end.

Your second question, Ben, other operating income. We were up 8% in the course of Q1 versus Q1 of last year. It's good to see there the breadth of the contribution that delivered that performance. So, Retail, number one, IP&I, number two, Lloyds Bank and Group Investments, number three, all of those contributed to a healthy development in that OOI pattern over the course of the quarter. If we look at it versus Q4, it's also up. It's up around £20 million or so and there we've also got a contribution from CIB within the quarter.

Looking forward, through the combination of strategic investments that we have made contributing to our greater than £1.5 billion expectation for revenues from those strategic investments, alongside what we expect to see is meaningfully, or let's say, appropriately robust activity levels amongst consumers, bearing in mind the tariff point I made earlier on, we expect to see other operating income continuing at roughly the same pace as we've seen over the course of quarter one. The edges around that, whether it'll be better or whether it'll be weaker, Ben, just around the edges of that will depend in turn upon how the macro economy goes and activity levels accordingly.

Question 4 – **Ed Firth, KBW**
Morning everybody and thanks for the questions. I just had two. One was just picking up on firstly OOI. You mention in the text, I think, you talk about 8% growth in OOI, but 16% growth in retail, which I think is about half of OOI. So, I assume either commercial or centrals or something was a little bit weaker. It would be helpful to have some flavour of how you balance back to the 8%, I guess, by divisions. That's my first question.

And then the second question is around inorganic activity. I guess, all your peers now pretty much have bought something or other over the last few years or the last 18 months, and I'm just wondering how you think about that and how you think about that versus buybacks. I mean, there are obviously a number of potential targets becoming available and it would just be interesting to get your sense as to how you're looking at that, how you're looking at your capital position, I know you talked about going down to 13%, so I guess you've got a reasonably chunk of spare capacity there. Thanks very much.

William Chalmers:
Thanks, Ed. Taking those in turn. OOI as said is 8% up Q1 year-on-year, as per your comment Ed. The performance as said is broad-based and that's good to see. Now, you commented there upon Retail, which as you say has achieved a good healthy growth level over the course of quarter one year-on-year. That's being led by two things, Ed, so transportation being one, a little bit of favourability also in cars, which is good to see within retail. But actually as said, the important point to note, the thing that's good about the growth that we've seen is that it is broad-based.

So IP&I is up some 8% Q1 year-on-year. Lloyds Bank investments, Lloyds Living in particular, up 10% collectively over the course of quarter one year-on-year. So, good diversified growth across the Retail business, across the Insurance business, across the Lloyds Banking investments, i.e., the equities businesses. Commercial also contributed, but it was principally in the quarter 4 versus quarter 1 time period. And the reason for that actually is essentially very simple, which is to say in quarter 1 of last year we had a particularly strong performance period within CIB, largely relating to capital markets transactions, which for various different reasons were just particularly strong in the first quarter of last year.

So year-on-year CB is actually down a little bit, but actually if you look at it quarter-on-quarter, quarter 4 versus quarter 1, it's up. So hopefully that gives you some sense of the divisional contributions as said, broad based and I think that's what gives us confidence that as we move forward, even if let's say some parts of the business slow down, if for example CIB issuance or capital markets would slow down in more volatile environment, that would most likely be compensated by other areas, the Retail business, the IP&I business, the Lloyds Central business or LBGI equities businesses for example. Let's see how things evolve over the course of this year. But we take a lot of comfort from the fact that this is a broad based diversified set of businesses which are being grown off the back of significant strategic investments that we're making.

Your second question on inorganic. A couple of points to make there perhaps. First of all, the business or the strategy is as you know, primarily organic. It's not to say that we won't look at M&A or inorganic opportunities, indeed, I would say pretty much every opportunity that we've seen announced in the market is one that has come across our desks and we've taken a look at and thought whether or not it made sense for us.

And I suppose almost by definition in each case we have decided that it doesn't make sense and that's in turn a reflection of the confidence that we have in the organic strategy that we are undertaking and the confidence that we have in terms of deploying the investments internally to deliver our objectives. Now again, you should never say never and we will look at M&A opportunities if they come along and if they're sensible, but they will always be assessed against does it deliver value for the shareholder? Does it do so on a basis that is faster than or at least as fast as the organic alternative and does it do so at a level of risk that is lower than the organic alternative?

So those three inputs, value, speed and risk will always be the benchmarks against which we assess M&A. As said, we've seen a lot come across our desks in the course of the last year or so, but we have decided that these are not opportunities that we would pursue and instead we've chosen to focus on the organic strategy, which as we stand here today, we feel very positive and very confident about.

Question 5 – Jonathan Pierce, Jefferies
Morning, William. I've got two questions, sorry, coming back on non-interest income, again. You suggested earlier in the year that non-interest income would be up high single digits this year and next year seemingly recommitting to today. But also I think that operating these depreciation would grow no more than that. Even if the charge stays at where we were in Q1, I think we're going to be at 7% year-on-year and 15%, 16% if you ex. out the residual value provision last year.

The commentary you've given on OLD thus far is helpful, but can I invite you maybe to comment on where you see the net position coming out this year? Do you still think non-interest income net of operating these depreciation can be up in the high single digits as well? Consensus I think is up about 9%, so it'd be helpful if you could comment on that. Just as a side point though, before I come onto the second question, I wonder whether it might be helpful given this continued focus on operating lease depreciation to either net it in the broader commentary or to show us the operating lease rental income each quarter, because clearly that's a big driver of the gross non-interest income that might be helpful to avoid this sort of examination every quarter.

The second question is broader and it's surrounding next year. I guess in recent months we've seen the swap rate come off a bit. We've obviously got this operating lease depreciation point that I've just mentioned. Can you talk to next year whether you still see the hedge revenue up £2.7 billion in total versus 2024? And if you can make that commentary in the context of the hedge notional remaining broadly as you thought, at full year. So have these reductions in swap rates got you nervous with regard to next year's hedge revenue? And bigger picture, perhaps you'd be willing to repeat your confidence on this call in that sort of £20 billion plus revenue guidance, not revenue guidance, but implied revenue for next year that was talked about at the full year results. Thank you very much.

William Chalmers:
Thanks, Jonathan. Just take each of those two in turn. Other operating income, as your question pointed out are is 8% year-on-year, quarter 1 this year versus quarter 1 last year. Looking forward, as per my earlier comments, we do expect other operating income to continue to keep up that type of pace over the course of the year. As said, you'll see some ebbing and flowing in respect of any given business line, but the diversification gives us considerable protection in that respect. And so the activity levels combined with strategic investments is what gives us the confidence in the 8% other operating income growth in quarter 1 being more or less repeated over the course of the remainder of this year.

You asked about the net, Jonathan. Net other operating income expectations after having taken account of operating lease depreciation. Now as you know, we don't guide explicitly to either of these two numbers, but the short answer to your question is that yes, we would expect to see other operating income net of operating lease depreciation up something that is roughly the same as our overall expectations for other operating income. Now, I mentioned earlier on one of two things that are going on in the business here, one of which is that the used car price behaviour needs to be taken into account at every half. That's just the way in which the business is run. And so any given quarterly progression may ebb or flow in that respect.

Number two that we're working on some important mitigants for operating lease depreciation. I talked about lease extension, remarketing, auction partnerships, and I'd also talk about things like RV sharing with many of the manufacturers that are important partners for us in the business. So all of these activities are in process and it's that combination which is worth bearing in mind, which as I say, may lead to a bit of quarterly ebbing and flowing on the point. But the bottom line there, Jonathan, is that our expectations for other operating income growth are essentially the same for other operating income and for other operating income net of operating lease depreciation. Once you take those timing effects that may vary into account.

Your second question, Jonathan, in respect of hedge revenues, yes, we feel very comfortable about the overall net interest income guidance for 2025, and we feel very comfortable as to the greater than 15% ROTE guidance and greater than 200 basis points, capital generation guidance for 2026. In the course of the full year, we gave some guidance in respect to structural hedge growth, if you like, and we talked about an incremental £1.2 billion revenue growth from structural hedge this year, an incremental £1.5 billion on top of that for next year. And again, we feel very comfortable in reiterating that guidance.

Why are we so comfortable? Well, it is resting upon, to be clear, the macroeconomic guidance that we have given you, our base case macroeconomic inputs are important to that, but there is a certain amount of cushion, one side or the other from that. Now what do I mean? I mean by that a couple of things. One is the fact that we are circa 90% to 95% locked in for this year and we are then 80% plus locked in for our 2026 structural hedge contribution. So that's one of the things I mean. The second thing that I mean is that there is a level of terminal rates still in the market today, even after some of the downdraft that we've seen, which is a little in excess of our overall expectations.

And then the third thing that I mean, Jonathan, is I just refer us back to the deposit performance that we've enjoyed to date, which has been decent and strong even. And therefore we take some comfort from all of those two or three points that I've just made. And again, we feel very good about the expectations for ROTE and capital generation consistent with our 2026 guidance. If it turns out that all of a sudden interest rates, let's say are upended in a way that transcends or goes beyond the comments that I've just made, then I think it's very likely that you're going to see some offsetting impacts in terms of pricing on other assets, let's say, which in turn compensate for some of what you might otherwise see.

But in essence, Jonathan, for the types of environments that both we forecast and that we see today, we are comfortable as to the guidance we've got out there. Should it turn out to be more adverse than that? As said, A, there's a certain amount of cushion, and B, we'd expect other compensating events or activities to take. Final point, Jonathan, is that when we look at the guidance for next year, this is less a net interest income point, more a ROTE and capital generation point. Don't lose sight of the fact that much of the guidance rests upon not just net interest income, but also other operating income growth. Coming back to the first of your two questions.

Question 6 – **Amit Goel, Mediobanca**
Thank you. So first question I have is just around the severance charge that was taken in the quarter. I just wanted to check how much more is left this year and also is there something we should kind of anticipate this level of severance every year and what is baked into the 2026 cost:income?

And then secondly, I was just curious, having now heard the Supreme Court case, appreciate we've got to wait for the judgement, but I was just curious if there are anything from the arguments that were made from the judges responses, et cetera, that potentially make you more or less confident or any change in sentiment there?

And actually just, I mean maybe a small follow up, but obviously there's been a bit of discussion about ring-fencing. I guess it's unlikely to see much change given Barclays are pushing back, but just curious where you would see the opportunity if there were to be some scaling back, whether that's through deployment of liquidity at slightly better yields, et cetera. But just any kind of thoughts there. Thank you.

William Chalmers:
Yeah, thanks, Amit. Three questions there and I'll take the opportunity on severance to comment a little bit more broadly on costs too. Your first question on severance. Severance I think I said at the full year is up roughly 30%, 2025 versus 2024. I can't quite remember whether we have put numbers on it out there, but nonetheless, the overall severance bill for this year is somewhere around the kind of £280 million type level to give you some idea. What we've done is very deliberately front load that into the first quarter of 2025. And the reason for that is because we want to make sure that we get as much of a full year benefit from that severance charge as possible.

That in turn is one of the factors amongst others that lead us to confidence for the £9.7 billion cost guidance that we have given you. When we look at that cost guidance, just to elaborate a little beyond that in terms of giving some insight on costs, stripping out the severance increase this quarter versus quarter 1 of 2024, first of all. If you strip that out, as said, costs are up 3%. Costs being up 3% is roughly what £9.7 billion is for the full year versus £9.4 billion for last year. Now in the overall cost makeup, we are seeing BAU costs pretty much flat over the course of the quarter. And the reason for the increase in costs over the course of the quarter is not just severance but actually also increased investment levels. And it's those increased investment levels which are again behind the confidence that we have in delivery of revenues, but also ultimately delivery of further cost efficiencies leading to the £9.7 billion total.

Final point on costs, as you know, cost discipline is a matter of utmost importance here. We have I think a good track record of delivering on our cost targets and this year will be no different. What you've seen to date so far is simply timing decisions if you like, to ensure that we are able to get the full benefits of in particular the severance charge for the remainder of this year.

Your second question, Supreme Court, we're pleased to see that the Supreme Court expedited the hearing. It's I think a reflection of the fact they attach quite a lot of importance to the issue, as do we and clearly as does the government. As I've discussed before, there are three main components of getting the uncertainties in respect of motor ironed out. One is what are the legal determinations going to be? Two is what is the FCA going to do with that in the context of any remediation scheme that it might see as appropriate? And then three is how do our customers respond to that? We've only had part one of those three take place so far and indeed we haven't seen the judgement. So at the moment, I mean I think it would be inappropriate for us to comment too much upon some of the discussion that took place at the Supreme Court hearing. We'd rather just wait for the judgement as it comes out in July and then respond appropriately. And again, it will then depend upon a couple of further uncertainties, including in particular the FCA approach to this.

The final question on ring-fencing. Ring-fencing has obviously been the topic of some discussion over the course of the last few days. A good place to start is that there have been some reforms to date. Obviously the Skeoch reforms are in the process of taking place and we welcome those. They give you a bit more flexibility in particular on non-UK activities and a bit more definition around what is de minimis. But at the same time in the ring-fencing topic, as you know, we are the only jurisdiction in the world to have ring-fencing. Since ring-fencing was set up, there has been a lot of progression made in respect of capital levels, funding levels, liquidity levels, resolution mechanisms for banks that get themselves into trouble, derivative clearing, reduced market risk and so forth.

All of those things have come a long way since ring-fencing was set up. And so it does feel like an appropriate time to take stock of what ring-fencing therefore contributes in the context of this much more effectively regulated sector and a much stronger prudential regime. That's particularly important given the fact that we believe that ring-fencing imposes costs upon our ability to serve customers, in particular large customers where friction is added and where we think in many cases our lending capacity is somewhat diminished. So a cost benefit approach, to what ring-fencing now contributes, we think makes sense. We'll see where it goes, Amit, and whether or not it makes any further progress. But it does feel like a discussion around it is appropriate.

Question 7 – Robin Down, HSBC
Good morning, William. Hope you're well. I've got one kind of request and then one question. The request is one that I've kind of made in the past, but with the structural hedge, would it be possible to get the disclosure to one extra decimal point? And I'm going to just kind of explain why that's important to us. Because if I annualise £1.2 billion for Q1, then I think you need something like £500 million of incremental structural hedge benefit to get to your £1.2 billion uplift target. If we have £1.25 billion, then that drops to £300 million. So it does make quite a big difference in terms of trying to forecast where things are going to be over the next few quarters and how much you might beat the £13.5 billion by. That's kind of point one I guess.

Second question, every time we have these calls, you seem to warn about things not being plain sailing, that there's going to be a degree of lumpiness, whether it be the redemption kind of yield on maturing swaps. So can I just ask, is there anything that you would call out that you're worried about for Q2? Is there any particular reason why Q2 might be kind of different, why we shouldn't just model straightforward, plain vanilla sort of progress in NII or is there anything else that you would call out for Q2?

William Chalmers:
Thanks, Robin. You've dropped out on one or two parts of your question, but I think I caught the nub of it and perhaps you can add on any further questions if I haven't quite captured it all.

In respect of the structural hedge disclosures, I suspect that we'll stick where we are in terms of the degree of detail simply because we think it's more or less enough to work out where the bank is going, and then beyond that, you'll have your own assumptions about where markets will go, where rates will go, which will be more important than the second decimal place. From our perspective at least, we feel very comfortable with the structural hedge forecast, if I can call them that, that we have put forward, the increase of £1.2 billion this year, the increase of £1.5 billion on top of that next year.

And as said earlier on, in response to Jonathan's questions, whatever one might think around the edges, bear in mind that the deposits performance has been pretty strong, which gives us a bit of comfort in terms of where the quantum might go. And actually to date, the last couple of weeks or so, notwithstanding have been pretty strong, which gives us a bit of comfort in terms of the extent to which we've been able to get locked in on our projections going forward.

I mentioned earlier on that if we see a particularly adverse rates environment develop well beyond current market expectations, then you might expect to see less churn in deposits, for example, you might expect to see mortgage spreads being a bit less competitive, for example. So we'll see, but for the types of environments that we're in and we expect, we feel very comfortable with the structural hedge forecasts in a way that goes beyond the second decimal place I suppose.

You then asked about lumpiness within hedge forecasts going forward, Robin. The hedge, it made a strong contribution to the margin in quarter one, first of all, as you know, some 10 basis points or so. And then as we look forward, that contribution is going to ebb and flow a little bit over the course of the quarters. I think just to give you some very informal sense of where that is going, it's probably a bit less in the course of quarter two. Actually, if you look right at the back end of the year it's really strong again. So it is going to come and go a little bit during the course of the quarters. The reason behind that is mainly because maturities vary in terms of quantum in any given quarter and as importantly, yield in those maturities varies in any given quarter. And so as a result, this hedge was put on over multiple years as you know, but as a result, you're going to get a contribution from the hedge that is going to ebb and flow a little bit quarter by quarter. But over the course of the year in totality is what gives us confidence in the circa £13.5 billion net interest income guidance that we've given.

Robin Down:
Great. I mean, my point with regards to the extra decimal places is less about kind of whether you can deliver the £1.2 billion, but more just if we take that £1.2 billion as read, which I think we should give the amount you've already got locked in. How much more there is to go for in Q2 to Q4? Because if I take your NII for Q1 and align for your basis point you're annualising at £13.3 billion you're only £200 million away from hitting the £13.5 billion target for the year. So you don't need to do a great deal incrementally in Q2 to Q4. And if we've got £500 million structural hedge benefits still to crystallise, then that makes quite a big difference versus a £300 million benefit for structural hedge still to crystallise. So it's more about giving us poor analysts a bit of a help here. And I can't see any reason why you wouldn't add one decimal point.

William Chalmers:
Well, let us take that away, Robin. I suspect we may come back with the same point but we'll certainly take it away. The overall point though, I think you are making which we would concur with is that we've made a good start to this year. That we feel pretty good as said about the £13.5 billion. It is a good start to the year. Quarter one went well. There are some positives. We talked about deposits, we talked about rates. Clearly there's some risks, bank base rate cuts, mortgages as mentioned earlier on. It is early in the year, there is a way to go but as said, we feel very confident about the guidance we've given you.

Question 8 – **Andrew Coombs, Citi**
Morning. I'm going to ask a couple of questions, but with regards to actually your Q2 results and just conceptually how you're thinking about things in terms of the timing of when you book charges or reversals. So starting with motor finance, we should get the Supreme Court judgement in July, but then the FCA redress scheme probably isn't going to be announced until up to six weeks after that and your Q2 results are probably going to be smack bang in the middle of those two events. So is it a case of you take two adjustments through your provisioning line based upon those outcomes or do you just wait and take one?

And then secondly, with regards to tariffs, I was interested in the line that states you've taken £100 million central adjustment for what was announced in the first few days of April, but subsequently subsequent developments through the rest of April were after the balance sheet date and will be reflected in the second quarter reporting period. So is it a case that the delay in introducing a number of those tariffs is not factored in, but might be factored in next time? Likewise if the UK 10% gets negotiated down, you'd adjust accordingly as well. Is that the case?

William Chalmers:
Yeah, thanks Andrew for the questions. First of all, in relation to the Supreme Court situation and judgement therefrom, it is just briefly worth saying that in the context of both your question Andrew and also the prior one, that the £1.15 billion remains our best estimate for the motor issue. We'll see where the Supreme Court judgement gets to most probably towards the end of July as you highlighted, Andrew. And your point around timing has not escaped our attention as well.

It is very likely that what the Supreme Court hands down is then subject to significant interpretation by the FCA in the context of their redress scheme and therefore it's going to be I suspect quite difficult no matter what the timing of the Supreme Court judgement is, it's going to be quite difficult for us to form a terribly much more refined opinion of where this lands absent having seen where the FCA comes out. Now that is a point that has a perimeter attached to it. That is to say there are some Supreme Court rulings which either completely overturn the Court of Appeals ruling or some Supreme Court rulings which completely endorse every aspect of the Court of Appeals ruling that might not survive the comment that I have just made. That is to say you might take a look at those and think, "Mm that's interesting. Am I going to respond to that?". But by and large, the majority if you like, of outcomes that may come out in the Supreme Court I think are covered by the point that you'd want to see what the FCA interpretation is for those outcomes before you started to adjust provisions.

And that in turn means that it is likely to be, let's say Q3, but even then you have a question mark Andrew about what exactly it is the FCA does at that point in time. Does it launch a consultation period? And do you have to wait for the close of that consultation period to really figure out where this might go? So there's a bit of time, I think, to play out before it is really sensible to respond. But again, I come back to my first point, which is to say based upon everything that we see out there today, £1.15 billion very much remains our best estimate of the potential provision associated with the motor situation and we'll see how things unfold.

Your second question, Andrew, is actually quite a welcome one in the context of the tariffs because the MES charge that we've taken of net £35 million and in particular the £100 million tariff charge in that context. A couple of points to make there. One is, it's basically temporary. We'll take account of it as your question implied in Q2. And what I mean by that is that we will integrate that £100 million into our base case assumptions in Q2.

And the second point, which is really important to bear in mind there is that we took this charge at a time when there was maximum volatility, if you like, in the context of the tariffs and there is a lot of fairly adverse cases coming out, which is what caused us to have the debate, what prompted the discussion. It turns out that the tariff debate goes into abeyance or something similar as has been talked about a little bit since then, then I suspect a good part of that £100 million may not be necessary. But of course it's quite difficult to make that judgement today when the situation is quite so volatile.

It comes back to the point I was trying to make earlier on, Andrew, which is to say we're trying to get ahead of the situation. And we're trying to get ahead of the situation in the way that as you'd expect from us is kind of suitably prudent in order to avoid having bumps in the road in the future. That's the philosophy behind it. If it turns out that some of the trends that we've seen since Liberation Day in terms of writing down on the tariff debates do in fact get hold then as said, that £100 million is probably going to be reconsidered in that context.

Andrew Coombs:
Thank you.

William Chalmers:
Thanks Andrew.

Question 9 – Chris Cant, Autonomous
Good morning. Thanks for taking my questions. I had one very quick request on something you said about fleet revaluation, just a point of clarification, and then two others. On fleet re-valuation, you mentioned that in your remarks. I don't know whether you're trying to flag to us, William, that you're expecting some kind of adverse adjustment there when you next revisit that appreciate you do it half-yearly, but presumably you have

a bit of line of sight on how use car prices are trending on your view. Just wondering whether you are trying to flag a potential 2Q residual value top-up there.

And then on the CIB and stage three, there's a bit of a tick-up in your stage three in the CIB in the first quarter. I appreciate that you've made changes to your MES, but I thought that that would just impact stage two migration, not migration into stage three. So is there anything to call out in terms of book trends with flows into stage three please on the Corporate book.

And then completely unrelated on mortgage spreads, just thinking longer term. Appreciate your commentary about a little bit of additional competition coming through 2Q thus far. As you look out to the future, if I think back to the last strategic plan, I think you were talking about 80 to 100 basis points, assuming 2% base rate or something of that order of magnitude. We're now expecting still meaningfully higher base rate levels than that and meaningfully higher levels of deposit profitability than that. How much lower than the 70 basis points would you be happy going in light of the fact that you are expecting much better overall liability and hedged income dynamics? Thank you.

William Chalmers:
Thank you for those questions, Chris. Just to take them one by one. First of all, on Q2 revaluation. As said, we need to consider used car price behaviour at every half and that, as I said earlier on, is the business model. Look at it at the half year and we look at the full year. When we look at it, we will take account of performance of used car prices to date. To give you some idea on that. Q1, so far we've seen electric vehicles down about 1.7%. We've seen internal combustion engines actually up 2.4%. So BEV's probably a little bit weaker than our expectations. Internal combustion engines probably at least as good as our expectations.

We are expecting in the context of our depreciation schedules electric vehicles actually to be down year-on-year. Somewhere between 4 to 5% in totality year-on-year so we have to see how that goes, but at the moment at least you can see how that's tracking. And then we expect internal combustion engines to be more or less flat over the course of the year. So that's probably tracking a bit better than we expected.

We just have to see where we end up at the half year. Safe to say that, as said, we'll be doing the regular exercise. Now at the same time, as mentioned earlier on, the business is working hard on mitigants for operating lease depreciation and indeed in the spirit of increasing levels of profitability for our motor business as a whole. So those lease extension, remarketing auction partnership points that I made earlier on together with RV sharing are all factors that will push against any revaluation requirements that might be there.

What the net of that is, I think we just have to see at the quarter, Chris. It's just too early to say right now. They are important strategic measurements, not just for that however, but if we can get them right, if we can get that lease extension and remarketing activity in the right place, then they will contribute to the overall profitability of the business on a look forward basis.

You mentioned CIB and in particular stage three numbers on CB, Chris. As you say, CB stage three has gone up a little bit over the course of the third quarter. It's pretty modest, but it relates to two particular cases in the context of fibre, which is a sector which has had a little bit of trouble lately. We lend a little bit into that. Not a great deal, but that's what's behind the slight increase in stage three CB. You'll look at the coverage levels there also, Chris, and hopefully draw a bit of comfort from the fact that they're basically the same quarter on quarter. And actually if you look at the balance sheet as a whole, it's gone up on a coverage level quarter on quarter.

Finally, mortgage spreads. We are currently just a shade above 70 basis points in terms of completion spreads at quarter one. As we look forward, as I highlighted earlier on, probably a little bit of pressure on that in the course of quarter two and maybe beyond, but not terribly much, Chris. I mean, I really wouldn't want to overstate the point. How much further would we go there? I think it's an interesting comment because it obviously depends upon the holistic margin that we look at for the balance sheet as a whole. And as said, that is going meaningfully in the right direction, 297 to 303 basis points, up six basis points.

But for us, it also depends upon the successful completion of our strategy. So what do I mean by that? We've managed to significantly increase protection volumes in the context of mortgages, for example. And that's important because it means that a mortgage relationship transcends the 70 basis points spread that you might get. It's much more of a holistic Lloyds Banking Group relationship that has attractive and profitable earnings streams from other products in addition to the mortgage when you secure that mortgage relationship.

Related to that, we put a lot of our strategic investments' money into something called the home ecosystem, which is intended to improve the direct relationships, the direct sales, for the want of a better word, of mortgages to our customers, which in turn are more profitable. They also offer the opportunity to get into a broader dialogue with our customers across our product range, whether that is banking products or insurance products.

And so Chris, it's about much more than the 70 basis points. It's about the holistic spread on the balance sheet, number one. It's also about the successful completion of our strategy, which as you know is about broadening and deepening our relationships, which then materially augment the mortgage spread that we might get on any given product.

Question 10 – Ben Caven-Roberts, Goldman Sachs
Morning, and thanks very much for taking my questions. Just two, please. First on capital. Could you please provide some more details on the FX hedging impact this quarter and just how that works mechanically, and if there's a scenario where that 14 basis points could effectively change in the course of its reversal. And then just a follow-up a bit on the mortgages. Obviously you mentioned the fact that there is a stamp due effect to be expected in Q2, but just wondering how you're thinking about the longer term factors driving demand in that channel and how much re-leveraging effectively could be reasonable in the U.K. over the longer term. Thanks.

William Chalmers:
Thanks, Ben. In relation to the FX hedging and temporary RWAs. I mean, in essence temporary RWAs of some £2.5 billion on an RWA increase of £5.5 billion, that number is pretty much in place and going to stay in place. So you should expect that £2.5 billion to come off primarily the result of that hedging coming off over the course of quarter two and then into quarter three, and it'll be done by the end of quarter three. That number of 14 basis points, Ben, it's not just the hedging, it's a couple of other pretty minor pieces, but the hedging is by far the bulk of it.

And as said, the 14 basis points in totality is pretty much a done number. And therefore the lending, and other factors that are going on beneath that, suggest RWA increases of about £3 billion, and that is all good, healthy, profitable, income generating lending growth, which in turn helps in terms of the income build and indeed capital generation for the business in the periods hereafter. On mortgages, as said, I think there was some pull forward in the course of quarter one versus what we might expect to see in quarter two in mortgages.

That will affect quarter two most likely. It may affect a little bit quarters thereafter. We'll see. I think behind all of this is, I suppose, cyclical and structural factors. Cyclical factors, which let's see how the year plays out, but based upon our expectations of falling interest rates, number one, HPI growth, I think we've now got it at 1.7% number two, and not exactly fast, but nonetheless, at least a growth proposition in the context of GDP. That is overall a supportive environment for further growth in mortgages. And as a 19 to 20% lender market share wise we would expect to be a big part of that.

There is then a structural point, which is that as you know, we have a situation in the UK of basically housing shortage. We also have a situation where the government is committed to growing the housing stock in the country, and it's taking several measures to ensure that is achieved in practice. Both of those two factors together with demographic growth, i.e. population growth, are supportive of sustained growth in mortgages going forward. So the cyclical factors, the structural factors, probably more or less point in the same direction, which is supportive of growth, Ben. The very short term puts and takes, if you like, stamp duty being one of them, may paint a slightly different picture, let's say quarter two versus quarter one at least.

Ben Caven-Roberts:
Very clear. Thank you.

William Chalmers:
Thanks Ben.

FORWARD-LOOKING STATEMENTS

This document contains certain forward-looking statements within the meaning of Section 21E of the US Securities Exchange Act of 1934, as amended, and section 27A of the US Securities Act of 1933, as amended, with respect to the business, strategy, plans and/or results of Lloyds Banking Group plc together with its subsidiaries (the Group) and its current goals and expectations. Statements that are not historical or current facts, including statements about the Group's or its directors' and/or management's beliefs and expectations, are forward-looking statements. Words such as, without limitation, 'believes', 'achieves', 'anticipates', 'estimates', 'expects', 'targets', 'should', 'intends', 'aims', 'projects', 'plans', 'potential', 'will', 'would', 'could', 'considered', 'likely', 'may', 'seek', 'estimate', 'probability', 'goal', 'objective', 'deliver', 'endeavour', 'prospects', 'optimistic' and similar expressions or variations on these expressions are intended to identify forward-looking statements. These statements concern or may affect future matters, including but not limited to: projections or expectations of the Group's future financial position, including profit attributable to shareholders, provisions, economic profit, dividends, capital structure, portfolios, net interest margin, capital ratios, liquidity, risk-weighted assets (RWAs), expenditures or any other financial items or ratios; litigation, regulatory and governmental investigations; the Group's future financial performance; the level and extent of future impairments and write-downs; the Group's ESG targets and/or commitments; statements of plans, objectives or goals of the Group or its management and other statements that are not historical fact and statements of assumptions underlying such statements. By their nature, forward-looking statements involve risk and uncertainty because they relate to events and depend upon circumstances that will or may occur in the future. Factors that could cause actual business, strategy, targets, plans and/or results (including but not limited to the payment of dividends) to differ materially from forward-looking statements include, but are not limited to: general economic and business conditions in the UK and internationally (including in relation to tariffs); imposed and threatened tariffs and changes to global trade policies; acts of hostility or terrorism and responses to those acts, or other such events; geopolitical unpredictability; the war between Russia and Ukraine; the conflicts in the Middle East; the tensions between China and Taiwan; political instability including as a result of any UK general election; market related risks, trends and developments; changes in client and consumer behaviour and demand; exposure to counterparty risk; the ability to access sufficient sources of capital, liquidity and funding when required; changes to the Group's credit ratings; fluctuations in interest rates, inflation, exchange rates, stock markets and currencies; volatility in credit markets; volatility in the price of the Group's securities; natural pandemic and other disasters; risks concerning borrower and counterparty credit quality; risks affecting insurance business and defined benefit pension schemes; changes in laws, regulations, practices and accounting standards or taxation; changes to regulatory capital or liquidity requirements and similar contingencies; the policies and actions of governmental or regulatory authorities or courts together with any resulting impact on the future structure of the Group; risks associated with the Group's compliance with a wide range of laws and regulations; assessment related to resolution planning requirements; risks related to regulatory actions which may be taken in the event of a bank or Group failure; exposure to legal, regulatory or competition proceedings, investigations or complaints; failure to comply with anti-money laundering, counter terrorist financing, anti-bribery and sanctions regulations; failure to prevent or detect any illegal or improper activities; operational risks including risks as a result of the failure of third party suppliers; conduct risk; technological changes and risks to the security of IT and operational infrastructure, systems, data and information resulting from increased threat of cyber and other attacks; technological failure; inadequate or failed internal or external processes or systems; risks relating to ESG matters, such as climate change (and achieving climate change ambitions) and decarbonisation, including the Group's ability along with the government and other stakeholders to measure, manage and mitigate the impacts of climate change effectively, and human rights issues; the impact of competitive conditions; failure to attract, retain and develop high calibre talent; the ability to achieve strategic objectives; the ability to derive cost savings and other benefits including, but without limitation, as a result of any acquisitions, disposals and other strategic transactions; inability to capture accurately the expected value from acquisitions; assumptions and estimates that form the basis of the Group's financial statements; and potential changes in dividend policy. A number of these influences and factors are beyond the Group's control. Please refer to the latest Annual Report on Form 20-F filed by Lloyds Banking Group plc with the US Securities and Exchange Commission (the SEC), which is available on the SEC's website at www.sec.gov, for a discussion of certain factors and risks. Lloyds Banking Group plc may also make or disclose written and/or oral forward-looking statements in other written materials and in oral statements made by the directors, officers or employees of Lloyds Banking Group plc to third parties, including financial analysts. Except as required by any applicable law or regulation, the forward-looking statements contained in this document are made as of today's date, and the Group expressly disclaims any obligation or undertaking to release publicly any updates or revisions to any forward-looking statements contained in this document whether as a result of new information, future events or otherwise. 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