LLOYDS BANKING GROUP PLC– 2025 HALF YEAR RESULTS – SELLSIDE ROUNDTABLE TRANSCRIPT
(amended in places to improve readability only)

Tuesday 29 July 2025 – 4.30pm

LBG:
William Chalmers, Chief Financial Officer

William Chalmers:
Good afternoon, I wanted to kick off with a couple of comments just to reiterate the points that we made last week and then hand over to you for questions that might be helpful.

As you know, last week we set out a story, if you like, which talked about delivering on our strategy, continued delivery on our strategy, number one. Sustained strength in financial performance, number two. Strong capital generation off the back of that, supporting a 15% increase in the interim dividend, number three. And that all allowing us to reaffirm 2025 and indeed 2026 guidance, as you are familiar with.

That was all I wanted to say by way of introduction, so perhaps I could just hand over to the listeners for questions, as you see fit. Thanks very much indeed.

Question 1 – Ben Caven-Roberts, Goldman Sachs
Good afternoon, thanks very much for taking my questions. Just two if I may, please. First, on deposits, so I know there was a lot of discussion on the call around deposit activity, and you mentioned a degree of deposit churn, which should continue into 2025 and 2026, which would be natural in a declining rate environment. Are you effectively seeing that as current accounts continuing to grow, but savings growing faster? Or more current account outflows in absolute terms?

And then secondly, just on the hedge phasing. I think you provided some helpful comments around the hedge contribution ebbing away a bit in Q3 and then being stronger again in Q4. To be clear, are you effectively implying the NIM bridge would show a negative hedge contribution in Q3? Or just a bit less positive than it was in Q2? Thanks very much.

William Chalmers:
Thanks, Ben, for the questions, just to take each of them in turn.

I think the way that we see the deposits franchise, first of all as you know, we saw a pretty good build in deposits over the course of Q2 and indeed H1 as a whole. So Q2 deposits up £6.3 billion. H1 as a whole, deposits up £11.3 billion, with a mix between Retail and Commercial, so we're pretty pleased with deposits performance over the course of the first half.

When we look forward, we do expect deposits to continue to build. In terms of the mix question that you asked there, the way I'd describe PCAs, I think, as we look toward the second half, is one of rough stability, would be the way I describe it. And you've got in there a mixture of different inputs, if you like. You've got a little bit of slowing spend, I think you've got probably a little bit of slowing government payments and the like, inflationary wage settlements starting to settle down.

That mix overall creates more or less a stable deposit picture within the PCA space. I think that is then, somewhat confirmed by, while you should expect to see some migration over the course of the second half from PCAs into savings, the inputs that I just mentioned, in terms of wage settlements, in terms of spend outputs, clearly, in terms of government payments and so forth, should more or less make up for that migration pattern. Therefore, giving you a picture of rough stability within PCAs over the course of the second half.

The expectation alongside of that, Ben, is that savings will indeed grow. And it is that combined picture, if you like, that leads to the deposit point that I made in totality earlier on. But one of PCA stability, one of savings growth, driven by the factors as mentioned.

I should say, just before leaving the deposits question, as you highlighted in your question, deposit churn, if you like, deposit migration in the context of the rate environment being what it is, is a very natural phenomenon and we do expect that to continue to be the case over the course of the second half, and indeed a little bit going into 2026. But, in line with our expectations around base rates and rates generally coming down, we expect to see it flatten off during the course of 2026, in particular. But it is built in, if you like, to our overall expectations around net interest income and indeed, over the longer term, our expectations around the RoTE growth within the bank and the greater than 15% RoTE delivery.

The second question, Ben, in relation to the hedge. You're right to point out that I mentioned that Q3, we thought was going to be slightly slower in terms of the hedge build, Q4 slightly stronger, and indeed, that is the expectation. So we see a slightly more muted contribution from the hedge in Q3. We see a stronger contribution from the hedge in Q4. But to be clear, it is positive in all quarters. And reasonably, meaningfully so. But much more meaningfully, if I can put it like that, in the course of Q4 versus Q3 and that's just a function of maturities, yield from maturities, versus what they're being replaced with, and such like Ben. So that's what gave rise to my earlier comment. And then of course, we expect that income picture to continue to build as you're familiar with, during the course of 2026.

Ben Caven-Roberts:
Very helpful, thank you.

William Chalmers:
Thanks, Ben.

Question 2 – **Aman Rakkar, Barclays**
Hi William, thanks very much, thanks for the time and thanks for taking the questions. I guess one to follow on around NIM, I'm just trying to piece together the various moving parts here. If we're talking about a more modest structural hedge contribution, hopefully the deposits aren't so much of a drag in Q3, but you will have ongoing mortgage churn.

It sounds like a reasonably flat-ish NIM profile. I would proscribe the one basis points move in Q2 as reasonably flat-ish, but maybe a similar glide path for NIM in Q3. Is that the right way to think about it? And I guess the reason why I'm asking is because then it implies a momentum for NIM in Q4, which is a pretty material step up in the margin in Q4, and that in and of itself has some interesting follow on for '26.

So can you add any colour to that, as to whether that's the right characterisation of, and if there's any puts and takes that you would add to that NIM trajectory from here?

Shall I give you the second one now?

William Chalmers:
Yeah, go for it Aman, and I'll pick them both up.

Aman Rakkar:
Just a broader question on average interest earning asset growth, really. I'm interested in if you could give us your take on the average interest earning cadence in your business. I would like the UK banks to talk a bit more explicitly around the volume their businesses can originate from here. And there is a sense of building momentum in your business. So could I invite you to put a number on what kind of average interest earning run rate or CAGR we might expect from this business? Not just into this year, but '26 and beyond? Thank you very much.

William Chalmers:
Sure, sure. Yeah, thanks for that, Aman. I'll take them each in turn. In relation to NIM, first of all, Aman, as you know, we're guiding, first of all, in respect of net interest income for the year of c.£13.5 billion, which is guidance we've repeated and again, feel very confident with and very comfortable with, but I appreciate your question. And maybe just to start, in respect of the performance of the NIM in Q2, and give some perspectives on that, which then could lead me into addressing the question vis-a-vis Q3 and indeed, Q4.

First of all, in respect of Q2, the NIM performance, 303-304, that's not far off our expectations for the course of the second quarter. We said, I think earlier on in the year, that we expected the NIM to accelerate and decelerate during any given quarter, and indeed, there's a little bit of that going on in Q2. Now, in particular, it's just worth reflecting on the 297-303 in the course of Q1, because as mentioned at the time, probably one or so basis points of that was effectively our ERCs within in mortgages, and so if you take that out, the Q2 performance looks a little bit stronger than it at first appears. So that's one point that's worth making.

And then within that, we've got the usual structural movements, I suppose, in terms of Q2 NIM. Structural hedge, giving you the benefit. Deposits and mortgages headwinds being pressures the other way around. And then you've got on top of that, a little bit more of a lively ISA season than we had previously expected. And that's off the back of declining interest rates, number one, and savers wanting to lock in. But I suspect off the back of HMT comments, just for the potential caps being put on ISAs, which then inspire people to act.

And so, that, in turn, affected, a little bit, forgive the pun, but at the margin, the margin development within Q2, off the back of the deposit movements that you saw. And that, in totality, is what went on in Q2. Now, some of that was offset by a slightly more positive rates picture, which built into structural hedge, and then if we look forward, there's a couple of things going on. One is that over the half as a whole, and I'll come back to your quarters in just a second, Aman, but over the half as a whole, we do expect the gradual build in the NIM to take place through the structural points that I just mentioned earlier on, which you're very familiar with, I know.

There is also one more bank base rate change in our expectations for the second half of this year than we previously had. And, as you know, that has a kind of lag effect. It's a less punitive lag effect now, because some of the work that we've done, to be clear. But none the less, it has a lag effect in terms of the pass on and therefore, exerts a little bit more pressure.

Now, having said that, we expect a couple of things. One is we expect the margin to continue to develop positively over the course of the year. And that includes in each and every quarter. And the second point is that we do expect that pickup in margin to be stronger in Q4 than we expect it to be in Q3. And that is predominantly because the structural hedge contribution that we mentioned in relation to Ben's question earlier on. That is the most significant factor.

Now there's a bit of ebbing and flowing in the context of mortgages and deposits there and ironically enough, the mortgage headwind is in fact slightly stronger in Q4 than it is in Q3. But that doesn't overcome my earlier point, i.e., it doesn't offset the full extent of the hedge contribution, meaning that you've got a still positive but slightly flatter margin development in Q3 and then a more positive development setting us up for '26 in Q4, and it's because of those builds.

Now that's the way we see it right now and obviously that takes into account our expectations about how things might develop. What type of positives might you see around that that could give us upside? I think you'd look at things like deposit trends slowing down faster than expected, you'd look at slightly stronger rates than expected. What kind of things might go the other way and contribute to risks around that? More bank base rate cuts than we expect. Off the back of that, maybe inspiring a bit more churn than we expect. To be clear, I think our base case is appropriately positioned given the risks and the upsides, but those are the types of things that you might consider.

In relation to second question Aman, on AIEAs, first of all as you know, AIEAs have grown quite a bit in the second quarter off the back of predominantly the mortgage contribution over the course of Q1, which then feeds into Q2 numbers, and so we end Q2 at £460 billion and that is up £4.5 billion versus Q1. And if we look forward on that basis, I think we expect continued growth over the course of the remainder of this year in respect of AIEAs. And that should balance out over the course of the second half in a way that builds let's say another couple of billion or so off the back of the H1 performance. That gives you a rough idea of the average that we expect within AIEAs over the course of the year. I do think that the point that you're making, Aman, is a very fair one, which is to say we should all be talking about volume growth within the business. And indeed, we do see the growth of the core franchise, be it in Retail, be it in Commercial, as absolutely key to the development of the business and we are taking steps, both BAU, but as important, maybe more importantly, strategic steps to ensure that is the case.

So what do I mean by that? I mean things like investments in the home ecosystem and the home hub in order to inspire our mortgage driven growth, which was a contributory factor to the £5.8 billion I think it was in terms of mortgage growth in the course of H1 as a whole. That is making both product retention journeys easier, but also making IFA journeys easier in the context of building in the asset base within mortgages. You might add to that as another example the investment that we've made in Your Credit Score. Your Credit Score is effectively allowing people to see whether or not they would be approved for any given asset class, predominantly personal loans, and then apply off the back of that. And that is in part at least what's led to our significant growth in that asset category.

SME, we want to grow in SME. So far we've been held back I think by government repayments. Underneath it, that business is growing off the back of again BAU, but also strategic investments in things like mobile onboarding and the like. But to be clear, Aman, we are investing in, very deliberately, measures that will pick up on AIEA growth going forward. We don't guide on it because we're guiding on net interest income to be clear and I think that is where we're going to stay. That is where we're going to stay. But I do think the overall expectation of asset growth manifesting in AIEA contributions is what you should expect and its very much part of the plan.

Aman Rakkar:
Thank you very much.

William Chalmers:
Thanks, Aman.

Question 3 – **Alvaro Serrano, Morgan Stanley**
Hi, William, in your results, I mean, as a result of the impact of the ISA season obviously deposit yields didn't come down as much, but now that we've seen Barclays and Nat West, you've held onto deposits and even grown the deposits and they haven't and obviously they've called out uneconomical and they didn't see economics while you do see the economics. I was just wondering, when you look at these offers which have given you that market share, a high market share in the ISA season, how do you look the economics of that funding and that market share you've gained? Are you looking at when these deposits roll over, you're going to be able to retain at low rates? Is it a favourable funding? How do you look at those economics that others are not seeing? Thanks.

William Chalmers:
Yeah, sure. You know, I can't really comment on the economics that others have clearly Alvaro. You know, I respect there'll be different points of view on economics and different product offerings in that respect. From our perspective at least, the ISA product is an attractive product. It is the case that we'll price different tranches of ISA at different prices at a given time. It is also the case that we will build in assumptions about retention, which is very high in terms of the business. I'll come back to that perhaps in just a second. We also make assumptions about the extent to which that retention flows into instant access thereafter as opposed to necessarily going straight back into a fixed term ISA. And then alongside of that we'll also take into account the nature of the customer who is, I said last week, is typically a very valuable customer with around two times the product holdings of a non-ISA customer, as well as being a more affluent customer therefore and as a result, their products typically being better economics for the bank as a whole.

So there's a number of different levers that we will pull in terms of, or rather consider, in terms of assessing the profitability of the overall ISA product, but it is, as said Alvaro, a product which we are strong in, we took something like 20% market share. I think it maybe be a 19% market share in the context of an ISA market that was 30% higher than it had previously been. And as said, when we look at the ISA customer and the ISA product, we see it as a profitable attractive product to be involved in.

Alvaro Serrano:
Thank you.

Question 4 – **Jason Napier, UBS**
Hi William, thanks for taking the questions. Not particularly fun ones I'm afraid. The first one was I wonder what you could just help me understand the reclassification of income and expenses that you put through in the quarter where you've moved things into other income out of costs.

But the Group other income and costs numbers haven't changed. I just wanted to know what it is that you've changed and why the group figures don't move. Is it a divisional thing or what's going on there.

Then secondly, as we're all dusting off our Supreme Court legal knowledge into the weekend, I just wondered, could you talk a little bit about whether we ought also to care about the judicial review around the FOS and whether that's in addition to what the FCA might say about a redress scheme. Another other key plank of potential economics. I've totally lost track that that was a thing. The timing doesn't work well for early resolutions. I just wondered if you could give us your perspectives on that. Thank you.

William Chalmers:
Yeah, yeah, good question. Maybe just before I do, I mentioned to Alvaro just a second ago that I would comment further on retentions within ISAs and just to give you some idea, when we see fixed rate maturities, we're seeing retention of around 97%. So that's a pretty attractive customer relationship that we are, again, retaining the value of the customer over repeat cycles if you like. Sorry, I mentioned to Alvaro that I would come back to that in my answer and didn't, so I just wanted to complete the point.

Jason, I'll take the second of your questions first and then come back to the first. I may actually ask you just to follow up after the session on that, but the second question in relation to Supreme Court, the Barclays FOS outcome, if that's the outcome that you're referring to, we were not surprised by. That is to say Barclays were overturned, they appealed it, and then they were overturned, or rather I guess the overturn was maintained. Maybe that's a better way of putting it. I don't think we were surprised by any of that, Jason. I don't think it altered our, in fact I would be stronger than that, it did not alter our base case, it did not alter our view on the potential for redress and thereafter the provision associated with that.

So Jason, I don't want to guide you too much because you never quite know what might happen next I suppose in these circumstances, but we did not see the JR in relation to the FOS, assuming that you're talking about the Barclays situation, as being relevant to our overall provision.

Jason Napier:
Okay, thank you.

William Chalmers:
On your first question Jason, I apologise, but I might just ask you to follow up with Douglas after the call if that's okay.

Jason Napier:
No problem, thank you.

Question 5 – Sheel Shah, JP Morgan
Thanks William for the call. Just two questions on RWA's if you can provide some insight please. Firstly, on the RWA optimisation activities, you've done £2.3 billion in the first half, you've done £7.1 billion in 2024. What do you think is the ongoing run rate of RWA optimisation? Should we expect that to pick up in the second half and how should we think about '26, '27 in that respect as well? And then secondly, again on RWA's, I know in Basel 4 that you've talked about a slight positive day one effect, but is there anything we should be thinking about on output floors? I don't think there is, but just to confirm that.

William Chalmers:
Sure.

Sheel Shah:
Thank you.

William Chalmers:
Yeah, sure. Thanks Sheel. First of all, in relation to RWAs, your numbers are exactly right. We did £2.3 billion in H1. We did in total over the course of '24 just over seven, I think it was £7.1 billion. Just to give you some idea as to what was going on there Sheel which, might be helpful. Within that £2.3 billion in H1, most of that was things like data improvements, collateral netting, hygiene type factors.

Only about £0.3 billion was transactional, i.e, SRT or securitisations, in this case it was SRTs. So, a very limited amount in the context of H1 was transactional. Most of it, as said, was housekeeping you would expect us to do of the type I just described.

The expectation for the full year is that it will ramp up a little bit in the second half. And I won't put too precise a number on it but we would expect the full year to be not significantly different to '24 when it's all said and done. And again, it'll be a combination of housekeeping of the type I just described - off balance sheet moves, model development, that sort of thing in addition to what I said earlier on. Plus, it will be a little bit more transactional in the second half, SRTs, perhaps some securitisation. We're looking at that.

Having said all of that, it will be very disciplined in terms of it being net present value positive. We're never going to take assets off a balance sheet unless there is value added there, by which I mean the risk weightings, or rather capital that we get back off the release of the risk weightings, allied to any funding cost savings that we might make, they have to match up against I guess the opposing case of keeping it on the balance sheet. And if it does, if it's value-added to the shareholder, we'll do it, assessing it, by the way, against I guess a modest cost of capital versus what you might assess in our stock price in the market. But there is discipline in there is the point I'm trying to make.

And then finally, on this trade question, Sheel, when we look forward, '26/'27, the tentative plans that we have in place right now would suggest that we continue to do meaningful optimisation. It may not be £7 billion. It may be between somewhere between £5-7 billion, that type of range. That's the type of range, though, that we would expect to see on a run rate basis going forward simply because it's indicative of two things, really. One is the opportunities that we see in the capital markets to clean up the BAU business that we have on an NPV-positive basis.

And by the way, we get some risk reductions off the back of that. You've seen, I think, about a £350 million reduction in our ECL off the back of effectively securitising getting off the balance sheet some of our legacy mortgage book over the course of the last couple of years.

So, it's NPV positive. It's risk reducing. But then there's a second strand that I would say to it Sheel, which is around strategic. As the C&I business develops, and forgive the cliché but, the business turns increasingly towards a bit more originate-to-distribute in its overall strategy and that in turn implies a desire as part of the business strategy to optimise in the appropriate way. So, hopefully that gives you some insight in terms of where we'll go and why we'll go there, Sheel.

In respect to Basel 3.1, should give us what we described I think as moderate benefits over the course of 2027, i.e., 1 January 2027 when it comes in. That, I think, fortunately has been confirmed by the PRA just recently. I can't remember whether it was at Mansion House or some other announcement where they essentially confirmed that Basel 3.1 credit piece, at least, was going to be put into place. And so, off the back of that, we do expect that's a moderate reduction in RWAs to come into place on 1 January 2027.

That in turn is coming from a couple of different sources. In the main, it's the FIRB treatment changes, I should say to the FIRB treatment within the corporate. That is the biggest single push in terms of reducing our RWAs. And that's what leads to biggest single benefit. There are other moving pieces within that but that's the biggest one.

The output floors, as you will know, Sheel, they come into play over the course of time looking forward. Based on our understanding of the output floors right now, and indeed regulatory permissions, things like AVM, automated value modelling, within the mortgage business, we do not expect those output floors to bite. And that is a combination of the type of regulatory permission, I should say, AVM modelling, for example, within mortgages, combined with CRD4 risk weightings, which as you know are coming into our book, including in the course of this year, finalised in the middle part of next year. And those CRD4 risk weightings are putting the mortgage book at a level where the output floor does not then subsequently bite. And so, it may be a silver lining, CRD4, I don't know. But nonetheless, that's the outlook for Basel 3.1.

Question 6 – **Chris Cant, Autonomous**
Good afternoon. Thanks for taking the questions, as ever. I had a couple of minor niggly ones and then one broader one. So, on the minor modelling bits, how should we be thinking about share issuance?

You've bought back about a billion shares in the first half but nearly half of that was then offset, I guess, by share basis programmes and things like that. How should we be thinking about that number looking forwards? What's the annual share issuance we should be pencilling in, please?

And then another, unrelated minor one, SVR attrition in the first half looked relatively low. Are we getting down now to a sort of a rump position on the book where we should think about, actually, the bit that's left. It's largely the tracker stuff and it's maybe going to be sticking around a bit longer. Or should we be still anticipating the SVR book shrinking half on half from here?

And then the broader one, your peer banks have commented on the UK capital framework review on the recent results calls and been relatively optimistic, I think, about the potential for some net capital relief coming out of that. Just wanted to invite you to comment on the capital framework review - what, if anything, you think we might get out of that. And if we did see, for instance, a reduction in one or more of the capital buffers in the stack, how would you think about that from the perspective of your capital target, bearing in mind that the 13% you target to get down to is only 100 bps above current MDA, which I think is the lowest headroom in the sector. Thank you.

William Chalmers:
Yeah, thanks for the questions, Chris. I'm going to deal with each of them in turn. First of all, bottom line, when we look at the buyback, last three years, 16% reduction in share count. That's the bottom line and that takes account of the puts and the takes. So, I think that's a useful place to start and maybe I'll end there, too.

Within that, as you say, we've got essentially a buyback that is going on and obviously, from the share pricing, it depends upon the year, but it's typically around £4-4.5 billion in terms of the bought back number of shares. And then the number of shares that have been issued over the course of '22, '23, '24, that is typically around £700 million, something like that in terms of shares issued. Now, I would expect for various reasons it's going to be lower than that in '25 in terms of shares issued. I'm not going to put a number on it because I'm not exactly sure we know what it is right now but I would think it's going to be something like two-thirds of that £700 million, in that type of zone. And then the buyback will obviously depend upon the share price over the course of the remainder of this year.

But if, as I think you just quoted to me, Chris, we've had just over a billion shares bought back so we've got a net reduction over the course of this year to date and clearly that will continue to be the case. But as I say, we then finish on that bottom line point which is that 16% share count reduction over the course of the last three years, with the dynamics within any given year more or less following the pattern that I just mentioned. So, £700 million issuance against £4-4.5 billion bought back, something like that. Bear in mind just that '25 is perhaps a little bit lower.

In respect of your SVR point, second question, the SVR is around £24.5 billion. That's SVR and BBR linked mortgages. That has been coming off, as you know, over the course of recent periods. In fact, I think you and I had a chat about it a couple of years ago after one of the results sessions. And it's been coming down around 20-25% typically, year on year attrition, of that order.

I think as it gets smaller, you're right. It does start to reach not exactly a floor but the attrition starts to slow. I think there's a couple of things behind that. One is that the ticket size gets very, very small as you go down so the average balances within that SVR bank base rate link book, they're now well below £100,000 on an average ticket size. And therefore, the incentive for people to really move is getting lower because their balances are lower. That's not to say that we don't mail them. We mail them all the time saying, "Here's your options. And this is what you can do." And we don't have mortgage prisoners and the like.

So, it's not like there's anything stopping them from doing so. It's just that I think the financial benefits from them doing so are lower.

I think then allied to that, these are very low LTV mortgages. And the reason why I mention that is because what it means is that, in the context of the individual's financial planning, it is a relatively small part of their overall financial affairs. The average LTV within that book, it's something like 27%, so it gives you an idea, of a pretty low risk book, which in turn gives you an idea of the profile of the mortgage in the context of the individual's financial affairs.

I think that probably means that the type of slowdown that you would expect to see take place will indeed take place. And I don't think it stops overnight. I think it's a gradual slowdown. And I can't really tell you what the floor is but I think, needless to say, every period that passes, we're getting closer to that. We're not there yet, to be clear. You do see attrition in the course of Q1 and Q2, first half as a whole. But I would expect it to slow going forward a little bit.

I do think the final point on this, as we go into a lower rate environment, that is going to add a further factor to slow this down. That is to say, we did see a bit of a pickup in terms of attrition when rates were higher, therefore SVRs are higher. As that reverses, I think you're going to see some of that come out the other way, out the other side.

On the capital framework review, Chris, a couple of points that I would make, really, there. One is, while we welcome the capital framework review, we're not banking on the output. All that I said earlier on about CRD4 and likewise Basel 3.1 benefits, none of that comes out of the capital review. And there's nothing that is built into our plans, that is an expectation of the benefits of the Capital review. From my perspective, and Charlie would probably be a bit more bullish if he were here, but from my perspective, it's like a lot of things in the mansion house commentary, which is to say it's great to see it. We've really welcomed the commentary, but we really want to see things land, and we really want to see kind of tangible output, if you like, from the commentary that is, that is given, albeit it's very welcome.

When we look at the second part of your question, Chris, how do we see that in the context of the capital target that we have? We have capital target of 13%. That's where we'll get to at the end of 2025. And the start point for me is why are we at 13%? The reason why we're at 13% is because we have over the last few years significantly reduced the business risk of the company. You look at our CRE exposure, now below £10 billion. You look at our mortgage legacy book, it is now well below £25 billion. You look at the CRD4, that is increasing the risk weightings and therefore increasing the capital density. So the business risk has significantly reduced.

That's all been reflected by the way, if you want external objective testimony by our ACS results, and you can look back at '22 and see that reflected. I hope by the end of this year you'll have another data point where you'll also see it reflected. And then that's part one, business risk reduction.

Part two, regulatory uncertainties have come down. What do I mean by that? I mentioned earlier on the CRD4 point, which is now being resolved. We've had now Basel 3.1 crystallise, where we expect moderate benefits. That regulatory certainty enabled us to look forward with more confidence about where the regulatory, or rather what level the regulatory determinations will be set at and off the back of that feel comfortable. And then a couple of other points, Chris, which I think are really important. One is while macro uncertainties are out there for sure they are, and it's not clear that they've particularly reduced, I suppose. Nonetheless, the buffer that we have in our capital ratios, i.e. 1% between our regulatory requirements and our capital target has not changed. And at the same time as our risk weighted assets have gone up, the quantum of capital that that represents has gone up. So the buffer remains unchanged. The percentage, the buffer as an absolute capital level goes up. And then finally, Chris, really importantly in this mix is you can't just look at capital stock. You've got to look at capital generation. And in that context, as you know, our 175 basis points, makes us feel very comfortable about replenishment of capital in addition to capital stock. And so, Chris, when we look at this question, how do we feel about the results of the Capital Framework review and does it make us reconsider our capital target? I don't think it necessarily will do because the capital target is set for these independent reasons that I've just given you.

Now, if the Capital Framework review results in changes in inputs, we'll of course look at that at the time that they become apparent. But, as said, the capital target is there for very good reasons. It's there for very robust reasons if you like, and it's not clear to me that if you like regulatory resets, we'll alter it. But to be clear, you know, I shouldn't be so categoric. We'll look at anything that is said, but the capital target is there for good reason.

Chris Cant:
Thank you.

William Chalmers:
Thanks Chris.

Question 7 – **Aman Rakkar, Barclays**
Hi William, thanks for the follow up question. Just following the theme of potential changes to the regulatory backdrop, the ring fencing review. I understand there's a body of work taking place and a conversation amongst the banks. Interested in if any potential benefit for you guys from the sharing of services across the Ring-fenced bank. Also, if say the first £35 billion of ring-fenced deposits were able to be deployed outside the Ring-fenced entity, any colour you can provide on the potential impact for you would be great. Thank you very much.

William Chalmers:
Yeah, thanks Aman. Maybe the start point is just to give a bit of context about how we see the ring-fencing reforms. First of all, as I said, in response to Chris' question, we definitely welcome the commitment to looking at ring-fencing. We are aware in that context of a couple of things. One is that we are the only jurisdiction in the world to require ring-fencing. It's not entirely clear to us why, given the fact that all the rest of the regulations are much the same, we necessarily do require it. But that's an open question for us. And then secondly, we're also aware of the reforms to date, in the context of Skeoch which we welcome, but very limited in terms of their scope. To your point, to your question, there is no doubt that ring fencing makes it harder to serve large customers and on occasion limits lending capacity that we're able to extend, particularly on a cross border basis introduces a level of friction that we'd rather was not there.

Alongside of that, there are costs of operation. I'll come back to those in just a second. So, you know, when we look at the objectives of ring fencing, we can of course understand at a very high level the objective of maintaining sector stability. But we believe strongly that the depositor protection depends upon a whole range of things, including resolution, recovery, including strength of capital position. And I could make the list much longer. And ring-fencing's role in that context is really very limited these days. And so that's why we're behind the concept of a review.

In response to your question, if ring fencing were to get taken out altogether, I think it would benefit us from an opex point of view. We won't put a precise number on it, but it's not, it's not nothing. It's reasonably meaningful from an opex point of view, and we welcome the change, for that reason amongst others.

In terms of the increase of the threshold to £35 billion, I think Aman, it's a fair question. We would certainly welcome that type of change, but I would be cautious of advocating for that too strongly on the basis that I think it's just not ambitious enough. That is to say if the solution to ring fencing is simply raising the ceiling to £35 billion, then I don't think we're having a full enough discussion about the problems that ring fencing presents.

And so what I'd be looking for is not raising up the threshold to £35 billion but holistic discussion as to why ring-fencing needs to be there in the first place. If the best that we can get is that ring fencing thresholds get raised to £35 billion, then at the margin it's, it's certainly going to help, it would put us as your, as your question implies, Aman, on a level playing field with foreign banks, which of course is the very least that we should ask for in our home market. But I'm more concerned about being on a level playing field with foreign banks across the piece, not just in the UK markets, but beyond the UK. And I think that is important and that's really where our ambitions should lie.

Aman Rakkar:
Thank you very much.

William Chalmers:
Thanks Aman.

William Chalmers:
We may be running towards the end of questions. Operator, if there are any others, happy to take them, but equally happy to allow people to get on with their day as well if we're out of questions.

Question 8 – **Sheel Shah, JP Morgan**
Thanks, William. Just to follow up to the previous question, you had some strength in European Retail. Could, could you just expand on what that business is on the European Retail side please?

William Chalmers:
Yeah, thanks for the question, Sheel. As you say, European Retail at Q2, I think it's about £19 billion, up about £1.2 billion versus Q1. Within that the vast majority of that business is Dutch residential mortgages. So about £17.5 billion of that £19 billion pretty much is Dutch residential mortgages, and that, again, is behind much of the growth in Q2. So just to give you some idea as to that business, it's an attractive business from our perspective.

First of all, it gives a very respectable ROE. It is also very low risk. So if I give you some metrics to assess that with LTV is around 58%, half of it is government guaranteed. It's typically long dated, about eight and a half years or so. And as said, I won't put a number on its ROE, but it's a very attractive ROE from our perspective, earning well above our aspirations for ROE, for the Group for this year, and indeed above our aspirations for ROE for next year as well. So, you know, it's an interesting, reasonably decent growth, very safe business with a strong customer franchise behind it. We have underneath that an operating platform, which is pretty efficient and we think gives us a competitive advantage versus some of the local players. So that gives you an idea as to the, the nature of the business there, Sheel, I hope, I think for us in the grand scheme of things. It's a pretty small part of our business for sure. I don't anticipate that changing, but I do think it's an interesting business for us to be running there at a relatively low risk, high return basis. And, you know, we'll, we'll keep it going for now on that basis.

Sheel Shah:
Great, thank you.

William Chalmers:
Thanks Sheel. I think if we are out of questions, we will perhaps bring the call to a close. I do just want to say thanks again for taking the time to join, very much appreciated and we look forward to continuing dialogue with everybody. Thanks very much indeed guys.

END

FORWARD-LOOKING STATEMENTS

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