LLOYDS BANKING GROUP PLC– 2025 Q1 IMS – SELLSIDE ROUNDTABLE TRANSCRIPT
(amended in places to improve readability only)

Tuesday 6 May 2025 – 4.30pm

LBG:
William Chalmers, Chief Financial Officer

William Chalmers:
Thank you operator, and thank you everybody for taking the time to join this afternoon's call. I thought as usual, I'd kick off with a couple of words and then hand over to you to take the conversation in whichever direction is most relevant and would help.

You've obviously seen our results. The way we characterise them was really three points. One, is strategic delivery, continued strategic delivery. In line with our transformation ambitions as set out in 2022 and now, well on the way to completion of that strategic delivery in 2026. Two, is continued strength in financial performance, we've had a 12.6% RoTE within the year. That's well on the road to our guidance for circa 13.5% for the year as a whole. And then three, consistent with that affirmation of 2025 and 2026 guidance in respect of both years. So with that, perhaps I'll stop there and hand over to you for questions as you wish.

Question 1 – Ben Caven-Roberts, Goldman Sachs
Afternoon, thanks very much for the time and for taking the questions. So I just had two relatively top down ones. So first would be on the volatility we've seen in April, I wonder if you could just provide any comments on the sort of discussions you've been having with your corporate and SME clients during that period of volatility. And then the second would just be a bit more holistically on your approach to investment in the business and which areas you're currently prioritising in terms of investment, if that's been changing at all over the prior months, and where the most interesting opportunities currently are coming across your desk? Thanks.

William Chalmers:
Thanks Ben. I'll just take each of those in turn. In terms of the volatility since April, we've clearly seen volatility in the rates markets, to a degree the FX markets, but what we haven't seen is any volatility in the underlying asset quality or customer behaviour. So, first point to make there is, as you know, the business is very well hedged. You wouldn't expect to see any impact from rates or FX in terms of the impact on our financials. When we then engage with our customers, as said, while the situation of volatility prevails, we have to see how it settles and therefore it is driving sentiment, it's clear really for all to see, it's driven some aspects of consumer sentiment, some aspects of business sentiment. But so far really very limited, if any impact on activity. And in that respect, clearly corporate customers are in a wait-to-see mode, number one, and not surprisingly, retail is basically unaffected, number two.

You ask about our conversations with corporate and SME customers, Ben, and really they fit that mould. That is to say our relationship managers not surprisingly are in touch and expressing our readiness to support clients consistent with our long-term purpose-driven objectives. But actually we're not getting terribly much call-up on that other than in the context of things like rates hedging, things like FX hedging and the like, which is effectively risk management that you would expect clients to be undertaking at this point in time.

Your second question, Ben, investment in the business. I think by and large, the investment in the business that we are undertaking today is very consistent with the plans that we set out in 2022 and then reaffirmed really at the end of '24, going into '25, with full year results. So if you look at the overall spectrum of investments that we're making, as you know, it cuts across the Retail business both on the asset and liability side through to BCB within Commercial and likewise CIB, and then of course Insurance, Pension and Investments.

Behind that, continued investments in what we describe as enablers, which are people, data, technology, I shan't take you through each of those different strands, Ben, because you've heard them before, but the investments that we're making in the last, let's say quarter, are very much in line with that.

Types of areas where we see interesting opportunities? It's really across those different areas. So if I think about categorising it maybe there are some areas e.g. within Corporate Institutional Banking where we see relatively low-hanging fruit, whether that is markets-driven business for example. There are some areas where we see the opportunity to see significant market share and we've done that in context of Insurance, Pensions and Investments in the context of home where we've driven significant market share, and actually GI profitability is up 38% post-claims year-on-year Q1.

And then finally, investments in respect of trying to get divisions to work more closely together where we see strong returns, and again an example there might be the take-up rate for protection in the context of mortgage business, which has gone from mid-single digits around about a year or two ago to about 15-16% take-up for mortgages now. And we see the aspiration there if you like, or the target zone there as being roughly double where we are today. So, these are types of investments that we're making on the revenue side. Ben I might add also investments in terms of automation, and investments in terms of transformation on the costs side, which help us deliver ultimately operating leverage within the business and help us get to our cost-income ratio below 50%.

Those are typically relatively high yielding. We've so far at least achieved cost savings of £1.2 million as of the end of 2024 Ben. I would say in '25 that we were able to boost that further £500 million plus over the course of this year, and then again building in '26. Again in pursuit of the cost income ambitions. So happy to elaborate further Ben, but hopefully that gives you some colour in terms of where we're making investments in the business and indeed where we are seeing returns.

Ben Caven-Roberts:
Very helpful, thank you.

William Chalmers:
Thanks Ben.

Question 1 – Rob Noble, Deutsche Numis
Good afternoon, thanks for taking my questions, just three if I could please. On the auto business in Lex and Tusker, we've already spoken about this a lot on the call, what's the actual ROE that you see on the combined business and / or Tusker relative to the existing Lex business, rather than piecing all the parts together, I just wondered how accretive it is to the actual bottom line.

Secondly was on the temporary increase in RWAs due to hedging activity. I think if I'm not mistaken, that was an FX hedge, right? So what was it actually against and why does it roll off? What would've happened if you hadn't put it on? Just so I can understand the economics of that transaction.

And lastly on the MES, the IFRS 9 scenarios, how do these from an accounting perspective actually work? What are the limitations of it? What are you actually measuring? Are they real world scenarios at all? What's missing from it and what's good about it? What's bad about it? If you could help us out with that as well, please. Thanks.

William Chalmers:
Rob, can I just check your last question on the MES, is that specifically in relation to the £100 million?

Rob Noble:
Not the overlay… well, yes, the overlay, but only in the context of the actual economic scenarios. How do they get implemented within your asset quality? As in what happens here, are you running a full on balance sheet exercise forecasted out stage three migration, changes in probability and loss given default? Which bits does it not capture, I guess is what I'm looking for?

William Chalmers:
Sure, in terms of the auto question, first of all, we don't specifically reference RoTEs in terms of the transportation business. But as consistent with my comment last week, we are trying to direct investment into those areas with highest return. Indeed, the reason why we bought the Tusker business is because it is a salary sacrifice business with particularly high rates of return, I'll elaborate a little more on that in just a second.

Overall, the approach to business, as you know, consists of three main levers. Lex being one, Tusker being a second, Blackhorse being a third. The first two are operating lease businesses. The third, Blackhorse is a financing business. Overall, the rounded ROE for transport business is well above the cost of capital. But the benefit of having those three levers is that we can pull on those that are most attractive to us and very roughly, while Lex is above the cost of capital, Tusker has roughly double the ROE that Lex is securing right now, which makes it a very attractive business.

Why is that? It's a combination of it being a salary sacrifice scheme and therefore tax favoured. But also we are able to augment the leasing service with ancillary services for customers, which are services that we can procure at very advantageous rates that make a lot of sense for customers to come and take them, but they're also relatively profitable from our perspective. And so as a result from that combined effect, we get a profitability within the salary sacrifice scheme, that I have said is roughly double that we see in Lex and recognising the fact that Lex is above its cost of capital.

Your second question, Rob, in relation to RWAs, we described about £2.5 billion of RWAs in our £5 billion increase over the course of Q1 as being temporary. The reason for that being temporary is very largely to do with the hedging activity that we highlighted. And what's going on underneath that, although we weren't terribly specific Rob, is balance sheet management in essence. It's around just managing the risks on the balance sheet and those risks come off in Q2 and then again in Q3 until they're fully gotten rid of. It is an FX hedge to your point, Rob. And no matter what we do in the context of that asset management, balance sheet management I should say, those RWAs are ways of coming off. So that £2.5 billion out of £5.5 billion in Q1, temporary, of that £2.5 billion, the large majority of it, balance sheet management as described, which are coming off in the course of Q2 and further in the course of Q3.

The MES, you're aware obviously of IFRS 9 as a provisioning methodology. IFRS 9 effectively splits into two components, the observed components, and then the MES components on top of that. In the context of our numbers briefly before going into, if you like a methodology around it, the observed component was £274 million split between Retail and Commercial. That's about 24 basis points, i.e., south of our guidance of circa 25 basis points for the year as a whole.

Actually, Rob, if you look underneath the surface and if you like, cancel out calibrations in the models in the course of Q4 on the Retail side, and also take account of the fibre hits that I mentioned that we had in Q1, which everybody I think in the sector have more or less on their balance sheets, then the underlying trajectory direction in respect to observed for both Retail and Commercial is better than it was in Q4. So the underlying asset quality, if you like, has seen improvements over the course of Q4 into Q1.

We then had an MES impact over the course of the first quarter, as you know, and that MES impact was composed of the second part, I suppose, of the IFRS 9 charge. On the net basis it was £35 million, but underneath that we had MES, which for us at least, orientates itself around one central case, which is our base case. And then that central case is shocked to create more or less a bell curve of outcomes. That bell curve of outcomes is then collated and put into our downside and severe downside on the one hand, and the upside on the other hand. That MES is set on a net basis of Q1 is £35 million. The combination of that MES adds about £450 million, I think it is onto our base case, £448 million to be precise, onto our base case ECL.

What that takes account of is essentially a bunch of econometric models based upon historic loss cases as said, with a range of scenarios which then give rise to probability of defaults and loss given defaults in the context of our overall asset book. That then allows us to put the MES on top. The piece that I haven't accounted for in that analysis, Rob, is what we call post model adjustments, which are basically our own calibrations of where we think the models are not functioning as perfectly as they should do. And those usually at least are around model limitations. So for example, we have add-ons in terms of some model limitations for delayed repossessions, where we think actually the loss could be a little bit worse than we see in practise because the repossession is delayed. But also they allow us to take account of basically events as they manifest themselves at or around the bank balance sheet date. And that's where the £100 million so-called central adjustments came from. We saw the tariff situation evolving in a way that was a bit more adverse versus our expectations. And so we took that central adjustment, as I mentioned last Thursday, really just to try and get ahead of the game rather than pay recognition to anything that is going on in the asset book.

Final point, Rob, which I'll make is that I would draw the distinction and maintain the distinction between the observed charge and the MES charge. The observed charge is about what is actually going on, or at least might be going on in the context of the balance sheet. The MES charge is about what might go on based upon those different scenarios, but is not actually going on. And in that sense, they are responding to quite different inputs and then get to a different output.

Rob Noble:
All right, thanks very much.

William Chalmers:
Thanks Rob.

Question 3 – Sheel Shah, JP Morgan
Great, thanks. Just a quick follow up on the operating lease depreciation. Given that the EV prices are running maybe slightly below expectations by a couple of percentage points and combustion prices are maybe slightly tracking better compared to expectations, and last I remember, I think maybe last year you disclosed a book with 50/50 split between them both, would you expect to take a charge for the second quarter? Or should I say, if we were tracking as we are today, would you take a charge today, given the composition of the book and where prices are moving? Thanks.

William Chalmers:
Yeah, thanks there, Sheel. Op lease depreciation, as you say, over the course of Q1; £355 million. When we discussed this last week, I gave a couple of kind of contextual points which I won't go through again, you'll be relieved to hear, but I'll just give a kind of brief heads up to them.

One is the context, which as you know, this is a necessary part of a growth business, and it is a profitable and growing business. Two is, the Q1 charge is up over the course of the fourth quarter of last year, basically off of the back of the fleet size, high value vehicles and weak gains and losses on disposable. I'll come back to that in just a second.

Thirdly, stepping back, this is a business that is becoming more profitable, and will become more predictable over time. When we look at Q2, at the moment, Sheel, it's just way too early to say whether we'll be taking a charge or not. If I step back and say, "What have we seen in car prices over the course of the first quarter," we've seen electric vehicles down a touch, we've seen internal combustion engines up a touch. Overall, the business is around £3 billion out of £10 billion RV, in terms of electric vehicle exposure, so it's not 50/50, it's more like 30%. Which hopefully gives you a bit of insight in that respect.

When we get to the end of the second quarter, we're going to be weighing up two things. One is, has that car price performance changed? Has it improved? Has it gotten worse? And the second is, what's going on with respect to the mitigants that we're pretty busy on right now, to try to dampen volatility and indeed dampen the operation lease depreciation charge as a whole. Just elaborating on each of those, as your comment alluded to and I mentioned last week, I think electric vehicles are a little bit below our expectations right now. Internal combustion engines may be up a little bit versus our expectations, versus what we'd see for the full year. That is to say we saw flat, really, in internal combustion engines as a whole. And actually, we're up a touch in Q1, so maybe tracking a bit better. So there's a balance to be determined there at the end of the quarter, Sheel, depending on where that pans out.

I think then, as I said last week, and it's important; we are undertaking quite a lot of activity in relation to lease depreciation to dampen growth and certainly dampen volatility. And what is that? It's around the lease extension, it's around remarketing, it's around the auction partnerships. It's also around things around RV sharing and partners, where we're doing a lot with some of our partner OEMs.

When we get to the end of the second quarter, Sheel, we will quite literally be stepping back and saying, "Right. What is the net of those two?" And as you can imagine, people like me in the finance department, are pushing this issue very hard to make sure that we make the most of these opportunities as we see them, on the lease extension, remarketing and auction partnerships, as I mentioned. We are seeing that as the key balance, if you'd like, to both mitigate or dampen growth in op lease depreciation, but also it makes it more predictable over time.

So Sheel too early to be drawing conclusions on whether we'll take a charge in Q2. We obviously keep a close eye on car prices, but I'm sure as you can imagine, we'll be pushing the business pretty hard to deliver on the initiatives I just mentioned.

Question 4 – **Perlie Mong, Bank of America**
Hello, good afternoon, William, just two quick questions. One is on the RWAs. Can you help us a little bit in terms of the shape of the RWA trajectory in the year? Because obviously, we know that there's going to be a £2.5 billion hedge element that will come out by Q3. In the meantime, there will be some loan growth, but also maybe you can talk a little bit about the optimisation element? I think it was maybe a little bit lower in Q1, so if you could help us a little bit on the progression of RWAs through the year; that'd be really helpful.

And secondly, I guess just quickly touching on yield curve steepening, where you might see opportunities. Do you see opportunity to maybe term out assets more in the hedge? You historically talked about maybe managing that a bit more dynamically, do you see opportunities there? But also, maybe do you see opportunities in the way you deploy your liquid assets elsewhere?

William Chalmers:
Yeah. Thanks, Perlie. Just taking those two in turn. Risk weighted assets, first of all, as you know we're not giving guidance for risk weighted assets over the course of this year. We're giving guidance on capital generation and given that, you know, roughly speaking, our profitability, hopefully that allows you to infer what that might mean for risk weighted assets. But just to kind of fill in a bit beyond that, Perlie, considering your question.

We have seen in the course of the first quarter of this year, quite a bit of lending growth. Around £3.5-£4 billion or so, of the overall increase in RWAs in the course of the first quarter came from lending growth. At the same time, we've also seen the transitory effect or the temporary effect from the hedge activities that we discussed just a second ago, and one or two elements and pieces around that same theme.

When we look forward, we're going to see continued lending growth for the course of Q2, Q3, Q4. Alongside of that, we expect to see growth in Lloyds Banking Equity Investment businesses. Lloyds Living, for example, LDC, for example, are known to incur RWA costs.

On the add-on side, we also expect to see an incremental amount for CRD IV in the course of, most probably the fourth quarter of this year, which is typically when we take these charges. And that, in turn, we haven't put a precise number around, but we're looking to basically resolve the position with the PRA or rather, complete our journey, if you like, on CRD IV. It could be the third, could be the fourth quarter, to be determined, but that's an add-on.

But then what do we expect as principle offsets around this? As said, the temporary balance sheet affects, most notably from the hedge will be going off in Q2, Q3. Then optimisation, we haven't given a number on it, but just to look back retrospectively at least, we saw optimization in total; that's both transactions and non-transaction led, of just over £7 billion here in 2024. I don't think it will be quite as much this year, but we're certainly aiming for a number that's not wholly dissimilar, maybe it will be £1 billion or £2 billion less, but we're aiming for a decent contribution from optimisation over the course of this year, which in turn, allows us to offset CRD IV effects, allows us to offset the effects of lending and make it more profitable, if you like. It makes more sense for either the capital markets to hold it, or essentially there are housekeeping measures that we can adopt in the context of optimisation.

So, Perlie, I've not given you a quantified answer, if you like, to your question, but I would expect RWAs to grow off the back of Q1. Where, currently as you know, they've gone up by £5.5 billion to about £230 billion. However, it will not be at the pace of £5 billion per quarter, that you saw in Q1, for the reasons just articulated.

Perlie, you talked about yield curve steepening and opportunities associated with that. I think there are clearly opportunities from the back of yield curve steepening. We would expect them to show up through, for example, the hedge gains. However, just bear in mind that, A, we will obviously be in, in that context at least, in a more competitive deposit market where we would expect to see fixed term offers and the like start to come up if that yield curve steepening stays in place for a period of time.

Alongside of that, we would need to take into account how much of that yield curve steepening would we wish to pass on to our customers, to ensure our offers are competitive, if you like. Then the second place we'd expect that to show up, as you say, is the liquid assets portfolio. Where, you know, for sure there would be some gains. But again, I think the overall trajectory in our margin this year is going to stand out and be of a positive nature, if you like, positive driver. Independent of where the yield curve goes. I'm not sure that we see necessarily the yield curve steepening as a big part of the opportunities, so much versus organic from the business.

Question 5 - Amit Goel, Mediobanca
Hi, thank you. Just a couple of follow-ups from the conference call. One was just on the severance costs trends. So, obviously about 30% increase to £280 million for this year. Just wondering how to think about that going into 2026 and beyond? Is that a number, which would be relatively steady, or kind of increasing, decreasing? And just within that, just trying to understand what exactly is that driving? Because it seems to be quite a high cost relative, I guess, to staff numbers and so forth. So just trying to understand that severance piece and how we should think about it trending from here.

And then secondly, just on the whole kind of ring-fencing discussion or debate, I mean just being a signatory, I'm just kind of still curious because I can kind of see how HSBC or Santander may be able to deploy liquidity, maybe better yields elsewhere within their businesses. The non-ring fence bank at Lloyds still generates a slightly lower return than the rest of the group. So, just wondering, I guess, how you're thinking about that and the opportunity if we were to see some stepping back further of ring fencing requirements. Thank you.

William Chalmers:
Thanks Amit, I'll take each of those questions in turn. As you say, severance costs about 30% up this year, versus last, that's for the year in total. We have actually increased severance costs by roughly £80 million over the course of Q1 this year, versus Q1 last year. And as you know Amit, in the course of our Q1 costs, which are up 6% year-on-year, and that accounts for about 3% of that increase. So, net of that, the operating costs were up about 3% Q1 this year versus Q1 last.

That is roughly similar in the round, as you know, to the £9.7 billion that's we are expected to deliver on this year, versus the £9.4 billion that we delivered on last year. So, I hope that puts the severance costs into context. You asked about what we might expect going forward. We haven't put a precise number on that over the course of the next year or so. What is safe to say is that severance costs are related to strong and substantiated business cases, which is why we feel it appropriate to, A, get ahead of severance costs in terms of timing, i.e. implement them early on in the year. But also, why we've allowed that budget to rise a little bit through the course of 2025 versus 2024. Because they're attached to, as I say, very solid, firm business cases, which then allow us to achieve the operating leverage that we expect to see in the course of 2026.

Overall, where we will take severance costs next year, Amit? I think it will depend upon the business cases that are presented to us, frankly. That is to say, we would expect each of the business units and indeed functions that come to us, to come to us with a business case that pays back in a short period of time, by which I mean typically one year, and a very attractive IRR. If we are presented with those types of business cases, we're going to look at them. What that means is that it's not necessarily the case that severance costs will be quite as large as they are in 2025, going forward into 2026. Indeed, our base case is that they probably won't be, but Amit I'd be misleading you if I didn't say that we want to retain flexibility around this. Because as said, it is a core part of the transformation of the Group, whereby we are able to kind of adjust, if you like, the FTE base of the Group in a way that, from a shareholder point of view, is sensible, is the right thing to do.

It is worth saying Amit, this is only one part of the overall investment budget within the Group, which as you know, we have been building over recent years in the context of seasoned revenue opportunities, but also with the purpose of enhancing the cost-efficiencies within the group. So, severance is just a part and parcel of a bigger investment picture, which in turn, will depend on the individual pay back cases.

Ring fencing Amit, second question. I think you probably understand why we are where we are with respect to ring fencing. That is to say, ring-fencing was set up at a time when other forms of prudential regulation themselves were rudimentary, whether that's capital, that's funding, that's liquidity, resolution and so forth. Those approaches, if you like, that prudential regulation has significantly strengthened and, in turn, we think at least, at least presents the case that ring fencing should be reconsidered in the current environment.

Having said that, why, or if you like, what business opportunities might present themselves in that context? I think it's really around customer friction, number one. And extending the benefits of a strong balance sheet to customers, number two. That applies, often enough, in terms of cross-border activity of clients, where we see the friction at its greatest, but it doesn't have to be just that. The balance sheet itself is a benefit for certain forms of market and other CIB types of activity. It is also something which, looking at it from the other perspective or the other way round, Amit will allow us to reduce operating expenses for the business for sure, but that isn't really what's driving it. What's really driving it is the customer proposition and the desire and the need, if you like, to do the best by our customers in terms of serving them with the best products that we can in a seamless and friction-free way.

Final point on this Amit, while we think it is appropriate to have the debate as described, I think realistically this is a little way off from any implementation. So, we're not planning on any benefits from any reforms to ring fencing in the near-term future. We have to see whether or not the debate gets ignited off the back of the discussions that we've been having, and if it does, we'll be happy to contribute, but we're not banking on a reform in this space, Amit, we just think it's appropriate to have a discussion.

Amit Goel:
Okay, thank you. Just, sorry, just a follow-up, but if we were to see any kind of relaxation on ring fencing, do you think we could see more competition for deposits in that kind of scenario? So would that be a kind of cost that you would have to weigh up?

William Chalmers:
I think we already have a pretty competitive deposit market. So this issue is I suppose brought on occasion when, in the reference to the US banks, particularly in respect of JPMorgan Chase and Goldman Sachs, and of course those are incremental sources of competition in the deposit market, but actually off the back of the incumbents, off the back of the neobanks, off the back of the building societies, and so forth, it's already a pretty compelling and indeed competitive deposit market.

I think the type of changes that we might see from others taking advantage of a more relaxed ring fencing regime, they could be at the margin, but I'm not sure they make a huge difference. From our perspective, the deposit market and our competitive stance in it is about our propositions, it's about our pricing, it's about our customer relationships, all of which, from our perspective at least, allow us to, if you like, offer a very resilient picture and indeed a successful one. You've seen £5 billion deposits up in the course of Q1, a very successful one for customers. I don't think the ring-fencing necessarily changes that picture much.

Amit Goel:
Thank you.

Question 6 – Andrew Coombs, Citi
Afternoon. I wanted to come back to the structural hedge. You had the 10 basis points of the NIM improvement Q on Q being driven by the hedge. If you annualise that you're getting to a much larger figure than the £1.2 billion incremental you've guided to, or even £1.5 billion the next year. So, if you could just elaborate on why such a big increase… [line dropped] …being refinanced this quarter or at the end of last year. I know you're expecting much fewer maturities over the remainder of the year, but perhaps you could just clarify, is it just the maturity profile? Is it the reinvestment yields are better? What's the dynamic there? Thank you.

William Chalmers:
Yeah, thank you Andrew, and I might as well take the opportunity to slightly more fully answer Perlie's question, which I think I gave a bit of a half-baked answer to frankly, earlier on. But if we look at it, Andrew, you dropped out a little bit there, so I'm slightly inferring parts of your question, but correct me if I don't respond appropriately. First of all, the hedge, as you know, we have a hedge size right now of £2.2 billion, that stays stable from the year-end. The strength of the deposit performance, if it continues, will cause us just to take a look at that, at the margin over the course of this year.

Our expectation is that we should be able to increase by lets say £2-5 billion, somewhere in that zone over the course of the year, lets see how deposits perform.

You asked about yields and rates and the effect of that, Andrew, on the hedge. Q1, our yield on the hedge was about 2.1%, that's up about 20 basis points versus Q4 of 1.9%. The look forward yield of that, you could probably figure it out from our numbers, but we're looking forward to a yield in full year '25 of around 2.3%, of that order. The reason for giving that number is that you can infer it from the balances and the quantum of hedge earnings that we've given you, so we're kind of there anyway.

That is consistent with the increase of £1.2 billion on the £4.2 billion that we had last year, so in total £5.4 billion in hedge earnings this year. We're sticking with that, Andrew, as we see the look forward calendar, if you like, and as we see the developments within rates. Why are we sticking with it? I think, number one, because there's quite a long way to go. We have three quarters of the year to play out, or thereabouts if you like, number one. But also number two, as you know the hedge earnings do in turn depend not just upon upcoming maturities and expected forward rates, but also yields on the part of the hedge that is coming off. And those are pretty lumpy, because they're put on at different times, and so that's another part of the calculation.

And then thirdly, in order to avoid undue concentrations, if you like, in our refinancing exposures, we do a bit of advance hedging, pre-hedging as it's sometimes called, really just in the interests of, as I say, maturity concentrations within certain periods, which then enables us to determine what is the rate in which certain hedges will come on, on a forward starting basis that we have put on in order to avoid those maturity concentrations. That's risk management at heart. So, for all of those three or four reasons, Andrew, we're sticking with our £1.2 billion increase over the course of this year.

Now, let's see. If we were to mark-to-market it at any given moment there might be a little bit of upside in the hedge, and if so, so much the better. But for now at least we're sticking with the guidance we've given you. The reason I was slightly hesitant on Perlie's question earlier on is because overall when we think about how that might translate into improve that net interest income, and net interest margin, etc, within the bank, again, there's still a lot of the year to play out, number one. Within that we've got clearly question marks about how deposit churn will fare over the course of this year. It is slowing down to date, but of course if interest rates go up that might pick up a little bit, as I mentioned to Perlie earlier on.

And there's this holistic margin point, which is to say when you look at rates increases, of course that's good for the liability side, but actually as we know that has sometimes been reflected in a slightly more competitive mortgage market. And so, there's something about looking at that in the round that we need to take account of. It's that combination which caused us to want to just take a measured response, if you like, to how interest rates might fare, to in turn how those interest rates might then impact our structural hedge and ultimately net interest income. For now, at least, Andrew, when we add all the pieces together it gives us a lot of confidence in our £13.5 billion net interest income guidance, which I know is, and as do you, is not just about the structural hedge, it's about many more things apart from that, but it gives us a lot of confidence in our net interest income guidance of £13.5 billion. We'll take another look at that again, further on in the year, but for now at least that feels like as far as we want to go, depending on wanting to see how things turn out.

Andrew Coombs:
Thank you.

Question 7 – Gary Greenwood, Shore Capital
Hi William, thanks for taking my question. I just wanted to come back to Tusker, and it's really a broader question just using Tusker as an example, really, but I think you mentioned that Tusker was earning returns roughly double that of Lex, and Lex was earning a return above its cost of capital, so I'm guessing Tusker's earning an ROE 25% plus, which is obviously high and very attractive. But I'm just sort of thinking in the broader context, when you consider balancing returns to shareholders and profitability with your other strap line which is delivering for customers, whether you ever look at businesses and sort of say, "Well, hang on a minute, that's maybe over earning a bit." And there's a risk that therefore the profitability there is not sustainable either because it attracts reputational risk or it maybe attracts the wrong sort of regulatory attention, or those sort of things. So, just using Tusker as the example, but just more broadly around your thought process when looking at businesses and the returns and profitability you generate from them.

William Chalmers:
Yeah, thanks Gary, it's a very fair question. The answer is yes, absolutely. Returns to customers are a key part of our product and product pricing determinations. So, we talked about Tusker a second ago, and your question around Tusker and RoTE I won't comment on directly, but it is safe to say that Tusker earns an attractive RoTE. Having said that, Tusker also offers market leading value to customers, and it's that combination that we're able to deliver with Tusker, which is partly why we bought it.

Now, that is a combination, as I said earlier on, of procurement efficiencies, where we're able to supply a set of services to a customer around the automobile generally, which in turn give the customer capabilities, or at least access to services at prices that are significantly advantaged, versus what they might be able to buy in the open market. And that's partly because obviously we're a bulk buyer with privileged relationships with suppliers, we can pass a lot of that on.

At the same time, within the Tusker context it is in the spirit of the Government's so-called net-zero plans, clearly advantaged, if you like, by virtue of salary sacrifice, and that in turn is a part of the value package which again is passed onto customers. So, Gary, using Tusker as an example, we're able to drive a profitable business, and growth within that profitable business, but we're able to do so in a way that is totally sympathetic to customer objectives.

Every time we look at our product spectrum, we look at it back to front, front to back, by which I mean that we will look at the return on capital that we are earning across a different product line, and we will look at it from the customer's perception working backwards. And anytime that we see a product that is over-earning, we will look to think carefully about the pricing in that construct, and determine whether or not that makes sense.

Now, as you can imagine that isn't always the case in financial services most of our products actually are pretty competitive and you can tell by our overall return on capital that we are delivering an appropriate return on capital to shareholders, but also by implication we're delivering appropriate customer value. Where else might that be manifested? Our pass-on decisions. Typically our pass-on decisions in deposits, Gary, are around the 50% mark. Certainly if you weight them by the take up in terms of fixed term or limited withdrawal for example, as products, the overall pass-on of the rate cycle has been around 50%. That is taking customer value in mind, that decision is taking customer value in mind.

Another example, mortgages. It's very important in the context of financial services to look at things in the round, and to not to get too, if you like, obsessed with one particular product. Which is not to say that we don't look at one particular product, but we also look at in the round. So, what we can say, liability margins right now are attractive, and indeed they are. At the same time, mortgage margins are around the most competitive that they've been in many years and they will probably continue to be so. So, what we look at, and I think what every other financial service provider looks at, if you like, is what is the customer proposition in the round? Taking account of deposit returns, if you like, that are attractive hopefully from a customer point of view, but also from a financial services provider point of view, but alongside a mortgage pricing regime that really is very, very competitive from a customer point of view, and arguably more competitive to the customers than it is, if you like, attractive to the service providers at times.

So, look at things in the round, Gary.

Gary Greenwood:
Okay, that's a good answer. Thank you very much.

William Chalmers:
Thanks Gary.

Question 8 – Chris Cant, Autonomous
Good afternoon, thanks for taking my questions. I had one following up on risk density, then one on motor finance, please. So, I understand you don't want to give us a year end RWA number, and I know there's a few moving parts under the surface with CRD IV and these temporary RWAs and optimisation actions that you're wanting to take.

As we think about balance sheet development in the round, should we be expecting pre-Basel IV impacts, which are now 2027, the risk density, i.e. your RWAs relative to your loan book, to be broadly stable over time excepting puts and takes quarter to quarter, as these lumps and bumps hit and get offset and all the rest of it? Is that a fair way to think about things in terms of your RWA development?

And on motor finance, on the recent call you seemed to indicate that you didn't think you'd be able take a provision with 2Q, or that it was perhaps more likely to come with 3Q, because you would wait for any FCA response to the court case. But just thinking through what you've said in the past around the key uncertainties or the key forks in the probability tree, I think one of them was always, well, what does the Supreme Court decide? And I guess we're going to have that answer by the time we get to your 2Q results. I guess it may be a post-balance sheet event, but you'll have that information I imagine by the time you report.

I'm just curious to understand why it is that knowing that, even if you don't have the FCA response, wouldn't change your view on your scenario probability weightings, if that was one of the key areas of uncertainty previously? Thank you.

William Chalmers:
Yeah, thanks Chris. Just taking those two in turn, as you know Basel 3.1, which is the start point of your question, as you know from our perspective at least, we see a moderate reduction in RWAs from Basel 3.1. That is to say, it's a good thing from our perspective. It reduces RWAs and it reduces them for reasons that you alluded to Chris, that is to say mainly benefits to our corporate models and a little bit to Retail. And within that, we're benefiting from the fact that we're currently on Foundation IRB within Commercial. We expect that to be benefiting from Basel 3.1. I'll come back to that in just a second, maybe.

Before we get there though, your question was, does the risk density of our offering change, or our lending, I should say, change? But in short, the answer is basically no. It basically stays the same, but there are a couple of provisos that are worth making around that. The start point as I said is that our lending activities are more or less more of the same. That is to say we're not suddenly changing direction in respect to lending. You've seen the performance in Q1 where we've grown lending across the different books, mortgages, personal loans, cards, motor, Europe, let's say. That's in the Retail space, and then the Commercial space, it's more of the structured products group and infrastructure in the CIB, and it's the gradual rotation of bounce back loans into more regular BCB lending in SME.

So that's the pattern of lending, and that isn't really going to change, and the risk density for each of those different categories is more or less going to stay the same. But the qualifications that I would make, Chris, are first of all to pick up on that BCB point. That is to say, you should expect the risk density in BCB to pick up a little bit because we're cycling out the bounce back loans and cycling into more regular lending with our clients, which is a good thing. It's a very healthy thing. But it is by it's nature at least, it has RWAs attached to it, whereas bounce back loans, cause they are government guaranteed do not.

So there's a bit of a pattern there within BCB. It won't be huge, frankly, Chris, because underlying lending demand in BCB, as you know in the previous months, it's quite modest, but that's one factor. Second factor is economics. That is to say, RWAs are in part determined by our economics. You've seen our base case, it's not a whole different trajectory as it were, so again, I don't expect much of an increase in that respect, but if you were to see a downturn in economics, you might see some credit migration in the context of RWAs. We don't actually see much during the course of this year, I'll be very clear, but I'm really just trying to make the point that RWAs and economics are somewhat tied together.

Third qualification is optimization. We've got as per the question earlier on, quite a big programme of optimization that I referenced in response to Perlie. That is an ongoing feature, whether it is addressing, if you like, data shortfalls that we might be remedying and improving, whether it is around transactions, SRTs or securitisations for example. Whether it is of refined and appropriate regulatory interpretations, these types of things tend to reduce the RWA density across the Retail and across the Commercial space.

And then finally, we've got a little bit more RWA density coming off the back of CRD IV, as we get towards roughly 15%, which is where we expect owner occupied weightings to land, there's a bit more RWA density coming off the back of that. But that's a topic that you're familiar with.

Those things will take place and then at the beginning of 2027, we land with the, as I said, moderate RWA relief in totality, which is welcomed clearly, off the back of Basel 3.1. So I think the short answer to your question, Chris, is not much movement in RWA densities. The longer answer to your question is just bear in mind those two or three moving pieces as it were.

Your second question, Chris, on the Supreme Court, it's a good question. Again, without repeating myself from Thursday, you know the three sources of uncertainty that we're looking at, Supreme Court legal rulings, if you'd like and what will the FCA do with it and how will people respond? Those three components, they are all interdependent, and we are cautious, if you like, about drawing too much from any one of those three pieces. But having said that, when we arrive at the Supreme Court destination, or rather the judgement that may be handed down in July, if what they say they will do does indeed transpire, then you are, as you point out, Chris, going to have one more piece of information.

In that context, you're right to say that we'll look at that in the context of our overall scenarios and just try to figure out in the round, what difference does that make? I suppose the point that I was trying to make on Thursday, which I'll stick with, is to say that within a relatively broad corridor of outcomes, we are likely to stick with our £1.15 billion provision simply because it feels like a prudent thing to do when you don't quite know what's going to happen next in the context of the FCA determination.

Now, as said, that corridor of outcomes well wide is not totally without edges, and therefore if the Supreme Court completely throws out the Court of Appeals ruling, then we know that we are back to territory that was a bit like where we were before the Court of Appeals ruling where we felt that £450 million was our best estimate pending resolution of the other uncertainties you mentioned. Equally, if the Supreme Court determines that the Court of Appeals is completely right and endorses every aspect of that ruling, then again, that is a piece more information which probably makes us just think carefully about our scenarios. That is not our base case, Chris. It is not our base case or rather it was not our base case based upon King's Counsel advice before the Supreme Court. It continued not to be our base case off the back of what we heard at the Supreme Court, but again, that is an example of a case that falls outside of that central corridor. That central corridor is pretty wide and for reasons of prudence if nothing else, probably suggests that most likely, Q2 we will be in the territory of reaffirming the £1.15 billion as our best estimate pending finding out other things.

Chris Cant:
Thank you.

Question 9 – **Aman Rakkar, Barclays**
Hey William, thanks for the questions. I had three, if I could, please. Two on NIM. I just wanted to double check the various one offs, so to speak, that might not be the right way to label it, in NIM in Q1. I think the mortgage early repayment charge, also funding, capital and other are a difficult thing for us to model externally. I just wondered if when we're thinking about casting our net interest margin in Q2, should we think about, -1 basis points off for each of those line items? So is 301 a good start point for our NIM? I know you're stepping away from wanting to talk too much about NIM, but I'll ask anyway.

And then, inherent in your forward-looking guidance around net interest income and the NIM of circa 305, but actually more so into next year, there's a pretty significant step up in margin that we're all kind of anticipating. But everything's telling me to expect it to be reasonably subdued in Q2. I don't know, maybe again in Q3, but for it to really start picking up towards the back end this year. I think I've kind of inferred that a bit from your commentary around the structural hedge, the profile of that. So if you could confirm or deny or add any colour on that, that would be really helpful. It just helps us think about the NIM progression into next year.

And then the third was on average interest earning assets. Actually, strong print in Q1, you've got about £6 billion of benefit from averaging, if you just close the business today, that's going to drive average interest earning assets in 2Q. To me it looks like you've got decent upside skew versus where consensus is this year, but also growth as well, I think the street is only modelling around 2% average interest earning asset growth. So just to complete this list of extremely low quality questions, I was just interested in your take in the near but perhaps medium to long term outlook for average interest earning assets. Would you hope to beat the run rate that consensus is modelling? Thank you very much.

William Chalmers:
Sure. Thanks Aman. As you say, we don't guide on the component parts any longer. NIM, AIEAs or non-bank interest income, but we are clearly reporting on them retrospectively. They all fit one way or another into the £13.5 billion guidance that we have given for 2025, and as said earlier on, we feel very confident on that guidance. As we look forward, we'll revisit it over the course of the year clearly, obviously, but we feel very confident on the guidance for all the reasons discussed.

In respect of the NIM, I think it is safe to say that there was, I think I said in my comments, a basis point or so of one offs within the NIM that we achieved in Q1 of this year. 303, probably you said 301, I guess I would say 301 or 302 would be my number. ERCs are mainly it, there isn't that much going on apart from the ERCs. Funding capital and other is typically things like the cost of our wholesale borrowing, that sort of thing. There's nothing especially one off-ish about that. So as I say, I think if I were to put a number on it Aman, it would probably be at least as much 302 as any other number.

Then in terms of how we go forward, the second question that you had there Aman, we do expect the margin to continue to build over the course of this year consistent with the comments that were made on Thursday. It will ebb and flow a little bit. I don't mean that it will go back in any quarter. I mean it will just go forward at different speeds, and when we look at the overall year, if we put it into context, we can tell pretty much what the mortgage refinancing rate is, which is coming off at 99 basis points in Q1 and then drops through the course of the year.

We also know pretty well the rate at which the hedge is going to be going on, absent some significant market gyrations which we don't expect. And therefore we can pretty much call the evolution of the margin in totality over the course of this year, which is why I said it goes up, but it goes up at different speeds. I think we'd expect the exit rate in Q4 to be, a pretty decent number as we look forward Aman, and so pick up in Q4 is right to calibrate maybe a slightly slower pace during Q2, Q3 in order to get there, but that's kind of the pattern.

And then the second part of your second question, Aman, in terms of the sensitivity, '25 versus '26, overall the margin in '25 is going to be pretty healthy and certainly a very healthy advance on the 295 margin that you saw in 2024. It is also safe to say that because of the structural hedge, because of the wind down in deposit churn and likewise, the mortgage refinancing headwind that there is a material pick up in the course of '26, and therefore you should expect to see that. But, it's probably a bit more linear than you're giving it credit for. That is to say, decent advance in '25, decent advance again in '26 would be the way I'd characterise it. Overall, stepping back, the confidence that we have in terms of our ability to get to the greater than 15% RoTE of which the net interest margin is a key part, remains is still very high.

AIEAs as you say, we had a modest pick-up in AIEAs in Q1, £1.4 billion, but contrasted with lending of £7.1 billion. The AIEAs will feel the benefit of that as we go forward into Q2 and beyond. I would expect therefore for AIEAs at the end of this year to be meaningfully ahead if you like of where we are today without putting a number on it. The only word of caution that I would add is that, AIEA growth... Sorry, I should put it another way, lending growth was pretty strong in Q1. Will it be £7.1 billion in every quarter going forward? Let's see, I think I talked a little bit earlier on about mortgages being front loaded into Q1, £4.8 billion. We've got a decent application pipeline to be clear going into Q2, so nothing to be worried about there at all. It's just that the Q1 pace that we saw was really pretty significant and it's not necessarily the case that it continues to run at kind of £4.8 billion every quarter from here onwards for those reasons.

Aman Rakkar:
Thank you so much.

William Chalmers:
Thanks Aman.

END

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. 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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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