LLOYDS BANKING GROUP PLC– Q3 2025 RESULTS – PRESENTATION TRANSCRIPT
(amended in places to improve readability only)

Thursday 23 October 2025 – 9.30am

LBG:
William Chalmers, Chief Financial Officer

William Chalmers

Good morning everyone and thank you for joining our Q3 results call. As usual, I'll run through the group's financial performance. Before we then open the line for Q&A. Let me start with an overview of our key messages on slide 2.

SLIDE 2 – CONTINUING TO DELIVER; CONFIDENT IN OUR OUTLOOK

We continue to make great progress on our strategy. In doing so, we are creating value for our customers and wider stakeholders through improved propositions, targeted growth, and enhanced operating leverage. In Q3, we delivered robust financial performance, supported by healthy growth across the business driving continued income momentum. We maintained our cost, discipline and strong asset quality, reflecting stable credit performance in the period. Taken together, this is driving strong capital generation.

As you know, in the third quarter, we've taken an £800 million pound additional charge relating to the FCA consultation process on motor commissions. Clearly, we are disappointed by this outcome and I'll talk more about it later in the presentation.

Accordingly, we've revised our 2025 guidance to reflect the motor provision. Excluding the charge, we are beating our prior targets. We remain highly confident in our 2026 guidance.

Before turning to our financials, a brief update on two important strategic developments.

SLIDE 3 – CONTINUED STRATEGIC DELIVERY IN Q3

Firstly, I'm delighted to say that we have completed the full acquisition of Schroders Personal Wealth to be renamed Lloyds Wealth. This is an exciting step forward for both our customers and shareholders who will deliver full control of a market leading wealth management business that has £17 billion of assets under administration, more than 300 advisors and 60,000 clients. Embedding Lloyds Wealth into the broader group will advance our end-to-end wealth ambitions, delivering clear benefits in proposition and journey for our customers.

Secondly, we've taken significant steps forward in our digital asset strategy. Earlier in the year, we partnered with Aberdeen Investment to deliver a UK-first FX derivatives trade collateralized with tokenized digital assets. Alongside, we're co-chairing the UK finance project to deliver GB tokenized deposits, retail and commercial pilot use cases in programmable digital money are due to deliver in H1 of next year. These developments will ultimately drive material customer opportunity and maintain our commercial leadership. We look forward to elaborating on this alongside other areas of our technology, digital, and AI strategy in an investor seminar on the 6th of November.

Let me now turn to the financials on slide 4.

SLIDE 4 – ROBUST FINANCIAL PERFORMANCE

The group demonstrated robust financial performance during the first nine months of the year. Year-to-date statutory profit after tax was £3.3 billion with a return on tangible equity of 11.9%. Excluding the motor provision, return on tangible equity was 14.6%. Looking at the full year, we now expect RoTE to be around 12% or around 14% excluding motor.

We are pleased with the group's continued income momentum. In the first nine months, net income of £13.6 billion was 6% higher than the prior year. This was driven by further growth in net interest income alongside a 9% year-on-year rise in other operating income led by customer activity and strategic investment.

Within the quarter, net income was up 3% versus Q2. This was supported by a net interest margin of 3.06% in line with our expectations for a gradual increase, again alongside ongoing OOI growth. Looking forward, we now expect net interest income for the full year to be circa 13.6 billion, slightly ahead of our previous guidance.

We remain committed to efficiency. Year-to-date operating costs of £7.2 billion were up 3% year-on-year in line with our expectations for this stage. Credit performance meanwhile remains strong. Year-to-date impairment charge of £618 million equates to an asset quality ratio of 18 basis points. Given our performance to date, we're upgrading full year guidance on the asset quality ratio to circa 20 basis points.

Meanwhile, tangible net assets per share increased to 55 pence, up 2.6 pence in the year-to-date and 0.5 pence in the quarter. Our performance delivered strong capital generation of 110 basis points year-to-date or 141 basis points excluding motor. Our closing CET1 ratio is 13.8%.

I'll now turn to slide 5 to look at developments in our customer franchise.

SLIDE 5 – CONTINUED STRENGTH IN CUSTOMER FRANCHISE

We have seen good growth across both the lending and the deposit franchises so far this year. Group lending balances of £477 billion are up £18 billion or 4% year-to-date. Focusing on Q3, lending is up £6 billion or 1% versus Q2. Within this, retail lending grew £5.1 billion. This was driven by an increase in the mortgage book of just over £3 billion, reflecting both market growth and a completion share that remains at around 19%. So far, we are seeing no sign of a slowdown in mortgage applications ahead of the budget in November.

Elsewhere in the retail business, we saw continued growth across each of our cards, loans, and motor businesses, as well as growth in European retail. Commercial lending balances meanwhile are up by £1.3 billion in Q3. As has been the case throughout the year, we saw growth in CIB across our targeted sectors, including in institutional balances. In BCB, balances were broadly stable with new lending in mid-corporates offsetting the net repayments of government-backed facilities.

Turning to the liability franchise, year-to-date deposits have grown £14 billion or 3%. In Q3, we also saw good performance, up £2.8 billion quarter-on-quarter. Within retail, PCAs grew by £1.2 billion, driven by income growth, subdued spend, and lower churn during the quarter. Alongside, the reduction in savings balances of £0.9 billion was largely due to some fixed rate savings outflows following our post-ISA season pricing decisions.

Commercial deposits are up by £2.4 billion in Q3, driven by growth in targeted sectors across both CIB and BCB. Pleasingly, NIBCA balances were up in the quarter.

Alongside deposit developments, we continue to see steady AuA growth in insurance, pensions, and investments with circa £3.3 billion of open book net new money year-to-date.

Let me turn to net interest income on slide 6.

SLIDE 6 – SUSTAINED GROWTH IN NII

Year-to-date and in Q3, we are seeing sustained growth in net interest income. NII of the first nine months was up 6% year-on-year to £10.1 billion. This included £3.5 billion in Q3, up 3% quarter-on-quarter.

Income growth continues to be supported by positive momentum in the net interest margin. The Q3 margin of 306 basis points was up 2 basis points on Q2, driven by a growing structural hedge tailwind.

Net interest income was further supported by average interest earning assets of £466 billion in Q3, up £5.5 billion versus Q2. The increase was driven by sustained lending growth, particularly in the mortgage book.

Looking ahead, we now expect net interest income for 2025 to be around £13.6 billion. This incorporates the healthy volume developments we have seen alongside a slightly more supportive rate environment. We remain very confident in the trajectory for net interest income growth.

Let's turn to other income on slide 7.

SLIDE 7 – BROAD BASED MOMENTUM IN OOI

We continue to demonstrate strong and broad based momentum in other income. Indeed, our diversified franchise has supported consistent high single digit growth over the last three years. Year-to-date OOI is £4.5 billion, up 9% year-on-year. In the third quarter, OOI was £1.6 billion, up 3% versus Q2. This was particularly driven by growth in motor and LBG investments. It also represents a good performance in protection, boosted by improving mortgage take up rates.

Other income growth continues to be supported by investment and strategic progress across the business. I spoke earlier about two specific areas of delivery. The slide shows a number of other proof points to testify to our progress, including for example, the launch of the Lloyds Ultra card in retail as well as further scaling of capabilities in our commercial franchise.

Looking forward, the full acquisition of Schroder's personal wealth will further support OOI growth. We see an opportunity to meaningfully grow the business in the coming years as part of our integrated wealth proposition.

Briefly turning to operating lease appreciation, the Q3 charge of £365 million was up slightly in line with growth in the fleet driving other income.

Moving to costs on slide 8.

SLIDE 8 – ONGOING COST DISCIPLINE

The group continues to maintain strong cost discipline. Year-to-date operating costs of £7.2 billion are up 3% on the prior year in line with our full year expectations. Excluding growth in severance, operating costs are up 2%. Business growth and inflationary pressures continue to be mitigated by savings driven by strategic investment.

Within the third quarter, costs of £2.3 billion are down 1% compared to Q2. This is partly helped by investment timing. And looking forward, Q4 will see higher operating costs due to the usual seasonal factors and added costs from the full acquisition of SPW. We will meet our £9.7 billion full-year guidance excluding these additional SPW costs, or modestly above this, including them.

Remediation was £875 million in the quarter. This reflects low levels of non-motor based charges alongside the £800 million incremental motor finance provision. I'll now spend a moment on that on slide 9.

SLIDE 9 – MOTOR FINANCE COMMISSIONS UPDATE

The additional £800 million provision for the potential motor commission remediation costs takes our total provision to £1.95 billion. The recent FCA proposals are subject to consultation and so the final outcome may differ. However, as it stands today, they represent an outcome that is at the adverse end of our previously modelled expectations. Based on the proposals, there are a high number of cases determined to be unfair. Presumptions of unfairness do not apply the legal clarity provided by the recent Supreme Court judgement and the redress calculation is less linked to harm than it should be.

We will of course be making representations to the FCA on our points of concern and we look forward to engaging in a constructive dialogue. Our total provision of £1.95 billion, still using scenario-based methodology, includes both redress and operational costs. It represents our best estimate of the potential impact of this issue.

Moving on to asset quality on slide 10.

SLIDE 10 – STRONG ASSET QUALITY

Asset quality remains strong. New to arrears are low and stable across our portfolios. Early warning indicators also remain benign and, again, very stable. The year-to-date impairment charge is £618 million, equivalent to an asset quality ratio of 18 basis points. The charge of £176 million in the third quarter represents an asset quality ratio of 15 basis points. This is the result of a low underlying charge reflecting our prime customer base, a prudent approach to risk and stable macro conditions, as well as some one-off model benefits. It also incorporates a small MES charge of £36 million the quarter.

Our stock of ECLs on the balance sheet, meanwhile, is £3.5 billion, which remains around £400 million above our base case expectations. Given the strong performance year-to-date, we now expect the asset quality ratio for the full year to be circa 20 basis points.

Let me turn to our returns on tangible equity on slide 11.

SLIDE 11 – STRENGTHENING ROTE, ALONGSIDE TNAV GROWTH

The group delivered a return on tangible equity of 11.9% year-to-date or 14.6% excluding the motor provision. This benefits from strong business performance, cost control, and low impairments. Below the line, volatility and other items were £157 million in the nine months or £109 million in Q3. The third quarter charge was driven by negative insurance volatility, given market developments and the usual fair value unwind.

Tangible net assets per share at 55 pence are up 2.6 pence since year-end. This continues to be driven by profit build and the unwind of the cash flow hedge reserve partly offset by shareholder distributions.

Looking ahead, we expect material TNAV per share growth in both the short term and in the medium term. Including the motor charge, return on tangible equity for the year is now expected at around 12%. Excluding motor, the RoTE is expected at around 14%, an upgrade versus prior guidance.

Turning now to capital generation on slide 12.

SLIDE 12 – STRONG CAPITAL GENERATION

Our business performance has driven strong capital generation in the year-to-date. Within this, total RWAs ended the quarter at £232 billion, up £7.7 billion year-to-date and £0.9 billion in the third quarter. This increase reflects strength in lending, partly offset by optimisation activity. Q3 also saw the full reversal of the remaining £1.2 billion temporary RWAs that we had previously highlighted. Note that while we've taken no new additions for CRDIV secured risk weightings in the year so far, we do expect to do so in the fourth quarter.

Year-to-date, our strong banking profitability has driven capital generation of 110 basis points in the first nine months or 141 basis points excluding motor. Expected full year capital generation is now circa 145 basis points or circa 175 excluding motor. Our closing CET1 ratio is 13.8%. This is after a 74 basis point accrual for the ordinary dividend. We still expect to pay down to around 13% by the end of 2026 with this year a staging post towards that target.

I'll now wrap up on slide 13.

SLIDE 13 – CONTINUING TO DELIVER; CONFIDENT IN OUR OUTLOOK

To summarise, group demonstrated a robust performance in the first nine months of 2025. We are building momentum in income growth whilst retaining cost discipline and strong asset quality. Together, this is delivering meaningful operating leverage. The business is performing as we expected, if not a little better in some areas. Whilst the motor provision is obviously unwelcome, the underlying business continues to drive strong, growing and sustainable capital generation.

This financial performance results in improvements to our underlying 2025 guidance including net interest income, asset quality, and return on tangible equity ex-motor. Alongside, we remain confident in our 2026 targets. Guidance for both years is laid out in full on the slide.

Overall, the business is in good shape to deliver for all stakeholders. Third quarter represents another step in this journey. That concludes my comments for this morning. Thank you for listening. We'll now open the lines for your questions.

QUESTION AND ANSWER SESSION

Question 1: Benjamin Toms, RBC
Morning and thank you for taking my questions. The first is on motor finance. The provision post-top-up leaves you with the total provision just below £2 billion. That's based on a weighted average scenario calculation. If the consultation paper does not get softened and the FCA is correct with their 85% claim rate, how material would the provision top-up be from here? Just some sensitivity around that would be useful. Thank you very much.

And then secondly on NIM, I think before you said you've expected NIM to build faster in Q4 than Q3. Is that still the case? And can you give some indication about whether you'd expect NIM to continue to build through 2026? I think the hedge will continue to be additive and mortgage margin compression, deposit mix shift should fade, so it's hard to see how NIM doesn't increase materially next year. Is there a missing moving part like asset mix shift that we need to consider? Thank you.

William Chalmers:
Thanks very much indeed, Ben. Just to take each of those in order. The start point and perhaps the end point is to say £1.95 billion in respect of motor represents our best estimate of the cost of this issue. It is, as you say, a scenario-based estimate and those scenarios or sensitivities as you called them, represent what we think are reasonable FCA responses to the issues that we raise and I assume the issues that others raise. And those will be principally around things like the calculation of redress, which as said we think is at best tenuously linked to harm, determination of fairness, which we think is too broad. And these types of things will be part of our response to consultations. And when we look at scenarios that's what's figuring into those scenarios, some slight amendment around those.

But to be clear, Ben, the FCA proposals as currently proposed represent the heaviest weighting in our overall scenario analysis, which, given that the FCA proposals currently, as I said in my script, are at the adverse end of our expected outcomes, i.e., they are all DCAs, most of the commission that we receive gets handed back and it is a very high response rate. That all means that with the FCA being the heaviest weighted component in our overall provisioning analysis, suggests that even if the FCA proposals come out exactly as they are today, then our overall position is not going to move by that much, so we are not far off, Ben, in short.

On your second question, Ben, in respect of NIM. NIM, as said, has had a tick up in the course of Q3 by a couple of basis points. We are now at 306. And it is our expectation that we see continued, if you like, growth in that net interest margin over the course of Q4. As I alluded to, I think at Q2, and possibly before that in Q1, we do expect to see a bit of a backend loaded step up in NIM in Q4, and that is, predominantly, because of the structural hedge contribution, which is slightly more heavily weighted in Q4.

It is somewhat offset by the usual headwinds. That is to say, bank base rate and deposit effects, predominantly, deposit effects is our first, or rather our next bank base rate is now not expected until next year. But then also the mortgage point, so the mortgage headwinds, as you know, has a little further to play out. That includes Q4 and it includes '26. But summing all of that up, Ben, you should expect to see net interest margin expansion in the course of Q4. There'll be a step up there and it will be a little greater than what we have seen Q2 to Q3.

In respect to '26, Ben, your analysis is right. We should expect, you should expect, we do expect, to see continued margin expansion during the course of '26. It is predominantly because of the factors that you've identified.

That is to say the structural hedge makes a meaningful contribution. £1.5 billion increase in structural hedge expected earnings for '26 is what we've guided to earlier on this year and that still remains more or less the case as we go into '26. And then there is some offset from that in the context of, again, bank base rate decisions and indeed some continued level of deposit churn off the back of a slightly higher rate environment.

And then alongside of that, the playing out of the mortgage refinancing headwind. So those factors are still at play, but nonetheless, the net of it for 2026 is continued and reasonably meaningful margin expansion. That is our expectation.

Now, Ben, maybe I'll just finish off with the point that, as you know, we have moved from margin, AIEA and non-banking net-interest income guidance to net-interest income guidance in its totality, and we've upped that guidance for the remainder of this year i.e., circa £13.6 billion.

We will be guiding to what that means for 2026 in due course, but it is the combination of net-interest margin expansion as well as AIEA growth that we expect will deliver meaningful NII growth in 2026 and that, in turn, is what will help us deliver our greater than 15% ROTE.

Benjamin Toms:
Thank you.

William Chalmers:
Thank you, Ben.

Questions 2: Jason Napier, UBS
Good morning, William. Thank you for taking my questions too. Please, the first, I wonder if you could just talk about how Lloyds sees wealth as a banking business in the UK. The Schroders Personal Wealth business today, you might, as you read your slide, think about the 300 advisors and the funds that they advise and look after, but then the bullet point on scaling to mass affluent and workplace might suggest that this is really just an integrated mainstream client-type offering.

The backdrop for this, as you recognise, is that the market's quite interested in whether you might be interested in inorganic expansion in IFA-led businesses, and so if you could just talk about what we can learn from the buy-in of the half of the SPW business.

And then the second, I don't want to steal the thunder from your upcoming tech event, but the slide on tokenized assets does, I think, invite further inquiry. At a very high level, I just wondered whether you could talk about the work that you've done so far and where you think things like tokenized assets and deposits, what that does to banking industry revenues in total. At a high level, people are somewhat concerned that we might see compression in things like payments and remittances and a bunch of the CIB revenue lines that we actually can't see from the outside, as this sort of technology takes root. So any early thoughts you might have on the outlook for banking, more generally, I think would be valuable. Thank you.

William Chalmers:
Thank you, Jason, on both questions. First of all, in respect of the wealth question, a couple of comments there on SPW and then a couple of comments on how we see the wealth opportunity.

It's worth me just repeating that we are really pleased to see the conclusion of the SPW, now Lloyds Wealth Transaction. It brings us full control of what we think is a great business. So you've heard the statistics, but at the risk of repeating them, £17 billion assets under management, 60,000 clients, 300 advisors. It is a really promising start, if you like, for a business that we hope to grow into, frankly, an awful lot more. So there is a great business there that we think we can really grow and help prosper going forward.
It is part of an integrated proposition as we see it. That is to say, it will sit alongside our direct-to-consumer self-serve proposition. It would also sit alongside the building digital proposition that we are currently creating. But it is important to have alongside those more or less self-service facilities, an advisory capability, and that's really what Schroders Personal Weatlh, now Lloyds Wealth, will deliver for us. It is important in the sense that we can make our customer journeys seamless with those other capabilities, e.g. the digital direct-to-consumer offering.

Likewise, we can, if you like, bring the benefit of the group to bear here. Not just in terms of group infrastructure, cost synergies, and the like, but also in terms of plugging it into our 3 million affluent customers. And then there's a third really important part of that integration, if you like, which is around the workplace proposition. At the moment, at least, we have a very strong workplace proposition in the context of our insurance, our Scottish Widows business, but at the same time we really want to build the advisory component of that as people's pension plans mature so that we can advise them properly on what to do with those proceeds, which at the moment is a source of leakage from our perspective to other third-party providers. We'd much rather keep it within Group, and that's what SPW, or now, Lloyds Wealth, will allow us to do.

So there is something with the Lloyds Wealth acquisition, the SPW acquisition, which itself is in good shape as we speak today, and my statistics earlier on lend testimony to that. But hopefully you can tell from my comments that we think it can be, frankly, a lot more going forward. You asked in that context about inorganic, Jason, I obviously shan't comment on that explicitly. Safe to say that we've got a lot to do with what we've just done. The acquisition of Lloyds Wealth is a tremendous step forward for us and the franchise.

It enables us to develop and enhance our existing customer propositions in what we hope will be a very compelling way which, in turn, most importantly, will create customer value, but in doing so we think creates quite a lot of shareholder value including benefits to our other operating income over the course of Q4 and looking forward into 2026 and growing thereafter. So I think for now, at least, we're very happy with what we've done. We're going to focus on the organic integration of it and we're going to build our customer propositions and shareholder value as part of that.

The tokenized deposits topic is a very interesting one. It's a topic which I could probably talk forever on but I won't, I'll try to circumscribe my remarks somewhat. In essence, there's a couple of things going on right now. And first of all, as you mentioned, in respect of our strategic update, I just mentioned that we've done what was a really exciting partnership with Aberdeen where we effectively delivered an industry first tokenized assets use case i.e., using tokenized assets as collateral for a markets based trade. That was an industry first. It was more or less a proof of concept, but it offers illustration of the potential.

When we look at the landscape right now as it's developing, there are a couple of things going on. One is obviously the rise of stablecoin, which is much commented on and indeed it seems to us that in the international sphere it may be that by virtue of speed of payments, for example, and by virtue of low costs, it may have something to offer in respect of international transactions. But actually if you bring that back to the UK, much of what is offered by stablecoin is already effectively offered in the context of things like faster payments. That is to say, they're instantaneous and they're very low cost.

So really what excites us, actually, in the context of tokenized assets is an opportunity that goes well beyond stablecoins, which is around programmable currency. And we're currently sitting as joint chairs with UK Finance in a project which is called GB Tokenized Deposits. GBTD is the acronym. Used to be called Regulatory Liability Network. But GBTD is, essentially, the building of a programmable and exchangeable currency in the UK that is part and parcel of the existing commercial money framework. That is to say, it is interchangeable between digital money and, if you like, analogue money. We think that has the potential to offer customers tremendous amounts of value in terms of programmable capabilities, and at the moment we're running use cases in respect of wholesale use cases, particularly, digital Gilts, in respect of mortgage use cases i.e., programmability around that capability, and in exchange of, effectively, payment on receipt capabilities from a consumer point of view.

So there's three use cases that will land in early part of next year. The reason for just briefly commenting on that detail, Jason, is because we see that as an example of tokenized deposits, digital assets, offering a tremendous customer opportunity, and if it can be brought in the Sterling Monetary Framework, if you like, and be interchangeable with analogue money in the way that we're proposing, I think there's a lot more that we can do with our customers to offer them value. And, if you like, far from this being a threat, it's an opportunity.

Jason Napier:
That's really helpful. Thank you.

William Chalmers:
Thank you, Jason.

Question 3: Perlie Mong, Bank of America
Hello. Good morning, William. So just a couple of questions. One is on distributions. So it sounds like you're pretty comfortable with the motor finance charge, or any top-up, if necessary, so clearly you've talked about paying down to 13% next year, but as you think about full year distributions at '25, would you think of it as there is no more uncertainty in your mind regarding to motor finance?

And then, while we are on that topic, clearly one of your peers have moved on to quarterly buybacks. You're still on the annual buyback, so is there any thinking about maybe moving to a more frequent distribution cadence?

And then secondly, on mortgage margins. Again, your peer that reported yesterday, talked about five-year mortgages rolling off next year, and that cohort had a relatively high margin, so I presume that is already in your guidance and in the way you think about '26 mortgage margins, but as we come into this period, do you expect competition or behaviour of competitors to change in any way, given this is something that is happening across the board?

William Chalmers:
Thank you Perlie. There's perhaps three questions there, at least that's how I'll interpret it, and you'll have to let me know whether I'm responding appropriately.

First of all, in respect of motor, as said, our current provision £1.95 billion best estimate. To the extent there's a worst case, we can't be far off, simply because, as said, the FCA case is most heavily weighted in our scenario-based planning. Alongside of that, the FCA case captures a pretty adverse outcome. All DCAs for example, most of the commission we receive being handed back, a very high response rate. Those three things tell us that the FCA case, the proposals, if currently enacted, are, as I say, at the adverse end of the spectrum and most heavily weighted in our overall provisioning. So not terribly far off.

When we look at distributions for 2025, a couple of points to make there really. One is we remain very committed to distributing excess capital.

Two is, as per the comment earlier on, we are generating strong capital generation over the course of this year. We put forward guidance now of 145 basis points. That is post-motor, to be clear. When we look at our expectations for the full year, in terms of distributions, we also have the reduction in CET1 ratio that we have previously advised you of, and we expected to reduce our CET1 ratio from about 13.5% end of last year to about 13.25% or thereabouts, give or take, towards the end of this year, before landing at circa 13% at the end of '26. So that is an additional 25 basis points of capital there, which if you add it to the 145 that we're guiding to is 170 basis points in total.

Perlie, you'll be able to tell from our numbers today that the dividend will be about a 100 basis points of that. We've accrued 74 basis points year to date, so therefore a full year is about 100 basis points of that 170 that I just mentioned, which in turn leaves about 70 basis points of excess capital against what will probably end up being about £234, £235 billion of risk-weighted assets, something like that. And all I'm doing is simply taking Q3 outcomes in RWAs and adding on a bit for continued lending performance and indeed a CRDIV add-on in the course of Q4.

So that gives you an idea. 70 basis points against that £234, £235 billion of RWAs gives you an idea of the excess capital that will be available, and up for consideration by the board, as to what it chooses to do with it towards the year-end.

Perlie, you asked about buyback and whether we should move to a more frequent buyback. I guess what I'd say to that is, first of all, capital distribution, not just the quantum, but also the form if you like, is always going to be a matter for the board, and we'll of course respect that. What we have done to date, of course, is once per annum, and our view is that has allowed clarity in terms of our guidance, number one, and it has been appropriate as we reduce our capital ratio, number two.

As we look forward, there are some advantages from considering a switch, a lower CET1 over the course of the year is one of those, the timing benefits, obviously, from a shareholder point of view is another.
There are also some considerations to take into account, which is to say a lower capital base implies a slightly lower level of flexibility, either for dealing with contingencies or alternatively taking advantage of opportunities. So these are the types of things, Perlie, that we'll have to consider when we look at the buyback, but every year we consider not just the quantum, but also the form in which we make distributions. And this year, in that respect, will be no different and we'll have a conversation with the board at the end of the year to that effect.

The third of your topics, Perlie, around five-year mortgages. In a sense it's, welcome to the club. We've been talking about a mortgage refinancing headwind for about two years now. Our expectation was that that would continue during the course of '25, and that it will continue into '26, and we said that before and that remains the case. What I'm pleased to say though is that our guidance in that respect has not changed. And when we've talked about, in the past, our expected increase in net-interest income, including in response to Ben's question earlier on, that incorporates our expected headwind from a mortgage point of view over the course of '26. So we do expect continued growth in net-interest income and, indeed, margin and that does incorporate the headwind that we see from the type of five-year mortgages with the spreads written at that time as they mature in '26. So yes, it is all integrated into guidance for sure.

In terms of what effect that might have, it's obviously a little hard to say, but at the risk of speculation, maybe there is a chance that as these higher spreads roll off people reconsider the spreads that they're currently writing business at today, and maybe therefore there is a marginal benefit to spreads being written during the course of '26. Perlie, that is, of course, speculative, but as these higher spread mortgages come off, will that cause people just to reconsider the rate at which they ... or rather the spread at which they write new mortgage business, and cause them to revise up what they think an appropriate spread is for mortgage business? Possibly, yes. And if it does, we'll obviously welcome it.

Perlie Mong:
Thank you. Very clear.

William Chalmers:
Thank you, Perlie.

Question 4: Jonathan Pierce, Jefferies.
Good morning, William. I've got two questions. The first is on the structural hedge. Again, sorry about that. I wondered if you could help us a little bit scale the contribution in Q4. You talked, previously, about significant increase. This year contributions within a quarter have been as low as four basis points in the latest quarter and 10 basis points in the first quarter, so maybe you could put Q4 in the context of that for us, that would be helpful.

And just, as a supplementary on the hedge, I wondered if you could just talk a little bit again about what happens in '26 in terms of timing, because I'm still not entirely sure I understand how you are thinking about that. For me, it strikes me that the '27 tailwind is probably more about the full-year impact of the '26 maturities, and then a lot of the 2021 stuff starts to roll through. It would be helpful just to get a little bit more of a feel on that.

Secondly, the strategy update. Do you have an idea when that will be next year and how far forward you'll be looking and the metrics you will be updating on, I assume, it will be RoTE, distributions, costs and so forth. But will this be 2028-29 look forward? Thanks very much.

William Chalmers:
Thanks, Jonathan. A couple of questions there. First on the structural hedge, second on strategy and what we'll be talking about and when next year.

In respect to the structural hedge, maybe just a mark to market. The Q3 yield on the structural hedge is about 2.3%. As you rightly said, the contribution to the margin of the structural hedge in respect of Q3 was about four basis points. And we've previously highlighted, and maintained still today, that the contribution of the structural hedge going into Q4 will be meaningfully greater.

We haven't put a precise number on that, but just to maybe help the discussion, the expectation for the yield as a whole during the course of '25 will also be around 2.3%. I'll come back to '26 in just a second. But the expectation is, as said, is that the structural hedge contribution to the margin will meaningfully increase in the course of Q4.

And I would expect in that context, Jonathan, again, without putting too precise number on it, the structural hedge contribution to the margin will more than double in Q4 versus what it was in Q3. And as said, that all leads in combination with the deposits headwind and mortgages headwind to an expectation that the margin in totality will step up in Q4. Will step up in a way that is more significant than what we saw Q2 to Q3. So I know I'm not putting precise numbers on it, but hopefully that gives you some steer.

When we look at '26 on the structural hedge, the expectation for the yield in '26 is consistent with our previous discussions actually. On average about 2.9%. You can work that out, obviously, from the circa £6.9 billion guidance that we've given you for structural hedge earnings off the back of about a £244 billion structural hedge. You'll get to 2.9% through that path too. But that gives you a sense for the year as a whole. There is, obviously, a bit of a journey in respect to the structural hedge. At this point in the year, I'm not going to kind of go through it on a quarterly basis, but it isn't all delivered on Q1 and it isn't all delivered over the course of Q4, and it won't be perfectly linear in between.

But overall that is the contribution of the structural hedge i.e., £6.9 billion in total, incremental circa £1.5 billion versus what we got over the course of '25, as we look forward. It is important to say in this context, actually, that the structural hedge then continues to build over the course of future years. And again, I won't give precise numbers on it, but you should expect continued build, most notably in '27, and then continued build in the years thereafter, '28, '29, and so forth, but at a slightly lower level. We'll talk more about that at the course of the year-end to give you more specificity.

In respect to strategy, Jonathan, our focus right now is very clearly on delivering '26. We've set out some very explicit, some very clear, and I think some very important commitments in respect to what we're going to do in '26. Cost income ratio less than 50%. RoTE in excess of 15%, and capital generation in excess of 200 basis points. We are going to deliver on those '26 commitments, and so that is very much our focus. Now, it's a very fair question for you to ask, having said that, about, where do we go from there? And our expectation is that we will, of course, update in the course of next year as to '27 and beyond. It'll probably be around the middle of next year when we come to the market with that update. So that gives you a sense of timing. Then in terms of look-forward period, that's something which we should probably discuss, actually, over the course of next year, but these things often end in round numbers, and maybe I'll leave it there.

Jonathan Pierce:
Okay, great. Thank you.

William Chalmers:
Thanks, Jonathan.

Question 5: Aman Rakkar, Barclays.
Good morning, William. Thanks very much for the presentation and questions. I actually had two, please. I wanted to query on non-banking funding costs. I think that's actually probably trending a touch lower than your commentary previously around up £100 million year-on-year. So I was wondering if you can give us an update for that. And I don't know if that's contributed in any way to the slightly firmer out-turn this year, but if you could just update us on that particular line item within NII, that would be great.

Just another one on other operating income actually, so obviously the headline rate is good again. It's quite divergent trends within the divisions, so I think it looks like Retail has kind of reaccelerated again in Q3. The insurance businesses, it looks like it's actually tapering off, if I look at the year-on-year trends through the course of this year, and then Commercial continues to be quite soft. So could you give us a bit of a steer on how to think about these divisional trends going forward? I'm just trying to work out how we arrive at a similar kind of run rate next year, and if there's anything episodic or lumpy that we should think about, or one-off elements that might unwind into next year, that'd be really helpful. Thank you very much.

William Chalmers:
Thank you, Aman, for both of those questions. Taking them in turn, in terms of NBNII, non-banking net interest income, Q3, as we disclosed today, £136 million, that is running at about 10% ahead of where it was last year, so year-to-date, I think it's about £372 million, thereabouts. That's about 10% up versus where it was. And what's going on there, as you know, it is very much about the funding of the other operating income streams, in so far as they're not related to banking.

So LDC is an example of that, Lloyds Living is an example of that, of course, motor is an example of that, but so is the Insurance, Pensions, and Investments division, and so is Commercial Banking activity. It is probably running a little bit more slowly i.e., slightly slower growth rates versus what we previously thought. That is, if anything, partly attributable to Commercial Banking activity, which has been a little bit less in that space at least, than we previously expected. I'll come back to that in a second.

But overall, what's going on within non-banking net interest income that is most important is that we're seeing the takeover of volumes rather than rate rises driving it. So if you look at the trend last year in non-banking net interest income, it was probably about half-and-half to do with volumes, number one, but also increased rates in refinancing, number two. But if you look at it this year, it's more like 15% or thereabouts in terms of rates, and 85% in terms of volumes. So volumes is really making the running in terms of the increases in non-banking net interest income that we see over the course of this year.

And of course, looking forward what that means, Aman, is that if you believe in other operating income growth, which we do, and I'll come back to in just a second, you should expect that non-banking net interest income to continue to grow over the course of 2026, but continue to grow from very much a volume-driven perspective as opposed to a rates perspective. Rates won't be zero, because there is some term financing going on, in particular in relation to motor, which has got about a three and a half year average life. So it won't be zero, but it will be predominantly a volume-led story within non-banking net interest income.

Before moving on, it's worth just wrapping that up in the context of the net interest income guidance that we have given you and will give you for 2026 and beyond, that is including, obviously, non-banking net interest income in all of that. So that is wrapped up in the guidance that we give you for net interest income for '25, this year, circa £13.6 billion now, and indeed, for the guidance we will give you next year for '26.

In respect to other operating income, maybe just to start off with the core point that, as you know, when Charlie and I launched the strategy in February of 2022, it was very much focused upon trying to ensure that we diversified the business from an undue dependency on rates, looking to avoid being, if you like, pressured by a downward trend in rates during the next cycle, and also achieve the benefits of what is a strong and very highly present franchise right the way across the UK, across Retail, the Commercial sector, and indeed, within Insurance, Pensions and Investments. The other operating income strategy was a strategic diversification, which was intended to benefit from the strength of the Lloyds Banking Group franchise.

It's that combination that led us to deploy significant strategic investments in this area, and then we've seen the benefits of customer activity, if you like, picking up on those strategic investments, and helping us drive other operating income now for about three years of high single-digit growth. And that's, again, what we've seen during the course of quarter three, whether you look at it year-to-date, or whether you look at it year-on-year.

Sorry for that introduction, Aman. But before getting into your question, I thought it's important to highlight those points. The individual business components within other operating income, as said, up 9% in total. What are we seeing year-to-date? We're seeing strength within Retail. I've talked about transportation there, but it is also about the PCA offering. It is also about protection offering, increasingly to mortgage customers, and it is also about cards year-to-date. So a Retail offer that is growing significantly is transportation, but it's also those other factors.

Within Commercial, Commercial has been a slightly slower pattern over the course of the year-to-date performance, and that is partly because loan markets performance has been probably slower than we would've perhaps expected, but it has been somewhat offset by things like cash management and payments, number one.
It has been also the case that the comparative period in '24 benefited from valuation adjustments on a year-to-date basis, which, of course, inherently don't repeat during the course of '25. So there's a slight comparative issue there, which has meant that commercial has been slower year-to-date versus where you would normally expect it to be. And indeed, our expectation looking forward is that that is going to change as those comparatives come out of the analysis. I'll come back to that in just a second.

Insurance, pensions, investments, up about 5% year-to-date. That is off the back of long-standing strength. It is also off the back of GI strength and things like share dealing. But to be clear, if you look at it on a quarterly comparison basis, weather, in respect of subsidence off the back of dry weather, hit us a little bit in the course of Q3. So insurance still growing for sure, but the reason why you're seeing it at 5% in part at least is because of that weather during the course of quarter three, which, of course, we wouldn't expect to be repeated on a BAU basis.

And then finally, Aman, the strength in investments is clear to see. That is to say Lloyds Living, LDC, has been a significant contributor to the business on a year-to-date basis, and again, on a look-forward basis. When we put that together, Aman, first of all, we would expect those growth streams to continue to build over the course of the remainder of this year, and certainly into next. And that is a combination of strategic investments landing, if you like, and increased customer take up.

Allied to that, we now are adding in Lloyds Wealth, previously SPW. That is going to contribute in Q4, and it's going to contribute during the course of 2026 more meaningfully. We haven't given precise numbers around that, but our expectation is that that is going to boost other operating income, for the course of 2026 at least, by around £175 million or so beyond what you would've previously seen in the other operating income line. Now, of course, our ambitions in respect of Lloyds Wealth go meaningfully beyond that, and so we would expect it to build in the years thereafter. But that gives you a sense as to what we might expect it to contribute in '26, which, of course, will be added to the contributions from the other income streams that I've just been highlighting. Hopefully that's useful, Aman.

Aman Rakkar:
Amazing. Thank you so much.

Question 6: Sheel Shah, J.P. Morgan.
Great. Thank you. The CIB business has been particularly strong this year, one of the standout performers, I think, at least when I look at your balance sheet momentum. Could you talk a little bit about this business. What's actually happening? How much of this is market-driven? How much of this is an active strategy to maybe target share gains? And what are the margins looking like in this business? And then secondly, to come back to your less than 50% cost to income ratio for 2026, just looking at consensus, it sits at 51% at the moment, you've just mentioned £175 million coming from the Schroders Wealth business into OOI. What do you think the market is missing, either on the revenue line or the cost line, to get to this cost to income ratio target? Thank you.

William Chalmers:
Thanks, Sheel. Two questions there. One in relation to Commercial Banking, CIB in particular, and one in relation to costs. Before getting into CIB, just a step back, as you know, our Commercial Banking business consists of both Business and Commercial Banking, BCB and the CIB business, and we are engaged in quite a bit of transformation in respect of each of those two. When I look at the BCB business, as I mentioned in my comments earlier on, we've seen some really constructive signs in terms of BAU lending growth, which is great to see. When you look at it externally, that is offset by the government repayments that have been going on in respect to bounce-back loans, and so the net, if you like, is affected by that. But we are encouraged by some decent and positive signs, if you like, of ongoing BAU growth. And that is alongside of creating a much broader digitalized proposition to our customers, which in turn, is going to help us drive other operating income growth going forward.

When we look at CIB, again, that is going through a significant period of transformation, but it is about product broadening and product deepening. There have been some areas that have probably been slower than we might like to have been. For example, the loan markets area. There have been some areas that have been particularly successful over the course of this year. I mentioned cash management and payments, for example. Capital markets have shown some sign of strength, alongside working capital. And actually, the indicators that we've got on an early Q4 basis have been really promising in respect of CIB. Now, CIB comparatives, as I mentioned a second ago, have been a little bit weighed down by strong valuation adjustments in the course of '24, so bear that in mind. But the underlying momentum in CIB, we're really encouraged by. We think it's really positive, and it's a big part of our transformation story going forward.

In respect to your second question, Sheel, on costs, the cost shape for 2026, as said, remains very much a commitment to sub-50% cost income ratio. Within the cost income ratio, it is clearly composed of two elements. One is to say income strength, we talked a bit about that during the course of this call, so I shan't repeat those points. But your specific question is around the cost part of that equation and how do we see that developing. I guess a couple of points, really. One is we spent quite a lot of money on various strategic initiatives, which, in their orientation, are cost-focused. As we go into 2026, we see the full year run rate benefit of those investments take place. Whether those are around the business units, or alternatively around the functions, including things like our systems, and of course, our various other risk, finance, and other support functions, those strategic investments help us engineer a lower cost base going forward. And '26 represents a full year run rate for a number of those.

At the same time, our cost growth in respect of OpEx is slowing somewhat, and that in part is because of some of the investments in things like the FTE reductions that we have made over the course of this year. You'll remember earlier on this year, we talked about our severance budget being higher for '25 than it had been previously. And that has been the case, and in turn, that helps us address OpEx growth over the course of '26. The result of that is that we expect '26 costs to be flatter than you have seen recently. I won't commit to absolute zero, but nonetheless, you should expect to see them be flatter than they have been previously. That in conjunction with the income developments that we talked about is what helps us deliver a cost income ratio of sub-50%. Now, to be clear, Sheel, it is not going to be sub-50% by much, and we've said that before, and it's worth repeating. But nonetheless, it will be delivered, and it will be sub-50%.

Question 7: Chris Cant, Autonomous.
Good morning. Thanks for taking the questions. I had one on stablecoin and tokenized deposits, and one on motor, please. So on the former topic, I mean, obviously lots going on, and you're involved in this UK finance initiative in terms of tokenized deposits. In terms of time scales and relative regulatory burdens, the question is, can the industry move fast enough to deliver tokenized deposits ahead of stablecoin providers potentially trying to get a foothold? And what sort of timelines do you think we're talking about to move beyond the use cases? I know there's a few things that are moving outside the sandbox in terms of remortgage for instance, but what sort of timelines are we talking about to move beyond the use cases currently envisaged by the UK finance initiative?

And on programmable money, could you give us an idea of the use cases that you see? I guess it's corporate clients that are more interested in these options. Could you give us some examples of use cases that corporate clients are looking for? That would be interesting.

And then on motor, the FCA consultation, obviously you're going to feed into. One of the points from the FCA's perspective, I suppose, is that if we don't capture the majority of cases through a redress programme and it goes through the courts, then administrative costs would be potentially materially higher. Is that something that you agree with? I.e., you would be pushing for a narrower scheme potentially, or for less redress, and taking then some risk that the administrative burden of more cases remaining in the court system would push costs in that area? Thank you.

William Chalmers:
Thanks for those questions, Chris. First of all, on stablecoin and tokenized deposits, a couple of points to make there. One is about the path forward on that, and then the second is around use cases. I said earlier on the rise of stablecoin has obviously been notable in recent periods, and it's been particularly notable in the context of international payments, where, as said, there may be some advantages in terms of speed and cost. What we think in the UK is that the GB tokenized deposits, GBTD, that we are constructing together with the industry is effectively commercial bank money in its current form, which allows interchangeability between a digital coin, if you like, and an analogue coin, i.e., the current coin that is there in the market.

And that has tremendous advantages. It has tremendous advantages from a customer point of view, because it is basically one and the same, and they should be able to move freely between digital money, and, if you like, analogue money. And that makes it a much more customer-friendly approach. It also means that we as banks can offer that to customers as our money, effectively, together with all of the security, and indeed, insurance benefits that are currently in place, and of course, from a regulatory point of view, together with all of the KYC and so forth that we currently have in place. It goes hand in hand with today's money in a way that is, as I say, very user-friendly from a customer point of view. And in that sense, has material benefits over what stablecoin has to offer, which is clearly not interchangeable with commercial bank money. It is not one and the same thing.

In terms of timetable, Chris, I think your question is a good one. We need to move quickly on this, and indeed use cases, as said, are landing in the first half of next year. We would expect off the back of that to be able to get something out in a workable customer proposition format, I hope by the first half of 2027, if not before. Now, what we really need to fall into place in order to secure that progress, if you like, is a regulatory framework that is consistent with the ambitions of the industry, and indeed, is consistent with how the Bank of England would like to see this play out. As a form of digital money in the UK, it is important that regulatory framework, that regulatory backdrop is in place in a supportive manner. So that's really what we need. But if that is in place, then the speed of this is very much within the sector's hands, and we would expect to play a leadership role in securing that, making progress, and indeed, getting to the customer benefits that we think are promising as a result of this.

In terms of use cases, you mentioned wholesale, and for sure, there are wholesale use cases here, Chris. But I don't think it's just that. That is to say digital money offers use cases both in the wholesale and in the retail space. Wholesale, we've just done an example with Aberdeen, using basically tokenized assets as collateral. That offers meaningful efficiencies in the context of collateral management, and indeed, speed and pace, and indeed, cost of collateral, alongside transactions. Likewise, the digital Gilt is an innovation that is being sponsored in terms of one of our use cases. And again, offers meaningful speed, cost, and efficiency benefits from a customer point of view. And then, of course, transacting with each other. That is to say corporates can transact with each other in a digital asset format. Again, that is going to offer speed, and transaction cost benefits.

But as said, these are also Retail benefits. So 2 out of 3 of our use cases are in the retail space. One being effectively cash on delivery to meaningfully cut fraud in retail space, and the other being effectively re-engineering the home buying journey off the back of programmable money for just that journey. So I think there are meaningful Retail benefits there too, Chris. We've got a lot to do in this area of digital assets, but as said, if we get it right, there's an awful lot of customer value to be created.

On the second topic, Chris, on motor. It is our view, as I mentioned earlier on, that the motor proposals, as put forward by the FCA, are currently disproportionate. And they're disproportionate, as said, for three main reasons. One is because we believe the determination of unfairness is too broad. Two is because we believe the judgments that are inherent in the proposals do not align to the Supreme Court clarity that was provided earlier on this year. And three is because we think the redress calculation, as said, is at best tenuously linked to harm.

Now, what that all means, Chris, is that, indeed, if the proposals remain as broad as they are, in many respects at least, we would expect to see better outcomes in the context of litigation, because presumably, the courts will take into account the Supreme Court rulings in the way in which they were made, and presumably, the courts will take into account the linkage between redress and harm. So in that sense, at least, I would expect litigation outcomes to be better than much of what is in the FCA proposals right now.

Now, having said all of that, Chris, we clearly want to move on from this. We clearly want the business to move on, and to focus on customer value-creating propositions, just as we have been today, just as we expect to be in the future. So as a result, that is why we've taken a £1.95 billion best estimate for the provision, which in turn, is not far away from what it would be if the FCA were to enact their proposals in full. It's very much in the spirit of saying, "Okay, look, we don't agree with them, we're going to do what we can to change them and get them into a better place." But we are provisioning on the basis that a large part of them is going to stay in place, and we want to move on. And that's what this provision is designed to do.

Question 8: Guy Stebbings, BNP Paribas.
Hi. Morning, William. I had a couple of questions back on net interest income. The first one was around volumes. The interest earning asset growth was quite strong in the quarter, a couple of billion ahead of consensus on average interest earning assets and the end of period position suggests you're into Q4 in a good place. So if you could talk about broad expectations for the outlook from here. I note you're constructive comments on mortgage volumes following arguably a better than expected performance in Q3. So it sounds like we're talking to a positive trajectory, which given your Q4 NIM commentary paints quite a promising picture.

And then related to this on mortgage spreads. So interested in your comments and response to Perlie's questions and perhaps the market reacts to the headwind from mortgage spread churn on upcoming maturing cohorts by lifting new spreads. I wonder if within that, your comments signal that maybe current spreads have drifted a little bit lower in recent months on new lending and perhaps you're getting to levels you are a little bit less comfortable with or am I just reading too much into the remarks there? I guess I'm really trying to work out on the upside versus downside on your initial expectations. You had the visibility clearly on the maturing yields for quite a while, but whether new lending spreads are coming in better or worse than what you'd initially envisaged. Thanks.

William Chalmers:
Thanks Guy. In respect to AIEAs, first of all, the Q3 performance as you note saw a meaningful jump in terms of AIEAs off the back of what has been increased lending over the course of the year as a whole and continued into the third quarter. So maybe taking a step back before getting to AIEAs, as you know we've had £18 billion growth within the lending book year-on-year, which of course contributes to meaningful AIEA growth on a kind of annualised basis if you like. And within that, we've had cards year to date up 7%. We've had personal loans up 13%. We've had motor up 5% over the course of the year. We've had mortgages up £8.7 billion or 3%. It's a really decent loan performance for the business, in total £18 billion up, 4% up on assets for the year. And as you say, that is now translating into AIEA growth - £465.5 in the course of quarter three.

We are seeing continued growth in the course of quarter four across the assets. Of course it is a slightly shorter period because of seasonal factors, but nonetheless you should expect to see growth within assets within quarter four that will be perfectly respectable and off the back of that deliver continued strength in AIEAs for the remainder of this quarter and looking into '26. And it'll be that combination, i.e., AIEA growth together with the step-up in the margin that I mentioned a second ago, which in turn sets the stage for 2026 and gives us a lot of confidence in our 2026 guidance. So that's a picture on AIEAs, Guy, which I hope is helpful.

On mortgage spreads, it's interesting. I mean, we've seen now 70 basis points Q1, Q2, Q3. It is fair to say that we've seen perhaps a basis point or two of erosion within that over the course of these successive quarters, but we are still rounding to circa 70 basis points in the course of quarter three and comfortably rounding to 70 basis points in the course of quarter three to be clear.

A couple of points to make within that. One is when we look forward, my comments earlier on about whether there will be a bit of repricing off the back of five-year maturities and therefore people feeling a bit more pressure in their mortgage books, we're not banking on that to be clear, Guy. When we put forward our guidance for in excess of 15% RoTE and the guidance that we'll be giving you next year for the component of net interest income that will make up or contribute to that outcome, we have never been and are not banking on any uptick if you like in mortgage spreads that is driven by that five-year maturity pattern that we talked about earlier on. So we're not banking on it. If it comes, so much the better, and you'll see that in the context of our net interest income at the time.

The second point that I wanted to make is the business, or rather the spreads at which we're writing business right now contribute to ROE attractive mortgages for us. And that's certainly true on a marginal basis. It is also true albeit at a lower level on a fully loaded basis. So you're seeing very attractive marginal returns even at the current spreads. You are seeing, if you like, fully loaded returns that are still above the cost of equity. So we're happy to write them. We're particularly happy to write them bearing in mind a couple of other factors. One is that we are increasingly able to contribute protection alongside the mortgage product as our Insurance and our Retail businesses work increasingly closely alongside of each other. We're now up to about 20% protection penetration for mortgage products. And so this is a strengthening relationship that we're seeing, not just a one-off mortgage relationship.

And then the second is that we see an increasing share of our mortgages coming through the direct channel. And that is a more profitable product for us to write. It is also one that more closely aligns us to the customers to be clear, but at the moment at least we're seeing about 24% of our mortgages coming through the direct channel. That is frankly more than we've had for a long time and it is a result of a very deliberate strategy that we are embarking on.

So in that context as well, Guy, we were able to write mortgages which are attractive to us on a standalone basis, but off the back of the, if you like, relationship that we're developing and the channels through which we're distributing is a more attractive proposition.

Guy Stebbings:
Very helpful. Thank you.

Question 9: Ed Firth, KBW.
Morning, William. Thanks for taking my question. I had two questions actually. The first one was just the sort of, I guess, I don't know what the right word is, cadence I guess if you like or the growth rate of NII. I mean, if I look at your, you're talking about around £13.6 for the year, and year to date is £10.1, which would suggest somewhere around three and a half in Q4, even from my analysis, I can see that, which suggests a slightly slower growth rate than you saw in Q3 rather than a higher growth rate. So I'm just trying to think is there something I'm missing there? Is it something about non-banking income, or is the £13.6 really a number that we should take as a sort of very safe base that actually all other things being equal, we could see something better than that? I guess that's my first question.

And then the second one was, I think you were saying that we should put another £175 in for next year for the buyout in revenue - other income for the buyout of the SPW joint venture. Is there a cost offset on that or is that just straight through to the bottom line? I mean obviously you talk about modestly higher for the little bit for this year. I'm just wondering what sort of cost numbers might equate to that £175 or is that just a straight number we should just put in straight to consensus? Thanks so much.

William Chalmers:
Yeah, yeah. Thanks, Ed. In respect to net interest income growth, first of all, the easiest way to explain it is I think the following. As you know, we've upgraded to circa £13.6 from circa £13.5. That is intended to be, and I hope very clearly is, a sign of confidence in terms of our net interest income trajectory. It is Ed, as you pointed out, hopefully as is evident from the guidance, the circa word, the C is very deliberate. That is to say £13.6 is not intended to be a cap. It is saying circa £13.6, so I'll leave you to move around from that. Now that in terms of how things develop will be around £13.6, including numbers that go above £13.6 provided that they are within the circa range. Stepping back, net interest income in quarter three was what, £3.45 billion? It's up about £90 million growth versus Q2, which as you know is about 3%. Some of that Q2 growth that we saw in Q3 is day count increase and so a slightly lower amount of that is underlying increase.

If you look forward into Q4, we expect to show continued progress in NII with, to be clear, probably a similar absolute income growth in Q4 as we saw in Q3, a similar absolute income growth in Q4 as we saw in Q3. But to be clear, none of that will be day count benefit, Ed. That is to say that day count in Q4 is the same as the day count in Q3, which if you translate that, that means that growth is actually strengthening, not weakening. So growth is strengthening in Q4 rather than weakening. And that is off the back of the factors that we've discussed before, which is the step-up in the margin, which is as said, more pronounced in Q4 and then the AIEA progress that I was discussing with Guy just a second ago, and that's coming off the back of the further growth. So all of that it hopefully helps illustrate the point and in turn we have a lot of confidence in that number.

Ed Firth:
Perfect.

William Chalmers:
So Ed, hopefully that's helpful. On the SPW point, unfortunately all good things come at a price I guess. So when we look at the 175 million incremental, that in turn comes with costs which are probably going to be about 120 million in excess of what you saw previously there.
Now you didn't actually see them previously because they were all consolidated in the OOI line. So it's probably about £120 million added costs to procure that circa 200 million OOI, which in turn that OOI is about £175 million ahead of what we'd had previously seen. So I hope that's clear.

There's a couple of other points that maybe I should make in the context of the SPW transaction and our Lloyd's wealth transaction, which are important to us. One is we did it at zero capital cost. As you know, we had to give up our 20% share in Cazenove in order to get that. But the benefit that we were getting from that Cazenove share was a modest annual dividend that you saw in Q4. And frankly this feels to us like, from our perspective at least, a really positive trade, but it was done at zero capital cost.

And then the second point is we'll have to work at it to make sure that it comes within our cost income ratio. But as said, that's consistent with our sub 50% cost income ratio guidance. But at the same time, you can probably imagine, as with many of these wealth businesses, this is a materially RoTE positive transaction and we'll deliver an RoTE that is well above not just our cost of capital, but probably well above the types of RoTEs that we'll be delivering on a kind of group aggregated basis. This is a net positive contributor to the RoTE in the business. Most importantly Ed, it's a very important strategic development and indeed a very important part of our customer proposition.

Ed Firth:
Thanks a lot.

Question 10: Amit Goel, Mediobanca.
Hi. Thank you. So two relatively quick questions from me. One, just on the deposits, the retail deposits, so some positive trends there on the back of the pricing decisions. Just curious whether that's largely done now or whether we could continue to see a little bit of that shift and whether or not that can benefit the hedge capacity.

And then the second question, just curious how engagement with the government is going ahead of the budget and also whether or not they recognise the motor costs when also thinking about banking sector taxation. Thank you.

William Chalmers:
Thanks, Amit. In respect to each of those, as you say, deposit performance has been pretty good over the course of this year, £14 billion up in total, 3% year-to-date increase, so a good performance in deposits. And within that, Retail is up £4 billion year to date.

But what we saw within retail in the third quarter was a little bit of outflow within the UK retail savings area, and that was very much within the fixed term product off the back of effectively pricing decisions that we had taken given the fact that we had performed so strongly in Q2, in particular in the ISA season, which we highlighted at the time. So this was a kind of, I suppose an inevitable reaction to very deliberate pricing decisions that we had taken in the course of quarter three.

It was good to see that it was offset by PCA performance in the course of quarter three, which were up £1.2 billion, which is a good performance and as you know leads us to a year-to-date performance within PCA that is up around half a billion or so.

I think a couple of things are happening there Amit, which are pretty constructive on the whole. We're seeing continued wage inflation with respect to our customers. Importantly, we're also seeing reduced levels of churn out of the PCA product into savings products and into fixed term in particular. And so that falling churn, it's down about 33%, i.e., down about a third in Q3 versus Q2. That's a material reduction in churn and we expect to see that pattern more or less continue going forward. But it's good to see.

As said, PCA is an incredibly important customer product from our point of view. It's an incredibly important product from a structural hedge point of view. And so the solidity of the PCA performance has been good to see.

As we look forward, I think we do expect churn to continue to ebb. Q3 was particularly marked, but nonetheless we continue to expect it to ebb going forward. PCAs we are seeing other trends, slowing government payments for example, probably over time slowing wage growth as well. And so PCA performance, I don't think we expect to see it be particularly exciting. Maybe more or less static might be a reasonable way of looking at it. We'll see how it goes. Going into next year, I think that starts to change as things pick up perhaps a little bit more.

Our expectation for the structural hedge, to be clear, Amit, in so far as it relates to this issue, is we're not banking on significant increases in structural hedge balances. So all of our forecasts for you, the £1.5 billion growth in structural hedge income, for example, going to next year, £6.9 billion revenue in total from the structural hedge, that is built on a steady hedge. And so if we see performance within PCAs, instant access and other hedge eligible deposits, including NIBCA within BCB, which has shown an uptick actually in Q3, if that performs more positively than we expect, that would represent structural hedge upside and opportunity. At the moment we're expecting flat structural hedge performance.

On your second question, Amit, in respect to the budget, a couple of points to make really. One is the business has been really only very modestly affected, if at all, by budget concerns. So I mentioned earlier on that we've seen mortgage performance be very strong, as you know, £8.7 billion year to date, £3.1 billion of that in the third quarter. We've seen applications up 19% over the course of the third quarter. We've seen completions up 23% over the course of the third quarter. And so no meaningful sign, if you like, of hesitation because of budget in the third quarter mortgage performance.

And then within the pensions business, another area that conceivably might be affected, we've seen a little bit of an increase in individual pension encashments, but no material change to be clear within workplace. And in any case, any change in volumes that we have seen in the pensions area have been well below what we saw last year. So really nothing to report effectively in terms of the, I suppose, hesitation that might be induced by the budget overhang in respect to the business as usual.

In respect to tax, I think those are really decisions for the government obviously, and we'll leave them to make those decisions as and when they see fit. From our perspective, at least, the most critical thing is that we have a stable and a predictable tax regime and one that is competitive. That is to say at the moment we're a material taxpayer as you know, £1.5 billion of corporate tax, all in, including things like NII and VAT and so forth, about £2.5 billion of total tax paid.

We see ourselves as a meaningful tax contributor. We see a stable and competitive tax regime and indeed a predictable tax regime as essential frankly, to the continued prosperity of the financial services sector and by extension all of the things that we can do for the UK economy as a whole. So I think that's really all we'd say on the tax front Amit, which I hope is useful.

Amit Goel:
Thank you.

William Chalmers:
I think, Operator, we're going to call it a day for now on the questions. I just want to say thank you to everybody for joining the call today and your interest in the stock and the company is as always greatly appreciated. Thanks very much indeed.

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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